Pattern of Spending and the Level of Tax Revenue in Nigeria

Audu, Solomon Ibrahim

Dept. of Accounting and Finance, Caleb University, Lagos, Nigeria

Abstract: **This study examines the effect of spending pattern of the private and public sector on the level of tax revenue in Nigeria. Over a period of ten years (2009 to 2018), secondary data were obtained from the Central Bank of Nigeria statistical bulletin 2018 to extract data for the period covered by this study. The data were analyzed using a simple regression model. The result shows that public recurrent expenditure has a moderate relationship with the level of tax revenue in Nigeria and has more impact when compared with other independent variables (public capital expenditure or private household expenditure level). In conclusion, both government spending and household spending does not have a significant effect on the level of tax revenue in Nigeria. It is recommended that in order to boost the level of tax revenue in Nigeria, rather than the government increasing the consumption tax rate which will increase cost of living in Nigeria, the government should focus on promoting the manufacturing of goods locally to boost economic activities within the country from where taxes can be raised.**

Keywords: **Capital expenditure, Recurrent expenditure, Tax revenue, Consumer expenditure**

JEL Classification: E62

I. INTRODUCTION

Nigeria's tax to gross domestic product (GDP) in 2012 was reported to be 1.6% as against the average of other high income earning countries in Africa which averaged 12% (Lethbridge, 2016). This calls for a critical evaluation of Nigerian tax system. As one of the countries in the region with the largest GDP, the country has the potential to improve its tax revenue. An observation of the trend in the tax revenue of the country between 2009 and 2018 shows an average increase of 19% between 2008 and 2014 but between 2015 and 2018, this dropped drastically to 5%. This calls for concern and a review of policies and strategies to maximally optimize the tax framework in the country. Tax revenue can be classified as being generated from direct taxes and indirect taxes (IMF, 2018). While direct taxes can be evaded, it is difficult to evade indirect taxes as these category of taxes are embedded in consumption of day to day products by individuals, households and firms. One major form of indirect tax in Nigeria is the Value Added Tax (VAT) (Somorin, 2019). This form of tax generates tax revenue for the Nigerian federation and it is not shared along with other taxes raised from the federation account. Rather, it is accrued to the VAT pool account from where allocations are made to the three tiers of government. From inception in 1993 till 2019, the VAT rate has been at five percent though there have been

attempts to alter this rate as it is one of the lowest sales tax rate in the world (Somorin, 2019). All previous attempts to increase this rate has not been successful until the year 2019 when the 2020 Finance Act which formally allows for this rate to be increased from 5% to 7.5%. This was done to provide a leverage for increase in tax revenue. In recent times, in the global tax world, discussions have been made centering on tax justice in order to improve tax revenue (Lethbridge, 2016). This means treating taxpayers right and making them get value for the taxes paid and also broadening the tax net to capture individuals who do not pay tax in order to expand the tax net and thereby improve tax revenue. In Nigeria, today, according to the World Bank estimate on total population, it is reported to be above 200 million people with about 62million people (represents 31%) active tax payers' population. Of this category of active people, about 17% are totally unemployed. If the number of unemployed people are removed, there is about 52 million people that can be subjected to tax. This analysis however, is for direct tax as this form of tax is concerned with the number of people employed for pay as you earn (PAYE) purpose. The beauty about indirect tax or consumption tax is that it cuts across both the employed and the unemployed. According to the international monetary fund (IMF), Nigeria has one of the least tax rate in the world, it is the most populous African country which provides a balance and probable justification for the low tax rate. It is important to note that VAT is a function of spending and this spending is done by two major actors in the economy which are the private sector in the form of individuals, household or firms and the government which spending is basically in the form of capital expenditure and recurrent expenditure. Studies have been conducted to examine the effect of tax revenue and government expenditure effect on consumers spending (Giavazzi and Pagano, 1996; Shclarek, 2004). However, there is paucity of literature on the inverse relationship of consumer spending on tax revenue especially in developing economies like Nigeria (Onoja, 2004). On the otherhand, literature on the relationship among government expenditure, government revenue and consumer spending have shown a variety in findings (Perroti, 1999; Giavazzi, Jappelli and Pagano, 2000). Hence, this study is therefore set out to examine the effect of spending by the two major actors on the level of tax revenue generation in Nigeria. The subsequent part of this study consists of the conceptual review, theoretical review, empirical review, methodology, data analysis, discussion of findings, conclusion, policy implication and recommendation.

II. CONCEPTUAL REVIEW

Capital Expenditure

Capital expenditure is government cash outflow incurred on infrastructural development (Olopade & Olopade, 2010). Infrastructure development can be explained as spending that bridges the gap between the rich and poor by making available public goods (Calderon and Serven, 2004). Infrastructural development has also been linked with economic growth (Calderon and Serven, 2004). Thus capital expenditure is an important variable that the government can tweak in order to arrive at desired objective. In respect of this view, Onoja (2009) showed that capital expenditure increased between 1974 and 1986 during the time of oil boom in Nigeria and also observed that as a result of the increase in capital expenditure, government was able to make investment across various sectors thus providing the basis for the opening up of industrial activities across various sectors from which tax revenue can be raised. Based on the knowledge of public sector reporting, record of actual capital expenditure incurred by the government can be gotten from the capital development fund account (Omolehinwa and Naiyeju, 2015).

Recurrent Expenditure

This is a type of government expenditure which involves government spending on personnel cost (wage, salaries etc.) amongst other recurring expenditure to drive the continual processes of the government (Aigheyisi & Edore, 2014). Recurrent expenditure has also been described as government spending excluding outflow on infrastructural development (Olopade & Olopade, 2010). Thus from these descriptions, recurrent expenditure is government outflow on non-capital projects. According to Aigheyisi & Edore (2014), this form of government expenditure has its role in stimulating the economy. Thus in order for the government to achieve some of its set objectives, it needs to be mindful of it recurrent expenditure. Accounting, information on recurrent expenditure made by the government can easily be gotten from the consolidated revenue fund account. (Omolehinwa and Naiyeju, 2015). Onoja (2009) also reveals that overtime in Nigeria, recurrent expenditure has been the bulk of government expenditure however, it was observed to be reduced during the period of increasing oil revenue in the 1970's. In this regard, this study seeks to examine the effect of recurrent expenditure on the level of tax revenue raised.

Consumer Expenditure

This represent private household spending on goods and services. From the Keynesian perspective, consumer expenditure is a function of disposable income i.e. gross income less taxes (Oyeleke, Raheem & Falade, 2016). In contrast to this, the new classical macroeconomics state that household spending for a particular period in time is a function of the present income and the future expected income inclusive of the estimation of interest rates of borrowings (Oyeleke, Raheem & Falade, 2016). This further shows the importance of tax on the level of consumer spending. Onoja (2009) also showed the importance of consumer spending on tax revenue by revealing that countries such as Japan, France, Britain etc. introduced tax cuts in 2008 during the recession. This was done in order to lead to an increase in consumer demand vis-à-vis spending and economic growth that ultimately leads to increased economic activities from which tax revenue could be raised.

Tax Revenue

Okolie and Ochei (2014), states that in Nigeria, tax generation are given to entities (i.e. federal government and state government) who can raise such revenue at the least cost not ignoring their responsibilities also. Tax revenue is considered as the main stay of any economy (Okolie & Ochei, 2014). According to the Organization for Economic Co-operation and Development (OECD), since 2010, Nigeria's peak of tax contribution to its' gross domestic product (GDP) was 9.6% as against the average of other 26 African countries considered as 17.2%. This therefore indicates that Nigeria has not tapped fully from the generation of tax revenue and that there are still more untapped opportunities for Nigeria to raise tax revenue. It is important to note that in Nigeria, a review of the 1999 Nigerian constitution reveals that local governments in Nigeria are not empowered to raise tax revenues but are empowered to raise levies and fines. Local government rather get their share of tax revenue from the federation account based on allocation from the federation account allocation committee (FAAC). Onodje (2009) pointed out that tax revenue is dependent on public demand as consumption tax is a function of public demand. Further linking tax revenue with government expenditure, Onodje (2009) points out that government expenditure is used in providing infrastructure that boost economic activities from which taxes are raised from. Hence this study is posed to actually examine the position of public consumption or spending and government expenditure in stimulating tax revenue.

III. THEORETICAL REVIEW

Demand Theory

Whelan and Msefer (1994) reveals that Alfred Marshall in 1890 developed the demand theory which states that the higher the price the lower the quantity demanded and the lower the price, the higher the quantity demanded at *ceteris paribus*. Critiques of this theory states that consumers demand ability is not limited to only price but also taste and preference of consumers. However, overtime, this theory has proven to be correct with the assumption of man being rational. From the lens ofl demand theory, this study seeks to examine how government can use consumer expenditure level in order to generate optimum tax revenue for the government.

Resource Based Theory

Prahalad and Hamel (1994) show that resource based theory is credited to have been largely developed in 1991 by Jay Barney who pointed out that organizations in order to achieve

economic sustainability stir up use of the resources available within their internal environment to achieve sustenance. Rantakari (2010), also explained resource based theory as where an entity identifies its internal capabilities and invest on them in order to increase competitive advantage. This therefore determines the extent to which a firm will perform. Although scholars have argued on entities having resources unique to the entity alone to experience a sustained competitive advantage. However, Grant (1991) explained that competitive advantage might not just be as a result of having unique resources but the ability to harness them productively. Talaja (2012) identified features of such uniquely owned resources as they must be valuable, rare, inimitable and non-substitutable. In this regard, this study seeks to examine how government can generate more revenue based on two major actors (private household and the public sector) within its jurisdiction.

Relevance of the Theories

This study is hinged on these theories as the rationale for this study is built around these theories. It can be deduced from demand theory that if VAT is increased, the prices of goods will increase and the quantity demanded for goods will reduce thus defeating the purpose of the increment in VAT.

On the other hand, resource based theory explains that the government has to manage taxes well to yield a competitive advantage.

Review of Empirical Studies

Onodje (2009) conducted a study in Nigeria with the aim of examining the effect of fiscal policy tools (public revenue and public expenditure) on the level of private consumption in Nigeria. The quantitative research method was used to examine macroeconomic data in Nigeria from 1980 to 2004. It was revealed from the study that government expenditure and tax revenue shocks have keynesian effects. Although the study is similar to this current study however, it tested public revenue on public expenditure while this study is set to see the effect of public and private expenditure on government tax revenue.

Similarly, Ogujiba and Abraham (2012) carried out a study also in Nigeria to examine the relationship between government revenue and expenditure. The study employed a quantitative method with data range from 1970 to 2011. They discovered that there is a strong positive relationship between government revenue and expenditure. The study focused on total revenue of government and expenditure in order to shape government expenditure. However, this study seeks to examine similar relationship between aggregate demand and government tax revenue.

In Serbia, Lojanica (2015) conducted a study on how to increase government revenue to meet the demand of government expenditure. The study used as quantitative method covering a monthly data for a period of 2003 to 2014. It was shown from the study that there is a relationship between government revenue and government spending and was recommended that government expenditure should be reduced in the long run in order to boost government revenue. The study just like the earlier studies discussed examined the effect of revenue on expenditure while this study looks at the effect inversely.

Also in Nigeria, Oyeleke, Raheem and Falade (2016) studied on how to improve the level of economic growth in Nigeria using capital expenditure. A quantitative method was used based on the *expost* facto research design. They adopted the neo- classical growth model along with modifications to examine the effect of capital expenditure on economic growth based on data gotten on capital expenditure and the GDP of Nigeria for 1970 to 2013. They discovered that there is a long run relationship between capital expenditure and economic growth in Nigeria and recommended that accountability of government expenditure machineries be put in place. However, the study was limited to only government capital expenditure as government revenue was not considered in the study.

In the same direction is the study by Okolo, Edeme & Emmanuel (2018) which study focused on improving infrastructural development to foster sustainable development in Nigeria. They used a quantitative method in carrying out the study based on an *expost* facto research desing covering a time frame of 1981 to 2017. It was revealed from their study that capital expenditure, and non-oil revenue have a significant effect on infrastructural development in Nigeria. Thus they recommended for a boost in non-oil revenue and reduction in recurrent expenditure and the channeling of external debt into productive infrastructural development. However, their study is also limited as measures to boosting non-oil revenue was not mentioned in their study.

Lastly, Osho, Olemija and Falade (2019) also carried out a study on Nigeria to seek a way of boosting capital expenditure to foster economic development through the use of tax revenue. Their study was quantitative in nature also using the *expost* facto research design over a time frame spanning from 2009 to 2018. It was discovered from their study that tax revenue does not impact the spending on capital expenditure. And it was recommended that utilization of tax revenue on public goods will encourage the payment of tax by tax payers. However, the effect of recurrent expenditure was not considered in their study also.

IV.METHODOLOGY

A quantitative method was adopted in this study which was based on an *ex-post* facto research design as the study examined records of events that had already occurred. Secondary data on the variables (consumer expenditure, public capital expenditure, public recurrent expenditure and tax revenue) for 2009 -2018 were obtained from the CBN statistical bulletin 2018. The linear regression model was used to determine the relationship and also the degree of association between the independent variables (consumer

expenditure, public capital expenditure and public recurrent expenditure) and the dependent variable (tax revenue). While the analysis of variance (ANOVA) was used in testing the hypothesis at 5% level of significance. The regression model is represented as:

Y=f(X)

TR = f (EXP).

Mathematically, the general model can be written as shown below:

TR = β_0 +β_1CONEXP + β_2CE + β_3RE + e

This model can further be broken down as follows:

TR = β_0 +β_1CONEXP + e ………………i

TR = β_0 + β_2CE + e ………………….....ii

TR = β_0 + β_3RE + e ………………………iii

Where

Log TR = Total Revenue (Dependent Variable)

β_0 = Intercept where independent variable is zero

β_1CONEXP = Consumer Expenditure (Independent Variable)

β_2CE = Capital Expenditure (Independent Variable)

β_3RE = Recurrent Expenditure (Independent Variable)

e = error term

ANOVA Decision rule on the test of hypothesis:

If the computed co-efficient is lower than the significant level of 5%, we reject (H_0) and retain (H_1).

But if the computed co-efficient of is greater than the significant level of 5%, we accept (H_0) and reject (H_1).

V. DATA ANALYSIS AND DISCUSSION OF FINDINGS

The extracted data is presented below in a tabular form for ease in understanding the trend of the data over the ten years under review.

Table 1. Consumer Expenditure, Government Expenditure and Tax Revenue from 2009 to 2018

Year	Consumer Expenditure	Tax Revenue	Recurrent Expenditure	Capital Expenditure
	N Billion	N Billion	N Billion	N Billion
2009	35,700.79	2,198	2,128	1,153
2010	36,452.43	2,839	3,109	884
2011	35,323.70	4,629	3,315	919
2012	35,326.24	5,008	3,325	875
2013	42,816.52	4,806	3,215	1,108
2014	43,073.74	4,715	3,427	783
2015	43,699.86	3,742	3,832	818
2016	41,189.21	3,308	4,160	654
2017	40,780.53	4,028	4,780	1,242
2018	41,889.87	5,321	5,675	1,682

Source: CBN Statistical Bulletin 2018

Table 1. Shows the trend of consumer expenditure and tax revenue between 2009 and 2018. From the table it shows that government expenditure has increased over time while consumer spending and tax revenue experienced an up and down movement over the period.

Analysis of the General Model of the Study

Table 2. Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.513[a]	.263	-.106	1075.91412
a. Predictors: (Constant), Consumer Expenditure, Capital Exepnditure, Recurrent Expenditure				

Table 2.shows that there is a positive moderate relationship between spending in the economy and tax revenue in Nigeria which is shown as 51.3%. It also reveals that the spending both from the public and private sector of the economy have an inverse low positive effect on level of tax revenue in Nigeria which is shown as -10.6%.

Table 3. ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2476281.127	3	825427.042	.713	.579[b]
	Residual	6945547.195	6	1157591.199		
	Total	9421828.322	9			
a. Dependent Variable: Tax Revenue						
b. Predictors: (Constant), Consumer Expenditure, Capital Exepnditure, Recurrent Expenditure						

Table 3. shows that the computed value is 0.579 which is higher than the p-value set for this study at 0.05. This therefore means that we are to retain the null hypothesis which states that there is no significant effect of spending on the level of tax revenue in Nigeria.

Table 4. Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1341.789	4459.120		.301	.774
	Capital Exepnditure	.217	1.444	.063	.150	.885
	Recurrent Expenditure	.458	.505	.440	.907	.399
	Consumer Expenditure	.020	.123	.069	.166	.874
a. Dependent Variable: Tax Revenue						

Table 4. shows the numbers used to represent the model which was used to test the hypothesis. From the information in the model, capital expenditure, recurrent expenditure and consumer expenditure are represented by a positive integer in the model.

Test of Hypothesis One:

H_0: There is no significant effect of household consumer expenditure on the level of tax revenue in Nigeria.

Table 5. Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.299[a]	.090	-.024	1035.41950
a. Predictors: (Constant), Consumer Expenditure				

Table 5. shows that there is a low relationship between consumer expenditure and tax revenue in Nigeria which is shown as 29.9%. It also reveals that consumer expenditure has a very low inverse effect on the level of tax revenue in Nigeria which is shown as -0.24%.

Table 6. ANOVA[a]					
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	845079.958	1	845079.958	.788	.401[b]
	Residual	8576748.363	8	1072093.545		
	Total	9421828.322	9			
a. Dependent Variable: Tax Revenue					
b. Predictors: (Constant), Consumer Expenditure					

Table 6. shows that the computed value is 0.401 which is higher than the p-value set for this study at 0.05. This therefore means that we are to retain the null hypothesis which states that there is no significant effect of consumer price index on the level of tax revenue in Nigeria. In addition, the alternate hypothesis which states that there is a significant effect of consumer price index on the level of tax revenue in Nigeria is rejected.

Table 7. Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	586.589	3924.897		.149	.885
	Consumer Expenditure	.088	.099	.299	.888	.401
a. Dependent Variable: Tax Revenue						

Table 7. it shows the numbers used to represent the model which was used to test hypothesis. From the information

provided, the intercept and consumer expenditure both have a positive integer.

Test of Hypothesis Two: There is no significant effect of public capital expenditure on the level of tax revenue in Nigeria.

Table 8. Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.264[a]	.070	-.047	1046.83428
Predictors: (Constant), LogCE				

Table 8., shows that there is a low relationship between public capital expenditure and tax revenue in Nigeria which is shown as 26.4%. It also reveals that capital expenditure has a very low inverse impact on the level of tax revenue in Nigeria which is shown as -4.7%.

Table 9. ANOVA[a]					
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	654932.176	1	654932.176	.598	.462[b]
	Residual	8766896.145	8	1095862.018		
	Total	9421828.322	9			
a. Dependent Variable: Tax Revenue					
Predictors: (Constant), LogCE					

Table 9., shows that the computed value is 0.462 which is higher than the p-value set for this study at 0.05. This therefore means that we are to retain the null hypothesis which states that there is no significant effect of public capital expenditure on the level of tax revenue in Nigeria. And furthermore, the alternate hypothesis which states that there is a significant effect of public capital expenditure on the level of tax revenue in Nigeria should be rejected.

Table 10. Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2777.490	8849.603		-.314	.762
	LogCE	2286.490	2957.666	.264	.773	.462
a. Dependent Variable: Tax Revenue						

Table 10. shows the numbers used to represent the model which was used to test the hypothesis. From the information in the model, government capital expenditure is represented by a positive integer.

Test of Hypothesis Three: There is no significant effect of public recurrent expenditure on the level of tax revenue in Nigeria.

Table 11. Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.553ᵃ	.305	.219	904.45096
a. Predictors: (Constant), LogRE				

Table 11., shows that there is a moderate relationship between public recurrent expenditure and tax revenue in Nigeria which is shown as 55.3%. It also reveals that recurrent expenditure has a low impact on the level of tax revenue in Nigeria which is shown as 21.9%.

Table 12. ANOVAa					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2877575.967	1	2877575.967	3.518	.098b
Residual	6544252.354	8	818031.544		
Total	9421828.322	9			
a. Dependent Variable: Tax Revenue					
Predictors: (Constant), LogRE					

Table 13. Coefficientsᵃ

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1. (Constant)	-13316.415	9268.647		-1.437	.189
LogRE	4888.884	2606.642	.553	1.876	.098

Table 13., shows the numbers used to represent the model which was used to test the hypothesis. From the information in the model, government recurrent expenditure is represented by a positive integer.

VI. DISCUSSION OF FINDINGS

Based on the result of the data analysis table 5. reveals that consumer expenditure has a very low positive effect on the level of tax revenue which is represented by 29.9%. The result further reveals that consumer expenditure has no significant effect on the level of tax revenue in Nigeria. This further interpreted means that regardless of the level of consumer expenditure, it won't significantly impact on the level of tax revenue generated. In this regard, a common consumption tax closely associated with private consumption is the value added tax. Thus an increase or a decrease in its rate won't have a significant effect on the level of tax revenue generated. The regression result shows that the higher consumer expenditure, the lower the tax revenue.

On the other hand, table 8 reveals that public capital expenditure has an inverse effect on the level of tax revenue in Nigeria. Table 9 further states that this relationship is not significant. This is contrary to the position of Lojanica (2015) who opined that there is a positive significant relationship between government spending and revenue. In an attempt to further explain the reason for the variance, consideration of the variable i.e. capital expenditure shows that it involves the provision of public goods or infrastructures (Omolehinwa & Naiyeju, 2015). The result therefore suggests that monies spent on capital expenditure are not kept within the Nigerian economy for taxes to be raised. This either portends over reliance of foreign materials or on foreign contractors who find means of repatriating such funds to the economy of their home country. It can also mean that spending's on capital expenditure might not actually be spent on what it is intended for which points to the possibility of funds being diverted (i.e. accountability). Lastly, table 11 shows that public recurrent expenditure has a low positive impact on the level of tax revenue which is not significant. This is also similar to the finding of Lojanica (2015) who opined that there is a positive significant effect of government spending on revenue. Although the result from this study reveals that recurrent expenditure does not have a significant effect on the level of tax revenue in Nigeria, this therefore suggests that either spending on recurrent expenditure is not high enough or also points to the possibility of funds being diverted (i.e. accountability).

VII. CONCLUSION

This study was carried out with the aim of examining the effect of private and public sectors spending on the level of tax revenue raised in Nigeria. In conclusion, this study shows that private consumption level, public capital expenditure and public recurrent expenditure in Nigeria has no significant effect on the level of tax revenue generated in Nigeria. In summary, there is no significant effect of spending on the level of tax revenue in Nigeria.

VIII. POLICY IMPLICATION AND RECOMMENDATION

In order to boost the level of tax revenue in Nigeria, this study has shown that both public and private expenditure in Nigeria does not significantly have an impact on the level of tax revenue in Nigeria. However, based on inference from the result in this study, the following recommendations are given;

The Federal government of Nigeria should rather than increase VAT rate or other forms of consumption taxes, should support production activities of goods and services indigenously to ensure that funds circulation is maintained within the economy for appropriate taxes to be raised on it; & The Federal government of Nigeria should ensure that there is proper accountability of all infrastructural development project as this will pave way for increase in economic activities and ultimately the level of tax revenue generated.

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