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Assessing Fiscal Federalism and Economic Growth in Nigeria

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Abstract

When Nigeria adopted a federal constitution in 1954—after years of British control as a unitary state—fiscal federalism was established in the nation. However, despite more than 50 years of experience with fiscal federalism and the numerous changes put in place over the years to address Nigeria's fiscal relations issue in order to encourage economic progress, the country is still beset by problems with economic growth.This study was done to find out how much Nigerian economic growth has been impacted by fiscal federalism. This study only employed secondary sources, such as academic literatures and official records, for its data. The formulated and tested null hypothesis was that there is no discernible link between fiscal federalism and Nigerian economic growth. Simple percentages was used to examine data and presented on tables, correlation analysis was also employed to investigate the degree of relationship of government's fiscal duty and its available financial resources. The results show that fiscal federalism and economic growth are not significantly correlated; fiscal imbalances in the federal government's favour reduced the contribution of state and local governments to economic growth. This research suggests that in order to contribute to economic growth, State and Local Governments should examine internal revenue production strategies and analyse their current fiscal relationships. Additionally, it is recommended that all levels of government cut back on recurrent spending to free up funds for capital investments that will spur economic growth.

Keywords: Fiscal federalism, Economic growth, Fiscal relations

Introduction

In Nigeria, the term "federalism" refers to the transfer of power from the Federal Government to the country's federated states, which share sovereignty with it.When the Northern and Southern protectorates were combined in 1914, Sir Frederick Lord Lugard is credited with establishing federalism in Nigeria.

This evolution of Nigeria's federal structure coincided with modifications to the revenue-sharing plans incorporated into earlier constitutions or executive orders. Further decentralization of governmental functions to the federation's constituent units was also a result of these modifications to the federal structure. This thus had an impact on the practise of intergovernmental fiscal relations, which focuses more on how the various levels of government interact financially when carrying out their respective duties. Nigeria has a federal political economy (federalism), which denotes a set of formal administrative arrangements among branches of government with varied degrees of practical authority and jurisdictional autonomy (Amusan, L., Saka, L., & Omede, A. J. 2017; Olayiwole, P. H., Ugwuanyi, J. I., Akuche, A. B. M., & Cornelius, C. (2022).

By incorporating regionalism to the system of colonial administration in Nigeria, the 1946 constitution significantly changed the formal unitary framework already in place. Despite the fact that the constitution was not completely federal, the establishment of regional governments brought up the issue of how to divide money among the federal government, the new regional centres, and the previous native authority administration Amusan, L., Saka, L., & Omede, A. J. (2017).. Over time, the constitution, decrees, and administrative modifications have danced to the rhythm of the revenue allocation process.

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the formulation of macroeconomic policy was sparked by the recent interest in fiscal decentralisation. Power must obviously be split between the central and other levels of government in every nation. The degree of power separation has significant effects on how well government functions and how effectively services are delivered. The division of policy-making responsibilities affects both service delivery and financing, which in turn affects a country's macroeconomic performance. Sub-central government units must make judgments about the delivery of public services at the lower level as a result of fiscal decentralisation, Nkwede, J. O., Nwali, T. B., & Orga, J. (2013). . The crucial point that needs to be addressed is whether spending by lower-level governments increases, for instance, central government fiscal imbalances and endangers macroeconomic stability. Generally speaking, macroeconomic factors including prices, the amount of money in circulation, interest rates, unemployment, and the foreign exchange rate are susceptible to abrupt changes that could jeopardise the expansion of the national economy and foster an unstable macroeconomic environment. On the basis of its spatial incidence, which spans the entire nation, this is of particular relevance in the performance of the stabilisation role, typically assigned to the central government, particularly with respect to the issue and administration of the national currency. Thus, it is clear that concerns over fiscal federalism have an impact on both macroeconomic stability and national growth.

Therefore, the purpose of this article is to investigate the contribution of fiscal federalism to the macroeconomic development of the Nigerian economy, particularly economic growth.

Statement of the Problem.

Nigeria acquired federalism and parliamentarian from the British at the time of its independence in 1960. (Jega, 1996:89). The many constitutional amendments made between 1922 and 1960 had an impact on intergovernmental fiscal relations, which is more about how the various levels of government relate financially when carrying out their functions, prior to 1960. Nigeria has a federal political economy (federalism), which denotes a set of formal administrative arrangements among branches of government with varied degrees of practical authority and jurisdictional autonomy (Oxford Analytica. 2022).

By incorporating regionalism to the system of colonial administration in Nigeria, the 1946 constitution significantly changed the formal unitary framework already in place. Despite the fact that the constitution was not completely federal, the establishment of regional governments brought up the issue of how to divide money among the federal government, the new regional centres, and the previous native authority administration (Adebayo, 1988). Over time, the constitution, decrees, and administrative modifications have danced to the rhythm of the revenue allocation process.

The discussion concerning public sector reforms generally and the function of sub-national governments in the formulation of macroeconomic policy was sparked by the recent interest in fiscal decentralization. Power must obviously be split between the central and other levels of government in every nation. The degree of power separation has significant effects on how well government functions and how effectively services are delivered. The division of policy-making responsibilities affects both service delivery and financing, which in turn affects a country's macroeconomic performance. Sub-central government units must make judgments about the delivery of public services at the lower level as a result of fiscal decentralization Nkwede, J. O., Nwali, T. B., & Orga, J. (2013). . The crucial point that needs to be addressed is whether spending by lower-level governments increases, for instance, central government fiscal imbalances and endangers macroeconomic stability. Generally speaking, macroeconomic factors including prices, the amount of money in circulation, interest rates, unemployment, and the foreign exchange rate are susceptible to abrupt changes that could jeopardize the expansion of the national economy and foster an unstable macroeconomic environment. This is crucial for carrying out the stability function, which is typically the responsibility of the central government, especially with In many regions of the world, interest in issues with multi-level government funding has increased. Recent and current political and economic

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events create concerns regarding the supply and financing of public sector programme by national, sub-national, and transnational public agencies.

Nigeria's fiscal federalism began in 1954, when the country, which had been ruled by the British as a unitary state up until that point, adopted a federal constitution. Nevertheless, despite having used fiscal federalism for more than 50 years, the nation continues to face difficulties with macroeconomic management, slow production growth, high inflation, and a precarious balance of payments position. Nigeria's fiscal management system has not been effective or equitable since its independence in 1960 till the end of 2013. Indeed, it showed a broad range of vulnerability, with ethnicity, language, area, and religion interacting to create Nigeria's cultural pluralism matrix.

Since more than 40 years ago, the Federal Government has taken on duties that should have been carried out by the lower levels of government, which has hampered the administration of public spending and slowed economic growth. (Ike, 1981; Anyanwu, 1995; Aigbokhan, 1999; Chete, 1998; Onwioduokit, E. A., & Esu, G. E. (2018).). Although there are various reasons why fiscal federalism has gained popularity around the world, one common one is that it is thought to have the ability to boost public sector performance. According to the fiscal federalism hypothesis, providing some public goods in a decentralized manner can boost efficiency and accountability in resource allocation (Bird and Vaillancourt, 1998 as cited in Kwom, 2003 and Oates, 1999; Arowolo, D. (2011). The question is: How has Nigeria's macroeconomic performance, particularly economic development, been impacted by fiscal federalism?

Aims of the research

Investigating the link between fiscal federalism and Nigeria's economic progress is the main goal of this study. The precise goals include, investigating the effects of fiscal federalism on economic growth empirically. Examine the underlying elements that are either supporting or impeding Nigeria's implementation of fiscal federalism;

Research Hypothesis

The proper testable hypothesis for this study, which is derived from the research question and connected to the study's goals, is one that will be empirically investigated. In the case of a null hypothesis, the following is stated:

H0: In Nigeria, economic growth is unaffected by fiscal decentralization.

Importance of the Study

In many regions of the world, interest in issues with multi-level government financing has increased. Fiscal federalism has been embraced throughout the world for a variety of reasons, but the common factor driving much of the research on fiscal denationalization is its potential to improve the performance of the public sector, hence enhancing possibilities for higher growth. The typical area of economic study for fiscal federalism has been established federations in developed nations. Theoretically, fiscal federalism is supposed to promote growth by distributing spending authority to the levels of government that are best able to effectively meet local demand. Therefore, this study is significant for a variety of reasons. First of all, it offered a framework for comprehending the financial relationship between the various tiers of government and their capability for service delivery. Second, the study provides a framework for policymakers to use when deciding how to improve governments in developing nations. Finally, it offered a theoretical framework for further research into how tasks should be allocated among the various levels of government to promote effective economic growth.

Review of the Literature and Theoretical Framework

Literature Review

Fiscal federalism or intergovernmental fiscal relations have been argued to be concretely positioned within the definition idea of federalism, even with economic blending, over the years. As a result, federalism, in the words of Akindele (2009), "may be considered to describe a form of governance where revenue and expenditure functions are split among the tiers/levels of government. As a result, fiscal federalism is one of the key basic ideas that a real and balanced system of federalism should be based on. It makes it very plain that under a true federation, the federal, state, and municipal governments should not rely on one another to carry out the legal obligations and duties that the country's constitution has entrusted to them.

Fiscal federalism is distributing decision-making to lower tiers of government as opposed to keeping it centralized. Therefore, each level of government should be allowed to make choices and allocate resources based on its own priorities within its own sphere of influence. The federating units should also have the freedom to make decisions on their own in topics that fall under their purview. Fiscal federalism is a term that refers to the arrangement of the several levels of government in a federal system. Both names (fiscal federalism and intergovernmental fiscal relations) are occasionally used interchangeably. In some political contexts, it is known as intergovernmental fiscal relations. Fiscal federalism can also be understood in accordance with how it was initially described by Musgrave (1959) and Oats (1972), who said that it refers to the separation of public sector functions and finances among several levels of government. In creating this division, economists place a strong emphasis on the need to pay attention to the necessity of enhancing the public sector's performance and the delivery of their services by ensuring a correct alignment of responsibilities and fiscal instruments.

In an effort to ensure economic progress in Nigeria through public sector initiatives, the Musgrave theory of public finance was adopted to describe the duties that best suit the various tiers of government.

According to Musgrave (1959), the roles of the government are allocation, distribution, and stabilisation. The "Layer-cake" model of governance or "tripartite functions" refers to this division. According to Musgrave (1959), who was cited by Halidu (1986) and Ndan (2008), the allocation function is the process by which the government uses the resources at its disposal to provide a variety of goods and services, particularly those that might not be effectively provided and fairly distributed through an alternative arrangement like the price system. These often include public goods and services including defence, water and power supply, postal services, police protection, education, and health services. According to Halidu (1986:10), who was referenced by Ndan (2008), the government has a duty to ensure an equitable distribution of income and wealth not only among members of society but also among the various socioeconomic sectors and geopolitical areas of the nation. Government strives to "equalise" existing socioeconomic disparities between the rich and the poor, developed and underdeveloped sectors, and advanced and wealthy states and regions and their impoverished, backward counterparts through the distribution functions. The notion of equal development in the horizontal revenue sharing among States was inspired by this function of government. On the other hand, the government's stabilization function refers to the upkeep of high rates of resource usage and steady price levels. Due to the fact that every economy experiences times of economic fluctuation, such as booms, recessions, and depressions, the stability function emerges and becomes essential.

Application of theory to the study

According to Musgrave (1959), the roles of the government are allocation, distribution, and stabilization. According to this classification, the central government should be in charge of stability and distribution while the various levels of government divide up allocation duties. Theoretically, it has been maintained that the central government would be better able to perform the responsibilities of distribution and stabilisation as well as to offer national public goods (Oates, 1972; Musgrave and Musgrave, 1989; Cremer et al 1995; Taiwo, 1999). According to Halidu (1986:8), the federal (or central) government would be in charge of stabilizing the economy, dispersing allocation in accordance with social consensus, and delivering public services that are on a national scale or are crucial to national security. On the other hand, the State and local Governments would be in charge of delivering public services that are geographically more constrained, funding them primarily through benefit taxes and specific funds from the Center. The allocation function, he continued, "may be considered as the major procedure through which both the State and Local governments exert some degree of control and directly engage in the mainstream of the economy." The extent to which state and local governments are able to offer social services and basic infrastructure, i.e., by carrying out the allocation function, is the only way for them to be felt in every nook and cranny under their purview (Halidu, 1986:10). The stabilizing function is susceptible to the same defence. If we suppose that a given locality wishes to increase the amount of goods and services produced, which is a measure of economic activity, we can accomplish this goal by increasing the level of public spending because it needs to be funded in some way. If the increase is funded by expanding the local government's ability to print funds, other municipalities will just do the same and purchase the extra products and services made possible by the programme. This is because other locals have the ability to print money as well, therefore they will do so as well. In contrast, if the activity is funded by tax increases and individuals are mobile, other citizens would move to the area that started the programme and profit from the services offered. The federal government is better placed to carry out the stability and distribution functions of the public sector, as is evident from the information presented above. The classic economic argument for fiscal decentralization revolves around better resource allocation in the public sector. As opposed to a central solution that assumes one size fits all, local governments are able to tailor the outcomes of public services to the desires and unique circumstances of their constituents. Additionally, in a scenario where households are mobile, people might look for jurisdictions that produce goods that meet their preferences, boosting the potential benefits from the decentralized provision of public services (Tiebout, 1956; Oates, 2006). Allocation is by far the most frequent duty that is carried out concurrently at all levels of government. Authorities from the federal, state, and local governments all heavily participate in resource allocation efforts here. In fact, the presence of a multi-level structure of government can enhance the capacity of the government as a whole to enhance resource allocation and foster general growth and development (Halidu, 1986:20). After a justification for the creation of the federal government and local governments is established, the case for multilevel or federalism government is presented. The separation of duties between the various levels of government seems to be rather simple based on the reasons put forth. The provision of national public goods and the execution of the distribution and stability functions are areas where the central government has a comparative advantage. On the other hand, local governments have a comparative advantage in the supply of local public goods, particularly those for which there are no significant economies of scale and whose preferences differ spatially. Both levels of government should coexist and be given responsibilities where they can each excel in order to benefit from these benefits. From the aforementioned, it can be inferred that the central government is in a better position than the sub-national governments to carry out the distribution and stability functions and to offer national public goods. Therefore, it is essential to have these levels of government, who should be in charge of carrying out the three functions. It will be more efficient if local jurisdictions make provisions rather than the federal government for local public goods where preferences vary spatially and where there are no significant economies of scale. Considering that doing so will inevitably ensure national progress through enhanced macroeconomic performance (especially economic growth)

Research Methodology

secondary and primary sources of data collection were used for this study. Secondary data collection are data collected by other persons for a variety of reasons different from this particular study. They can be census data, organized data created for prior investigations or studies. The primary data used for this stucy was gathered through review of the available literature in libraries, reports, journals, magazines, materials from the internet, and materials from the Central Bank of Nigeria. These procedure allowed this study to learn more about the context of the problem at hand as well as identify relevant experiences from other people. An easy percentage technique was presented on table and correlation analysis was carried out to show the degree of relationship between government's fiscal duty and available financial resources.

DATA PRESENTATION AND ANALYSIS

In the context of the focus of this study, it would be interesting to find out how the pattern of fiscal assignments and transfers translate to macroeconomic performance implications. A channel for this is the resultant degree of fiscal decentralization (Aigbokhan 1999). The most common measure of the extent to which a system is decentralized (or centralized) is the concentration ratio, the proportion of total direct government expenditures made by the central government. Another measure is the extent of vertical fiscal imbalance, which shows the extent of expenditure-revenue mismatch among the various levels of government. Table 1 reports both measures.

Table 1. Fiscal Imbalance in Nigeria, 1990-2007

Year	Revenue Share			Expenditure Share			Surplus/Deficiency		
	Federal	State	Local	Federal	State	Local	Federal	State	Local
1990	95.6	4.1	0.3	77.3	16.1	6.6	22.6	-15.4	-8.7
1991	94.3	5.5	0.2	76.8	15.7	7.5	24.6	-17.8	-7.45
1992	95.8	3.9	0.3	75.7	16.4	7.9	23.8	-16.7	-6.45
1993	96.6	2.87	0.53	75.0	17.3	7.7	21.6	-14.3	-7.12
1994	94.3	5.1	0.6	68.2	23.7	8.1	26.1	-18.6	-7.5
1995	95.9	3.6	0.5	70.9	22.7	6.4	25.0	-19.1	-5.96
1996	96.0	3.6	0.4	72.7	21.2	6.1	23.3	-17.6	-5.7
1997	95.2	4.4	0.4	74.3	19.3	6.4	20.9	-14.9	-6.02
1999	94.7	4.8	0.5	77.7	15.6	6.7	22.1	-15.6	-5.12
2000	93.2	6.3	0.5	76.5	16.6	6.9	21.2	-13.2	-6.3
2001	95.6	3.9	0.5	76.8	15.7	7.5	20.7	-14.1	-6.4
2002	96.4	3.2	0.4	73.6	19.8	6.6	23.7	-15.3	-5.8
2003	95.3	4.1	0.6	75.7	17.6	6.7	22.2	-14.2	-5.9
2004	95.7	3.8	0.5	79.8	13.8	6.4	21.3	-13.6	-6.5
2005	95.9	3.9	0.2	79.6	14.2	6.2	20.2	-14.7	-6.7
2006	95.8	4.0	0.2	78.4	14.4	7.2	21.8	-14.4	-6.9
2007	95.5	4.2	0.3	78.6	14.6	6.8	21.9	-15.3	-7.8

Source: Computed from CBN Annual Reports and Statistical Bulletin Various Issues

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According to Table 1, between 1990 and 2007, the concentration ratio for expenditures and revenues varied between 68 and 79 percent and 94 and 96 percent, respectively. The table also demonstrates that state government revenues severely lagged behind its expenditure requirements, with states experiencing the greatest shortfall. Only the federal government was in a position to cover its expenditure requirements. More decentralization exists in the realm of expenditure than in the realm of revenue. As a result, sub-national governments typically rely on financial allocation from the federal government for their expenditure requirements. Herber (1979) refers to these issues as vertical imbalance or non-correspondence concerns. As a result, there is a significant difference between the state and municipal governments' sources of funding and their duties for functional expenditures (Anyanwu 1999). The federal government does not operate witha budget surplus, as implied by these numbers; rather, it simply means that, in contrast to state and local governments, its revenue share outpaced its spending allocations. Here, two conclusions are possible. First, if the current pattern of assignment persists, states may face more severe restrictions in the future. Additionally, growth and stable macroeconomic performance could be restricted by the allocation efficiency argument, which suggests lower level service provision without frequent and sufficient intergovernmental transfers. The payment of employee salaries and contractor fees is sometimes delayed by lower level administrations for months due to the mismatch and inconsistent flow of transfers at the moment. These have a tendency to have a detrimental impact on labour efficiency, service delivery, and macroeconomic performance, particularly economic growth.

Table 1.1: CORRELATIONS

/VARIABLES=FEDREV FEDEXP STREV STEXP LOCREV LOCEXP

/PRINT=TWOTAIL NOSIG

/STATISTICS DESCRIPTIVES

/MISSING=PAIRWISE.

Correlations

[DataSet0]

Descriptive Statistics			
	Mean	Std. Deviation	N
FEDREV	95.4000	.85147	17
FEDEXP	75.6882	3.05223	17
STREV	4.1924	.83994	17
STEXP	17.3235	3.01134	17
LOCREV	.4076	.13599	17
LOCEXP	6.9235	.61393	17

Correlations

		FEDREV	FEDEXP	STREV	STEXP	LOCREV	LOCEXP
FEDREV	Pearson Correlation	1	.056	-.987**	-.010	-.164	-.206
	Sig. (2-tailed)		.832	.000	.970	.529	.428
	N	17	17	17	17	17	17
FEDEXP	Pearson Correlation	.056	1	.023	-.980**	-.489*	-.235
	Sig. (2-tailed)	.832		.930	.000	.046	.363
	N	17	17	17	17	17	17
STREV	Pearson Correlation	-.987**	.023	1	-.068	.004	.191
	Sig. (2-tailed)	.000	.930		.796	.987	.462
	N	17	17	17	17	17	17
STEXP	Pearson Correlation	-.010	-.980**	-.068	1	.480	.043
	Sig. (2-tailed)	.970	.000	.796		.051	.871
	N	17	17	17	17	17	17
LOCREV	Pearson Correlation	-.164	-.489*	.004	.480	1	.106
	Sig. (2-tailed)	.529	.046	.987	.051		.687
	N	17	17	17	17	17	17
LOCEXP	Pearson Correlation	-.206	-.235	.191	.043	.106	1
Sig. (2-tailed)	.428	.363	.462	.871	.687		
N	17	17	17	17	17	17	
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

The aforementioned correlation analysis reinforces the claim that there is an imbalance between the government's fiscal duty and its available financial resources, particularly at the local government level. The analysis shows an inverse correlation between local government revenue and expenditure.

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Table 2: Government Expenditure as Percentage of GDP, 1960-2007

	Recurrent		Capital		Total
	Total	**GDP**	**Total**	**GDP**	**GDP**
1960-1969	70.5	9.9	29.6	4.1	12.3
1970-1979	56.1	11.1	43.9	9.4	20.5
1980-1984	46.3	17.4	53.7	21.4	38.8
1985-1989	64.5	17.4	35.1	9.5	26.9
1990-1994	56.1	16.9	43.3	13.3	30.2
1995-1999	45.9	11.5	54.1	12.0	22.5
2000-2007	60.6	10.1	39.4	6.5	27.8
Average	57.1	13.5	42.7	8.9	24.0

Sources: CBN Statistical Bulletin and Annual Reports and Statements of Accounts (various issues)

Between 1990 and 1994 and 1995 to 1999, respectively, government spending varied between 30.2 and 22.5% of GDP, but from 2001 to 2007, it increased to 27.8% of GDP. Between 1960 and 2007, the average share of recurrent expenditure was 57.1% of total expenditure, or 13.5% of GDP, while the average share of capital expenditure was 42.7% of total expenditure, or 8.9% of GDP (see Table 1). Inflationary pressures,the growth of the public sector, the implementation of democracy, an increase in the service of domestic and foreign debt (interest payments only), and an increase in civil servant salaries and benefits are some of the factors that contributed to the higher allocation of recurrent expenditure.

Testing of Hypothesis

The assumption to be examined is that Nigeria's macroeconomic performance is not considerably impacted by fiscal federalism. Refer to tables 1 and 2 above, which illustrate the amount of revenue allotted to each level of government and its level of allocation over the time periods under consideration. From the tables, it is clear that as funding for each level of government has increased, there have been fluctuations (i.e., increases and decreases) in their expenditure patterns. For instance, table 2 above shows that expenditures increased between 1960 and 1994 before decreasing between 1990 and 1994 and then increasing again. When government allocations increases, recurrent allocation tends to increase more than capital spending does. However, as recurrent allocation declines, capital allocation increases, increasing the stock of capital goods and fostering economic growth.

In light of the facts presented in the Central Bank of Nigeria's annual report for the years 1960 to 2007 and in accordance with Adam's (2010) theory of economic growth, the null hypothesis is hereby accepted. This suggests that fiscal federalism hasn't enhanced Nigeria's macroeconomic performance (economic growth). That is, the alternative hypothesis that fiscal decentralisation has a major impact on growth is rejected in favour of the null hypothesis, which is accepted. This is due to the fact that for fiscal federalism to be necessary, there must be an increasing upward movement in the GDP that is irreversible, yet the situation in Nigeria displays variability (increase and decrease). Economic growth is not conceivable because the increase in GDP is caused by recurring and not capital expenditure, and the drop appears to be more significant with capital spending (which effectively guarantees economic growth).

Findings

The test of the formulated hypothesis of this study with data generated from the secondary source led to the following findings:

1. Fiscal federalism has no significant positive impact on economic growth in Nigeria over the study period. This finding conforms to a strand of the literature that establishes a negative links between fiscal federalism, public sector efficiency and macroeconomic stability and economic growth in developing countries (Yilmaz, 1999, Cole, 2008).
2. This study also observed various reforms measures and committees set up to address fiscal imbalance in Nigeria. However, a generally acceptable decision have not been reached or carried out to reposition the fiscal imbalances among the tiers of government in Nigeria.

Summary, Conclusion and Recommendation

Fiscal federalism is the decentralisation of decision-making, as opposed to its centralization, to lower levels of government. Therefore, it should be permitted for each level of government to allocate resources in accordance with its own priorities within its own area of influence. Fiscal federalism in a country has a number of political and economic advantages. The political justification is typically based on the various qualities of the numerous areas that make up the country, while the economic justification is typically focused on the need to improve efficiency in the use of national resources. Every country is required to divide taxing and spending power between the central and local levels of government to some extent. The allocation of taxing power and spending responsibilities has an impact on both the delivery of services and their financing, which in turn has an impact on the macroeconomic performance of countries.

There is no positive relationship between fiscal federalism and economic growth in Nigeria which can improve with greater participation and performance of the State and Local governments. That is, improving the capacity of the State and Local Government in the provision of public goods and services.

On the basis of findings in this study, the following recommendations are proffered;

I. The need to reverse the age long fiscal dominance by the federal government in order to re-establish a true federal system is strongly recommended to strengthen the fiscal capacity of State and Local Governments in order to play strong role in nation building.

II. The need to diversify and strengthen the fiscal base of sub-national governments is recommended. To this end, local tax administration should be improved, unproductive local taxes eliminated, and untapped tax potentials identified. Research carried out by Uzoma (2004) has proved that while the assignment of expenditure responsibilities among tiers of government appears to accord with the conventional wisdom on such, as well as with the patterns in majority of federal arrangements around the world. Thus more decentralized governance especially in terms of increase in local government and increased transfer of revenues to lower tiers of government would stimulate economic activities and growth.

III. The need to re-size the recurrent expenditure of government in order to free more resources for capital expenditure and hence, improve economic growth, and National conference should be inaugurated comprising of all the stakeholders to fashion out an acceptable revenue allocation formula.

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