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FISCAL FEDERALISM AND POLITICAL ECONOMY IN NIGERIA

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ABSTRACT

Generally, no government that can exist without revenue and expenditure function, this study was carried out to investigate the effect of fiscal federalism and political economy in Nigeria. Fiscal federalism is allocation of revenue and expenditure function to different tiers of government. Fiscal federalism helps to ensure micro-economic stability. Political economy has to do with the relationship between the government, state, and local government. The study evaluates how government affects the lives of the citizens. The problem of this study is revenue appropriation, and expenditure profiling in Nigeria. The broad objective of this study was to evaluate the effect of fiscal federalism and political economy in Nigeria. The independent variable of the study was fiscal federalism which was proxies by revenue allocation of federal government, revenue allocation of state government and revenue allocation of local government, dependent variable was political economy and was proxies by recurrent expenditure, Capital Expenditure, and social service. The fourth hypothesis represents the joint effect of fiscal federalism and political economy in Nigeria. Ex-post facto research design was adopted in the study; the population of the study was Two Hundred Million people (estimated number of people used in the study). The data for the study was extracted from the CBN Bulletin from the period 2003 - 2022. The data were analyzed using correlation, regression, and SPSS version 23. From the finding the result shows that revenue allocation of federal government has insignificant effect on recurrent expenditure in Nigeria, while state and local government has significant effect on capital expenditure and social services in Nigeria. The study concluded that the three tiers of government should come together and adhere to the provisions of the constitution. The study recommends that internal financial control mechanism should be strengthened to ensure compliance with financial memoranda (FM).

Keywords: Fiscal Federalism, Political Economy and Nigeria.

1.0 INTRODUCTION

It is a known fact that government will find it difficult to exist and operate without income and expenditure. Subsequently, in arriving at a few planned points, most states purposely control income and expenditure, which are the foundation of fiscal management (Adeyemo, 2020). Fiscal federalism can be achieved if there is no financial subordinate at any level of government. This is a situation where the federating units independently carry out the statutory obligations and tasks delegated to them by the federal constitution.

Federalism is a method of government where the ability to oversee is divided among public, and sub-public states making creating a federation. A part of federalism that has created a lot of interest and discussions in late time is fiscal (monetary) federalism (Essien and Uko, 2018). Monetary federalism as per Ewetan et al., (2020) alludes to the rules that depict the designation of tax and expenditure capabilities to the diverse levels of government, while financial decentralization is the genuine act of the standards of financial Federalism. Financial decentralization has become stylish paying little heed to levels of improvement and civilization of social orders. Countries are going to devolution to work on the presentation of their public areas (Uko and Asuru, 2022).

According to Funso et al., (2022) a good aspect of fiscal federalism deals with how the central government shares its revenues with the subordinate levels of government. Thus, this means sharing of the nation's resources among the federating units to enable them to fulfill their constitutional objectives. In effect, this relates to the division of governmental functions and financial relationship among the various tiers of government. The federal government uses this power to enforce national rules and standards. It must be noted that the concept of fiscal federalism is relevant for every type of government: Unitary, federal, non-federal, con-federal, parliamentary or presidential and it is not to be associated with fiscal decentralization in revenue sharing formula and clear guidelines for the distribution of funds to diverse stages of government agencies. Additionally, strengthening fiscal accountability and oversight mechanisms such as auditing and budget tracking, can help to ensure that resources are being used efficiently and effectively. (Dada, 2021) mentioned that fiscal federalism is proxied by Federal Government revenue allocation, State Government revenue allocation and also Local Government (LGA) revenue allocation.

Nigeria's political economy continues to be dominated by a federal system shaped largely as a vehicle for the redistribution of centrally collected oil revenues (Odey, 2017). Argument over the circulation of these revenues has been, as it continues to be, the source of much political debate inside and outside the Nigeria polity (Uford, Charles & Ekong, 2022). Given the overwhelming dominance of oil revenues, controlling them has increasingly become the main locus of political struggle for Nigerian stakeholders at all levels. Political economy is a social science that deals with the relationships between the state, society, individuals, and its markets. It utilizes resources and methods from other fields, such as sociology, political science, and economics. The definition of the political/partisan economy is derived from studying a nation's governance or management in terms of economic and political factors.

According to (Adebusuyi & Adagare, 2020) Political economy is described as the study of a nation's governance of its people and markets. Political economy has a substantial effect on domestic and international markets since the respective fields of politics and economics crucially impact and influence each other. They are therefore perceived as equally substantial since they both contribute to governance. Like the political economy, both politics and economics significantly impact the real world. While political economy focuses on the study of markets politically and socially, economics does not involve social or political factors. A general definition is that it is the study of the collaboration of politics and economics (Okeke & Okolo, 2021). The political economy is proxied by recurrent expenditure, capital expenditure and social services. Sequel to the above, the researcher's interest has been provoked to investigating the effect of fiscal federalism on the political economy in Nigeria.

1.2 Statement of the problem

The development of any accounting system requires consideration of the purpose of that system. The idea of government bookkeeping has the reason for concluding how much cash was gotten and its sources, how much was spent and for what purposes and the monetary commitments accumulated. The arrangement or the appointment of legislators and government authorities to oversee public assets creates an organization issue which requires top notch structures for responsibility. The joint designs for guaranteeing compelling independent direction, straightforwardness and responsibility between the head (residents /electors /citizens) and the specialists (government officials/legislators) can be extensively portrayed as administration (Cuadrado-Ballesteros and Bisogno, 2020). A key component is great and tantamount monetary data. Besides the fact that such quality data improves the standards in checking the exhibition of the specialists, yet it likewise works with the dynamic course of the specialist in giving great administration. The major problems of this study are revenue appropriation and expenditure profiling.

1.3 Objectives of the study

The study seeks to analyze the impact of fiscal federalism on the political economy in Nigeria. However, the specific objectives were to:

i. Examine the impact of revenue allocation to federal government on government recurrent expenditure in Nigeria.
ii. Ascertain the effect of revenue allocation to state government on government capital expenditure in Nigeria.
iii. Determine the effect of revenue allocation to local government on government social and other public services in Nigeria.
iv. To determine joint consequence of fiscal federalism on political economy in Nigeria.

1.4 Research questions

In order to achieve the above objectives, the following research questions were raised;

i. What is the impact of revenue allocation to federal government on government recurrent expenditure in Nigeria?
ii. What is the effect of revenue allocation to state government on government capital expenditure in Nigeria?
iii. What is the impact of revenue allocation to local government on government social and other public services in Nigeria?
iv. What is the joint effect of fiscal federalism on political economy of Nigeria?

1.5 Research hypotheses

In order to answer the above research questions the following hypothesis were formulated.

Ho1: Revenue allocation to federal government has no significant effect on government recurrent expenditure in Nigeria.

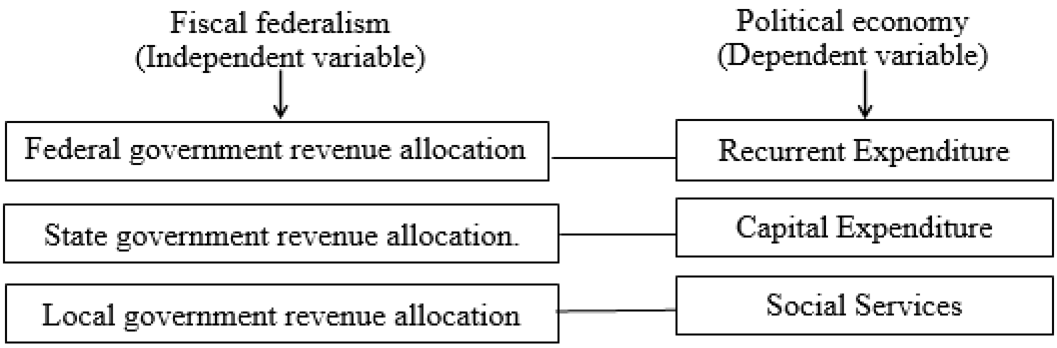
Ho2: Revenue allocation to state government has no significant effect on federal government capital expenditure in Nigeria.

Ho3: Revenue allocation to local government has no significant effect on social and other public services in Nigeria.

Ho4: There is no significant joint effect of fiscal federalism on political economy of Nigeria.

2.0 REVIEW OF RELEVANT LITERATURE

Fig. 2.1: Conceptual Framework of Variables.



Source: Researcher's compilation (2024).

According to Akinlo and Ogege (2020), fiscal federalism is a set of principles that can be applied to all countries. This is a comprehensive regulatory framework that determines the allocation of responsibilities to various levels of government and provides the necessary financial resources to carry out these responsibilities. Bello and Abubakar (2021) argue that fiscal federation encompasses a collection of fundamental principles that assist in structuring financial relationships between the central and regional levels of government. In contrast, fiscal decentralisation refers to the implementation of these principles. The application of these concepts varies between federal and non-federal countries. The application of fiscal decentralisation varies due to the contrasting political and legislative contexts of unitary and federal administrations. New generation of scholars of federalism and fiscal relations point out that overtime, the theory of fiscal federalism has evolved considerably. The objective of contemporary fiscal federalism is not only to guarantee the effective distribution of resources, but also to safeguard individual freedom and limit the authority of the government, to distribute legislative and fiscal responsibilities, to promote political engagement, and to sustain market dynamics (Adeoti & Ogunleye, 2022).

Public financial management must be rooted on a good fiscal federalism which promotes stable political economy. As captured by Uwah and Ibanga (2021a) in Nigeria, the constitution establishes fiscal federalism, wherein the federal government assumes main responsibility for defense, foreign affairs, and other national matters, while state governments are accountable for areas such as education and health.

As stated by Akunbobola and Awunor (2023), the distribution of revenue in Nigeria is determined by the revenue allocation formula. This formula divides the country's revenue between the federal challenges, such as the unequal distribution of resources and insufficient revenue creation by states. To enhance fiscal federalism in Nigeria, it is crucial to tackle these obstacles and foster a fairer allocation of resources and duties among the various tiers of government. To effectively manage fiscal federalism in Nigeria, it is imperative for the federal, state, and local governments to collaborate, abide by constitutional provisions, and engage in constructive dialogue between the federal and state governments.

According to Victor (2020) a good fiscal relation among the units in a federation would-facilitate correspondence sub-national expenditure responsibilities and available revenue, enhance autonomy for sub-national government through incentives for revenue mobilization, make sure that microeconomic management policies of the centre are not compromised or undermined, ensure that expenditure discretion to subnational government which will enhance efficiency in public expenditure framework. This will lead to transparency and accountability of sub-national officials, facilitating transparent intergovernmental transfer lower the cost of administration, ensure equity in revenue allocation for the weaker levels of government. According to Aigbokhan and Ola (2020) fiscal federalism promotes economic growth. This will improve service delivery.

2.1.1 Fiscal Federalism

Fiscal federalism is viewed as the devolution of monetary obligations among combining units, the reason for which is to guarantee free selection of inclinations and improve simple portion of assets to need regions inside the purview of each unifying unit (Uko and Asuru, 2022). Fiscal federalism is fundamentally about the portion of government assets and spending to the different levels of government. Government at any level inside an organization plays the part of dispensing and conveying assets to guarantee generally speaking solidness of the framework. Adebayo and Olokoyo, (2020) conceptualize that in current majority rule administration, the fundamental targets utilized in surveying the presentation of public area associations are monetary goal, public goal and development objective. While the monetary goal is worried about the capacity of the public authority to address the issues and yearnings of citizens, public goal centers around fulfilling the needs of the populace (for example those inside and outside the expense section), and the development objective is customized towards progress in financial execution and global relations. Financial administration happens at each of the three levels of government: bureaucratic, 36 state legislatures and Federal Capital Territory (FCT) and 774 nearby state-run administrations. The financial federalism structure in Nigeria comprises of use liabilities and duty tasks, between legislative monetary exchanges, and a monetary strategy system that tries to guarantee by and large macroeconomic solidness. Akmueyeseidha and Osmani, (2022). The majority of the financial incomes, including oil and gas and the key non-oil charges (corporate personal expense, extracts), are gathered by FGN into the league record to be in this way imparted to various levels of government as legal exchanges by the Federal Account Allocation Committee (FAAC) as per a recipe. Value Added Tax (VAT) is collected by both FGN and the states, but pooled and distributed by FAAC to the different tiers of government according to a formula. Revenues collected and maintained by the states - known as internally generated revenues (IGR) – represent on average 22 percent of total revenues accruing to all states (16 percent excluding Lagos and FCT) between 2011 and 2017 (Abada, et al., 2022).

State governments account on average for 37 percent of total government expenditure, while receiving about 41 percent of total revenues, and states hold a quarter of total public debt. The overall fiscal sector in Nigeria is characterized by persistently low level of domestic revenue mobilization, severely limiting the level of public expenditure. Nigeria's revenue to GDP ratio was already one of the lowest globally and has further declined with the collapse of oil revenues to 6 percent of GDP. As a result, total government expenditure is only 10 percent of GDP, which is less than half of structural or regional peers and does not allow the government to adequately finance core public services or key public infrastructure investments. While Nigeria's public debt is low by international levels, it's growing due to the widening of fiscal deficits since 2014 and debt servicing is becoming an issue due to the low revenues. Individual states are provided with a high degree of fiscal autonomy under the country's Constitution (Ogunleye, 2020).

Federalism makes balanced governance among the degrees of government by doling out focal policymakers to spending limitations, accordingly keeping them from reneging on their macroeconomic responsibilities. Without even a trace of such balanced governance, legislators at the focal level will generally extend the economy during political races to charm nearsighted electors, albeit the drawn-out results are sub-standard. Such activity could incite expansion when it is funded by shortage planning. With federalism, state legislatures can police the inflationary and deficiency predisposition of focal authorities. Essentially, it has been contended that alliances are more probable than unitary nations to foster politically autonomous, expansion disinclined national banks that will not give obliging money related approach. Plus, rivalry among sub-public units for charge income and speculation obliges the size of the public area and guarantees proficient conveyance of public administrations, steady with the assorted requests of dissimilar, decentralized bodies electorate (Salisu, 2021).

The fiscal federalism framework does little to force states to be fiscally transparent, accountable and exercise prudent fiscal management. States are not required to report budget outturns or how they utilize their fiscal resources to the federal government. Within states, budget implementation reports and annual audited financial statements are not published at all or are published with a significant time lag and not available to the public. The incentives to improve IGR collection have been weak in the past given the relative size of statutory transfers. As a result, states have weak tax administration capacity, many state bureaus of internal revenue (SBIR) are not sufficiently empowered, and most states do not have a published consolidated state revenue (IGR) tax code to provide certainty and transparency to taxpayers.

Adeoti and Ogunleye, (2021) assert that, the linkage between fiscal federalism and development is determined within the context of political structure and economic performance. In what ways do the structure and organization of government, whether unitary or federal, centralized or decentralized, affect economic growth and development? In other words, how does the integration or fragmentation of powers of government affect the capacity of the state to perform? A primary question for democratizing contexts such as we have in Africa would then be whether federal or devolved systems have advantages over non-federal systems in economic policymaking.

2.1.2 Principles of Fiscal Federalism

The federalism system of government has a variety of features. According to Okeke and Okolo (2021). Each level of government must function in concert and independently, each level must be financially self-sufficient, there must be a Supreme Court or an independent judiciary, and no level of government should have disproportionate power over the amendment process. Furthermore, there must be at least two levels of government and a constitutionally established power structure between them. Fiscal federalism may be seen as a byproduct or ancestor of federalism.

2.1.3 Economic Federalism

Fiscal federalism is the term used to describe how the many levels of government are interconnected financially. It specifically refers to the grant or transfer program that the federal government uses to allocate funds to state and local governments. What's commonly referred to as revenue allocation is this. According to Okoro and Nwanne (2021), federalism is a system in which a national, all-encompassing government shares power with a number of regionalized (i.e., territorially localized) governments that operate separately and autonomously from one another. Within its jurisdictional region, it directly affects people and property.

According to Akinlo and Ogege (2020), the principle by which disagreements resulting from the political decentralization of public sector duties and responsibilities are settled is fiscal federalism. They define fiscal federalism as the distribution of resources among levels of government and institutions such that each jurisdictional authority can carry out the duties entrusted to it. What is also taken into account is the size and structure of the various levels of government, as well as the allocation of resources among them to carry out their various functions.

The core of fiscal federalism is knowing, which duties and resources are best handled by centralized levels of government and which should be handled by decentralized levels of government (Omotogo and Olabanji, 2020). Budgetary federalism is a general normative framework used to decide which financial instruments are the most efficient in carrying out the various obligations assigned to the different levels of government. This concept or set of ideas can be helpful when working out the details of the financial links between the federal and state governments. By "fiscal federalism," we mean a system in which power and funding for public services are shared among multiple levels of government. What ties together the aforementioned definitions is the interaction between the budgets of different levels of government. The three tiers of government are the federal, state, and municipal levels,

Federalist theory holds that all tiers of government should work together yet remain autonomous, having the power to carry out their responsibilities without seeking additional funding from above (Idowu & Eregha, 2020). An ideal state with federalism would follow some fundamental principles, such as corresponding between subnational spending, obligations, and financial resources (including transfers from the Central Government), to enable subnational governments carry out their assigned duties in an efficient manner. More so, federalism ensures subnational governments' autonomy by giving them incentives to raise money on their own. By doing this, it should be noted that the central government's macroeconomic management policies are not jeopardized or compromised.

Other principles of federalism include the giving to sub-national governments the freedom to spend discretionarily where it is necessary to boost the effectiveness of public spending and elevate the accountability of sub-national services. This engenders intergovernmental transfers that are transparent, straightforward administratively, and founded on unassailable, objective criteria. Through federalism, there is bound to be equalization payments to balance out inequalities in local and state fiscal capacities so that underdeveloped sub-national governments can provide enough essential public services to the citizenry. A further look at the principles manifests a system to aid in the development of public infrastructure and its suitable financing, which is in line with the existence of a government's role that is compatible with changes centered on the market and income distribution that are shared nationally (Uwah & Ibanga, 2021b).

2.1.4 Political Economy and Fiscal Federalism

With the division of financial aspects and political theory into unmistakable disciplines, business analysts preoccupied from political and institutional elements. The yearning for systemic advancement and for a more exact reason for monetary examination was significant inspirations in this partition. The improvement of neoclassical financial matters focused streamlining by customers and firms subject to obvious imperatives and a market climate, purposely minimizing more undefined political variables (Mause, 2019). Those determinants of monetary results effortlessly formalized in this decision hypothetical structure were focused on in the improvement of neoclassical financial matters; those not effectively formalized were viewed as to a great extent the region of different disciplines. Interest in the subject of what legislative issues means for monetary results may hence show up new to somebody prepared exclusively in present day neoclassical financial aspects; as a matter of fact, it isn't. One might need to remember the historical backdrop of this interest in surveying expressions, for example, "blast of interest" or "ongoing surge of work" applied to ebb and flow research in political economy. Regardless, seeing what has been occurring in the beyond couple of years, such expressions are very precise (Aiyede, 2019).

The view that financial aspects is the investigation of the ideal utilization of scant assets contains a verifiable, yet essential, suspicion when applied to strategy decision, specifically, that once the ideal approach is found, it will be carried out. The issue of strategy decision is just a specialized or computational one. When the ideal strategy has been determined, the policymaker then carries out it, where this choice is taken as programmed. That is, since the policymaker is a social government assistance maximizer, it is taken as given that once an ideal strategy is inferred, this is the arrangement that will be completed. This character of ideal and really picked activity suggests that a positive financial matters of strategy decision follows very quickly from the standardizing financial matters of strategy decision. Note that the method involved with choosing in fact what strategy to embrace, the choice key to this methodology, is altogether different from the most common way of settling on arrangement which the meaning of legislative issues would recommend (Omoniyi, 2018). Political economy consequently starts with the perception that genuine strategies are frequently very not the same as ideal arrangements, the last option characterized as dependent upon specialized and instructive, yet not political, and imperatives. Political limitations allude to the imperatives because of irreconcilable circumstance and the need to pursue aggregate decisions despite these contentions. Positive political economy consequently poses the inquiry how political limitations might make sense of the selection of approaches and in this manner monetary results that vary from ideal strategies, and the results those arrangements would suggest. To put the same point another way, the mechanisms that societies use in choosing policies in the face of conflicts of interest will imply that the result will often be quite different than what a benign social planner would choose (Agbomoka & Osawaru, 2020).

2.1.5 Recurrent expenditure

Recurrent expenditure, particularly in Nigeria, refers to the ongoing expenses incurred by the government for day-to-day activities and maintenance. This category typically includes salaries, wages, pensions, administrative costs, and other routine expenses. Managing recurrent expenditure effectively is crucial for sustainable financial management, as it requires balancing the need for essential services and investments while ensuring fiscal discipline. However, sometimes there is a concern about the high proportion of recurrent expenditure compared to capital expenditure, which limits funds available for critical infrastructural development and hinders long-term economic growth (Wisdom, 2017).

In Nigeria, there are often challenges in effectively managing recurrent expenditure, as it tends to consume a significant portion of the government's budget. This can lead to limited funds for capital expenditure and investments in infrastructure and development projects. To address this issue, there is a need for financial discipline, efficient budgetary planning, and efforts to reduce unnecessary expenditures (Charles & Uford, 2023). By effectively managing recurrent expenditure, Nigeria can allocate more resources towards investments that stimulate economic growth, improve public services, and enhance the overall well-being of its citizens.

2.1.6 Federal government revenue allocation

As per section 162 of the 1999 Constitution of the Federal Republic of Nigeria characterizes federal government income as any pay or returns gathering to or determined by the public authority of the alliance from move receipt, charges, resource pay at the federal administrative, state and local levels.

2.1.7 Federal government revenue allocation sources

Federal government income sources are private annual charges and corporate benefit charges represent about portion of all expense income. In 2020, they accounted roughly 53% of all assessment incomes, finance expenses or social protection charges - charges for projects to safeguard families if there should be an occurrence of difficulty (e.g government backed retirement).

2.1.8 Types of federal government revenue allocation

Federal government pay sources are private yearly charges and corporate advantage charges address about piece of all cost pay. In 2020, they accounted generally 53% of all evaluation earnings, finance costs or social assurance charges - charges for undertakings to protect families assuming that there ought to be an event of trouble (e.g government supported retirement).

2.1.9 Classification of federal government revenue allocation

What we've seen so far is in breakdown of the sources and kinds of government income arranged as central government income. There is likewise one more characterization of government income at the state and nearby levels. While charges and resource pay make up a comparative portion of state and neighborhood government income contrasted with central government income, move receipts are a lot higher portion of state and nearby government income. Most of these are administrative greats-in-help, which are installments from the national government for schooling, transportation, and government assistance programs (Matthew and Abga, 2022).

In the interim, the commitment from social protection charges is nearly nothing, as those are principally for government programs like federal retirement aide, Federal health care and Medicaid.

2.1.10 State Government Revenue Allocation

In an era marked by rapid economic growth and fiscal development, the effective administration of taxes plays a pivotal role in sustaining the financial health of nations. Nigeria, the most populous country in Africa, is no exception to this global phenomenon Adebayo et al., (2022). With its tremendous and different financial scene, Nigeria relies vigorously upon inside produced income (IGR) to subsidize public administrations and spike monetary improvement at both the government and state levels (Akinadewo, et al., 2023). Understanding the elements between current expense organization frameworks and the age of state incomes isn't simply an insightful pursuit however a question of most extreme significance for the country's financial advancement. Nigeria's excursion toward monetary independence has been formed by a complicated exchange of variables, including regulative changes, innovative progressions, and evolving socioeconomics (Akinadewo, et al., 2023). As of late, the nation has seen critical changes in its duty organization frameworks, driven by the basic to improve effectiveness, widen the expense base, and decrease income spillages. These improvements are especially striking at the state level, where states are investigating inventive ways to deal with upgrade their IGR streams. The intricacy of the income assortment framework in Nigeria, including the expense appraisal techniques and the lengthy time among evaluation and installment by citizens, has provoked continuous surveys of the assessment organization process. Salawu (2023) focused on that the intricacy of the income assortment process has prompted deferred incomes. This deferral has unfortunate results on the public authority's capacity to satisfy its city obligations sooner rather than later. Thusly, there is a constant need to assess and further develop charge organization to improve its viability and productivity. Because of these difficulties, government income has been fundamentally affected and is encountering adverse consequences (Uhunmwuangho and Aibieyi, 2013). This study sets out on a thorough investigation of the nexus between contemporary expense organization frameworks and the age of state incomes in Nigeria. It tries to reveal insight into the degree to which current duty assortment methods, digitalization, and strategy changes have impacted the income creating limits of Nigeria's states. Furthermore, this research contributes to the ongoing discourse on fiscal federalism and revenue mobilization, topics of paramount importance in the Nigerian context.

2.1.11 Social services

Social Service are gathering of group of government services focused on providing support and assistance to specific groups more prominently the poor people, people, particularly in confidential gatherings or govt. substances might give or control them. As nations with huge government assistance frequently give a great many social administrations and are connected to the idea of state government assistance. Social Administrations here are generally restricted to private substances and good cause, and their inclusion was in like manner restricted (Uford, 2018). Social administrations are presently generally seen as a fundamental capability of society and a method for legislatures to settle cultural worries on a worldwide scale (Omoniyi, 2018). Government's arrangement of Social Service depends on all-inclusive freedoms, liberal standards and furthermore strict and social convictions, inside social orders, the accessibility and broadness of social administrations shift extraordinarily.

3.0 RESEARCH METHODOLOGY

3.1 Research design

The study adopted ex-post facto research design. The use of this design was informed by the fact that data for this study was collected from published data derivable from official documents that are already in existence.

3.2 Population of study

The study adopted a case study approach, the population was estimated at 200 million people (which is large). This study is macro-economic research, therefore we adopted an infinite population approach. (NBC bulletin, 2024).

3.3 Sample size and sample size determination

Using the sample size determinant for infinite population, or a very large population, the formular applied was n =

Where

n = required sample size

z = the value of the standard normal distribution for a 95% confidence level used in the study.

P = the estimated proportion of the population with the characteristic of interest.

q = I – P

e = error margin (0.05)

Therefore,

n = (1.96)2 x 0.5 x 0.5/(0.05)2

= 3.8416 x 0.25 / 0.0025

= 0.9604/ 0.0025

= 384.16.

The sample size for this study is 384, using a simple random sampling from a very large population (about 200 million) in Nigeria.

3.4 Source of data and method of data collection

Quantitative data for this study was obtained from Central Bank Statistical bulletin, a publication of the Central Bank of Nigeria from the period (2003-2022).

3.5 Method of data analysis

Data for the study is analyzed using correlation and regression analysis with the help of an SPSS software version 23. Each hypothesis will be tested at 5% level of significance. The decision for accepting or rejecting the null hypothesis will be based on the p-value. When the p-value for any variable is less than or equal to 0.05, the null hypothesis will be rejected. On the other hand, when the p-value is greater than 0.05, the null hypothesis will be accepted.

3.6 Model specification

In this study, the dependent variable is political economy which is represented by government recurrent expenditure (GREX), government capital expenditure (GCEX) and government expenditure on social services (GESS). On the other hand, the dependent variable for this study is fiscal federalism represented by revenue allocation to federal government (REAF), revenue allocation to state government (REAS), revenue allocation to local government (REAL).

From the defined variables of the study, the model of the study will be adopted from CBN statistical bulletin and formulated as;

PE = f(FiF) (1)

FiF = fiscal federalism (REAF, REAS, REAL)

PE = political economy (GREX, GCEX, GESS)

Therefore,

GREX = α0 + β1REAF+β2REAS+ β3REAL+ui (2)

GCEX = α0 + β1REAF+β2REAS+ β3REAL+ui (3)

GESS = α0 + β1REAF+β2REAS+ β3REAL+ui (4)

Consolidating the model,

$P = \alpha0 + \beta1REAF+\beta2REAS+ \beta3REAL+ui$ (5)

Where.

GREX = government recurrent expenditure (dependent variable)

GCEX = government capital expenditure (dependent variable)

GESS = government expenditure on social services (dependent variable)

REAF = revenue allocation to federal government (independent variable)

REAS = revenue allocation to state government (independent variable)

REAL = revenue allocation to local government (independent variable)

$\beta1 - \beta3$ = regression coefficient

ui = error term

Operationalization of Variables

Variables	Measurement	Type	Source
Revenue allocation to Federal Government	Allocation from Federal account	Independent variable	CBN bulletin
Revenue allocation to State government	Allocation from Federal account	Independent variable	CBN bulletin
Revenue allocation to Local government	Allocation from Federal account	Independent variable	CBN bulletin
Recurrent expenditure	Personnel cost, goods and services and other operating expenses	Dependent	CBN bulletin
Capital expenditure	Land and structure, equipment, and vehicles	Dependent	CBN bulletin
Social services	Health care, education, social protection.	Dependent	CBN bulletin

3.7 Limitation of the study

The limitations of this study were in the restrictions on the application of the result in other situations. These limitations were financial and administrative polices. Data were difficult to obtain, and this contributed to difficulties before the Gap was bridged. However, the operationalization of the variables in the study made the results to be unique to the measurement adopted.

4.0 DATA PRESENTATION

4.1 Data sourced and used for this study was derived from cbn statistical bulletin for a period of 20 years (2003-2022)

YEARS	REAF	REAS	REAL	GREX	GCEX	GESS
2003	948.41	489.16	396.80	984.3	241.7	55.74
2004	1,180.81	666.04	507.87	1,110.8	351.3	30.03
2005	1456.96	815.18	622.10	1,321.3	519.5	71.36
2006	1739.93	976.26	744.81	1,3902	552.4	78.68
2007	1869.19	1070.86	815.32	1,589.3	759.3	150.90
2008	2655.45	1511.51	1151.53	2,117.4	960.9	152.17
2009	2,151.10	1387.78	992.28	2,128.0	1152.8	144.93
2010	2,416.51	1538.65	1252.42	3,109.4	883.9	151.77
2011	3,237.04	1921.61	1459.35	3,314.5	918.5	92.85
2012	3457.76	2084.69	1583.01	3,325.2	874.7	97.40
2013	3711.75	2251.34	1708.58	3,689.1	1,108.4	154.71
2014	3404.45	2062.63	1563.15	3,426.9	783.1	111.29
2015	2600.98	1567.64	1205.19	3,831.9	818.4	82.98
2016	2081.41	1347.23	1,011.04	4,160.1	653.6	68.80
2017	2563.97	1685.38	1263.32	4,780.0	1,242.3	167.66
2018	3483.89	2,210.73	1667.25	9,277.2	3215.5	203.42
2019	3383.52	2,194.73	1651.99	10,512.7	3,781.2	264.69
2020	3,045.50	2126.04	1590.44	12,819.1	3,265.4	186.74
2021	3127.01	2391.84	1776.57	13,568.8	4712.8	303.66
2022	3419.32	2755.65	2039.02	15,553.55	6,335.58	377.26

Source: Central Bank of Nigeria bulletin from (2003 – 2022)

REAF: Revenue allocation for federal government**, REAS:** Revenue allocation to state government, **REAL:** Revenue allocation to local government, **GREX:** Government recurrent expenditure, **GCEX:** Government capital expenditure, **GESS:** Government expenditure on social services.

4.2 Data analysis

Table 4.2.1 showing regression analysis of the relationship between revenue allocation to federal government and government recurrent expenditure.

Model	R			R Square			Unstandardized B
	.420[a]			.177			0.420
Model	**Sum of Sq.**	**Df**	**Mean Sq.**	**F**	**Alpha**	**Sig.**	**Decision**
Regression	79803242.58	1	79803242.58	3.861	0.05	.065	insignificant
Residual	372029791.4	18	20668321.75				
Total	451833034.0	19					

The analysis in table 4.2.1 shows that calculated R is .420. The R2 value is .177 while the unstandardized R value is 0.420. This implies that while about 42% of correlation (R) were established between the independent and dependent variables, about 18% was realized as the contribution of the independent variable. This means revenue allocation to the federal government has a weak positive and not statistically significant effect on recurrent expenditure of the federal government.

In testing the hypothesis, the associated ANOVA has revealed sum of square for regression and residual to be 7980324.58 and 372029791.4 respectively. Mean square for residual is 20668321.75. The calculated F value is 3.861 while the Sig value is .065. Hence the Sig value (p = .065>0.05) is greater than the alpha value of 0.05, the null hypothesis is accepted, meaning that revenue allocation to federal government has no significant effect on recurrent expenditure in Nigeria.

Table 4.2.2 showing regression analysis of the relationship between revenue allocation to state government and government capital expenditure

Model	R			R Square			Unstandardized B
	.745			.556			.745
Model	**Sum of Sq.**	**Df**	**Mean Sq.**	**F**	**Alpha**	**Sig.**	**Decision**
Regression	29566964.00	1	29566964.00	22.497	0.05	.000	Significant
Residual	23656527.17	18	1314251.509				
Total	53223481.16	19					

In analysis in table 4.2.2 shows that calculated R is .745. The R2 value is .566 while the unstandardized B value is 0.745. This means revenue allocation to state government has positive effect of about 57% on capital expenditure of the federal government.

The associated ANOVA has revealed sum of square for regression and residual to be 29566964.00 and 23656527.17 respectively. Mean square for residual is 1314251.509. The calculated F value is 22.497 while the Sig value is .000. Hence, since the Sig value (p = .000<0.05) is less than the alpha value of 0.05, the null hypothesis is rejected meaning that revenue allocation to federal government has significant effect on capital expenditure in Nigeria.

Table 4.2.3 showing regression analysis of the relationship between revenue allocation to local government and government expenditure on social services

Model	R			R Square			Unstandardized B
	.753			.566			.753
Model	**Sum of Sq.**	**Df**	**Mean Sq.**	**F**	**Alpha**	**Sig.**	**Decision**
Regression	82685.655	1	82685.655	23.504	0.05	.000	Significant
Residual	63323.354	18	3517.964				
Total	146009.009	19					

The analysis in table 4.2.3 shows that calculated R is .753. The R2 value is .566 while the unstandardized B value is .753. This means that revenue allocation to local government has about 57% effect on social services. This is significant.

The associated ANOVA has revealed sum of square for regression and residual to be 82685.655 and 63323.354 respectively. Mean square for residual is 3517.964. Calculate F value is 23.504 while the Sig value is .000. Hence, since Sig value (p = .000<0.05) is less than the alpha value, the null hypothesis is rejected meaning that revenue allocation to federal government has a significant effect on government expenditure on social service.

Table 4.2.4 showing regression analysis between joint effect of fiscal federalism and political economy

Model	**R**		**R Square**				**Unstandardized B**
	.745		.556				1.928
Model	**Sum of Sq.**	**Df**	**Mean Sq.**	**F**	**Alpha**	**Sig.**	**Decision**
Regression	53590704.9	3	178635683.3	11.986	0.05	.000	Significant
Residual	23840972.6	16	14903185.79				
Total	774358022.5	19					

The analysis in table 4.2.4 shows that calculated R is .832. The R2 value is .692 while the unstandardized B value is 1.928. This means that fiscal federalism has a positive effect on political economy of the federal government.

The associated ANOVA has revealed sum of square for residual to be 535907049.9 and 238450972.6 respectively. Mean square for residual is 14903185.79. Calculate F value is 11.986 while the Sig value is .000. Hence, since the Sig value (p=.000<0.05) is less than the alpha value of 0.05, the null hypothesis is rejected meaning that there is a joint effect of fiscal federalism on political economy of Nigeria.

4.3 Test of hypothesis

Hypothesis one:

Revenue allocation to federal government has no significant effect on recurrent expenditure in Nigeria. From the result of findings presented in table 4.2.1, the effect of revenue allocation to federal government on government recurrent expenditure is significant. Since the P-value of .065 is greater than 0.05, on the basis of this, the null hypothesis is accepted.

Hypothesis two:

Revenue allocation to state government has no significant effect on federal government capital expenditure in Nigeria.

From the result of findings presented in table 4.2.2, the effect of revenue allocation to state government on federal government capital expenditure is significant. Since the P-value of .000 is less than 0.05, based on this, the null hypothesis is rejected.

Hypothesis three:

Revenue allocation to local government has no significant effect on social service in Nigeria. From the result of findings presented in the table 4.2.3, the effect of revenue allocation to local government on social service in Nigeria is significant. Since the p-value .000 is less than the alpha value 0.05, the null hypothesis is rejected.

Hypothesis four:

There is no significant joint effect of fiscal federalism and political economy in Nigeria from the result of findings presented in the table 4.2.4, the effect of fiscal federalism and political economy is significant. Since the P-value .000 is less than the alpha value of 0.05, the null hypothesis is rejected.

4.4 Discussion of findings

From the analysis above, the study has come out with these findings:

1. Revenue allocation to the federal government has a positive and significant effect on federal government recurrent expenditure. Odinakachi, (2021). The review looks at the impact of national government income and use on financial development. Discoveries show that national government, held non-oil income and intermittent consumption were critical, IA backing of the examination. Consequently, suggested that administration ought to be prudent.
2. Revenue allocation to state government has positive and significant effect on federal government capital expenditure in Nigeria. As per Akinadewo, (2023). The review looks at a complete investigation of the nexus between contemporary duty organization framework and income age limit of states in Nigeria. The review utilized Kano and Ekiti State inner income. The outcome showed that quality staff significantly affected income age, which is in accordance with the review. In this manner, suggests that enrollment, preparing, and maintenance of gifted staff.
3. Revenue allocation to local government has a positive and significant effect on federal government social services. As per Braimoh and Onuoha (2022). The review examines income age of neighborhood government boards and their presentation. The review shows that income age of nearby government gatherings altogether affects their exhibition, which is in accordance with the review. The review discoveries uncover that unfortunate income age by nearby government blocks advancement in Nigeria. The review suggests that illumination is expected for individuals in nearby government to pay their rate and permit expenses.
4. Fiscal federalism has joint positive and significant effect on political economy. According to Nteegah (2023) fiscal federalism has significant effect on political economy in support to the study. It recommends that for effectiveness all the three tiers of government should come together and adhere to the provisions in the constitution.

5.0 SUMMARY, CONCLUSION AND RECOMENDATION

5.1 Summary

The research was carried out to evaluate the effect of fiscal federalism and political economy in Nigeria. The study was summarized with the following:

1) Revenue allocation to federal government has a positive and insignificant effect on recurrent expenditure in Nigeria.
2) Revenue allocation to state government has positive and significant effect on federal government capital expenditure in Nigeria.
3) Revenue allocation to local government has a positive and significant effect on social and other public services in Nigeria.
4) Fiscal federalism has a joint positive and significant effect on political economy in Nigeria.

5.2 Conclusion

Fiscal Federalism is essentially about the allocation of government resources and spending to the various tiers of government. Government of any level within a federation has the role of allocating and distributing resources to ensure overall stability of the system. The importance of political economy is exemplified in its relation between politics and economics within a given social system. Politics counters the act of resources. Within a given system, there must be transparency and accountability. The study has shown that, increase in government revenue will increase the level of government expenditure. Yet, the extent to which the increase in government expenditure impacts the overall well-being of the citizenry has been shown to e ineffective. This perhaps could be due to poor management of resources and lack of transparency in the operation of government business.

This study was carried out to examine the effect of fiscal federalism and political economy in Nigeria. The independent variable was fiscal federalism which was proxy by revenue allocation to federal, state, and local government. The dependent variable was political economy, which was proxy by recurrent expenditure, capital expenditure, social services.

The research covered a twenty-year period (2003-2022) made use of secondary data sources from CBN statistical Bulletin. Regression and correlation test was employed in analyzing the data obtained. Finding from the study revealed that revenue allocation to federal government has a positive and insignificant effect on recurrent expenditure in Nigeria while revenue allocation to state government and local government has positive and significant effect on capital expenditure and social services in Nigeria. The study found out that fiscal federalism can only succeed when the different tiers of government agree to carry out the obligations written in the constitution, and also shows that fiscal federalism has significant effect on political economy.

5.3 Recommendations

Based on the findings, the study recommended the following policy measure on fiscal federalism and political economy.

1) There should be a reduction on allocation to the federal government, with a corresponding reduction on items of recurrent expenditure. More revenue should be allocated to states with a higher responsibility for recurrent expenditure. This will be productive because of monitoring and evaluation by various state governments.

2) True federalism is seen when the states are stronger than the centre. This is the essence of decentralization policy. It is recommended that the revenue allocation formular be made higher for the states than it is to the federal government.
3) With the findings, it is recommended that more funds should be allocated to the local governments, since they are closer to the people at the grassroots level. With the empirically impressive result, local government autonomy is advocated.
4) Fiscal federalism has joint positive and significant effect on political economy in Nigeria. Therefore, policy implementation is recommended for fiscal federalism policies that promote decentralization, revenue sharing, and resource control. This will further enhance pollical economy outcome.

5.4 Contribution to knowledge

The facts are established as the contribution of this study to knowledge in the area of fiscal federalism and political economy in Nigeria.

1) The period under study (2003 – 2022) was an era in the continuous practice of democracy in Nigeria. The study adds to existing knowledge that adequate control of government resources brings about transparency and accountability which is the hall-mark of governmental accounting and finance.
2) Public governance, relating to sources of government income and expenditure is manifested when fiscal federalism is considered for political and economic stability of Nigeria.
3) The study adds to the body of knowledge in public financial management through a bridge of finance, economic and political management of the affairs of Nigeria by showing how resources can be evenly distributed among the different tiers of government.

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Table B.3.3: Summary of Federation Account Allocation Committee (FAAC) to All Tiers of Government (₦' Billion)

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Federal Government	723.92	842.51	948.41	1,180.81	1,456.96	1,739.93	1,869.19	2,655.45	2,151.10	2,416.51
State Government	404.61	442.06	489.16	666.04	815.18	976.26	1,070.86	1,511.51	1,387.78	1,538.65
Local Government	324.23	360.23	396.80	507.87	622.10	744.81	815.32	1,151.53	992.28	1,252.42
13% derivation fund	91.20	92.10	138.33	205.44	348.82	424.36	437.43	637.82	455.33	548.55
Total	1,543.96	1,736.90	1,972.70	2,560.16	3,243.06	3,885.36	4,192.80	5,956.31	4,986.48	5,756.12

Item	2011	2012	2013	2014	2015	2016	2017	2018 [1]	2019 [1]	2020 [1]
Federal Government	3,237.04	3,451.76	3,711.75	3,404.45	2,600.98	2,081.41	2,563.97	3,483.89	3,383.52	3,045.50
State Government	1,921.61	2,084.69	2,251.34	2,062.63	1,597.64	1,347.23	1,685.38	2,210.73	2,194.73	2,1

										26.04
Local Government	1,459.35	1,583.01	1,708.58	1,563.15	1,205.19	1,011.04	1,263.32	1,667.25	1,651.99	1,590.44
13% derivation fund	765.30	774.26	844.28	694.20	410.26	294.69	413.22	640.13	572.49	472.20
Total	7,383.31	7,893.72	8,515.95	7,724.44	5,814.07	4,734.36	5,925.90	8,002.00	7,802.73	7,234.18

Item	2021 [1]	2022 [2]
Federal Government	3,127.01	3,419.32
State Government	2,391.84	2,755.65
Local Government	1,776.57	2,039.02
13% derivation fund	455.61	598.63
Total	7,751.02	8,812.62

Source: Office of the Accountant General of the Federation.

