ABSTRACT

The advancement of the economic situation of acountry is the main aim of theGovernment of the state.

How the various Governments of the states go aboutthis business of advancing the economic situation of the country has been anarea of focus to many scholars. In analyzing how the Government fares in itspursuance of this lofty objective, the growth rate of the Gross DomesticProduct of the, country is normally used as the major criterion for suchanalysis. This study is an extension of the existing views and theories on thesubject.

To accomplish this, the government fiscal actions,that is, its expenditures and revenue, are correlated to the Gross DomesticProduct, to show how such Government fiscal actions advance this objective ofeconomic development. In a similar vein, unemployment rate and inflation rateare also correlated to the fiscal actions of the government, to show how theseactions of government affect these indices of economic performance.

From the result of the regression analysis, thestudy proved that government fiscal actions are positively related the level ofGross Domestic Product and that Unemployment rate and inflation rate aresignificantly affected by Government's fiscal actions.

The significance of the hypothesis tested suggeststhat the theories are valid and relevant to improving Government fiscalactions.

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CHAPTER ONE

1.1 INTRODUCTION

The good economic performers ofthe 1960s, 70s and early 80s in Africa turned out to be disappointments innearly all cases, in large part due to increasing inefficiencies bringinggrowth and investment to a halt. On the contrary, the recent improvement ineconomic performance in several African countries have been fuelled by theremoval of market distortions and to a lesser extent by structural change,while significant progress in terms of higher investment rates has been absent(see, for example, Fischer, Hernandez-Cats and Khan,1998).

Nigeria has been a country ofparadoxes. It is a country abundantly blessed with natural and human resourcesbut in the first four decades of its independence, the potentials remainedlargely untapped and even mismanaged. With a population estimated at about 140million, Nigeria is the largest country in Africa and one-sixth of the black population inthe world. Nigeria is the 8th largest oil producer and has the 6th largestdeposit of natural gas in the world. Currently, barely 40 percent of the arableland is under- cultivation. With over 100 tertiary institutions producing morethan 200,000 graduates per annum, the basic human capital for progress isthere. There are abundant solid mineral deposits that remain largely untapped.It is estimated that over 5 million Nigerians liveoutside of Nigeria, with tens of thousands as world class medical doctors andother professionals. In the midst of these resources, Nigeria (on the average)stagnated over the period up to 1999. The poverty situation worsenedconsistently such that by 1999, the incidence of poverty was estimated at 70percent.

A classic example to underscore the scope of ourmisfortune is to compare Nigeria with Indonesia and even Malaysia. By 1972before Nigeria and Indonesia had the first oil boom, both countries werecomparable in almost all counts: agrarian societies; multi-ethnic and religioussocieties; with comparable size of GDP; etc. Both experienced oil boom in 1973and thereafter, but took different policy choices. The outcomes of thedifferences in policy regimes are such that today, while manufactures exportsas percentage of total exports is about 40 percent in Indonesia, it is lessthan one percent in Nigeria- where wewere in the 1970s. We hear of how Malaysia got their first palm seedlings fromNigeria in the early 1960s

when oil palm produce was already a major export ofNigeria. In the 1990s, it was estimated that Malaysia's export of palm oilproduce earned it more than Nigeria earned from oil exports, and Nigeria hadbecome a net importer of palm produce.
In economic terms, the decade of the 1990s witnessedan average GDP growth rate of 2.8 percent- just about the rate of growth of thepopulation (2.83). This means that on a per capita basis, growth was zeroduring the decade of the 1990s and no wonder poverty incidence worsened to 70%.All basic infrastructure was in a state of crisis, with barely 1700MW ofelectricity being generated for a country that needed at least 40,000. Needlessto recount the dilapidated transportation infrastructure and the nascent,albeit fragile financial system that was ill suited to the demands ofsocio-economic transformation. Unemployment and poverty were the twin faces ofthe economy. Real wages were declining precipitously since the 1970s until thewage increases in 2000 that began to reverse the trend but not yet recovered tothe mid 1970s levels in real terms.
Nigeria has had lost decades of stagnant growth andhas been one of the slowest growing economies in the world on a per capitabasis in the last 30 years despite receiving about $300 billion from oilexports. For several years, the development challenge for Nigeria became thediversification of the productive base away from oil. Successive governmentstook up this challenge in the design and implementation of several plans andpolicies. However, the attempts at achieving a more rapid growth of theindustrial sector led to investment in several projects that turned out to be"white elephants".
During 2003-7 Nigeria is attempting to implement aneconomic reform program called the National Economic Empowerment Development Strategy(NEEDS). The purpose of NEEDS is to raise the country's standard of livingthrough a variety of reforms, including macroeconomic stability, deregulation,liberalization, privatization, transparency, and accountability. A relatedinitiative on the state level is the State Economic Empowerment DevelopmentStrategy (SEEDS).
A longer-term economic development program is theUnited Nations (UN)-sponsored National Millennium Goals for Nigeria. Under theprogram, which covers the years from 2000 to 2015, Nigeria is committed toachieve a wide range of ambitious objectives involving poverty reduction,education, gender, equality, health, the environment, and internationaldevelopment cooperation. In an update released in 2004, the UN found thatNigeria was making progress toward achieving several goals but was fallingshort on others.
Overall, the economy is characterized by low savings--investment equilibrium and low growth trap, and lack ofhigh growth persistence is a defining feature of the economy such that in over40 years, it has never had a growth rate of 7% or more for more than threeconsecutive years.
An even more worrisome issue is the minisculeinvestment rate. A society that does not invest is a society that cannot grow.The bulk of investment is undertaken by the public sector, and the low privatesector investment is essentially on account of the risky and uncertaininvestment climate, and the atypically high cost of doing business; Nigeria hasa

potentially large market (although the purchasing power in a $300 per capitaeconomy is low). But investors are lessenthusiastic to exploit this opportunity because of the risks and costsinvolved. The growth of output of any economy depends on capital accumulation,and capital accumulation requires investment and an equivalent amount of savingto match it. Two of the most important issues in development economics, and fordeveloping countries, are how to stimulate investment, and how to bring aboutan increase in the level of saving to fund increased investment.

For growth to occur, a country must invest to buildup productive capacity. It is this capacity that determines the level of outputof goods and services in the economy. If investment, which represents the netincrease in an economy's capital stock leads to growth, then there isrelationship between capital accumulation and economic growth. When sustainedgrowth has occurred, it is expected that, over time, with the appropriatepolicies that allows for more equitable distribution of the fruits of economicgrowth among a progressively larger percentage of the population, economicdevelopment would follow. Thus, the fact that capital is needed for economicgrowth is not disputable. Faith in this relationship has long been established.

1.2 **STATEMENTOF THE PROBLEM**

The weakness of the Nigerian economy in the pastthree decades is not unrelated to its dependence on oil. Indeed, the country isa textbook example of an economy underthe influence of the Dutch Disease with its deleterious impact on the,development of other aspects of the real sector. Oil generates about 90% offoreign exchange earnings and 75% of government revenues. It contributes about30% of GDP but employs only about 3% ofthe labour force.

For several years therefore, the developmentchallenge for Nigeria became the diversification of the productive base awayfrom oil. Successive governments took up this challenge in the design andimplementation of several plans and policies. However, the attempts atachieving a more rapid growth of the industrial sector led to investment inseveral projects that turned out to be "white elephants". Two factorsprobably contributed to this development. First, the capacity to design/executesuch projects was lacking. Secondly, the soft funds heeded to sustain theprojects after they were started dried up following the collapse of oil pricesin the early eighties. But there is an even more significant developmentresulting from the attempt to put the economy right. Government inadvertentlybecame the dominant force in the economy employing about one million people.The huge resources accruing to government turned it into a centre for rentseeking and corruption. Though Nigeria's rating in world corruption table isoften contested, the government has acknowledged that the situation issufficiently bad to warrant a frontal attack.

The economy is characterized by lowsavings-investment equilibrium and low growth trap, "and lack of highgrowth persistence is a defining feature of the economy such that in over 40years, it has never had a growth rate of 7% or more for more than threeconsecutive years. The bulk of investment is undertaken by the public sector,and the low private sector investment is essentially on account of the riskyand uncertain investment climate, and the atypically high cost of doingbusiness. Nigeria has a potentially large market (although the purchasing powerin a $300 per capita economy is low). But investors are less enthusiastic toexploit this opportunity because of the risks and costs involved. Nigeria needshelp to meet the challenge of initiating an inclusive rapid growth withsocio-structural transformation to strategize, prioritize and to manage its ownresources better. Hence, the purpose of this paper which looks at transformingthe Nigerian economy into a state of development through huge capitalaccumulation.

1.3 OBJECTIVES OF THE STUDY

Since independence, Nigeria has formulated fivedevelopment plans, four rolling plans and the Vision 2020. However, the fruitsof planning could not be said to have been realized. There is urgent need forthe economy to be transformed.

The national crusade for a new economy is embodiedin Obasanjo's socioeconomic transformation agenda entitled "NationalEconomic Empowerment and Development Strategy" (NEEDS) with a focus onfour key objectives- poverty reduction, employment generation, wealth creationand value re-orientation. The Federal Government has also assisted the Statesto develop the State Economic Empowerment and Development Strategy, SEEDS andevery state in Nigeria has its own reform programme. The difference in outcomesso far between the Federal programmes and some of the states lies in effectiveimplementation. The experience under NEEDS demonstrates that where you have a.robust programme and implementation is effective, you have the desiredoutcomes.

To achieve the NEEDS objectives, government isembarking on massive capital accumulation. The foreign reserve presently above$43billion.

The purpose of the study includes among others:

To determine why development plans have failed inthe past.

·To determine the present level ofdevelopment in Nigeria.

·To determine the need for capitalaccumulation in Nigeria.

·To determine the challenges of capitalaccumulation in Nigeria.

·To establish a relationship betweencapital accumulation and economy transformation in developing the Nigerianeconomy.

1.4 SIGNIFICANCE OF THE STUDY

It is a known fact that, Nigeria has been a countryof paradoxes. It is a country abundantly blessed with natural and humanresources but in the first four decades of its independence, the potentialsremained largely untapped and even mismanaged.

With a population estimated at about 140 million,Nigeria is the largest country in Africa and one-sixth of the black populationin the world. Nigeria is the 8th largest oil producer and has the 6th largestdeposit of natural gas in the world. Currently, barely 40 percent of the arableland is under cultivation. With over 100 tertiary institutions producing morethan 200,000 graduates per annum, the basic human capital for progress isthere. There are abundant .solid mineral deposits that remain largely untapped.It is estimated that over 5 million Nigerians live outside of Nigeria, withtens of thousands as world class medical doctors and other professionals. Inthe midst of these resources, Nigeria (on the average) stagnated over theperiod up to 1999. The poverty situation worsened consistently such that by1999, the incidence of poverty was estimated at 70 percent.

This study is expected to bring fore the phenomenonof under-development or socio-economic decadence in Nigeria,looking at why it is poor amidst plenty and how capital accumulation, humanand physical, can be instrumental to socio-economic transformation in thecountry.

1.5 SCOPEAND LIMITATION OF THE STUDY

Because of the limitation of resources, both timeand financial the use of secondary data is preferred to primary data and thereforeto be used in this research work. The various data are to be collected from CBNstatistical bulletin, CBN annual reports, FOS publications, and other relevantsources.

1.6 RESEARCHQUESTIONS

·Does gross fixed capital formation havesignificant impact on the GDP?

·Does foreign direct investment havesignificant impact on real GDP?

·Does gross national saving havesignificant impact on real GDP?

·Does exchange rate have significantimpact on real GDP?

1.7 RESEARCHHYPOTHESIS

Hypothesis1

H_o = Gross fixed capital formation has nosignificant impact on real GDP.

H_1 = Gross fixed capital formation has Significantimpact on real GDP.

Hypothesis 2

H_o = . Foreigndirect investment has no significant impact on real GDP.

H_1 = Foreign direct investmenthas significant impact on real GDP.

Hypothesis 3

H_o = Gross nationals saving has no significantimpact on real GDP.

H_1 = Gross nationals saving has significant impacton real GDP.

Hypothesis 4

H_o = Exchange rate has no significant impacton real GDP

H_1 =Exchange rate has significant impact on real GDP

1.8 METHODOLOGY

The research technique, to be used in this researchwork is regression analysis, which is an econometric method that is used toderive the relationship and estimates of economic parameters from dataobservations.

1.9 DATA COLLECTION

This study will explore secondary sources of data.The various data are to be collected from CBN statistical bulletin, CBN annualreports, FOS publications, and other relevant sources.

1.10 ORGANISATION OF STUDY

In an effort to achieve the research proposal, theproject will be divided into five chapters. Chapter one contains theintroduction, while chapter two is a detailed exposition of the literaturereview and theoretical framework. Chapter three deals extensively with themethodological issues of data collection and the nature of data used in thestudy. Chapter four focuses on data presentation, analysis and interpretation.Here also the test hypothesis is carried out to justify the purpose of thestudy. Chapter five contains the summary, conclusion and recommendations.

1.11 DEFINITION OF RELEVANT VARIABLES

1. **Gross fixed capital formation:** thisis expenditure on fixed assets (such as building, machinery, etc) either forreplacing or adding to the stock of existing fixed assets.
2. **Foreign direct investment:** thisis expenditure by foreign investors on real assets for the purpose ofproduction rather than portfolio investments.
3. **National savings:** thisis the total value of national savings whose major part lies in commercial bank.
4. **Employment rate:** this is thepercentage of people who are gainfully engaged in one economic activities or anotheras defined by the CBN
5. **Consumerprice index:** This is the index of increment in domestic prices andit was used to deflate nominal values such as gross fixed capital formation,foreign direct investment and national savings.
6. **Real gross domestic product at 1990 constant prices:** Thisis an already deflated GDP using 1990 as the base year hence called real GDP.