THE GROWTH AND STRUCTURE OF PUBLIC SPENDING IN BENUE STATE 1987-1998

BY

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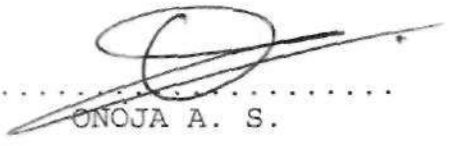
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This thesis entitled "the growth and structure of public spending in Benue state by Onoja A. S. meets the regulations governing the award of the degree of Master of Science (Economics) of Ahmadu Bello University Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

TO

the blessed memory of my 'Enekole' Cecilia Ene Onoja.

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Hallowed be the name of the maker of the heavens and the Earth who has licensed this work.

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ABSTRACT

Total spending had fluctuated imersely across the period; 1987-1998. The expansionary fiscal measures of the Benue State government in the years aforementioned was attributed to higher revenue yields and the growing need for government to provide basic social needs of her people. The growth rate and structure of Benue State public spending reflects vividly and on the overall, the influences of socio political and economic pressures, within the Economic system.

There was for example a general rise in cost per unit over the years of government services. This was occasioned not only by the rapid succession of salary increase awards granted to public officials but also to the fragmentation and multiplication of administrative units. The main impetus and source of funds for many functions upon which the state spend money is from the federation account.

Results reveal that recurrent spending is the major item that 'consumes' the states meagre resources as it is positively related to revenue. On the other hand capital spending is inversely related to total revenue. This position could not make room for rapid development since emphasis is on the maintenance of existing structures rather than the creation of new ones.

In all, the Benue state government could diversify the tax base in order to be able to cope with the continuous increases in public spending; as capital spending becomes the focus of fiscal policies.

TABLE OF CONTENTS

PAGE

Copy right statement ii

Declaration iii

Certification iv

Dedication v

Acknowledgement vi

Abstract viii

Table of contents ix

List of tables xii

List of Charts xiii

CHAPTER ONE: GENERAL INTRODUCTION

1.0 Introduction 1

1.1 Background to the Study 1

1.2 Statement of the Problem 4

1.3 Objectives of the Study 6

1.4 Hypothesis of the Study 6

1.5 Justification of the Study 7

1.6 Methodology 8

1.6.1 Sources of Data 8

1.6.2 Tools of Analysing data 8

1.7 A Priori Expectation 9

1.8 Scope and Limitation of the Study 10

1.9 Organisation of Work 11

CHAPTER TWO: LITERATURE REVIEW

2.0 Literature Review 12

2.1 Economic Models of Public Spending 12

2.1.1 Macro Economic Models 12

2.1.2 Micro Economic Models 19

2.2 Theoretical Framework 21

2.3 Review of Empirical Literature 24

CHAPTER THREE: GENERAL PATTERN AND DYNAMICS OF PUBLIC SPENDING IN BENUE STATE

3.0 Introduction 40

3.1 Trends in Public spending 41

3.2 Overview of the Revenue Structure 70

3.3 The Pattern of Recurrent Budget Account 76

3.4 The Pattern of Capital Budget Account 81

3.5 The Pattern of Actual Total Budget Account . . 82

3.6 Capital Spending as Percentage of total Spending 83

3.7 Internal Tax Revenue to Recurrent Spending . . 88

3.8 The ratio of the revenue from Federation Account and Value Added Tax (VAT) to recurrent spending 90

3.9 Determinants of the size and structure of Public Spending 91

3.10 The Impact of the Structural Adjustment Programme (SAP) On public spending 96

3.11 Mismanagement of Public Resources 98

CHAPTER FOUR: MODEL SPECIFICATION AND ANALYSIS OF EMPIRICAL RESULT

4.0 Introduction 99

4.1 Data and Estimation Procedure 99

4.2 Empirical Results 105

4.2.1 Estimated Regression Results 115

4.2.2 Analysis of Result 117

CHAPTER FIVE: SUMMARY, CONCLUSION AND POLICY RECOMMENDATION

5.0 Summary, Conclusion and Policy Recommendation 121

5.1 Summary 121

5.2 Conclusion 122

5.3 Policy Recommendation 125

References 131

Appendices 137

LIST OF TABLES

TABLE		PAGE
3.1	Actual total revenue and spending of Benue State at current prices	45
3.2	Structure of Benue State Recurrent Spending	49
3.3	Actual Capital Spending by Sectors (%)	55
3.4	Functional Classification of Capital Spending	58
3.5	The growth and functional classification of Capital Spending at Current Prices	63
3.6/7	Structure of Actual recurrent revenue	71
3.8/9	Ratio of recurrent revenue to recurrent spending	75
3.10	The pattern and size of capital Budget	78
3.11	The pattern of actual total budget account	79
3.12	Percentage distribution of recurrent and capital spending	86
3.13	Ratio of Internal Tax Revenue and Revenue from federation account (VAT) (%)	87
3.14	Percentage distribution of revenue from Federation Account and Value Added Tax (VAT) on total spending	94
4.0	Results of the Granger Causality Test of Total Revenue (TR) and Total Spending (TS)	108

LIST OF CHARTS

CHART		PAGE
3.1	The growth and structure of actual total public recurrent and capital spending at current prices	44
3.2	The structure of capital spending by function	56

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND TO THE STUDY

In recent years, the focus of many economist have been on the area of public economics; with several studies attempting to examine the causal relationship between the various pairs of economic variables. One such pair of variables is government spending and revenue yields.

Fiscal deficits are cited as the cause of rising public spending because they reduce the perceived tax price of publicly provided goods and services. (Buchanan and Wagner, 1977). Eligible tax payers consequently respond by increasing their demand for such goods and services; leading to an increase in public spending as long as the elasticity of demand for public service with respect to perceived tax price is negative (Oshaji, 1992).

The states have various means of financing their spending. Taxation, borrowing from the public (bond financing) borrowing from the banking system (credit creation), loans and grants inclusive. Over 70 percent of state finances is however obtained from statutory grants; heavy reliance on external sources emanate from the failure of the existing tax system to generate adequate revenue.

Public spending in Nigeria in general and Benue state in particular have for the present, approached the limits of budgetary resources; yet the ever increasing pressures on

public expenditure seem never to have an end. Inter-sectoral distortions of public spending contrary to development plans appears some what inevitable in the light of proceeding patterns and Trends of public outlays.

The state as the second tier of political administration in the country is saddled with vital roles in the provision of social goods and services largely to meet local needs.

The functional responsibilities of this tier of government and the financial resources to be used for effective delivery of administrative services such as the establishment and management of institutions and personnel for the maintenance of law and order, and of course social and economic services, for instance the provision of schools and health care, good transport net work and a sound economic base are well stated in the statues of the country, under the concurrent and residual lists.

In performing her statutory functions the state draws up a budget estimate based on expected revenues from both recurrent and capital sources. Considerations on population and variations in prices are also made when drawing state fiscal plans for holistic developmental purposes.

During the fiscal years covered most of the sectors experienced progressive growth in expenditure, however in percentage terms the proportionate share of all the sectors fluctuated due perhaps to fluctuations in the explanatory variables.

This observation mainly derives from the following, for instance the state governments capital expenditure increased substantially during the period 1987-1997. It increased from about one hundred and eighty one million (N181 million) in the 1987 fiscal year to about one thousand and forty million naira (N1,040 million) in the 1997 fiscal year, representing an overall increase of 475% (Benue State Budget estimate (1998).

Capital expenditure on economic service rose from about ninety three million naira (N93 million) in 1987 to about four hundred and two million naira (N402 million) in 1997 fiscal year; representing an increase of 332%. the social sector also rose from about forty one million naira (N41 million) in 1987 fiscal year to about four hundred and sixty million naira (N460 million) in 1997 fiscal year. Spendings on administrative services also increased from about thirty three million naira (N33 million) in 1987 to about one hundred and five million naira (N105 million in 1997; while spendings on environmental services rose from fifteen million naira (N15) million in 1987 to about seventy three million naira (N73) million in 1997 fiscal year representing 218% and 387% increases respectively; (Benue State Budget Estimate (1998).

Social and economic services due to their enormous linkeaging effects on economic growth and development have always received the greatest financial attention in Benue State representing over 50% of the state governments capital expenditures.

It is therefore obvious from the foregoing that public sector contribution to economic development could be assessed from the structure and changes in the distribution of public expenditures among the main functions.

Above all this changes in the distribution of public expenditures have been attributed to several factors in the past; revenue, population and variations in prices inclusive. In this study however, a thorough examination of the behavioral pattern of public spending and the underlying determining and causative factors principally revenue is in place with recommendations to correct existing fiscal imbalances in the state. Fiscal imbalance as used in the study refers to the inability of revenue to meet up with spending needs; that is a mismatch between revenue -raising ability and fiscal needs of government, Aigbokhan (1999).

1.2 STATEMENT OF THE PROBLEM

Despite the revenue and function sharing arrangements between the three tiers of government, Benue state as a second tier of government has over the recent years being faced with considerable difficulties in the performance of her statutory functions due to inadequate funds. This, is clearly exhibited in the state's growing budgetary deficits and neglect in the provision of some social services like portable water, housing, good transport net work amongst others.

In Benue State for instance, government clinics and

hospitals lack essential drugs, the water-system is yet to be fully reactivated, potholes are all over major roads and streets, abandoned projects could also be seen as common sights at the mercy of termites and other animals. The state on the whole could not properly maintain plants and equipments of key infrastructures like those of her agro allied industries. More so there is high concentration on recurrent expenditures at the expense of capital programmes that would naturally enhance economic growth and development. Even in the provision of recurrent social goods and services, government has not been able to standardize these services most especially the irregular water supply and the delay in the payment of salaries and other contractual obligations.

The following research questions therefore becomes relevant in the study;

i) Why is the Benue State government unable to meet up with her statutory duties even when much revenue from both statutory and internally generated sources flow regularly to the state.

ii) What is responsible for the fiscal imbalance in the state even when budgetary proposals are geared towards the elimination of budgetary deficits?

iii) How effective are previous policies in checking the aforementioned fiscal disequilibrium and what measures could best tackle the persistent problems in questions? The study provides answers to all the questions raised.

1.3 OBJECTIVES OF THE STUDY

The study has an objective whose primary purpose is to test causality between revenue and spending by applying granger causality test.

Another objective of the study is to identify and analyse the component parts of public spending in the state taking into cognizance the revenue trend.

The third objective is to evaluate the growth and pattern of public spending and the factors that influence them.

The fourth objective is to recommend solutions that best address sectoral imbalance and other items of public spending based on the findings of the study.

1.4 HYPOTHESIS OF THE STUDY

The research work considers the following hypothesis;

i) that public spending depends on revenue

H_o, $\alpha_1 = 0$ ..... null hypothesis that the parameter of revenue is not significant.

H_1 $\alpha_1 \neq 0$ ..... alternative hypothesis that the parameter of revenue is significant: that is revenue influence public spending.

ii) That Revenue depends on public spending

H_o, $ß_1 = 0$ ..... null hypothesis that the parameter $ß_1$ public spendig is not significant.

H_1 $ß_1 \neq 0$ ..... alternative hypothesis that the parameter $ß_1$ of public spending is significant: that is public spending influences revenue.

Tested at 5% level of significance the F-statistics is used to test the two hypothesis; this is because the F-statistics provides a better result as seen from previous works.

1.5 JUSTIFICATION OF THE STUDY

Emphasis of recent has been on stable growth and indeed better living standards. Since government spending forms the main determinant of economic growth in any given economy, to neglect such a study as public spending would be tantamount to neglecting ones living conditions.

A study like this is necessary as it will help in the articulation of better policies that could reduce the fluctuations in public spending for stable growth.

Though few studies have been made in this direction for example the work on the pattern and growth of public expenditure in Kwara by Olowononi (1981) using descriptive statistics and Osoro (1992). On public spending, taxation and deficit in Tanzania for the period (1965 - 1991) with the aid

of econometric tools, there is still the need for more studies in order to be able to contend with even changing economic realities. This work is therefore justified on the basis that previous works have not being able to adequately address the fiscal imbalance in Benue state. Fiscal imbalance as used in the study implies the persistent inability of revenue to meet spending needs. Thus a more comprehensive approach to the problem is in place through the use of rigorous econometrics using data on actual rather than estimated budget figures.

1.6 METHODOLOGY

An econometric model is formulated to determine the responsiveness of public spending to the explanatory variable.

1.6.1 SOURCES OF DATA

Secondary data is used for the study obtained mainly from the office of the Benue State Director of Budgets, Auditor and Accountant Generals Annual Report on the finances. Central Banks Publications of various years were also used.

1.6.2 TOOLS OF ANALYSING DATA

Descriptive tools like graphs, tables and percentage were used to analyse data. Regression and correlation analysis were also used.

The following data on Benue state were obtained and analysed;

i) Actual recurrent revenue

ii) Actual recurrent expenditure

iii) Actual capital receipts

iv) Actual capital expenditure

v) Federal statutory allocations and value added tax (VAT).

1.7 A PRIORI EXPECTATIONS

Our hypothesis hinges on the fact that there is a causal relationship between public spending and revenue. a state with a sound revenue base can influence its growth performance. On the other hand the revenue base is being influenced by the growth and structure of public spending.

A well patterned expenditure trend influence the revenue base as well as the revenue generating mechanism positively. Revenue as an explanatory variable is expected to have a positive regression coefficient. On the other hand public spending as an explanatory variable for revenue is also expected to have a positive regression coefficient. The regression coefficient is expected to give a positive magnitude to buttress the causal relationship between the two variables; total spending and revenue.

The coefficients are not only expected to have the correct signs but should also not be closed to zero. The values of the adjusted correlation coefficient $\bar{R}^2$ and F-statistics is used to judge the goodness of the estimated parameters. In equation 2) the regression coefficients are

expected to be positive since increased revenue should lead to more spendings. The same result is expected for equation 3).

In equation 7) the regression coefficient are all expected to influence spending positively since higher levels of income triggers up spending. The same is expected for equation 10) because the lower the spending the lower the revenue of government, especially from internal sources.

1.8 SCOPE AND LIMITATION OF THE STUDY

The work is limited to the expenditure of Benue State as a second tier of government. The finance of local governments are not been considered due to their lack of accuracy and reliability. The choice of Benue State is justified as the focus of this study as a result of the quest to want to understand the rationale behind a 'food basket state still grabbing with economic inadequacies.

The period 1987 - 1998 is chosen for the study on the grounds that it captures the initial expenditure shocks occasioned by the introduction of the structural adjustment programme (SAP) in 1986. This is so because SAP was principally introduced to curb unproductive expenditures by making such expenditures highly exorbitant, discouraging both private and public investors from them through for example the high tarries and exchange rates.

Most states including Benue State were thus compelled to cut down or streamline their expenditures in line with the

realities of the time paving the way for fiscal discipline.

Lack of reliable and available data in the state as a result of the absence of sound data bank, may hamper the success of the study.

More over the simple regression model used in the study assumed a way other factors that may affect public spending, in Benue state other than revenue. In any case it is expected that the well behaved normally distributed error term will take care of some of these factors, making our conclusions and inferences still consistent with the research hypothesis.

1.9 ORGANISATION OF WORK

The study is in five chapters; chapter one is generally an introduction to the research work, while chapter two dwells on the literature review.

Chapter three is on the general pattern and dynamics of public spending and a highlight on revenue, in Benue state. Chapter four focuses on the analytical presentation and interpretation of the results of the econometric model used, while chapter five is the summary and conclusion.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 ECONOMIC MODELS OF PUBLIC SPENDING

Several models have been used in economic analysis to further expansiate on the concept of public spending. The following two would be considered.

i) Macroeconomic models

ii) Microeconomic models.

This is because of their relevance in helping us identify from the background. Crucial issues in the determination of public spending.

2.1.1 MACRO ECONOMIC MODELS

This model uses aggregated variables like unemployment, population, inflation, gross national product among others. the following schools of thought is considered.

i. Wagners law of expanding state activities.

ii. Peacock - Wiseman hypothesis

iii. Thesis on the incremental nature of government's spending (Osoro 1992)

iv. Development models of public expenditure growth

v. Thesis on the determinants of growth of public expenditure

i. Wagners Law of Expanding State

Adolf Wagner (1890), the German Economist attempts to establish generalisations regarding the pattern of government

spending using historical approach; this led to his formulation of the "law of increasing state activities" which states that as per capital income in the industrial nations grow, the government spending as a proportion of aggregate output will also grow, showing that the income elasticity of public spending tended to exceed unity.

Wagner explained this phenomenon to be a function of the pressure for social progress and the resulting changes in the relative spare of private and public economy. This is because of law enforcement activity of the state and her participation in material production and provision of certain socio-economic services like public health, recreation and welfare services.

These socio-economic services are superior or income elastic wants, so that as real income rises public spending on these services would rice more than the proportion which would account for the rising ratio of government spending to gross national product. Wagner neglected the effect of war on the growth and pattern of public spending, he also could not explain the issue of revenue constraints on public expenditure growth. Adolf Wagner's examination of the direct causality between per capital income and government spending in industrial nations help to explain expenditure trends in developing nations it however fails to provide a measure of the effects on the economic system.

ii. **Peacock-Wiseman Hypothesis**

Peacock and Wiseman analysed public spending through a political theory which states that "government like to spend more money, the citizens of the countries do not like to pay higher taxes so that more funds will be available to the government and that governments need to pay some attention to the wishes of their citizens". the rule of the ballot box is therefore allowed to influence public spending.

They are of the view that government spending does not grow smoothly but irregularly, this is expansiated by what they called displacement effect and concentration effect.

The citizens have a strong motion about the "tolerable burden of taxation" which remains fairly stable during peace time. The tolerable burden of taxation however changes during a period of national crisis such as the out break of war or famine.

Expenditures and taxes are not likely to return to their previous levels after the war but instead they probably remain at a somewhat higher level; so that the pattern of public spending look like a series of a step. The concentration effect centres on the changing division of responsibility between the different tiers of government.

While develop countries may experience displacement effects as analysed, they have experienced more shifts in expenditure levels as a result of political and economic characteristics peculiar to them. The displacement effect as

construed by Peacock and Wiseman rests upon a tax constraint exercised by the electorates upon the law makers which assumes the existence of a democratic system of government. In many developing countries however international military dictatorship and external pressure from foreign powers reduces the power of ballot box and introduces instead a different set of constraints to the growth of public expenditures.

The Nigerian Civil War of 1967 - 1970 and the Benue - Taraba border war of the early and middle 1990s are all possibly capable of producing the displacement effect' described by Peacock and Wiseman. The theory however seems to fit the facts at least as far as the British statistics are concerned, as an advanced nation, largely literate to respond to policies of government via the ballot box.

iii. **Thesis or the Incremental Nature of Governments Spending**

Essentially the work of Osoro (1992). In his examination of public spending, taxation and deficit in Tanzania he used Granger test to arrive at his conclusions. He considered the period 1965 - 1991 observing that there is ever growing public spending that must be financed by tax and non-tax revenue sources. To him, one feature commonly observed in develping countries like Tanzania is the failure of public revenue to match the level of spending thus making the resultant fiscal deficit become a normal experience.

Osoro (1992) observed that the growth in public revenue in developing countries is made difficult by many factors such

as low per capital income that limits the direct tax. Earnings from Agriculture which is a potential tax base, accounting for over 60% of Tanzania's gross domestic product (GDP) in the case of Tanzania is exempted from income tax; and that while the bases of most taxes remain narrow in Tanzania public spending continues to grow thereby surpassing public revenue.

During the past two decades government spending increased at an average annual rate of about 25% compared with 20% for public revenue making room for the conclusion that over the period under consideration public spending grew faster than public revenue. This according to Osoro is partly due to low revenue productivity of the tax system and partly due to expansionary expenditure policies the government has pursued; both combining to create a wide gap between public spending and public revenue; that is reflected in high fiscal deficits.

Empirical results presented indicated that the perceived tax elasticity with respect to the demand for public goods in Tanzania seems to have ranged from 0.53 in the short run to 0.72 in the long run. Moreover the negative sign for the coefficient of total tax revenue (T) Over total public spending (G) that is (T/G) meant that the large government deficits have been instrumental in the excessive spending in Tanzania, supporting the theoretical proportion put forward by Buchanan and R. Wagner that Federal deficits increase federal spending. This finding confirms the dominant role of the public sector in developing countries.

In conclusion Osoro (1992) recommended that the amount of funds available should determine the level of spending, revenue should cause spending; to be achieved by the adoption of a budgeting process that over come the problems of the existing one and measures to curtail spending must consist of policies designed to reduce deficits.

Through budget restructuring government can reduce deficits by enhancing tax collections and cutting unproductive expenditure.

From the empirical results, it goes further to confirm the causality between public spending and revenue, population and deficits. The use of descriptive statistics has however not been expansive more over the study is not up to date since it is for the period 1965 - 1991 only.

iv. **Thesis on the Determinations of Growth of Public Expenditure**

This is basically the work of Waasdijk T. Van (1964) On South Africa between 1930 - 1962. The thesis is a response to the little attention paid to public expenditure and its desirable level especially by writers before the second world war.

General-government income and expenditure in South Africa was examined in terms of gross national product; tracing its growth and structural changes over the past three decades, using descriptive statistics majorly.

Waasdijk (1964) observed that on the whole current

expenditure is much less flexible than capital expenditure and that between 30 and 40 percent of the central governments expenditure consists of fixed or fairly rigid commitments; and that much of the increase in government spending both current and capital during the latter half of the forties had it's origin in two categories of outlay; health and housing and education. He also noted that in contrast to current expenditure which displays a measure of continuity from year to year, capital expenditure also tends to behave erratically rising or falling for no immediately obvious reason; attributing the causes to more of political than economic.

Waasdijk (1964) observed in summary that revenues and expenditures are relative magnitudes since they derive their importance from their relation to budget totals or national income; so that in times of rising money income state revenue will increase even if tax legislation remains unchanged and experience has demonstrated that expenditure tends to follow revenue.

As scholarly as this thesis may appear, it fails to apply quantitative techniques to draw conclusions.

v. Development Model of Public Expenditure Growth

In this model, the works of Musgrave R. (1969; 1974) and W.W. Rostow (1971) are the best examples. Their analysis anchors on the fact that all the countries of the world must pass through different stages before they could develop; and that these different stages require varied proportions of

government spending. They argued that in the early stage of development, the ratio of government spending to total investment in the economy will be large since most of her activities centres on capital formation bordering on roads, housing, telephone health care among others in preparation for take off into the middle stage. In the middle stages even though government continues to provide these facilities it's ratio in the total will be low that is it will be declining. It will only be complementing the effect of the private sector which is now growing.

Musgrave summerized the development stages in the sense that as the ratio of total investment spending to gross national product rises, the ratio of government spending to gross national product will fall. Rostow opined that once the maturity stage is reached government spending on infrastructure will be falling while that of education, health and welfare services will be rising.

The model seemed more relevant to the developing economies including Nigeria since it depicts their gradual movements to economic prosperity though various stages, as a result of inadequate resources and poor technology.

2.1.2 MICRO-ECONOMIC MODEL

Micro-economic model tends to bring into focus the individual factors affecting the supply of public goods and services. The following factors will be considered:

i) Price levels

ii) Population

iii) Political changes

iv) Urbanization.

This is because of their crucial roles in the growth of expenditures.

i) **Price Levels**

Rising prices connotes rising public spending especially if government intends to maintain her spending levels. The combined effects of rising prices could be viewed from two angles; material input cost mainly to the private sector and the effect of rising prices on salaries and wages (labour cost). This falls on the government since the private sector supplies these public goods to them. An increase in the cost of goods and services purchased by public servants connote demand for higher wages to be on a given standard of living. This is now transmitted into higher labour cost and thus a rise in public spending.

ii) **Population**

The level of public spending and that of population is positively related; for a example a change in the composition of the population leading to a high proportion of old people will jack up the spending on pensions and gratuities, health care and others. Thus public spending is affected not only by the increase in the population but by the changes in the composition of the population. A larger population requires

more and more funds to be able to extend social goods and services to the extra heads.

iii. **Political Changes**

The agitation for the creation of additional states and local government areas for example suggests that more and more persons would be employed to administer the new offices. There would also be a rise in the provision of infrastructural facilities in these new areas, thus increasing public spending.

iv) **Urbanization**

Rural urban migration in search of jobs and better conditions of living leads to over-concentration in the urban centres suggesting increased cost of providing extra-infrastructures and security for the additional heads which will eventually call for higher public spending.

These two models; macro and micro further provides a spring board by which public spending could be predicted. They are however not a generalized model or law of public spending in the manner of the Wagner hypothesis or the later displacement effects of Peacock and Wiseman. the models were however meant to highlight on general spending trends.

2.2 THEORETICAL FRAMEWORK

The effects of the Keynesian revolution on Economic thought are sufficiently well known not to require lengthy comment. The 'investment multiplier' holds good not only for

net investment but also for additional government expenditure whether for the purposes of consumption transfer or investment. As pointed out previously there will be an off setting effect where the expenditure is financed from taxation and in some cases where it is financed from borrowing.

The stabilizing potential of a large government sector in a type of economy which was subject to periodic stagnation was stressed by A.H. Hansen. With P.a. Samuelson, H.s. Perloff, N. Kaldor and others. Later contributions by Lundberg E. and B. Hansen helped to change the emphasis from budget imbalance to the qualitative composition of budgets.

The Keynesian theory assumes primarily that when national income is high, employment will be high and when it is low employment will be low. National income is determined by the total expenditure on consumption and investment of both the private and public sectors of the economy. Consumption and investment are in turn influenced by government fiscal and monetary policies as well as government direct control.

Taxation affects both investment expenditure and private consumption of goods and services. Government expenditure on consumption and investment influences the level of employment but government's decision to spend is determined mainly by social, economic and political forces.

Government may regulate the level of economic activity or the level of effective demand in line with Keynesian theory by the three methods above but the principal weapon is fiscal

control. The effectiveness of monetary policy as a complementary instrument of control cannot be over emphasized, this is because credit expansion or contraction can be used to stimulate or curb effective demand.

If the government increase the level of its expenditure the level of total output will be increased, this is because the increase in current expenditure will make more money available to government employees to spend. This will push up aggregate demand and the producers are encouraged to produce more; since governments direct purchases of goods encourages the producers to increase their output.

The Keynesian theory is represented in Figure (2.1) below

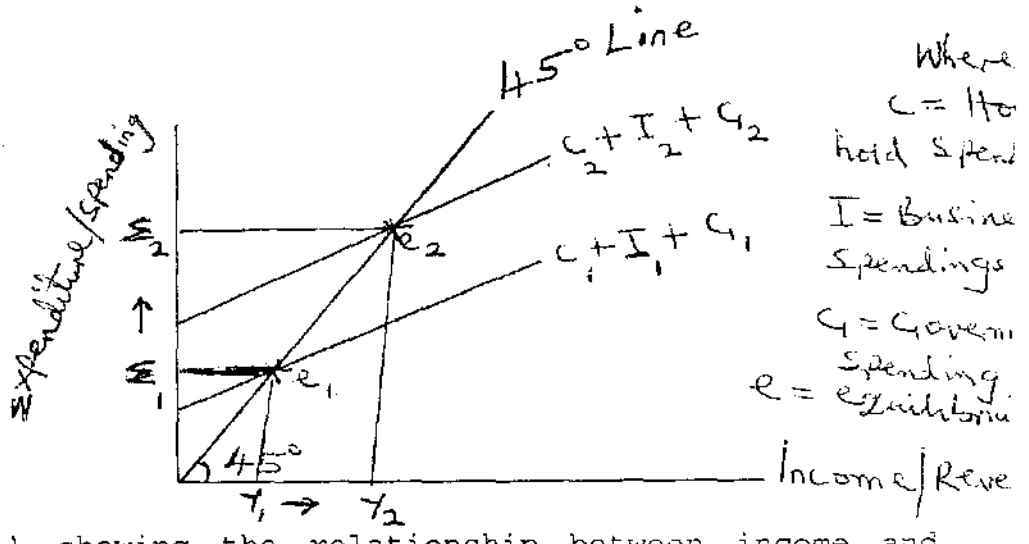


Figure (2:1) showing the relationship between income and expenditures.

The 45° is upward sloping showing the positive relationship between income and expenditure, the higher the income (Y) the higher the level of expenditure (E)

According to Keynes the government should intervene in the capitalist economy and use it's power to tax and spend to

shift the aggregate demand curve to the right from $C_1+I_1+G_1$ to $C_2+I_2+G_2$ as shown above. In particular the government should spend more or tax less or both. This was difficult advice for government leaders to follow in an area of laissez faire capitalism. Keynesian prescription was followed only to a very limited extend until world war II. Keynesian policy had been used to end the great depression not by choice but because war necessitated it.

2.3 REVIEW OF EMPIRICAL LITERATURE

The level of government spending over the years had tended to be growing rapidly. The German economist, Adolph Wagner (1835 - 1917) argued that social progress brought increasing state government expenditure. He argued that there is a causality between the growth of an economy and the growth of government activities so that the public sector grew faster than the economy. Peacock and Wiseman (1961) accepted the historical contention of Wagner's laws but rejected his conclusions on the cut in increasing state activities. They opined in their 'displacement effect' and concentration effect based on their study of public expenditure in the United Kingdom (1890-1955) that public expenditure did not increase in a smooth and continuous manner. That a times social or other disturbance takes place which at once shows the need for increased public expenditure.

The undue emphasizes on the recurrence of abnormal situations that cause sizeable jumps in public expenditure and revenue by Peacock and Wiseman to undermine Wagners law is faulted on the grounds that they forgot that constant and regular increments in public spending are due to some expansion and structural changes in the economy.

In another study Fabricant (1952) discovered that urbanization contributes to increasing government spending as government caters for the high concentration of the urban populace. He examined the trend of government activity in the United states since 1900 with emphasize on the factors affecting state and local government expenditure through the use of multiple regression analysis for the exposition of three variable model that determined the size of public spending that is; income urbanization and population density. He discovered that the three factors accounted for about 70% of the variation in spending per capita income was found to be the major factor affecting inter-state differences in public spending. Urbanization and population density played minor roles.

Bird (1971) and Reddy (1970) all studied Wagners law of expanding state activity in Canada and India respectively and concluded that expenditure of government as a ratio of gross national product was positively related to the per capital income. That since 1870 the public spending as a percentage of gross national product has risen five fold; the greatest

factor of expenditure growth being health care, education and welfare spending all in the social sector. They rose rapidly with rising per capita incomes. Increase in expenditure for general administration and protection and in public production such as transportation although substantial was such that its functions remain relatively constant as a proportion of gross national product.

Fisher (1964) tried to increase the number of the variables to seven in his study of the inter-state variations in the state and local government spending made up of more demographic and political factors as against the three used by Fabricant. Fisher discovered that it was the demographic variable that was found to be the major determinant of public spending while socio-political variables offered only little explanation.

Osman (1964) tried to consider the dual impact of federal government aid on both the state and local government spending, making grant-in-aid an independent variable in his regression analysis. Osman discovered that both federal government aid per capita and pere capita income were the major determinants of the size of public spending at the state and local government levels and that the federal grant in aid continues to exert a significant positive influence over the state government spending. His conclusions were that federal aid led to increased state government spending while state aid to local government raised the combined state and local

government spending.

Musgrave (1969) through the use of regression analyse based on time series data examined the cause of public spending in Germany, the United Kingdom and United States between (1890-1963). He concluded that they support Wagners law although he quite probably noted that in principle one cannot really predict the course of total public spending during economic development but only of particular components of the totals. His findings showed a general trend towards a higher ratio of government spending both for civilian and military purposes. Though spending on administration increased at over twice the rate of growth of gross national product (GNP) it remained a small factor in the total spending. The ratio for spending on economic services showed somewhat faster rise. However for the three countries, the most important factor of increase was in the social service categories made up of education, welfare, programme, social insurance and housing in the civilian purposes.

Musgrave interpreted his findings as a contradiction to the Peacock - Wiseman displacement effect since it appeared that after some post-war adjustments, civilian public expenditure returned to the pre-war trend.

Reddy (1970) In his examination of the 'secular growth' of government spending and national income of India between 1872 and 1966 using regressional analysis discovered that the expenditures of government as a ratio of gross national

product was positively related to the per capita income. He also observed that the expenditure of government would increase faster than the national income even if the influence of the Indian high population growth and price changes were excluded.

Phillips (1971) in his examination of the Nigerian Public consumption expenditure between 1952 to 1966 using regression and algebraic formulation to enquire whether public consumption expenditure had been following the 'optimum path' discovered that there was a rising share of government expenditure as the economy progresses and there is a positive correlation between public consumption expenditure and per capita income. He observed that gross domestic product elasticities of consumption expenditure is about three. He claimed that this figure was close to the value obtainable by directly comparing the annual growth rate of expenditure of about 11% during the review period. This therefore supports the finding regarding a greater than unity national income elasticity of consumption expenditure. In his recommendations he suggested the need for higher revenues and better management and control of public spending; In order to push the national income elasticity of consumption expenditure below unity.

In his review of the body of statistical data and history of former western Nigeria, Teriba (1967) using descriptive statistics found out that public expenditure at all levels of

administration and decision making in the region rose considerably. His findings showed that the most important factor in the rise of public expenditure is found in both administration and social sectors.

Goffman and Maher (1971) In their study of the growth of public expenditure in six caribbean countries between 1940 and 1965 observed that there was a positive relationship between the ratio of public expenditure and gross national product to per capital income, the increase in public spending exhibiting a ratchet pattern. According to them population income and price had effect on the growth of public expenditure and that the magnitude of each factor cannot be separated. They acknowledge the presence of other large unexplained variations in the time pattern. Foreign influence through national demonstration effect (tied aid programme) had influence on the spending level and composition of expenditure. More so the ratchet or displacement effect exhibited is as a result of internal revolution and international trade rather than war or depression.

Peacock and Wiseman (1961) examined the public expenditure in United Kingdom between 1890 - 1955. They discovered that public spending did not increase in a smooth and continuous manner but in a step-wise direction due to social upheavels like war leading to increased public expenditure as expansiated in their "displacement" and "concentration" effects. Peacock and wiseman accepted the

historical contention of Wagner's 'law' but rejected his conclusions on the ever increasing state activities the shortcoming of this study is the over emphasis on the occurrence or reoccurrence of abnormal situations that causes public expenditure and revenue to jump up and giving lesser attention to the constant increments in public expenditure as a result of expansion or structural changes in the economy.

Martins and Lewis (1956) studied the size and pattern of public revenue and expenditure of the developed as well as the developing nations and discovered that income is not a determining factor of a nation's expenditure most especially current expenditures. They also showed that the various items of expenditure are a function of the per capita income hence the lower expenditures in the developed countries. Their findings reveals that the developed nations spend more on current expenditures relative to gross national product than the developing countries do on defence, solid security schemes, debt and subsidies.

In a study in Japan between 1868 - 1960 Koichi (1963) discovered that there is a positive relationship between its ratio of expenditure to gross national product and per capita income. He found out that solid expenditure is the major determinant of expenditure growth.

Apart from the works of Teriba and Phillips other studies on Nigeria include the following:

Olowononi (1981) examined the growth and pattern of

Public expenditure in old Kwara State between 1968 to 1976, using descriptive statistics for his analysis. He discovered that there has been increase in the growth of public expenditure in the state as a result of governments commitment to administrative, social and economic service. His findings reveals that government expenditure tends to rise at a faster rate than the gross domestic product and that social sector spending grow at a faster rate than the average of other items of government expenditure. He discovered that the growth of public expenditure for the period 1968 - 1976 was due to direct government's involvement in increasing state activity such as housing, education, health care and community services.

Olaloku (1979) examined the pattern of public expenditure in Nigeria between 1966 - 1973. His findings reveals that decentralization of public sectors in the country led to expenditure growth due to the following; social, economic and political factors. In other words minimizing expenditure growth meant a centralization of the fiscal system.

In his work on federal government spending in Nigeria between 1961 and 1977 Lambo (1987) examined the trend using descriptive statistics. He found out that recurrent expenditure was fast growing due to cost of administration and defence services spending during the civil war which forced expenditure upwards. He also discovered that proceeds in latter years from the oil sector enhances capital expenditure.

This conclusion is similar to Peacock and Wiseman's "displacement effect".

Osoro (1992) studied public spending, taxation and deficits in Tanzania. His findings shows that in Tanzania public spending (drives) causes revenue, suggesting that one of the causes of the deficits in Tanzania is rapid growth in public spending.

Using the classical Grange causality test Osoro (1992) also discovered that measures to curtail deficits must consist mainly of policies to reduce spending. The result of the study also showed that budgeting process in force is in itself a cause of deficits in Tanzania.

In a related study Mehdi (1993) examined the relationship between public spending and private investment in UK and U.S.A. Using the Granger techniques he analysed the effects of various categories of government spending on real private investment. The empirical results of the study shows that output and corporate profitability are the most important variables affecting private investment. In both countries government spending showed some marginal importance. The study did not however examine the size of public spending and its growth pattern using descriptive tools.

Landau (1983, 1986) in his study used a multiple regression approach in examining the relationship between public spending and economic growth in ninety-six less developed countries (LDCs) and developed countries (DCS) for

1960-76. Government spending was divided into five types. Expenditure other than defence or education; expenditure on defence; expenditure on education transfers; and capital expenditure. Results from estimated coefficients of expenditure other than defence and education indicate that "this kind of spending does not Crowd out private investment directly" and the results on the impact of capital expenditure indicate the coefficients are all negative. The conclusion was that government expenditure under the five types had mostly had a negative impact on growth.

The study is however not based on rigorous theoretical framework even though it undertook extensive regression analyses.

Anyanwu (1999) also examines the various facets of fiscal relations among the tiers of government in Nigeria, using mainly descriptive tools. The study reveals that the degree of decentralization of spending is higher than the degree of decentralization of revenues, resulting to over dependence by the subnational governments on central financial allocation for their expenditure needs. This according to the study leads to the problems of non-correspondence or vertical fiscal imbalance since there is a considerable divergence between the sources of revenue and functional expenditure obligations in the states and local governments. The study observed that a cut in the capital expenditure component has adverse consequences for capital formation.

The study could not employ analytical statistics for most of the work.

Alade (1999) examines the causes of state governments' financial problems in Nigeria using descriptive statistics, between 1980 - 1997 the study revealed that state governments' expenditure have surpassed the potentials of their revenue sources, leaving a substantial gap between their needs and fiscal capacity. It showed that while states revenue have declined in real terms the demand for government services has continued to grow. The study observed that several factors are responsible for the increase in state governments' expenditure for instance the rising cost of providing public services due to inflation, an unprecedented increase in the demand for public services as a result of the growing population as well as the problem of an over staffed public service.

Olowononi (1999) in a related study also examines the revenue and function sharing arrangements among the three tiers of government in Nigeria using regression analysis as well as descriptive tools. The study showed that the federal government alone raised about 92 percent of public revenue annually between 1970 and 1997 and that this pattern of expenditure imbalance remained fairly stable over the years. the study also shows that the extent of expenditure imbalance was less than that of revenue imbalance.

The study could not specify the actual component of revenue or expenditure that is largely responsible for the

imbalance.

In a related study Aigbokhan (1995) applied Granger Causality model to investigate the direction of relationship between real and financial growth in Nigeria between 1978 and 1993.

He tested for causality using the standard F-test computed from restricted and unrestricted versions of his pair of linear, Convariance stationary time series of equations. The results indicate causality running from financial to real sector growth. The evidence is thus consistent with Patricks (1966) observation that financial development is able to induce real sector growth before sustained modern economic growth gets under way, and that as the process of real growth occurs, the supply-leading impetus gradually becomes less important and the demand following financial responses become more dominant.

Ndebbio (1998) in his work examines the full impact of fiscal deficit money supply and inflation in Nigeria for the period, 1970 - 1992, using the Granger causality test. He showed that the relationship between fiscal deficit and inflation is no longer unidirectional but a two-way system in which simultaneously fiscal deficit is caused by inflation and inflation is also caused by fiscal deficit. Further results showed that when the money stock was increased by 10 percent, the price level (PR) increased substantially followed by significant increases in government expenditure (GE) and

government revenue (REV); imports (IMP) also increased though not as high as the rates of PR and GE. He also showed that a decrease in money stock (M2) by 10 percent on the other hand, had a depressed impact on prices, government expenditure, government revenue and imports.

Ndebbio (1998) concluded by recommending that government has to narrow her fiscal deficit gap by putting a stop to ad hoc or undisciplined government expenditures.

Aigbokhan (1996) also examined the role of public spending on economic growth in Nigeria between 1960 and 1993 using two types of analytical framework, namely the regression analysis of a simple growth equation and Granger-causality testing. The focus of the study was to ascertain the direction of the over all impact of government size on growth.

The results of the Granger-causality analysis as used by Aigbokhan (1996) confirms that there is a relationship between the size of government and economic growth. It shows that government spending has a positive impact on private sector output. Although the overall impact on economic growth appears to be negative, results of causation tests indicate some growth; suggesting that the inference that all government spending has a negative impact on growth should be accepted with caution.

Based on his findings Aigbokhan (1996) suggested that policies which substantially reduce the size of government may need to be pursued with caution; but that at the same time

there is need to employ public spending more productively. This position is justified not only because causality runs in both directions; that is growth causes an increase in the size of government expenditure and at the same time government size causes growth, but because the level of significance of the former is higher, suggesting that the link from growth to government spending is stronger, as would be expected on the bases of Wagner's hypothesis.

This study borders on a key area of the economy - the government sector; which is better appreciated in the use of much descriptive tools. Though Aigbokhan (1996) applied analytical statistics in his work, descriptive tools were not comprehensively employed.

This gap in literature is hereby filled with the use of more descriptive statistics as well as analytical tools.

Fountas and Jyh-Linwu (1995) tried to look at the magnitude of the Greek Budget deficits. The conventional Engel - Granger test was used to examine the relationship between government spending and revenue for the period. 1958 - 1992. stationarity between tax revenue and government spending was established using their first deference. With the application of the residual based co-integration tests that allow for a regime shift for the insolvency of the Greek government sector, two results were obtained; firstly, the test shows that there has been a regime shift in either 1981 or 1983. These dates are consistent with the election of a socialist

government in 1981 and the accompanying large increases in government spending. Secondly, the estimated cointergrating parameter is less than one (0.963 and 0.950 when the regime shift is in 1981 and 1983 respectively).

According to the study, the result showed that government spending is growing faster than government revenue. It also meant that the undisclosed value of the debt is infinite. The study drew its conclusion based on the second result that the Greek budget deficit are too large and therefore the policy makers have incentives to default on their debt through debt monetization or some other means. Huge budget deficits are often attributes of the less developed nations. The study could not see beyond the debt question in correcting budget deficits; this study fills the gap in existing literature by considering other measures like aggressive efforts in internally generated revenue.

Certain key conclusions could be drawn from the review made, it would be observed that no single factor or macro economic variable could be adequately used as a proxy to explain variations in public spending. Like some researchers showed the strength or magnitude of their relative influences on public spending may vary from place to place and from time to time.

Most of the indigenous studies for instance, the works of Lambo (1987) and Teriba (1967) were based on descriptive statistics. This study uses rigorous but comprehensive

econometric tools in the analysis of data.

Not unnaturally most students of current public finance base their analysis on the estimates of revenue and expenditure as they appear at the beginning of the financial years. These statements differ some times radically from the budget as executed. The gap created in the literature which consequently led to the inability to draw realistic conclusions useful for policy purposes due to the use of wrong data; that is to say the application of budget plans rather than executed budget by previous studies would be filled up in the study through the use of actual figures of executed budgets rather than budget plans. Moreover the Granger technique, rarely used by previous authors is applied in this study, in order to achieve realistic but comprehensive result. That the model is used on the Benue State data alone rather than on the regional or national data, as most authors did, is a breakthrough in knowledge.

CHAPTER THREE

3.0 GENERAL PATTERN AND DYNAMICS OF PUBLIC SPENDING IN BENUE STATE

INTRODUCTION

Government spending, essentially a flow variable could be influenced by certain macro economic variables to either rise or decline. This chapter is devoted to the observed dynamics of public spending with a highlight on revenue.

In Nigeria and Benue state in particular public spending are grouped into recurrent and capital spending. Recurrent spending comprises of elements that are necessary to maintain existing levels of government services. They include spendings for the promotion of socia-economic ends and the sustenance of the political and cultural systems; for instance spending on the staffing and maintenance of schools and colleges, hospitals and health care, ministries and parastatals. They are of a short term nature and are essentially for personnel and overhead costs.

Capital spending is the public sector's contribution towards the realization of economic growth. It is the increase in the gross capital formation in the public sector and are of a long term nature. They are usually categorised into four sectors;

(a) Administration (Administration, Security)

(b) Economic (Agriculture, livestock, manufacturing, transport, commerce)

(c) Social (Education, health, information)

(d) Environmental (water, housing, town/regional planning).

On the other hand, two broad types of revenue sources could be observed in the state, recurrent revenue and capital receipts. Recurrent revenue consists of internal revenue effort by the state through for example taxes, fines and licenses, the state share of the federally collected revenue and value added tax (VAT). Capital receipts are usually from borrowing and grants, to the state.

3.1 TRENDS IN PUBLIC SPENDING

Spending decisions in the public sector are reached through the budgeting process. A budget contains the planned spendings and expected revenues for a fiscal year. The state government follows a highly sophisticated budgeting process in which the detailed requests of spending agenlier are weighted against the needs of overall fiscal policy. Public spending is usually for recurrent and capital programmes.

Chart 3.1 expansiates on the public spending trend in the state.

3.1.1 THE GROWTH OF ABSOLUTE SPENDING

Actual spending of the state as shown in table (3.1) column (3) increased from N404 million in 1987 to N3827 million in 1998 representing a total increase of over 847 percent.

Total spending had fluctuated imersely across the period 1987 - 1998), rising and falling. If it rises in a preceding year it then falls automatically in the succeeding year. The following years; 1988, 1991, 1993 1995, 1996 and 1998 recorded astronomical increase in total spending while the years; 1989, 1990, 1992, 1994 and 1997 experienced contractions; due to falling levels of revenue yields.

The expansionary fiscal measures of the Benue state government in the years aforementioned could be due to higher revenue yields and the growing need for government to provide basic social needs of her people. for instance the 1995 estimates of revenue to be generated internally shows an increase of N132,597,600 over and above the 1994 approved estimates of N129,214,600. In the same vein the state's share from the Federation Account indicates an increase of N489,580,000.00 when compared with the 1994 figure of N888,523,000.00.

Total spending increased from N2,729 million in 1997 to N3,827 million in 1998 showing a 40 percent increase above the previous year. This functional increase is attributable to the huge transfer from consolidated revenue surplus in order to enhance growth. In addition it could be traced to the increasing activities of donor agencies such as United Nations development Programme (UNDP) and the United Nations Children Fund (UNICEF) as well as grants from the federal government.

Increased public spending by the state government in 1988

could be said to be occasioned by the reflationary budget of federal government; which was christened 'leap forward' budget at the state level by the then state governor, Colonel Idris Garba, it showed a recurrent spending of N246 million representing an increase of N23 million or 10.51 percent over the total budgeted sum of N222.609 million for 1987 fiscal year.

In line with the 'leap forward' budget of 1988 the economic sector was allocated the highest share of N199 million or 62 percent of capital spending with the transport subsector taking the lion share of 66.90 million or 20.98 percent of total budget. The reflationary budget led to the continuation of work on the following roads;

i) Otukpa - Aloma - Ejule - Dekina - Oguma road
ii) Ayangba - Abejukolo Road
iii) Manyam - Ugbema road
iv) Jato-Aka - Ikyogen road
v) Ugbokolo - Okpoga-Igumale road
vi) Awajir - Oju road.

Allocation of funds to newly established parastatals mainly the Teaching Service Board (TSB), Local Government Pensions Board and the Benue Urban Development Board (BUDB) in 1988 heightened the rising level of public spending with the three parastals all together taking N42 million or 17-14 percent of total recurrent budget.

AND CAPITAL SPENDING AT CURRENT PRICES, [1987 – 1998] OF BENUE STATE

(To be fastened together with other answers to paper.)

Chart [3:1]

Index Number

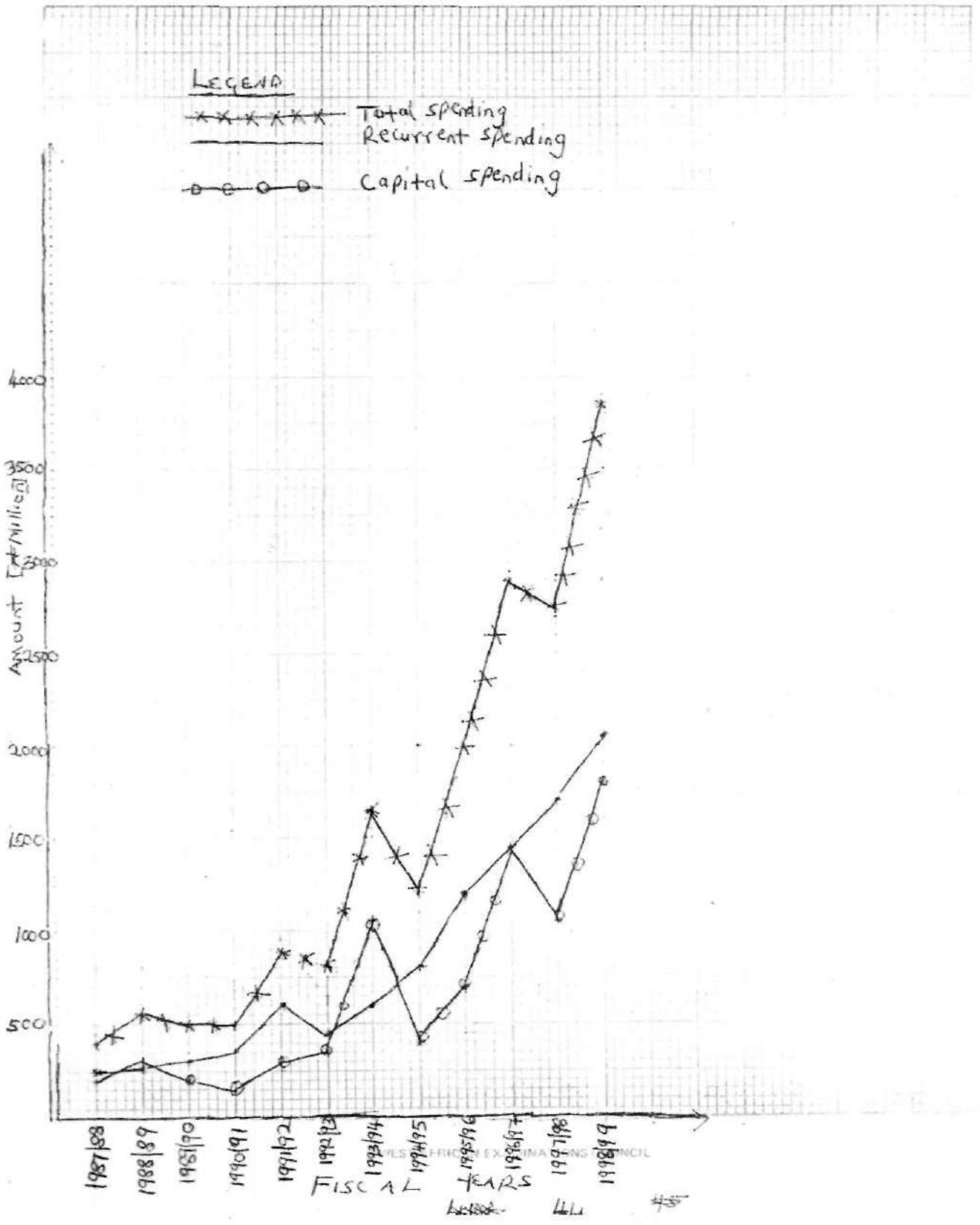


TABLE 3.1 ACTUAL TOTAL REVENUE AND SPENDING OF BENUE STATE (₦M) AT CURRENT PRICES; 1987 - 1998

YEAR	1 TOTAL REVENUE	2 INDEX OF GROWTH 1987=100	3 TOTAL SPENDING	4 INDEX OF GROWTH 1987=100	5 TOTAL REVENUE IN EXCESS OF TOTAL SPENDING
1987	367	100	404	100	-37
1988	429	117	565	140	-136
1989	393	107	491	121	-98
1990	352	96	490	121	-138
1991	647	176	906	224	-259
1992	476	130	788	194	-312
1993	1063	290	1638	404	-575
1994	983	268	1201	297	-218
1995	1850	504	1970	488	-120
1996	1102	300	2860	706	-1758
1997	2241	611	2729	674	-488
1998	2753	750	3827	947	-1074

Source; Computer from Appendix A and B.

More over the determination of government in aggressively making sure that the following industries; took off fully, engulfed a greater proportion of total spending jacking it forward the more.

(a) Benco roof files at Abinsi

(b) Prime Decor (Nig) Ltd.

(c) Cement Factory

(d) Alpha Plastics

(e) Fruitcon (Nig) Ltd.

However, the fiscal contractions of public spending in the years mentioned was due to the fiscal policies of the Structural Adjustment Programme (SAP) which was geared towards the discouragement of unproductive spendings in the public sector. For instance, allocation to the Economic sector was slashed down from N199 million in 1988 to N95 million in 1989. Also slashed down was expenditure on environmental development from N49 million in 1988 to N20 million in 1989. These reductions were also due to decreasing levels of revenue; for example total revenue decreased from N429 million in 1988 to N393 million in 1989 representing a 8.4 percent fall.

Taking 1987 as the base year as shown in table (3.1) column (4), actual total spending at current prices increased about ten-fold between 1987 - 1998, with the average index of growth at 368.0 percent. Between 1987 and 1995 total spending increased about five fold before the astronomical seven fold increases between 1987 - 1996. This however declined slightly in 1997 before the ten fold increase in 1998 fiscal year.

Total spending continued to fluctuate steadily throughout the period covered with what could be refereed to as a slight stability in 1989 and 1990 fiscal years of N491 and N490 millions respectively. Also in 1996 and 1997 total spending almost stabilize but for the decline from N2859.8 million in

1996 to N2728.9 million in 1997 representing a decline of 4.6 percent.

3.1.2 STRUCTURE OF RECURRENT SPENDING

Recurrent spending consisted of expenditure on running cost such as personnel and overhead cost to ministries and parastatals; for her services, Such as the payment of staff claims, stationeries, vehicle fuelling, entertainment and hospitality, training, travelling allowances, and other general expenses for the day to day running of the office. It mostly derived from revenues from the state's share of the federation account. It also comprises, allocations to the consolidated revenue fund charges for the payment of pensions/gratuities, public debts, the 10 percent allocation to local government areas of the state and the salaries and allowances of the state and local government Auditors-General, Chairman and members of the Civil Service Commission. It also includes those of the state Chief Judge, the President of the Court of Appeal and Judges. Recurrent spending is also made up of allocation for contingencies or the stabilization fund.

Table (3.2) shows the structure of recurrent spending for the period 1987 to 1998. Table (3.2) column (6) indicates the magnitudes of the actual public recurrent spending at current prices in absolute values while column (7) shows the growth rate index of the recurrent spending between 1987 and 1998.

Recurrent spending increased steadily between 1987 and 1991 as a result of steady inflow of revenue. 1992 recorded alarming contraction from N610 million in 1991 to N438 million in 1992. this development was as a result of the cut in total revenue to the state in respect of the demerger of six local

government areas from the old Benue State to form part of the newly created Kogi State. For instance in 1992/93 fiscal year the state's share of the federally collected revenue slumped down from N819 million in 1991 to N700 million in 1992. This decrease is obvious in view of the creation of Kogi, whose components included about one third (1/3) of the former Benue state.

Moreover the skewing down of overhead cost to ministries and parastatals to as low as 12 percent in 1992 further helped to depress recurrent spending.

The periods 1993 to 1998, again recorded steady uprising as recurrent spending increased from N616 million in 1993 to N2059 million in 1998, representing a 234 percent increase. In all recurrent spending increased from N222 million in 1987 to N2059 million in 1998 representing an over all increase of 827 percent.

Table (3.2) column (7) is the index of growth of recurrent spending using 1987 as the base year.

Between 1987 to 1993 recurrent spending increased by more than two fold. This is an increase of 177 percent. In all recurrent spending at current prices had a little more than nine fold increase between 1987 and 1998; showing an average annual growth rate of 372 percent.

Table (3.2) column (1) shows the general trend of personnel cost of ministries and parastatals. It is important to note that personnel emoluments of civil servants are

TABLE 3.2 STRUCTURE OF BENUE STATE RECURRENT SPENDING (1987 - 1998)

YEAR	MINISTRIES/PARASTATALS		CONSOLIDATED REVENUE FUND CHARGES (UNAPPROPTIRATED)		CONTIN GENCIES OR STABILIZATION FUND.	RECURRENT SPENDING	INDEX OF GROWTH 1987=100
	PERSONAL COST 1	OVERHEAD COST 2	PERSONNEL COST 3	OVERHEAD COST 4	5	6	7
1987	95,949,560	61,034,900	339,170	65,285,830	-	222	100
1988	111,802,350	76,041,090	627,420	45,645,570	-	246	111
1989	135,584,920	66,941,650	885,180	61,338,770	40,352,430	305	137
1990	156,100,110	79,831,770	885,180	62,516,660	48,663,910	348	157
1991	359,083,440	161,350,400	900,000	88,234,420	-	610	274
1992	239,409,220	92,508,590	1,599,270	104,360,400	-	438	197
1993	373,066,600	127,401,470	1,691,740	98,792,570	15,000,000	616	277
1994	566,530,950	122,747,460	2,165,860	93,056,180	15,000,000	800	359
1995	681,116,460	246,442,950	3,689,020	161,550,200	88,024,570	1181	530
1996	657,500,100	337,672,600	2,895,340	395,526,270	30,081,590	1424	640
1997	673,099,260	390,473,000	5,025,270	408,546,810	212,807,700	1689	759
1998	713,852,880	524,016,980	5,025,270	435,262,810	381,009,040	2059	925

Source: Computed from Benue State Budget Estimates (1987 - 1998)

becoming so alarming in view of frequent salary increases. Except of course the present revenue formula is adjusted in favour of the states, there is bound to be general budget deficits, which would further compound the current fiscal imbalance in the state.

As it could be seen in column (1) personnel emoluments to staffers of ministries and parastatals have increased steadily especially between 1987 and 1991 where it jumped from N95.9 million in 1987 to N359 million in 1991 representing an increase of 274 percent. In the Lt. Col. F.A. Makka 1989 budget tagged 'the decision hour' it could be noticed that spending on personnel costs had slightly exceeded the estimated sum. The excess spending been as a result of the direct impact of the implementation of the new elongated salary structure which was approved some times in March in the 1988 budget.

Apart from the elongated salary, increasing the level of personnel cost, in 1993, the adoption of the new 45 percent increases in workers salaries as well as the new salaries for public officers is responsible for the states huge wage bill over the years. Moreover this increases is obvious in view of the number of salary grades in operation within the public service. For example the health Services Scale (HSS), Medical Services Scale (MSS), the Medical Systems Super scale (MSSS) and the normal civil service scale.

In all personnel costs for ministries and parastatals as could be seen from column (1) increased from N96 million in 1987 to N714 million in 1998 representing an increase of 644 percent. With the persisting embargo on employment in the state right from 1991, changes in the wage bill could therefore be associated to wage review policies of government.

On the other hand column (3) indicates the trends in the personnel emoluments of the state and local government Auditors-General, Chairman and Members of the Civil Service Commission and the Chief Judge. These are non-partisan positions with fixed tenures of office. Due to their small size, they occupy a minute position in states finances. It could be seen from Table (3.2) column (3) that their personnel emoluments also increased steadily from N0.34 million in 1987 to N5 million in 1998 representing an over all increase of 1,371 percent.

3.1.2.2 OVERHEAD COST

Overhead costs forms the running cost of government. It is also used to connote the settlement of public debts or loans, pensions/gratuities and the 10 percent allocation to local government areas from the states internally generated revenue.

Overhead cost to ministries and parastatals as shown in table (3.2) column (2) fluctuated between 1987 and 1993 from N61 million in 1987 to N127 million in 1993. These variations

are largely due to instability in leadership. For instance in about a space of six years (1987 - 1993) Benue had up to five different governments; thus making it difficult for the state to enjoy steady over heads. These overheads do not only include the maintenance of vehicles, equipments stationeries and furniture fittings, it also includes staff claims, like medical refunds, first-twenty eight days, night allowance and mileage claims.

In all, overhead cost (column (2) rose from N61 million in 1987 to N524 million in 1998 representing an increase of about 759 percent.

In like manner overhead cost for consolidated revenue fund charges (unappropriated) as shown in table (3.2) column (4) increased steadily between 1989 to 1992 rising from N61 million in 1989 to N104 million in 1992 representing an increase of about 70 percent. This steady increase is occasioned by the desire of government to pay off all outstanding statutory obligations. In all there was a remarkable increase between 1995 and 1998, with overhead cost from unappropriated fund increasing from N161 million in 1995 to N435 million in 1998, this 170 percent increase within the stated period was due to the heavy wage bill of the increasing number of retirees. The massive retrenchment by the Obademi regime in 1994 forced the pension/gratuity bill of government to rise astronomically. For example the state government spent about N50 million for pensions in 1997 and N60 million in

1998.

In addition, N60 million was spent on gratuity in 1997 and N72 million in 1998.

Overhead cost reached it's peak of N435.3 million in 1998. This astronomical size is due to the increasing desire of government to alleviate the sufferings of retirees by prompt payment of all their outstanding gratuity areas and secondly the honouring of major debt obligations. For instance the state government payed out N33.4 million each, in 1997 and 1998 for world bank loan for Agricultural development programmes. Also in 1997 the state government played out outstanding contract debts worth N77 million. In 1998 N132 million was payed for same.

The implication of this trend is that since spendings on personnel and overhead cost dominates the recurrent spending the state would have little or nothing for capital developments.

3.1.2.3 CONTINGENCIES/STABILIZATION FUND

Stabilization funds are meant to augment shortfalls in state finances arising from unforeseeable developments. As indicated in table (3.2) column (5) the fund was stable between 1993 and 1994. It however reached it's Peak in 1998 with N381 million. The fund rose from N30 million in 1996 to N381 million in 1998 representing an increase of about 1170 percent.

It would be observed from table (2) that the Benue state government devotes about 50 percent of its recurrent spending on personnel emoluments of it's workers, due to frequent wage reviews. This development is not the best for a young and backward state like Benue. The heavy burden of the wage bill could be ameliorated by way of the review of the present revenue sharing formula in favour of the states.

3.1.3 THE SIZE AND STRUCTURE OF CAPITAL SPENDING

Capital spendings are usually public outlays geared towards the provision of a stable plat form for overall development. A thorough examination of the general trend of capital spending in the state would help in the articulation of better policies that would help in the articulation of better policies that would address the persistent fiscal imbalance in the state.

Table 3.3 shows the general trend in public capital spending for the period 1987 to 1998 in absolute terms. Column (9) indicates that capital spending increased from N181 million in 1987 to N1768 million in 1998; representing an increase of about 877 percent. Except, between 1990 and 1993 where there was remarkable steady increases, capital spending had greatly fluctuated for every other years. Capital spending reached its Peak in 1998 with N1768 million devoted to it; this development was due to higher revenues accruing to the state.

TABLE 3.3: ACTUAL CAPITAL SPENDING BY SECTORS AND IN PERCENTAGE OF TOTAL CAPITAL ALLOCATION (₦M)

FISCAL YEAR	1 ECONOMIC SECTOR	2 % OF TOTAL	3 ADMIN SECTOR	4 % OF TOTAL	5 SOCIAL SECTOR	6 % OF TOTAL	7 ENVIRON SECTOR	8 % OF TOTAL	9 TOTAL CAPITAL SPENDING	10 TREND 1987-100
1987	93	51	33	18	41	23	15	8	181	100
1988	199	62	9	3	62	20	49	15	319	176
1989	95	51	9	5	62	33	20	11	186	103
1990	63	44	25	18	42	29	13	9	142	78
1991	143	48	28	9	79	27	47	16	297	164
1992	163	47	31	9	121	35	35	10	350	193
1993	385	38	60	6	293	29	283	28	1022	565
1994	170	42	45	11	96	24	90	23	401	222
1995	175	22	41	5	489	62	85	11	790	436
1996	540	38	149	10	502	35	245	17	1436	793
1997	402	39	105	10	460	44	73	7	1040	468
1998	567	32	296	17	790	44	117	7	1768	977

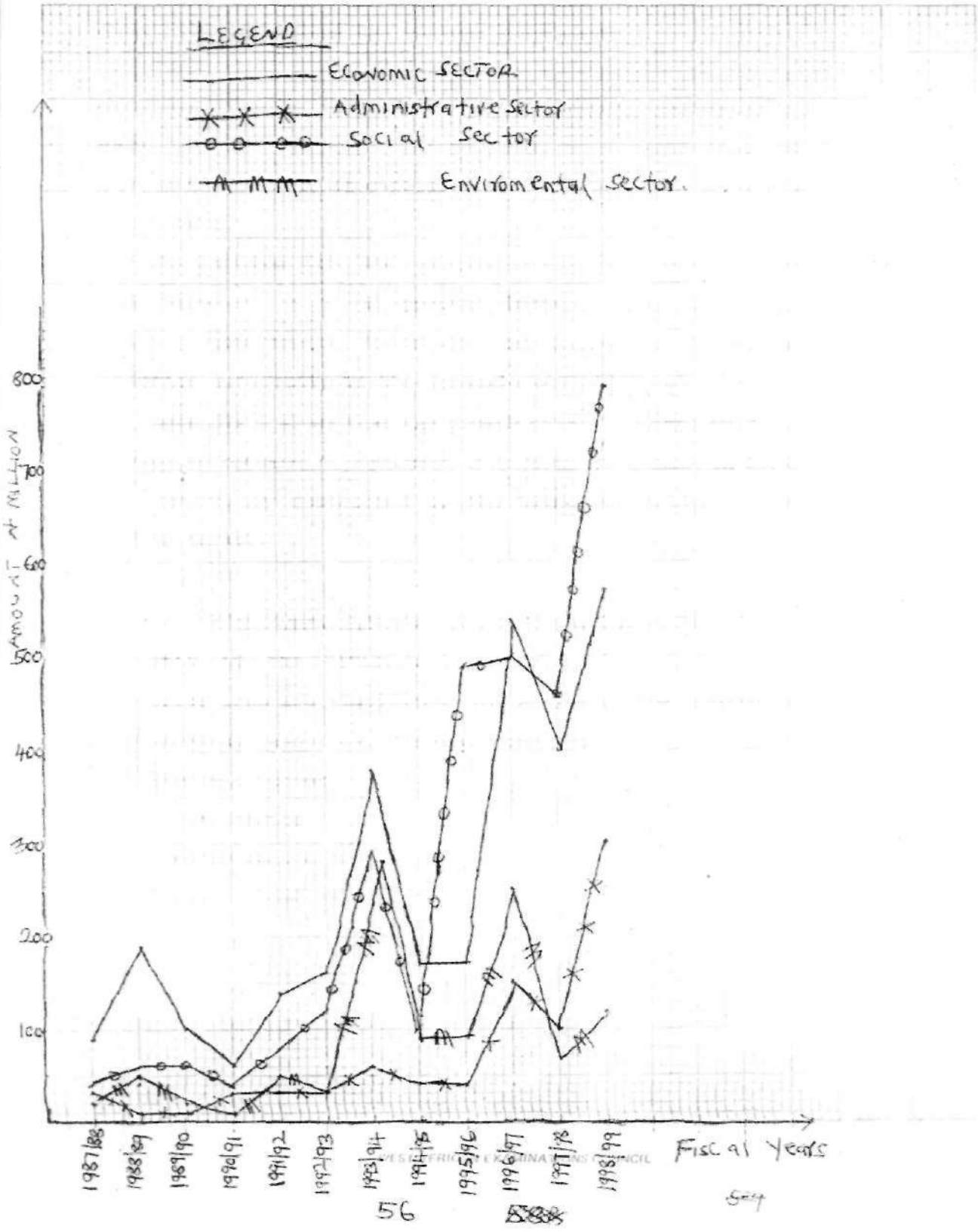
Source: Computed from Appendix A and B

OF BENUE STATE [1987-1998]

Chart [3:2]

(To be fastened together with other answers to paper.)

Index Number



The huge increase in public capital spending in the state amidst a slow pace of economic activities as observed tends to confirm the Wagners hypothesis that public spending increases faster than output as the economy progresses.

Table (3.3) column (10) shows the growth trend of capital spending. Clearly depicted, capital spending increased by about ten fold between 1987 to 1998. This means that the average growth rate of capital spending within the period is 356 percent.

The increase from N401 million in 1994 to 1436 million in 1996 representing a 258 percent increase goes to further solidify governments increasing participation in capital formation especially in the economic and social sectors.

Appendix C shows that the growth rate of capital spending fluctuated between 76.2 percent in 1988 to 70 percent in 1998, the instability occasioned by the tight conditions in the capital market.

3.1.3.1 FUNCTIONAL CLASSIFICATION OF CAPITAL SPENDING

This is the division by purpose or by functional categories that are significant for analysing the allocation of government resources. The divisions are:

i) Economic sector

ii) Social sector

iii) Administrative sector

iv) Environmental sector

TABLE 3.4 BENUE STATE FUNCTIONAL CLASSIFICATION OF CAPITAL SPENDING IN ₦M

SECTOR	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	INCREASE RATE (%)
ECONOMIC SECTOR													
Agriculture	21	56	38	14	28	23	55	39	60	133	83	136	548
Livestock	-	2	0.45	0.6	4	3	2	2	4	20	9	15	650
Forestry	0.5	3	2	3	5	2	3	3	5	20	10	18	3500
Fisheries	-	3	1	0.3	2	2	1	3	3	20	8	12	300
Manufacturing Industry	1	16	7	6	12	32	77	52	20	74	106	48	4700
Rural Electricity	14	40	21	22	26	18	10	21	21	72	70	116	729
Commerce Financed Cooperative	14	12	7	5	15	10	154	8	21	73	25	65	364
Transport	42	67	19	13	51	73	82	42	39	127	90	157	274
Sub Total	93	199	95	63	143	163	385	170	175	540	402	567	
SOCIAL SECTOR													
Education	16	28	31	12	31	67	62	41	60	196	191	423	2544
Health	16	23	13	7	21	35	83	34	66	186	109	217	1256
Information	0.7	7	2	10	13	9	23	8	9	46	32	55	7757
Comm. Development	-	-	-	-	-	-	-	-	2	6	13	10	400
Social Dev. Sport/Culture	9	4	16	13	14	10	124	13	351	66	24	90	900
Sub Total	41	62	62	42	79	121	293	96	489	502	369	790	
ENVIRONMENTAL DEVELOPMENT													
Sewage/Drainage	-	1			2								
Water	14	38	10	7	26	20	110	62	55	162	78	75	436
Housing	1	5	1	0.1	10	8	2	11	6	20	15	4	300
Urban/Regional Planning	-	3	9	5	8	6	170	16	24	62	71	38	1167
Comm. Development	-	2	1	0.5	2	1	1	1	-	-	-	-	-
Sub Total	15	49	20	12	47	35	283	90	85	245	164	117	
ADMINISTRATIVE SECTOR													
Administration	32	9	9	25	28	31	60	45	41	149	105	295	821
Sub Total	32	9	9	25	28	31	60	45	41	149	105	295	
Grand Total	181	319	186	142		350	1021	401	790	1436	1040	1768	

Source: Computed from Benue State Budget estimate (1987 - 1998)

Table (3.4) presents these divisions with sub-sectoral allocations while at table (3.5) shows the allocation at current prices. Chart (3.2) further expansiates on the trend.

3.1.3.1i **The Economic Sector**

Spendings on projects in the economic sector are complementary to private investment and are directed at creating the enabling environment for sustainable economic growth. Public spending in this sector includes those of transport, Agriculture, commerce, and manufacturing. These aforementioned sub sectors play immeasurable roles in development.

Table (3.3) column (1) shows the magnitude of actual public capital spending at current prices on the economic sector while column (2) shows the percentage share of economic sector in total capital spending. Table (3.3) column (10) shows the growth of capital spending between 1987 to 1998.

Expressed in absolute figures, spending on the economic sector rose from N93 million in 1987 to N567 million in 1998 representing an increase of about 509.7 percent. There was persistent fluctuations in that sector for most of the years especially between 1989 and 1997; this is partly due to the constant reviews in the revenue sharing formula. Table (3.3) column (2) shows the percentage share of the economic sector in total capital spending.

Economic sector took the lion share of 62 percent of total capital spending in 1988. This sharp increase from N93 million in 1987 to N199 million in 1988 representing a 114 percent increase was due to governments undue attention on transport and Agriculture subsectors; taking N66.9 million and N55.8 million respectively. This had placed transport and Agriculture in strategic positions taking about 21 percent and 18 percent respectively of total estimated allocation to capital spending.

The percentage share of the economic sector in public capital spending was lowest in 1995. this 22 percent share was attributed to the change of fiscal policies in favour of the social sector. It could be seen that while the economic sector was allocated N175 million in 1995, the social sector had N489 million.

It could be seen from table (3.4) that the transport subsector dominated the activities in the economic sector followed by Agriculture. This trend is obvious in view of the fact that investments in the transport subsector is necessary in order to boost Agricultural productivity in the state. This is because a good road network would facilitate the evaluation of food crops from the coast to the hinterland to be able to reach the final consumer.

As a 'food basket state', governments involvement in the field of agriculture has being tremendous for example, in 1994 the Obademi administration in Benue state produced 4,000 oil

palm seedlings, 6,100 budded citrus and 1,500 budded mangoes for sale to interested industrial cash crops producer. In addition, out of the 70,250 metric tonnes of fertilizer allocated to the state, each ward was allocated 10 trucks; to further boost agriculture. Moreso, the reaction of four irrigation schemes located at river Mu in Makurdi covering 60 hectares of land, Otukpo 153 hectares, Gboko 150 hectares and Katsina-Ala 27 hectares were in place. In 1987 for example the agriculture subsector was allocated N21 million (partly due to huge federal grants) which is the third largest in 1987. (Benue state Budget estimates, 1987, 1994).

Allocation to the agriculture sub sector grew from N21 million in 1987 to N136 million in 1998 representing an over all increase of 548 percent. Agriculture reached it's peak in 1998 with N136 million for its services. This development is due to increased donor funding of farming activities in the state.

The transport subsector received the greatest capital votes for the period under review; increasing from N42 million in 1987 to N157 million in 1998 representing over all increase of about 274 percent. The Moses Adasu government of the second republic introduced a budget of rural transformation in 1992 with serious emphasis on rural feeder roads. In the 1992 budget the sum of N73 million was allotted to the transport subsector with N20.5 million sunk into the improvement and construction of rural roads with a target length of 1,800 k/m

for the 1992 fiscal year. Also the continuation of the following existing roads under construction was pursued more seriously.

i) Abaji - Amaafu - Ugba-Abeda - Anyiin - Anyebe road (BN17)

ii) Oju-Gbinde-Awajir road (BN.12).

iii) Daudu-Gbajimba Road (BN.24

Public spending in the area of rural electricity generation as shown in table (3.4) is encouraging; increasing from N14 million in 1987 to N116 million in 1998 representing an increasing of 729 percent. In 1992 the sum of N18 million went in for the supply of electric power and the extension of electricity to 32 new towns and villages. Also in line with the 1995 - 1997 rolling plan of improving the quality of life of the citizens of the state, the 1995 budget awarded contract for the reactivation of the generators of the seven hospitals in the state.

Spendings on manufacturing activities in the state had fluctuated greatly from N1 million in 1987 to N48 million in 1998; recording the highest allocation of N106 million in 1997. Indiscriminate fluctuations in this sub sector is due to the inadequate funding of manufacturing activities in the state coupled with the weak industrial base.

In all the economic sector increased by a little over six fold between 1987 and 1998 as shown in table (3.5) column (2).

TABLE 3.5 THE GROWTH AND FUNCTIONAL CLASSIFICATION OF CAPITAL SPENDING IN NM AT CURRENT PRICES. (1987=100)

1987	1 ECON SECT	2 INDEX OF GROWTH	3 SOC SECT	4 INDEX OF GWOWTH	5 ADMIN SECT	6 INDEX OF GRWTH	7 ENVIRS ECT	8 INDEX OF GRWTH
1987	93	100	41	100	32	100	15	100
1988	199	214	62	151	9	27	49	327
1989	95	102	62	151	9	27	20	133
1990	63	68	42	102	25	76	12	87
1991	143	154	79	193	28	85	47	313
1992	163	175	121	295	31	94	35	233
1993	385	414	293	715	60	182	283	1887
1994	170	183	96	234	45	136	90	600
1995	175	188	489	1193	41	124	85	567
1996	540	581	502	1224	149	466	245	1633
1997	402	432	369	900	105	328	164	487
1998	567	610	790	1927	295	921	117	780

Source; Computed from Table (3.4)

3.1.3.1ii <u>The Social Sector</u>

Education, health, sports and culture are the major subsectors. As a rule spendings on education, health and community development could influence long term growth of the economy.

Galbraith in his book economic development in perspective (1963) said; "studies by Theodore Schiltze among others in the

United States have recently shown that outlays in education may bring increases in production ... a dollar or a rupee invested in the intellectual improvement of human beings will often bring a greater increase in national income than a dollar or a rupee devoted to railways, dams, machine tools or other tangible capital goods. To rescue farmers and workers from literacy may certainly be a goal in itself. But it is also a first indispensable step to any form of agricultural progress. No where is the world is there any illiterate peasantry that is not prepared for training. Education so viewed becomes a highly productive form of investment... machines are not more important than the men who make them". This is extolling the importance of investment in human capital.

The social sector as shown in table (3.5) column (3) fluctuated steadily from N41 million in 1987 to N790 million in 1998; representing an increase of about 1827 percent. The periods 1990 to 1993 recorded steady increases in the social and community activities increasing from N42 million in 1990 to N293 million in 1993; representing a rapid growth of 598 percent. This steady growth was due to steady supply of funds to the sector. Activities in the social sector reached its peak of N790 million in 1998. This development is occasioned by the desire of government to turn around the education subsector. As shown in table (3.4) education receive the sum of N423 million in the course of the year (1998).

In 1995 however the social sector as shown in Table (3.3) column (6) took the lion share of 62 percent of capital spending for it's services this is due to the over N351 million allocated for social development, sports and culture, for the completion of facilities for the national sports festival. The facilities are; the Makurdi township stadium (floodlight, the tartan track), the Olympic size swimming pool and the multipurpose indoor sports hall.

Table (3.5) column (4) shows that the social sector increased by a growth rate of over nineteen folds, between 1987 and 1998.

Capital spending on education received the lowest share of N12 million in 1990; this is due to governments change of policy focus from education to general security and rural electrification. In all governments investment in human capital is clearly shown by the callosal amount voted for the development of educational institutions in the state. For example in 1998, N25 million was for the development of the Benue state polytechnic Ugbokolo, N30 million for the development of College of Education Katsina-ala, N25 million for the development of College of Education Oju and N67 million for the development of Benue State University. These investments made the sector to be responsible for about 44 percent of total capital spending in the state, in 1998. (Benue State Budget estimate 1998).

The health sub-sector as shown in table (3.4) fluctuated rapidly from N16 million in 1987 to N217 million in 1998; representing an increase of about 1256 percent. There was however a steady growth between 1990 and 1993; from N7 million to N83 million representing an increase of 1086 percent. The health sub-sector receive it's highest allocation of N217 million in 1998. This sharp increase is as a result of the need to improve on the health care system. For instance the sum of N70 million, each was allocated for the establishment of cottage hospitals for 1997 and 1998 fiscal years. In addition the state government allocated the sum of N25 million in 1997 and N30 million in 1998 for the Makurdi specialist hospital in the pipe line and the maintenance of health centres and training institutions respectively, making the health sub sector almost at par with the Education subsector.

In 1994 for example drugs for river blindness were distributed to Kwande, Ushongo, Katsina-Ala and Ukum local government areas with all leprosy patients placed on regular free treatment. In the same year essential drugs worth about N2 million was purchased through the drug revolving fund scheme and distributed to the various hospitals in the state. This huge investment is in respect of the popular adage 'health is wealth'. A healthy workforce would enhance economic development.

Spendings on information also fluctuated within the period from N0.7 million in 1987 to N55 million in 1998 while

those of social development, youths, sports and culture also exhibited remarkable fluctuations from N9 million in 1987 to N90 million in 1998; this sub sector is third to education and health.

3.1.3.1iii Environmental Development Sector

Investment on water, town and urban planning seems to dominate this sector with water mostly taking the average lion share.

Table (3.4) presents the structure of spendings on the environment between 1987 and 1998. The table clearly shows that the sector fluctuated greatly during the period under review from N15 million in 1987 to N117 million in 1998 representing an over all increase of 680 percent.

Table (3.5) column (8) on the other hand showed the growth rate of the sector during the period under review which shows an increase of almost eight-folds with an average growth rate of 596 percent.

The sector reached it's peak of N245 million in 1996 with spendings on water supply topping the list with N162 million for it's services.

Spendings on water supply increased from N14 million in 1987 to N75 million in 1998, representing an increase of 436 percent. This alarming fluctuation of water supply spending from one year to another is linked with the epileptic supply of funds to state treasury. Water occupies a vital position in

the life of man. For example in the 1998 fiscal year the sum of N24.5 million was budgeted for the Otukpo and Gboko water supply scheme while N15 million went for semi-urban water scheme. In 1997 the sum of N13.6 million went in as state contribution for the National Water Rehabilitation Fund (NWRF).

Allocation to town and country planning increased from N3 million in 1988 to N38 million in 1998 also representing an increase of 1167 percent. Urban and regional sub sector was allocated N7.3 million for urban renewal in 1997 while site and services took N4 million, construction of Computer Centre took N2.4 million all in 1997 fiscal year. In 1998 however Environmental Protection (SEPA) was allocated N6 million while boundary demarcations took N3 million, in the same year survey of old parts of towns engulfed N2.7 million.

On the whole allocation to sewage and housing has been very minimal, this is possibly due to the fact that the lack of industries in the state has made the generation of waste almost non-existing. In like manner, the federal governments policy of owner occupier bases has made the housing sub-sector poorly funded.

3.1.3.1iv **Administrative Sector**

This is made up of spendings on defence internal security and general government administration. The federal system of government in practice have however given the centre,

exclusive mandate for defence and security matters through her agents. Thus the states are largely saddled with general administration of their territories.

As shown in table (3.4) the administrative sector increased from N32 million in 1987 to N295 million in 1998 representing an increase of about 822 percent. Steady increase are noticed between 1988 and 1993, the rest of the years witnessed large fluctuations.

This sector is one of the fast growing, especially as the state is prone to inter and intra communal crisis. In 1990 for example the allocation of N25 million to the sector made it the highest in public capital spending allocation, taking the lion share of 18 percent. The reason for this was the allocation of the sum of N3.3 million to the continuation of work on the phase one of the state secretariat complex, the staff development centre was allotted N1 million and then N16.5 million for the construction of party offices in local government area headquarters.

The structure and general trend in capital spendings tend to favour the social and economic sectors mostly with transport, agriculture, health and education taking the lion shares.

This development, especially the heavy allocation to transport at the expense of manufacturing is unfortunate, in an agrarian economy like Benue state. Emphasis should rather be on processing industries in order to transform the abundant

raw materials to finished goods for higher returns. There is therefore the need for a change of policy focus in favour of industrialization.

3.2 OVERVIEW OF THE REVENUE STRUCTURE

In working out a development programme one major question that frequently arises is how much tax revenue can a government expect to raise and from what source. The ability to raise revenue through taxation is non the less a difficult task since it is determined by socio-economic and structural considerations such as efficiency and nature of political leadership.

We observe with Wagner that it is desirable for the potential revenue of the government to be ascertained first and to serve as a basis for spending estimates. The revenue trends is examined from recurrent and capital sources. Appendix C however shows that the growth rate of total revenue fluctuated from 16.9 percent in 1988 to 22.8 percent in 1998, with the highest growth rate of 103 percent in 1997.

3.2.1 Recurrent Revenue Structure

This comprises of income received at regular periods usually monthly from the federation account and value added tax (VAT). In addition it is also made up of internally generated revenue; of the state.

TABLE 3.6/7: STRUCTURE OF ACTUAL RECURRENT REVENUE

YEAR	1 TAXES	2 FINES AND FEES	3 LICENCES	4 EARNINGS AND SALES	5 RENT ON GOVERNMENT PROPERTY	6 INTEREST REPAYMENT AND DIVIDENDS	7 REIMBURSEMENTS	8 MISCELLENEOUS	9 STATUTORY ALLOCATION	10 VALUE ADDED TAX	11 RECURRENT REVENUE IN MM	12 INDEX GROWTH 1987 =100
1987	67877992.31	3286895.70	1204095.94	732296.33	1349542.97	87452.99	16908000	897314.98	300579705.83	-	333	100
1988	9594770.23	3919354.48	1060849.11	906610.91	1227783.62	235735.46	16908000	1347090.42	37200194.23	-	415	125
1989	9040000	4550000	1569500	1135000	1973000	1640000	-	2425000	381185800	-	404	121
1990	14075000	4776000	1636500	1329500	2209000	2125000	-	480000	460008990	-	487	146
1991	7240000	6577140	1640200	1250500	2100300	394120	30000000	590740	819	-	858	261
1992	25720,000	8481480	1952000	3281000	2833000	916000	2000000	610800	699534000	-	745	224
1993	27010133.55	8505530.73	2095823.75	2005101.75	2832066.13	1627283.13	200000	2205000	852000000	-	937	282
1994	77770000	15492000	9955000	7537600	12000000	2860000	-	3600000	888523000	-	1018	306
1995	53409857.43	27463227.30	2276347.00	32030123	9648077.96	3669244.29	152145852.43	3125494	121851000	159585000	1661	499
1996	5751473.45	29075939.21	3505934.00	25641478.94	13073674.5	35427835.70	153530037.45	20557197	1245109152.36	300583638.62	1887	567
1997	70904150.67	59809029	5332583	17820112	13277910.5	11924214.55	145927462.66	61891627.17	1485111259.47	345905178.90	2219	666
1998	71950000	73835500	5252000	57017000	30800000	322710000	200000000	14100000	2158685740	4318972000	3376	1014

Source: Benue State Budget Estimate (1987-1998)

* Miscelleneous receipts is made up of transfer from general reserve and the stabilization fund (Previous Years balance)

Table (3.7) column (11) shows the general trend in recurrent revenue. Between 1987 and 1998 recurrent revenue had increased steadily except in 1989 where there was a decline from N416 million in 1988 to N404 in 1989. In all recurrent revenue increased from N333 million in 1987 to N3376 million in 1998 representing an increase of about 914 percent; this continuous increases was due to the expansion of state activities especially in the payment of personnel emoluments of workers while table (3.7) column (11) showed the magnitude of increase of recurrent revenue for the period, column (12) shows the growth rate with 1987 as the base year. Thus, recurrent revenue increased by a little over ten-fold increase. This also showed that recurrent revenue has an average growth rate of about 359 percent within the period. This large and impressive growth rate owes alot to the increased share of the federation account to the state.

3.2.1.1 **Statutory Allocation/Value Added Tax (VAT)**

The contributions of the federally collected revenue to the state is the most dominate revenue subhead, as far as recurrent services are concerned. This subhead as shown on column (9) of table 3.7. increased steadily except for 1994 from N300 million in 1987 to N2158 million in 1998 recording a remarkable increase of about 619 percent. These increases, not withstanding is still not in favour of the state due to the unequal revenue sharing formula which gives the:

Federal government 48.5 percent

States	24.0 percent
Local Governments	20.0 percent
Special grants	7.5 percent

The 24 percent to states is usually shared as follows:

Equality of states	40 percent
Population	30 percent
Internal revenue effort	10 percent
Land Mass and Terrain	10 percent
Social Development factor	10 percent

With relatively smaller land mass, population and poor internally generated revenue, Benue state largely depends on the 40 percent equality of states which is across the board.

The contributions of the value added tax (VAT) could also be seen on table (3.7) column (10). In all statutory grants to the state decreased from N819 million in 1991 to N700 million in 1992; this 14.5 percent decline may not be unconnected with the demerger of six local government areas from the state in 1991.

Both the contributions of the value added tax (VAT) and the states share of the 24 percent from the federation account increased rapidly between 1995 and 1998, from N1378 million in 1995 to N2591 million in 1998 representing an increase of about 88 percent. This trend could be due to the increased share of the state from the federally collected revenue. In 1992 for example this subhead accounted for about 160 percent of recurrent spending needs.

3.2.1.2 Internal Revenue Structure

This comprises of taxes, fines/fees, licenses, earnings and sales, rent on government property, interest repayment and dividends, reimbursements and miscellaneous sources as presented in table (3.7) columns (1-8). Earnings from these sources are expected to complement the statutory grants.

Table (3.7) column (2) shows the magnitude of actual revenue from internal sources for the period 1987 to 1998. This subhead fluctuated greatly between 1987 and 1992. However the periods 1993 to 1998 recorded remarkable steady increases from N45 million in 1987 to N786 million in 1998; as a result of proper collection strategy.

The fraudulent activities in not remitting monies collected to the appropriate quarters have been responsible for most of the fluctuations aforementioned.

Appendix (A) column (2) shows that internal revenue increased by over twenty-four folds with the sub-head reaching it's peak of N786 million in 1998. The contributions of taxes as shown in table (3.7) column (1) have been increasing over the years with the highest tax collection of N77 million in 1994.

Fines and fees as shown in column (2) of Table 3.7 increased steadily from N6 million in 1993 to N73 million in 1998.

Licenses as featured in column (3) fluctuated greatly over the years recording the highest collection of N9.9

million in 1994. This is due to the new national motor plate number programme, which generated more revenue to the state.

Earnings and sales as shown in table 3.7 column (4) recorded the highest collection of N67 million in 1998; while rents on government property recorded the highest collection of N30 million in 1998.

Interest repayment and dividends as shown in column (6) of table (3.7) has been another dominant contributor to internal revenue, reaching its peak of N322 million in 1998. While reimbursements recorded the lowest collection of N0.2 million in 1993, reaching it's peak in 1998 with N200 million to her credit. This is shown in column (7).

Column (8) shows miscellaneous subhead reaching the peak of N14 million in 1998.

Generally from Appendix (A) column (2) the index of growth of internal revenue using 1987 as the base year had an average growth rate of 567.6 percent between 1987 and 1998.

3.2.2 Structure and Dynamics of Capital Receipts

Capital receipts are obtained from two main sources:

(a) Transfers from the current account (budget surplus) and

(b) Loans from within and outside the country. This receipts are obtained at irregular times and are used to finance capital project.

TABLE 3.8/9 RATIO OF RECURRENT REVENUE TO RECURRENT SPENDING (₦M) (1987 - 1998)

YEAR	1 RECURRENT REVENUE	2 RECURRENT SPENDING	3 RECURRENT REVENUE AS PERCENTAGE OF RECURRENT SPENDING	4 EXCESS OF RECURRENT REVENUE OVER SPENDING (SURPLUS/ DEFICIT
1987	333	222	150	111
1988	416	246	169	170
1989	381	305	125	76
1990	487	348	140	139
1991	868	610	142	258
1992	745	438	170	307
1993	937	616	152	321
1994	1018	800	127	218
1995	1661	1181	141	480
1996	1887	1424	133	463
1997	2219	1689	131	530
1998	3376	2059	164	1317

Source; Computed from Appendix A and B.

Appendix A column (5) shows that capital receipts increased from N99 million in 1987 to N306 million in 1998, representing an increase of 209 percent, with remarkable fluctuations however for most of the years. A steady growth is recorded between 1994 and 1996 when capital receipts moved from N183 million in 1994 to N9611 million in 1996.

Appendix (A) Column (6) also showed the index of growth of capital receipts within the period. It indicates an increase of about three fold with an average growth rate of 1021 percent. This development are also largely due to the increasing activities of donor agencies in the state.

For example in Appendix A column (4) it could be seen that loans and grants increased from N99 million in 1987 to a galloping N204 million in 1998. This subhead reached its peak in 1996 with capital receipts worth N932 million; this favourable development is attributed to the granting of more credit lines to the state. The periods 1991 and 1992 recorded low yields probably because the budget surplus from the current account was still reasonable to carry out the needed capital programmes of the state.

3.3 THE PATTERN OF RECURRENT BUDGET ACCOUNT

The rules of traditional budgetary policy suggests that recurrent revenue should at least be sufficient to meet recurrent spendings.

the main hope of increasing government investment spending lies principally in the level of savings. Thus, existing lags between revenue and spending could in part be due to the nature of the development efforts undertaken.

Table 3.9 shows the ratio of recurrent revenue to recurrent spending. All through the years as shown in column (4) revenue was reasonably big to cover spending. Huge budget

surpluses were experienced across the years especially in 1995 to 1998. Table 3.9 therefore shows the extent to which recurrent revenue was sufficient to cover recurrent spending. The abnormal budget surpluses recorded in 1995/96, 1996/97. 1997/98 and 1998/99 was due to several factors for example the aggressive revenue mobilization and diversification pursued by the state in 1995 as a result of the decreases in tax rates and increases in tax reliefs announced in the 1995 federal budget. Moreover the establishment of the personnel audit and rationalization committee further helped in checking the unwarranted upward movements in recurrent spending leading to huge surpluses.

This budget surplus is obviously due to the desire of the state to be engaged in the continuous formation of capital for sustainable development while recurrent revenue increased from N333 million in 1987 to N3,376 million in 1998, recurrent spending on the other hand increased from a lower N222 million in 1987 to N2059 million in 1998. Recurrent revenue decreased from N416 million in 1988 to N381 million in 1989, with recurrent revenue as a percentage of recurrent spending at 125 percent. This short fall is due to the decline in internal revenue generation bordering especially on low yields from interest, repayments, dividends and reimbursements.

It is argued that recurrent revenue should increase faster than recurrent spendings, taken into cognizance the

Table 3.10 THE PATTERN AND SIZE OF THE CAPITAL BUDGET IN (NM) 1987 - 1988

YEAR	1 CAPITAL RECEIPTS	2 CAPITAL SPENDING	3 CAPITAL BUDGET SURPLUS/DEFICIT
1987	99	181	-82
1988	166	319	-153
1989	87	186	-99
1990	4	142	-138
1991	38	297	-259
1992	38	350	-312
1993	574	1022	-448
1994	183	401	-218
1995	489	790	-301
1996	9612	1436	+8176
1997	531	1040	-509
1998	306	1768	-1462

Source: Computed from Appendix A and B.

Table 3.11 THE PATTERN OF ACTUAL TOTAL BUDGET ACCOUNT IN (₦M) 1987 - 1998

YEAR	1 RECURRENT REVENUE	2 CAPITAL RECEIPT	3 TRANSFER FROM CDF	4 TOTAL REVENUE	5 TOTAL SPENDING	6 OVERALL BUDGET SURPLUS DEFICIT
1987	333	99	65	367	404	-37
1988	416	166	153	429	565	-136
1989	381	87	98	393	491	-98
1990	487	4	138	352	490	-138
1991	868	38	258	647	906	-259
1992	745	38	308	476	788	-312
1993	937	574	448	1063	1638	-575
1994	1018	183	218	983	1201	-218
1995	1661	489	301	1850	1970	-120
1996	1887	9612	475	1102	2860	-1758
1997	2219	531	508	2241	2729	-488
1998	3376	306	930	2753	3827	-1074

CDF; Means Capital Development Fund

Source; Computed from Appendix A and B

crucial role of the government in the development process. Considering the need for public savings in a developing economy like Benue state, it may be necessary not merely to balance the recurrent budget but to make desperate efforts for significant public savings, in order to finance development programmes. Generally, an increase in recurrent spending tends to rise automatically as a result of spending on the previous development projects.

Budget surplus as shown on table 3.9 column (4) recorded great fluctuations from N111 million in 1987 to N480 million in 1995. However a steady increase was recorded between 1996 and 1998; rising from 463 million in 1996 to N1317 million in 1998.

The proportionate share of recurrent revenue in recurrent spending in percentage terms as shown in column (3) indicates that recurrent revenue over shot recurrent spendings by 169 percent in 1988. This development is linked to increasing statutory grants. In all the recurrent revenue as a percentage of recurrent spending, ranges between 125 and 170 percent through out the period of the research.

Savings, in the recurrent account was highest in 1998 with a total surplus of N1317 million.

The detail of their growth rates is shown in appendix (c).

3.4 THE PATTERN OF CAPITAL BUDGET ACCOUNT

The examination of the over all capital budget account of the state helps in the articulation of fiscal policies that has a lot of bearing on the level of savings. In addition, considering both the current and capital account, is necessary, since a current account deficit may be offset by a budget surplus on the capital account. In the same manner, a budget surplus on current account may be offset by a deficit savings on current account.

Table 3.10 column (3) shows the trend in the capital budget account. There was deficit capital budgets for all the years except in 1996 were a budget surplus was recorded. 1998 recorded the highest deficit, amounting to N1462 million.

One peculiar pattern of the Benue State Capital Budget account is the fact that it is largely in deficit. The deficits in the capital budgets are sometimes off seated by the surplus in the recurrent account.

The deficits have largely fluctuated over the years from N82 million in 1987 to N1462 million in 1998. The implication of this is that the Benue state government is dis-saving and this has serious effects on capital formation since it would eventually render the state unworthy of credits.

Generally, the huge deficits were financed by the maximization of revenue collection from new and existing sources. The conclusion is that the tax effort of the state is very low; thus leading to an averagely low internal revenue.

The disparity in the current account between recurrent revenue and recurrent spending is therefore caused by the persistently, low tax effort of the Benue State government.

Appendix (c) shows the growth rates of the capital receipts and the capital spendings in percentages.

3.5 THE PATTERN OF ACTUAL TOTAL BUDGET ACCOUNT

Table (3.11) column (6) shows over all budget deficits for all the years. The highest deficit of N1074 million was recorded in 1998/99 fiscal year with the lowest deficit of N37million in 1987.

The state has a weak industrial base. Moreover state government owned companies are either inefficiently performing below capacity or out rightly closed down. Public investment especially in infrastructural development is also at a lower ebb. This is due to low savings occasioned by inadequate revenue.

The implication of this trend is obvious. Since the state cannot attract private investors to the investment opportunities in the state, due to the weak infrastructural development in most key commercial towns of the state like Makurdi, Otukpo and Gboko, it then follows that the budget deficit would persist.

Over the years the state had undertaken some investment in the economic and social sector, especially in transport, education, agriculture, rural electrification and

manufacturing subsectors. These investments are however too low to attract private investment.

The general pattern of the over all budget of the state has been that of persistent deficits all through the period of research, due to inability of the private investors to complement public investments in the state leading to abysmally low revenue yields.

The actual total revenue is obtained by summing recurrent revenue and actual capital receipts.

The state hardly saves money for investment activities. Investment from the classical economic perspective depends on savings that is; $I = f(s)$ where I is investment, S = savings and f showing the functional relationship. This low level of overall savings is precarious for an agrarian economy like Benue. This is because the low savings would retard the economic progress of the 'food basket state' giving her enormous human and material resources.

There is therefore the need for the state to look inwards in the souring of internal revenues in order to meet up with the ever expanding public activities of the state.

3.6 CAPITAL SPENDING AS PERCENTAGE OF TOTAL SPENDING

Apart from the creation of surplus funds in the overall budget which represents the proportion of public savings that is ploughed back in gainful investment activities for public welfare and overall development; another dimension to the whole concept of savings or the level of capital formation is

to examine the percentage of total spending that goes for capital spending.

Capital spendings usually forms the bedrock of capital formation for any economy; that intends to achieve sustainable development.

Table 3.12 column (4) shows the percentage of capital spending that is represented in total spending. The percentage level, ranges between 29 to 62 percent. On the average however, it is discouraging to note that the annual average percentage of capital spending allocation in the total public spending is barely 42.8 percent. This invariably means that a greater percentage of spending is carried on recurrent spending since it recorded an annual average percentage allocation of 57.2 percent of total spending.

Except in 1988 and 1993 when capital spending was 56 percent and 62 percent respectively higher than recurrent spending, capital spending has always being lower.

Capital spending had the lowest allocation of 29 percent in 1990; followed by the 33 percent each in 1991 and 1994 fiscal years.

In actual allocation however, capital spending had the highest allocation of N1,768 million in 1998 with most of the capital projects featuring in the education sub sector. Education sub sector engulfed about 24 percent of allocations of capital spending amounting to abo million, with major capital programmes in the followi

	PROJECT	AMOUNT (₦)
i)	Construction of four workshops for Junior Secondary Schools	3,000,000
ii)	Reconstruction of laboratories and supply of science equipment	53,000,000
iii)	Basic Education (UNICEF Assisted)	3,300,000
iv)	Social development (UNDP)	5,000,000

Capital spending as a percentage of total spending fell from 50 percent in 1996 to 38 percent in 1997. This sudden fall is attributed to the size of the capital receipts which represents a decrease of N397,336,000 when compared with 1996 provision of N1,436,138,000. This is occasioned by the fact that government has not taken any new loans and more so the internal and external loans above are the draw downs on old loans yet to be completed.

Generally, capital spending in Benue State between 1987 and 1998 have continued to lag behind recurrent spending with the consequent effect of low capital formation.

The task of government is not confined to the provision of goods and services for the needs of the moment. Like any private household the authorities are confronted with essential spending which will yield benefits perhaps not in the immediate present but certainly in the years ahead.

Table 3.12 PERCENTAGE DISTRIBUTION OF RECURRENT AND CAPITAL SPENDING (₦M)

YEAR	1 TOTAL SPENDING	2 CAPITAL SPENDING	3 RECURRENT SPENDING	4 CAPITAL SPENDING AS PERCENTAGE OF TOTAL SPENDING	5 RECURRENT SPENDING AS A PERCENTAGE OF TOTAL SPENDING
1987/88	404	181	222	45	55
1988/89	565	319	246	56	44
1989/90	491	186	305	38	62
1990/91	490	142	348	29	71
1991/92	906	297	610	33	67
1992/93	788	350	438	44	56
1993/94	1638	1022	616	62	38
1994/95	1201	401	800	33	67
1995/96	1970	790	1181	40	60
1996/97	2860	1436	1424	50	50
1997/98	2729	1040	1689	38	62
1998/99	3827	1768	2059	46	54

Source; Computed from Appendix A and B

Table 3.13 RATIO OF INTERNAL TAX REVENUE AND REVENUE FROM FEDERATI ACCOUNT/VAT TO RECURRENT SPENDING AND CAPITAL SPENDIN (NM) IN PERCENTAGES.

YEAR	1 REVENUE FROM FEDERATION ACCOUNT /VAT (RFV)	2 REVENUE FROM FEDERATION ACCOUNT /VAT AS PERCENTAGE OF RECURRENT SPENDING (%)	3 INTERNAL REVENUE (IR)	4 INTERNAL REVENUE AS PERCENTAGE OF RECURRENT SPENDING (%)	5 RECURRENT SPENDING
1987	301	136	32	14	222
1988	379	154	37	15	246
1989	381	125	22	7	305
1990	460	132	27	8	348
1991	819	134	50	8	610
1992	700	160	46	11	438
1993	892	145	45	7	616
1994	889	111	129	16	800
1995	1378	117	283	24	1181
1996	1549	109	339	24	1424
1997	1832	108	387	23	1689
1998	2591	126	786	38	2059

Source; Computed from Table 3.6/7

3.7 INTERNAL TAX REVENUE TO RECURRENT SPENDING

The extent to which internally generated revenue was sufficient to finance recurrent spending provides a good basis for a stable and vibrant economic activity.

As shown on table 3.13 column (4) internally generated revenue forms, on the average 16.25 percent annually of recurrent spending. Between 1995 and 1998 there was a rapid growth in internal revenue from N283 million in 1995 to N786 million in 1998. This led to the corresponding increase of recurrent spending from N1181 million in 1995 to N2059 million in 1998.

Collum (3) shows that a decrease in internal revenue from N37 million in 1988 to N22 million in 1989 this led to a decrease in recurrent spending in the same year from N246 million to N305 million.

Table 3.13 column (4) therefore shows that internal revenue component of recurrent spending ranges between 7 to 38 percent for the period of research, with 1998 having the largest contribution of 38 percent. the general performan internal revenue is abysmally low in this regards.

Philips (1971) has stressed that the best ind the tax effort of a state government is the ratio of tax effort to recurrent spending since the state gove has some control over both sides of the variables. He ex that in layman term this is a measure of the extent to w a state is cutting its coat according to its size. If a st

wants to spend more than it should, it has to raise more funds on its own.

The periods 1989 to 1993 recorded sharp fluctuations in internal revenue generation making its proportionate share in recurrent spending to occilliate between 7 to 11 percent in those periods.

The reasons for the fluctuations in internal revenue between 1989 and 1993 are obvious. For example in 1989 internal revenue shows a decrease of N15.0 million or 41 percent when compared with N37 million budgeted for 1988; this development is attributed to lope-holes in the collection strategy and the fraudulent activities of revenue collectors. In correcting this anomaly the state government contracted the monitoring of the revenue subhead to ATLAS Consultants, in 1995, this led to impressive performance as could be seen between 1995 to 1998.

The generally low performance of the internally generated revenue in the promotion of recurrent spending simply shows in the worlds of Philips (1971) that the state is not cutting its coat according to its size, since the rule for a higher tax effort is that the ratio of internal revenue to recurrent spending should not be less than 100 percent. In the case of Benue state this ratio is even less than 50 percent.

3.8 THE RATIO OF THE REVENUE FROM FEDERATION ACCOUNT AND VALUE ADDED TAX (VAT) TO RECURRENT SPENDING

This source is made up of the statutory share of the 24 percent to states from the federally collected revenue. This amount is largely determined by the Vagaries of the World Oil Market. VAT even though a recent revenue source has helped in raising the spending abilities of most states.

Table 3.13 Column (2) shows the percentage contribution of the revenue subhead to recurrent spending, it indicates persistent fluctuations of the subhead in most of the years. A steady participatory growth is however noticed between 1989 and 1992, with revenue from federation account and VAT increasing from 125 percent in 1989 to 160 percent in 1992. The highest proportion of contribution to recurrent spending by the subhead was in 1992 where about 160 percent of recurrent spending emanates from the subhead.

With total contribution ranging from between 109 to 160 percent, the subhead is the largest contributor to recurrent spending, accounting for on the average about 130 percent annually of recurrent spending.

With the steady but rapid increase of revenue from federation account and VAT from N889 million in 1994 to N2,591 million in 1998, recurrent spendings also increased steadily but rapidly from N800 million in 1994 to N2059 million in 1998.

Appendix (A) column (1) showing the index of growth of the revenue from the federation account and VAT indicates that

the revenue subhead increased by a growth rate of a little over eight -fold between 1987 and 1998 using 1987 as the base year, while recurrent spending also increased by a growth rate of a little above nine-fold between the same period.

This trend clearly shows the predominance of revenue from the federation account and VAT over internal revenue in recurrent spending and indeed over all state finances. Simply put Benue state depends majorly on federation account and VAT for her services. Except this over reliance on the centre is checked through the aggressive desire of the state to source for it's needed revenue within her borders, the persistent problem of fiscal imbalance in the state is bound to aggravate into other critical macro economic crisis like acute poverty, galloping inflation, capacity under utilization, and huge debt burden.

3.9 DETERMINANTS OF THE SIZE AND STRUCTURE OF PUBLIC SPENDING

A number of factors tend to direct the size and structure of public spending. Osman (1964) contends that the federal grants stimulate spending not only on the functions to which they are directed but for other programmes as well. The federal governments financial assistance for programmes are usually designed to increase state governments resources and encourage spendings on certain functions.

In Benue state two crucial factors which determines the level and pattern of public spending are availability of

financial resources and the distribution of functions among the federal, state and local governments. Ideally the functions to be performed by each level of government should either correspond to the tax revenues allocated to it or vice versa. This is not the case in Benue; more often than not, tax revenue become grossly inadequate to finance the states assigned functions. The central control of important revenue sources such as customs and excise, royalties and mining rents, sales tax (VAT) and petroleum profit tax makes it difficult for the state to execute the volume of government spending due to the weak tax base.

Inter-governmental revenue to the state including the grants from non-governmental organisations (NGOs) have a dual impact on state government's spending as earlier on mentioned. Moreover federal government's assisted programmes are usually designed to increase state government resources, and encourage spending on certain functions.

The Benue state spending trend is in conformity with Osman 91964) that federal aid to a given function appeared to increase spendings in other functional areas. For example in 1989, federal grants amounting to N6.2 million to the state for Agricultural and Transport related matters led to the growth of the Education sub-sector from N28 million in 1988 to N31 million in 1989. This is because as the state resettles the nomadic farmers, schools were also established for their children thus rising the spending level in the educational

subsector. (Benue State budget estimate: 1989).

The growth rate and structure of Benue state public spending reflects vividly and on the overall the influence of socio-political and economic pressures within the economic system.

There was for example, a general rise in cost per unit over the years of government services. This was due not only to the rapid succession of salary increase awards granted to public officials but also to the fragmentation and multiplication of administrative units.

With a fast-growing population, public spending for most categories of public services such as water supply, public health, roads and electricity supply, would be forced to grow if only to maintain given standards. Admittedly, expansion of population may give rise to improved tax potentials but this is largely a matter for the future.

Benue state is relatively highly urbanised thus, given rise to greater intensity of collective and social wants. Two features of the process of urbanisation are particularly important. There is on the one hand the very rapid acceleration of migration from rural to urban areas, due to the pull of superior urban living conditions and employment hopes. This shift of population and its associated social and population density problems have in general resulted in higher per capita costs for most public services.

As far as Benue state is concerned no single factor could

be used to sufficiently explain the observed spending trend. However it could be seen from Table 3.14 that the pattern and

TABLE 3.14 PERCENTAGE DISTRIBUTION OF REVENUE FROM FEDERATION ACCOUNT AND VALUE ADDED TAX (VAT) ON TOTAL SPENDING (₦M)

YEAR	REVENUE FROM FEDERATION ACCOUNT AND VAT 1	FEDERATION ACCOUNT AND VAT AS PERCENTAGE OF TOTAL SPENDING 2	TOTAL SPENDING 3
1987	301	75	404
1988	379	67	565
1989	381	78	491
1990	460	94	490
1991	819	90	906
1992	700	89	788
1993	892	54	1638
1994	889	74	1201
1995	1378	70	1970
1996	1549	54	2860
1997	1832	67	2729
1998	2591	68	3827

Source: Computed from Table 3.8

growth of public spending in the state between 1987 and 1998 is largely determined by statutory grants from the federation account.

As shown in column (1) and (3) when revenue from federation account and VAT increased from N301 million in 1987 to N379 million in 1988, total spending increased in the same direction from N404 million in 1987 to N565 in 1988. In the same manner the sharp increase in allocation from the federation account and VAT between 1990 and 1991 from N460 million to N819 million also led to a sharp increase in total spending from N490 million in 1990 to N906 million in 1991; showing clearly that for a large proportion of the period under review revenue from federation account and VAT determines the public spending trend.

Column (2) also shows that the average percentage contribution of revenue from the federation account and VAT to public total spending ranges between 54 to 94 percent, within the period under review; with the highest percentage contribution of 94 percent in 1990. In the whole revenue from federation account and VAT is responsible for an annual average contribution of 73.3 percent to total spending. simply put about, 73.3 percent of the revenue required to service total public spending in Benue state between 1987 and 1998 was sourced from the state share of the federally collected revenue and VAT. Invariably, we could conclude that even though socio-political and economic factors play one role or the other in the determination of the growth and structure of public spending in Benue state, the most predominant determinant is the level of revenues from statutory grants and

VAT, as shown in table 3.14 column (2).

3.10 THE IMPACT OF THE STRUCTURAL ADJUSTMENT PROGRAMME (SAP) ON PUBLIC SPENDING.

The Structural Adjustment Programme (SAP) which was established in July 1986 was designed to reset the national economy on a healthy course of reconstruction growth and development. The programme was conceived, officially, right from the very beginning as a two year policy measure stretching from July, 1986 to June 1988.

SAP was meant to lessen the dominance of unproductive investments in the public sector. This measure also affected the states including Benue state. Initial steps adopted included the rationalization of credit controls. The sector - specific credit distribution targets were streamlined with a view to giving banks greater discretion in the sectoral allocation of the credit. The former 18 sector classification was reduced to only two sector categorization requiring 50 percent of credit to be channelled to Agriculture and manufacturing and the remaining 50 percent to go to other sectors. Also of importance is the mopping up of excess liquidity through the issuance of stabilization securities to banks thus streamlining public spending.

The consequences of these SAP measures on public spending in Benue state are obvious.

Firstly it denies the state the opportunity of traditional borrowing from banks each time there is a short

fall in estimated revenue. This effect was more pronounced between 1989 and 1992 when total receipt of loans and grants are shown in Table 3.8 decreased from N166 million in 1988 to N73 million in 1989, then N4 million in 1990 and then N38 million each in 1991 and 1992 fiscal years.

Secondly the measure was able to re-direct public spendings into critical sectors that would naturally enhanced economic progress. With the channelling of 50 percent of total credit to Agriculture and manufacturing in an agrarian economy like Benue, the implication is that since the state lacks the needed industries to process the abundant raw materials, the streamlining of credit to especially the manufacturing subsector would enhance the performance of the Agricultural subsector which would invariably lead to greater output and higher revenue yields.

This measure led to the increase in public earnings and sales as shown in table 3.7 column (4) from N1.1 million in 1989 to N1.3 million in 1990 SAP led to increased funding of Agricultural production and agro-allied industries taking almost the lion share in the total capital spending. As shown in table 3.4 Agricultural spending increased from N21 million in 1987 to N136 million in 1998.

Though SAP measures assisted in the restructuring of the public spending in the state, its effects were however shortlived because these measures were predominately monetary rather than fiscal. The money and capital markets are still

largely under developed. Hence fiscal measures seems more effective than monetary measures in the control of fiscal imbalances. This so-called 'guided deregulation' under SAP should have tempered with the revenue allocation formular in favour of states.

3.11 MISMANAGEMENT OF PUBLIC RESOURCES

Public funds in Benue State over the years have been mismanaged. It is either that revenue collectors do the collections and refuse to remit same to government or that the relevant agencies saddled with the responsibilities of disbursing or expending these monies convert such into personal use.

For example with the embargo on employment amidst regular retrenchment exercises; the State's annual total wage bill has been rising steadily except in 1992 and 1996 as indicated on table 3.2. This rise from ₦96 million in 1987 to ₦714 million in 1998 is not only due to regular reviews in wages/salaries but in addition to the inclusion of ghost names on payroll. Screening exercises has not been successful since the syndicates in the issue in question are themselves government officials.

In the same direction, the internally generated revene of government has not been encouraging due to the nefarious activities of revenue collectors of not remitting revenue to public coffers. With the contracting of public revenue collection to a Private Consortium (ATLAS) a larger proportion of public revenue has however been recovered. Viable industries in the state have either collapsed or at the verge of collapse; due to the mismanagement of funds as shown below:

INDUSTRY	REMARKS
Agro Miller	Collapsed
Taraku Mills	at the verge of collapse
Oturkpo burnt bricks	collapsed
Ikyogen cattle ranch	collapsed
Benue Cement Company	at the verge of collapse
Hawaiin agronomics	collapsed
Benue Printing & Publishing Co	at the verge of collapse
Lobi Bank of Nig.	collapsed
Lower Benue RBDA	collapsed
Benue Agricultural Development Corporation (Hatchery/Fish pond)	at the verge of collapsed

CHAPTER FOUR

MODEL SPECIFICATION AND ANALYSIS OF EMPIRICAL RESULT

4.0 INTRODUCTION

In this chapter the results of the Granger causality test alongside the Ordinary Least Square (OLS) regression equations are presented and analysed in line with our stated objectives.

4.1 DATA AND ESTIMATION PROCEDURE

In implementing the Granger causality test; stationarity between total spending and total revenue was established by converting the data into logarithmic first differences as log DTst and Log DTRt. One condition that must be fulfilled for Granger test to be applicable is that of stationarity of the covariance. According to Engel and Granger (1987) common economic series must be differentiated before the assumption of stationarity can be presumed to hold.

However, following conventional procedure it is assumed that stationarity is achieved by converting the data into logarithmic first difference, Orubu (1995), Odusola and Akinlo (1995).

In equation 12 the F-statistics is calculated under the null hypothesis that the coefficients of the lagged values of total revenue are jointly in significant. (that is $ß^{1}_{i}$ and $ß^{11}_{i}$ = 0). If the null hypothesis cannot be rejected then the possibility that changes in total revenue causes changes in total spending cannot be accepted. Given the finding that

total revenue causes total spending, the sign of the effect can be checked by using the F-test to verify the actual sign of the coefficients of total revenue.

Equation (13) is the reversed form of equation 12). In the same manner if the null hypothesis cannot be rejected then the possibility that total spending Granger cause total revenue cannot be rejected.

To demonstrate whether the relationship between total revenue and total spending is impressive or not, coefficient of determination R^2 was computed. The Durbin watson (DW) statistics to test for auto correlation could not be used since the sample size is less than 15. Table 4 shows the detailed result of the Granger causality test, all at 5 percent significant level.

4.1.1 Techniques of Analysing Data

The Granger technique; (C.W.J Granger (1960) was used in the estimation of the parameters of the model. Granger proposed that for a pair of linear covariance - stationery time series, X and Y, X causes Y if the past values of X can be used to predict Y more accurately than simply using the past values of Y. Finally X, is said to cause Y if;

$$\sigma^2 \quad (Y_t, \; Y_{t-j}, \; X_{t-i}) < \quad \sigma_2^2 \; (Y_t; \; Y_{t-j})$$

where σ^2 represents the variance of the forecast error and i,

j = 1,2,3,4.....K

It is assumed that the future cannot cause past it is the past and present which causes future and secondly that detection of causality is only possible between two stochastic processes.

4.1.2 Model Specification

The use of two statistical techniques (OLS and Granger causality test) is to enable us ascertain the true relationship between public spending and revenue. The two variables are assumed to be linear, covariance - stationery and purely non-deterministic.

The general functional relationship between public spending and revenue is as follows:

$$TS_t = F [TR_t) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

where Ts_t is the total spending.

TR_t is total revenue all at time t

F = symbolise the mathematical notation for function.

Following Granger (1960), the general causal model of the unrestricted regression would then be as follows (in stochastic form).

$$TS_t = ß_o = \sum_{j=1}^{m} ß_j^{i}\ TR_t\text{-}j + \sum_{i-1}^{l} ß_i^{11}\ TS_{t-i} + U_t \quad \ldots(2)$$

and in reverse form:-

$$TR_t = \alpha_o + \sum_{i=1}^{l} \alpha_j^{i}\ TR_t\text{-}i + \sum_{j-1}^{m} \alpha_i^{11}\ TS_{t-j} + W_t \quad \ldots(3)$$

Where;

TS and TR are two stationery series

i and j are lag lengths; which is taken to be 2 years.

U_t and W_t are the well behaved, normally distributed error terms.

$ß_o$, $ß_j^{1}$ and $ß_i^{11}$ as well as α_{oi}, α^{1}_{k} and α^{11}_{j} are all parameters to be estimated.

The restricted form of the general causal model is;

$$TS_t = ß_o + \sum_{i=1}^{l} ß^{1}_{i}\ TS_{t-i} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (4)$$

And in reverse form:-

$$TR_t = \alpha_o + \sum_{j=1}^{m} \alpha^{1}_{j}\ TR_{t-j} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (5)$$

Equation (2) is the unrestricted regression total spending

Equation (3) is the unrestricted regression of total revenue

Equation (4) is the restricted regression of total spending

Equation (5) is the restricted regression of total revenue.

The relationship between public spending and revenue is further made clearer when the effects of the various revenue components are tested on public spending as follows; using ordinary regression.

$$TS_t = f\ (IR_t,\ RFV_t\ Ms_t\ GL_t) \quad \ldots\ldots\ldots\ldots\ldots\ldots (6)$$

In stochastic form; also re-written as

$$TS_t = \sigma_o + \sigma_1 \{IR_t, + \sigma_2\ RFV_t + \sigma_3\ GL_t\} + \sigma_4\ MS_t + F_t \quad \ldots\ldots (7)$$

Where

σ_o σ_1, σ_2, σ_3 are the parameter to be estimated,

F_t = the error term in time t, f_t being a stochastic disturbance term.

t = time period

IR = Internally generated revenue

RFV = Revenue from federation account and value added tax (VAT)

GL = Grants and loans

TS = as already defined.

As an a-priori expectation it is assumed that a rise in any of the revenue components would affect total spending positively; hence all the estimated coefficients of the explanatory variables are expected to be positive.

For more clarification we would respecify equation (7) to include the dummy variable (S). This is to enable us test for the existence of any structural changes in the model in the form;

$$TS_t = \lambda_c + \lambda IR_t + \lambda RFV_t + \lambda GL_t + \lambda MS_t + \lambda S_t + T_t \quad .. \quad (8)$$

where $\lambda_o, \lambda_1, \lambda_2, \lambda_3, \lambda_4$ are parameters to be estimated.

S_t = dummy variable assuming the values 0 before the discretionary change and 1 after the change, Or demerger.

T_t = error term at time t.

In a reverse manner, the effects of the various expenditure subheads would be tested on total revenue to ascertain which one of them best influences revenue in the form:

$$TR_t = f\ (RS_t,\ CS_t\ ) \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (9)$$

In stochastic form; also re-written as

$$TR_t = b_o + b_1\ RS_t + b_2\ CS_t + e_t \quad \ldots\ldots\ldots\ldots \quad (10)$$

Where

b_o b_1, b_2 are parameters to be estimated.

e_t = error term

Rs_t = Recurrent spending

CS_t = Capital spending

All others are already defined.

It is assumed as an a-priori expectation that a rise in any item of expenditure would cause total revenue to move in the same direction.

Respecifying equation (10) to include the dummy variable to test for changes in the coefficient of the function over time in the form

$$TR_t = a_o + a_1 RS_t + a_2 CS_t + a_3 Y_t + O_t \ldots\ldots\ldots \quad (11)$$

where

a_o, a_1, a_2, a_3, are parameter of the explanatory variables to be estimated.

Y_t = Dummy variable

O_t = error term.

4.2 EMPIRICAL RESULTS

The data in appendix A and E, which are presented in appendix D as stationary variables in the first difference form were used to verify the various hypothesis. The results are hereby discussed.

In the first model (equation 2) the following results was obtained for the unrestricted regression of total spending with the t-ratios in parenthesis.

$$TS_t = \underset{}{1.490028} - \underset{(1.321707)}{0.79502TS_{t-1}} - \underset{(0.253645)}{0.21367TS_{t-2}} +$$

$$\underset{(0.09185713)}{0.079598TR_{t-1}} - \underset{(0.1086716)}{0.12268TR_{t-2}} \quad \ldots\ldots\ldots\ldots\ldots\ldots (12)$$

$R^2 = 0.44$, $R^{-2} = -0.12$, n=9, DF=4, SE = 9.266197

F-Calculated = 0.117267715, F-critical = 6.39.

The result of the restricted regression of total spending from equation (4) is

$$TS_t = \underset{}{1.729035} - \underset{(2.066888(}{0.78778TS_{t-1}} - \underset{(0.902759(}{0.34870TS^{t-2}} \ldots\ldots (14)$$

T-critical = 2.4 at 5% significant level, R^2 0.42,

R^2= 0.23, n=9,

DF=6, SE=7.691521.

In testing the first research hypothesis that total spending depends on total revenue, the F-statistics were computed in equation 12 under the null hypothesis that the coefficients of the lagged values of the explanatory variables are jointly insignificant such that

$$H_o; \quad \alpha_1 = 0 \quad \text{and} \quad H_1; \ \alpha_1 \neq 0$$

The f-test shows that the f-calculated statistics is less than

the f-critical i.e. 0.117 < 6.39. Consequently the alternative hypothesis is rejected while the null hypothesis; H_o; $\alpha = 0$ is accepted. This is because the coefficients of the explanatory variables are not significant in the determination of total spending; within the period 1987-1998.

The result shows that total revenue could not be established as causing total spending. Thus total spending is caused by some other variables that must have been excluded from the model.

TABLE 4.0 RESULTS OF THE GRANGER CAUSALITY TEST OF TOTAL REVENUE (TR) AND TOTAL SPENDING (TS)

EQUATION NUMBER	12**	13**	14*	15*
Constant	1.490028	-2.16441	1.729035	0.622028
Variables				
$LogDTS_t$				
$LogDTS_{t-1}$	-0.79502 (1.321707)	0.253693 (0.5723835)	-0.78778 (2.066888)	
$LogDTS_{t-2}$	-0.21367 (0.253645)	1.206803 (1.944201)	-0.34870 (0.902759)	
$LogDTR_t$				
$LogDTR_{t-1}$	+0.079598 (0.0918573)	-1.29908 (2.034555)		-0.8022 (1.376704)
$LogDTR_{t-2}$	-0.12268 (0.1086716)	-1.52548 (1.8338799)		-0.28102 (0.47350)
R^2	0.44	0.71	0.42	0.35
$\bar{R}^2$	-0.12	0.42	0.23	0.13
N	9	9	9	9
DF	4	4	6	6
SE	9.266197	6.827786	7.691521	8.313446
F-calculated	0.117267715	4.283261751		
F-critical	6.39	6.39		

** Unrestricted regression

* Restricted regression

F statistics at 5% significance level

t- ratios are in parenthis

Source: Computed by author

This result is in line with Osman (1964) that federal government aid to both state and local government areas is the major determinant of the size of public spending. In Benue state this position could be extended to the activities of donor agencies like the United Nation Development Programme (UNDP).

However the R^2 value of the restricted regression in equation 14 shows that only about 42 percent variations in total spending could be explained by the lagged values of total spending. The R^2 value appreciated in equation 12 with the introduction of the lagged values of total spending and total revenue to explained only about 44 percent of the variations in total spending.

In equation 12 the 1.490028 intercept suggests what the value of total spending would be, should the first and second lagged values of total spending and total revenue be zero. In the same vein the coefficients of the first and second lagged values of total spending and total revenue shows the magnitude of change in total spending as a result of a percentage change in any of the lagged variables.

Also in equation 14 the t-critical value of 2.4 is greater than all the value of the t-ratios in parenthesis.

The t-ratio is used to test the significance of the individual parameters explaining the changes in the dependent variable at a given period of time. Since the t-critical values are both greater than the t-calculated values it

suggest that the parameters are not very significant. The unrestricted regression in equation 12 has a higher standard error than the restricted regression in equation 14. This is so because the inclusion of more variables increases the computational accuracy.

The second research hypothesis is the reverse of the first. The second hypothesis states that total revenue depends on total spending; that is

H_o; $ß_1 = 0$

H_1; $ß_1 \neq 0$

In the second model (equation 3) the following results were obtained; for the unrestricted regression of total revenue (with the t-ratios in parenthesis;).The various test are carried, on 5 percent level of significance.

$$TR_t = \underset{}{-2.16441} - \underset{(2.034555)}{1.29908TR_{t-1}} \underset{(1.8338799)}{-1.52548TR_{t-2}} +$$

$$\underset{(0.5723835)}{0.253693TS_{t-1}} + \underset{(1.944201)}{1.206803TS_{t-2}} \quad \ldots\ldots\ldots(13)$$

$R^2 = 0.71$, $\bar{R}^2 = 0.42$, n=9, Df=4, SE = 6.827786

F-calculated = 4.283261751, F-critical = 6.39.

The result of the restricted regression of total revenue from Equation (5) is

$$TR_t = \underset{}{0.622028} - \underset{(1.376704)}{0.8022TR_{t-1}} - \underset{(0.47350)}{0.28102TR_{t-2}} \ldots\ldots\ldots\ldots\ldots\ldots(15)$$

$R^2 = 0.35$, $\bar{R}^2 = 0.13$, n=9, Df=6, SE = 8.313446

t-critical = 2.4

The f-statistics are computed in equation (13) under the null hypothesis that the coefficients of the lagged values of the explanatory variables are jointly insignificant.

From the results, f-calculated is less than f-critical (i.e. 4.283 < 6.39), consequently we reject the alternative hypothesis and accept the null hypothesis that the coefficients of the explanatory variables are jointly insignificant. This invariably implies that the total revenue in Benue state within the period 1987 and 1998 was not determined by total spending.

From the result in equation (13) the R^2 value shows that about 71 percent of the variations in total revenue is explained by the first and second lagged values of total revenue and total spending. The restricted R^2 value is however low, showing that only 35 percent of the changes in total revenue could be explained by the first and second lagged values of total revenue.

Equation 15 also shows that the value of the t-critical is greater than the individual t-ratios. This suggests that the individual parameters are insignificant in the determination of the dependent variable (total revenue).

In all, the Granger causality test between total revenue and total spending shows that the alternative hypothesis is

rejected in both ways. This means that neither total revenue nor total spending Granger causes each other within the period 1987 - 1998 in Benue state.

One major focus of this study is to test for causality between total revenue and total spending in Benue state for the period 1987 - 1998. This was achieved with the use of Granger techniques in equations (12 and 13). Almost all the coefficients have proved insignificant in explaining the relationship between total spending and total revenue. presupposing that, in Benue state variations in total spending and revenue for the period, 1987 - 1998 were majorly determined by other variables other than total revenue and spending.

Now, the question is why is the coefficients of the model not significant, in explaining the direction of causative relationship between total revenue and spending, despite the phenomenal growth in both variables. There are a number of factors responsible for this, mainly in the functional compositions of revenues and spendings. Over the years the structural trends in the distribution of governments resources has been the major determinant of the direction of fiscal policies.

Since the direction of causality could not be established between the two variables, the best option is to examine structural changes in the fiscal compositions of revenue and spending, with a view to identify the parameters that best

influences revenue and spending. This is computed using ordinary regression equations.

In line with our theoretical framework there is a relationship between revenue and spending. This is confirmed in our R^2 value in equation (13) at 71 percent. Though R^2 value was 44 percent in Equation (12), it still goes to buttress in a weak manner the relationship existing between revenue and spending. The inability to establish the direction of causality between revenue and spending using the Benue data may not be far fetched.

One factor that must have affected our expected result is the fact that even though in principles, the rule that government spending ought to be financed by taxation (In addition to charges and other recurrent sources) is widely accepted by developed countries, developing countries and international agencies; In developing countries expenditure cuts are politically unpopular and detrimental to development, raising taxes is politically unpopular and worsens the unemployment problem, Osoro (1992).

Thus spending may rise due to political consideration and not because of the increases in revenue, since politicians hesitate to decide tax increases.

Moreover in Benue state most contracts were awarded and contractors not usually paid due to lack of funds. In this case therefore revenue would not have been said to cause

spending, since contracts in Benue are awarded not necessarily due to availability of funds but on needs.

Also spending's could not have cause revenue possibly because most of the spendings are on unproductive investment outlays (social amenities) that have no revenue generating potentials. There is a strong political pressure for services like education, health, water and roads which certainly contribute to development and growth. Thus within the period of study spending could not have cause revenue since most public investments in Benue state are not profit oriented.

In all, Buchanan and Wagners hypothesis summaries the argument by postulating that increase in direct taxes will lead to decrease in expenditure. This further confirms our empirical result.

The work of Osoro (1992) also confirm our empirical result, from his F-test result (1 quote him) "The most striking result is that I find no evidence of causal relationships running from revenues to expenditures".

Thus since it is possible not to find evidence of causal relationship running from revenues to expenditure, it is also consequently possible, not to find evidence of causal relationship running from spending to revenue.

This therefore suggests that our empirical results are logical within the period of our study.

Also, the inability to generate enough data to enlarging our observations is likely to have tampered with our result.

This is because the more the observations the better the result Fountas (1995). Future research work could take off from this limitation occasioned by inadequate data, due to poor record keeping.

It is believed that in the near future subsequent research works would over come the limitations in question. In any case the results obtained from our OLS regression equations is used to complement findings from the causality test.

4.2.1 ESTIMATED REGRESSION RESULTS

In addition to the causality test, regression equations have been estimated in its simple linear form using the method of the ordinary least squares (OLS). The results which are computed based on the data on Appendix (A and C) are shown below. The t-ratios are placed in brackets directly below the estimated coefficients to which the correspond. In all cases the statistical test of significance was done at the 5 percent level. The essence of this estimation is to be able to appreciate the extend to which individual fiscal variables influence total revenue and spending.

The relationship between total spending and some income sources is given as:

$$TS_t = \underset{(0.187085)}{1.1365368} + \underset{(7.356037)}{0.94816RFV_t} + \underset{(3.005671)}{0.047332IR_t} + \underset{(10.29617)}{0.916263GL_t} + \underset{(4.06011)}{0.194396MS_t} \quad \ldots\ldots\ldots\ldots\ldots\ldots (16)$$

$R^2 = 0.997882$, $\bar{R}^2 = 0.996671$, SE =65262871

n = 12, Df = 7, t-critical = 2.365

The introduction of dummy variable in equation 16 gives us a new equation, with a higher standard error (SE)

$$TS_t = \underset{(0.109758)}{7615542} + \underset{(5.850866)}{0.962548RFV_t} + \underset{(2.426442)}{0.016954IR_t} +$$

$$\underset{(9.263259)}{0.920509GL_t} + \underset{(3.770148)}{0.202985MS_t} - \underset{(-0.16325)}{1.1E+07S_t} \quad \ldots\ldots\ldots (17)$$

$R^2 = 0.997891$, $\bar{R}^2 = 0.996134$, SE =70335929,

n = 12, Df = 6, t-critical = 2.447

The relationship between total revenue and the component parts of total spending is given as:

$$TR_t = \underset{(0.190837)}{27708844} + \underset{(4.110276)}{1.330426RS_t} - \underset{(-0.30816)}{0.11318CS_t} \quad \ldots\ldots\ldots (18)$$

$R^2 = 0.893748$, $\bar{R}^2 = 0.870137$, SE =2.92E + 08,

n = 12, Df = 9, t-critical = 2.306

The introduction of dummy variable (Y) in equation 18 gives us;

$$TR_t = \underset{(0.117948)}{18309933} + \underset{(3.784936)}{1.309598RS_t} - \underset{(0.37786)}{0.15213CS_t} +$$

$$\underset{(0.347127)}{89820484Y_t} \quad \ldots\ldots\ldots (19)$$

$R^2 = 0.895325$, $\bar{R}^2 = 0.856072$,

n = 12, Df = 8, t-critical = 2.306

4.2.2 Analysis of Results

The coefficients of revenue from federation account and value added tax (RFV), internal revenue (IR), Grants and loans (GL) and miscellaneous revenue sources are all significant in the determination of total spending (IS) as in equation (16). This is because the t-ratios of the individual explanatory variables are all greater than the t-critical values. The R^2 value for equation (16) is highly impressive showing that over 99 percent of the variations in total spending is explained by the independent variables. The coefficient of RFV is the highest in equation (16) showing that total spending in the state within the research period has been determined majorly by RFV and [illegible].

The introduction of the dummy variables in equation (17) to capture the structural changes resulting from the demerger has only depressed the t-values of the explanatory variables with no significant changes in R^2. This result validates observed realities in the state. The six local government areas demerged from Benue forms about 1/3 components of the state. The demerger meant that both statutory and non-statutory grants to the state had to be reduced.

In equation (18) the results of the individual t-ratios and the t-critical, shows that the coefficient of recurrent

spending is more significant in the determination of total revenue. Recurrent spending has a t-ratio greater than t-critical value. This result also validates the Benue reality of always having recurrent spending mainly, personnel emolument dominating spending needs. The greater the recurrent spending levels, the more the revenue that would be sourced by the state for personnel and overhead cost of ministries and parastatals.

The t-ratio for capital spending in equation 18 is lower than the t-critical values; suggesting that the coefficient of capital spending in the model is insignificant in the determination of total revenue; rather there exists an inverse relationship between total revenue and capital spending. This is also true of Benue State where total revenues are first of all used in the service of recurrent spending, after which the balance are then used for capital spendings. And in most cases recurrent spending expand with increased revenue as capital spending is allowed to contract. Also public investment in the state rather drains the states meagre resources; with little or nothing coming in as yields. Thus the more the public investment spending the less the returns from such investments; this is because of the weak capital formation; especially infrastructural development in the state.

The R^2 value for equation 18 is however impressive. It shows that about 89 percent of the variations in total revenue is explained by the independent variables (recurrent and

capital spending).

With the introduction of the dummy (Y_t) in equation (19) there seems not to be any improvement in the value of R^2; R^2 is still 89 percent. The introduction of the dummy has only depressed the significance of recurrent spending and raised the level of significance of capital spending. With the dummy in equation (19) both the coefficients of recurrent and capital spending are now significant parameters in the determination of total revenue. The significance of capital spending in equation (19) following the introduction of the dummy (Y_t) is due to the fact that in the old Benue the public investment activities of government especially in capital formation was enlarged; to include the six local government areas that had to be demerged from the present Benue.

In considering the structure of total revenue and total spending to be able to see which of their component parts is more relevant in determining total revenue or spending. It was discovered that total spending in the state is mainly determined by revenue from the federation account and value added tax (RFV), including Grants and loans (GL).

Our findings also revealed that recurrent spending is the major 'consumer' of total revenue in the state, with capital spending inversely related to total revenue.

In addition, while the Granger technique seems t have a lower correlation of determination, R^2, in the prediction of the values of the dependent variables in both equations (12

and 13). Our ordinary least square (OLS) regression equations generated a higher R^2 with the explanatory variables explaining for example about 99 percent and 89 percent of the variations in the dependent variables in equations (16 and 18) respectively.

Thus empirical results show that the fiscal problem in Benue state is more of structural composition than just the size of the budget. Recurrent spendings seems to be given much attention than capital spending; such that instead of higher revenue yields to off set deficits, we rather have lower revenues for huge spending needs. This suggests that government had to cut down on her recurrent spendings since such spendings could not sustain growth. Osoro (1992) and Lambo (1987).

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND POLICY RECOMMENDATION

5.1 SUMMARY

The annual state budget spells out the fiscal policies of government in the coming year. The provision of social services such as health care, good transport net work, education and security forms governments primary statutory responsibility.

In Benue state however the standard of living is abysmally low - with the state being amongst the educationally disadvantaged states.

Inadequate funds had made the state unable to live up to her constitutional roles. The state government has problems in the generation of enough funds internally, due to the low elasticity of the tax structure and mismanagement. The share of the state from the federally collected revenue mainly from oil earnings is very important but is unpredictable due to the vagaries of the world oil price. Projected revenue from the sale of oil is therefore not always realised.

The state has been bedeviled by the problems of fiscal imbalance since the state is not financially bouyant.

The aim of this work is to address this imbalance by first of all examining the nature or pattern of the fiscal trend using econometric tools. The recommendations that accompanies our findings is therefore expected to aggressively tackle this persistent fiscal imbalance in the state.

The study was able to convert total spending and revenue into stationery variables using their logarithmic first difference (Orubu 1995).

The study in addition to the causality test also used the ordinary least square (OLS) regression to examine the level of correlation between total revenue and the individual component parts of total spending; that is capital spending and recurrent spending. The result reveals that over 89 percent of total revenue is explained by recurrent spending, and capital spending. The introduction of the dummy has not affected the results much.

The study also showed that on total spending; over 99 percent of the variations in total spending is explained by the Revenue from the federation account and value added tax (RFV), internal revenue (IR), Grants and loans GL) and miscellaneous sources. RFV and GL are however singled out as the major determinant of total spending in Benue state.

5.2 CONCLUSION

Public spending at all levels in Benue state grew considerably between 1987 and 1998 with the state relying on the federal government for most of her financial requirements.

Other socio-economic factors have no doubt played their part. The main explanatory factors however in the rise of public spending are to be found in socio-political pressures coinciding with an era of financial buoyancy. The direction of

these pressures and hence the supply of public goods and services has been heavily weighted in favour of economic and social services. Spendings on transport exceeded the rate of growth of over all sectoral spendings.

The inherited burden of recurrent costs associated with this lopsidedness of spending pattern imposes rather severe strains on future budgetary possibilities and policies and as well further complicates future public spending trends. In particular it undermines the capacity of the government to finance capital spending from recurrent budget surpluses.

The Nigerian fiscal system has failed to satisfy the requirements that state revenues be as stable as possible. It is more important for local revenue to be stable than for state revenue to be stable and more importantly for state revenue to be stable than federal revenue. Yet the revenue allocation system has built instability into the finances of the states because of the heavy dependence on revenue from exports.

Internal and external borrowing constitutes the principal alternative to tax revenue as a source of government receipts. Whenever internal borrowing is from the banking system rather than from the public it results in the creation of new money and this could have an effect on the stability of the price level.

Recurrent spending is more often of the automatically stabilizing type than the items on the capital account. For

example recurrent outlays on health, housing and social development are governed by socio-economic conditions and outlooks and can be varied only within narrow limits. Spendings on social welfare and pensions are of little practical value as short term economic policy instruments but are capable of expansion for purposes of income redistribution.

In Benue state capital formation by government enterprises is not governed by short term considerations. Yet there is room for improved coordination of investment plans to avoid in certain years excessive demands on the states physical resources.

The most conspicuous development in public finance in Benue state was the rapid growth in public spending; the demand on government is very large. No one can ignore the pressing need for increasing outlays on economic and social infrastructures in the state which is essentially agrarian and rurally poor. Besides government had no choice, but to perform the functions of an entrepreneur in directing internally sourced savings into productive investments.

The enormous growth rate in public spending in Benue state partly reflects the small base from which public spending started. The size itself being one of the smallest in the federation. The financial difficulties of the state government could in part be related to the inelasticity of the existing tax structure, the rapidly growing public spendings,

inadequate tax effort, inconsistencies in government policies and mismanagement.

For instance the states spending rose steadily from N404 million in 1987 to N3827 million in 1998, with the highest revenue within the period coming in from the federation account and value added tax (RFV). With persistent instability in the world oil market, the state would have to resort to substantial borrowing to execute minimum economic development projects.

Our findings suggest that one of the causes of fiscal imbalance in Benue state is the rapid growth in public spending. This means that measures to curtail deficits must consist mainly of policies to reduce spending. Nevertheless, policies designed to enhance revenue collection through boarding the tax base may be useful since empirical results indicate that more tax revenues do not lead to increased spending.

The dominance of federally collected revenue and that of grants and loans in the budgeting processes are also responsible for the persistent fiscal deficits in the state. This is because the aforementioned sources are in themselves unstable. Stability in fiscal finance could however be guaranteed in the improvement and broadening of the tax base.

5.3 POLICY RECOMMENDATION

In line with the findings of the research work and in

fulfillment of the study objectives the following are recommended policy measures;

(a) The state had to devote a large proportion of its annual budgets to the provision of basic public utilities such as roads, health, housing, water, education electricity, industry and agriculture in order to provide the necessary infrastructural net work that would enhance capital formation and revenue generation. And in addition attract private investment. This will contract the annual huge budget deficits. Public investment complemented by private investment is one of the most important instruments of development, not only because of its volume but also because of its composition. Public investment for example in transport and energy projects would go along way in stimulating investment and investment related outlays. Improvement in technical education for example will provide skilled labour and a fast growing market for more quality goods. Thus rather than recurrent spending dominating the size of total revenue, capital spendings should dominate the public budget.

(b) Public investment should be profit-oriented in order to provide enough revenue to supplement federal allocations. Investment in Agricultural development programmes should not only generate employment but should be financially beneficial to the state. A good transport network in an

agrarian society like Benue state cannot be over emphasized since basic food items from the rural to urban centers would be in place to ease both the problem of high transport cost and exorbitant food prices. The transport outfits should however be made not to only remain financially self reliant but to be able to operate above the break even point. as a revenue source to the government.

(c) Another policy measure that could redress the fiscal imbalance in the state is to revolutionize the Agricultural subsector. Irrigation farming could be vigouriously pursued along the Benue river instead of the perennial seasonal farming that takes place only during raining season. This would further boost the level of economic activity in the state with the attendant increase in revenues. In this way the revenue earning potentials of the state would rise due to the diversification of the revenue structure.

All other avenues of potential revenue yields should be sort for and made viable, in the Agricultural sector. In other words Agriculture should justify the huge investments on it by making the Benue state government to 'smile'.

Benue state with a guinea savannah type of vegetation and with an area of about 50,000 square kilometers has the potential to develop into a self

reliant economy. Given the fact that as a fairly urbanised society with 2/3 of it's 3 million total population living in the rural areas; and with better 70 - 75 percent as farmers, most of the food needs could be generated in commercial quantities. A ready source of revenue to the state therefore abounds in the Agricultural sub sector.

(d) The rate of growth of spending on economic and social services should in general be slowed down and harmonized with the growth rates of other sectors, of public spending. This is for balanced growth. The practice where certain sub-sectors are neglected at the mercy of others should be discontinued. The following formular is recommended in the functional distribution of revenue

Subhead/sector	% of capital receipts
Economic	28%
Social	27%
Administration	24%
Environmental	21%

This formular is justified in the sense that for an agrarian society like Benue State, the various sectors should receive a fair share of the national cake for a grassroot propelled development.

(e) Official corruption and mismanagement prevalent in the state should be checked by more stringent measures. Government Auditors should be well trained and equipped to be able to detect fraud and other financial misconduct in the state. This would reduce the burden on public revenue by several contending needs.

(f) Spending cuts especially on unproductive activities are also recommended in an attempt to reduce the huge deficits. This is because even though spending cuts are politically unpopular and detrimental to development; efforts to raise taxes will fail to reduce deficits if they do not go hand in hand with measures to reduce public spending.

(g) Empirical investigations suggest no causality running from any direction; neither from total revenue nor total spending. This then imply that the main force behind the fiscal problems in the state is not in the sizes of the variables (total revenue and spending) but in their structures. Thus, structural imbalance leads to persistent fiscal disequilibrium. In tackling the fiscal imbalance in the state therefore, government would have to ensure that the functional distributions in both the recurrent and capital budgets are streamlined to reflect the socio-economic realities of the state so as to generate growth.

(h) Our regression result also shows an inverse relationship between total revenue and capital spending. This suggests that the revenue of the state depresses each time expansionary capital spending are made, and vice versa. In approaching this problem, it is recommended that capital spendings be strictly executed from capital receipts. Capital spendings should never be allowed to exceed capital receipts. In this way both total revenue and capital spending would move in this same direction ensuring the attainment of sustainable economic growth.

(i) That total spending is mostly determined by Grants and loans (GL) and the revenue from federation account and value added tax (RFV) is not a palatable trend if economic growth is to be maximized. Improved tax

collections through the over hauling of the entire revenue collection machinery will reduce government borrowing which is a low-cost mode of financing public spending relative to taxation. In addition it would lessen this culture of overdependence on federally collected revenue.

In all, accountability and financial prudence in the management of public accounts are necessary tools for sustainable development; which the Benue state economy inevitably needs to justify the popular food basket of the nation syndrome.

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1987-

APPENDIX A: BENUE STATE ACTUAL BUDGET (1998): INDEX OF GROWTH: 1987 = 100

YEAR	FEDERATION ACCOUNT AND VAT (RFV)		INTERNAL REVENUE (IR)		RECURRENT REVENUE		LOANS AND GRANTS		CAPITAL RECEIPTS		RECURRENT SPENDING	
	AMOUNT (₦)	1 INDEX OF GROWTH	AMOUNT (₦)	2 INDEX OF GROWTH	AMOUNT (₦)	3 INDEX OF GROWTH	AMOUNT (₦)	4 INDEX OF GROWTH	AMOUNT (₦) 5	6 INDEX OF GROWTH	AMOUNT (₦)	7 INDEX OF GROWTH
1987	300579705.89	100	32040481.22	100	33260186	100	99273650	100	99273650	100	222609460	100
1988	379260864.5	126	37200194.23	116	416461058	125	16810000	167	165810000	167	246016430	111
1989	381185800	127	22338500	70	403524300	121	73348250	74	87748250	88	305102950	137
1990	460008090	153	26631000	83	486639090	146	3674630	4	3674630	4	347997630	156
1991	818655400	272	49803000	155	868458400	261	37830720	38	37830720	38	609567480	274
1992	699634000	233	45793480	143	745427480	224	38000000	38	38000000	38	437877480	197
1993	892000000	297	44501939.60	139	936501939	282	480908610	484	573908610	578	615972580	277
1994	888523000	296	129214600	403	1017737600	306	176563330	178	183088430	104	799500450	359
1995	1378103000	458	283808239.49	886	1661911239	499	469060000	472	489060000	493	1180823200	530
1996	1548692791	515	338726270.28	1057	1887419061	567	931590000	938	9611588000	9682	1423676200	640
1997	1832017438	609	386887089.01	1207	2218904527	666	478677000	482	530677000	535	1688712260	750
1998	2590583540	862	785504500	2452	3376088040	014	204222000	206	306222000	308	2059166980	925

BENUE STATE ACTUAL BUDGET (1987-1998) INDEX OF GROWTH, 1987=100

YEAR	ECONOMIC		SOCIAL		ADMINISTRATION		ENVIRONMENTAL		CAPITAL SPENDING	
	AMOUNT (N)	8 INDEX OF GROWTH	AMOUNT (N)	9 INDEX OF GROWTH	AMOUNT (N)	10 INDEX OF GROWTH	AMOUNT (N)	11 INDEX OF GROWTH	AMOUNT (N)	12 INDEX OF GROWTH
1987	92877000	100	4088610	100	32600000	100	15101000	100	181464190	100
1988	198635000	214	61847410	151	9200000	27	49213160	327	318895570	176
1989	95450000	102	62020000	151	8500000	27	20200000	133	186170000	103
1990	62620130	68	41740000	102	25155960	76	12800000	87	142316090	78
1991	142858000	154	78837640	193	27800000	85	47226000	313	296721640	164
1992	162900000	175	120824000	295	31351000	94	35382000	233	350457000	193
1993	385453390	414	292750500	715	59961000	182	283498640	1887	1021663530	563
1994	170370000	183	96392000	234	44810580	136	89753000	600	401325580	221
1995	174568000	188	489427000	1193	40742000	124	85365000	567	790102000	435
1996	539965000	581	502089000	1224	149042000	452	245042000	1633	1436138000	791
1997	402356000	432	459723000	900	105206000	318	72969000	487	1040254000	573
1998	566706000	610	789557000	1927	294976000	894	116768000	780	1768007000	974

Source: Benue State Budget Estimate (1987-1998)

BENUE STATE ACTUAL BUDGET (1987 - 1998)
INDEX OF GROWTH = 1989 = 100

YEAR	MISCELLENEOUS REVENUE SOURCES	
	13 AMOUNT (N)	14 INDEX OF GROWTH
1987	0	0
1988	0	0
1989	14,400,000	100
1990	0	0
1991	0	0
1992	0	0
1993	93,000,000	646
1994	65,25,100	45
1995	20,000,000	139
1996	29,998,000	208
1997	52,000,000	361
1998	102,000,000	708

Source: Benue State Budget estimate (1987 - 1998)

APPENDIX B: The size and growth of capital spending (in functional units) as percentage of actual total public sending in Benue state at current prices; 1987 - 1998 (₦M)

FISCAL YEAR	1 ECONOMIC SECTOR	% OF TOTAL	2 SOCIAL SECTOR	% OF TOTAL	3 ENVIRON SECTOR	% OF TOTAL	4 ADMIN SECTOR	% OF TOTAL	5 OTHERS'	% OF TOTAL	6 TOTAL SPENDING	7 TREND 1987/88 = 100
1987	93	23	41	10	15	4	33	8	222	55	404	100
1988	199	35	62	11	49	9	9	2	246	43	565	140
1989	95	19	62	13	20	4	9	2	305	62	491	122
1990	63	13	42	8	13	3	25	5	348	72	490	121
1991	143	16	79	9	47	5	28	3	610	67	906	224
1992	163	21	121	15	35	4	31	4	438	56	788	195
1993	385	24	293	18	283	17	60	4	616	37	1638	405
1994	170	14	96	8	90	7	45	4	800	67	1201	297
1995	175	9	489	25	85	4	41	2	1181	60	1970	488
1996	540	19	502	17	245	9	149	5	1424	50	2860	708
1997	402	15	460	17	73	2	105	4	1689	62	2729	675
1998	567	15	790	20	117	3	295	8	2059	54	3827	947

Column 5 'Others' refers to recurrent spending

Source; Benue State budget estimates (1987 - 1998)

APPENDIX C: ACTUAL BUDGET SURPLUS DEFICIT IN BENUE STATE (1987 - 1998) IN ₦ MILLION

YEAR	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Recurrent Revenue	333	416	404	487	868	745	937	1018	1661	1887	2219	3376
Recurrent spending	222	246	305	348	610	438	616	800	1181	1424	1689	2059
Recurrent Budget surplus/defificits	111	170	76	139	258	307	321	218	480	463	530	1317
Capital Receipts	99	166	88	4	38	38	574	183	489	9611	531	306
Capital Spending	181	319	186	142	297	350	1022	401	790	1436	1040	1768
Capital Budget Surplus/deficits	-82	-153	-99	-38	-259	-312	-448	-218	-301	+8176	-509	-1462
Transfer to C.D.F	65	153	98	138	258	308	448	218	301	475	508	930
Total Revnue	367	429	393	352	647	476	1062	983	1850	1102	2241	2753
Total Spending	404	565	491	490	906	788	1638	1201	1970	2860	2729	3827
Overall Budget Surplus/deficit	-37	-136	-98	-138	-259	-312	-575	-218	-120	-1758	-488	-1074
Growth rate of recurrent Revenue %	-	24.9	-2.9	20.5	78	-14.2	25.8	8.6	63.2	13.6	17.6	52.1
Growth rate of recurrent spending%	-	10.8	23.9	14.1	75.2	-28.2	40.6	29.9	47.6	20.6	18.6	21.9
Growth rate of Capital Receipts %	-	67.7	-46.9	-95.5	850	0	1410.5	-68.1	167.2	1865	-94	-42
Growth rate of Capital spending %	-	76.2	-41.7	-23.6	109	17.8	192	-60.7	97	81.7	-27.6	70
Growth Rate of Total Revenue %	-	16.9	-8.4	-10.4	83.8	-26.4	123	-7.4	88.2	-40	103	22.8
Growth rate of total spending %	-	39.8	-13	-0.2	84.8	-13	107.8	-26.6	64	45	-4.6	40.2

Source: Computed from Table (3.8) and (3.11).

APPENDIX D: LOG OF FIRST DIFFERENCE OF TOTAL REVENUE AND TOTAL SPENDING FOR THE PERIOD: 1987 - 1998

FISCAL YEAR	TOTAL REVENUE (TR)	TOTAL SPENDING (TS)
1987/88	7.797066708	8.2063
1988/89	7.560316654	7.867108177
1989/90	7.614675163	5.981922753
1990/91	8.470889421	8.619067648
1991/92	8.234316591	8.07171503
1992/93	8.768459131	8.9291
1993/94	7.903343704	8.640292652
1994/95	8.938189555	8.8865
1995/96	8.873601627	8.9488
1996/97	9.056527849	8.11676689
1997/98	8.708479125	9.040684492

Source: Computed from Appendix A:

APPENDIX E: BENUE STATE FINANCE (₦M)

YEAR	FED. ACCOUNT AND VAT (RFV) 1	INTERNAL REVENUE (IR) 2	RECURRENT REVENUE 3	LOANS AND GRANTS (GL) 4	OTHER CAPITAL RECEIPTS 5	CAPITAL RECEIPTS 6	RECURRENT SPENDING (RS) 7	CAPITAL SPENDING (CS) 8	TOTAL SPENDING (TS) 9	TOTAL REVENUE (TR) 10	DUMMY VARIABLE 11
987/88	301	32	333	99	0	99	222	181	404	367	0
1988/89	379	37	416	166	0	166	246	319	565	429	0
1989/90	381	22	404	73	14400000	88	305	186	491	393	0
1990/91	460	27	487	4	0	4	348	142	490	352	0
1991/92	819	50	868	38	0	38	610	297	906	647	0
1992/93	700	46	745	38	0	38	438	350	788	476	1
1993/94	892	45	937	481	93000000	574	616	1022	1638	1062	1
1994/95	889	129	1018	177	6525100	183	800	401	1201	983	1
1995/96	1378	283	1661	469	20000000	489	1181	790	1970	1850	1
1996/97	1549	339	1887	932	29998000	9611	1424	1436	2860	1102	1
1997/98	1832	387	2219	479	52000000	531	1689	1040	2729	2241	1
1998/99	2591	786	3376	204	102000000	306	2059	1768	3827	2753	1

Source: Benue State Budget estimate (1987 - 1998)