EFFECT OF FISCAL POLICY ON MISERY INDEX IN NIGERIA

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ABSTRACT

This study examined the effect of fiscal policy on misery index in Nigeria from 1981 to 2018. The fiscal policy variables such as government capital expenditure (GCEX), government recurrent expenditure (GREX) and government external debt (GEDT) was used. Dummy variable to capture the effects of policy shift on misery index in Nigeria. Direct policy was coded zero (0) while indirect or market based policy was coded one (1). Misery index was measured by the sum of unemployment, inflation and lending rates less growth rate of real GDP per capita. This study adopted the ordinary least square (OLS) method of regression analysis. The study conducted some other tests such as: R^2, T-test, F-test, DW-tests, Philip Perron (PP) unit root test, Johansen cointergation test and error correction mechanism (ECM). From the results of the analysis, it was shown that government capital expenditure (GCEX), government recurrent expenditure (GREX) and government external debt (GEDT) conformed to the Keynesian theory of government expenditure. That is, increase in government capital expenditure (GCEX) and government recurrent expenditure (GREX) reduced misery index in Nigeria in the current period. It implies that rising external debt in current period worsened misery index in Nigeria. The analysis further revealed that the fiscal policy alone under the current regime of market based policy performed poorly in tackling economic misery in Nigeria due to the fact that it is insignificant. In line with the findings, the study recommends that: the government should sustain the recent expansionary fiscal policy actions and it should give more priority to capital expenditure than the recurrent expenditure component. This because it has the capacity of creating employment opportunities through building and construction works for the teeming Nigerian population. Hence, reducing the rate of unemployment and misery index in Nigeria.

Keywords: Fiscal Policy, Misery Index, Inflation, Unemployment, Economic Growth.