

MODULE 15

FISCAL POLICIES

OUTLINES

- Principles and Practices of Fiscal Federalism.
- The Macro-Economic Framework for National Income Analysis.
- Effects of Different Forms of Taxation
- Assessment/Appraisal of Public Sector Performance.

Principles and Practices of Fiscal Federalism

Many countries including Nigeria can be considered to be Federations in the practical sense that significant fiscal functions (revenue generation and incurring of expenditure) are undertaken by different levels of government or sub national units of government. Such Federal economies have developed elaborate forms of fiscal arrangements between the Federal (Central) and other (State and Local) levels of government which jointly determine the way in which tax bases are allocated and shared among the various levels of government as well as how funds are to be transferred from one level to another. Such arrangements have given rise to the economics of fiscal federalism. Fiscal federalism is a sub-field of public finance that addresses the vertical structure of the public sector. It is the general normative framework for assignment of functions to the different levels of government and appropriate fiscal instruments for carrying out these functions

There are two related concepts of fiscal federalism namely political and administrative federalism.

- (a) **Political federalism** describes the constitutional division of powers between tiers of government each of which is supposed to be coordinate and independent.
- (b) **Administrative federalism** in contrast, is more a matter of administrative fiat and involves the delegation of functions to subnational levels of government. This is in general based on guidelines and controls created by higher levels of government (e.g. Federal or State), so that the administrative delegation lacks the autonomy associated with the decentralization of powers.

- Fiscal decentralization has become fashionable regardless of levels of development and civilization of societies. Nations are turning to devolution to improve the performance of their public sectors. Fiscal federalism is essentially about the allocation of government resources and spending to the various tiers of government. In general the intensification of clamour for greater decentralization is informed by a combination of people desiring to get more involved in government, and the inability of the central government to deliver quality services.

Decentralized systems of government give rise to a set of fiscal exigencies referred to as fiscal federalism also known as fiscal decentralization. It refers to the scope and structure of the tiers of governmental responsibilities and functions, and the allocation of resources among the tiers of government to cope with respective functions.

- In Nigeria the dismal performance of the public sector since the first half of the 1980s has brought to the front burner the issue of fiscal federalism which has remained dominant and most contentious in Nigeria's polity. In the last three decades Nigerians have contended with not only vanishing real incomes but also unbearable levels of unemployment and inflation, decay in social amenities and failure to maintain, not to talk of improving, the nation's infrastructures. This dismal performance of the public sector has prevented the creation of opportunities for a resilient and sustainable growth and development of the Nigerian economy, which should be the object of rational and functional fiscal federalism.
- Long years of military rule and the centralized nature of the military hierarchical structure created the financial hegemony enjoyed by the federal government over the thirty states (36) states and seven hundred and seventy four (774) local governments. This has created disaffection in the Nigerian federation. Thus the worry over the development of a national and functional fiscal federalism for Nigeria is well founded.

- Fiscal federalism is a byproduct of federalism. Federalism is a political concept in which power to govern is shared between national, and subnational governments creating what is often called a federation (Arowolo 2011, Akindele and Olaopa, 2002).
- From the foregoing, the role assignment which flows from the basic theory of fiscal federalism is summarized as follows: The central government is expected to ensure equitable distribution of income, maintain macroeconomic stability and provide public goods that are national in character. Decentralized levels of government on the other hand are expected to concentrate on the provision of local public good with the central government providing targeted grants in cases where there are jurisdictional spill-overs associated with local public goods.

The Rationale for adopting a Federal Structure in a Country

The adoption of a federal structure and/or fiscal federalism is usually underlined by fundamental objective(s). This underlying objective defines the nature of the federal structure/fiscal federalism in federating countries. The survey of older/advanced federations across the globe, for example, revealed the following main objectives:

- (a) resolution of conflicts (Switzerland);
- (b) strengthen an efficient system (USA);
- (c) maintain a relatively weak state (Germany); and
- (d) to take account of current history (Australia).

Challenges of Fiscal Federalism in Nigeria.

The legal basis of fiscal federalism is derived from the past constitutional arrangements and, hence, in any true federalism the fiscal powers of all tiers of government must be related to the functions and responsibilities assigned to them by the Constitution.

Constitutionally, Nigeria is a federation, but in practice, and with the assumption of power by successive military administrations, the constitution has always been suspended and the country ruled more or less like a unitary state. The imposition of a centralized unitary system on a federal structure under the military administration partly explains our experience of poor fiscal management and low economic performance which, over the years, had adversely inhibited the true practice of fiscal federalism.

- Fiscal federalism, from the very beginning, raised several fundamental issues. The assignment of responsibilities among federating units in Nigeria has also created problems. First, there was the question of how each level of government would be given adequate fiscal powers to enable it maximize its revenue and discharge its constitutional duties and still preserve its fiscal autonomy. While a reduction of fiscal independence through central administration of a particular tax may conflict with the principle of fiscal independence of states and local government the hard choice might be between more fiscal powers and less revenue, or less fiscal powers and more revenue. The introduction of value added tax (VAT) which replaces states' sales tax and administered by the federal government is an example of one of such conflicts.

The present allocation of functions is based on the 1999 Constitution, which divided government functions into three categories of legislative powers. “The exclusive list, on which only the federal government can act; the concurrent list, which contains responsibilities shared by both federal and state governments; and the residual list, which is reserved for state governments. The federal government has responsibility for functions whose benefits extend nationwide, such as, defence, foreign trade, immigration, currency among others” It also has responsibility for important business undertakings through parastatals, for example, railways, electricity among others, while functions whose benefits have the possibility of spilling over state boundaries were placed on the concurrent list. Local governments, on the other hand, have responsibility for functions whose benefits accrue to a limited geographical area such as markets, primary education, and cemeteries among others.

The Macro-Economic Framework for National Income Analysis

- The achievement of macroeconomic goals namely full employment, stability of price level, high and sustainable economic growth, and external balance, from time immemorial, has been a policy priority of every economy whether developed or developing given the susceptibility of macroeconomic variables to fluctuations in the economy.. The realization of these goals undoubtedly is not automatic but requires policy guidance. This policy guidance represents the objective of economic policy. Fiscal and monetary policy instruments are the main instruments of achieving the macroeconomic targets. The basic fiscal policy instruments are public expenditure and tax while the monetary police instruments include the devices of reserve requirements, discount rates and open market policy.
- National income data are of great importance for the economy of a country. These days the national income data are regarded as accounts of the economy, which are known as social accounts. These refer to net national income and net national expenditure, which ultimately equal each other.

- National income data form the basis of national policies such as employment policy, because these figures enable us to know the direction in which the industrial output, investment and savings, etc. change, and proper measures can be adopted to bring the economy to the right path.
- National income statistics enable us to know about the distribution of income in the country. From the data pertaining to wages, rent, interest and profits, we learn of the disparities in the incomes of different sections of the society. Similarly, the regional distribution of income is revealed.
- In the present age of planning, the national data are of great importance. For economic planning, it is essential that the data pertaining to a country's gross income, output, saving and consumption from different sources should be available. Without these, planning is not possible.

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Effects of Different Forms of Taxation

- Some states and local governments in the country charge arbitrary taxes which are not in consonance with the tax laws. Tax officials or revenue consultants in some cases, come up with very high figures as taxes and then expect the taxpayers to negotiate. Sometimes new taxes and levies are introduced the different tiers of government outside the approve taxes and levies;
- Display of lawlessness in the process of tax collection. Contrary to the procedures lay down in the relevance tax laws for tax collection, some states and local governments utilizes the services of security and thugs to force taxpayers to pay taxes and levies. Sometimes business premises are shut down without prior notice or court order.
- Businesses which involve movement of goods in lorries, trucks or pick-up vans from one state to another are often subjected to all manners of taxes and levies along the route. Failure to pay is usually met with violence such as harassment of transporters and impounding of motor vehicles.

- It creates room for unauthorized person to get involved in the collection of taxes and levies (probably for themselves and not the government).
- The issue of multiple taxation has attract negative criticisms and created an unfavorable image of the business environment. It acts as a disincentive in the Nigerian economy.
- It adds to the cost of doing business in Nigeria. It makes planning difficult since many
- firms cannot determine the number of levies and taxes chargeable within a state.

Assessment/Appraisal of Public Sector Performance

- Performance appraisal has been defined as the process of evaluating the performance and qualifications of the employees in terms of the requirements of the job for which they are performance and qualifications of the employees in terms of the requirements of the job for which they are employed, for the purpose of administration including placement. Selection and other action, which require preferential treatment among members of a group as distinguished from actions in respect of their current performance as well as their potential for future development.
- Appraisal performance is one of the most important and yet one of the most difficult tasks that manager's face. It is very difficult to evaluate a person's performance and even more difficult to convey that judgment to him or her. This process is very essential, however, because performance appraisals help both employers and employees in the following ways:

- They give employees the opportunity to indicate the direction and level of their ambition;
- They give managers the opportunity to indicate interest in employees' development. This can be a motivational tool to help the organization retain ambitious, capable employees instead of losing them to competitors;
- They identify areas of where specific training is needed, or available;
- They provide encouragement to the employee who has been trying to perform well;
- They provide means for communicating and documenting dissatisfaction with unacceptable employee performance;
- They keep records of efforts to improve it;
- They provide evaluation for pay decision – this is by far the most common use

Purposes of Objective Assessment of Subordinate Officers

Within the context of the Nigerian Public service, personnel performance appraisal is done essentially for deciding promotion. But modern management practice sees the purpose of assessment in a broader perspective. There are two major overlapping reasons for objective assessment of subordinate officers, which according to Philips (1985) are:

- To improved the management of staff resources by helping employees realize and fully utilize their potentials while trying to achieve organizational goals. Included in this broad category is its efficacy in helping mangers and supervisor to:
 1. Stimulate improved work performance and commitment to organizational goals;
 2. Assign work more effectively;

3. Improve job placement, i.e. Make better job matches;
 4. Keep employees advised of what is expected of them and how well they care meeting the expectation;
 5. Recognize and more effectively deal with personnel problems, including training needs, development assignments. Etc;
 6. Assist employees in preparing career plans and goals;
 7. Foster an effective working partnership between supervisors and employees; and
 8. Recognize employee's potentials for development as executives and managers.
- To provide employees, supervisors, and managers with the information necessary for decision-making in the following areas:
 - Merit Promotion
 - Career Development
 - Recognition and Awards
 - Probationary Period Completion
 - Lateral Reassignments
 - Warning or counseling

Review Questions

- Discuss the effects of different forms of taxation
- Discuss with relevant examples the principles and practices of Fiscal Federalism in Nigeria.
- State the importance of assesses and appraisal the public sector performance.

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