FISCAL NEUTRALITY HYPOTHESIS: AN ANALYSIS OF THE NIGERIAN LOCAL GOVERNMENT REVENUE AND EXPENDITURE

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Abstract: *There is yet to be a consensus on government expenditure and revenue nexus. The debate revolves round four major arguments, namely, revenue-spend hypothesis, spend-revenue hypothesis, fiscal synchronization hypothesis and fiscal neutrality hypothesis. The fiscal neutrality hypothesis postulates lacks of causal relationship between revenue and expenditure of the public sector. This study specifically examines the validity of the fiscal neutrality hypothesis in the Nigerian Local Government. The extent to which this hypothesis is true or false in the Nigerian Local Government (LG) deserves empirical investigation considering the role of the tier of government at ensuring grassroots development. Hence, this study sets out to test the fiscal neutrality hypothesis in the LG of Nigeria, using a quarterly data from 1993Q1 to 2019Q4. The data were sourced from Central Bank of Nigeria's statistical bulletin and analyzed using pairwise Granger causality technique after testing for unit root and cointegration. This therefore study upholds the fiscal neutrality hypothesis in the Nigerian LG, having confirmed no causal relationship between expenditure and revenue in the Nigerian LG. It is high time that fiscal synchronization of Local Government revenue and expenditure be vigorously pursued by the government through various reforms.*
Keywords: *Fiscal neutrality hypothesis, local government, government revenue, government expenditure, institutional separation hypothesis.*

Introduction

There are four basic strands of arguments on government expenditure-revenue nexus, namely, fiscal neutrality hypothesis (otherwise called independence or institutional separation hypothesis), revenue dominance hypothesis (or tax-spend school), expenditure dominance hypothesis (or spend-tax school), and fiscal synchronization hypothesis. The fiscal neutrality hypothesis is a hypothesis of institutional separation or independence which postulates a neutral, and independent relationship between revenue and expenditure of the public sector. The validity of this hypothesis in the Nigerian Local Government (LG) deserves empirical investigation considering the role of the tier of government at ensuring grassroots development. Murana (2016) reiterates that the 1976 Local Government reform in Nigeria has resulted in the autonomy of this third tier of government and as a result of standing as a separate legal entity, their performance of the constitutional roles as entrenched in the 1979, 1989 and 1999 of the Nigerian constitution, have relatively improved. Basically, the Nigerian Local Government revenue is currently composed of revenues from sources like federation account, state allocation, Value Added Tax (VAT), internally generated revenue (IGR), excess crude, budget augmentation and Subsidy Reinvestment and Empowerment Program (SURE-P), exchange gain and non-oil excess revenue, and grants and others. Nigerian Local Government expenditures like other tiers

of government (state and federal), could be divided into capital and recurrent expenditures. Statistics indicates that within 27 years of this study (1993-2019), The 774 Local Government Areas (LGAs) in Nigeria generated an average revenue of ₦784.1259billion while their average expenditure was ₦786.5919billion; thus the expenditure exceeds the revenue by ₦2.466billion (0.31%). The revenue of the LG in Nigeria in the study period ranges between a minimum of ₦19.22000 and a maximum of ₦1810.050. However, ₦18.97000 and ₦1806.910 are minimum and maximum value of LG total expenditure over the period (Central Bank of Nigeria, [CBN], 2019). The revelation from these statistics is that there is fiscal deficit in the Nigerian local government and prudent management of this fiscal situation is key to the attainment of macroeconomic objectives of government in the area of economic growth, stability and welfare of the country.

Understanding the direction of causal relationship between revenue and expenditure of government helps the government in fiscal management in the area of budget deficit control and management (Richter & Dimitrios, 2013). Thus, in a situation where tax-spend fiscal reality in a country, budget deficits can be controlled using government revenue stimulating policies but in a situation of no causality between revenue and expenditure of government, revenue and expenditure decisions of government are made independently and separately (Narayan & Narayan, 2006). The situation of fiscal neutrality, according to the authors, could bring about excessive budget deficits with the government expenditure increasing faster than government revenue. Moreover, the authors explain that when the spend-tax hypothesis plays out, government spends first and pays for the expenditure by increasing taxes; and therefore there is resultant capital outflow because of the fear of paying higher taxes in the future by the tax payers.

Furthermore, understanding the relationship between government revenue and expenditure is key in providing policy solutions to fiscal problems occasioned by budget deficit, rising public debt and the attendant issues (Kiminyei, 2018). One of the yet unresolved issues in public finance and accounting is the empirical relation between government revenue and expenditure. Despite the avalanche of research on the subject matter, this notwithstanding, divergent results are being reported in various studies, ranging from unidirectional causality flow from government revenue to public expenditure, thus upholding the revenue-spend hypothesis (Mehrara and Rezaei (2014) in Iran; Obioma and Ozughalu (2010), Ogujiuba and Abraham (2012), Yinusa and Adedokun (2017), and Yinusa et al (2017) in Nigeria). However, other crops of studies, such as Richter and Dimitrios (2013) in Greece; Nwosu and Okafor (2014) in Nigeria; Lojanica (2015) in the Republic of Serbia; Kiminyei (2018) in Kenya, provide evidence of a unidirectional causality flow from public expenditure to government revenue, thus lending credence to the spend-revenue hypothesis. Moreover, studies like Mehrara et al (2011) in 40 Asian countries, and Babarinde et al. (2021) in Nigeria, documented an empirical evidence of a bidirectional causality between the government revenue and expenditure, which provides support for the fiscal synchronization. In addition to the divergent findings in past studies, large number of past studies that had investigated the relationship between government revenue and government expenditure concentrated on the central/federal government without considering the Local Government-the third tier of government targeted at grassroots development. Hence, there is an empirical lacuna on the nexus between revenue and expenditure at the Local Government level most especially in a developing country

such as Nigeria. Therefore, the divergent results and scarcity of studies on LG revenue-expenditure nexus constitute the primary motivations for this study.

The main aim of this study was to determine the causality between Local Government revenue and expenditure in Nigeria. The specific objectives are to: examine if there is long-run connection between revenue and expenditure at the Local Government level in Nigeria; and investigate the direction of causality between Local Government revenue and expenditure in Nigeria.

Literature Review

2.1 Conceptual Literature
2.1.1 Government Revenue

Government revenue refers to the revenue received by a government to employed in the financing of its activities and projects and programmes (Muriithi, 2013). Government revenue otherwise called public revenue refers to various income sourced by government from sources like taxes, fines, investment income, business, donations, grants, aids, etc., which are used in financing its operations, activities and expenditures. Prominent among these sources is taxes.

The basic classification of government revenue and expenditure is depicted diagrammatically in Fig.1.

Fig.1: Classification of Government Revenue and Expenditure
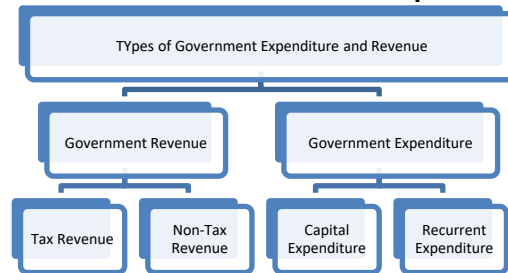
Source: Author's design, 2021

The classification of government revenue and expenditure as shown in Fig.1 indicates the two basic forms of public revenue, namely, tax revenue and non-tax revenue. Tax refers to compulsory levy imposed by the government on its subjects, their income, profits, consumption and assets. Thus, government revenue obtained solely from taxes collection are called tax revenue. Ogwuche et al (2019) also conceptualize tax as a compulsory fee, individual as well as corporate bodies are obliged to comply with as stipulated by the tax laws. Muriithi (2013) explains non-tax revenue as the government revenue other than taxes, such as fees, grants and gifts, fines and penalties, etc.

2.1.2 Government Expenditure

Government expenditure (or public expenditure) are various expenses and costs incurred by government in acquiring items of capital expenditure, and settling day-day expenses for the efficient operation and administration of government activities and provision of public goods. Government expenditure could be classified in to capital expenditure and revenue expenditure (see Fig.1). It is capital expenditure when is expended in acquiring long-lasting assets and investment of long term duration, value and durability,

like construction of bridges, houses, roads etc. A government expenditure is said to be revenue expenditure when it is incurred on day-to-day expenses for the proper administration of governmental units, department, units, organisations, such as payment cost incurred in payment of salaries and wages, purchase of consumables, etc.

2.1.3 Nature and Functions of Local Government in Nigeria

In Nigeria, the local government is the third tier of government. It is local unit of government within the state in which constitutional authority decide on issues of community importance and consequently engage in the mobilization of community resources for implementation of the local decisions (Diejomaoh & Eboh, 2010). Okeke and Agu (2016) opine that Local Government as an institutional arrangement, and distinct institution, receives input from some other institutions and its output is expected to also grow these other intuitions. The authors also regard Local Government as a process of ensuring that government and its activities are brought in close proximity to every citizen in any location, no matter how remote.

Local Government in Nigeria is the closest to the people and is charged with the responsibility of policies formulation and implementation geared towards community development (Ibietan & Ndukwe, 2014). Local Governments are strategic institutions for the development of the grassroots (Diejomaoh & Eboh, 2010). Nigeria is a federation of 36 states, federal capital territory (FCT) and 774 Local Governments and has three tiers, namely, federal, state and Local Government. As the as the third tier of government in Nigeria, each Local Government area is administered by a Local Government Council, headed by a chairman and assisted by other elected members (called Councilors) (1999 constitution of the Federal Republic of Nigeria [CFRN], 2011).

CFRN (2011) provides for the main functions of a LG council to include the provision of policy recommendations on economic development of the state. L G is also saddled with the responsibility of certain levies, fees, taxes and rates such as rate on radio and television licences; licensing of bicycles, trucks, canoes, wheel barrows and carts; establishment and maintenance of cemeteries, burial grounds, slaughter houses and slabs, markets, motor parks and public conveniences. Furthermore, LG is also involved in the construction and maintenance of roads and streets including naming of roads and streets and numbering of houses. Other functions of LG in Nigeria include registration of all births, death and marriages; control and regulation of out-door advertising and hoarding; movement and keeping of pets of all description; shops and kiosks; restaurants, bakeries, laundries; as well as licensing, regulation and control of the sale of liquor.

2.2 Theoretical and Empirical Literature

Theoretically, the government spending-revenue behavior theory (fiscal theory) is a strand of propositions explaining the various relationship between government revenue and expenditure. These four major arguments are the revenue-spend hypothesis, the spend-revenue hypothesis, fiscal neutrality and fiscal synchronization hypothesis. The revenue-spend hypothesis also called revenue dominance hypothesis or tax-and-spend school led by Friedman (1978) and Buchanan and Wagner (1978) states that raising taxes Granger-cause (lead) expenditure, thus more spending will increase fiscal deficit in the country. The theory contends that taxes have a positive impact on government expenditure. In other words, the theory states that changes in public revenue causes changes in public

expenditure, hence the existence of a unidirectional causality running from government revenue to government expenditure (Obioma & Ozughalu, 2010).

The spend- revenue hypothesis led by Peacock and Wiseman (1961, 1979) contends that government expenditure Granger-cause government revenue, such that government spending have a positive causal impact on government revenue. In other words, there is a unidirectional causality flow from government expenditure to revenue. Fiscal synchronization hypothesis as proposed by Musgrave (1966) and Meltzer and Richard (1981) posits a bidirectional causal link between government revenue and expenditure. This suggests a mutual connection between the revenue machinery and the expenditure framework in the country, in that taxes and spending decisions are made concurrently.

This study derives its theoretical strength from the fiscal neutrality hypothesis otherwise called fiscal independence theory or institutional separation theory. Proposed by Baghestani and McNown (1994), fiscal neutrality hypothesis is a hypothesis of institutional separation or independence which postulates a neutral and independent relationship between government revenue and expenditure. Hence, revenue decisions are made independent of expenditure decisions and vice versa. It is long run economic growth the determines the revenue and expenditure of government rather than each other. The hypothesis states that there exists no causal relationship between government revenue and expenditure. The fiscal neutrality hypothesis operates on the principle of separation of powers among the arms of government, in terms of executive, legislature and judiciary. According to Lojanica (2015), since the executive and legislative authorities are independent, hence the appropriate policy implications are related to the fact that the budget deficit is a result of higher increase in government expenditure than in government revenues, since these two variables are mutually independent. In this theory, there is no long-run relationship between government expenditure and revenues, hence, this fiscal policy option is considered not to be sustainable over a long period (Richter & Dimitrios, 2013). Therefore, fiscal neutral hypothesis implies that neither of the revenues and expenditure are related with changes in budget position.

Empirically, the subject matter of nexus between government revenue and expenditure has been examined by various scholars among which is Mehrara et al (2011) who examined the relationship between government revenue and government expenditure in 40 Asian countries. The study indicates that there is a bidirectional causal relationship between government expenditure and revenues in both the long and the short run and fiscal synchronization hypothesis is confirmed. Hence, in the selected Asian countries both revenue generation and expenditure decisions are made simultaneously. Similarly, Richter and Dimitrios (2013) analysed the direction of the causality between government spending and revenues in Greece. Granger-causality test's result indicates that the causality runs from expenditure to revenues, thus support of the spend-tax hypothesis in Greece. This implies that the government of Greece makes expenditure decisions first and pay for their spending later by raising taxes. This unlike in Iran (as established by Mehrara and Rezaei (2014)) and Republic of Serbia (Lojanica (2015)) where the authorities raise taxes first before expending, hence the existence of revenue-spend hypothesis in the countries. In another study, Otinche (2014) investigated the dynamics of fiscal policy at the Nigerian Local Government level. The author condemned at the existence of municipal area councils but advocated for more rural based Local Government councils and implementation of fiscal laws for fiscal efficiency and grassroots development.

In a related study, Murana (2016) examines Local Government finance in Nigeria with a focus on Iwo Local Government Area, Osun State, Nigeria. The study shows that financial transfers from federal government are the most viable and reliable source of Local Government revenue and that without federal allocation no capital project can be embarked on in the Local Government. While Murana reiterates the over-reliance of LGA on the federal government for its fiscal survival, Otinche however, emphasizes the strict fiscal discipline as a catalyst for the third tier of government to contribute meaningfully local development. Furthermore, Kiminyei (2018) investigated the nexus between tax revenue and government expenditure in Kenya. The study found that changes in government expenditure causes changes in government revenue, hence Kenya budgetary authorities follow the spend-revenue hypothesis. An evidence of a bidirectional causality between state government revenue and expenditure (fiscal synchronization hypothesis) in Nigeria was found by Babarinde et al (2021) when they tested the validity of the fiscal synchronization hypothesis in Nigeria's states and Federal Capital Territory using pairwise Granger causality technique.

Most of the studies in Nigeria confirm the reality of the tax-spend hypothesis in the federal government fiscal policy prescription (Obioma and Ozughalu (2010); Ogujiuba and Abraham (2012); Yinusa et al (2017); Yinusa and Adedokun (2017)). This implies that Federal Government of Nigeria tries to find means of raising revenue via taxes and other means before decisions are made on spending the revenue. Therefore, changes in the revenue structure in Nigeria spurs changes in the expenditure framework in the country at the federal level. Specifically, Obioma and Ozughalu (2010) examine the relationship between federal government revenue and expenditure in Nigeria. The study established an evidence of a unidirectional causality from government revenue to government expenditure, thus supporting the revenue-spend hypothesis for Nigeria. Similarly, Ogujiuba and Abraham (2012) examine the revenue-spending hypothesis for Nigeria and found that causality runs from revenue to expenditure in the country. In the same vein, Yinusa et al (2017) revisits the revenue-expenditure nexus in Nigeria using the asymmetric cointegration methods. Results of the study show that state and FCT government revenue have a significant impact on state and Local Government expenditure in the short run, thus supporting the tax-spend hypothesis for the state and FCT government in Nigeria. Moreover, Yinusa and Adedokun (2017) investigate the various fiscal hypotheses (tax-spend, spend-tax, fiscal synchronization and fiscal neutrality hypotheses) in Nigeria. The study established one-directional causality that runs from government revenue to expenditure (tax-spend hypothesis) in Nigeria in the study period.

However, Nwosu and Okafor (2014) assessed the relationship between both government expenditure and capital expenditures, and revenue and non-oil revenues in Nigeria. The study shows among others, an evidence of unidirectional causalities running from expenditures to revenue variables, thus supporting spend-tax hypothesis in Nigeria. The study is different from findings of others on the same subject, in that, rather than revenue dictating the nature of expenditure, Nwosu and Okafor argue the other way round, that is, the Federal Government of Nigeria incurs expenditure first, then tries to raise taxes and other revenue to take care of the expenditure.

In summary, past studies on government revenue-expenditure was examined via the lens of the federal/central government. None of the study reviewed actually examined

the nexus between Local Government revenue and expenditure in a developing country like Nigeria.

Methodology

In this study, the investigation of the nexus between Local Government revenue and expenditure in Nigeria is anchored on the *ex-post facto* design where past historical time series were used to establish relationship between the two variables of interest, namely, LG revenue and expenditure. The annual data on the two variables were sourced from the Central Bank of Nigeria (2019)' statistical bulletin and were computed/prorated on quarterly basis to cover a period from the first quarter of 1993 to the last quarter of 2019 (1993Q1-2019Q4). The quarterly computation of the series becomes necessary due to the insufficiency of the available total number of observations (27) to ensure robust and realistic output in data analysis. Hence, a total of 108 quarterly data sets were used in the data analysis as against the total annual time series of 27 annual time series observations. Both variables (LG revenue and expenditure) are expressed in Billion Naira and were analyzed using pairwise Granger causality technique of estimation after testing for unit root and cointegration tests. Granger causality technique tests whether lagged values of one variable predict changes in another, or whether one variable in the system explains the time path of the other variables in the system (M'Amanja & Morrissey, 2005). In Granger causality, it is assumed that past and present information determines the future better; such that variable y causes variable x if past values of y and x predict x better rather than previous values of x alone, and vice versa (Kiminyei, 2018). Types of causality could be unidirectional causality (one-way causality), bi-directional causality (two-way causality or feedback causality), and zero causality. There is causality from revenue to expenditure, if the present and past values of revenue predict the present value of expenditure. Thus, if revenue granger-cause expenditure or expenditure granger-cause revenue, then we have a unidirectional causality in each case. However, if revenue granger-cause expenditure and expenditure granger cause revenue at the same time, then there is a case of bi-directional causality. In a situation where there is no causality between revenue and expenditure, then there is independence or zero causality situation.

The Granger causality equations of the causal relationship between Local Government revenue and expenditure in Nigeria are specified in equations (1) and (2) thus:

$$LGREV_t = \sum_{i=1}^{n} \beta_i \ LGTEXP_{t-1} + \ U_{t1} \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots (1)$$

$$LGTEXP_t = \sum_{i=j}^{n} \beta_j \ LGREV_{j-1} + \ U_{t2} \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots (2)$$

Where;
LGREV denotes Local Government revenue, expressed in billion Naira;
LGTEXP represents Local Government total expenditure, expressed in billion Naira;
U_t is the error term.
In line with the postulate of fiscal neutrality hypothesis which implies a separation between government revenue and expenditure, it is expected that LGREV and LGTEXP will not Granger-cause each other.

Results and discussion

4.1 Descriptive Statistics

According to the descriptive statistics in Table 1, the Local Government expenditure (LGTEXP) and revenue (LGREV) averaged ₦196.6480billion and ₦196.0315billion respectively which exceed their respective standard deviation values of 166.0021 and 165.0619. Hence, both variables could be described as being relatively stable around their mean value. LGTEXP ranges between a minimum of ₦4.742500b and a maximum of ₦451.7275b while ₦4.805000b and ₦452.5125b are the minimum and maximum of LGREV respectively. The p-value of the Jarque-Bera which is less than one percent led to the rejection of normality of LGREV and LGTEXP, thus indicating non-normality of the two series.

Table 1. Study variables' descriptive statistics

	N	Mean	Min.	Maximum	Std. Dev.
LGTEXP	108	196.6480	4.7425	451.7275	166.0021
LGREV	108	196.0315	4.8050	452.5125	165.0619
	N	Skewness	Kurtosis	Jarque-Bera	Prob.
LGTEXP	108	0.1742	1.4187	11.7978	0.0027
LGREV	108	0.181	1.4441	11.4877	0.0032

Source: Author's computation, 2021

4.2 Unit Root Test

Unit root test otherwise called stationarity test is an essential estimation process in time series data analysis. This is because the test aids researcher in determining whether the series are stationary or not and if stationary, the order of integration of the series. Unit root test also informs the choice of the actual estimation technique for the study. Therefore, in this study, the Augmented Dickey-Fuller (ADF) test of stationarity was employed to ascertain the order of integration of the series and the results of the test as presented in Table 2 reveals the variables to be stationary after first difference. Hence, both Local Government revenue and expenditure are integrated of order one, that is, they are I(1) series.

Table 2. Augmented Dickey-Fuller test

Variables	ADF test Statistic	Prob.	t-Statistic	Prob.
LGREV	-0.5803	0.8694	-10.4544	0.0000*
LGTEXP	-0.5739	0.8707	-10.4594	0.0000*

Note: * represents rejection of hypothesis of unit root in the variable at 1% level.
Source: Author's computation, 2021

4.3 Cointegration Test

Since Local Government revenue and expenditure are I(1) series, a test of cointegration becomes necessary and therefore, the Engle-Granger cointegration test was conducted and the result reported in Table 3. According to the result of the cointegration test, the variables are cointegrated. This suggests that both Local Government revenue and expenditure in Nigeria have long-run relationship.

Table 3. Engle-Granger cointegration test

Dependent	tau-statistic	Prob.	Z-statistic	Prob.

LGREV	-3.186789	0.0807***	-31.33064	0.0027*
LGTEXP	-3.173647	0.0830***	-30.87779	0.0030*

Note: *** and * Rejection of the null hypothesis that the Series are not cointegrated at 10% and 1% respectively.
Source: Author's computation, 2021

4.4 Granger Causality Tests

The Granger causality test suggests that the past values of certain variable is a predictor of the current value of another. Hence, as a condition for application of Granger causality test, this study found that both Local Government revenue and expenditure in Nigeria are cointegrated even though both are not stationary at level but until after first difference. This study therefore applies the pairwise Granger causality technique in testing the fiscal neutrality hypothesis by checking whether or not any causal relationship exists between Local Government revenue and expenditure in Nigeria. Table 4 which presents the pairwise Granger causality test's results indicates no causality between the two variables. This suggests that there is a disconnection between Local Government revenue and expenditure in Nigeria. In other words, there is separation between government revenue-generating machinery and those formulating the policy for implementation of expenditure at the LG in Nigeria. By thus result, the study therefore upholds the fiscal neutrality hypothesis at the Nigerian Local Government level. This study argues that LG revenue neither lead LG expenditure nor LG expenditure lead LG revenue in Nigeria.

Table 4. Pairwise Granger causality tests

Null Hypothesis:	F-Statistic	Prob.	Decision	Causality?
LGTEXP does not Granger cause LGREV	1.49848	0.1980	Do not reject	No
LGREV does not Granger cause LGTEXP	0.50428	0.7723	Do not reject	No

Source: Author's computation, 2021

Discussion of Findings

This study attempts to test empirically one of the four main strands of hypothesis on government revenue-expenditure nexus, that is, the fiscal neutrality hypothesis. The hypothesis is a hypothesis of institutional separation or independence which postulates a neutrality and disconnection between government revenue and her expenditure. Having ascertained the LG revenue and expenditure are integrated of order one via unit root test, the study found that there is long-run co-movement between government and revenue at the local government level in Nigeria. However, from the Granger causality analysis, this study confirms no causal relationship between LG revenue and expenditure in Nigeria in the study period. This finding is consonance with the a priori expectation of no causality between revenue and expenditure of the Nigerian Local Government and therefore lends credence to the fiscal neutrality hypothesis in the Nigerian Local Government. While this study focused on the Nigerian LG, dissimilar results of studies which focused on central/federal government found a unidirectional causality flow from government revenue to her expenditure (supporting the revenue-spend hypothesis) (Obioma and Ozughalu (2010), Ogujiuba and Abraham (2012), Yinusa et al (2017), Yinusa and Adedokun (2017) in Nigeria; Mehrara and Rezaei (2014) in Iran and Lojanica (2015) in Republic of Serbia). Other non-similar finding of a unidirectional causality flow from central government

expenditure to revenue (upholding the spend-revenue hypothesis) is reported in the studies of Richter and Dimitrios (2013) in Greece and Nwosu and Okafor (2014) in Nigeria; Kiminyei (2018) in Kenya. Moreover, the fiscal synchronization hypothesis (bidirectional causality between central government revenue and expenditure) was also confirmed by Mehrara et al (2011) in selected Asian countries; Babarinde et al. (2021).

Therefore, this study established an empirical evidence of a disconnection/separation between the expenditure framework and the revenue generation framework of the LG in Nigeria. This implies that changes in Local Government revenue does not induce changes in Local Government expenditure but machineries for both are not mutually inclusive or has no causality. This suggests that there is no interdependence between revenue and expenditure of the Nigerian Local Government. Rather each determining the other, revenue and expenditure framework is determined principally by economic growth goal set and other considerations by the Local Government in Nigeria. The policy implications of this finding are that there is a neutral, independent and zero causal relationship between government revenue and expenditure at the local government level in Nigeria. This study suggests Nigerian local government revenue decisions are made independent of her expenditure decisions and vice versa. It is long-run economic growth that determines the revenue and expenditure of government at the local government in Nigeria rather than revenue and expenditure determine each other.

Conclusion

This study tested the validity or otherwise of the fiscal neutrality hypothesis in the Nigerian Local Government, using quarterly data sets from 1993Q1 to 2019Q4. From the analysis using pairwise Granger causality technique, this study upholds the fiscal neutrality hypothesis in the Nigerian local government, having confirmed no causality between revenue and expenditure in the Nigerian LG. The policy implication of the result is that there is no interdependence between government expenditure and revenues at the Local Government in Nigeria. This seems to suggest that the Local Government in Nigeria does not makes its revenue and expenditure decisions concurrently but separately. It is high time that fiscal synchronization of Local Government revenue and expenditure be vigorously pursued by the government through various reforms and policies that will make Nigerian local government really autonomous particularly in her fiscal operations. LG fiscal autonomy should be realistically implemented such that the disconnection between their revenue and expenditure machinery is bridged. The decider of the use (expenditure) should also be actively and greatly involved in the sourcing for the revenue to fund the expenditure in order to ensure proper accountability. To this end, the Nigerian Local Government should avoid over-reliance on federal allocation, as a source of financing their operations. Furthermore, revenue officers and machineries at the Local Government should also be strengthen by the Local, State and Federal Governments through the proper and prudent implementation of the enabling laws.

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