African Journal of Educational Archives
Vol.5, Issue 1, July –Sept. 2018. ISSN:P2536-748X,E-2536-7498

Application of Monetary and Fiscal Policies Tools for Economic Development in Akwa Ibom State, Nigeria

Prof. E. B. Usoro. Dr. A. D. Usoro & Sifon D. Akpan
Vocational Education
University of Uyo, Uyo

Abstract
The study sought to determine the influence of monetary and fiscal policies as tools to economic development in Akwa Ibom State, Nigeria. Two specific objectives, two research questions and two hypotheses were formulated to guide the study. A descriptive survey research design was used for the study. The population of the study comprised 41 staff of University of Uyo made up of 14 business education lecturers and 27 Accounting officers. The entire population was used in the study because it was of manageable size. A structured questionnaire titled "Monetary and Fiscal Policies Tools for Economic Development Questionnaire" (MFPTERQ) was used to generate data for the study. The data obtained were analyzed using mean and standard deviation to answer research questions. The findings of the study revealed monetary and fiscal policies have very great influence on economic development. Therefore, it was recommended among others that the State government should create conducive macro-economic environment through appropriate economic policies to enhance ease of doing business in the State. Good business environment will facilitate growth of business enterprise in Akwa Ibom as well as increase the production capacity, required for economic development.

Keywords: Money; local economy; economic development; economic policies, Gross Domestic Product (GDP),

Introduction

The task of successive governments in Nigeria has been economic development. The Nigerian nation is no stranger to development reforms and initiatives. Successive government administrations have always come up with their own national development plans. There was the structural adjustment programme of 1986, import substitution policy, National economic empowerment development strategy (NEEDS), 2004 and the 7-point agenda of 2007, the transformation agenda and the change mantra to name a few. They all share basic themes and national objectives of building a united strong and self-reliant nation; a free and democratic society; a just and egalitarian society and a land of opportunities for all citizens (Benjamin, 2008). These plans have done nothing to address the structural and fundamental distortions in the economic, social and political life of the nation. Thus, in spite of decades of planning and budgeting, Nigeria has remained a public sector led economy, a mono-crop economy, a nation without an effective industrial infrastructure and a very weak private sector (Benjamin, 2008). With a mono-crop economy, a public sector that has witnessed the "right sizing policy", where staff were laid off , a flinch formal economy on life support and a situation where job growth in the formal wage sector has stagnated, making it difficult to absorb rising numbers of new entrants to the labour market, economists as well as advocate are calling for a review of government economic policies.

Economic policy operationally refers to the economic actions taken by any government to control the economic activities and ensure ease of doing business in any country. It covers action on taxation, government budgets at all levels, money supply and the rates of interest as well as the labour market, international trade, and many other areas of government intervention in the economy. What has become clear in the Nigerian context is that, given the scale of economic and social challenges, national budgets is not enough to address structural imbalances in the economic life of the nation. The focus should shift to fiscal and monetary policies.

Fiscal and monetary policies are two powerful tools at the disposal of government for steering the economy in the right direction towards development and growth. Fiscal and monetary policy when used correctly, they can have similar results in both stimulating the economy.

Monetary policy is primarily concerned with the management of interest rates and the total supply of money in circulation and is exclusively the responsibility of the central bank of Nigeria even though pressure from politicians might influence their actions. Central banks have typically used monetary policy to either stimulate an economy or to check its growth. The theory is that, by providing incentives to individuals and businesses to borrow and spend, monetary policy can spur economic activity (Michael, 2018).

Samuelson and Nordhaus, in their text *Economics* (1998), define fiscal policy as follows: A government's program with respect to (1) the purchase of goods and services and spending on transfer payments, and (2) the amount and type of taxes. Fiscal policy according to Leslie (2017) is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. Fiscal policy is when government uses its spending and taxing powers to have an impact on the economy.

In practice, the thrust of government fiscal policies is to target the total level of spending in the economy, it could be aimed at the total composition of spending and in some cases, both in an economy. This is achieved by either government spending policies, government tax policies or both. Econ (2012) remarked that all levels of government—federal, state, and local—have budgets that show how much revenue the government expects to receive in taxes and other income and how the government plans to spend it. Budgets, however, can shift dramatically within a few years, as policy decisions and unexpected events shake up earlier tax and spending plans. The discussion on fiscal policy focuses on how government taxing and spending affects aggregate demand. All government spending and taxes affect the economy, but fiscal policy focuses strictly on the policies of the federal government.

Money can be injected into the economy by the government if it believes that business is slow. Government can increase the amount of money it spends, often referred to as "stimulus" spending. Furthermore, by manipulating taxes, either by lowering or increasing tariffs , governments can stimulate or manage economic growth. However, when a government spends money or changes tax policy, it must choose where to spend or what to tax. In doing so, government fiscal policy can target specific communities, industries, investments, or commodities to either favour or discourage production – and sometimes, its actions based on considerations that are not entirely economic. For this reason, the numerous fiscal policy tools are often hotly debated among economists and political observers. Nonetheless, fiscal policies is a good tool for stimulating economic growth.

While monetary policy is made by policymakers at the central bank, fiscal policies are made by the President of the Nation and the State Governors. For a State like Akwa Ibom, the Governor may look at applying fiscal policies to drive economic growth and stimulate business activities in the private sector. This could be done by promoting the State as an industrial haven, by creating industrial zones and providing infrastructures that may entice investors. The provision of infrastructures such as roads, buildings, electricity, lands and the likes, will require pumping money into the economy through award of contracts. Another way fiscal policies may be applied in the State is through tax breaks for investors and subsidies for locally produces commodities as incentives to local commodity producers to continue to produce and increase output. These all have the capacity to spur growth when applied with the right pressure and all other factors being held constant, such as inflation rates and other monetary policies.

Statement of the Problem

Akwa Ibom State has recently been promoted as an industrial haven and industrialization is the mantra of the government today. Comparatively to Rivers and Abia States that are more industrialized, Akwa Ibom State will need huge investments in infrastructure to attract investors. More than infrastructure, it will need government commitments through fiscal policies to drive growth. the success of the industrialization mantra will hinge on the successful implementation of fiscal policies to drive economic growth. failure to implement good and timely fiscal policies will lead to missed opportunity for economic growth and development.

Purpose of the Study

The main purpose of this study is to determine the influence of Monetary and Fiscal Policies on economic development in of Akwa Ibom State. Specifically the study sought to;

1. Determine the influence of monetary policy on economic development in Akwa Ibom State.
2. Determine the influence of fiscal policy on economic development in Akwa Ibom State.

Methodology

The study adopted descriptive survey design. This design was considered appropriate because information on monetary and fiscal policy a tool to economic recession development in Akwa Ibom State was sought from the respondents using questionnaire. The population for the study comprised of lecturers in Department of Economics, Accounting and Business Education from the University of Uyo, Uyo, Akwa Ibom State. 48 lecturers were purposively sampled for the study. The researcher developed instrument titled "Monetary and Fiscal Policies Tools for Economic Development Questionnaire" (MFPTEDQ) was used for data collection. The instrument was validated by *experts* in the Department of Economics, Accounting and Business Education from the University of Port Harcourt. 20 copies of the instrument was pretested to lecturers in the Department of Economics and Accounting from the Akwa Ibom State University. Cronbach alpha was used to compute the reliability coefficient which gave a value of 0.78. Mean and standard deviation were used in answering the research questions.

Data Analysis, Results and Discussion of Findings

Research Question 1: *How does monetary policy influence economic development in Akwa Ibom State?*

Table 1: Mean Analysis of How Monetary Policy Influence Economic Development

S/NO	Monetary Policy	Mean	SD	Decision
1	Price control on goods and services has influence on economic recession development.	3.37	0.54	MI
2	Reduction of interest rate on goods and services has influence on economic recession development.	3.12	0.81	MI
3	Bank cash reserve has influence on economic recession development.	3.15	0.73	MI
4	Devaluation of currency has influence on economic recession development.	3.32	0.72	MI
5	Increase in money circulation has influence on economic r ecession development.	3.15	0.57	MI

Note: MI= Much Influence, Cut-off Point = 2.50 Source: (Fieldwork, 2017)

The results presented in Table 1 reveal that all the items had their mean score above the cut-off point of 2.50. This showed that all the five items on monetary policy have much influence on economic development. The Table also showed that the Standard Deviation of the items fall within the range of 0.54 - 0.81. This indicates that the respondents were not divergent from one another in their responses.

Research Question 2: *How does fiscal policy influence economic development in Akwa Ibom State?*

Table 2:Mean Analysis of How Fiscal Policy Influence Economic Development

S/NO	Fiscal Policy	Mean	SD	Decision
1	Government spending higher has influence on economic recession development.	3.54	0.51	MI
2	Increase in budgetary programs has influence on economic recession development.	2.54	0.67	MI
3	Lowering personal income tax has influence on economic recession development.	3.98	0.16	MI
4	Shift in aggregate demand has influence on economic recession development.	2.20	0.75	LI
5	Regulating tax incentives for investment has influence on economic recession development.	3.39	0.49	MI

Note: MI= Much Influence, LI= Little Influence, Cut-off Point = 2.50 Source: (Fieldwork, 2017)

The results presented in Table 4.1.2 reveal that all the items had their mean score above the cut-off point of 2.50, except one item with a mean score below the cut-off point. This shows that four items (items 1,2,3 and 5) on fiscal policy have much influence on economic Development, while one item (item 4) has little influence. The Table also shows that the Standard Deviation of the items fall within the range of 0.16 - 0.75 this indicated that the respondents were a little divergent from one another in their responses.

Discussion of Findings

Influence of Monetary Policy on Economic Development

The result of findings reveal that all the items had their mean score above the cut-off point of 2.50. This showed that all the five items on monetary policy have much influence on economic Development. The reason for this result is because the goal of monetary policy is usually to contribute to economic growth and stability, to lower unemployment, and to maintain predictable exchange rates with other currencies. Proper monetary policy helps to checkmate economic recession by controlling prices of goods and exchange rate. Some of the monetary policy tools for economic recession development include; price control, interest rate, bank cash reserve and increase in money circulation. The finding is supported by Saliba (2012) who, avers that monetary policy is a stabilizing measure adopted by the monetary authorities, generally central banks, mainly to overcome economic imbalances in an economy.

Influence of Fiscal Policy on Economic Recession Development

The results reveal that all the items had their mean score above the cut-off point of 2.50, except one item with a mean score below the cut-off point. This shows that four items (items 1,2,3 and 5) on fiscal policy have much influence on economic Developmentwhile one item (item 4) has little influence. The reason for the result is that fiscal policy ensures condusive economic conditions that promote economic growth, especially to drive the economy out of recession. This result is buttressed by Economic Online (2017) who posits that fiscal policy is the deliberate alteration of government spending or taxation to help achieve desirable macro-economic objectives by changing the level and composition of aggregate demand (AD). Similarly, O'Sullivan and Sheffrin *(2003*) support by saying that fiscal policy is often used to stabilize the economy over the course of the business cycle. Governments use fiscal policy to influence the level of aggregate demand in the economy, in an effort to achieve economic objectives of price stability, full employment, and economic growth, thereby leading the economy out of recession.

This is in line with Pettinger (2011) who postulates thatfiscal policy is carried out by the government and involves changing level of government spending and levels of taxation. To increase demand and economic growth, the government will cut tax and increase spending (leading to a higher budget deficit), while to reduce demand and reduce inflation, the government can increase tax rates and cut spending (leading to a smaller budget deficit). In affirmation, Alesina (2012) avers that fiscal policies have regained a central role in the debate as a tool to recover from the economic recession, and discusses why spending-based adjustments are preferable and less likely to be costly than tax-based ones. The fiscal policy tools identified by the researcher for economic recession development are increase in government spending, increase in budgetary programs, lowering personal income tax, shift in aggregate demand and regulating tax incentives for investment.

Conclusions

This paper concludes that even though monetary policies influence local economic conditions, State governments do not control monetary policies but certainly do have a handle on fiscal policies to compliment the federal government policies. State governments can use fiscal policies to help their local economies.

Recommendations

It is recommended that:

1. State governments in Nigeria should create conducive macro-economic environment through appropriate economic policies to enhance ease of doing business in their States. Good business environment will facilitate growth of business enterprise in Nigeria and increase the production capacity, required for economic development.
2. State governments may invest in infrastructural development to spur growth and inject money into the economy.
3. State governments should consider targeted intervention in certain areas of the economy or certain commodities produced locally to boost production and enrich the value chain.

References

Alesina, A. (2012). Fiscal policy after the great recession. *Atl. Econ. J.,* 40, 429–435.

Benjamin, C., S. (2008). *Redesigning Nigeria's future - prologue*. Association of national accountants of Nigeria (ANAN). Enugu. El `Demak publishers.

Econ (2012).What is the difference between fiscal and monetary policy? Retrieved from **https://www.frbsf.org/education/publications/doctor-econ/2002/march/fiscal-monetary-policy/** on 2/6/18

Economic Online (2017) Fiscal policy. *Retrieved on March 28, 2017 from http://www.economicsonline.co.uk/Managing_the_economy/Fiscal_policy.html*

Leslie, K.(January 11, 2018). What is Fiscal Policy? Retirved from https://www.investopedia.com/insights/what-is-fiscal-policy/ on 2/6/18

Michael, S. (May, 2018). A look at fiscal and monetary policy. Retrieved from https://www.investopedia.com/articles/economics/12/fiscal-or-monetary-policy.asp on 2/6/18.

O'Sullivan, A.& *Sheffrin, S. M. (2003). Economics: Principles in Action. Upper Saddle River, New Jersey: Pearson Prentice Hall.*

Pettinger, T. (2011). Difference between monetary and fiscal policy.Retrieved from from//www.economicshelp.org/blog/1850/economics/difference-between- monetary-and-fiscal-policy/ on 3/4/17

Saliba, C. (2012). The Role of Monetary Policy in the Economic Development Following the 2008-2009 Global Financial Crisis with Special Reference to Small States." PhD Thesis,

Samuelson, P. A., Nordhaus, W. D.(1998). *Economics*. Boston, Mass: Irwin/McGraw-Hill.