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Abstract

This study diagnosed the realities of deficit financing, which the on-going democratic government of Federal Republic of Nigeria has seemingly inherited from the erstwhile transitional military administration of the 1990s. Cardinal data volunteered by Central Bank of Nigeria (CBN), Federal Office of Statistics (FOS), Nigeria Economic Study Group (NESG), and Centre for Corporate Policy & Strategy Research (CCPSR) were analyzed using correlation statistical apparatus. The results underscored more dissociation than association between deficit financing and specified macroeconomic enhancement variables. In the final analysis, deficit financing prevails in Nigeria as a bitter recipe whose administration could be more to the detriment and less for the betterment of expectant (needy) stakeholders. The grounds for possible plausible expectancy should necessarily and sufficiently be fertilized with utmost transparency and prudence in the allocation and application of national endowment. The strategic imperatives are herein well captured and exemplified by the conceptualized Deficit Financing Bi-Finality (DFBF) complex.

Key Words: Deficit financing; Military administration; Nigeria

JEL Classification: E31, E62, H62, N17

Introduction

Generally, a nation's budget is a planning document containing government's projected income matched with projected expenditure. As such, it is susceptible to variations that could affect the variables upon which estimates were derived. This gives rise to two discernable scenarios where a budget is largely under-estimated or over-estimated, leading to unintended deficit or surplus, (i.e. structural deficit or surplus respectively) and where there is an intentional policy directive to incur deficit or allow surplus (i.e. discretionary deficit or surplus respectively). It is in this light that this study sets out to evaluate the social consequences of government deficit financing in Nigeria, particularly in the years preceding the return to civil rule. Thus, the study purposed to distinguish between a daring need for deficit financing as a social contingency on one hand, and as legitimized traditional fiscal tool on the other hand. Without analytically over-stressing the iconic instruments of deficit financing (which are debt and tax), it is imperative to justify its essence and efficacy as a tool for implementing social policy.

The idea of deficit financing in particular has its root in fiscal policy. Therefore understanding deficit financing should normally begin with the understanding of fiscal policy, which is a major instrument of macroeconomic stability. Attempts by economists to explain fiscal policy efficacy on macroeconomic management began with the classical and Keynesian schools of thought, as the former underscores the invincible hand that regulates the market, and that government needs not to tamper with the economy. The latter, on the other hand, recognizes the need for government intervention to correct the potential...