Indirect Tax and Economic Growth in Nigeria: Endogenous Growth Theory and Neo-Classical Growth Theory

By

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Abstract

Using a modeling approach that incorporate the growth theory and neo-classical theory, and its implied vector error correction model, the aim of this study is to empirically investigate the long run relationship between indirect tax and economic growth for Nigeria, a country which has experienced very large fluctuations in the government fiscal deficits. Time series data on different types of indirect tax and real gross domestic product from 1994-2020 were collected from the Central Bank of Nigeria Statistical bulletin, National Bureau of Statistics, Federal Inland revenue Service and Annual Central Bank of Nigeria reports. Descriptive statistics, ordinary least square regression analysis, unit root test, co-integration test and error correction model with the aid of e-view version 11 were used in analyzing the data. The results indicate that value added tax positive and significantly relate to gross domestic product. In the same vein, customs and excise duties positively relate to gross domestic product. The study therefore concludes that the exist a strong relationship between indirect tax and economic growth in Nigeria and recommends that the mono-product economy of Nigeria should be diversified along the line of taxation since there exist a positive relationship between taxation and economic growth in Nigeria. In addition, the drift from direct to indirect form of taxation as entrenched in the New National policy should be deemphasized as there exists a negative and insignificant relationship between indirect tax and economic growth in Nigeria.

Keywords

Indirect Tax, Value-Added Tax, Customs & Excise Duties, Real Gross Domestic Product, Economic Growth.

Introduction

Over the past two decades economic growth has been one of the main focuses of macro-economic research (Raynor, 2018; Agbo &Nwadialor, 2020; Nwaiwu& Okoro, 2018). Government responsibilities continue to increase over time especially in developing countries; as a result of growing population of citizens, and technological development (Nguyen, 2019; Đurović-Todorović, Milenkovic & Kalas, 2019; Owolabi & Okwu, 2021). Furthermore, the new constitutional dispensation in Nigeria establishes a devolved system of government with its enormous resource requirements, there is need to put measures that are geared towards enhancing the revenue base (Hakim, 2020; Nnadozie, 2022; Owolabi & Okwu, 2021). A system of tax avails itself as a veritable tool that mobilizes a nation's internal resources and it leads itself to creating environment that is conducive for the promotion of economic growth (Adebeti, Adesina & Sanni, 2021; Amah &Nwaiwu, 2020). According to Karran (1985), Amah and Nwaiwu (2018), the state of the economy depends, to a large extent, on the tax revenue raised by the government. Therefore, the relationship between indirect tax revenue and economic growth is an issue of great importance.

Muriithi and Moryi (2022), Nwaiwu and Benvolio (2022) observe that a good tax system should be able to generate the needed revenue for government; redistribute income (Jibrin, Blessings &Fornsege, 2022; Nwaiwu& Okoro, 2018) and investment infrastructure that will provide the guarantee for business to strive and economic growth (Todorovic, Milenkovic & Kalas, 2019). The enabling environment created by government encourages the establishment of new business (Dangal, 2018; Sharman, 2022), survival of existing business and the infrastructure provided is a key determinant of political, economic and social development. A well-structured tax system provides government the needed fund for capital (Infrastructure) and recurrent (administrative) expenditure that would greatly lead to economic growth and development. Therefore, tax can be seen as a fiscal policy, macroeconomic and internal revenue mobilization tool for the attainment of economic growth (Okoror, &Onatoyeh, 2018). In examining the relationship between indirect tax and economic growth, there are two lines of thinking; according to the exogenous growth models (Solow, 1956), indirect tax has no impact on economic growth in the long run, assuming that key factors of production such as labour and technological progress are determined outside the model; on the contrary growth theorists (starting with Barro, 1990; King & Rebelo, 1990; Lucas, 1990), who believe that economic expansion is determined with in the system, argue that tax policy does have can impact on economic growth and welfare overtime.

The theoretical underpinning is basically the endogenous growth theory. The endogenous growth theory advocates the stimulation of level and growth rate of per capita output through the economic policies such as tax policies. Economic growth is generated by three production factors; labour, capital and technological progress, which are related to each other through a production function. Taxes could alter the economic decisions regarding these factors, and thus affect economic growth (Odhiambo &Olashala, 2018; Omodero, 2020). Barro (1990) constitutes one of the first attempts at endogenizing the relationship between indirect tax and economic growth. He distinguishes four categories of public finances; productive vas non-productive expenditures; distortionary vs non-distortionary taxation. Taxation is non-distortionary if it does not affect the investment decision, and hence economic growth.

Indirect tax yields very substantial revenue to government. Therefore, it has a bearing on gross domestic product which is the standard indicator for measuring the economic growth of a nation. In Nigeria the central government receives about two-thirds of their tax revenues from indirect taxes; value added tax, customs and excise duty (Nwaiwu& Okoro, 2018). The choice of a tax structure to be adopted will be hinged upon a clear understanding of the relationship between indirect tax and economic growth. The need for a paradigm shifts from direct to indirect taxation in the face of various forms of resistance perpetuated within the direct taxes bracket, the inconsistency in existing empirics

and the wide knowledge gap occasioned by the paucity of empirical literature on Nigeria has made this issue open for further research in the country. This fact informed the basis of this study. The study will therefore achieve the objectives by examining the relationship between customs and excise duties, value added tax and economic growth in Nigeria within the framework of endogenous growth model.

Nigeria relies heavily on tax revenue to fund government expenditure, both current and capital, the role of tax revenue in promoting economic growth may not be felt if the correct choice between different taxes is not made (Myles, 2020; Omodero, 2020; Agbo &Nwadidor, 2020). The calls for proper examination of the relationship between the revenue generated from different types of taxes and economic growth. Tax revenue mobilization as a source of financing development activities has been a difficult issue primarily because of various forms of resistance, such as evasion, avoidance and other corrupt practices that can easily be perpetuated within the direct tax bracket. The solution appears to be in broad-based indirect taxes like value added tax (VAT), custom and excise duty that has the potential of diversifying the revenue portfolio for the country to promote fiscal sustainability and economic growth.

The level of revenue from indirect taxes has risen steadily in period 1994-2010 as a result of wide-ranging reforms aimed at placing more reliance on indirect taxes. This includes an increase from an average of 6.5 percent of gross domestic period 1963-1972 to an average of 12.1 percent in the period 1973-2020. Despite the rise in revenue collection, there has been a persistent decline in average gross domestic product in the period 1994-2020. Such significant increases in indirect tax revenue raise pertinent questions about the effect they have had upon economic growth.The empirical studies on this phenomenon in developing countries are relatively few. Empirical studies done on the effect of indirect tax and economic growth have reported contradictory results whereby some scholars hold that it is growth enhancing while other studies indicate that indirect taxes are growth impeding. Moreover, some scholars argue that indirect taxes cannot predict economic growth. The inconsistency in existing empirics and the wide knowledge gap occasioned by the paucity of empirical literature in Nigeria has made this issue open for further research in the country. This study is motivated by two developments first, by the inconsistency in existing empirics and secondly, by the wide knowledge gap occasioned by the paucity of empirical literature in Nigeria. Therefore, this study empirically attempts to reconcile the different positions and also close the knowledge gap.

This paper is divided into five sections including the introduction as section 1. Section 2 presents the theoretical framework, reviews the theoretical and empirical literature on indirect tax and economic growth; it also states the hypotheses to be addressed. Section 3 presents the methodological issues, section 4 reports the empirical results and discussion. Concluding remark, and recommendations, limitation and suggestion for further studies.

Literature Review and Hypotheses Development Index.
Theoretical Framework
The relationship between indirect tax and economic growth has been a widely addressed subject in economic literature. Most theoretical investigation into the effect, impact, association, relationship between indirect tax and economic growth provide one finding that shows a negative relationship between these two variables (Marina, 1999; Nwaiwu 2024). Researchers have used income tax, corporate tax, tax rate, value added tax, sales tax, or either tax cut, tax reform and tax poling to test for their theories and hypothesis regarding these relationship. Three theories are discussed at the indirect tax and economic growth debate namely:
Neo-classical growth theory
The analysis of growth has long been based on the Solow (1956) ‖growth accounting‖ approach, also termed as neo-classical growth theory, which has two important predictions about growth in the long

run. These predictions are that economic growth occurs as a result of exogenous technological change, and that income per capita of countries will converge. Since it is presumed that all determinants of growth are exogenous, it means that government policy cannot affect growth rates, except temporarily during the transition of economies to their steady state. Consequently, the role of government in the economic growth process was usually not investigated in standard neo-classical growth models. Traditional Neo-classical growth models imply that taxation can affect only the output level but not the growth rate of the economy, by proposing that the output of an economy grows as a result of the increase in physical inputs such as capital and labour.

In other words, tax policy; however distortionary has no impact on long term economic growth rates, even if it reduces the level of economic output in the long term. As stated by Solow (1970), the underlying fact behind this structure is that the Neo-classical view assigned the economic growth as a result of the increase in physical capital and labour where law of diminishing returns to scale is on duty. The instruments of government policy and non-physical variables such as human capital have no permanent impact on the growth rate of the economy in these models. Within this approach, growth in per capita output stems from exogenous technological progress and the magnitude of the composition of tax revenue does not generate a permanent effect on output growth while generating only temporary ―level‖ effects (Lee & Gordon, 2005). In this context, the government's tax policy has no role to promote growth in these models as active government policies, including tax policies, generate only level effects corresponding to temporary growth. Neo-classical growth models determine the long term rate of growth of a country by the labour supply and its technical progress (Solow, 1956). This model, therefore, does not include any reference to tax on economic growth. In addition, it is still uncertain on how tax policy can promote economic growth and stability (Herfindahl, 1957). However, tax is believed to affect a country's economic growth and should be considered in any economic growth model (Barro and Sala-I-Martin, 1992).

Endogenous Growth Theory

The endogenous growth theory was developed as a reaction to omissions and deficiencies in the Solow- Swan neoclassical growth model. The meaning of endogenous growth in the new literature on growth is that output grows faster than the exogenous factors alone would make it grow. The advent of the class of growth models developed by Romer (1986), Lucas (1988), Barro (1990) and Rebelo (1991), which in essence constitute a new, endogenous growth theory, has resulted in significant changes on the role of government in growth. According to this theory, both transition and steady state growth rates are endogenous, implying that long-run economic growth rates are endogenous. There are several factors that should be important for determining long term growth, although in all endogenous growth models, government can influence growth, either directly or indirectly (Brons, de Groot and Nijkamp, 1999). As a result, long-term growth rates can differ across nations, and there is no necessity that convergence in income per capita should occur. Endogenous growth theory emphasizes the endogenous determination of economic growth, rather than exogenous technological change.

Tax policy in the endogenous growth models has dual properties. Not only should it intervene to correct the Non-Pareto optimality states but it should also pursue active policies to maintain long term economic growth (Arisoy and Unlukaplan, 2010). In this model, government spending and tax policies can have a long- term or permanent growth effects. More significantly, as Dar and Amir Khalkhali (2002) report, a major implication of endogenous growth models is that government policy can have wide-ranging implications for a country's long-term growth performance. The three main fiscal instruments namely taxation, expenditure, and the aggregate budgetary balance affect long-term growth through their effects on the efficiency of resource use, the rate of factor accumulation and the

pace of technological progress. The economic implication of this model is that taxes and government spending can have consistent effect on output in both the short run and the long run.

Governments pursue reforms in tax and expenditure policies act as incentives to firms to venture into research and development and to invest in capital formation which yield external effects that benefits the rest of the economy. The role of taxation in the process of economic growth has been central in public finance especially since the appearance of the endogenous growth models. The economic implication of this model is that taxes and government spending can have consistent effect on economic growth in both the short run and the long run (Lucas, 1988). In endogenous growth models, by contrast, investment in human and physical capital does affect the steady-state growth rate, and consequently there is much more scope in these models for at least some elements of tax and government expenditure to play a role in the growth process. Since the pioneering contributions of Barro (1990), King and Rebelo (1990) and Lucas (1990), several papers have extended the analysis of taxation, public expenditure and growth, demonstrating various conditions under which fiscal variables can affect long-run growth (see, for example, Jones et al., 1993; Stokey and Rebelo, 1995; Mendoza et al., 1997). Endogenous Growth Theory was developed in 1980s as a response to criticism of the Neoclassical Growth Model; however the theory has not been without challenges. Olso (1996) argued that neither natural resources nor technology perse explains strong economic performance.

In his view, differences are due to how efficiently countries use the resources available to them, which come down to differences in economic policies. Countries sound economic policies and institutions get more out of the recipes that combine capital and labor to produce economic output provide the incentives to utilize resources and technologies to the fullest extent. In endogenous growth model, the difference between physical capital and human capital is not clear, it is assumed that human capital accumulates and when it is embodied in physical capital then it becomes a driving force but there is no clarity of what the driving force is. By using secondary school enrolment as a proxy for human capital in the model, Mankiw, Romer and Weil (1992) finds that physical and human capital accumulation cannot lead to perpetual economic growth.

The investigation of the relationship between indirect tax and economic growth in Kenya is anchored on the endogenous framework which advanced a dynamic steady growth state. Popularized by King and Robelo (1990), the endogenous growth model contends that government policy, including taxation, can permanently increase per capital output with a high level of innovation. In endogenous growth models, not only the level of taxes but also the tax composition matters, the endogenous growth models classify taxation instruments into distortionary taxation, which discourages to invest in physical/human capital and nondistortionary taxation which does not affect the above incentives (Benos, 2009). Any tax policy that distorts the capital accumulation will permanently reduce growth rate. For instance, direct taxes like personal income taxes and corporate income taxes. On the other hand, Broad-based indirect tax like the Value-Added Tax (VAT) and Custom and Excise Duty only distort intertemporal consumption and further increases the part of the national income saved, and thereby leading to more capital formation and higher economic growth (Musgrave and Musgrave, 1989). Based on the forgoing, the relationship between indirect taxes and economic growth was therefore anchored on endogenous growth model. Building on these efforts, our study attempts to confirm the effect of indirect taxes on economic growth in Kenya for the period 1973-2010.

Benefit Received Theory

According to the renowned economists; Knut and Lindahl (1967) tax should be paid for consumed public commodities by individuals based on benefits received. In other words, tax is directly proportional to state derived activities (Bhartic, 2009). This simply connote that the more profits an individual enjoys from government activities, the more such individual should pay to the government. A true picture of this theory is the taxes collected in every local authority, such as market place, bus

stop among others, which in the long run will be used to develop various social services which results to social benefit to the citizenry. Thus, the public service enjoys is a function of tax revenue derived from the benefit people enjoy. The theory has been subjected to various criticisms on the ground that:

(i)   Benefit is absolutely on abstract issue and there is no logical method to gauge the extent of advantage and its money value

(ii)   If benefits accumulated to an individual are the premise of tax collection, the poor must pay higher on the grounds that in a welfare economy, the poor get a larger number of advantages than the rich. This is plainly out of line and as such an inadmissible suggestion

(iii)   The equitable distribution of wealth, the main objective of most of the modern governments will be defeated if this principle is followed.

Conceptual Framework

The study has developed the following schematic representation of the conceptual framework. In doing so, the data for determining the most control variables that should have to be included in the study were chosen according to the characteristics that they create more relationship between indirect tax and economic growth.

Economic Growth

The concept of economic growth has been regulated by some to the vocabulary of the biological sciences. This is because growth can only be ascribed to living being. In this regard, Kuzuets (1955) stressed that growth is a concept whose proper domicile is in the study of organic units, and the use of the concept in economics is an example of the irrelevant employment of analogy differently. But in recent times, he position of Kuzents has been seriously undermined may be because it was founded on a wrong premise. According to Myles (2000), economic growth is basis of increased prosperity. And since incremental growth is not restricted to organic units, the Kuznets(1995) position of economic growth is the increase in output or per capita income over time. He further described economic growth as means of analyzing the economic performance of advanced countries over time.

Gross Domestic Product Growth Rate

Gross domestic product growth Rate is an internationally recognized measure of economy size and strength. It is important to have up-to-date data so the rebasing is in the right direction. It is expected to make planning and investment decisions more robust and informed. For example the performance of the government in revenue collection, capital spending, external debt and budgeting can be benchmarked against similar economies. Nigeria GDPGR was recently rebased from about USD 270 billion to USD 510 billion for 2013. The increase of about 90% was attributed to new sectors of the economy such as telecommunications, movies, and retail which previously not captivated or under reported. As a result of the rebasing, Nigeria is now the largest country in Africa and 26 largest in the world. However, Nigeria needs more than GDPGR rebasing to stimulate the economy. While it is important to have up to date statistics, this will not of its own lead to economic prosperity or change on the ground (Herbert, Nwaorgu&Nwaiwu, 2017; Olabisi, Akinbode &Alebiosu, 2018).

Indirect Tax

Indirect tax is a tax collected by an intermediary (such as a retail shore) from the person who bears the ultimate economic burden of the tax (such as the consumer). The intermediary later files a tax return and towards the tax proceeds to government with the return in this sense, he term indirect tax which is collected directly by government from the persons (legal or natural) on which it is imposed. An indirect tax may increase the price of goods so that consumers are actually paying the tax by paying more for the products(Myler 2000; Ebiringa& Emeh, 2012; Olu &Adejuwo, 2013;

Izedonmi&Okunbor, 2014; Saheed, Aborshi& Ejide, 2014; Onwuchekwa & Arawa, 2014; Okoli & Matthew, 2015; Rahuli, 2015; Adegbemi, Ibakwu& Grace, 2017; Andoh, Osoro &Luvamda, 2018; Ngagen, 2019; Enoelada 2020; Owolabi & Okun, 2021; Nnadozie, 2022)..

Customs and Excise Duties

Customs and excise duties are taxes charged at the Nigeria's part of entry on certain imported goods it is usually administered and collected by the Nigerian customs service by virtue of the customs and excise management Act. There are two types of taxes charged at the Nigeria part of entry; one is in certain imported goods and the other is on some exported good. This, custom and excise taxes are imposed on goods either for revenue purposes or to discourage consumption of such products. This is why it is a times referred to as consumption tax (Inyiama&Ubesie, 2016).

Value Added Tax

Value added tax is another form of indirect tax applied at each stage of production to the value added. Value added tax is a consumption chain and borne by the final consumer of the product or service. Each person is required to charge and collect value added tax at a flat rate of 7.5% on all invoiced amounts on all goods and services produced in Nigeria. Value added tax was introduced by the federal government of Nigeria in January, 1993. It was believed by many Nigerian that the tax was introduced as a means of avoiding taking loans from international agencies and came into effect on January 1, 1994 to replace the sale tax (Ocheie, 2010). Taxable persons are obliged to register under value added tax act. The tax is at a single rate of 7.5% percent of taxable goods and services. Supply of all goods and services except those specifically exempted are subject to value added tax. Non-resident companies, which transact business in Nigeria, are also required to register for value added tax and render value added tax returns using the address of the company in Nigeria with whom they have subsisting contract.
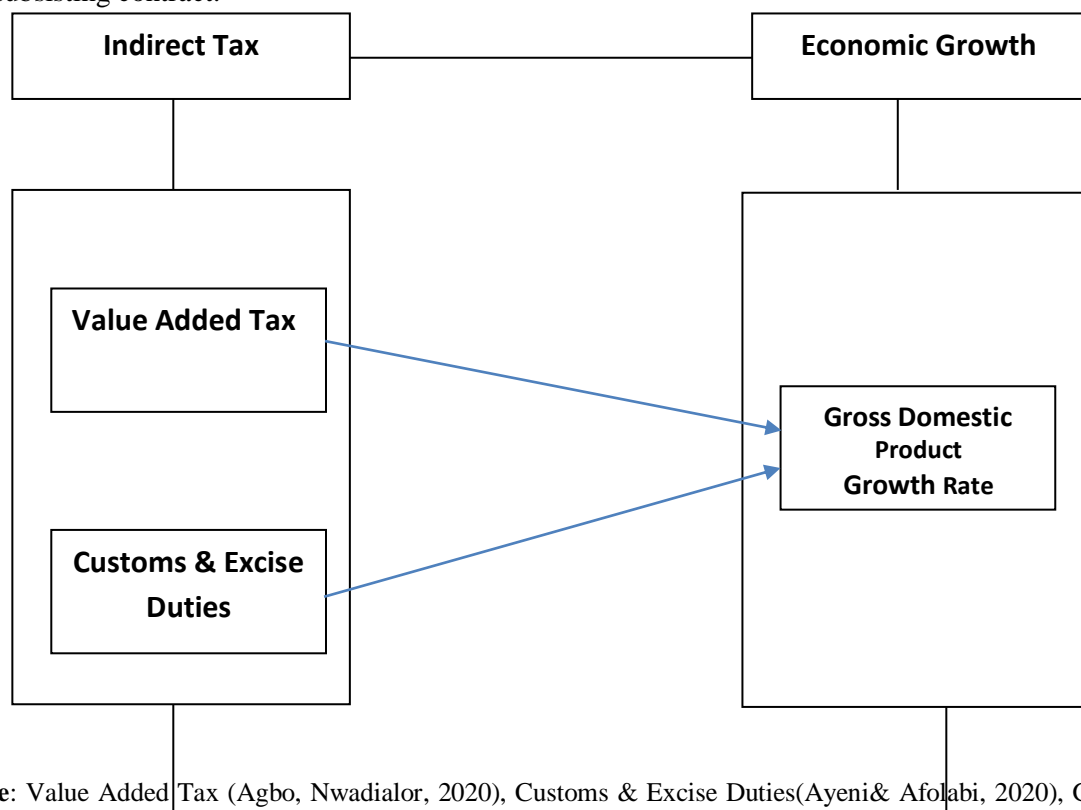
Source: Value Added Tax (Agbo, Nwadialor, 2020), Customs & Excise Duties(Ayeni& Afolabi, 2020), Gross Domestic Product Growth Rate (Enokela, 2020), Economic Growth (Abiola &Aziwah, 2022), Indirect Tax (Nwaiwu& Joseph, 2022; Nwaiwu& Okoro, 2018).

Figure 1: Operational framework of Indirect tax and Economic Growth in Nigeria.

Empirical Review

The empirical literature on the indirect tax and economic growth is vast. This section looks at some of the empirical studies that have been done on the area of value added tax, customs and excise duty, gross domestic product with different methodology, results and discussion, conclusions and recommendations.

Ihaboya and Mgbane (2022) conducted study on indirect tax and economic growth in Nigeria. The aim of this study is to investigate the indirect tax and economic growth dynamics against the backdrop of the paucity of empirical literature in developing countries with Nigeria as reference point. The study adopted a combination of cointegrtion and error correction mechanism after series of diagnostic tests which helped to check the adequacy of the specified model. The Engel-Granger two step procedures was used totest the short run dynamic behavior of the model while theautoregressive distributed lag was used to correct the discrepancies between short and long run impact of the explanatory variables. The result of the diagnostic tests shows the adequacy of the specified model. The study found a negative and insignificant relationship between indirect tax and economic growth in Nigeria. The ratio of total indirect tax to total tax revenue reported a negative coefficient of (0.5817). The ratio of total tax to total federal revenue reported a robust t-value of (19.9276) and a positive coefficient of (2.0882) at the 1% level of significance. Against the above result, it was recommended that emphasis should be shifted from indirect tax as a growth driver in Nigeria.

Jing and Xing (2021) conducted a study on tax structure on economic growth: Empirical evidence from OECD countries. The aim of the study is to identify whether the tax structure affects economic growth by showing empirical evidence from OECD countries. This study estimates the influence of changes in the structure of tax revenue neutral to the level of income per capita in the long run by using panel data for 17 OECD countries over the period 1970-2004. In contrasts to study done before, they did not find solid footing for the different types tax terms' impact on growth. They also do not have clear evidence to explain the consumption tax on income tax or personal income tax demand on corporate personal tax. The only robust result appears to be that shifts in tax revenue towards property taxes are associated with a higher level of income per capita in the long run. This study used physical capital, human capital, population growth, tax revenue (GDP), personal income tax, corporate income tax, consumption tax and property tax as the variables. Based on the findings of the research, it shows that the shifts in the total tax revenue towards the property taxes may be associated with a higher steady-state level of the income per capita. In addition this result also remains robust after the authors used different sample, different regressors and different specification of the time effects. The results also find that there is no strong evidence for favouring the personal income tax over the corporate income tax or for the favouring the consumption tax over income tax.

Ibukunoluwa (2021) conducted a research, value added tax and economic growth in Nigeria. The aim of the study focused on value added tax and economic growth in two ways. First, value added tax and gross domestic product as proxies for value added tax; and economic growth and value added tax and gross national income as the second set of proxies. Furthermore, value added tax is viewed from the angle of output and input tax and how the net is remitted to the government for fiscal responsibilities. Two hypotheses are generated and tested to examine the relationship between the variables. The results showed a clear significant yet positive effect on GDP. Although the exact extent to which this has on GDP is unknown, there is evidence that there is a strong correlation between value added tax and gross domestic product. For value added tax and gross national income, the growing proportion of both variables was disproportional even though value added tax values explicitly presented a higher growth rate than GNI. This is viewed as a positive trend that can help key stakeholders in Nigeria, including analysts, to predict realistic values of value added tax's effect on economic growth.

Furthermore, the study recommended more stable and robust value added tax system that is less bureaucratic and centralized, increasing the value added tax rate with corresponding welfare and social amenities.

Dil (2021), conducted a research indirect tax; Trend and structure of Nepal. The aim of the study tries to analyse the trend and structure of indirect tax in Nepal and examine the contribution of indirect tax in gross domestic product of Nepal. This study has been based on secondary data published by the government of Nepal covering a period between 2002/03 – 2019/20 fiscal year. Descriptive method of analysis has been adopted in the study. During the study period, the percentage contribution of indirect taxes to gross domestic product ranges from 6.60 to 14.45. the percentage contribution is observed to be increasing along with the fluctuation trend till 2018/19 but decreased in 2019/20 as compared to earlier years.

Furceri and Karras (2019), researched to investigate the effects of changes of taxes on economic growth by using an annual data from 1965-2017 for panel of twenty-six economies. The main variable of this study is growth and the growth rate of real GDP per capita. The study also uses other variables such as tax rate and income tax. The findings show that the effect of an increasing in tax on real GDP per capita is negative and persistent where an increasing in the total tax rate which measures as the total tax ratio to GDP by 2% of GDP has a long –run effect on real GDP per capita of -0.5% to -1&. Besides, their findings also imply that the increase in social security contributions or taxes on goods and services has a large negative effect on per capita output than the increase in the income tax.

Ngugen (2019) conducted a study, impact of direct and indirect tax on the economic growth of Vietnam. The aim of the study is to investigate the impact of direct and indirect tax on economic growth of Vietnam. Data of the study were collected from the period of 2003-2017. The data collected were analyse using ordinary least square regression analysis. The results show that tax has a positive impact on the economic growth of Vietnam. The impacts of direct tax and indirect tax on the economy are contrasting. Indirect tax has an optimistic effect on economic growth, where as direct tax has an indistinguishable impact on the economic growth of Vietnam. The results also indicate that there has not been enough evidence to conclude that indirect tax has more guidance on the economy as compared to direct tax. The Vietnamese tax system should be reformed to stimulate sustainable economic growth.

From the respective studies reviewed, it is evident that some research work on contribution of indirect tax and economic growth has been conducted, though empirical studies on the subject matter in Nigeria are relatively few. However, previous studies done on the effect of indirect tax on economic growth have reported contradicting results. Some say the tax is growth enhancing (Scarlet, 2011; Okafor, 2012; Emmanuel, 2013; Abata, 2014; Rahul, 2015; Bubatunde, Oluwatobi & Oyeyemi, 2017; Andoh, Osoro &Luvanda, 2018; Todorovic, Milenkovic & Kalos, 2019), while other studies indicate that indirect tax is growth impeding (Ngugen, 2019; Olatunji, 2019; Agbo &Nwadialor, 2020), while still some studies reported that indirect taxes cannot predict economic growth (Enokela, 2020, Myles, 2020; Ayeni & Afolabi, 2020, Owolabi &Okwn, 2021. This inconsistency in existing empirics and the wide knowledge gap occasioned by the paucity of empirical literature on Nigeria has made this issue open for further research in the country. Previous empirical studies adopted cross-country with cross section data analysis to relate measures of indirect tax and economic growth undermining the fact that cross-sectional studies can only obtain pooled estimates that fail to disentangle results for any specific country and sued different methodologies. This study is country specific and it utilized time series data and thereby overcomes the cross-country analysis that undermines variable differentials, productivity differentials as reflected in different production functions and above all, country differentials. This study contribution to knowledge will be significant in providing statistical benchmark which may lead to change of fiscal policy and regulation; its result may prompt studies of this nature in other countries.

Research Question and Hypotheses Development

Currently, this econometric study seeks to offer critical evaluation of the relationship between indirect tax and economic development in Nigeria. Specifically, the study provides answer to following research question (RQ).

RQ: What is the relationship between indirect tax and economic development in Nigeria? The above research question give rise to two important hypotheses stated in the null form and as it relates to the research questions.

H_{01}: There is no significant relationship between value added tax and real gross domestic product in Nigeria.

H_{02}: Customs & Excise duties with real gross domestic product in Nigeria.

Methodological Framework

The ex-post facto design was employed in the study. The study investigates the relationship between indirect tax and economic growth in Nigeria. Therefore, the research population consists of twenty-seven years, spanning from 1994-2020.The sample size employed is twenty-seven (27) years data from (1994-2020) selected from Central Bank of Nigeria statistical bulletin, annual reports of Central Bank of Nigeria, Federal Inland Revenue Statistic and National Bureau of statistics. Purposive or judgemental sampling techniques were adopted. Data for this empirical study were entirely secondary in nature because its design suggested content analysis of data on historical economic events and business transactions which were reported as indirect tax to justify relationship with economic growth such were obtained from Central Bank of Nigeria statistical bulletin, annual reports Central Bank of Nigeria, National Bureau of Statistics, from 1994-2020. Complementary data were capture from the period reports of Federal Inland Revenue Service.

Model Specification

Based on the theoretical underpinning and empirical review of related literature made in the study, the study constructed a model specification that captured the relationship between indirect tax and economic growth in Nigeria. The model is theoretically specified in functional form as thus:

$$GDPGR_{it} = F(VAT_{it}, C \& ED_{it}) \qquad i$$

From the above, the study derive the mathematical model of the equation as thus:

$$GDPGR_{it} = \delta_{oit} + \delta_1 VAT_{it} + \delta_2 C\&ED_{it} \qquad ii$$

Converting the mathematical model to econometric model by the application of the constant term, coefficient and error term, the models are represented as thus:

$$GDPGR_{it} = \lambda_{oit} + \lambda_1 VAT_{it} + \lambda_2 C\&ED_{it} + \mu_{it} \qquad iii$$

Where: ER_{it} = Employment Rate 'i' for the period of time 't'

VAT_{it} = Value Added Tax 'i' for the period of time 't'

$GDPGR_{it}$ = Gross Domestic Product Growth Rate 'i' for the period of time 't'

$C\&ED_{it}$ = Custom & Excise Duties 'i' for the period of time 't'

λ_o = Constant 'i' for the period of time 't'

$\lambda_1 - \lambda_2$ = Regression Slope 'i' for the period of time 't'

μ_{it} =   Error Term 'i' for the period of time 't'

it   =   for the period of time 't'.

Apriori Expectation
In the study, gross domestic product and employment rate are employed as proxy's to measure the dependent variable which is economic growth. Each of the above employed measures of economic growth portray the increase in economic growth of the economic entities under value added tax, custom and excise duties in Nigeria. In summary, the apriori expectation is stated as follows:
$B_1 > o, \beta_2\ o<, \lambda\ o<, \lambda_2 > o$

Data Analysis Technique
The data analysis is performed with the aid of descriptive statistic techniques and multiple regression models to ascertain the relationship between the variables as expressed by the hypotheses. Other diagnostic test was conducted to establish validity, such include; descriptive statistics, unit root test, co-integration test, error correction estimation.Stationarity test is the first step of testing the Stationarity of succession or the order of integration of data because the succession ought to be integrated in similar order, hence it is essential to test the Stationarity of the variables by means of augmented dickey Fuller test in the level and the first difference.
If the computed Augmented Dickey fuller test statistics exceeds that of the McKinnon critical values in absolute terms, the null hypothesis will be rejected. This indicates that the time series data are stationary; thus, data is confirmed as appropriate for use in estimating economic relationships.

Johansen Cointegration Test: This test was established to observe if there is a long run connection amongst variables in the population. Generally, it is admitted that to establish a cointegration, the probable ratio must be greater than McKinnon critical values. If the explained variable Y and the set of explanatory variables $x_1\ x_2 - x_n$ are integrated in the order of 1 (1), then there exists a clear combination of the time series.
Error Correction Model: Usually, this technique is employed to modify deviations in the estimated relationships as a result of feasible shocks in one or more of the time series variables being employed.
Granger Causality Test: This work utilized standard Granger causality test to ascertain causality among the variables. It is a test to evaluate the ability to forecast variables among each other. It proposed that, just as the past can cause or forecast the future, it is obvious that the future cannot cause or forecast the past.

Results and Discussion
Presentation of Data
Data collected on employed variables from secondary sources are presented in the table below.

Table 1: Data Presentation of Gross Domestic Product Growth Rate (GDPGR), Value Added Tax (VAT) and Customs and excise duties (C&ED) in Nigeria over the study period 1994 to 2020.

Year	GDPGR	VAT	C&ED
1994	1.04	5.03	173.65
1995	-0.07	6.26	345.93
1996	4.20	11.29	496.69
1997	2.94	13.91	554.96
1998	2.58	16.21	4,957.65
1999	0.58	23.75	736.63
2000	5.02	30.64	8.3
2001	5.92	44.91	13.6
2002	15.33	52.63	14.1
2003	7.35	65.89	14.81
2004	9.25	96.2	16.04

Year			
2005	6.44	87.45	16.76
2006	6.06	110.57	12.46
2007	6.59	144.37	16.49
2008	6.76	198.07	18.71
2009	8.04	229.32	19.27
2010	9.70	275.57	19.5
2011	4.89	318	26.91
2012	4.28	347.69	26.27
2013	5.39	389.53	23
2014	6.31	388.85	24.03
2015	2.65	381.27	23.14
2016	-1.62	397.06	31.74
2017	0.81	473.77	46.8
2018	1.92	533.74	36.35
2019	2.21	564.45	40.94
2020	-1.79	699.37	47.76

Source: Central Bank of Nigeria Statistical Bulletin (2020).

Unit Root Test (Augmented Dickey Fuller)

To check for intrinsic attributes of the study data, the study employs the unit root/stationarity test.

Table 2: Unit Root Output (Augmented Dickey Fuller)

Variable	ADF T-statistics		Test Critical Values			Probability Level	Order of Integration
	At Level	**Ist diff**	**10%**	**5%**	**1%**		
GDGR	-3.210747**	-8.061512***	-3.639407	-2.951125	-2.614300	0.0000	I(1)
VAT	-3.289142**	-4.488818***	-3.632900	-2.948404	-2.612874	0.0067	I(1)
CED	-1.234499	-5.837602***	-3.632900	-2.948404	-2.612874	0.0000	I(1)

*** sign at 10%, 5% and 1%, ** sign at 10% and 5%.

Table 2 shows that, at the 1, 5 and 10 percent level of significance, variables employed were not stationary at level (0). This led to the evaluation of stationarity at first difference (1). It was discovered that, all employed variables were statistically significant. This shows that employed variables possessed vital characteristics that converges around their respective mean and are not random walks. This makes the co-integration/long run test imperative.

Cointegration Test

The researcher proceeds to test the long run association/Relationship amongst employed variable I.e. indirect taxation and economic growth in Nigeria.

Table 3: Cointegration Test (Johansen Cointegration)
Trend assumption: Linear deterministic trend
Series: GDGR VATCED
Lags interval (in first differences): 1 to 2

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.848104	110.7357	69.81889	0.0000
At most 1 *	0.462837	48.54517	47.85613	0.0430
At most 2	0.402923	28.03722	29.79707	0.0787

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

The study discovers the presence of a long-run relationship in light of the 2 co-integration equation. This shows that, variables converge in the presence of variability as emanating from the environment. This means that, the employed variables significant relationship in light of changes. Due to the presence of a long run relationship, it is advised that there exists a long run relationship.

Vector Error Correction

Table 4.Vector Error Correction Model Output

System: Error Correction Model

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-0.355235	0.183998	-1.930645	0.0671
C(2)	-0.346207	0.218742	-1.582720	0.1284
C(3)	-0.072388	0.151273	-0.478527	0.6372
C(4)	-0.356615	1.696540	-0.210202	0.8355
C(5)	3.137671	1.717206	1.827195	0.0819
C(6)	2.953896	1.206341	2.448641	0.0022
C(7)	2.365948	1.154518	2.049295	0.0060
ECM	-0.455235	0.184001	-2.474089	0.0034

Determinant residual covariance		58.99212		

Equation: D(GDGR) = C(1)*(GDGR(-1) + 6.21500550595*VAT(-1) - 1.74418162057*CED(-1) + 18.9881552816*DMR(-1) - 18.1648886176*FGR(-1) + 90.8659354521) + C(2)*D(GDGR(-1)) + C(3)*D(GDGR(-2)) + C(4)*D(VAT(-1)) + C(5)*D(VAT(-2)) + C(6) *D(CED(-1)) + C(7)*D(CED(-2)) + ECM

Observations: 27

R-squared	0.678309	Mean dependent var	0.154061
Adjusted R-squared	0.509804	S.D. dependent var	13.75180
S.E. of regression	9.628182	Sum squared resid	1946.740
Durbin-Watson stat	2.026025		

The above Vector Error Correction model shows that the Error Correction model displays the right negative sign. It's coefficient of -0.455235 shows that the short run adjustment to the long run can be accounted for backwards by 45.52 percent. All predictor variables jointly account for roughly 67.83 percent of variation in the criterion variable.

Vector Error Correction Model

We carry out this test to check bilaterally whether the lags of the excluded variable affect the endogenous variable.

Table 5: Pairwise Granger Causality Output

VEC Granger Causality/Block Exogeneity Wald Tests

Dependent variable: D(GDGR)			

Excluded	Chi-sq	Df	Prob.

D(VAT)	3.991521	2	0.1359
D(CED)	2.839556	2	0.2418
All	14.61053	8	0.0672

Dependent variable: D(VAT)

Excluded	Chi-sq	Df	Prob.
D(GDGR)	4.533991	2	0.1036

Dependent variable: D(CED)

Excluded	Chi-sq	Df	Prob.
D(GDGR)	8.836771	2	0.0092

Using the significance level and based on the above estimate, it is clear that the null hypothesis is not rejected in the economic growth rate (GDGR).This shows an independent hypothesis and therefore explains that changes in indirect taxes do not account for changes in gross domestic product growth rate in the economy.

Test of Hypotheses
Hypothesis One
H_{01}: There is no significant relationship between Value added tax and Gross Domestic Product growth rate in Nigeria.

Utilizing the vector error correction model output and the Granger causality estimate in table 4.5 above, it can be observed that the probability level of Value added tax from C(4) and C(5) are 0.8355 and 0.0819 respectively which are higher than the 5% significant level lead to the non-acceptance of the null hypothesis and the rejection of the alternate hypothesis that there is no significant relationship between Value added tax and Gross Domestic Product growth rate in Nigeria.A cursory attention to empirical nature of the findings predicates on in-depth basis for diverse views in discussion. The first hypothetical test resulted a positive but insignificant relationship between value added tax and gross domestic product in Nigeria. Followed by no form of causality. The robust empirical results differs from those of Fahul (2015), Isreal and Nuka (2015); Salami Apelogun, Omidign and Ojoye (2015), Mgles (2020) which negative relationship between value added tax and gross domestic product. It is however consistent with the studies done by Nwaeze, Njoku and Nwaeze (2014), Onwuchekwu and Arnwa (2014), Abata (2014), Olatunji (2019), Amah and Nwaiwu (2018) which found no significance or positive and insignificant relationship between value added tax and gross domestic product.

Hypothesis Two
H_{02}: There is no significant relationship between Customs and excise duties and Gross Domestic Product growth rate in Nigeria.

Utilizing the vector error correction model output and the Granger causality estimate in table 4.5 above, it can be observed that the probability level of Value added tax from C(6) and C(7) are 0.0022 and 0.0060 respectively which are seen to be less than the 5% significant level leads to the rejection of the null hypothesis and acceptance of the alternate hypothesis that there is a significant relationship between Customs and excise duties and Gross Domestic Product growth rate in Nigeria.Similarly, the second hypothesis revealed a strong positive and significant relationship between customs and excise

with gross domestic product growth rate. While causality is seen to spill from value added tax to gross domestic product. This outcome is in tandem with the empirical result of studies carried out by Yanikkaya (2012), Dejong and Ripoll (2015), Okafor (2015), Gacanja (2016), Nwaiwu and Joseph (2022) among others, all of whom reported positive and significant relationship between customs and excise duty with economic growth. However, this finding is inconsistent with the findings of Dritsaki and Katerina (2005), Sameti and Rafie (2010), Onduru(2013) who opined that customs and excise duty has a significant negative relationship with economic growth.

The positive and significant relationship between customs and excise duties and gross domestic product indicates that policy measures to expand customs revenue through more effective custom administration will impact positively in growing the economy. These results run contrary to the view that higher custom tariffs are universally detrimental for growth. This is important from a policy perspective, since it indicates that the maintenance of high tariff barriers does not appear to be a leading culprit for the economic stagnation suffered by Nigeria and other developing countries in the world.

Conclusion and Recommendations

The aim of this study is to find out the relationship between indirect tax and economic growth in Nigeria from 1994-2020. Based on the research findings presented and discussed in the preceding chapter four, the study arrived at a number of conclusions: Analysis of research results has shown that value added tax has a positive and insignificantly relate to gross domestic product growth rate in Nigeria. Regression analysis results in table 2 demonstrate this kind of relationship. It shows that if there is a 1% increase in value added tax, revenue would increase economic growth by0.0356%. The insignificant relationship of value added tax with economic growth. From the empirical finings, it can be concluded that value added tax has an insignificant relationship with economic growth. This study shows that the relationship between value added tax and the economy is not large enough to relate to the economic growth. Analysis of research result has shown that customs and excise duties has a positive and significantly relate to gross domestic product growth rate in Nigeria. Regression analysis results in table 2 demonstrate this kind of relationship. It indicates that if there is a 1% increase in customs and excise duties revenue would increase economic growth by 0.1228%. Customs and excise duties would increase the revenue base of government and make funds available for development purpose that will accelerate economic growth. From the findings, it can be concluded that customs and excise duties has a positive and significant effect on gross domestic product growth rate in Nigeria.

The findings of this research contradict the federal government position on the New National Tax policy which emphasizes indirect taxation. The global drift from direct to indirect tax seems to suffer empirical justification in Nigeria. As such, the study is advocating that:

(i) The mono-product economy of Nigeria should be diversified along the line of taxation since there exist a positive relationship between taxation and economic growth in Nigeria. In addition, the drift from direct to indirect form of taxation as entrenched in the New National policy should be deemphasized as there exists a negative and insignificant relationship between indirect tax and economic growth in Nigeria.

(ii) To increase the rate of growth of customs and excise duties, the government should tackle the challenges of porous borders, smuggling, security and shortage of adequately trained personal at the agencies responsible for the assessment, collection and administration of customs and excise duties in Nigeria. The various customs officers should be alive to their responsibility to reduce the rate smuggling which is a major method of tax evasion in the country.

(iii)   Tax authorizes should establish good relationship with the professional associations involved in tax matters in order to reduce tax malpractices perpetrated by customs tax payers with the connivance and often active support of external auditors and tax consultants. It may also be necessary to re-visit and review some customs and excise laws and regulations that are repugnant to the performance of the customs and excise tax system, so as to block and discourage the loopholes that are being exploited by taxpayers to either evade or avoid tax payments. Constant review of existing customs and excise duties tax laws will keep the act in pace with the economic reality.

(iv)   The government should maximize revenue collection through proper documentation and registration of companies in the country. The revenue collection agencies should be equipped with the appropriate infrastructure and technology to effectively modernize the tax system in Nigeria. This would ease tax assessment, payment, monitoring and back-duty audit. There should be constant training and re-training of excise administrators through seminars and conferences to keep them abreast of the modern trends in excise tax administration.

(v)   Both customs and excise duty are good for the economy. Therefore, to improve economic performance the government should use taxes collected to provide more public goods and services, which enhance productivity and hence economic growth.

Limitation and Suggestion for further Studies.

The major shortcoming of this study is that it failed to incorporate all the variables that relate to indirect tax (value added tax & customs and excise duties) and economic growth (gross domestic product & employment rate) ad did incorporate much variables of indirect tax and economic growth, annual data spanning from 1994-2021 which could be much efficient in establishing the relationship between indirect tax and economic growth in Nigeria. The study viewed indirect tax measured with value added tax and customs and excise duties and economic growth with its dimension as gross domestic product and employment rate spanning from 1994-2021 but could be expanded to other measures order that inflation and value added tax. For example, CPI Index, human capital, population, value added tax policies and technology could all be explored simultaneously or independently against gross domestic product and gross national income to view how indirect tax affect economic growth. Additionally, other methods order than ordinary least square could be adopted in other to empirically estimate the actual extent of indirect tax and economic growth in addition to inflation and other factors.

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