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GOVERNMENT REVENUE AND EXPENDITURE IN 1965*

The Role of the Budget

It is today widely accepted that governments have an important role to play in influencing the rate of economic growth through annual budgets. Thus, government budgets have increasingly become the instrument for implementing government economic and development policies. The budgets of the Nigerian government have increasingly been cast in this role, particularly since the National Development Plan came into force in 1962.

Main Features of Federal Government Finance

The main developments in the government's budgetary operations during 1965 were the increases in revenue by £22.7 million to £160.5 million, and in current expenditure from £133.4 million† to £144.6 million†. In the same period, capital expenditure stood at £39.7 million—£1.9 million higher than in 1964. The overall deficit was £23.8 million compared with £33.4 million in 1964, and was financed mainly by internal and external loans and the drawing down of accumulated reserves.

Revenue increases in the period were attributable primarily to the continued expansion of economic activity, and particularly to increased royalties paid by the oil industry, and increased revenue from import duties and

excise taxes. The growth of recurrent expenditure primarily reflected the increase in administrative and social services expenditures, induced by the growth of the economy.

The fiscal policy of the federal government in 1965 was geared to the attainment of the two objectives of raising more revenue, and of reducing pressures on the balance of payments. In order to achieve these goals, two rounds of higher import duties were imposed in March and August and, in addition, imports of certain goods from Hong Kong and Japan were banned. These measures adversely affected the growth rate of revenue from customs duties, but succeeded in relieving the balance of payments of some pressure.

Current Revenue

Federal government aggregate revenue in 1965 amounted to £160.5 million, £22.7 million or 16.4 per cent higher than in 1964. This compared with a rise of 10.6 per cent in 1964. Of the total revenue of £160.5 million, tax revenue accounted for £127.6 million or 79.5 per cent as against £110.5 million or 80.2 per cent in 1964. In this group, revenue from customs duties and excise taxes alone totalled £117.0 million or about 72.9 per cent as against £102.6 million or 74.5 per cent in 1964.

TABLE 1
CURRENT AND CAPITAL ACCOUNT
(£'s millions)

	1963	1964	1965
Current revenue	124.6	137.8	160.5
Current expenditure	118.6†	133.4†	144.6†
Current surplus	6.0	4.4	15.9
Capital expenditure	37.0	37.8	39.7
Deficit	31.0	33.4	23.8

* This paper deals with the revenue and expenditure of the federal government in the calendar year 1965. The federal and regional set-up was, however, modified in May, 1966.

† Include statutory and non-statutory transfers to the regional governments and public debt servicing (see current expenditure—Page 15).

TABLE 2
FEDERAL GOVERNMENT REVENUE FOR THE CALENDAR YEAR 1965
 (£'s millions)

<i>Sources of Revenue</i>					<i>January- December 1963 (1)</i>	<i>January- December 1964 (2)</i>	<i>January- December 1965 (3)</i>	<i>Change between (2) and (3)</i>
1. <i>Tax Revenue</i>	..	..	..	..	95.52	110.52	127.65	+ 17.13
Import duties	..	..	..	..	61.11	75.57	84.58	+ 9.01
Export duties	..	..	..	..	13.54	14.62	15.77	+ 1.15
Excise taxes	..	..	..	..	9.29	12.19	16.54	+ 4.35
Personal income tax	..	..	..	..	{ 8.41 }	2.38	2.79	+ 0.41
Company income tax	..	..	..	..		4.80	6.51	+ 1.71
Other	..	..	..	..	0.17	0.96	1.46	+ 0.50
2. <i>Mining (Royalties, etc.)</i>	..	..	..	..	8.50	8.91	12.80	+ 3.89
3. <i>Interest and Repayments</i>	..	..	..	..	11.48	6.06	6.80	+ 0.74
4. <i>Posts and Telegraphs</i>	..	..	..	..	5.50	5.12	6.62	+ 1.50
5. <i>Miscellaneous</i>	..	..	..	..	6.55	7.15	6.67	— 0.48
TOTAL	..	..	..	..	124.55	137.76	160.54	+ 22.78

Source: Government Gazettes.

Import duty revenue in 1965, compared with the previous year, advanced by £9.0 million to £84.6 million. The rate of increase of revenue, however, fell from 23.6 per cent in 1964 to 11.9 per cent in 1965 owing to mixed movements in receipts from revenue items. Significant revenue increases were recorded in respect of motor spirit (£1.0 million), diesel oil (£1.1 million) and other unclassified items (£7.4 million). In contrast, receipts from tobacco and tobacco products declined by £0.3 million to £2.9 million, and beer, wine and spirit by £0.2 million to £1.9 million in 1965. (See Table 3 below.)

Aggregate receipts from export duties in 1965 amounted to £15.8 million—8.1 and 7.5 per cent more than in 1963 and 1964, respectively. The rise in receipts was due mainly to the increase in the volume of exports. The increased receipts from duties on groundnuts (£4.9 million) and palm products (£3.9 million) were chiefly responsible for the rise in total revenue from this source. Thus, revenue from export duties grew at an annual average rate of 7.8 per cent between 1963 and 1965.

Revenue from excise taxes amounted to £16.6 million, representing a £4.5 million or 37.1 per cent rise compared with £2.9 million or 31.2 per cent in 1964. Revenues from all excise tax items have been increasing steadily. At £7.1 million, receipts from tobacco and tobacco products were £0.9 million (14.5 per cent) and £1.3 million (6.8 per cent) higher than in 1964 and 1963, respectively. Revenue from beer also recorded an increase of £0.3 million to £4.4 million. Receipts from other unclassified items increased from £0.2 million in 1964 to £4.7 million in 1965. Overall, revenue from excise taxes grew by 31.5 per cent in 1964 and by 37.1 per cent in 1965. Between 1963 and 1965, revenue from this source grew at an annual compound rate of 34.3 per cent. This high rate of increase reflects the expanding base of excise taxation and the increasing tempo of industrialization.

Revenue from direct taxes amounted to £10.6 million, £2.7 million and £2.2 million above the levels in 1964 and 1963, respectively. Of this amount, company income tax accounted for

TABLE 3
REVENUE FROM CUSTOMS DUTIES AND EXCISE TAXES
 (£'s millions)

	1963	1964	1965
<i>Import Duties</i>			
Tobacco and tobacco products	3.4	3.2	2.9
Motor spirits	6.0	6.7	7.7
Diesel oil	4.3	5.0	6.1
Beer, wine and spirits	2.1	2.1	1.9
Unspecified	45.3	58.6	66.0
Total	61.1	75.6	84.6
<i>Export Duties</i>			
Cocoa	3.5	4.6	4.0
Groundnuts and groundnut products	4.1	4.3	4.9
Palm products	2.7	2.9	3.9
Rubber and rubber products	1.2	1.1	1.2
Unspecified	2.1	1.8	1.8
Total	13.6	14.7	15.8
<i>Excise Taxes</i>			
Tobacco	5.8	6.2	7.1
Beer	3.2	4.1	4.4
Mineral waters	—	1.6	0.4
Unspecified	0.2	0.2	4.7
Total	9.2	12.1	16.6

Source: Government Gazettes.

£6.5 million or 61.3 per cent, and personal income tax £2.8 million or 26.4 per cent. These compare with their respective contributions of 60.7 per cent and 30.1 per cent in 1964. However, the ratio of revenue from direct taxes to total tax revenue was 8.3 per cent in 1965 compared with 7.1 per cent and 8.8 per cent in 1964 and 1963, respectively. The low yield from direct taxes is attributable not only to deficient tax administration and tax evasion and avoidance, but also to the generous tax exemptions designed to encourage private foreign investment.

Mining royalties, rent and licences yielded about £12.8 million in 1965—£3.9 million above the level in 1964. The expansion of activity in the petroleum industry was responsible for this increase. Royalties have so far contributed the

largest proportion of the revenue from this category.

Of the other sources of revenue, slight increases were recorded for interest and repayments and Posts and Telegraphs, while revenue from the miscellaneous group declined marginally.

Current Expenditure

Federal government recurrent expenditure in 1965 amounted to £144.6 million, £11.2 million and £26.0 million higher than in 1964 and 1963, respectively. Of the total current expenditure of £144.6 million, statutory and non-statutory appropriations to the regions amounted to £66.0 million, while public debt servicing accounted for £12.2 million. In 1964, public

debt servicing amounted to £11.9 million. Thus, the ratio of budgetary debt servicing to total current revenue fell from 8.6 per cent in 1964 to 7.6 per cent in 1965.

The reasons for the sustained upward movement in current expenditures in the last three years have been mainly the expanding administrative machinery induced by expansion of government functions, the need to strengthen internal security and defence, and, especially in 1964, the Morgan salary/wage increases awarded to government employees in the low-income group.

With current revenue and expenditure of £160.5 million and £144.6 million, respectively, in 1965, an overall surplus of £15.9 million was realized on the current budget, compared with £6.0 million in 1963, and £4.4 million in 1964.

Capital Expenditure

Total capital expenditure during 1965 stood at £39.7 million. This was £1.9 million higher than in 1964. Of this expenditure, the development sector absorbed £21.7 million (54.7 per cent of total capital expenditure), general administration £11.6 million (29.2 per cent), and the social overhead sector, £4.8 million (12.1 per cent). These compare, respectively, with 53.1 per cent, 32.0 per cent and 14.0 per cent in 1964.

The major sub-heads of expenditure in order of magnitude of expenditure were transport, electricity, defence, general administration, communications and education. The pattern of

capital expenditure in 1965, therefore, reflected the priority given to the development of the infrastructure.

An important feature of capital expenditure in the past three years was the very high proportion devoted to general administration. In 1965, this item absorbed £11.6 million or 29.2 per cent of total capital expenditure—a smaller proportion, though, when compared with 32.0 per cent in 1964, and 35.9 per cent in 1963. The bulk of the expenditure under this head went into the construction of office buildings, residential quarters, barracks and prisons.

Capital Formation

Capital formation in the public sector has been increasing in recent years, though rather slowly. Gross fixed capital formation at the end of 1965 was £25.6 million*—£1.2 million and £3.2 million higher than in 1964 and 1963, respectively. Outlays on 'other'† buildings and civil engineering works accounted for almost 89 per cent of the total capital formation.

The table shows that 64.4 per cent of total capital expenditure was devoted to the creation of fixed assets in 1965, e.g., transport equipment, plant, machinery and equipment, civil engineering works and residential buildings. This compares with 64.5 per cent in 1964 and 60.5 per cent in 1963.

* Provisional.

† Includes office buildings, educational institutions, hospitals, police and military barracks and prisons.

TABLE 4
CAPITAL EXPENDITURE

	Jan.-Dec. 1963		Jan.-Dec. 1964		Jan.-Dec. 1965		Actual Change between (2) and (3) (£'s m.)
	Actual (£'s m.) (1)	Percentage of Total Expenditure	Actual (£'s m.) (2)	Percentage of Total Expenditure	Actual (£'s m.) (3)	Percentage of Total Expenditure	
Development	19.8	53.5	20.1	53.1	21.7	54.7	—0.6
Social overheads	3.4	9.2	5.3	14.0	4.8	12.1	—0.7
General administration	13.3	35.9	12.1	32.0	11.6	29.2	—0.5
Financial obligations	0.5	1.4	0.3	0.9	1.6	4.0	+ 0.7
TOTAL	37.0	100.0	37.8	100.0	39.7	100.0	—1.1

Source: Government Gazettes.

TABLE 5
CAPITAL FORMATION

Period	Amount £'s millions	Percentage Increase	Percentage of fixed capital formation to total capital expenditure
January–December			
1963	22.4	—	60.5
1964	24.4	8.9	64.5
1965	25.6*	4.9	64.4

* Provisional.

Source: Office of Statistics; but adjusted on calendar year basis.

TABLE 6
SOURCES OF FINANCING THE DEFICIT

	1963		1964		1965	
	Actual (£'s m.)	Percentage of Total Deficit	Actual (£'s m.)	Percentage of Total Deficit	Actual (£'s m.)	Percentage of Total Deficit
1. Capital grants	0.2	0.9	0.1	0.4	0.3	1.3
2. Internal loans	9.0*	35.2	14.0*	44.7	8.5*	35.7
3. External loans	1.2	4.7	9.8	31.3	10.0	42.0
4. Others—including drawing down of accumulated reserves	15.1	59.2	7.4	23.6	5.0	21.0
TOTAL	25.5	100.0	31.3	100.0	23.8	100.0

Source: Government Gazettes.

* Amount retained by the federal government.

Deficit Financing

Overall, the aggregate current and capital expenditures of £184.3 million was £13.3 million or 7.6 per cent higher than the level in 1964. In 1965, therefore, a substantially higher level of total expenditure over current revenue resulted in a deficit of £23.8 million. This, however, represented an improvement over the position in 1964, when the deficit was £33.4 million.

Table 6 shows the absolute and relative importance of the various sources of financing the deficit. Internal loans and 'others' accounted for £13.5 million or 56.7 per cent of the total

capital receipts in 1965. This compared with £21.4 million (68.3 per cent) in 1964 and £24.1 million (94.4 per cent) in 1963. The heavy reliance on Central Bank credit and external reserves was prompted by the large shortfall in the receipt of official foreign capital.

The overall effect on the economy of both the large deficit and the reliance on expansionary finance to bridge the budget gap was the continued inflationary pressures, which partially defeated Central Bank's policy of credit restraint. This showed up in the upward movement of the price level in 1965.