GOVERNMENT EXPENDITURE AND ECONOMIC GROWTH IN NIGERIA FOR THE PERIOD: 1990 – 2014

NWAIWU, J.N.
Department of Accounting,
Faculty of Management Sciences,
University of Port-Harcourt,
Port-Harcourt, Rivers State,
Nigeria.

AKANDU, C. B. I.
Department of Accounting,
Faculty of Management Sciences,
University of Port-Harcourt,
Port-Harcourt, Rivers State,
Nigeria.

AZALI, S.I.
Department of Accounting,
Faculty of Management Sciences,
University of Port-Harcourt,
Port-Harcourt, Rivers State,
Nigeria.

Abstract

In all countries of the world, economic performance had occupied the central location for discussion and coverage components. In Nigeria, this topical trouble had attracted the hobby of researchers, but especially in terms of various variables as a result of its relevance, this paper geares toward analyzing the connection linking government expenditure and monetary growth for the length: 1990-2014. To obtain this goal, economistic model became designed and time series information has been accumulated from the reviews of report of central bank of Nigeria. The facts accumulated changed into analyses with regression techniques the aid of statistical package deal for social technological know-how (SPSS) model 21. The finding indicates that there exist high-quality and significant relationship among government capital and recurrent expenditure and economic growth. As a result, we finish and recommend that such level of government spending should be sustained to grow the economic system of Nigeria.

Keywords: Economic growth, Capital Expenditure, Recurrent Expenditure, Government Expenditure.

Introduction

In all economics of the world, government had often adjusted monetary and fiscal policies in a bid to actualize appropriate economic growth and sustainable economic development. Considered one of such economic regulations includes government expenditure. In keeping with Oziengbe (2013), government expenditure plays key roles within the operation of all economics. Abu & Abdullahi (2010) delivered that the relationship among government expenditure and economics growth has persevered to elevate collection of debate amongst students. A few students support the declaration that increasing expenditure promotes economics growth while others defame this view. In addition, Gregoriou & Ghosh (2007) submitted that countries with massive government expenditure generally tend to revel in better increase, however the impact varies from one country to any other.

The course of this argument isn't always constrained to advance economies, subsequently, the want to identify the case with Nigeria. Over a long time, the Nigeria government had often budgeted for Capital and Recurrent expenditure to enable the conventional function of provision of social accurate, infrastructural centers, financial facilities, securities and so forth. These provisions of goods and services are conclusively affirmed to enhance economic growth. In Nigerian scenario, notwithstanding the yearly finances; the indicators of financial increase had essentially marked down at the result. This study therefore aimes to examine the relationship among the variables.

The variable called government expenditure has the proxy capital and recurrent expenditure at the same time as the variable referred to as monetary increase has a proxy as actual gross domestic product. To actualize the set goal, we had prepared the paper into sections, the next segment gives extracts from literature reviews; that is carefully accompanied by way of the technique phase as well as end result and dialogue which study hypotheses (ie. 1: there is no significant relationship among Capital Expenditure and actual Gross domestic Product 2. There is no significant relationship among Recurrent Expenditure and actual Gross domestic Product) and sooner or later we gift the belief.

The rest of the paper is organized as follows. Some background to the study of analysis of “government expenditure” and economic growth in Nigeria is briefly reviewed after the introduction. Section two deals on theoretical framework, concept, empirical studies and economic growth. The specific methodology and in term of model specification is in section three. Econometric results and discussion to the future of researchers in section four. The concluding remark, recommendations, limitation and suggestion to further study are sketched in section five.

Literature Assessment

This study adopts the principle of Adolph Wagner which studies the economies of numerous countries in the nineteenth centuries and submitted that the purpose of the government activities is to satisfy the economic wishes of the humans as a result the public expenditure. According to Wagner in Cosimo, Lorenzo & Marco (2015), there is a long-run tendency for the percentage of public expenditure to increase relative to national earnings. This concept became referenced inside the paintings of Peakcook & Wiseman (1961) who justified the claims of Wagner as they studied the United Kingdom financial system. As a result, in this study, the concept is taken into consideration, appropriate to be applied in studying Nigerian financial system.

Conceptual Framework

Government Expenditure and financial

Increase on this examines, the conceptual terms within the shape of impartial variables and structured variables are defined in operational pattern. Most significantly, government Expenditure is seen because the essential charges made within the course of the traditional functions of government. According to Agbonkhese & Asekome (2014), government expenditure is normally labeled into recurrent and capital expenses. Away from this, Leonardo and David (2011) posited other dimension of public prices class, which incorporates total expenditure, economic type and useful category. In step with ecu primary bank (2001), the primary objective of government expenditure so that it will promote monetary improvement is to improve the marginal productivity of the non-public sector's physical capital and labour.

Further, Afonso et al (2005) agreed that public spending can grow human capital and make contributions to innovation and technological progress via funding cost in research and development. For them, the spending of government complements labour productiveness and resultantly promotes monetary growth. Olopade & Olopade (2010) aptly argued that increase means an increase in economic activities.

In identical manner, Likita (1999) defined a country's economic growth as a protracted-time period of upward thrust in potential to deliver increase in numerous economic proper to its population. Thinking about these viewpoints, we should appreciably publish that the quantity of presidency expenditure in numerous sectors of the economy ought to propel increase and growth.

Empirical Review

Notable works had been carried out on this topical issue in literature. Some of these include: Abu & Abdullahi (2010) examined government expenditure and economic growth in Nigeria for the period, 1970-2008 with a disaggregated analysis. Their empirical result indicates that government total capital expenditure (TCAP), Total recurrent expenditure (TREC) and expenditure on education (EDU) have negative effects on economic growth. Similarly, Mutua & Olusijibomi (2013) investigated the relationship linking public expenditure and economic growth in Nigeria during the period 1970-2009, with a co-integration techniques, their result reveal that economic growth and development are the main objectives of government expenditure, especially investment in infrastructure and human resources, all of which falls under social and community services.

In like manner, Naftaly, Symob, Aequilars, & James (2014) considered the effect of government expenditure on economic growth in East Africa with the disaggregated model. Their findings showed that expenditure on health and defense had positive and significant effect on economic growth while those on agriculture and education were insignificant.

Again, Kalu, Eboh & Ikechukwu (2013) studied the influence of government expenditure on administration, economic services, social and community services and total recurrent expenditure in economic development in Nigeria for a period, 1980-2010. Their empirical findings showed a long-run relationship linking government expenditure and real gross domestic product (RGDP).

From the foregoing, it is observable that the trend of studies focus on disaggregated approach to government expenditure analysis. This however, had left a veritable gap in literature of the study which focus is on aggregated approach to government expenditure (i.e. the study considers the Total Capital and Recurrent Expenditure, unlike others that looked at expenditure on administrative, Health, Education, Communication etc). Besides, this study tends to cover a longer series of analysis spanning up to 2014.

Methodology

On the method information evaluationconsidering the sort of study in perspective, the time series evaluation technique was adopted. Secondary data have been gathered from reports of central bank of Nigeria (CBN) for 1990-2014. The records have been analyzed by way of a regression technique with the useful resource of statistical package deal for social science version 21. This method is consistent with the observation of (Nwaiwu, Syder & Musa, 2015; Abu & Abdullahi 2010)

Model Specification

The relationship between economic growth and government expenditure was expressed with an economic model as shown below.

RGDP= f (CE, RE)

RGDP= $a_. + b_1$ CE + e………………………………………………. (1)

RGDP= $a_.$ + b_2 RE + e ……………………………………………. (2)

Where;

RGDP = Real Gross Domestic Product
CE = Capital Expenditure
RE = Recurrent Expenditure
a_o = Constant
b_1& b_2 = Coefficient
e = Stochastic error term

A priori expectation: $a_o > 0$, $b_1 > 0$, $b_2 > 0$

The a priori expectation of the relationship implies that the components of government expenditure are to regress positively with economic growth in Nigeria.

Data Analysis Real Gross Domestic Product

Result and Discussion

Table 1: Relationship Government and Economic Growth in Nigeria

Year	*RGDP*	*Capital Expenditure*	*Recurrent Expenditure*
1990	*267.5*	*6.66*	*13.39*
1991	*265.4*	*11.15*	*15.87*
1992	*271.4*	*16.28*	*20.78*
1993	*274.8*	*14.38*	*29.80*
1994	*275.5*	*18.14*	*37.77*
1995	*281.4*	*24.74*	*53.15*
1996	*293.7*	*29.16*	*54.83*
1997	*302.0*	*33.73*	*58.96*
1998	*310.9*	*68.65*	*75.12*

1999	*312.2*	*60.43*	*102.69*
2000	*329.2*	*158.90*	*196.78*
2001	*357.0*	*235.24*	*294.71*
2002	*433.2*	*283.47*	*424.20*
2003	*477.5*	*324.02*	*545.31*
2004	*527.6*	*412.93*	*556.81*
2005	*561.9*	*514.72*	*789.13*
2006	*595.8*	*583.98*	*894.32*
2007	*634.3*	*854.79*	*1217.43*
2008	*718.9*	*1455.70*	*1505.63*
2009	*718.9*	*1284.16*	*1426.06*
2010	*775.5*	*1522.40*	*1648.40*
2011	*33994.6*	*1375.20*	*2055.80*
2012	*40544.1*	*1965.20*	*1664.40*
2013	*44103.9*	*1890.41*	*1948.43*
2014	*00000.0*	*1862.52*	*2120.48*

Source: Central Bank of Nigeria.

Data Analysis and Discussion

H_{O1}: There is no significant relationship between Capital Expenditure and Real Gross Domestic Product in Nigeria.

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	CE[b]	.	Enter

a. Dependent Variable: RGDP

b. All requested variables entered.

Model	R	R Square	Adjusted R Square	Durbin-Watson		
				R Square Change	F Change	Durbin-Watson
1	.632[a]	.400	.374	.400	15.334	1.316

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1639072133.282	1	1639072133.282	15.334	.001[b]
	Residual	2458446424.965	23	106888974.998		
	Total	4097518558.246	24			

a. Dependent Variable: RGDP

b. Predictors: (Constant), CE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2012.519	2753.049		-.731	.472
	CE	11.857	3.028	.632	3.916	.001
a. Dependent Variable: RGDP						

Discussion of results

The result of the test of hypothesis shows that there's positive relationship among capital expenditure and real gross domestic product in Nigeria. This is statistically justified with the coefficient of the explanatory variable showing a 0.632. By means of this, the beta at 63% implied that such degree of alternate in real gross domestic product is at once explainable with the aid of the trade in capital expenditure. Thanks to that, we can deduce that the deviation of 27% in the actual gross home product in Nigeria will be attributed to stochastic mistakes term. Also the coefficient of willpower (R2) showed forty percent, 40% of RGDP adjustments are traceable to changes in capital expenditure, other adjustments are as a result of errors time period. Besides, Durbin Watson check showed no spurious situation in records with 1.316. Similarly, result of the connection was shown at five percent, 5% stage of significance.

With a study of importance (ie t-statistic) at t-cal 3.916 and t-tab 2.06, it implied that relationship among the variables is giant; subsequently we have statistical evidence to reject the null hypothesis, for the reason that t-cal is higher than the t-tab.

H_{O2}: There is no significant relationship between Recurrent Expenditure and Real Gross Domestic Product in Nigeria.

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	RE[b]	.	Enter

a. Dependent Variable: RGDP

b. All requested variables entered.

Model	R	R Square	Adjusted R Square	Durbin-Watson		
				R Square Change	F Change	Durbin-Watson
1	.589[a]	.347	.319	.347	12.238	1.157

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1423037772.650	1	1423037772.650	12.238	.002[b]
	Residual	2674480785.596	23	116281773.287		
	Total	4097518558.246	24			

a. Dependent Variable: RGDP

b. Predictors: (Constant), RE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2170.935	2996.204		-.725	.476
	RE	10.248	2.929	.589	3.498	.002

a. Dependent Variable: RGDP

Discussion of results

The end result of the test of speculation shows that there's effective relationship among the recurrent expenditure and actual gross home product in Nigeria. This is statistically justified with the coefficient of the explanatory variable showing a 0.589.

By way of this, the beta at 59% implied that such level of change in actual gross domestic product is directly explainable through the change in recurrent expenditure. Considering that fact, we are able to put up that the deviation of forty one, 41% in the real gross domestic product in Nigeria could be attributed to stochastic blunders term.

Also the goodness of shape test (R2) shows that 35% of modifications in RGDP are traceable to recurrent expenditure whilst other modifications are with the aid of the error time period, except, the extent of the connection become proven at 5% level of significance. With a study of importance (ie t-statistic) at t-cal 3.498 and t-tab 2.06, it implied that the connection among the variables is tremendous; consequently we have statistical evidence to reject the null hypothesis, since t-cal is higher than the t-tab. The Durbin Watson check shows no spurious records kingdom of regression.

Conclusion and Recommendations

From the outcomes of the primary speculation, it is far actually proven that there may be a fine and massive relationship between the capital expenditure and actual gross domestic product in Nigeria. This empirically implied that the government expenditure on infrastructural facilities and initiatives along with street community, bridges, schooling, health, protection, telecommunication, industrialization and so forth, correctly effect at the financial boom of Nigeria.

The findings of our study reputedly conform to the claims of Naftaly, Symob, Aequilars & James (2014) and Kalu, Eboh & Ikechukwu (2013). But it defames the viewpoint of Abu & Abdullahi (2010). Consequently, we suggest that adequate government capital expenditure in all sectors of the economy should be sustained to promote correct financial performance.

Similarly, the results of the second speculation justified that there may be a superb relationship linking recurrent expenditure and economic growth in Nigeria. This direct dating lent credence to the reality that government costs on employee remuneration, management, overhead costs and related payments translates into more suitable monetary increase.

It tends to guide the view that once the labour pressure is remunerated, productiveness is not always only secured however it additionally forestalled incessant people’s strike to decorate the economic end result. The findings of this study surely agreed with the perspective of (Mutui & Olusijibomi, 2013). It is therefore advocated that constant attempt should be directed towards maintaining recurrent expenditure that could preserve the boom of financial system in Nigeria.

Reference

Abu, N. & Abdulahi, U. (2010). “Government Expenditure and Economic Growth in Nigeria, 1970-2008: A Disaggregated Analysis” Business and Economics Journal, 6(4),12-30.

Agbonkhese, A.O. & Asekome, M.O. (2014).“Impact of public Expenditure on the Growth of Nigeria Economy”.*European Scientific Journal*” 10(28),55-60.

Cosimo, M., Lorenzo, G. & Macro, M. (2015). “Wagner’s Law and Peacook and Wiseman’s” Dis placement Effect in European Union Countries: A Panel Data Study”. International Journal of Economics and Financial Issues 5(3) 812-819.

Damin, C.N. & Harrison, O.O. (2013). “Public expenditure and economic growth nexus: Further evidence from Nigeria”. *Journal of Economic and International Finance*. 5(4): 146-154.

European Central Bank, 2001, Fiscal Policies and Economic Growth. Monthly Bulletin, August, 41-57.

Gregoriou, A. & Ghosh, S. (2007). The Impact of government expenditure on growth: empirical evidence from heterogenous panel. [http://www.brunel.ac.uk/9379/efwps/0701.pdf].

Leonardo, M.B. & David, B. (2011).The quality of public expenditure and its influence on economic growth: evidences from the state of Rio Grande do sul RS” Minerva program, Washington DC.The George Washington University Press.

Likita,(1999). *Elements of public finance*. Marhel Business Center 103 Lower Mission Road, Ilaro. First Edition.

Naftaly, G., Symon, K. Aquilars, K. & James, O. (2014). “ Effect of Government on Economic Growth in East Africa: A Disaggregated model”. *European Journal of Business and Social Sciences*. 3(8), 289-304.

Nwaiwu, J.N., Syder, I.D. & Momoh-Musa, A. (2015). “Intangible Assets and Financial Performance in Nigeria: Comparative Study of Profit Before Tax and profit After Tax” REIKO *International Journal of Business and Finance*. 8(2), 100-110

Olopade, C. & Olopade, D. O. (2010). “The Impact of Government expenditure on Economic Growth and Development in Countries: Nigeria as A case study”.

Oziengbe, S.A. (2013) “The Relative Impacts of Federal Capital and Recurrent Expenditures on Nigeria’s Economy (1980-2011), Amerian Journal of Economies 3(5)’, 210-221.

Peacook, A.J., & Wiseman, J. (1961). *The Growth of Public Expenditure in the United kingdom*, London: Oxford University Press.