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IMPACT OF GOVERNMENT EXPENDITURE ON NIGERIA'S ECONOMIC GROWTH (1992 – 2011)

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Abstract

The state spends on defence, education, social services, servicing of national debts, capital investments, etc including its expenses on its own administration. Public expenditure on investments and productive activities is expected to accelerate the pace and level of economic activities in the economy, thus leading to higher levels of production and growth. This study therefore seeks to examine the nature and impact of Federal Government Expenditure on Nigeria's economic growth for the period 1992 – 2011. Time series data for the twenty year period were sourced from secondary sources and Ordinary Least Square (OLS) multiple regression technique was used to estimate the hypothesis formulated in line with the objectives of this study. Real Gross Domestic Product, proxy for economic growth is adopted as the dependent variable while Total Recurrent Expenditure and Total Capital Expenditure constitute the independent variables. The results of this study show that the Federal Government Expenditure has a positive and insignificant impact on the economic growth of Nigeria for the period under study. In view of this, it is recommended amongst others that government should allocate more of its resources to the priority sectors of the economy such as agriculture and industry as well as to infrastructural development, in order to encourage growth of the economy.

Keywords: Economic Growth, Recurrent Expenditure, Capital Expenditure, Productive Activity.

1. Introduction

The state spends on defence, education and other social services. It also spends on servicing national debts, capital investment such as Airports, etc. Government also spends on its own maintenance as well as on other countries and governments. Public or government expenditure therefore is the expenses of the government for its own maintenance and on the society and the economy as a whole. The state is getting increasingly involved in economic activities and in transfer payments to other countries. As a result, public expenditure has maintained an upward trend over time in virtually all the countries of the world (Maku, 2009). The major items of public expenditure in Nigeria include: administration, economic services, infrastructures and social amenities, national security and defence, grants and aids and interest on loans.

Public expenditure could be broadly classified into recurrent expenditure and capital expenditure. The expenditures of government which occur regularly throughout the year are referred to as recurrent expenditure. They must be made regularly if the functions of government must be maintained. They include regular salaries of all employees, money spent on the running of essential services or regular maintenance of infrastructural facilities and money spent on administration. Capital expenditure on the other hand are the expenditures of government on the acquisition of things of permanent nature (Nwaeze 2010). They include all expenditure on capital projects such as buildings, construction of roads, bridges and all permanent structures and assets. These usually involve large sums of money and also form the basis of the physical development of a nation.

Fiscal policy comes into play in an effort by government to enhance growth and development in an economy through the variation of its revenue and expenditure profiles. By fiscal policy, we refer to the part of government policy which is concerned with the raising of revenue through taxation and other means and deciding on the level and pattern of expenditure for the purpose of influencing economic activities (Anyanwu, 1993).

In Nigeria, fiscal policy has been used in various ways based on the prevailing economic situation and the objectives the government wants to achieve. The key instruments of fiscal policy in Nigeria include:

(i) **Taxation:** This is seen as a compulsory transfer or payment of money (or occasionally of goods and services) from private individual, institutions or groups to the government. It may be levied upon wealth or income, or in the form of surcharge on prices (Nwaeze, 2005).

(ii) **Public Borrowing:** This simply means the raising of income through loans and advances by government through the Central Bank. The loans may be obtained internally or externally in order to meet government's expenditure.

(iii) **Public Expenditure:** This is the expenses of the government for its own maintenance, for the benefits of the society, the economy, external bodies and for other countries. According to Njoku (2005), public expenditure refers to government spending from revenues derived from taxes and other sources.

Economic growth is an essential ingredient for sustainable development. Economic growth brings about a better standard of living of the people and this is brought about by improvement in infrastructure, health, housing, education and improvement in agricultural productivity. Sustainable development is enhanced by economic growth. Economic growth as a concept is viewed differently by different scholars. This is attributed to the condition prevailing at the time of these scholars. Majority accept it as an increase in the level of national income and output of a country. According to Dewett (2005), it implies an increase in the net national product in a given period of time. Todara and Smith (2006) defined economic growth as a steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income. Jhingan (2006) viewed economic growth as an increase in output. He explained further that it is related to a quantitative sustained increase in a country's per capita income or output accompanied by expansion in its labour force, consumption, capital and volume of trade. The main characteristics of economic growth are high rate of structural transformation, international flows of labour, goods and capital (Ochejele, 2007).

The motive to improve the quality of lives of citizens through the numerous expenses of government has motivated the study of the impact of government expenditure on the economic growth of Nigeria. Across the world over, government spending has been on the increase without a corresponding increase in the economic development of these nations especially in developing nations. This situation has also stimulated research in the area of government spending and economic growth and development.

It is in the light of the above scenario and the huge sums of money spent by the Nigerian government over the yeas that this study examines the impact of government expenditure on Nigeria's economic growth from 1992 to 2011.

2. Statement of the Problem

Since independence, the revenues accruing to Nigeria has been on the increase annually. Nigeria budgets and spends high level of its income on economic activities. In other words, Nigeria is suffering from economic underdevelopment. Among the identified problems in this study include:

(i) Poor and low output of goods and services in relation to the demand for them.
(ii) Basic social and economic services are grossly inadequate and poor.
(iii) The level of technology is very low and as a result primitive technology is till date, being used in agriculture. Low productivity also prevails.
(iv) There is a high degree of unemployment in the country, as there are no functional firms.
(v) Basic infrastructures such as good roads, health facilities are lacking. Power is epileptic and highly unreliable.
(vi) Income per head is low. Savings and investment is also low in Nigeria.

3. Objectives of the Study

This study primarily seeks to examine and evaluate the nature and impact of the federal government expenditure on Nigeria's economic growth between 1992 – 2011. It will also make recommendations on how to improve the impact of government expenditure on the economy.

4. Research Questions

The following research questions are raised in the study.

(i) What is the nature of public expenditure in Nigeria?
(ii) Is there any significant impact of public expenditure on the economic growth of Nigeria?

5. Research Hypothesis

The hypothesis of this study is states as below:

Ho: There is no significant impact of federal government expenditure on the economic growth of Nigeria.

6. Literature Review

The relationship between government expenditure and economic growth has continued to generate series of controversies among scholars in economic literature.

According to Keynesian macroecnomic thought, public spending can contribute positively to economic growth. Hence, an increase in the government spending is likely to lead to an increase in employment, profitability and investment through multiplier effects on aggregate demand. As a result, government spending augments the aggregate demand which provokes an increased output depending on the expenditure multipliers. The opponents of this approach stipulates that government consumption crowds out private investment, hampers economic growth in the short run and diminishes capital accumulation in the long run (Diamond, 1989).

Barro (1990) asserts that expenditure on investment and productive activities is expected to contribute positively to economic growth, while government consumption spending is expected to be growth retarding.

Akpan (2005) made use of disaggregated approach in order to determine the components of government expenditure that enhances growth. He concluded that there was no significant relationship between most components of government expenditure and economic growth in Nigeria.

Moreover, Barro and Sala – I – Martins (1992), classified expenditures as productive and unproductive and assumed that productive expenditures have a direct impact on the rate of economic growth while unproductive expenditures have an indirect or no effect on economic growth. However, government spending on basic infrastructure plays a crucial role in economic growth. Having, for instance, an efficient road network could reduce the time and the cost to move goods and services across the country. It also facilitates the connection among the different parts of the country and enhances their integration. In addition, the rehabilitation of electricity and the establishment of efficient projects for energy will reduce costs and have positive impact on economic growth (Barro, 1990).

Moreover, the quality of human resources has a significant impact on economic growth. This stems from the fact that the quality and quantity of labour determine the level of production since it is a factor of production. Hence, improving the quality of the labour force will be reflected by a positively significant impact on investment and innovation among others (Roux, 1994 and Okojie, 1995). The definition of a nation's wealth has extended to contain not only physical capital but also human capital as an independent factor of production essentially to achieve high and sustainable economic growth rates. Hence, developing countries have attempted to stimulate the accumulation of human capital through public expenditure as well as government spending on health and other social services. Chiung-Ju (2006) estimates the long run relationship between government expenditure and output and found that there exist no long run relationships between these variables. Schaltergger and Torgler (2007) studied the case of Switzerland from 1981 – 2001 and found that there exist a negative relationship between government size and economic growth. Their results also confirm a negative relationship between current expenditure and economic growth. Ghosh and Gregoriou (2008), analysed a panel data for fifteen (15) developing countries for twenty eight (28) years and found that current spending positively impacts on growth while capital spending on the other hand impacts negatively on growth.

7. Methodology

Research Design

This study adopted the ex-post facto design which enables the researcher to observe variables over a long period of time. The Ordinary Least Square (OLS) technique is used to evaluate the relationship between government spending and economic growth.

Nature and Source of Data

For the purpose of arriving at dependable and unbiased analysis, secondary data were employed. These published materials were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletins, National Bureau of Statistics (NBS), Journals, as well as other relevant sources. Data obtained were on variables such as Total Government Expenditure – Recurrent and Capital Expenditure and Real Gross Domestic Product (RGDP) for twenty years.

8. Description of Research Variables

Dependent Variable

In this study, Real Gross Domestic Product (RGDP) is proxied by Economic Growth as the dependent variable. Gross Domestic Product is seen as the total money value of all goods and services produced within a country at any given time.

Independent Variables

The independent or explanatory variables in this study are recurrent expenditure and capital expenditure.

Recurrent Expenditure

Recurrent expenditure are expenditure of government that occur regularly throughout the year. They must be made regularly if the functions of government must be maintained. It does not result in the creation of acquisition of fixed assets. They include regular salaries of employees, money spent on administration and maintenance of infrastructural facilities.

Capital Expenditure

Nwaeze (2010) posits that capital expenditure are expenditures of government on the acquisition of things of permanent nature. They include expenditures on capital projects such as buildings, construction of roads, bridges and all permanent structures and assets.

9. Model Specification

According to Nwaoha (2010), policy makers have two major policies with which to stabilize the economy. The first is monetary policy while the second is fiscal policy. Fiscal policy has its basic instruments as taxes and government expenditure. The two instruments moderate the fluctuations of economic growth (GDP) in a country. This therefore means that the Real Gross

Domestic Product (RGDP) is a function of Total Government Expenditure. Thus, this paper specifies a functional relationship between Real Gross Domestic Product (RGDP) and Total Federal Government Expenditure (TFGE).

Generally, the model is specified as:
RGDP = f(TFGE)……………………………….…….1

Where:
RGDP = Real Gross Domestic Product – Dependent Variable
TFGE = Total Federal Government Expenditure – Independent Variable
TFGE is made up of:
Recurrent Expenditure (RE)
Capital Expenditure (CE)

Thus; RGDP = f (RE, CE)…………………………………2

The mathematical form of this model is thus:
$Y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \mu$…………………….….……..3

Where:

Y	=	Real Gross Domestic Product
β_o, β_1, β_2,	=	Regression Coefficients
X_1	=	Recurrent Expenditure
X_2	=	Capital Expenditure
μ	=	Error term or stochastic term

10. Data Analysis and Results

This study made use of the econometric method or technique of multiple regressions to achieve its objectives. The f-statistics is used to evaluate the model.

Table 1: Macroecnomic Data and Real Gross Domestic Product and Total Federal Government Expenditure

Year	Real GDP	Recurrent Expenditure (₦'Million)	Capital Expenditure (₦'Million)
1992	271365.5	53034.1	39763.3
1993	274833.3	136727.1	54501.8
1994	275450.6	89974.9	70918.3
1995	281407.4	127629.8	121138.3
1996	293745.4	124491.3	212926.3
1997	302022.5	158563.5	269651.7
1998	310890.1	178097.8	309015.6
1999	312178.7	449662.4	498027.6
2000	329178.7	461600.0	239450.9
2001	356994.3	579300.0	438696.5
2002	433203.5	696800.0	321378.1
2003	477533.0	984300.0	241688.3
2004	527576.0	1032700.0	351300.0
2005	561931.4	1223700.0	519500.0
2006	595821.6	1290201.9	552385.8
2007	634251.1	1589290.0	759323.0
2008	672202.6	2117400.0	960900.0
2009	716949.7	2131906.0	1152796.6
2010	77525.7	3310343.38	883,874.50
2011	834000	2400000.0	1010000.0

Sources: CBN Statistical Bulletin (Various)

11. Results

Dependent Variable: RGDP

Variables	**Coefficient**	**Std Error**	**t-statistics**	**Prob.**
C	258897.6171	19573.2977	13.2271	0.000
Recurrent Expd.	0.1563	0.0276	5.6532	0.000
Capital Expd.	0.1187	0.0763	1.5563	0.138
R^2 =	0.936			
$\overline{R}^2$ =	0.928			
F-statistics =	124.229			
DW =	1.450			

The result above shows that recurrent expenditure has a positive coefficient (0.1563). This means that a 1% increase in recurrent expenditure increases RGDP by 0.1563%. The t-statistics value (5.6532) is greater than 2 by the rule of the thumb, showing that recurrent expenditure has a significant effect on RGDP. $P < 0.05$ (i.e. $0.000 < 0.05$) thus, confirming the significant effect of recurrent expenditure on RGDP

The coefficient of capital expenditure is positive (0.1187). A 1% increase in capital expenditure increases RGDP by 0.1187%. The t-statistics value of 1.5563 is less than 2 by the rule of the thumb, showing an insignificant effect on RGDP. Further, P > 0.05 (i.e. 0.138 > 0.05) confirming the significant effect of capital expenditure on RGDP. Thus, capital expenditure has a positive but insignificant effect on RGDP. Over the years, Nigerian government has always allocated more funds to recurrent expenditure which does not result in the creation of any permanent assets than capital expenditure.

Generally, the R^2 of 0.936 shows that the explanatory variables explained 94% variation in the dependent variable of RGDP. F-statistics is 124.220, which is greater than 3.59 (Fcrit). This implies that the model is significant and reliable. Therefore, the null hypothesis is accepted and we conclude that there is no significant impact of federal government expenditure on the economic growth of Nigeria for the period under study (1992 – 2011).

12. Conclusion and Recommendations

Public expenditure on investment and productive activities is expected to contribute positively to economic growth, while government consumption spending is expected to be growth retarding. Government controls the economy through the use of public expenditure. This instrument of government control promotes economic growth in the sense that public investment contributes to capital accumulation. The beauty of public expenditure in promoting economic growth lies with the way it is been spent.

Based on the discussion and findings of this study, the following recommendations are made.

1. Government needs to increase its allocation to the priority sectors of the economy such as agriculture and industry.
2. There is the need for government to provide an enabling environment for investment purposes especially security. Existing infrastructural facilities should be improved. Thus, government spending in these areas has to be enhanced.
3. Government should put in place adequate control measures or techniques to ensure that funds allocated to the different sectors of the economy are judiciously used for the projects for which they are allocated.
4. Government should cut down on its recurrent expenditure and spend more on capital projects and investments which will go a long way in providing a conducive platform for business activities to thrive in our economy.

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