

EFFECT OF GOVERNMENT EXPENDITURE ON ECONOMIC GROWTH IN NIGERIA

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Abstract

The study examines the effects of government expenditure on economic growth of Nigeria (2010-2022). The objectives of this study examine the effect of government total expenditure on economic growth in Nigeria, the effect of government expenditure on agriculture in Nigeria and the effect of government expenditure on investment in Nigeria. Data for this analysis is mainly from secondary sources. These include annual reports of Central Bank of Nigeria and National Bureau of Statistics. The evaluation technique applied in this study is the use of the econometric method of the ordinary least square. The study finds out that government total expenditure has a significant effect on economic growth in Nigeria, that government expenditure on agriculture has a significant effect on economic growth in Nigeria and government expenditure on investment has a significant effect on economic growth in Nigeria. The study therefore concludes that total government expenditure and government expenditure on agriculture has significant effect on economic growth in Nigeria. It further recommends that Government should direct its expenditure towards the productive sectors like education as it would reduce the cost of doing business as well as raise the standard living of poor ones in the country.

Introduction

Government Expenditure no doubt is an important instrument for a government to control the economy of a nation. Economists have been well aware of the effects in promoting economic growth. Anyway, the general view is that government expenditure notably on social and economic infrastructure can be growth enhancing although the financing of such expenditure to provide essential infrastructural facilities including transport, electricity, telecommunication, water and sanitation, waste disposal, education and health can be growth retarding (Olukayode, 2019).

Nowadays, the relationship between government expenditure and economic growth has continues to generate sense or

controversies among scholars in economic literature (Inuwa, 2012). According to him, the nature of the impact of government expenditure on economic growth is in conclusion, and from the view point of the student researcher is still not incontrovertible. As a matter of fact, while some author or researchers believed that the impact of government expenditure on economic growth is negative or non-significant (Tuban, 2020), others believed that the impact is positive and significant (Alexiou, 2019).

The structure of Nigeria government expenditure can bawdily be categorized into capital and recurrent expenditure (Muritala, 2021). The recurrent expenditure is basically government expenses on administration such

as wages, salaries, interest on loans, maintenance cost, etc. However, the expenses on capital project like Roads, Airports, Education, Telecommunication, Electricity, Generator, etc are generally referred to as capital expenditure (Muritala, 2021).

Ironically, the effect of government spending in Nigeria in relation to the economic growth is still a puzzle and an unresolved issue. Indeed theoretically, it is an unresolved issue. Although the theoretical positions on the subject are quite diverse, the conventional wisdom is that or spending is a source of economic instability or stagnation. Empirical research does not conclusive support the conventional wisdom, a few studies report position and significant negative relationship between government spending and economic growth while others find significantly negative or no relation between an increase in government spending and growth in real output. It is against this backdrop, the study is undertaken to empirically evaluate the impact of government expenditure on economic growth in Nigeria.

Statement of Research Problem

In the last decade Nigeria economy has metamorphosed from the level of billion Naira to trillion Naira on the expenditure side of the budget. The effects of this expenditure are largely unnoticeable on the citizenry (Muritola 2021). Empirically, while a negative and no significant relationship between government spending and economic growth have been established, there are much significant negative or no relationship between an increase in government expenditure and economic growth, following these mixed findings, the research objectives below are being raised (Nurudeen and Usman, 2018).

Objectives of the Study

The objective of this study is basically divided into general and specific objective. The general objective is to examine the effect of government expenditure on the economic growth Nigeria. However, the specific objective is as follows:

1. Examine the effect of government total expenditure on economic growth in Nigeria.
2. Examine the effect of government expenditure in agriculture on economic growth in Nigeria.
3. Determine the influence of government investment expenditure on economic growth in Nigeria.

Research Hypotheses

The hypotheses formulated to guide this study are:

H0₁: Government total expenditure has no significant effect on economic growth in Nigeria.

H0₂: Government expenditure in agriculture do not have effect on economic growth in Nigeria.

H0₃: Government investments expenditure do not influence economic growth.

The result is expected to be useful to government in attend to issues accordingly when appropriating expenditures. Local and international investors will find this work useful as it provides evidence of Government commitment toward building enabling business friendly environment in Nigeria. International Financial Institution like the international monetary fund (IMF) and World Bank will find the empirical evidence from this study useful especially in making or taking decision to lend or not to lend to Nigeria government after evaluating the purpose of the expenditure. The study is structured in such a way that next section is where all the related literature are reviewed, section three contains the methodology of the study, the next section is discussed analysis

and results alongside conclusion and recommendations.

Conceptual Review

Economic Growth

Kimberly (2019), defines economic growth as an increase in the productive capacity of a state in terms of production of goods and services over a specific period of time. The economic growth of a nation or state can be measured using gross domestic product. This measure takes into account the country's productive capacity and output. The gross domestic product uses all goods and services that are produced in the country. Maingi (2017) opine that economic growth is caused by many factors, however, they are more associated with higher rate of investment by the private or government sector than on other factors like; consumption spending, higher school enrollment rates, and greater political stability. This proposition has altered the neo-classical view about causes of growth, which they believe can occurs as a result of technical change caused by chance, but economic growth can be fostered and promoted by appropriate policies. Government policies can be targeted toward enhancing the economic growth rates by taxing consumption, subsidizing investment and research, and shifting resources from government consumption to government investment and provide the enabling environment for private sector to drive the growth. However, government policies can deter the level of economic growth, for instance, government borrowing to finance recurrent expenditure, high tax rate for companies, lack of investment in capital stock, high exchange rate and interest rate.

Theoretical Framework

There are basically two main economic growth models that are relevant in economics up to date. These are: the neoclassical growth

theory and the new growth theory. The neoclassical theory holds that economic growth is dependent on accumulation of production factors of labour, capital and also technological growth. The theory laid a particular emphasis on capital accumulation. The theory holds that a country that accumulate capital more rapidly will grow faster than the one whose accumulation is slower (Blanchard, 2011).

The neoclassical growth model, as developed by Solow (1956) and Swan (1956) popularly known as Solow-Swan (1956) growth model, assumes that the productivity of the production inputs of capital and labour are subject to diminishing returns. As such, as a country accumulates more capital inputs, the Marginal Product of Capital (MPC) will reduce. This means that a country with abundant capital will have a lower growth rate than a country which is poor in capital. As such, countries with lower capital per head will grow much faster as they accumulate capital than capital rich countries. This suggests the theory of countries converging as they develop, as richer countries grow slower while poorer countries grow faster.

As economic growth continues, some countries which are leading the growth process will attain the stationary state or steady state of growth where the growth rate in population will be equal the growth rate in capital and this will be equal to the growth rate in output. Thus the growth rate will come to a halt in those countries. The only remedy which the neoclassical model identified is improvement in technology. This will increase the productivity of capital and its marginal productivity will shift to a new level. When we state this in terms of production possibility curve (PPC) or frontier, the PPC will shift outwards making it possible to achieve a higher level of output, increase the per capital output and income

levels. But the neoclassical model identified technology as exogenous variable that comes accidentally and it is not internally determined and this earns the model the name of exogenous model.

The implication of endogenous growth model is that policies that embrace trade openness, competition, change, and innovation will stimulate economic growth. On the other hand policies that restrict or protect firms or favour existing firms will be growth retarding rather than growth enhancing. (Barr and Sala-i-Martin, 2004). This study selects the endogenous growth model as the relevant theoretical framework. The reason is that the endogenous growth model is more realistic. The endogenous model says that economic growth is dependent on what the country is doing. The theory states that for a country to develop, it has to make the right decisions in terms of policy frameworks by making the necessary sacrifices: subsidizing basic research, investing in producing quality human capital, providing infrastructural facilities to enhance manufacturing activities, since this stimulates exports, having good institutions, among others. This means that the Nigerian government can stimulate economic growth through its policies.

Empirical Review

There are many studies on the role of government spending in the long-term growth of national economies. However, there exists no consistent evidence for significant relationship between public expenditure and economic growth, in positive or negative direction. Results and evidence about the effects of government expenditure or spending on economic growth differ by country or region, analytical method employed and the classification of public expenditures.

There are various empirical studies on the growth effects of government spending based

on the experiences of set developed countries.

Gannon (2023) explored the rational for governments' investments into science and technologies. Gannon posits that "if you want to harvest in autumn, you need to sow in spring. This ancient saying holds true not only for agriculture, but for all economic activities". When we changed the scenario from agriculture to economic growth in terms of employment level, per capita income, export, etc. the sowing can be viewed in terms of private and public investments. In the context of the present scenario, sowing refers to investment in research and development as a percentage of the GDP. It is argued that the higher the level of investment in science and technology as the percentage of the GDP, the higher the level of economic growth.

Backgrounder (2018) studied why government expenditure does not stimulate economic growth. In this study, he considered the myth of government spending to stimulate growth. He argued that the more government spending is, the higher the level of taxation from the public and therefore the more transfer payment are made. He argued that increasing productivity requires increasing material capital and human capital. Improved functioning of the market is another important ingredient that stimulates growth and productivity.

Cooray (2019) studied the impact of government expenditure on economic growth. The study makes use of the neoclassical production function. It incorporates not only the size of government but the quality of governance. The study uses Generalized Moment Method (GMM). The size of the government is measured based on the size of government expenditure. The quality of governance is based on the quality of decision-making paradigm. The study makes use of 71 countries. The study

demonstrates that both the size and the quality of governance have impact on the level of economic growth. There are various studies regarding the growth effects of spending based on the experiences of a set of developed countries. Alexandra (2020) applied OLS method for sample of 13 Organization for Economic Cooperation and Development (OECD) countries panel (1999-14). The result shows that growth of government spending and inflation has significant negative impact on growth.

Mitchell (2015) evaluated the impact of government spending on economic performance in developed countries. He assessed the international evidence, reviewed the latest academic research and cited examples of countries that have significantly reduced government spending as a share of national output and analyzed the economic consequences of these reforms. Regardless of the methodology or model employed, he concluded that a large and growing government is not conducive to better to economic performance.

Albatel (2020) studied the relationship between government expenditure and economic growth in Saudi Arabia. He classified Government Expenditure into Investment (GI), Government Expenditure (GE) and Government Consumption (GC). Using the error correction method (VEC model), he demonstrated that both Government Investment (GI) and Government Expenditure (GE) have significant impact on economic growth in Saudi Arabia but government consumption expenditure does not have a significant impact on economic growth during the period of 1994 to 2015.

Gregoriou and Ghosh (2017) studied the impact of government expenditure growth using heterogeneous panel of developing countries. The method of analysis employed was the Generalized Method of Moment

(GMM). The data employed covered the period of 1997 to 2017 and was derived Global Development Network Database, compiled by William Easterly. The study demonstrated that in some countries with the fast growing economics such as Brazil, the capital expenditure stimulate economic growth than in the less developed countries such as Sudan.

Nurudeen and Usman (2020) studied government in Nigeria using data from 1997 to 2017. They made use of time-series methods of stationary test and the ordinary regression methods using Error Correction (ECM). The variables used for the study were Real Recurrent Expenditure (TREC), real capital expenditure (capital expenditure divided by consumer price index, CPI), real expenditure on defense (DEF), real expenditure on agriculture (AGR), real expenditure on education (EDU), real expenditure on transport and communication (TRACO), the overall Fiscal Balance (FISBA) and the inflation rate (IFN). The result of the study shows that economic growth is negative related to total recurrent expenditure (TREC), total capital expenditure (TCAP), education (EDU) and the overall fiscal balance (FISBA). The study shows that economic growth was positively related to Transport and Communication (TRACO). The ECM shows that it takes on average a period of six (6) months to recover from short term disequilibrium.

Osborn, Haque and Bose (2013) examined the growth effect of government expenditure for a panel of thirty developing countries over the decades of the 1990s and 2010, with a particular focus on sectorial expenditures. Their methodology explicitly recognizes the role of the government budget constraint and the possible biases arising from omitted variables. Their primary results are twofold. Firstly, the share of government capital expenditure in GDP is positively and

significantly correlated with economic growth, but current expenditure is significant. Secondly, at the sectorial level, government investment and total expenditures on education are the only outlays that are significantly associated with growth one the budget constraint and omitted variables are taken in to consideration.

Methodology

Research design

The study adopted a descriptive research design. Descriptive research design is more appropriate because the study seeks to build a profile about the relationship between domestic debt and economic growth. The data of this research work was time series and taken from the year 2010 to 2022, so there were total 12 years data which was obtained

Where

RGDP = Real gross domestic product.

TEXP = Total Expenditure

GEA = Government Expenditure on Agriculture

GEINVEST = Government Expenditure on Investment

F = Functional Notation

This equation can be restated in an econometric form as:

$$RGDP = a_0 + a_1TEXP + a_2GEA + a_3GEINVEST + \mu \quad (2)$$

Where

a_0 = Autonomous or intercept

a_1 = Coefficient of parameter TEXP

a_2 = Coefficient of parameter GEA

a_3 = Coefficient of parameter GEINVEST

μ = Stochastic variable or error term

The above equation can also be restated in its logged form as;

$$\text{LogRGDP} = a_0 + a_1\text{LogTEXP} + a_2\text{LogGEA} + a_3\text{LogGEINVEST} + \mu \quad (3)$$

Where

Log = Logarithmic values of the variables

Evaluation Techniques

The evaluation technique applied in this study is the use of the econometric method of the ordinary least square, which Koutsoyiannis (1997) remarked as the “best linear” unbiased estimator (BLUE). The

to conduct the study. Data of total expenditure, government expenditure on agriculture, government expenditure on investment and GDP was collected from annual reports of Central Bank of Nigeria and National Bureau of Statistics.

Model Specification

The specification of the model for this work is based on the objective of the study. To analyze the relationship between gross domestic product (GDP) and its causative factors (total expenditure, government expenditure on agriculture, government expenditure on investment) various forms have been tested and the most appropriate form, *i.e.* log linear form, for the variables was specified. The linear regression model is stated in a functional form as;

(1)

estimates of the model are obtained using the econometric package of e-view. Therefore, diagnostic statistics like the coefficient of determination, adjusted R^2 , F-statistics, Durbin Watson and Standard error shall be

employed to test the plausibility of our parameters.

Unit Root Tests

Given the fact that the study used time series data, it was worthwhile to test for stationarity and covariance between the two time periods depends only on the distance or gap and not the actual time then the series is said to be stationary. Stationarity tested by using Augmented Dickey-Fuller (ADF) unit root tests. According to Granger and Newbold

(1974), if the variables under study are non-stationary then they may lead to unauthentic results so it's important that the series of data is stationary. In this study the Augmented Dickey-Fuller (ADF) test is applied to check the Stationarity of the variables.

Rule of taking Decision:

If $t^* >$ ADF critical value, then do not reject null hypothesis, i.e., unit root exists.

If $t^* <$ ADF critical value, then reject the null hypothesis, i.e., unit root does not exist.

Data analysis and Interpretation

Descriptive Statistics

The descriptive statistics reveals the individual characteristics of the variables

used in this study highlighting their median, mean, maximum and minimum values, standard deviation, skewness, kurtosis, Jarque-Bera and probability.

Table 4.1 Summary of Descriptive Statistics

	RGDP	TEXP	GEA	GEINVEST
Mean	496.6896	1783.617	17.64040	105.7372
Median	433.2000	1018.160	9.990000	64.78000
Maximum	987.8800	5185.320	65.40000	390.4200
Minimum	265.3800	60.27000	0.210000	0.290000
Std. Dev.	231.6730	1738.121	19.00136	120.1808
Skewness	0.635811	0.754981	1.064199	1.212994
Kurtosis	2.076327	2.073046	3.195146	3.232467
Jarque-Bera	2.573117	3.270032	4.758504	6.186933

Source: E-view Version 8.0

The table above reveals the mean values for real gross domestic product, total government expenditure, government expenditure on agriculture, government expenditure on investment, 496.6896, 1783.617, 105.7372, and 17.64040 respectively. The median value for the series are 433.2, 1018.2, 9.99 and 64.7 respectively for real gross domestic product, total government expenditure, government expenditure on agriculture, government expenditure on investment. It should be noted that the median is a robust measure of the centre of the distribution that is less sensitive to outliers than the mean. The maximum for the series are 987.9, 5185.3, 65.4 and 390.4 for real gross domestic product, total

government expenditure, government expenditure on agriculture, and government expenditure on investment respectively. The minimum values are 265.4, 60.3, 0.29, and 0.2 for real gross domestic product, total government expenditure, government expenditure on agriculture, government expenditure on investment respectively.

The standard deviations which are a measure of dispersion spread in each of the series are 231.7, 1738.1, 19.0 and 120.2 respectively for real gross domestic product, total government expenditure, government expenditure on agriculture, and government expenditure on investment respectively. Skewness which is a measure of asymmetry of the distribution of series around its mean,

are all positive for the capital structure variables which means that the distribution has a long right tail. The Kurtosis statistic that measures the peakedness or flatness of the distribution of each of the series is calculated at 2.076327, 2.073046, 3.195146 and 3.232467 respectively for real gross domestic product, total government expenditure, government expenditure on agriculture, and government expenditure on investment.

The Jarque-Bera statistic, which is a test statistic for testing whether the series is normally distributed, measuring the difference of the skewness and kurtosis of the

series with those from the normal distribution is reported at 2.573117, 3.270032, 4.758504 and 6.186933 respectively for real gross domestic product, total government expenditure, government expenditure on agriculture, government expenditure on investment.

Unit Root Test

In this study, the data used were subjected Augmented Dickey Fuller unit root test to determine the stationarity or otherwise of the variables used.

Table 4.2 Augmented Dickey Fuller Test for Stationarity

Variables	ADF Statistic	Order Of Integration	Level Of Significance
RGDP	-5273120	1(2)	5%
TEXP	-6.168052	1(2)	5%
GEA	-5.565583	1(1)	5%
GEINVEST	-4.210375	I(1)	5%

Sources: Author's Computation from the E-view 8.0

The result of Augmented Dickey Fuller test shows that RGDP and TEXP were differenced twice to assume stationarity while GEA and GEINVEST were difference once to achieve stationarity at levels.

Cointegration Test

Table 4.3 Johanson Cointegration Test

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.988015	225.2996	95.75366	0.0000
At most 1 *	0.896238	123.5452	69.81889	0.0000
At most 2 *	0.878666	71.43520	47.85613	0.0001
At most 3	0.493632	22.92345	29.79707	0.2499

Trace test indicates 3 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.988015	101.7544	40.07757	0.0000
At most 1 *	0.896238	52.11002	33.87687	0.0001
At most 2 *	0.878666	48.51175	27.58434	0.0000
At most 3	0.493632	15.65130	21.13162	0.2459

Max-eigenvalue test indicates 3 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Source: E-view 8.0

The results of the multivariate Cointegration test were validated using the Johansen (1995) approach. The result of Trace and Maximum Eigen values shows that there exist three (3) Conintegrating equations which is significant at 0.05 level of significance. This implies that a long-run relationship exists among the variables used in the study. That is, the linear combination of these variables cancels out the stochastic trend in the series. This will prevent the generation of spurious regression results. Hence, the implication of this result is a long run relationship between

government expenditure and economic growth in Nigeria.

Presentation of Regression Result

The table below shows the regression result for the model formulated in methodology. Having verified the existence of long-run relationships among the variables in our model, we therefore, subject the model to Ordinary Least Square (OLS) to generate the coefficients of the parameters of our regression model.

Table 4.4 Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.782696	0.695860	5.436004	0.0000
GEINVEST	-0.185120	0.125472	-1.475391	0.1565
GEA	-0.152668	0.061994	-2.462625	0.0235
TEXP	0.397840	0.127083	3.130550	0.0055
R-squared	0.904430			
Adjusted R-squared	0.879280			
F-statistic	35.96156	Durbin-Watson stat		1.825405
Prob(F-statistic)	0.000000			

Source: E-view 8.0

The regression equation can be restated as follows:

$$\text{RGDP} = 3.782696 + 0.397840 \text{ TEXP} - 0.185120 \text{ GEINVEST} - 0.152668 \text{ GEA}$$

The table and the regression equation revealed that total government expenditure have a positive and significant effect on economic growth. This implies that a unit increase in total government expenditure will bring about 0.397840 increases in real gross domestic productivity holding other factors constant. The regression result also reveals that government expenditure on agriculture has a negative and significant effect on economic growth.

From our regression result, the coefficient of determination (R^2) is given as 0.904430, which shows that the explanatory power of the variables is very high and/or strong. This implies that 78% of the variations in economic growth are being accounted for or explained by the variations in real gross domestic product, total government expenditure, government expenditure on agriculture and government expenditure on investment.

The adjusted R^2 supports the claim of the R^2 with a value of 0.879280 indicating that 73% of the total variation in the dependent variable (economic growth is explained by the independent variables). Thus, this supports the statement that the explanatory power of the variables is very high and strong.

The F-test is applied to check the overall significance of the model. The F-statistic is instrumental in verifying the overall significance of an estimated model. The f-statistics of 35.96156 and f-probability of 0.000000 implies that there is significant effect between the dependent and independent variables in the model.

Using Durbin-Watson (DW) statistics which we obtain from our regression result, it is observed that DW statistic is 1.825405 or

approximately 2. This implies that there is no autocorrelation since d^* is approximately equal to two. 2.004310 tend towards two more than it tends towards zero. Therefore, the variables in the model are not autocorrelated and that the model is reliable for predications.

4.5 Test of Hypotheses

The test is used to know the statistical significance of the individual parameters.

Hypothesis One

Ho: Government total expenditure has no significant effect on economic growth in Nigeria.

Total government expenditure is statistically significant with t-statistics of 3.130550. Therefore, the null hypothesis is rejected will the alternative hypothesis is accepted. This implies that government total expenditure has a significant effect on economic growth in Nigeria.

Hypothesis Two

Ho: Government expenditure on agriculture has no significant effect on economic growth in Nigeria.

Government expenditure on agriculture is statistically significant with a t-statistics value of 2.462625. Therefore, the null hypothesis is rejected will the alternative hypothesis is accepted. This implies that government expenditure on agriculture has a significant effect on economic growth in Nigeria.

Hypothesis Three

H0: Government investments expenditure do not influence economic growth in Nigeria. Government expenditure on investment is statistically significant with a t-statistics value of 1.475391. Therefore, the null hypothesis is rejected will the alternative hypothesis is accepted. This implies that government expenditure on investment has a significant effect on economic growth in Nigeria.

Summary of Findings, Conclusion and Recommendations

Summary of Findings

The study revealed the following:

1. That government total expenditure has a significant effect on economic growth in Nigeria.
2. The study also revealed that government expenditure on agriculture has a significant effect on economic growth in Nigeria.
3. The study also revealed that government expenditure on investment has no significant effect on economic growth in Nigeria.

Conclusion

This work attempted to examine the effect of government expenditure on economic growth in Nigeria. Total government expenditure, government expenditure on agriculture and government expenditure on investment were regressed to determine its effect on economic growth in Nigeria. The result of Augmented Dickey Fuller test shows that RGDP and TEXP were differenced twice to assume stationarity. GEA and GEINVEST were difference once to achieve stationarity at levels. Also, the result of Trace and Maximum Eigen values shows that there exist three (3) cointegrating equations which is significant at 0.05 level of significance. This implies that a long-run relationship exists among the variables used in the study.

The study revealed that government total expenditure has a significant effect on economic growth in Nigeria. The study also revealed that government expenditure on agriculture has a significant effect on economic growth in Nigeria. The study also revealed that government expenditure on investment has no significant effect on economic growth in Nigeria. The study therefore concludes that total government expenditure and government expenditure on

agriculture has significant effect on economic growth in Nigeria.

Recommendations

Based on the empirical findings, the study recommends the following

1. The proportion of government total expenditure that goes into agriculture should be increased since this component exert significant positive effect on economic. Government capital spending in agriculture if properly managed will raise the nation's production capacity and employment, which in turn will increase economic growth in Nigeria.
2. Government should encourage the education and health sectors through increased funding, as well as ensuring that the resources are properly managed and used for the development of education and health services.
3. Government should direct its expenditure towards the productive sectors like education as it would reduce the cost of doing business as well as raise the standard living of poor ones in the country.

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