AN EMPIRICAL ANALYSIS OF THE IMPACT OF GOVERNMENT EXPENDITURE ON ECONOMIC GROWTH OF NIGERIA

(1980–2011)

BY

UKPABI NNAMDI

EC/2009/782

BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS, FACULTY OF MANAGEMENT AND SOCIAL SCIENCES, CARITAS UNIVERSITY,

IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHELOR OF SCIENCE (B.Sc) DEGREE IN ECONOMICS

AUGUST, 2013.

TITLE PAGE

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APPROVAL PAGE

This is to certify that this research work by UKPABI NNAMDI, presented to the department of economics, Caritas University, was supervised and approved to have met the conditions necessary for the award of a bachelor of science (B.Sc) degree in Economics.

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DEDICATION

I dedicate this research work to Almighty God for his guidance and protection and also my beloved parents, brother and sisters, who supported me in one way or the order.

ACKNOWNLEDGEMENT

I must express my profound gratitude to Almighty God for his guidance and protection throughout my academic pursuit and for making this project a success.

My appreciation goes to my lovely parent Mr. and Mrs. UKPABI for their love, guidance, advice and their financial support throughout my academic pursuit and also my siblings Nnenna,Ify,Chinwendu and Obinna for their words of encouragement.

My sincere appreciation goes to my supervisor Mr.Odionye for bringing out his time, suggestions and correction which guided me to achieve this work, I also wish to thank the head of department Barr onwudinjo,p.c(Esq) and I also thanks all the lectures Dr Umadi , prof Onah, prof Udabah, Mr.Uche, Mr.Ojike ,Mr.Odike, Mr.odo and Mr. Osodiuru for their advice.

I also want to appreciate the following persons Ucharia,Miracle,Ben,Terngu,Texas,Ik,Chigozie,Oluchi,Eddiong,Samunel,Emma,Godwin,Triumph,Kenneth,I say a big thank you to you all for your support.

ABSTRACT

The study investigates the impact of government expenditure on economic growth of Nigeria from the period 1980-2011. The objective was set to address the problem of utilization of revenue targeted to improving the economic condition of Nigeria. The review of theoretical and empirical literature provided a basis for the selection and specification of model which was used to show if government capital and recurrent expenditure has positive or negative impact on economic growth. The data were got from CBN statistical bulletin. To proper solution to the problem, policies were recommended to tackle the setbacks to economic growth.

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CHAPTER ONE

1.1 BACKGROUND OF THE STUDY

In all most all economics today government intervention in undertaking fundamental roles of allocation, stabilization, distribution and regulation, especially where or when market proves inefficient or its outcome is socially unacceptable. Government also intervenes, particularly in developing economics to achieve macroeconomics objective such as economic growth and development, full employment, price stability and poverty reduction.(AESS PUBLICATION 2011).

Public finance is to provide information to all arms of government in other to provide use full data as done for the develop nations that transferred public finance technology to developing nation. Public finance is used for allocation, stabilization and distribution (Musgrave and Musgrave 1989).

Public finance is the study of the principle underlying the spending and raising of funds by public authorities (shirras, 1969). It is the field of economics that studies government activities and alternative means of financing expenditure (hymann 1993))

It is a fact that no society though out history has ever attained a high level of economic affluence without a government. Where government do not exist anarchy reigned and little wealth was accumulated by productive economy activity. After government took hold the rule of law and the establishment of private property right often contributed and it has similarly impacted on their societies as well.

Economic growth represents the expansion of a country GDP or outputs. Growth means an increase in economic activities.

Todaro (1995) Citing Kuznets defined a country economic growth as a long term rise in capacity to supply increasing diverse economic goods to is population, this growth capacity based on advancing technology and the institutional and ideological adjustment that is demand. The board objective of this project is the role of government expenditure in economic growth.

Government is necessary through by no means sufficient condition for prosperity it is also a facts, however, that where government have monopolized the allocation of resources and other economic decisions, societies have been successful in attaining

relatively high level of economic affluence. Economic progress is limited both when it is at or near 100%. The experience of the old Soviet Union is revealing as well the comparison of east and West Germany during the cold war era or of north and South Korea today.

In the Nigeria context, the public sectors consist of the federal government, state government and local government. The second national development, just as it considered public enterprise as crucial to growth and self reliance due to capital scarcity, structural defects in the private sector. Third nation's development plan(1975-1980) advocated some shift in resources allocation in favors of rural areas which were said to have benefited little from the economic growth of the 1970's.

Thus smaller farmer and the rural population were expected to benefit from public expenditure.

During the first nation rolling plan (1989-1991), government aimed at effort to combat inflation, hence large budgetary deficits were to be made more avoided. Government expenditures were to be made more cost effective and kept at level that were consistent with

the nations resources realistic growth target and general economic stability

The major instruments by which the government can ensure an effective growth in economic activities are;

i. Expenditure that induce the firm or workers to produce certain goods and services.
ii. Taxes that reduce private consumption or investment and thereby free resource for public expenditure.
iii. Regulation and controls that direct people performance or desist for economic growth to attain economic growth.

These objectives are summarized as;

a. Provision of infrastructural facilities such as good roads, light, water, transport and communication facilities etc in both urban and rural area with the view to adequate support to the productive sector and enhancing private sector participation on the various sectors of the economy.
b. Streamlining public expenditure to give priority to the completion of the initial ongoing viable project.

Direct expenditure is that incurred in an establishment of economically viable commercial enterprises such as iron and steel complex, oil and gas refineries etc.

Government expenditure in addition to raising the level of economic growth also influences the pattern of production and the component of output.

Generally government expenditure is classified into two which are by current expenditure which involves all expenditure by government for maintenance of existing or new institutions and services, they are salaries, wages of public offers and fringe benefits and expenses for servicing activities which involves administration, defense and other social services like education, health and pension schemes.

The other one is capital expenditure this are the cost of bringing into existence new institutions, services and project. It is simply all government expenses on building road, factories, schools, and equipment requirement for providing social and economic services.

1.2 **STATEMENT OF PROBLEM**

The size of government expenditure and its effects on long-run economic growth and vice versa has been as issued of sustained interest for decades.

According to Dunnet (1990) economic growth is an increase in real per capita gross national product (GNP).

Economic growth is the steady process by which the productivity capacity of an economy is increased over time to bring about rising level of national output and income.

Growth is an engine of development, there can be no development without growth hence, and economic growth is desirable since it associated an increase in welfare.

At the new dawn of millennium Africa in general and Nigeria in particular still face monumental development like low level of income characterized by low per capita income, inequality, poor health and inadequate education. All this are consequences of poverty Nigeria present a paradox the country is rich but the people are poor. Per capital income today in Nigeria is around the same level as 1970.

Meanwhile between1970-2000 over 200million dollars has been earned from the exploitation of countries resources.

Nigeria is rich in land, oil, people and natural gas resources, yet Nigeria has been bedeviled with debts problem.

Nigeria has been classified by the World Bank as a low developing country. She is characterized by the wide spread poverty not less than 60% of Nigerian population are below poverty line according to the united national development report (UNDP) 1998.

The better reality of the Nigerian situation is not yet that the poverty line is getting worse by the day but more than fourteen of Nigerians live in condition of extreme poverty of less than ₦320 per month which barely provide for a quarter of the nutritional requirement of health living.

The sluggish growth of the Nigerian economy despite the increase in government expenditure has been rather surprising.

Since independent according to Kweka, P.J (1969, 1986, 1999), government consumption and investment expenditure in Nigeria has been on the increase.

On the other hand, the GDP growth rate of Nigerian economy has not been regular; in fact it has been less static. In order to successfully map out a strategy for accelerating Nigeria's growth rate in the year ahead it is necessary to full understand the sources of economic growth in Nigeria during the past four decades. One will notice that government expenditure in Nigeria has been on the increase.

1.3 **OBJECTIVE OF THE STUDY**

1. To find out if government expenditure significantly affects economic growth in Nigeria.
2. To find the causality direction of the relationship between government expenditure and economic growth in Nigeria.

1.4 **STATEMENT OF HYPOTHESIS**

The following null hypothesis will be tested at 5% level of significance.

1. H_0= government capital expenditure has no impact on the Nigerian economy.
2. H_0= government recurrent expenditure has no significant impact on the Nigerian economy.
3. H_0=there is no direction of causality between gross domestic product and government expenditure.

1.5 SIGNIFICANCE OF THE STUDY

This study has much significance on household, stakeholders and no government as a whole, because economic growth is an engine of the economy.

i. This research will serve as a research as a references on the other researcher who may carryout research work in this field of study.
ii. This research would help Nigerian government and her policy makers to restore fiscal discipline in Nigeria.
iii. This study would help in the debt management in Nigeria.

1.6 **SCOPE AND LIMITATION OF THE STUDY**

In any research study of this nature, there is normally the enthusiasm to touch as many areas as possible which are connected to the various needs of such study.

However due to the nature and scope of the work, such a wild scope is out of the question since a work of this nature can hardly achieve a feat.

This study will examine mainly the Impact of government expenditure on economic growth of Nigeria covering the period 1980 to 2011.

CHAPTER TWO

LITERATURE REVIEW

This is the review of various economic theories to ensure advancement this chapter enlightens the impacts of various government expenditure on the economy.

In the view of this it is divided into two parts; the theoretical literature and empirical literature.

The theoretical literature which is concentrated with economics theories as regards to government expenditure on economic growth, while empirical literature which identifies the element of government expenditure that bears significant association with economic growth.

2.1 **THEORITICAL LITERATURE**

Some economic policies points out the relationship between government expenditure and Economics growth while other donot agree with the relationship.

The classical school led by Adam smith does not agree with government intervention on the affairs of the economy, Saying that there should be laissez- faire and that the private individuals should carry out the economic activities for the total growth of the economy, while some other economic authorities believe that the government expenditure has a great impact on the economy.

John Maynard Keynes argued that government spending particularly boosts the economy.

The political and social structures of a country are determinant of its economic make-up and framework.

In other words, the level of economic growth and development in Nigeria are dependent on how the government managers the affairs of the country. The impact of government expenditure depend on its form LIN(1994) outline some important way in which government can increase growth these include provision of public goods and infrastructure social service and targeted intervention (such as export subside).

The country has experienced chronic stagnation since its political independence

Omoruyi (1988) asserted that the issue of government activities and its fiscal actions are not whether they are justified but how discretion is exercised in the use of the power involved since such actions have definite effects on the economy of the country in various dimension

Anyato (1996) government expenditure is the total in cash terms of the federal, state and the local government spending including transfers to the parastatals and the three levels of the government. In as much as public expenditure is highly desirable, it however takes form of allocation stabilization of resources.(Musgrave and Musgrave 1989).

The allocation of function becomes necessary so as provide both private and in particular social goods in appropriate mix with available resources.

The provision of social and physical infrastructure through public investment and expenditure on some goods and services theoretical can directly improve productivity in the private sector through more efficient allocation of resources due to the special characteristics of social goods (spill over and externalities, non

excludability) they will be provided at all or where they are produced the output will be inadequate and outrageously expensive if left in the hand of private individuals.

Meanwhile, Ojo and Okauroumu (1992) observed the basis, the form of intervention of government in the economy, and the general effect of government activities as three important issues on government fiscal policy and economic growth.

Killick (1981) also supported that it is the responsibility of the state through expenditure to provide the desirable services which the price mechanism cannot provide or produce at all or would only do so at high cost and with smaller social benefit. As noted in chapter one the component of expenditure, recurrent expenditure is government expenditure made regularly from year to year. Some examples includes personnel cost, overhead cost, utility services, telephones, furniture and equipment, entertainment and hospitals expenses.

On the other hand capital expenditure are spend on new construction, land and building acquisition, fixed assets which have expected working life more than one year.

According to Gbosi (2002) asserted an alternative characterization of expenditure. This divides total expenditure into transfer and non-transfer expenditure.

Generally, there is certain expenditure which does not result in corresponding of the transfer of real resources to the government, the payment on debt unemployment benefit for example of this expenditure. Here the governments usually transfer additional financial resources to some sections of the society.

On the other hand non transfer payment may include the actual expenditure incurred by the government for the use of goods and services, to a large extent, the use of resources received in returns for non-transfer payment may also be for consumption or investment purpose.

To this effect, one can say expenditure on defense, education, energy, road, and infrastructure and industry are all regarded non transfer payment or expenditure, and in other words, they are usually referred to as real expenditure, with respect to public expenditure categorization on component. (According to Anyanwu and Anyafor respectively).

Some assertions were made; it is because capital and recurrent expenditure result from different period of benefit that financing differences exists, because capital expenditure confers benefits over several years, it is organized that the cost should be spread over the years of that benefits. Therefore if a health center is built and paid for the current, it would seen harsh expect the total cost to be financed by current year's tax payers, when the health is expected to provide services for say the next thirty years.

Anyanwu (1997) continued the argument by saying that for a government to be successful in its fundamental aims and objectives. It is necessary to give careful consideration to the planning of the capital expenditure requirement. Through historical government expenditure is found to be continuously increasing overtime in almost every country, the area of government expenditure remains relatively unexplored (MAL, BASHIR 2001)

Mankiw (1997) recognize the use of Keynesian cross and IS-LM in analyzing the relationship existing between government expenditure and economic growth.

With the use of Keynesian cross, he explained than an increase in government expenditure leads to an even greater increase in income (Y) is larger than changes in expenditure (G).

2.1.1 **THE ROLE OF PUBLIC EXPENDITURE**

Public expenditure is used for allocation, stabilization and distribution of resources (MUSGRAVE AND MUSGRAVE 1989)

The allocation function becomes necessary so as to provide both private and in particular, social goods in appropriate mix with available resources.

Due to special characteristics of goods (spillover, externalities, non- excludability/joint consumption, non rivalries) they will not be provided at all, or where they are produced the output will be inadequate and outrageously costly if left in the hands of private individuals, the government intervenes using the instrument of public expenditure and other fiscal policy tools.

According to Omoruyi (1998) stabilization function of public expenditure is that of maintaining high employment, a reasonable

degree of price stability an appropriate rate of economic growth, with allowance for effect on trade and on the balance of payment. That is the stabilization function is concerned with the attainment by the national economy of full employment and capital utilization at stable price, a good balance of intervention performance and a satisfactory rate of growth in per capita income over a period of time.

2.2 **EMPIRICAL LITERATURE**

The empirical work in the relationship between expenditure and its economic growth is being explored. This is calculated effort aimed at ascertaining the validity of the theoretical work.

In an attempt to prove and defend his ever law of increasing state activity (Wagner).

This impact can be of two parts, firstly the negative impact of the size of the government expenditure on the factor productivity and capital formation which resulted to lower economic growth. According to Devarajan et al (1993) using the sample of OECD

countries found that government expenditure on education and defense did not have a positive impact.

Also government extra allocation to its officials i.e. allowance for vacation, car allowance etc do not have any positive impact on the economy. Secondly the positive significant of the government spending on the economic growth. However, Al-Yousif (2000) when investigating the effect of government expenditure on economic growth in Saudi Arabia found a positive relationship. FAM (1986) using a sample of one hundred countries found government expenditure to have significant positive effect on growth.

Lin (1994) used a sample of sixty-two countries and found that non productive spending has no effect on growth in advanced countries but a positive in less developed countries

Wagner has indicated that it can be verified empirically for a number of developed countries that is the per capita output increases over time the state activities and expenditure growth more than proportionately.

For one to appreciate this, it is necessary to appreciate this, it is necessary to provide statistically tested evidence that is related to

Nigeria. Aigokoha (1996) in his study of the impact of government expenditure as a measure of economic growth found a negative relationship between the two.

Ozoh (1993) in his study of local government expenditure in Nigeria found a negative relationship between government's expenditure and economic growth and concluded that government expenditure has an adverse effect on growth.

Faforiji Bayo (1984) established that existence of Wagner's law he made use of two methods in his study. Firstly he compared the rate of growth of public expenditure and that of the National income. He there observed the electricity coefficient of public expenditure is greater than unity and is increasing overtime.

In his study, he used data covering seventeen years period (1961-1977) and also tested the existence of "displacement effect". He then came up with the following conclusion. The evidence shows that while Wagner's law is readily applicable to the trend of public expenditure growth in Nigeria, the displacement effect is not (at least not in the peacock-Wiseman fashion). In 1967-1970 civil war did not affect the tax and expenditure trend significantly but the

displacement can easily explain in the trend increased tax which occurred in Nigeria the advent of oil boom (Faforiji 1984:30)

Mbanefo (1987) on his own study explained the growth of government expenditure in Nigeria by testing peacock and Wiseman's hypothesis.

He focused on the expenditure of federal and state government and was concerned more with war years (1966-1970) and less with oil boom era (1971-1980). He tested the displacement effect of the civil war combined with expenditure of federal and state government; he approached the problem by drawing inference from the tax structure in the war years and the trend of expenditure.

Essien (1997) also tested the applicability of wangner's law in Nigeria. He discovered that the growth in government expenditure would not likely be the cause of income growth.

Studies based on endogenous growth model distinguished between productive and non productive expenditure (Keller et al 1998).

According to Barro and Sala-i-Martin (1992) expenditure are classified as productive if they are included in private production function and unproductive if they are not. This implies that

productive expenditure has a direct effect upon economic growth but unproductive expenditure has indirect effect.

Most empirical work provides multivariate time series method in estimating the response of consumption and the number of other variable to an exogenous increase in government spending. Jordi et al argued with many authors that government spending leads to a significant increase in consumption, with an attendant fall in capital formation which would not lead to economic growth.

Although some other economist questioned the acceptability of wagner's law as it implies to different level of economic development.

Adzadoli and Gray (1985) used panel data for 55 countries divided them into three groups which is in accordance to their level of development from (1963-1979). Using five regressions, they upheld wagner's law for the wealthier countries, but not for poorest countries. This contradicted some previous works which were in support of wanger. It became clear that no unique test of wanger's law existed, and where strong evidence existed. It has fraught with

methodological shortcomings. This was as a result of the fact that the test so far ignored the time series properties of the data used.

Considering a developing country like Nigeria the uninsured question still remain; does wanger's law apply to a developing country's GDP and it government expenditure a spurious one? If the law holds, what is the nature of degree of the relationship? Under a federal system of administration, the public sector role is economic management and development is joint responsibilities of the various level of government.

A federal structure ensure that public goods and services which are consumed at local level are supplied by state and local authorities, while the central government concentrated on provision of services that are centrally consumed. Therefore in order to prevent conflict and ensure efficient provision of services, the functional responsibilities and revenue sharing arrangement are always enshrined in the constitution protecting the inter-dependence, inter government fiscal relationship of the tiers of government (MAL.Bashir J umare, pg 2of 8).

Shashanka and singh (2000) analyzed the effect of fiscal stimulus on growth by choosing a proxy variable to test the later effect on the overall economic growth. Devarajan, Swaroop and Zon (1996) classified government expenditure as productive and unproductive and found public spending to have negative effect on economic growth in developing countries. This emphasis made on previous studies, no empirical evidence provides clear-out answer on how the consumption of public expenditure affects economic growth. Also Shashanka and Singh (2008) argue in favour of market forces based on requirement of a business environment which motivate private investment and sustain economic growth. Non-productive such as subsidies to public enterprise produces marketable goods. The government borrowing to finance such activities weakens the business environment.

That most economists also differ on the effect of taxes and it's composition especially on investment and consumption. They summarized their main conceptual argument within the framework of the stylized classified and Keynesian model.

The prediction of the response of investment to government expenditure and taxes are totally opposite in the case of Keynesian

and classical framework. On the opposite both model predicts similar response of consumption to change in taxes.

Shengyam Fam and Nectan Raw (2003) in their work on public spending in developing countries trend, determination and impact with the objective to view trends of government expenditure in developing world, to develop and analytical framework for determine the differential impact on the various government expenditure on economic growth. They started by saying that, it has been observed that structural adjustment programme (SAP) increase that size of government spending but not all sector receives equal treatment. To them total government spending on agriculture, education and infrastructure in Africa, on agriculture and health in Asia and education and infrastructure in Latin America, all decline as a result of structural adjustment programme (SAP).

The expectation was not realized due to a mix of government expenditure that was not conducive to growth.

However Ogiogio (1995) carried out a study. The result of this analysis indicated that the productivity base which can support

growth in absence of investment is lacking. The economic is vulnerable to micro economics disturbances.

Junko and Vitali (IMF, 2008) investigate the impact of government expenditure on economic growth in Azeribaijan because of the temporarily oil production boom (2005. 2007), which caused expectation large expenditure increased aimed at improving infrastructure and raising income. Azeribaijan total expenditure increased by a cumulative 160 percent in nominal value from 2005 to 2007 (i.e. from 41 percent of non oil crop to 74 percent). In their research reference which were made to Nigeria and Saudi Arabia (1970-1989) who have also experienced oil boom and increased government expenditure over the years. The study stimulated the new classical growth model tailored to the Azeri conditions.

There analysis suggested that the evaluation fiscal scenario poses significant risks to growth sustainability and historical experience indicates that the initial growth performance largely depends on the efficiency of the scale-up expenditure. The study also sheds light on the risk associated with a sudden scaling-down of expenditure, including the political difficulties to undertake an orderly expenditure, reduction strategy without underming

economic growth and crowding our effect of large government domestic borrowing.

Josaphat et al (2000), investigated the impact of government spending on economic growth in Tanzania (1965-1996) using time series data for 32 years. They formulated a simple growth accounting model, adapting. Ram (2011) model in which total government expenditure is disaggregated into expenditure on (physical) investment, consumption spending and human capital investment. It was found that increased productivity expenditure (physical investment) have a negative impact on growth, and which in particular appears to be associated with increased private consumption. The results revealed that expenditure on human capital investment was insignificant in their regression and confirms that view that public investment in Tanzania has not been productive as follows by Josaphat et al (2000).

They examined the growth effect of government expenditure for a panel of thirty developing countries (including Nigeria) over the decades of the 1970s and 1980s, with a particular focus on sectorial expenditure.

The primary research results showed that the shares of government capital expenditure in GNP is positively and significantly correlated with economic growth, but government current expenditure is insignificant.

The result at sectorial level revealed that government investment and total expenditures on education are the only outlays that remains significantly associated with growth throughout the analysis.

Although public investments and expenditures in the other sectors (transport and communication, defense) was found initial to have significant associations with growth, but do not survive when government budgets constraints and other sectorial expenditures were incorporated into the analysis.

Also private investment share of GNP was found to be associated with economic growth in a significant and positive manner.

Landau (1983) found that the share of government consumption to GNP reduced economic growth which was

consistent with the pro-market view that the growth in government constraints overall economic growth.

The conclusion were germane to growth per capita output and do not necessarily speak to increase in economic welfare. Economic growth was also found to be positively related to total investment in education. In the later study, landau (1986) extended the analysis to include human and physical capital, political, international condition as well as a three year lag on government spending in GNP.

Government spending was disaggregated to include investment, transfers, education, defense and other government consumption. The results impart earlier studies in that general government consumption was significant and had a negative influence on growth. Education spending was positive but no significant. It was unclear why lagged variable were included given that the channels through which government influence growth suggest a contemporaneous relationship.

In summary of most of the studies found a negative relationship between government and economic growth.

Lindauer and Valendrie (1992) recognize that government can have a negative effect because of the suppression of private investment expenditure through high taxes and deficit financing.

But in accordance to economic theories government expenditure have a positive impact on economic growth because it would increase money in circulation i.e money supply and also aggregate demand and as well consumption and investment would increase and capital formation which would lead to economic growth.

CHAPTER THREE

REASEARCH DESIGN AND METHODOLOGY

3.1 MODEL SPECIFICATION

This chapter will concentrate on the method of the study adopted in the collection of data required and analysis of result. The core of this research report explain how work will be undertaken and how the researcher intend to known from his result whether he has found a solution to the problem or not.

The variable included in this model are based on data collected from a period of (1980-2011) through which the impact of government expenditure and other variables like money supply, inflation and foreign debt was explained. The necessary information needed to explore this economic phenomenon can be illustrated in a functional relationship.

3.1.1 REGRESSION MODEL

Economic relationship is not however assumed to be exact. Other variable apart from the ones stated exist which can influence

economic growth but are omitted in the model. These factors omitted in the model are considered by introducing the error term or random variable (disturbance term) in the model to capture all kind of disturbance that might distort the structure of the model.

As stated earlier, the variables to not be used are gross domestic product as the independent variable and government recurrent expenditure, government capital expenditure, inflation rate, money supply and foreign debt.

The model can be specific in mathematical form as:

GDP=F(GCE,GRE,INF,M2,FD)

In econometrics form;

GDP=Bo+B1(GCE)+B2(GRE)+B3(INF)+B4(M2)+B5(FD)+Ui

WHERE;

GDP=GROSS DOMESTIC PRODUCT

GCE=GOVERNMENT CAPITAL EXPENDITURE

GRE=GOVERNMENT RECURRENT EXPENDITURE

INF=INFLATION

M2=MONEY SUPPLY

FD=FOREIGN DEBT

U_i=ERROR TERM

3.2 **METHOD OF ESTIMATION**

The economic technique employed in the study is the ordinary least square (OLS). This is because the OLS computational procedure is fairly simple a best linear estimator among all unbiased estimation, efficient and shown to have the smallest (minimum variance) thus, it become the best linear unbiased estimator (BLUE) in the classical linear regression (CLR) model. Basic assumptions of the OLS are related to the forms of the relationship among the distribution of the random variance (U_i).

OLS estimator are said to be blue if the following hold;

It is linear, that is a linear function of a random variable say Y; a dependent is the regression model. Unbiased, it estimated value E (B) is equal to its value B.

Minimum variance is the class of all such linear unbiased estimator.

Finally, the OLS is an essential component of most otger economic technique.

3.3 **METHOD OF EVALUATION**

To evaluate the regression result in thus research model, it shall be on the basis of the economic a priori expectation of the parameters and statistical test.

3.4 **ECONOMIC APRIORI EXPECTATION**

The economic apriori expectation involves an examination of the sign and magnitude of the estimated parameters to determine the conformity with theoretical expectation.

In our regression model, B_1 will be positive implying that GCE impact positively on GDP ($B_1>0$), B_2 will indicate a positive relation between GRE and GDP ($B_2>0$), B_3 show a negative relationship which means that inflation has a negative impact on GDP ($B_3<0$), B_4

indicate that money supply is positively related to GDP ($B_4>0$), also foreign debt show a negative relationship with GDP ($B_5<0$).

STATISTICAL TEST

These are test determined by statistical theory and aimed at evaluating the reliability of the parameters estimates.

This statistical test will be employed in this research work to test the significant of the parameters including the F-test, student t-test and co-efficient of correlation R^2.

F-TEST

This test is conducted for the overall significant of our model. Thus if F calculated is greater than F tabulated value at the chosen significant level, we can then conclude that our model is significant i.e. $B_0=B_1=B_2=B_3=B_4=B_5=0$.

Other hand if F calculated is less than F tabulated at chosen significant level, we conclude that our model is not significant and we reject our alternative hypothesis.

STUDENT t-TEST

It is used to determine the statistical significance of the parameter estimates. The T-statistics will be given in parenthesis beneath its parameters estimates.

A two tailed test would be carried out at 5% level of significance. When the calculated T-value is greater than the table T-value, the parameter is statistically significant and vice versa.

CO-EFFICIENT OF CORRELATION R^2

This also determines the goodness of fit of the model. It simply tells us the total variation in the independent variable that is attributed to changes in the explanatory variables.

Put differently R^2 shows the percentages of the total variation of the dependent variable that can be explained by the independent variables e.g. $R^2=B_1E_1Y+B_2E_2Y+B_3E_3Y+\ldots\ldots\ldots+B_nEX_nY/EY_2$.

3.5 **SOURCES OF DATA**

A secondary data was employed in this analysis as is suit the economic research nature of the work.

The data used were gotten from major sources which are;

Central bank of Nigeria statistical bulletin, CBN annual report.

Economic journals and textbooks.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF RESULT

4.1 Interpretation of Result

Dependent variable: GDP.

Method: Ordinary Least Square.

Period of study: 1980 – 2011

Included Observations: 32

Variable	Coefficient	Standard error	t-statistics	t-prob.
Constant	143789.4	956436.8	0.150339	0.8817
GCE	2.831710	3.483224	2.812957	0.4236
GRE	-0.345578	0.917376	-0.376703	0.7095
INF	1568.471	25825.85	0.060733	0.9520
MS	2.102326	0.336306	6.251228	0.0000
FD	0.624019	0.345635	1.805427	0.0826

R-squared	0.940860	Mean dependent var.	6300595
Adjusted R-squared	0.929487	S. D. Dependent var.	9554413
S. E. Of regression	2537115	Akaike info criterion	32.49831
Sum squared resid.	1.67E + 14	Schwarz criterion	32.77314
Log likelihood	-513.9730	F-statistics	82.72644
Durbin Watson	3.108635	Prob (F-statistic)	0.000000

From the above, the interpretation of the result as regard the coefficient of various regressors is stated as follows:

The value of the intercept which is 143789.4 shows that the Nigerian economy will experience a 143789.4 increase when all other variables are held constant.

The estimate coefficients which are 2.831710 for {GCE} shows that a unit change will cause a 2.831710 increase in GDP, -0.345578 for {GRE} shows that a unit change will cause a -0.345578 decrease in GDP, 1568.471 for {INF} shows that a unit change will cause a 1568.471 increase in GDP, 2.102326 for {MS} shows that a unit change will cause a 2.102326 increase in GDP, 0.624019 for {FD} shows that a unit change will cause a 0.624019 increase in GDP.

4.2 **Evaluation of Result**

4.2 1**Economic Apriori Criteria**

The test is aimed at determining whether the signs and sizes of the results are in line with what economic theory postulates.

Thus, economic theory tells us that the coefficients are positively related to the dependent variable, if an increase in any of the explanatory variables leads to a decrease in the dependent variable.

Therefore, the variable under consideration and their parameter exhibition of a priori signs have been summarized in the table below.

Variables	Expected signs	Estimate	Remark
GCE	+	$\beta > 0$	Conform
GRE	+	$\beta < 0$	Not Conform
INF	-	$\beta > 0$	Not Conform
MS	+	$\beta > 0$	Conform
FD	-	$\beta > 0$	Not conform

From the above table, it is observed that GCE and MS conform while GRE, INF and FD do not conform to the economic theories.

A positive relationship which exists between GCE and MS indicates that an increase in GCE and MS will result in a positive change in the Growth Rate. This conforms to the priori expectation because

an increased or high GCE and MS over the years will increase Inflation in the economy.

4.2.2 **Statistical Criteria (First order test)**

4.2. 2.1 **Coefficient of Multiple Determinants (R^2)**

The R^2 {R-Squared} which measures the overall goodness of fit of the entire regression, shows the value as 0.940860 = 94.0860% approximately 94%. This indicates that the independent variables accounts for about 94% of the variation in the dependent variable.

4.2.2.2 **The Student's t-Test:**

The test is carried out, to check for the individual significance of the variables. Statistically, the t-statistics of the variables under consideration is interpreted based on the following statement of hypothesis.

H_0: The individual parameters are not significant.

H_1: The individual parameters are significant.

Decision Rule:

If t-calculated > t-tabulated, we reject the null hypothesis {H_0} and accept the alternative hypothesis {H_1}, and if otherwise, we select the null hypothesis {H_0} and reject the alternative hypothesis {H_1}.

Level of significance = α at 5% =

= 0.025

Degree of freedom: n-k

Where n: sample size.

K: Number of parameter.

The t-test is summarized in the table below:

Variables {t-value}	t-tab	Remark
GCE {2.812957}	± 2.056	Significant
GRE {-0.376703}	± 2.056	Insignificant
INF {0.060733}	± 2.056	Insignificant
MS{6.251228}	± 2.056	Significant
FD{1.805427}	± 2.056	Insignificant

The t-statistics is used to test for individual significance of the estimated parameters {β_1, β_2, β_3, β_4, and β_5}.

From the table above, we can deduce that GCE {2.812957} and MS {6.251228} are greater than 2.056 which represent the t-tabulated implying that GCE and MS are statistically Significant.

On the other hand, the intercept {0.150339}, GRE {-0.376703}, INF {0.060733} and FD {1.805427} are less than the t-tabulated {±2.056} signifying that the intercept, GRE, INF and FD are statistically insignificant.

4.2.3 **F-Statistics:**

The F-statistics is used to test for simultaneous significance of all the estimated parameters.

The hypothesis is stated;

H_0: $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5$

H_1: $\beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 \neq \beta_5$

Level of significance: α at 5%

Degree of freedom: $V_1 = k-1$ $V_2 = N-K$ d/f

Decision Rule:

If the f-calculated is greater than the f-tabulated {f-cal > f-tab} reject the null hypothesis {H_0} that the overall estimate is not significant and conclude that the overall estimate is statistically significant.

From the result, f-calculated {82.72644} is greater that the f-tabulated {2.45}, that is, f-cal > f-tab. Hence, we reject the null hypothesis $\{H_0\}$ that the overall estimate has a good fit which implies that our independent variables are simultaneously signifycant.

4.3 **Econometrics Criteria**

4.3.1 **Test for Autocorrelation:**

One of the underlying assumptions of the ordinary least regression is that the succession values of the random variables are temporarily independent. In the context of the series analysis, this means that an error {Ut} is not correlated with one or more of previous errors $\{U_{t-1}\}$. The problem is usually dictated with Durbin-Watson {DW} statistics.

The durbin-watson's test compares the empirical d* and du in d-u tables to their transforms $\{4-d_L\}$ and $\{4-d_U\}$.

Decision Rule:

- If $d^* < D_L$, then we reject the null hypothesis of no correlation and accept that there is positive autocorrelation of first order.
- If $d^* > \{4-d_L\}$, we reject the null hypothesis and accept that there is negative autocorrelation of the first order.
- If $d_U < d^* < \{4-d_U\}$, we accept the null hypothesis of no autocorrelation.
- If $d_L < d^* < d_U$ or if $\{4-d_U\} < \{4-d_L\}$, that test is inconclusive.

Where: d_L = Lower limit

D_U = Upper limit

D^* = Durbin Watson.

From our regression result, we have;

$D^* = 3.108635$

$D_L = 1.109$

$D_U = 1.819$

$4-d_L = 2.891$

Conclusion:

Since d*{3.108635} > {4-d_L} {2.891}, we reject the null hypothesis and accept that there is negative autocorrelation of the first order.

4.4 **Policy Implications**

1. Government should channel their expenditure to productive sectors (Agricultural sector, Industrial sector) of the economic in order to increase economic growth.
2. Government should increase their expenditure on projects that will enhance economic growth.

CHAPTER FIVE

SUMMARY, POLICY RECOMMENDATION AND CONCLUSION

5.1 SUMMARY OF FINDINGS

Based on the empirical result, the main finding of the research can be briefly summarized as follows.

a. That government expenditure has a positive relationship on economic of Nigeria.
b. That inflation rate has a negative impact on economic of Nigeria.
c. That money supply has a positive impact on economic of Nigeria.
d. That foreign debt has a negative impact on economic of Nigeria within the period under study.

5.2 **RECOMMENDATION**

One most have seen from the study that the contribution of government expenditure to economic growth is significant at 5%level based on the findings; these are some possible recommendation to the government.

1. The independent corrupt practices and other related crimes commission and the economic and financial crime should be reformed, strengthened and modernized to engender transparency in the conduct of government affairs.
2. The government should implement tax reforms to increase revenue.
3. The government should also adopt a public expenditure rule that prohibits the deficits from exceeding GDP.
4. The government should adopt a public medium term expenditure framework to ensure predictable and sustainable public financing at all level of government.
5. The federal budget strategy of constraining spending growth below output growth particular attention paid to constraining transfer payment should be encouraged.

6. There should be all increased promotion of private enterprises by creating a macroeconomic framework a kind of over arching national keeping that will ensure that Nigeria make the most what it earns as a nation, that is spend only what it can afford and that all level of government uses the same budget.

5.3 **CONCLUSION**

From the empirical result, it is found out that government expenditure has a positive impact on the economic from the period covered (1980- 2011).

Therefore government is advised to encourage the federal government expenditure through various policy measures like granting of subsidies, increasing sectorial allocation to the sector, expenditure on education, health infrastructures, industries and other project to facilitate the productive base of the economy. On the other hand, it was seen that inflation rate, foreign debt, have no significant impact on economic growth.

This shows that government have not provided all the needed measures to check price stability, excess money supply, low

industrialization, subsistence agriculture and other sources of inflation rate, foreign debt in the country.

Thus government and policy worker should do everything within their reach to ensure that price is stable money supply is not excessive (contractionary measures) so as to reduce inflation and promote economic growth.

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