CHAPTER ONE

1.0 INTRODUCTION:

1.1.1 BACKGROUND OF THE STUDY.

Government expenditure has served as a common means of using fiscal policy in many countries to achieve economic growth, expansion, development and transformation of the economic base. According to Musgrave (1989), He described public expenditure as tool used to achieve three distinct objectives which include allocation, distributive and stabilization purpose. Hence the public expenditure is a comprehensive set of expenditure policy measures designed to achieve certain set up macro-economic goals including maintaining equilibrium between the aggregate demand and aggregate supply (IMF 1993).

There are many irregularities in the country leading to public outcry and there was increasing fraud in government activities resulting from an inappropriate public finance planning and implementation mostly in Nigeria. Banks and businesses were collapsing which lead to crises in the external and internal activity of the economy. Some of the hills that caused this are corruption, indiscipline, lack of accountability which is the hallmark of the Nigerian society resulting to decrease in growth and development. Evident of unstable economic is fund in poorest wages and salary structure

in the world. The inter-relationship effect is low productivity, avoidable, idle time, leading to loss of trade with advanced countries that have better finished products. The consequential effect is deficit in balance of trade and payment.

To this extent Sulieman (2009) observes that the size of government and also its impact on economic growth has emerged as a major fiscal management issue facing economies in transition. He notes that previous research focused mainly on the size of government in industrialised countries, (DC's), trade dependency, the vulnerability to external shock and volatility of finance, the role and size of government become germane to adjustment and stabilization programme. Mitchel (2005) has argued that a large and growing government is not conducive to better economic performance.

For decades public expenditure has been expanding in Nigeria, as in other countries of the world. Akpan (2005) opines that the observed growth in public spending appears to apply to most countries regardless of their level of economic development. This necessitates the need to determine the need to determine whether the behaviour of Nigeria public expenditure and the economy can be hinged on wagner's (1883) law of ever-increasing state activity or the Keynesian (1936) theory and Friedman (1979) or peacock and Wiseman's (1979) hypothesis.

Consequently, this study dwells primarily on the expenditure side of public finance, and seeks to examine the relationship between government expenditure and economic growth in Nigeria for the period 1980 to 2010. Although this is in line with the previous empirical studies considered for the Nigeria situation. However in this work, this study employs econometric methodology after examining the fiscal factors in the link between public expenditure and economic growth.

1.2 STATEMENT OF THE PROBLEM.

Policy makers are divided as to whether government expansion helps or hinders economic growth. Advocates of bigger government argue that government programs provide value "pubic goods" such as education and infrastructure they also claim that increases in government spending can boost economic growth by putting money into people's pocket. Proponents of smaller government have the opposite view. They explain that government is too big and that higher spending undermines economic growth by transferring additional from the productive sector of the economy to government, which uses them less efficiently. They also warn that expanding public expenditure leads to complication in implementing pre-growth policies, Such as fundamental tax reform and personal retirement accounts. This is because critics can use the existence of budget deficit as a reason to opposite policies that would strengthen the growth of the economy.

A major concern about the Keynesian school of thought is that; if government interference is an effective remedy for recession and has no side effect, why do so many oppose the policy of budgetary expansion? Firstly, a large public sector diminishes the business sector in personal and the sources of investment. It may be maintained that in time of recession, much of the workforce is not employed at all, and therefore, employment in the public sector does not come at the expense of the public sector.

Furthermore, in any growing economy, Government spending can be curtailed, the government can revert to a lower level of spending and personnel can be redirected to the business sector. However, while budgetary expansion is easy in recession, cut-backs during economic high are very difficult. No minister or director of a public institution relinquishes authority and budget easily. The result is an inflated and inefficient public sector even after the recession is over, and also a lower rate of growth in the private sector than its potential would indicate.

The relationship between public expenditure and growth is important especially for developing countries (Nigeria inclusive), most of which have experienced increasing level of public expenditure over time. There is evidence that, unlike in the case if developed countries, consumption is not negatively related with economic growth. This study shall empirical investigate this relationship in the case of Nigeria, with a view of explaining the reason behind the observed causality between them.

1.3 OBJECTIVE OF THE STUDY

This study intends to appraise the relationship between government expenditure and economic growth over the years (1980-2010). The trend of government expenditure will be assessed with reference to the Nigerian economy, the specific objectives are:

- To examine the impact of government expenditure on economic growth.
- To identify the trend of public expenditure in Nigeria.
- To examine the constraint limiting the effectiveness of public expenditure as an engine of economic growth.
- To proffer solutions to the problems identified in factors limiting the effectiveness of public expenditure.

1.4 STATEMENT OF HYPOTHESIS.

$H_{o:}$ The government expenditure has no positive effect on the economic growth of Nigeria.

H_1: The government expenditure has positive effect on the economic growth of Nigeria.

1.5 SIGNIFICANCE OF THE STUDY.

Whilst acknowledging the fact that this study is not the first of its kind using the Nigeria data. However, it shall go a little further than earlier works to correctly capture all known composition of public expenditure during the years under review to assess the impact of public expenditure on economic growth.

The relationship between government spending and growth is especially important for developing countries like Nigeria, most of which have experienced increasing levels of public expenditures over time. This has tended to be associated with rising fiscal deficit, suggesting their limited ability to raise sufficiently revenue to finance higher level of expenditure. Rising deficit tends to retard economic growth in developing countries because of the inability of such country to check inflation during deficit years. Thus, this study gives a good insight into problems created by rising government expenditure and how the same impact on growth.

Also, this study will enable policy makers to promote economic without recourse to huge deficit finance. This often results in inflation particularly when increase in government expenditure is no matched by corresponding increase in output. The bitter experience of the oil boom is still fresh in many minds.

1.6 SCOPE AND LIMITATIONS OF THE STUDY.

The growth of government spending and its impact on the performance of the economy shall be examined with data spanning from 1980 to 2010. Attention shall mainly be focused on exhaustive and productive government expenditure during the period under review.

One major limitation of the study is that the data to be used for the empirical analysis may be porous as such data are often manipulated for political reason. Besides, the study shall cover a limited number of years because of none availability of data. Another constraint to be faced in the cause of my study is time factor; the time frame of my work is going to hinder me from gathering as much information needed for proper analysis of the impact of government expenditure.

Another limitation to my study is finance, lack and insufficient finance for finding sources of information and acquisition of material for my study. But not withstanding of these limitations the study will serve its purpose.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 THEORITICAL LITERATURE

Public expenditure theory, traditionally, received only a scanty attention till recently. Partly, this lop-sided interest in the theory of public finance is explained by a general acceptance of the philosophy of laissez-faire and belief in the efficacy of free market mechanism. However, with the advent of welfare economics the role of the state has expanded especially in the area of infrastructural provision and theory of public expenditure is attracting increasing attention. This tendency has been reinforced by the widening interest of economists in the problems of economic growth, planning, regional disparities, distributive justice and the like (Bhatia, 2002).

The theory of public expenditure may be discussed in the context of increasing public expenditure, the range of public expenditure and or in terms of the division of a given amount of public expenditure into different items like recurrent and capital expenditure. The later of the two parts may also be conceived in terms of allocation of the economy's resources between providing public goods on the one hand and private goods on the other hand, but more emphasis are laid on the theories.

2.1.1 THEORIES OF INCREASING PUBLIC EXPENDITURE

There are two and well-known theories of increasing public expenditure. The first is the Wagner's and the other is the Wiseman and Peacock. On one hand, Wagner revealed that there are inherent tendencies of the activities layers of different government (such as central, state and local government) to increase both intensively and extensively. He maintained that there was a functional relationship between growth of the economy and government activities.

A. Peacock and Wiseman's Theory of Expenditure.

Peacock and Wiseman's study is probably one of the best known analyses of the time pattern of public expenditures.

They founded their analyses upon a political theory of public determination namely that governments like to spend more money and citizens do not like to pay taxes, and that government need to pay some attention to the wishes of their citizens. The duo saw taxation as setting a constraint on government expenditure. As the economy and thus incomes grew, tax revenue and constant tax rate would rise, thereby enabling public expenditure to show a gradual upward trend even though within the economy there might be a divergence between what people regarded as being desirable level of public expenditure and the desirable level of taxation. During the periods of social upheaval however, this gradual upward trend in public expenditure would be disturbed. These periods would coincide with war, famine or some large-scale social disaster, which would require a rapid Increase in public expenditures; the

government would be forced to raise taxation levies. Therefore, it raises its taxation to expand its scope of services to improve the social condition of the citizens.

B. Ernest Engel's Theory of Public Expenditure.

Ernest Engel was also a German economist writing almost the same time as Adolph Wagner in the 19th century. Engel pointed out over a century ago that the composition of the consumer budget changes as family income increases. A smaller share comes to be spent on certain goods such as work clothing and a larger share on others, such as for coats, expensive jewelleries etc. As average income increase, smaller changes in the consumption pattern for the economy may begin to occur. At the earlier stages of national development, there is need for overhead capital such as roads, harbours, power installations, pipe-borne water etc. But as the economy developed, one would expect the public share in capital formation to decline over time. Individual expenditure pattern is thus compared to nation expenditure and Engel finding is referred to as the declining portion of outlays on foods.

C. Wagner's Law of Increasing State Activities.

Thus, Wagner was emphasizing long-term trend rather than short-term changes in public expenditure. Moreover, he was not concerned with the mechanism of increase in public expenditure. Since it is based on historical experience, the precise quantitative relationship between the extent of increase in public

expenditure and time taken by it was not fixed in any way, and could not be used to predict its rate of increase in future. Actually, it is consistent with the Wagner's law of the state that in future, the state expenditure will increase at a rate slower than the national income though speaking; it had increase at a faster rate in the past. Thus, in the initial stage of economy growth, the state finds out that it has to expand its activities quite fast in several fields like education, health, civil amenities, transport, communications, and so on. But when the initial deficiency is removed, then the increase in state activities many be slowed down. The factors, which contribute to the tendency of increasing public expenditure, relate to a growing role of the state in ever-increasing socio-economic complexities of the modern society.

2.2 Empirical Review

Numerous studies have been conducted to investigate the relationship between government spending and economic growth. Landau (1983) found that the share of government consumption to GDP reduced economic growth which was consistent with the pro-market view that the growth in government hinders overall economic growth. The conclusions were germane to growth in 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 a later study, Landua (1986) extends the analysis to include human and physical capital, political, international conditions as well as a three year lag on

government spending in GDP. Government spending was disaggregated to include investment, transfers, education, defence and other government consumption. The results in part mirrored the earlier studies in that general government consumption was significant and had a negative influence on growth. Abizadeh and Yousefi (1998) use South Korean data to test Wagner's law. They first conduct Granger type causality tests, and then estimate a growth equation and a government expenditure growth equation by using annual data for the period of 1961-1992. They exclude government expenditures from the GDP to obtain the private sector GDP, and use this in their tests. After comparing the results from the estimations authors conclude that government expenditures did not contributed to economic growth in Korea.

Singh and Sahni (1984) use the Granger causality test to determine the causality direction between national income and public expenditures in India. Total (aggregate) as well as disaggregate expenditure data for the period of 1950-1981 were used. Data used in the study were annual and deflated by using implicit national income deflator. The study finds no causal process confirming the Wagnerian or the opposite view. Tang, Tuck Cheong (2001) investigated the relationship between national income and Government expenditure in Malaysia. The annual data over the period 1960 to1998 were used. The result of Johansen multivariate co integration revealed that no long run relationship among the non-stationary variables existed. Further, a unidirectional causality was observed, that is, from national income growth to Government expenditure

growth. Thus, they concluded that Wagner's law is supported by the data, in the short run.

Cheng and Lai (1997) examined the causality between government expenditure and economic growth in South Korea by applying the techniques of Sims (1980), Johansen's co integration (1988, 1990), and Hsiao's (1981) version of the Granger causality method to post-Korean war data. Unlike other studies, we choose one single country with an attempt to make a more in-depth investigation and analysis.

In their paper, Folster S, Henrekson M (2001) studied the relationship between government expenditure and economic growth for a sample of wealthy countries for 1970-95 periods, using various econometric approaches. The authors submitted that more meaningful (robust) results are generated, as econometric problems are addressed. In India, Ranjan KD, Sharman C examined the effect of government development expenditure on economic growth during the period 1950-2007. The authors discovered a significant positive impact of government expenditure on economic growth. They also reported the existence of co integration among the variables. Al-Yousif Y (2000) indicated that government spending has a positive relationship with economic growth in Saudi Arabia. On his part, Ram R (1986) studied the linkage between government expenditure and economic growth for a group of 115 countries during the period 1950-1980. The author used both cross sections,

time series data in his analysis, and confirmed a positive influence of government expenditure on economic growth.

Looray A (2009) used an econometric model that takes government expenditure and quality of governance into consideration, in across-sectional study that includes 71 countries. The results revealed that both the size and quality of the government are associated with economic growth. Bu-Quarn AS, (2003) employed multivariate co-integration and variance decomposition approach to examine the causal relationship between government expenditures and economic growth for Egypt, Israel, and Syria. Ansari et al (1997) attempt to determine the direction of causality between government expenditure and national income for three African countries Ghana, Kenya, and South Africa, using standard Granger testing procedures and the Holmes-Hutton (1990) causality test, which is a modified version of the Granger test. The study uses annual data on per capita government expenditure and national income for the period from 1957 to 1990. Both variables were deflated by using the GDP deflator for each country. The study finds that in Ghana, Kenya and South Africa there is no long run equilibrium relationship between government expenditure and national income over the sample period. For these countries, there is no evidence of Wagner's hypothesis or the reverse being supported in the short run, except for Ghana where Wagner's law is supported.

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Dogan (2006) aimed to determine the direction of causality between national income and government expenditures for Indonesia, Malaysia, Philippines, Singapore, and Thailand. Granger causality tests are used to investigate the causal links between the two variables. Times series data covering last four decades are used. Support for the hypothesis that causality runs from government expenditures to national income has been found only in the case of Philippines. There is no evidence for this hypothesis and its reverse for the other countries.

Islam (2001) used annual data for the period 1929-1996 to examine the Wagner’s hypothesis for the USA. The study found that the relative size of government expenditures and real Gross National Product per capita are co

integrated by using Johansen-Juselius co integration approach. Moreover, Wagner's hypothesis is strongly supported by the result of Engle-Granger (1987) error correction approach.

In the bi-variate framework, the authors observed a bi-directional (feedback) and long run negative relationships between government spending and economic growth. Moreover, the causality test within the trivariate framework (that include share of government civilian expenditures in GDP, military burden, and economic growth) illustrated that military burden has a negative impact on economic growth in all the countries. Furthermore, civilian government expenditures have positive effect on economic growth for both Israel and Egypt. Lui chih-HL, Hsu C, Yuounnis MZ (2008) examined the causal relationship between GDP and public expenditure for the US data during the period 1947-2002. The causality results revealed that total government expenditure causes growth of GDP. On the other hand, growth of GDP does not cause expansion of government expenditure. Moreover, the estimation results indicated that public expenditure raises the US economic growth. The authors concluded that, judging from the causality test Keynesian, hypothesis exerts more influence than the Wagner's law in US. Loizides J, Vanvoukas G, (2005) employed the trivariate causality test to examine the relationship between government expenditure and economic growth, using data set on Greece, United Kingdom, and Ireland. The authors found that government size granger causes economic growth in all the countries they studied. The finding was true for

Ireland and the United Kingdom both in the long run and short run. The results also indicated that economic growth granger causes public expenditure for Greece and United Kingdom, when inflation is included. Gregerion A, Glosh S (2007) used the heterogeneous panel to investigate the impact of government expenditure on economic growth. The authors employed the GMM technique, and discovered that countries with large government expenditure tend to experience higher growth, but the effect varies from one country to another. In Saudi Arabia, Abdullah HA (2000) analyzed the relationship between government expenditure and economic growth. The author reported that the size of government is very important in the performance of economy. He advised that government should increase its spending on infrastructure, social and economic activities. In addition, government should encourage and support the private sector to accelerate economic growth. Donald NB, SHaunghin L (1993) investigated the differential effects of various forms of expenditures on economic growth for a sample of 58 countries. Their findings indicated that government expenditures on education and defence have positive influence on economic growth, while expenditure on welfare has insignificant negative impact on economic growth. Nioly B, Emranul Hm, Orsborn DR, (2003) used a disaggregated approach to investigate the impact of public expenditure on economic growth for 30 developing countries in 1970s and 1980s. The authors confirmed that government capital expenditure in GDP has a significant positive association with economic growth, but the share of government current

expenditure in GDP was shown to be insignificant in explaining economic growth. At the sectoral level, government investment and expenditure on education are the only variables that had significant effect on economic growth, especially when budget constraint and omitted variables are included. Mitchel JD (2003) argued that the American government expenditure has grown too much in the last couple of years and has contributed to the negative growth. The author suggested that government should cut its spending, particularly on projects/programmes that generate least benefits or impose highest costs. In Sweden, peter S, (2003) examined the effects of government expenditure on economic growth during the period (1960-2001). The author emphasized that government spends too much and it might slowdown economic growth. Lin (1994) used a sample of 62 countries (1960-85) and found that non-productive spending had no effect in growth in the advanced countries but a positive impact in LDCs. Other studies have investigated the impact of particular (functional) categories of public expenditure. For example, Deverajan et al (1993), using a sample of 14 OECD countries, found that spending on health, transport and communication have positive impacts whereas spending on education and defence did not have a positive impact. Junko and Vitali (IMF, 2008) investigate the impact of government expenditure on economic growth in Azerbaijan because of the temporarily oil production boom (2005-07), which caused large expenditure increase aimed at improving infrastructure and raising incomes. Azerbaijan's total expenditure increased by cumulative 160 percent in

nominal value from 2005 to 2007 (i.e. from 41 percent of non-oil GDP to 74 percent) in their research reference which were made to Nigeria and Saudi Arabia (1970-89) who have also experienced oil boom and increased government expenditure over the years. The study simulated the neo-classical growth model tailored to the Azeri conditions. Nitoy *et al*. (2003) employed the same disaggregated approach as followed by Josaphat *et al.* (2000). They examined the growth effects 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 sectoral expenditures. The primary research results showed that the share of government capital expenditure in GDP is positively and significantly correlated with economic growth, but current expenditure is insignificant. The result at sectoral level revealed that government investment and total expenditures on education are the only outlays that remain significantly associated with growth throughout the analysis. Although public investments and expenditures in other sectors (transport and communication, defence) was found initially to have significant associations with growth, but do not survive when government budget constraint and other sectoral expenditures were incorporated into the analysis. Also private investment share of GDP was found to be associated with economic growth in a significant and positive manner. Their analysis suggested that the evaluated fiscal scenario poses significant risks to growth sustainability and historical experience indicates that the initial growth performance largely depends on the

efficiency of scale-up expenditure. The study also sheds light on the risks associated with a sudden scaling-down of expenditure, including the political difficulties to undertake an orderly expenditure reduction strategy without undermining economic growth and the crowding-out effects of large government domestic borrowing.

2.3 LIMITATIONS OF THE PREVIOUS STUDIES.

In addition most of the studies utilized aggregate measures of government expenditure in the form of either growth in government consumption as a ratio of the gross domestic product.

Therefore the past works are based on time series data which are non-stationary and failed to show the short- term and long- term relationship between variables, thus neglecting the speed of adjustment of the equilibrium in their model.

Some of the studies found a negative relationship between government expenditure and economic growth like, Abu-Bader, Abu-Quarn AS(2003) recognise that government can have a negative effect because of the supervision of private investment expenditure through high taxes and deficit financing.

Finally, most of the works and enquiry made in the past have been in the early 70's and 80's, but this work is extending the research and enquiry to the present period (1980-2010), which is aimed at finding and discovering

the relationship and impact of government expenditure on economic growth.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY.

3.1 RESEARCH DESIGN.

The study is based on the neo-classical approach to the study of the Gross Domestic Product and government expenditure relationship between variables (dependent and independent) to be specified in this model.

The variable included in the model is based on data collected for a period of years (1980-2010). Through which the impact of government expenditure on the economic growth of the previous years on Gross domestic product of the current year was examined.

3.2 MODEL SPECIFICATION.

Economic relationship is not however assumed to be exact variables apart from the once stated that exist which can only influence economic growth but are omitted in the model. These factors omitted in the model are considered by introducing an error term (disturbance term), in the model to capture all kinds of disturbances that might distort the structure of the model.

As discussed earlier, the variable to be used is government expenditure. The necessary information needed to explore this economic phenomenon can be illustrated in a functional relationship as.

Real GDP= F (GEXP)

And can be illustrated in mathematical form as

Real GDP= a_0+a_1GEXP

In econometric form as

Real GDP = $a_o+a_1GEXP+U_i$

Where

RGDP= Real Government Domestic Product

GEXP= Government expenditure

U_i= Error term.

3.3 METHODOLOGY

The econometric technique employed in the study is the ordinary least square method (OLS), this is because the computational procedure or formula is fairly simple and a best linear estimator among unbiased estimations, efficient and shown to have the smallest (minimum) variance. Thus, it becomes the best linear unbiased estimator (BLUE) in the classical linear regression (CLR) model. Basic assumptions of the (OLS) model are related to the forms of the relationship among the distribution of the random variable (U_i).

OLS estimators are said to be BLUE in the following holds.

- It is linear, that is linear function of a random variable say Y; a dependent in the regression.
- Unbiased, it is estimated value $\sum$(B) is equal to the real value of B1.

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

3.4 METHOD OF EVALUATION

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

A. ECONOMIC A PRIORI EXPECTATION.

The economic aproiri expectation involves an examination of the signs and magnitude of the estimated parameters in conformity with the theoretical expectations.

In our regression model, B_1 will be positive, implying that government expenditure has positive impact on economic growth of a nation, because the higher the government expenditure the higher the economic growth of the nation ($B_1>0$).

B. STATISTICAL TEST OR FIRST ORDER CRITERION.

These are the tests determined by statistical theory and aimed at evaluating the reliability of the parameter estimates. We shall employ the T- test to see for the parameter estimates are statistically different from zero or not.

The F-test is employed to test for the overall significance of the model. The co-efficient of multiple determinations (R^2) is to test for goodness of fit.

CO-EFFICIENT OF CORRELATION (R^2)

This can also determine the goodness of fit of the model. Put differently R^2 shows the percentage of total variation of the dependent variable that can be explained by the independent variable.

$R^2=B_1\sum_1 Y+.....B_n\sum_n Y/\sum Y_2$

3.5 DATA REQUIRED AND SOURCES

The data used for this study are mainly secondary data which are collected from the central bank of Nigerian statistical bulletin and bureau of statistics (NBS) 2010. The data collected covered the time frame from (1980-2010).

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.2 PRESENTION OF DATA

YEAR	GDP (NAIRA)	GEXP (NAIRA)
1980	49632.3	14968.5
1981	47619.66	11413.7
1982	49069.28	11923.2
1983	53107.38	9636.5
1984	59622.53	9927.6
1985	67908.55	13041.1
1986	69146.99	16223.7
1987	105222.84	22018.7
1988	139085.3	27749.5
1989	216797.54	41028.3
1990	267549.99	60286.2
1991	312139.74	66584.4
1992	532613.83	92797.4

1993	**638869.79**	**191228.9**
1994	**899863.22**	**160893.2**
1995	**1933211.55**	**248768.1**
1996	**2702719.13**	**337417.6**
1997	**2801972.58**	**428215.2**
1998	**2708430.86**	**487113.4**
1999	**3914014.97**	**947690**
2000	**4582127.29**	**701050.9**
2001	**4725086**	**1017996.5**
2002	**6912381.25**	**1018178.1**
2003	**8487031.57**	**1225988.3**
2004	**11411066.91**	**1384000**
2005	**14572239.12**	**1743200**
2006	**18564594.73**	**1842587.7**
2007	**20657317 .67**	**2348593**
2008	**24274238.66**	**2880200**
2009	**24794238.66**	**3116985.6**
2010	**29205782.96**	**3845720**

Source; CBN statistical bulletin, (volume 21) 2010.

4.2 DATA ANALYSIS AND PRESENTATION OF RESULTS

Below is the regression result from the model specification made in the previous chapter (chapter 3).

Table 4.2.1: Regression result for the model (Modeling GDP by OLS)

Variable	Coefficient	Std. Error	t-value	t-prob	PartRy
Constant	-5499.	8.3989e+005	-0.065	0.9482	0.0001
GEXP	6.7793	0.64655	10.485	0.00000	0.7913

Ry = 0.791278 F (1, 29) = 109.94 [0.0000] DW = 2.36

4.2.2 ANALYSIS OF THE REGRESSION COEFFICIENTS:

When all other variables are zero, the intercept (constant) for GDP shows a negative value of -5499.

The coefficient of government expenditure shows that, with a unit change in GEXP, the gross domestic product will increase by 6.7793(naira).

4.2.3 ANALYSIS OF THE EVALUATION METHODS

4.2.2.1 ECONOMIC A PRIORI CONDITION:

In this part, we will compare the regression results with the economic a priori expectation, in order to ascertain if the result gotten is in accordance with economic theory.

Table 4.2: Economic a priori test for the model:

Independent variables	**Expected signs**	**Observed signs**	**Remark.**
GEXP	+	+	Conforms

4.2.2.2 STATISTICAL CRITERIA

1. **The R^2 (Coefficient of determination):**

R^2 i.e. the co-efficient of determination is 0.791278. Thus, the explanatory variable shows a high goodness of fit of about 79%. Therefore, the explanatory variable explains 79% of the explained variable (GDP).

The t-test (Student t):

The t-test is displayed to show the individual impact of the independent variable on the dependent variable. Under n-k degrees of freedom at 5% level of significance, the critical value is 2.045.

Table 4.3: T–test for the model

Variables	**t–value**	**5% critical value**	**Decision**
Constant	-0.065	2.045	Not statistically significant.
GEXP	10.485	2.045	Statistically significant.

The F–test

Following Gujarati (2004), to find out whether a model is adequate and well specified, the F-test is used. If $F_{cal} > F_{tab}$ at 5% level of significance, the model is considered to be good and adequate for forecasting and policy analysis.

F_{cal}	**F_{tab} at 0.05 significant level**	**Decision**
109.94	4.18	Reject H_o and accept H_1

From the result, 109.94 > 4.18, therefore we conclude that the model is well specified for forecasting and good policy analysis. We reject H_o and accept H_1, concluding that the overall regression is statistically significant.

4.3 HYPOTHESIS TESTING

HYPOTHESIS:

H_0: Government expenditure has no positive effect on the general economic growth of Nigeria.

H_1: Government expenditure has a positive effect on the general economic growth of Nigeria.

The regression result shows that gross domestic product has a positive relationship with government expenditure and also the individual impact analysis (student t), reveals that government expenditure has a positive impact on gross domestic product. Therefore, we reject the null hypothesis (H_0) and accept the alternative (H_1), thus, concluding that government expenditure has a positive effect on the general economic growth of Nigeria.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION.

This concluding chapter of the work comprises three sections 5.2 summarizes the entire work presented in the proceeding chapters. In section 5.3 recommendations are made based on the findings from the research while section 5.4 draws a conclusion from the research.

5.2 SUMMARY

This study was carried out on economic expenditure and economic growth in Nigeria from the period (1980 – 2010). Its objective was to determine the impact of government expenditure on economic growth in Nigeria, as well as examining the relationship existing between the two variables over the last decades. In chapter one, we established the research problem, objectives of the study; also stated were the hypothesis and the scope and limitations of the study.

Chapter two discussed various growth theories, its nature and measurement. In addition, related literature on government expenditure and economic growth were reviewed.

In chapter three, the research model was specified based on theoretical background from economic theory and empirical literature. The procedure of estimation, sample, and source of data were also presented in this chapter.

In chapter four, the relevant data were stated and analysed. The trend analysis of government expenditure and economic growth in Nigeria was carried out; it was found that government expenditure has a positive relationship with economic growth for the period of (1980 to 2010) .Empirically the research model specified was estimated using PV Give 8.0. It was discovered that although the result was in concert with economic theory, the relationships proved to be statistically significant.

Finally, in chapter five, the research work is summarized and recommendations are made based on empirical findings.

5.3 RECOOMENDATIONS

One must have seen from the study that the contributions of Nigerian government expenditure to economic growth is significant at 5% level but not at 1% level, based on the findings, these are some possible recommendations to the government.

- The independent corrupt practices and other related crimes commission and the economic and financial crimes commission should be reformed, strengthened and modernised to improve transparency in conduct of government affairs.

- The fiscal and information bill should be enacted to encourage transparency and accountability in government fiscal operations and check unproductive expenditures by the tiers of government.
- There should be all increased promotion of private enterprise by creating micro-economic frame work. National housekeeping that will ensure that Nigeria makes the most use of what it earns as a nation that is spending only what it can afford and that all levels of government use the same budget.
- The government should implement tax reforms to increase revenue.
- The government should adopt an oil price based fiscal rule and a fund from sale of crude oil.
- The government should also adopt a public expenditure rule that prohibits the deficit from exceeding 3% of the GDP.
- It is also recommended that the future analyst of this topic should have adequate information about government expenditure in Nigeria. In other to properly analyse this topic so as to serve its purpose.
- Future analyst; should also consider time and finance as a major factor to be considered in their research, time and finance will help them critically examine the impact of government on economic growth.

5.3 CONCLUSION.

Government serves many useful functions, including some economic functions. The findings have supported the view that government plays a vital role in expansion of output. Presumably the view reflects the reduction in transactions cost and the improvement of environment for investment associated with the rule of law and enforceable property right.

The insignificant result of the government expenditure on economic growth at 1% level may be attributed to the fact that Nigeria government expenditure based on its 40% contribution to economic growth is not enough to boost economic activities, the findings agreed with the fact that about 70% of the Nigeria's budget is either misappropriated or embezzled, hence the function of the EFCC, ICPC and many other organs of government that fight corruption and economic crimes in Nigeria. Conclusively the government spending is little and therefore should be improved and also directed towards those projects that will lead to economic growth.

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