www.irmbrjournal.com September 2015
International Review of Management and Business Research Vol. 4 Issue.3

The Effect of Public Expenditure on the Growth and Development of Nigerian Economy (1980-2012)

CHRIS O UDOKA
Department of Banking and Finance Faculty of Management Sciences
University of calabar Calabar - Nigeria P.m.b 1115, Calabar
Email: udokaco@yahoo.com
Tel: +23480307455898

ROLAND A. ANYINGANG
Department of Banking and Finance Faculty of Management Sciences
University of calabar Calabar - Nigeria P.m.b 1115, Calabar

Abstract

The study investigated the effect of public expenditure on the growth and development of Nigerian economy (1980-2012). Three research hypotheses were formulated to guide the study. The hypotheses thus investigated the influence of aggregate expenditure, capital expenditure and recurrent expenditure on economic growth and envelopment in Nigeria. Ex-post facto research design was adopted for this study. Data were obtained from annual publications of Central Bank of Nigeria. Data gathered were analyzed using Ordinary least square multiple regression statistical technique. Result of the findings revealed that aggregate expenditure had a positive impact on economic growth and development of the Nigerian economy, recurrent expenditure had a significant relationship on the growth and development of the Nigerian economy. The result also indicated that capital expenditure also had a significant effect on the growth and development of the Nigerian economy. The study recommended that the government should increase its spending on components of public expenditure which will in turn promote investment in the country.

Key Words: *Public Expenditure, Recurrent Expenditure, Capital Expenditure, Economic Growth and Development.*

Introduction

The basic aim of the public sector as part of the macro-economy is the provision of necessary government services to the public. The provision of these services have a relationship with the growth of the economy. From the inception of the country, the government has been spending huge sum of money to provide services like security, public roads, education, health care etc., but the relationship between government expenditure and economic growth has not been ascertained. This situation has continued to create a division among scholars, both theoretically and empirically.

At the theoretical level, the Keynesian classical and Wagnerian are the major school of thoughts. The Keynesians propose that government expenditure is a genuine tool for the enhancement of economic activities hence growth. The classical school of thought refute excessive government expenditure as against the Keynesian, based on the fact that government is less efficient than the private sector in carrying out economic activities. Again they argued that excessive government expenditure especially when financed

by taxation and government` borrowing distort economic activities because increased taxation in an attempt to finance government expenditure reduces consumer income and aggregate demand, as such the overall performance of the economy dwindles. The Wagnerian school of thought is of the opinion that increase in national output incite government expenditure.

However, at the empirical level some scholars arrived at the conclusion that there exists a positive relationship between government expenditure and national output or growth. Such scholars are: Iram (1986); korman and Brashmasrene, (2007); Donald and Shuggling, (1983). Others like Rebelo, (1990); Bamo, (1990) and 1991 arrived at a negative impact in spite excessive government expenditure. Other groups of scholars like Tanzi and Zee, (1997) and Akpan, (2005) discovered that there exist no significant impact of government expenditure on economic growth.

Consequently, pondering on these conflicting results from different scholars, it is therefore difficult if not impossible to ascertain what the true stance of government expenditure with economic growth is when considering the fact that the desired result of public expenditure may not be attained if resources are not channeled to the appropriate expenditure items, or even when it is channeled to the appropriate expenditure item the desired outcome may not be achieved owing to structural rigidities in the Nigerian economy.

Despite the ever increasing rate of government expenditure in recent times, in Nigeria, there has not been a commensurate growth in the economy. It appears that either these funds are not released or they are released to finance an inappropriate expenditure item or maybe the funds are mismanaged or not dully utilized. For instance, Nigeria spends significant proportion of her financial resources on the educational sector annually through it budgetary allocation, yet the quality of education in terms of infrastructures, the learning environment, and the performance of students is still low especially when compared to other African countries with equivalent or even lesser budgetary allocations and that of private schools owned by private individuals.

It must be noted that there is a popular saying that ‘‘health is wealth’’; implying that a healthy country is a wealthy nation. In 2014, the allocation to the health sector was 262.74 billion Naira out of which N9.109 billion was for the construction/provision of hospitals/health centers, N115 million was on HIV/AIDS control, N213.321 million was on cancer control and N85.653 million on malaria control. Though Osaha, Enabulele, the president of the Nigerian Medical Association (NMA) complained of the reduction in allocation compared to other years. In other years like 2013 with a higher allocation, it was noticed that the people were still dying of common illness like malaria and others as a result of lack of infrastructure for which funds were allocated. Even the allocation for this year, it stands to reason that there has not been a commensurate improvement in the health sector as common citizens died because of unawareness of the danger of some illness like cancer, due to non-availability of functional medical equipment, even when allocation has been given yearly for capital expenditure, carelessness on the part of human resources (doctors, nurses, pharmacist etc.) The question is where are these monies? There has been increase in capital flight as the ‘‘privilege’’ Nigerians fly abroad for medical checkups because the country is filled with obsolete equipment, fake drugs and inexperienced doctors.

Looking also at the defense or security sector, it is observed that the sector that received almost the highest allocation this year 2014, is the defense sector with allocation of about N968.127 billion which is about 20 percent of the 2014 federal budget primarily for addressing the Boko Haram insurgency. Regrettably, despite the huge budgetary allocation, the violent onslaught has continued unabated; we will never know if this money was judiciously expended. Again the president Goodluck Jonathan had requested $1bn as a supplementary fund from the World Bank specially to tame the scourge of Boko Haram. Even with this allocation to the defense sector there has been a growing rate of insurgency, more bomb blasts increasing at an increasing rate, more cases of robbery, kidnapping, trafficking and other crime related situations. The question still is, where has the money gone to?

Year in year out, the federal government allocate huge amount of money for the provision and maintenance of basic infrastructure like roads, schools, hospital etc. Travelling through Odukpani Calabar - Itu road in Cross River State, Nigeria you will discover that this road which is a trunk A road is a dead trap, most often people spend a whole day for a journey of not more than 1 hour, 30 minutes because of falling trucks due to extremely bad and narrow roads.

According to Saberedow, (2009), Nigerian government spend huge amount of money on the development of social overheads, economic services and for the creation infrastructures for economic growth and most times, these funds are mismanaged, misappropriated, misplaced or even wasted, thus resulting in failed and incomplete execution of government projects. Throughout the years form 1980 till date government expenditure has continued to rise marginally on annual basis, yet no commensurate improvement on the economy.

Unfortunately, rising government expenditure has not translated to meaningful growth and development as Nigeria ranks among the poorest countries of the world. In addition, many Nigerians have continued to wallow in abject poverty. The business day Newspaper of Tuesday 14 February, 2012, reported that the percentage of Nigerian living in abject poverty rose to 60.9% in 2012 as compared to 54.7% in 2004. Dilapidated infrastructure (especially roads and power supply) even when funds are allocated for this infrastructure has led to the collapse of many industries leading to high level of unemployment.

Therefore, the major problem which this study seeks to address is to examine the effect of both the recurrent and capital expenditures on the growth and development of the economy. In order to accentuate this study, the paper is divided into five sections. Section one is the introduction, section two dwells on empirical and theoretical framework on public expenditure and economic growth and development in Nigeria. The third section captures the research methodology. This is closely followed by data analysis and discussion of findings. The remaining section of the paper draws some managerial implications.

Hypotheses

1. There is no significant relationship between overall expenditure on economic growth and development in Nigeria
2. There is no significant relationship between recurrent expenditure and economic growth and development in Nigeria
3. There is no significant relationship between capital expenditure and economic growth and development in Nigeria

Literature Review and Theoretical Framework

Theoretical Framework

There are various theories underlying public expenditure; these theories provides the framework around which ideas and knowledge about the study are organized. The theories relevant to this study include:

I. The Wagner's Law

This law was put forward by a German political economist, Adolph Wagner (1985 – 1997). This law is known as the law of increasing state activities. Wagner is of the opinion that the growth of any economy is facilitated or enhanced by increased industrialization process, as per capital income increases, so also public expenditure increases. The wagner school holds that the growth of an economy is accompanied by an increase in the share of public expenditure.

ii. The Keynesian School of Thought

This theory holds that public expenditure could be manipulated to affect the level of national income an increase in public expenditure leading to an increase in national output.

iii. The Displacement Theory

This theory was propounded by Jack Wiseman and Allen t. Peacock in 1962. This theory state that public expenditure does not increase at a steady rate continuously but rather in Jerks and Step like manner. According to Wiseman and Peacock, 1962, disturbances like war may kick up government expenditure for instance like Boko Haram insurgency which has brought about increase in public expenditure in the area of security. However, with this increased expenditure, government tends to fall short of revenue, leading to upward review of taxes, even when it is not favorable for the citizens. This research is hung on the Wagner's Law, the theory suits or fits this work most because it holds that the growth of an economy is enhanced by increase in public expenditure.

Empirical Review

Notable research effort has been made on the impact of government expenditure on national income, these studies have shown conflicting results based on their findings. Barro (1988), was one of the earliest writers on the impact of government expenditure on economic growth and development. He extended existing growth models and gave birth to the endogenous growth model that incorporates the government sector. Within this frame work he found that the economy's growth rate and saving rate individually rose with the ratio of productive government expenditure to Gross National Product (GNP), G/Y but each rate eventually reaches a peak and subsequently declines.

Chimobi, (2009), tested the direction of causality between government expenditure and national income in Nigeria using annual data for the period of 1970 – 2005. Cointegration and Granger causality test were used. First the stationarity properties of the data and the order of integration of the data were tested and the Phillip – Perron (PP) test. He found that variables were non stationary in levels but stationary in first difference. The Johansen Multivariate approach to cointegration was apllied to test for the long – run relationship among the variables. The result showed no long – run relationship between government expenditure and national income in Nigeria. The Granger causality test revealed that causality runs from government expenditure to national income. The result showed that government expenditure plays a significant role in promoting economic growth in Nigeria.

Rehman, Igbal and Siddifi, (2010), examined the nature and the direction of causality in Pakistan between public expenditure and national income along with various selected components of public expenditure by applying Toda – Yamamoto causality test Pakistan for the period of 1971 – 2006. The study found that there was a unidirectional causality running from GDP to government expenditure which supports Wagner's law. Moreover, at disaggregated level, result showed that GDP only caused administrative expenditure while no causality was found for development expenditure, debt servicing and defense expenditure on the whole, this study did not support the existence of the Keynesian hypothesis but at the aggregate and disaggregate levels in Pakistan. That is public expenditure causing economic growth.

Rizvi and Shamam, (2010) investigated the relationship between government expenditure and gross provincial product (GPP) in the Sindh province of Pakistan. The study used data for 30 years (1979 – 2008) and employed unit root test and cointegration to investigate the order of the relationship and to check the long run relationship respectively which the error correction model (ECM) was used to investigate the short run dynamics. Moreover, impulse response functions (IFS) was also applied to observe the shock of government expenditure on economic growth in the economy. Result of the study found a long run

relationship between development expenditure and economic growth, a unidirectional causality running from GDP to development expenditure was found.

Alm and Embaye (2011), examined the determinant of real per capita government spending in the republic of south Africa, using annual data for the period between 1960 – 2007 using multivariate cointegration techniques, the authors found that per capita government spending per capita income, the tax share and the wage rate were cointegration and a result support the notion that government spending is associated not only with per capita income and the true cost of government service provision as given by the wage rate but also to the fiscal illusion caused by budget deficits. Evidence also showed that per capita government spending was positively affected by external shock. These external shocks seemed to play a significant role in explaining the dynamics of government spending growth.

Dadan, (2011), investigated the impact of public expending on economic growth using a time series data on Jordan for the period 1990 – 2006 using the regression model. The study found that the government expenditure at the aggregate level had positive impact on the growth of GDP which is compatible with Keynesian theory. It was also found that the interested payment is proven to have no influence on GDP growth. Loto (2011), focused his analysis on sectoral expenditure, he conducted a study for Nigeria which covers the period 1980 – 2008, in which five key sector were investigated; security, health, education, transportation and communication and agriculture in his work. Then variables were tested for stationarity and cointegration analysis was also carried out using the Johansen cointegration techniques. Moreover, error correction test was also carried out. The result revealed that in the short run, expenditure on agriculture was found to be negatively related to economic growth. The effect of education was also found to be negative, but at a non – significant level. However, public expenditure oh health was found to be positively related to economic growth, though expenditures on communication and transportation and national security were positively related to economic growth the impacts were not significant.

Usman, Mobolaji, Kilishi, Yaru and Yakubu, (2011), examined the efficacy of public expenditure on stimulating economic growth. To achieve this, an augmented solow model specified in Cobb Douglas form with public capital as one of the factors used. Public expenditure was used as proxy for public capital which was further decomposed by sectors. The decomposition was in three expenditure streams, expenditure on building human capital – public expenditure on education and health expenditure on building infrastructure – public expenditure on transport and communication and other services and expenditure on administration which is necessary for the functioning of the government. A multivariate time series framework was used and Augmented Dickey – fuller test indicated that two of the variables were stationary at the first difference while other variables were stationary at levels. On the other hand, Phillip Peron test showed that three are stationary at levels and others at first difference. Result of the regression showed that in the short run, public spending had no impact on growth. However, cointegration and VEC results showed that there was a long run relationship between public expenditure and growth.

Ayo and Ifechukwu (2012), examined the causality relationship among economic growth, government expenditure and inflation rate in Nigerian over the period 1970 – 2001. The study utilized both the Augment Dickey – fuller (ADF) and the Phillip – Perron (PP) test to examine the properties of the variable. The variables were observed to be stationary, though not in their level form but in their first difference. In addition the Johansen and Juseluss (JJ) co integration techniques indicated the presence of co integration among the variable while the tri-variate vector error correction model (VECM) shoed the presence of bidirectional causality between government expenditure and economic growth both in the short run, a unidirectional causality existed from economic growth and government expenditure to inflation while no feed back from inflation rate was observed. Based on these findings the study recommend that government should implement policies that would moderate government spending in order to reduce inflation rate. Moreover, to complement for the loss, in economic growth through the reduction in government spending the researchers' advised that lending rate should be moderated to encourage private investment in the Nigerian economy.

Chaido and Melina (2012), determine the direction of causality between national income and government expenditures for 12 new members E.E. namely Bulgana, Cyprus Republic, Estonia, Solvenia and Slovakia. The result for Bulgaria and Cyprus was found to support the hypothesis that causality runs from government expenditure to national income the result of Granger causality test indicated that Wagner's Law was supported by the data of Cyprus, Poland and Romania. Desmond, Titus, Timothy and Odiche (2012), examined the effect of public expenditure on economic growth in Nigeria during the period 1970 – 2009 using the OLS multiple regression model and time series data. Time series data included in the model were the GDP and various components of government expenditure. The result of the analysis showed that capital and recurrent expenditure on economic services had insignificant negative effect on economic growth during the period under study. Also capital expenditure on transfer had insignificant positive effect on economic growth. The authors then recommended more allocation of expenditure to the series with significant positive effect

Fan and Saurker (2012), analysed the trends of determination and impact of various forms of government expenditure or across 44 developing countries between 1980 and 2002 and found that total government expenditures over time. However, macroeconomic adjustments were found to reduce the size of total government spending, leading to different consequences for the various sectors. For almost all regions, the programs led to reduction in agricultural and infrastructural expenditures the performance of government spending on economic growth has found to be mind. In Asia and Africa, government spending in agriculture and education were found to be strong in promoting economic growth. In Latin America, spending in agriculture and social security had positive growth enhancing effects it was concluded that SAPs had a negative effect on growth in Africa, but no statistically significant effect in Asia and Latin America. Moreover, Agriculture expenditure, road and education were found to contribute strongly to agricultural growth. Disaggregation total agricultural expenditure into research and non – research spending further revealed that research had a larger productivity enhancing impact than non – research spending. They therefore assert that to improve the efficiency of government expenditure, there is need to reallocate it among sectors.

Ramey (2012), examined whether increase in government spending stimulate private activity. The paper was split into two parts, the first part studied private spending using a variety of identifying methodological samples, and it was found that in most cases private spending fell significantly in response to an increase in government spending. The results showed the average GDP multiplier lay below unity. In the second part of the work, the author explored the effects of government spending on labour markets. Here it was found that increase in government spending lowered unemployment specifically an increase in government employment, not private employment. It was thus concluded that normally government spending does not stimulate private activity (Udoka & Anyingang, 2012).

Methodology

Ex-post facto research design was adopted for this study. Time series data that covers the period from 1980 -2012 was collected from the Central Bank of Nigeria Statistical Bulletin and used for the study. A three equation model was formulated and used for this study. The first equation examined the impact of aggregate government expenditure on economic development. Thus the functional relationship is stated as follows:

$$GDP = f(GEXP) \quad (1)$$

In the second and the third model, government expenditure is disaggregated into capital and recurrent expenditure on social community services, expenditure on administration and expenditure on economic services. Thus the equations measuring the relationships are stated as follows:

$$GDP = f(KEES, KEA, KESCS, KET) \quad (2)$$
$$GDP = f(REES, REA, RESCS, RET) \quad (3)$$

These equations were further presented as follows:

$$GDP = a_0 + a_1GEXP + U_1 \quad (4)$$
$$GDP = b + b_1KEES + b_2KEA + b_3KESCS + b_4KET + U_2 \quad (5)$$
$$GDP = c + c_1REES + c_2REA + c_3 RESCS + c_4RET) + U3 \quad (6)$$

Where:

KEES	=	Capital expenditure on economic services
REES	=	Recurrent expenditure on economic services
KEA	=	Capital expenditure on administration
REA	=	Recurrent expenditure on administration
KESCS	=	Capital expenditure on social community service
RESCS	=	Recurrent expenditure on social community service
KET	=	Capital expenditure on transfer
RET	=	Recurrent expenditure on transfer
U	=	stochastic error term

Data Presentation, Analysis and Discussion of Findings

Data Presentation

Table 1: Nigerian microeconomic indicators from 1980-2012

Year	CESCS	RESCS	CEAD	READ	CEES	REES	CETRANS	RETRANS
1980	2,456.70	270.45	1501.1	595.13	5981.1	108.52	224.5	3831.1
1981	1,299	294.75	720.1	914.91	3629.4	175.65	918.5	2461.39
1982	968.3	334.84	385.41	1039.37	2542.5	199.55	2521	3932.25
1983	1,026.50	288.91	1098.2	896.81	2290.7	172.18	470.3	3392.9
1984	237.6	354.39	262.7	1100.06	656.3	211.2	2943.5	4161.85
1985	1,154	460.75	459.6	1430.2	892.7	274.58	2958.4	5410.87
1986	655.4	468.08	264.8	1452.94	1099.9	278.95	6506.7	5496.93
1987	619.1	297.53	1816.2	3843.08	2159.7	694.66	1777.5	10810.94
1988	1,726	2114.2	1898.2	5777.8	2128.7	1221.2	2586.8	10296.2
1989	1,845	4230.1	2617.5	6270.5	3926.3	1419	6645.5	14074.6
1990	2,096	3396	2919.9	6540.2	3485.7	1613.7	15547	24669.7
1991	1,491.70	2676.9	3345	6943.8	3145	1303.4	20359.2	27309.4
1992	2,132.60	1336.15	5118.5	3684.5	2336.7	3080.11	30175.5	39933.34
1993	3,575.40	14,659.82	8081.7	30510.17	18344.7	7749.86	24500.1	83747.25
1994	4,994.40	10085.42	8785.1	20575.61	27102.8	3909.87	30036	55443.97
1995	9,215.60	13,820.80	13337.8	26757.61	43149.2	5917	55435.7	79133.2
1996	8,656.20	15989.18	14863.6	4454729	117829.1	5917	71577.4	57201.87
1997	6,902.00	22,060.13	49549	56184.35	169613.1	6200.4	43487.6	74118.63
1998	23,365.60	21441.43	35270.4	50678.79	200861.9	11574.72	49517.7	94402.87
1999	17,253.50	71,371.20	42737.2	183637.3	323580.8	87076.72	114456.1	107577.2
2000	27,965.20	84785.05	53279.5	111530.1	144530.6	28591.93	46679.6	203692.9
2001	53,336.00	79,630.41	49254.9	180801	259757.8	53008.45	76347.8	265860.2
2002	32,467.30	152185.38	73577.74	266509.8	215334	52951.44	0	225153.4
2003	55,736.00	102,607.58	87958.9	307973.3	97982.1	96070.73	11.3	477648.4
2004	30,032.52	134390.66	137765.9	306767.5	167721.8	58789.73	15729.8	610703.7
2005	71,361.16	151,646.56	171574.1	434671.8	265034.7	64308.53	11508.53	670603.7
2006	78,681.34	194169.06	185224.3	522198.2	262207.3	76687.16	26272.9	594047.5
2007	150,895.16	256,673.80	226974.4	626358.6	358375.6	179071.9	23036	527165.5
2008	152,172.64	332925.05	287103.6	731022.8	504286.9	313191.4	17325	739662
2009	120,696.92	354,233.05	318888.3	820794.7	503009.2	412996.1	210325	635752
2010	147,409.54	550930.36	264554.2	1267095	412245.2	310537.8	59661.1	878357
2011	91,900.00	620,735.63	264554.2	1427070	288153.6	230100	216023	956150.5
2012	97,400.00	640100	232600	1159400	321040	291234.7	265900	1145600

Source: Central bank of Nigeria statistical bulletin of various years

Data Analysis

Hypothesis One

There is no significant relationship between the overall tax expenditure and economic growth in Nigeria. Ordinary least square multiple regression statistical technique was used to test the hypothesis. The result is presented in Table 2

Table 2: Regression results of the effect of public expenditure on the growth and development of Nigeria economy (1980-2012)

Variables	Coefficient	Std. error	T- Stat	Prob.
C	20805,33	776244.9	0.268025	0.79117
LCESCS	0.25	3.26	.0768	.0000
LRESCS	.264	.27	.96	.8377
LCEAD	.71	.23	3.03	.2662
LREAD	7.77	1.55	1.14	.2662
LCEES	.34	.05	7.32	.0000
LREES	1.92	9.25	.21	.0000
LCERTRANS	5.33	1.97	2.70	.0046
LRTRANS	3.31	1.81	1.82	.0866

R^2 = .967
R^2 (Adj) = .961
SER = .288
DW = 1.74
F-stat = 115.83

The coefficient of multiple determinants (R^2) is 0.967. This indicates that about 96 percent variation in the observed behaviour of GDP is jointly explained by the independent variables CESCS, RESCS, CEAD, REES, RETRANS. The F-statistics of 116.83 which is higher than the critical F-value of 3.14 implied that there exist a significant relationship between the dependent variable GDP and the independent variables of CESCS, RESCS, CEAD, REES, RETRANS. The DW statistics that is used test for serial correlation in the model. The DW statistics of 1.74 means that it falls within the region of autocorrelation.

The estimated coefficients for LRESCS, LREAD, LCEES, LREES and LRTRANS are positive. This implied that there exist a direct relationship between LRESCS, LREAD, LCEES, LREES and LRTRANS and economic development as measured by GDP. In order words increase in any of this parameter will lead to a corresponding increase in GDP. These results are in order with economic a priori criteria. The results are however not significant at 5 an 10 per cent level of significance.

Hypothesis Two

There is no significant relationship between recurrent capital expenditure and economic growth and development in Nigeria. Ordinary least square simple regression was used to test this hypothesis. The result is presented in Table 3

Table 3: Regression result of the relationship between recurrent expenditure and growth of Nigerian economy

Variables	Coefficient	Std. error	T- Stat	Prob.
C	3687593	1.533	2.30	0.1003
LREXP	0.95	0.201	4.760	0.0001

R^2	=	.98
R^2 (Adj)	=	.97
SER	=	.737
DW	=	1.81
F-stat	=	186.96

The R^2 value of 0.98 in Table 3 revealed that about 98 per cent changes in growth of Nigerian economy is caused by changes in recurrent expenditure. This means recurrent expenditure is a strong determinant of the growth of Nigerian economy. The adjusted R^2 value of 0.97 means that the model is 97 per cent goodness fit. The F-statistics of 186.96 which is significant at 0.05 level of significance implied that there exist a significant relationship between recurrent expenditure and the growth of Nigerian economy.

The estimated coefficient for LREXP is positive. This means that there exist a direct relationship between recurrent expenditure and the growth of Nigerian economy. The results implied that increase in recurrent expenditure by government will leads to an increase in the growth of Nigerian economy. This result is in order with economic a priori criteria. The result is also significant at 0.05 level of significance.

Hypothesis Three

There is no significant relationship between capital expenditure and economic growth and development. The result is presented in Table 4

Table 4: Regression result of the relationship between capital expenditure and growth of Nigerian economy

Variables	Coefficient	Std. error	T- Stat	Prob.
C	3.76	1.657	2.26	0.1003
LCEXP	10.00	1.239	48.071	0.0000

R^2	=	.918
R^2 (Adj)	=	.911
SER	=	.574
DW	=	1.27
F-stat	=	130.20

The R^2 value of 0.91 in Table 3 revealed that about 91 per cent changes in growth of Nigerian economy is caused by changes in capital expenditure. This means capital expenditure is a strong determinant of the growth of Nigerian economy. The adjusted R^2 value of 0.91 means that the model is 91 per cent goodness fit. The F-statistics of 130.20 which is significant at 0.05 level of significance implied that there exist a significant relationship between capital expenditure and the growth of Nigerian economy.

The estimated coefficient for LCEXP is positive. This means that there exist a direct relationship between capital expenditure and the growth of Nigerian economy. The results implied that increase in capital expenditure by government will leads to an increase in the growth of Nigerian economy. This result is in order with economic a priori criteria. The result is also significant at 0.05 level of significance.

Summary of Findings

The research work was carried out to access the effect of public expenditure on the growth and development of Nigeria economy. Theoretical and empirical literature relevant to the work was reviewed. Ordinary least square (OLS) was adopted to examine the performance of the variables. The findings revealed that:

i. Aggregate expenditure had a positive impact on economic growth and development of the Nigerian economy
ii. Recurrent expenditure had a significant relationship on the growth and development of the Nigerian economy
iii. Capital expenditure also had a significant effect on the growth and development of Nigerian economy

Conclusion

The study has established that public expenditure in the Nigerian economy increases the level of output; it is a veritable option which often brings about income and employment stability in an economy. The results showed that both capital ad recurrent expenditure have a positive and significant impact on economic growth and development. The estimated results revealed that public expenditure is incurred by the government for maintaining the economy.

Recommendations

The following recommendations were made for this study , based on rigorous statistics analysis :

1. The government should increase its spending on components of public expenditure which will in turn promote investment in the country' private sector
2. Government should increase its expenditure on economic services such as agriculture, road construction, communication, power generation and other economic services
3. The government spending on transfer such as pensions, gratuities, bursaries and grants should be increased in order to enhance the people standard of living.

References

Akpan, N (2005). Government expenditure and economic growth in Nigeria: A disaggregated approach. *Central Bank of Nigeria (CBN) Financial Review* 3 (4) 18-21

Alim, J. & Embaye, A. (2011). Explaining the growth of government spending in South Africa. *Tulane Working Paper Series* 17 (2)2-11

Ayo, O. S & Ifeakachukwu, N. P (2012). A trivariate causality test among economic growth, government expenditure and inflation rate: Evidence from Nigeria. *Research Journal of Finance and Accounting 3* (1) 27-34

Barro, R. J. (1988). Government spending in a simple model of endogenous growth. *University of Chicago Journal of Political Economy, 98* (5), 103-126

Barro, R. J. (1990). Government spending in a simple model of endogenous growth. *Journal of Political Economy 20* (2), 221-247

Barro, R. J. (1991). Economic growth in a cross sectional countries. *Quarterly Journal of Economics 106* (1) 407-443

Central Bank of Nigeria (2013). Statistical bulletin

Chaido, D. & Melina, D (2012). Government expenditure and national income: Causality test for twelve new members of European Union. *The Romanian Economic Journal 13* (38),27-34

Chimobi, O P. (2009). Government expenditure and national income: A causality test for Nigeria. *European Journal of Economic and Political Studies 1 (*1), 27-34

Dandan, M. M. (2011). Government expenditures and economic growth in Jordan. A paper presented to the International conference on economic and finance research IPEDR 4 (1)

Desmond, N. I, Titus, O. A. Timothy V.I & Oduche, D.O (2012). Effects of public expenditure on economic growth in Nigeria: A disaggregated time series analysis. *International Journal of Managerial Sciences and Business Research 1* (7), 2226-2289

Dogan, E. & Tang, T.C (2006). Government expenditure and national income: Causality test for five South East Asian Countries. *Internal Business and Economic Research Journal 5(*10), 37-45

Fan, S. & Saukar, A. (2012). Public expenditure in developing countries: Trends, determination and Impact. Retrieved June 24, 2013 from www.worldbank.org/extresp

Gupta, C. Baldacci, E & Mulas-Granados, H (2002). Expenditure, composition, fiscal adjustment and growth in low income countries. An IMF Working Paper

King, R. G & Rebelo, S. (1990). Public policy and economic growth development neoclassical implication. *Journal of Political Economy 98*, 126-150

Landau, D. (1983). Government expenditure and economic growth: A cross country study. *South Economic Journal 49*, 783-792

Loto, M. A (2011). Impact of government sectoral expenditure on economic growth. *Journal of Economics and International Finance 3* (11), 646-652.

Maku, O. E. (2009). Does government spending spur economic growth in Nigeria? Retrieved July 13, 2013. From www.impra.ub.unimuenchen,de.com

Olopide, B. C. & Olapide, D. O (2010). The impact of government expenditure on economic growth and development in developing countries: Nigeria as a case study. *The Romanian Economic Journal 13* (38), 58-64

Ramey, V. A (2012). Government spending and private activity. Retrieved May 27, 2014 from www.nbr.org/paper/w117767

Rehman, J. U, Iqbal, A & Siddiqi, M. W. (2010). Cointergration causality analysis between public expenditures and economic growth in Pakistan. *European Journal of Social Science 13* (4) 47-53

Rizvi, S. Z. A & Shamin, A (2010). Impact of development spending on economic growth measuring the effectiveness of fiscal policy in Sindh. Paksitan Business Review 13 (4) 43-49

Tanzi, V & Zee, H. (1997). Fiscal policy and long run growth. *IMF Staff Papers 44* (92), 179-209

Udoka, C. O. & Anyingang, R. A (2010). Relationship between external debt management policies and economic growth in Nigeria (1970-2006), *International Journal of Financial Research, 1*(1), 2- 20,

Usman, A; Mobolaji, H. I, Kilishi, A. A; Yaru, M. A & Yikidu, T. A (2011). Public expenditure and economic growth in Nigeria. *Asian Economic and Financial Review*, 1 (3), 104-113

Wu, C. & Lee, C. (2004). Defense spending and economic growth An endogenous growth model.