PDF - GOVERNMENT EXPENDITURE AND ECONOMIC GROWTH IN NIGERIA: A DISAGGREGATED ANALYSIS - researchcub.info**ABSTRACT**

This study examines the disaggregated effect of government expenditure on economic growth in Nigeria. In the introductory section, the reason why government expenditure has been on the increase over the years in Nigeria was analyzed. We started by stating the objectives of the study which include; role of government expenditure, trend of government expenditure, component of government expenditure. In the study, we use Ordinary Least Square (OLS) technique, since it is basically a time series study. The result obtained, indicate that the economic growth in Nigeria is affected by government expenditure on agriculture, education, health and transport. However, the result indicates only government expenditure on health is not significant in explaining economic growth in Nigeria. The R- square suggest that the explanatory variable explain 62 percent of the variation in economic growth, while the F- statistics shows that all the put together are statistically significant in explaining increase gross domestic product. The study however, concludes that the relevance of the variable imposes a great challenge to policy makers and recommends that the government of Nigeria should help in the pursuance of an increase level of economic activities in the country.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The relationship between government expenditure and economic growth has continued to generate series of debate among scholars. Government performs two functions--Protection (and security) and Provision of certain public goods (Abdullah, 2000) and (Al - Yousif, 2000). Protection function consists of the creation of rule of law and enforcement of property right. This helps to minimize risk of criminality, protect life and property, and the nation from external aggression. Under the provision of public goods are defenses, roads, education, health and power, to mention few. Some scholars argue that increase in government expenditure on socio - economic and physical infrastructure encourages economic growth. For example, government expenditure on health and education rises to productivity of labor and increase the growth of national output. Similarly, expenditure on infrastructure such as roads, communications, power, etc, reduces production, cost, increase private sector investment and profitability of firms, thus fostering economic growth. Supporting this view, scholar such as (Al - Yousif, 2000), (Abdullah HA, 2000), (Ranjan, Sharma, 2008), and (Cooray, 2000) concluded that expansion of government expenditure contributes positively to economic growth. However, some scholar did not support the claim that increasing government expenditure promotes economic growth, instead they are assert that higher government expenditure may slow down overall performance of the economy. For instance, in an attempt for finance rising expenditure, government may increase taxes and/or borrowing. Higher income tax discourages individual from working for long hours or even searching for jobs. This in turn reduces income and aggregate demand. In the same vein, higher profit tax tends to increase production costs and reduce investment expenditure as well as profitability of firms. Moreover, if government increases borrowing (especially from the banks) in order to finance its expenditure, it will compete (crowds - out) away the private sector, thus reducing private investment.

Furthermore, in a bid to score cheap popularity and ensure that they continue to remain in power, politicians and government officials sometime increase expenditure and investment in unproductive project or in goods that the private sector can produce more efficiently. Thus, government activity sometimes produces misallocation of resources and impedes the growth of national output. In fact, studies by (Laudau, 1986), (Barro, 1991), (Engen, Skinner, 1992), and (Foister, Henrekson, 2001) suggested that large government expenditure has negative impact on economic growth.

In Nigeria, government expenditure has continued to rise due to the huge receipts from production and sales of crude oil, and the increased demand for public (utilities) goods like roads, communication, power, education and health. Besides, there is increasing need to provide both internal and external security for the people and the nation. Available statistics show that total government expenditure (capital and recurrent) and its components have continued to rise in the last three decades. For instance, government total recurrent expenditure increased from N3,819.20 million in 1977 to N4, 805.20 million in 1980 and further to N36, 219.60 million in 1990. Recurrent expenditure was N461,600.00 million and N1, 589,270.00 million in 2000 and 2007, respectively. In the same manner, composition of government recurrent expenditure shows that expenditure on defense, internal security, education, health, agriculture, construction and transport and communication increased during the period under review. Moreover, government capital expenditure rose from N5, 004.60 million in 1977 to N10, 163.40 million in 1980 and further to N24, 048.60 million in 1990. The valve of capital expenditure stood at N239, 450.90 million .and N759, 323.00 million in 2000 and 2007, respectively. Furthermore, the various components of capital expenditure (that is, defense, agriculture, transport and communication, education and health) also show a rising trend between 1977 and 2007.

1.2 STATEMENT OF THE PROBLEM

Unfortunately, rising government expenditure has not translated to meaningful growth and development, as Nigeria ranks among the poorest countries in the world (Nurudeen and Usman, 2010). In addition, many Nigerians have continued to wallow in abject poverty, while more than 50 percent live on less than US$2 per day. Couple with this, is dilapidated infrastructure especially roads and power supply that has led to the collapse of many industries, including high level of unemployment. Moreover, macroeconomic indicators like balance of payments, import obligations, inflation rate, exchange rate and national savings reveal that Nigeria has not fared well in the last couple of years.

The conflicting views of the impact of government expenditure on economic growth have led to this research work. The uncertainty of public spending on economic growth gives rise to the various problems, which include, but are not limited to the following: resource misallocation, establishment of businesses with negative externalities, partial implementation of development plans, existence of white elephant projects, and prevalence of imperfect markets (e.g. Monopolistic competition) which leads to continuous exploitation of the masses. Hence, the discovery of the growth effect of public expenditure components would curb the occurrence of the aforementioned problems. Consequently, the achievement of developmental objectives, such as the Millennium Development Goals (MDGs), seven point agenda and vision 2020, would not be fully perceived as a mirage.

1.3 OBJECTIVES OF THE STUDY

The basic objective of this study will be to empirically examine the impact of government expenditure on economic growth in Nigeria. Other specific objectives include;

(A) To analyze the trend of recurrent and capital expenditure, as proportions of Gross Domestic Product (GDP) in Nigeria.

(B) To examine the relationship between government expenditure components (transportation and communication, education, health, agriculture) on economic growth in Nigeria.

(C) To discuss the role of government expenditure

(D) To examine the structure component-of government expenditure in Nigeria

1.4 RESEARCH QUESTIONS

This study will attempt to provide answers to the following research objectives:

(i) What is the trend of recurrent and capital expenditure, as proportions of Gross Domestic Product (GDP) in Nigeria?

(ii) What is the relationship between government expenditure components (transportation and communication, education, health, agriculture) on economic growth in Nigeria?

(iii) What is the role of government expenditure?

(iv) What are the structures / component of government expenditure in Nigeria?

1.5 HYPOTHESES OF THE STUDY

In order to order out this study, the following hypotheses were tested:

H_o: There is no significant relationship between government expenditure on health and economic growth in Nigeria.

H_1: There is significant relationship between government expenditure on health and economic growth in Nigeria.

H_o: That government expenditure on education does not influence economic growth in Nigeria.

H_1: That government expenditure on education influence economic growth in Nigeria.

H_o: That government expenditure on agriculture does not have statistic effect on economic growth in Nigeria.

H_1: That government expenditure on agriculture has statistic effect on economic growth in Nigeria.

H_0: That there is no significant relationship between government expenditure on transportation and economic growth in Nigeria.

H_1: That there is significant relationship between government expenditure on transportation and economic growth in Nigeria.

1.6 MODEL SPECIFICATIONS

In order to examine the impact of government expenditure on economic growth, we disaggregated government expenditure and examine the sector that contributes most to economic growth in Nigeria. Some key areas of "government expenditure in Nigeria include; total government expenditure on health, education, agriculture, and transportation and communication.

DEFINITION OF VARIABLES

The variables used in the model are defined below:

(1) Dependent Variables

GDP = Real Gross Domestic Product in Nigeria

(2) Independent Variables

TAGR= Total government expenditure on agriculture

THEL= Total government expenditure on health

TEDU= Total government expenditure on education

TRC == Total government expenditure transportation and communication

The function form of the models for the study will be expressed as follows

GDP= F(TAGR, THEL, TEDU, TRC) ………………………………… (l)

In order to examine the relationship between the dependent and independent variables, we will take linear approximation of the function form of the models in equation 1 this yields;

$GDP= ?o+ ?_1TAGR+ ?_2THEL+ ?_3TEDU+ ?_4TRC$ ……………………………... (2)

Equation 2 above is specified in an econometric form as follows:

$GDP= ?_o+ ?_1TAGR+ ?_2THEL+ ?_3TEDU+ ?_4TRC + \mu_t$ .... (3)

μt = Error Term

Equation (3) above is designed to measure the relationship that exists between the dependent variables (GDP) and independent variables; government expenditure which comprises (TAGR, THEL, TEDU, TRC). This is to determine the sector that influences the growth of the economy most. The- priori assumptions for this equation are:

The above sign implies a positive relationship between GOP and the explanatory variables. All the explanatory variables are expected to be positive related with the level of economic growth.

1. 7 **METHODOLOGY OF THE STUDY**

The study employs secondary annual time series data for the period from 1977 to 2008. The principal data sources are the publications of national Bureau of Statistics, Publications of the Central Bank of Nigeria (CBN) which includes the statistical bulletin, annual report, statement of accounts, financial review of various years and other related items. Other sources of data used are journals research papers, text books and other academic works directly related to this work.

The method of analysis, employed in this study, to test the disaggregated impact of public expenditure on economic growth in Nigeria, is the Ordinary Least squares (OLS) technique. The choice of this econometric method was informed by the fact that, it yields Best Linear Unbiased Estimates (BLUE). Moreover, such estimate captures the relative effect of particular variables on another variable. The criteria for evaluation are the economic criteria which include testing for the sign and size of the parameter estimates, the first other test also known as the statistical test this include the test of the statistical significance of the T,F, and R^2 , and the econometric test which include the test for serial autocorrelation, and multi-collinearity since it is a time series analysis. Specifically, the multiple regression analysis will be employed in this study. Regression analysis is concern with the study of the dependence of one variable, on the other variable or variables called the explanatory variable with a view to estimating and or predicating the population mean or average valve of the former in terms of known or fixed valve of the later.

1.8 SIGNIFICANCE OF THE STUDY

Despite the increase in government expenditure over the years, the Nigerian economy has not achieved any meaningful growth. Thus a study of this nature is inevitable. The significance of this study is to enlighten at all levels (federal, state and local government), on how their spending activities, if judiciously allocated and monitored would bring about a desirable level of economic growth. It also seeks to make the general public aware of the spending operations of the government; this will ensure effective and efficient resource utilization by the government; thereby, bringing Nigeria's short term and long term development goals, to reality. This research work will be a useful addition to the existing study on the effect of government on economic growth. However, the study is different from previous studies in scope (number of year considered is longer) and unlike other studies that examine the effect of total government expenditure on economic growth, this study looks at the disaggregated effect of government expenditure on economic growth. And it is intended to be of relevance to policy/ decision makers, government, investors, e.t.c. The study will also serve as a prior to future researchers.

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