

PDF - EMPIRICAL INVESTIGATION OF THE IMPACT OF GOVERNMENT EDUCATION SPENDING ON ECONOMIC GROWTH (1981-2012) - researchcub.info

ABSTRACT

The aim of the study is to critically investigate the impact of government education expenditure on economic growth in Nigeria. The Real Gross Domestic Product (RGDP) was used as the dependent variable as a proxy for economic growth, the explanatory variables used in this study include; recurrent government expenditure on education (RGEE), Capital Government Expenditure On Education (CGEE), Gross Fixed Capital Formation (GFCF), Total Employment (TEMP) and total employment (proxy by employee compensation). The study employed annual time series data from 1981-2012, sourced from the CBN Statistical Bulletin (2011 and 2013). Unit root tests were also conducted using the Augmented Dickey- Fuller test to test for the stationarity of the variables, an error correction mechanism was adopted to test for the long run relationship between the variables and found negative between RGDP and RGEE, CGEE, and GFCF while a positive relationship maintained between RGDP and TEMP. However, drawing from such findings, the study recommends among other things that there should be a mechanism to monitor funds allocated to the education sector, in order to conform to the theoretical and empirical evidences that support the prime role of public education expenditure in rapid and persistent economic growth.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

An inquiry to the fiscal operations and developments in Nigeria revealed that federal government expenditure on education is categorized under social and community services sectors. The implication of this according to Orubu, (1989) is that education is an important good.

Education plays a vital role in human capital formation. It raises the productivity of individuals and thus produces skilled manpower that is capable of leading the country vis – a – vis economy towards the path of sustainable economic development. (Zaman, 2008). In the Nigeria context, the role played by education in capacity building of the state cannot be over emphasized, however, as noted by the CBN, (2002), the importance of education is reminiscent in its role as a means of understanding, controlling, altering and redesigning human environment. Education improves health, productivity and access to paid employment. (Anyanwu et al, 1997). This implies therefore that an educated population will avoid unhealthy practices and habits, which will help lead healthy lives and become more productive and finally leading to increased outputs in the economy. The assertion is largely supported by Ola, (1998; 14) who once remarked that education has a link with economic development; he puts that “if you see an economy doing well, find out what is spent on education”.

Psacharopoulos (1973), Combs (1983) and Aboribo, (1999), have all revealed that increase in national income and per capita income is a function of education and that difference among various nations are better explained by differences in the endowments of human rather than physical capital. This however explains the rationale behind the allocations of between 25 – 35% of annual budgets to their education sectors by the ‘Asian Tigers’ in the past three decades (Aboribo, 1999; 61).

In the last year, the educational sector suffered great vicissitudes as the government failed to provide the needed policy consistent with ensuring a stable growth progression. It was characterized by underfunding, infrastructural decay, poor discipline and low level of learning achievement. This issues and

others led to the six month of industrial action by the Academic Staff Union Of Universities (ASUU) which further damaged the already epileptic educational system and mined its status in the eyes of the world. (Ayo,2014). Apparently arguments have been derived as to the effect of the six months strike on economic activities, however the consequent social vices, and the slow rate of economic activities was not in oblivion.

Education has been regarded as one of the leading determinants of economic growth since the times of prominent classical and neoclassical economists such as Adam Smith, Romer, Solow, and Lucas. They however emphasized the contribution of education in developing their theories and models. This was noted by Ejiogu, Okezie and Chinedu, (2013).

Expenditure on education is been regarded as an investment, hence the need to assess its returns to scale is very pertinent according to Gisanabagbo (2006). Education is valued for both its immediate benefits and future benefits, hence the assessment of the impact on education expenditure on economic growth should accommodate consideration on consumption investment benefits in the economy. Studies have revealed that the choice between alternative investments in physical infrastructure depends on society's objectives which are represented by government decision and on the analysis between cost of investment versus the future benefits to be accrued from that investment. (Gisanabagbo, 2006). The implication for this is that educational expenditure is – a – vis investment in education tend to determine future income distribution pattern, hence equity plays a key role in government decisions of expenditure in education and the private sector as well.

Human resources according to Anyanwu, Oyefusi, Oaikhenana and Dimowo (1997) contribute the ultimate basis for the wealth of nations. This assertion is widely supported by economists due to the overwhelming role played by human resources in economic growth. However, globalization and increased economic integration has de-emphasized the singular mechanical use of physical resources and attention is directed to knowledge based economic activities, this imply that education of available human resources is necessary to be able to adapt to new and advanced modes of production. There are good reasons to expect however that human capital which is the product of educated human resources should be more productive at the aggregate level. This however forms the basis for the proposition of Lawal, Abiodun, Wahab and Iyoha, (2011) that skilled workers should possess more ability to solve problems and should possess more communicative abilities, hence should be more productive than their unskilled counterparts. They however observed that in terms of sophisticated technologies, skilled workers should be more productive than the unskilled ones if the skilled ones does possess greater ability to produce new knowledge and adapt to change, moreover, a more educated labor force will also be able to achieve faster productivity growth, both through gradual improvements in existing production processes and through the adoption of better and advanced technologies which will help them to be more flexible to the changing economic conditions and rising worldwide competition (Lawal et al, 2011).

The argument on the effect of government education expenditure on economic growth has raised controversies, right from the days of the old. Prior to the world wars, the relationship between government expenditure on education and economic growth was largely insignificant as economist at the time were more concerned with structural issues as movement of labour from traditional to modern industries. Education can however be imported to this assertion by examining its ability to develop the capacity of self-sustaining growth and development which forms the core of the modern industries.

1.2 STATEMENT OF THE PROBLEM

With a large population to serve as an advantage in terms of human resources, coupled with the enormous natural resources and relative high oil wealth Nigeria could be seen as a country which possess the ability to build a prosperous economy. This was evident when it was ranked as the number one economy in Africa in 2014 with a G.D.P of USD 568.89 billion.

Despite all this economic achievement, the country still dwells in the shackles of poverty, this however represents a paradox. The attempt to shift from an oil economy to one which dwells on other sectors had been unsuccessful due to unskilled labor force. A good way of solving this problem in order to achieve economic growth and economic diversification is the investment in education. This notion was supported by Galbraith (1964) in this observation that people are the common denominator of progress, and that “no improvement is possible with unimproved people”. Iyoha and Itsede, (2003) confirms this assertion by viewing the human factor and level of education as the first and most important determinants of a country’s level of economic development.

Over the years, Nigeria has expressed a commitment to education in the belief that overcoming illiteracy will lead to accelerated national development. However in spite of the unimpeachable evidence that education is crucial to the development of the community and the nation; there exists a wide gap in access, quality and equity in education (Ayo, 2014).

Empirical evidence in recent years have shown that the Nigerian educational system have continuously produced graduates who overtime have failed to adapt to changing production techniques; this is as a result of the adequate infrastructure in the system, underfunding, poor learning achievement as a result of outdated curriculum, low rate of research and development. Thus the implication for this is that employment has been drastically reduced the advent of capacity underutilization. This further lead to low economic activities, low level of international competitiveness, etc. Hence, it is seen however that government fiscal policy should be directed to expenditure on education which forms the required human capital.

Human capital is essentially important in achieving a sustainable economic growth, however, the greatest contribution is accomplished through investment in the quality and quantity of education (Gisanabagbo, 2006). The study extends and contributes to the body of research using current Nigeria data to investigate the likely impact of investment in education on the performance of a country in terms of growth and development in the current era of globalization, economic growth and development will be striated in the low income countries. Unless they commit budgetary allocations adequately to higher levels of education and define economic policies that enhance the effective use of skills within the society. From the foregoing, the study tends to provide resource answers to the following research questions.

1.3 RESEARCH QUESTIONS

- i. To what extent does government capital expenditure on education affect economic growth in Nigeria?
- ii. To what extent does government recurrent expenditure on education affect economic growth in Nigeria?
- iii. Is there a relationship between school enrollment and economic growth in Nigeria?
- iv. Is there a relationship between capital formation and economic growth in Nigeria?

1.4 OBJECTIVE OF THE STUDY

The objective outlined in this study will tend to provide answers to research questions stated above. The

objectives are subdivided in specific and general objectives;

The specific objectives are:

- i. To reveal the impact of government capital expenditure in education on economic growth.
- ii. To examine the impact of government recurrent expenditure in education on economic growth.
- iii. To assess the impact of primary, secondary, and tertiary enrollment on economic growth in Nigeria.
- iv. To analyze the effect of human capital formation on economic growth in Nigeria.

The general objectives of this study are:

To examine the effectiveness or otherwise of government expenditure on education.

To recommend appropriate investment methodologies for the government.

To assess the role of government expenditure in education on employment creation in Nigeria.

1.5 RESEARCH HYPOTHESIS

Ho: There exist no significant relationship between government capital expenditure on education and economic growth

H1: There exist a significant relationship between government capital expenditure on education and economic growth.

Ho: There exist no significant relationship between government recurrent expenditure on education and economic growth.

H1: There exist a significant relationship between government recurrent expenditure on education and economic growth.

Ho: There exist no positive relationship between primary, secondary and tertiary school enrollment and economic growth.

H1: There exist a positive relationship between school enrollment and economic growth.

Ho: There exists no significant relationship between human capital formation and economic growth in Nigeria.

H1: There exist a significant relationship between human capital formation and economic growth in Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

Nigeria is the most populous black nation in the world, with abundant human resources and natural endowments, however this evident large numbers of people are characterized by mass illiteracy poverty, low standard of living, low productivity, etc. The Obasanjo regime (1999-2003), the vision 20-2020 was adopted to off shoot the economy into the top 20 most developed economies in the year 2020. It is a long term dream in which one of its objectives is to create a knowledge based economy with the adequate human resources development. Achieving this goal requires high level human capital because to function well a modern economy requires highly trained workers (Lawal et al, 2011). This study may be useful in policy orientation by demonstrating that Nigeria economic by investing in education.

This study tends to provide information that will be relevant to ministries, departments and agencies of education, on the importance of both public and private investment in the education sector in terms of providing quality education for its citizenry. It is also relevant to the government and its parastatals in terms of the improvement of allocation of resources to the education sector; Emphasis here should be on the most efficient ways to invest in the sector in order to achieve the intended goals and objectives of such

expenditure. This research will also be relevant to researchers as a source of material for further research in the body of knowledge.

1.7 SCOPE OF THE STUDY

This study tends to focus on the educational system in Nigeria, and the Nigeria population. It utilizes its data looking at primary: post-primary and tertiary institutions in Nigeria. Its major sources of data were a variety such as books, journals, theses, academic journals, newspapers caption, internet, etc. Error correction model is the methodology adopted for this study to analyze the long run relationship between the variables of interest.

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