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The Lethargic Government Public Expenditure Torpedoring Economic Development in Nigeria from 1970-2014

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Keywords: public (government) expenditure, economic development, government recurrent expenditure (GREX), government capital expenditure (GCEX), fiscal policy, gross domestic product, public expenditure, investment, taxation and government spending.

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Keywords: public (government) expenditure, economic development, government recurrent expenditure (GREX), government capital expenditure (GCEX), fiscal policy, gross domestic product, public expenditure, investment, taxation and government spending.

I. Introduction

Economic development is said to be the sustained, concerted actions of public policy makers and communities that promote the standard of living and economic health of a particular area or nation. Economic development measures the expansion of a country's potential national output or potential real GNP; and the expansion of economic power to produce according to Ukwu (2004). This is a generally upheld view of most economists. However, how true is this assertion, is a thing of controversy that needed to be investigated. Without some kinds of economic development and growth, developing countries cannot extricate themselves from the quagmire of ancient poverty. It is imperative that, these countries usually pursue fiscal policy to achieve accelerated economic development. However, the question that readily comes to mind is that, can this assertion be true or applicable to Nigeria? If our country promotes expansion of economic powers to produce goods and services, will our economy grow? This and other factors have to be investigated;hence, this research.

The relationship between public expenditure and economic development has been a fertile ground for series of debate among scholars. Keynes (1936) argued that the solution to economic depression is to induce the firms to invest through some combination of variables such as the reduction in interest rates and government capital investment especially in the area of infrastructure.

Scholars hardly alienate on this claim that increased public expenditure promotes economic development. A number of prominent authors especially of the neoclassical school argue that increased public expenditure may slow down the aggregate performance of the economy because, by raising expenditure, government may have to increase taxes and/or go into borrowing. The higher income tax may discourage or may be a disincentive to additional work which in turn may reduce income and aggregate demand. In the same vein, high corporate tax leads to increase in production costs and reduce profitability of firms and their capital to incur investment expenditure. On the other hand, increased government borrowing to finance its expenditure, may compete and crowd-out private sector inducement and this will in turn reduce private investment in the economy. Sachs (2006) argues that among the developed countries, those with high rates of taxation and high social welfare spending perform better on most measures of economic performance compared with countries with, low rates of taxation and low social spending. Hayek (1989) however countered this argument by saying that high levels of government spending in addition to harming, does not in any way promote social welfare engendered fairness, economic equality and international competitiveness. This

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argument is in line with Sudha (2007) who pointed out that those countries with large public sector expenditure have grown slowly. Thus, there is no general consensus among scholars on the impact of increasing public expenditure on economic development.

Government performs among others, two crucial functions of protection (security) and provision of certain public goods (Abdullahi et al, 2000) and (Nurudeen et al, 2008). Protection function consists of the creation of the rule of law and enforcement of property rights. This helps to minimize criminality, protect lives and properties and the nation from external aggression, carry out defense, build roads, oversees education, health, power and communication, just to mention but a few.

In Nigeria, revenue receipts from oil revenue (Petroleum profit tax and royalties) and non-oil revenue (company income tax, custom and excise duties, value added tax [VAT] and others) keep on increasing (CBN Statistical Bulletin Vol.23, Dec. 2012); with a corresponding increase in demand for public (utility) goods like roads, communication, power, education and health but the economy seems not to respond positively. Besides, there is an increasing need to provide both internal and external security for the people of this nation. The increased demand calls for Government spending to provide the needs of the people but the question is whether the corresponding Government expenditure is speeding up the economic development of the country? However, it is pertinent to say that Scholars hardly agree on the assertion that public expenditure brings about economic development. Others are of the opinion that no matter the increase in public expenditure, there shall not be any economic growth. It is therefore, the determination of the researcher to find out whether public expenditure brings about economic development and if so at what speed.

The Revenue Mobilization Allocation and Fiscal Commission (RMFC) (2011), an arm of the Federal Government reported that, the federal government of Nigeria spends 52.2% of total government revenues. The remaining revenues are shared among the Federating States and Local Government Areas (LGAs) on the basis of detailed sharing formula that is in place. The level of increase of government revenue from oil revenue and non-oil revenues including borrowing from internal and external sources have significantly affected the level of public expenditure in Nigeria over the years under review. For instance, table 1shows the total recurrent expenditure which increased from ₦716,100,000 million in 1970 to ₦4,805,200,000 Billion in 1980 and further to ₦ 3,325,178,000,000 Trillion in 2012. The government capital expenditure rose from ₦ 187,800,000 million in 1970 to ₦10,163,400,000 billion in 1980 and further to ₦874,800,000,000 Billion in 2012 (CBN Statistical bulletin vol.18 page 105-106, Dec.2007; Vol.23, page 97, Dec. 2012). In 2013, the total government recurrent expenditure increased to ₦3,689,148,100,000 Trillion and the total government capital expenditure increased to ₦1,108,377,000,000 Trillion (see appendix 1).

The Gross Domestic Product (GDP) per capita of Nigeria expanded by 132% between 1960 and 1969 and further rose to a growth rate peak of 283% between 1970 and 1979 (CBN Statistical Bulletin 50 years special Anniversary Edition Dec. 2008). The high levels of inflation and unemployment rates resulted in fiscal imbalance between 1979 and 1983 with negative consequences on balance of payment. The level of increase in external loans further accelerated the debt burden and other problems which became so severe that restructuring of the economy was inevitable. Acomprehensive economic reform programme called the Structural Adjustment Programme (SAP) was therefore introduced in 1986. Within the SAP period i.e. between 1988 and 1997 the GDP responded to economic adjustment policies and grew at a positive rate of 4% (Onakaya et al, 2013). The real GDP growth measured by the Real Gross Domestic Product (RGDP) shows a growth rate of 7.9% in 2010 (CBN Annual Report page 114, 31st Dec. 2010).

The government total expenditure over the years which raises a critical question on its role in promoting economic growth and development shows the performance of the economy which is in a snail moving pace. Some authors contend that the link between public expenditure and economic growth is weak while others report varying degree of causality relationship in Nigeria (Onokaya et al, 2012). The question which arises therefore is what is the relative contribution of capital expenditure and recurrent expenditure to economic development in Nigeria? This work was therefore, aimed at investigating the impact of public expenditure (recurrent expenditure and capital expenditure) on economic development in Nigeria from 1970 – 2014.

This study therefore stands out to ascertain the validity of the statement that public expenditure has significant impact in inducing economic development in Nigeria. Specifically, this study sought to examine objectively the lethargic nature of Public (government) expenditure leading to slow economic development in Nigeria; as well as finding out theeffect of public investment expenditure on economic growth in Nigeria. Accordingly, We are to further concert efforts to find out the effect on economic development in Nigeria of public investment expenditure on human capital development.

II. Review of Related Literature

Economic development can be referred to as the quantitative and qualitative changes in the economy. Such actions can involve multiple areas including development of human capital, critical infrastructure,

regional competitiveness, social, health, safety, literacy, and other initiatives. Economic development differs from economic growth in thatwhereas economic development is a policy intervention endeavoured with aims of economic and social well-being of people, economic growth is a phenomenon of market productivity and rise in GDP. Consequently, as economist AmartyaSen points out that, "economic growth is one aspect of the process of economic development."

a) Model Specification

The models adopted for this research are presented below to show the impact of capital government expenditure and recurrent government expenditure on gross domestic product in Nigeria as follows:

$$GDP = F(GREX, GCEX,) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots Eq\ 1$$

$$GDP = \beta_0 + \beta_1 GREX + \beta_2 GCEX + \varepsilon \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots Eq\ 2$$

$$\beta_0 > 0,\ \beta_1 > 0,\ \beta_2 > 0$$

Where:
GDP = Gross Domestic Product
GREX= Government Recurrent Expenditure
GCEX= Government Capital expenditure
β_0 = Constant intercept
β_1 and β_2= Slopes of the regressions(co-efficient of the variables)
ε = Error term

The model is estimated using the ordinary least square (OLS) method of analysis, as it is considered the best linear unbiased estimator.

Also, since the data was increasingly large, we take the log function of the variables to reduce the variance. So that, we rewrite the new statistical linear model as:

$$LOG(GDP) = \beta_0 + \beta_1\, LOG(GREX) + LOG(GCEX)\beta_2 \quad Eq.3$$

b) Theoretical Literature Review

Public expenditure theory, traditionally, is explained by a general acceptance of the philosophy of laissez-faire and is a 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 which 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, on different items like recurrent and capital expenditure. 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.

i. *Theory of Increasing Public Expenditure*

There are two important and well-known theories of increasing public expenditure. The first is traced to Wagner (1890),while the second to Wiseman and Peacock (1979). Wagner revealed that there are inherent tendencies for the activities of different layers of governments such as central, state and local governments to increase both intensively and extensively. He maintained that there was a functional relationship between the growth of an economy and government activities with the result that the governmental sector grows faster than the economy. However Nitti (1903) not only supported Wagner's thesis but also concluded with empirical evidence that it was equally applicable to several other governments which differed widely from each other's. For all kinds of governments, irrespective of their levels (be it the central or state or local government), has its intentions (peaceful or warlike), and size, etc., had exhibited the same tendency of increasing public expenditure. On the other hand, Wiseman and Peacock (1961) in their study of public expenditure in UK for the period 1890-1955 revealed that public expenditure does not increase in a smooth and continuous manner, but in jerks or step like fashion. At times, some social or other disturbance takes place creating a need for increased public expenditure which the existing public revenue cannot meet.

ii. *Peacock and Wiseman's Theory of Expenditure*

Peacock and Wiseman (1961)'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 at 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. However, during periods of social upheaval, this gradual upward trend in public expenditure would be distorted.

These periods would coincide with war, famine or some large-scale social disaster, which would require a rapid increase in public expenditures; and the government would be forced to raise taxation levies. The raising of taxation levels would be regarded as acceptable to the people during the period of crisis. Peacock and Wiseman (1961) referred to this as the "displacement effect". Public expenditure is displaced

upwards and for the period of the crisis displaced private for public expenditure does not however fall to its original level.

No nation has such large taxable capacity to fund a war. Countries therefore borrow to fund a war which debt charges have to be funded after the event. Another effect that they thought might operate was the "imperfection effect" thus they suggested that a rise or improvement from the people created awareness of social problems during the period of upheaval. The government therefore, expands its scope of services to improve these social conditions and because peoples' perception to tolerable levels of taxation does not return to its former level, the government is able to finance these higher levels of expenditures originating in the expanded scope of government and debt charges.

iii. *Ernest Engel's Theory of Public Expenditure*

Ernest Engel a German economist wrote almost the same time as Adolph Wagner in the 19th century. Engel pointed out 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 larger share on others, such as for coats, expensive jewelries etc.As average income increases, smaller charges in the consumption pattern for the economy may tend to occur also.

At the earlier stages of national development, there is need for overhead capital expenditure on such things as roads, harbours, power installations, pipe-borne water etc. But as the economy develops, one would expect the public share in capital formation to decline over time. Individual expenditure pattern is thus compared to national expenditure and Engel findings is referred to as the declining portion of outlays on foods.

iv. *Wagner Law of Increasing State Activities*

Thus, Wagner was emphasizing long-term trend rather than short-term changes in public expenditure. He was not concerned with the mechanism of increase in public expenditure since such is based on historical experience, while the precise quantitative relationship between the extent of increase in public expenditure and time taken by it was not fixed; hence, could not be used to predict its rate of increase in the future.

In consonant with the Wagner's law of the state activities in future, the state expenditure will increase at a rate slower than the national income though, it had increase at a faster rate in the past. Thus, in the initial stage of economic 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, relatesto a growing role of the state which is said to be ever-increasing socio-economic complexities of modern society, leading to economic development at the tail end. However, the rate of development also rests on the kind of expenditure made by both government and the private sector.

c) *The Second National Development Plan*

The Second National Development plan (1970-1974) accorded a leading role of development to government just as it considered public enterprise as crucial to growth and self–reliance due to capital scarcity, structural defects in the private sector and perceived danger of foreign dominance of the private sector. The third National Development plan (1975-1980) advocated some shift in resources allocation in favour of rural areas, which were said to have benefited little from the economic growth of 1970's. Thus, small farmers and the rural population were expected to benefit from public expenditure.

However, against the background of the austere fiscal outlook of the government, under the Third National Plan (1981- 1985), the role of fiscal policy was viewed mainly as the generation of revenue through increased tax effort and the control of public spending. The structural adjustment programmed (SAP) introduced in July 1986 under the Babangida's administration, recognized that the financial resources for public expenditure for the rest of the1980s and beyond were likely to be less than was previously envisaged, given the uncertainty in the oil market and substantial debt repayment falling due, there was need to curtail government expenditure, especially those involving foreign exchange.

i. *The Nature and Constituents of Public Expenditure*

Public expenditures refer to the expenses that government incurs for its own maintenance, for the society and the economy as a whole (Weil, 2009). Public spending reflects the policy choices of government. Once government has decided upon the type and quantity of goods and services to provide, government spending represents the cost of carrying out these policies (Weil, 2009).

The rationale behind the need for expenditure is associated with the existence of externality or market failures; there is no reason to assume that additional public sector investments would be more productive than the private sector investments (Tanzi, 1997).

Government spending on public services has profound effect on the citizens' standard of living and opportunities. Government spending on public services has the objectives of giving the citizens a chance to realize their fool potential (through education, training and work), building an inclusive and fair society and strengthening a competitive economy (Lin, 1994). Thus the objectives of public expenditure encompasses both equity and efficiency elements.

It is argued by some economists that efficiency improvement must be achieved at the expense of

equity. However, inefficiency in the provision of public services has shown that opportunities for improved equity are lost because of wasteful use of resources (Bailey, 2002). This point is exacerbated to the point that both the provision and financing of public services crowds out the private sector and leads to reduced economic growth. Lower economic growth results to fewer resources being available for the pursuance of social programmes.

Public expenditure can be classified as functional (sectorial) categories of expenditure. Sectorial classification can further be decomposed into recurrent and capital expenditures. On the other hand, functional or sectorial expenditure include general public service, defense, public order and safety, education, health, agriculture, manufacturing and construction, mining and quarrying, water supply, transport and communication, electricity, environmental protection etc (Akrani, 2011; IMF, 2001; Heller and Diamond, 1990).

ii. *Public Expenditure Growth*

The classical economists believe in the doctrine of non-state intervention in the economy and self-correcting mechanism of an economic system. Despite this believe, it is observed that public expenditures have risen tremendously in absolute terms over the years, indicating state expanding roles or activities in the economy. Even after making allowances for population and price increase, it is observed that public expenditures at all levels of government rose over a long period of time (Musgrave, 1889: Bailey 2002: Bhatia, 2008). This means that the classical belief in the doctrine of the state non- intervention and self-correcting mechanism of an economic system has not hold in practice, hence increase in government expenditures in all countries.

There are some macro models of public expenditure that help to explain how government expenditure has expanded over a long term period (Brown and Jackson: 1996). The first model can be described as the development models of public expenditure growth; and the second model is based on Wagner's law of expanding state activities; while the third model is referred to as Peacock and Wiseman's (1961) model of public expenditure growth.

Development models of public expenditure growth can be represented by the works of Musgrave (1919) and Rostow, (1960). Their views are generalizations gathered from examination of a number of different cases (histories) of developed economies. In the early stages of economic growth and development, public sector investment as a proportion of the total investment of the economy is found to be high since public capital formation is of particular importance at this stage. The public sector is therefore, seen to provide social infrastructure overhead such as roads, transportation systems, sanitation systems, law and order, health and education, provision of social amenities and other investments. It is argued that this public sector expenditure is necessary to increase productivity and stimulate the economy for a take-off into the middle stages of economic and social development. Up to the middle stage of growth, the government continues to supply investment goods but this time public investment is complementary to the growth in private investment. During all the stages of development, market failure exist which can frustrate the push towards maturity hence the need for increase in government involvement (spending) in order to deal with this market failure.

Musgrave (1959) argued that, over the development period, total investment as a proportion of GNP increases the relative share of public investment falls. This is because as the economy develops, a larger flow of savings becomes available; the capital stock in the private industry and agriculture must be built up. The basic stock of social overhead capital, similar to public utilities becomes a declining share of net capital formation.

Rostow (1960) argued that once the economy reaches the maturity stage, the mix of public expenditures will shift from expenditures on infrastructure to increasing expenditure on education, health and welfare services. In the mass consumption stage, income maintenance programmes, and policies designed to redistribute welfare, will grow significantly relative to other items of public expenditure and also relative to GNP.

Wagner (1890) posit that the law of rising public expenditure by analyzing trends in the growth of public expenditure and the size of public sector in many countries of the world. Wagner's law of public expenditure postulates that:

(i) The extension of the functions of the state leads to increase in public expenditure on administration and regulation of the economy;
(ii) The development of modern industrial society would give rise to increasing political pressure for social progress and calls for increasing allowance for social consideration in the conduct of industry and;
(iii) The rise in public expenditure will be more than proportional increase in the national income and will thus result in a relative expansion of the public sector.

The analysis of Peacock and Wiseman has established the displacement effect. They found that public expenditure increases during a war or a period of social crisis. When the war ends or the crisis is resolved, public expenditure falls, but not to the original level at the start of the emergency, with the result that growth in public expenditure occurs in stages. The increase in war-related expenditures displaces both the government and private expenditures. This means that, while total

public expenditures rise dramatically, the increase is less than the increase in war related expenditure.

There have been criticisms of Peacock and Wiseman model which often times have asked the question - what happens to the increase in government expenditure in the post war period? There has been no long run displacement effect even when the private civilianmakes expenditures in the post war period which did return to their original growth path or in the case where there is only a temporal increase in post war civilian public expenditures until the old trend line is reached. There is evidence that after deferred civilian public spending has taken place following the war, public outlays return to the pre-war trend level (Brukhead and Mrinal, 1979).

Beyond these macro models discussed above, demographic change has been cited as a factor that contributes to the growth of public expenditure. As population increases, it is expected that there has to be a corresponding level of activity produced in the public sector to serve the larger population. On the part of government, expenditure pattern has to fall in line with the demographic trends such as changes in the structure of the population notably the age and sex as well as the geographical distribution.

iii. *The Impact of Government Spending on Economic Growth and Development*

The classical economists are known to favour the doctrine of laissez-faire in the workings of the economy. Smith (1776) argued that governments are always and without exception the greatest spend thrifts of the society as they spend public money. He believes that individuals, acting in self-interest, will promote public good under the guidance of the invisible hand of the market forces, maintaining that people should be left unhindered to pursue their best interests and in the process they would benefit the society. This implies minimal level of government expenditure for accelerated economic growth. The question is will the minimal government expenditure bring about accelerated economic growth instead of torpedoing the growth?

Unemploymentto the classical economists is a theoretical impossibility, which not only proved possible, but became a major international problem as the great depression of the 1930s has shown. The work of Keynes (1936) had a profound and pervasive influence on economists and governments for many years. He argued that government should use public expenditure as a tool of economic policy to manage the national economy so as to counteract unemployment. This requires an expansive fiscal policy, in which government would deliberately aim at a budget deficit by spending more money (through borrowing) than it raised in taxation. The multiplier effect of public expenditure would counteract unemployment. By increasing public expenditure, government was seen to be doing something about unemployment while the public was getting something (additional state benefits) for nothing, as it appeared, since there was no increase in taxation. Thus, such fiscal policy was attractive to governments since it provides a rationale for spending more money.

This Government spending accompanied by deficit financing to promote economic recovery concept known as"Pimp Priming" did not mean that government should be big, rather the Keynesian theory asserts that government spending, especially deficit spending could provide short-term stimulus to help the economy from a depression or recession. The Keynesians even argued that government should be ready to reduce spending once the economy recovered in order to prevent inflation that might result from the economic growth process. This means that excessive spending will retard economic growth as inflation sets in.

The guidance as to how government will spend to bring positive impact on economic growth was provided by Krueger (1990), in which he listed the following conditions. First, any decision on government spending can be undertaken only when there is a specified set of procedures for deciding what fits within the scope of the outlined policy and also an administrative apparatus for implementation of the policy. He went on to say that even when it appears that government action would actually be effective; there is something of a presumption in favour of policies and programmes requiring a minimum administrative and bureaucratic input. Furthermore, policies directly controlling private activity are likely to be less efficacious in terms of achieving their objectives than policies that provide incentives for individuals to undertake the activities which are deemed desirable. Hence, a presumption exists in favour of choosing a mechanism which provides least scope for rent-seeking. Finally, there is a question of transparency when the costs of a policy are obscured. Special interests in the private sector and government have a greater opportunity to use those policies for their own advantage without the consent of voters. Thus, choosing the policy with lower information costs is usually preferable and this will eventually lead to retardness in economic growth.

d) Empirical Literature

A number of studies have been carried out empirically to examine the relationship between government spending and economic growth. Vedder and Gallaway (1998), discussing the relationship between government spending and economic growth, maintain that the output enhancing futures of government spending dominates when government taxes is very small. At a low level, the productive effects of public spending are likely to exceed the social costs of raising funds. As government expenditure grows, however, the law of diminishing returns begins to operate andbeyond some point, further expansion of

government spending no longer lead to output expansion, as the growth reducing aspects of government grow larger and the growth-enhancing aspects of government diminish. Further expansion of government spending contributes to economic stagnation and decline. These negative effects may be more glaring where financing relies heavily on more distortionary taxes (direct taxes) and where public expenditure focuses on unproductive activities. They further buttress their argument, by explaining that while the construction of roads and initial assets output expands, the construction of secondary roads and upgrading primary roads start to have less added positive impact per dollar spent. Moreover, the taxes and/or borrowing levied to finance higher government expenditure impose increasing burdens, (low tax rates become higher). New taxes such as income taxes are added to low consumption levels, with increasing adverse effect on human economic behaviour. Tariffs are raised, thwarting trade. Consequently, new government spending no longer enhances economic growth.

Mitchell (2005) pointed out a number of reasons that makes government spending have negative impact on economic growth. First, the extraction cost. All the options used to finance government spending have adverse consequences. High taxes on work; saving and investment discourage productive behaviour. Borrowing consumes capital that otherwise be available for private investment and may lead to higher interest rates. Inflation debases a nation's currency, resulting in widespread economic distortions.

Second, the rate of economic growth may be adversely affected by the transfer of resources from use in manufacturing of the private sector, to the public sector for provision of social services. This is referred to as displacement cost (where government spending displaces private sector activities). This dampens economic growth since the market forces of demand and supply guide allocation of resources in private sector, and whereas political forces dominate when politicians and bureaucrats decide how money is spent. The political process is much less dynamic than the market with less incentive for increased productivity.

Third, there is negative multiplier cost as government spending finances harmful intervention. Portion of the federal budget are used to financing activities that generate negative effect on economic activities. For example, many regulatory agencies have comparatively small budgets but they impose large costs on the economic productive sector.

Fourth, creative discovery enhances economic growth. Because of competition and the desire to increase income and wealth, individuals and entities in the private sector constantly search for new options and opportunities. Government programmes are inherently inflexible, both because of centralization and because of bureaucracy – thus causing stagnation.

Finally, government spending involves inefficiency. Government directly provides services and activities such as education, postal services, airports, ports etc.However, there is evidence that private sector could provide these important services at higher quality and at lower cost. If public sector has less scope for productivity improvement than the private sector and yet to grow at the latter's expense due to under linking of public expenditure, then the productive potential of the economy is reduced.

However, based on the above argument, Mitchell, (2005) warned that small government that fails to provide legal system, a stable monetary regime and other core functions effectively and efficiently will most likely not promote economic growth. Therefore, a small government does not by itself promote economic growth.

Ram (1986) commented on the impact of government size on economic growth. One point of view suggests that a larger government size is likely to be detrimental to efficiency and economic growth because government operations are conducted inefficiently. The regulatory process imposes excessive burdens and costs on the economic system and many of the government fiscal and monetary policies tend to distort economic incentives and lower the productivity of the system. At the other extreme, there are other points of views that assigned to the government a critical role in the process of economic growth, and could argue that a larger government size is likely to be a powerful engine of economic development. The latter point of view is based on the role of the government in harmonizing conflicts between private and social interests, prevention of exploitation of the country by foreigners and securing an increase in productive investment and providing a socially optimal direction for growth and development.

Another approach in explaining and analyzing the impact of government spending on economic growth is made by classifying government spending into productive and unproductive classes. Barro (1990) maintains that productive government spending would include the resources devoted to property right enforcements as well as activities that enter directly into production function. It is this productive role that creates a potentially positive linkage between government and economic growth. For example, if government expenditure is held fixed, an increase in the average marginal tax rate or an exogenous worsening of property rights would tend to lower the growth or saving rates. An increase in the share of nonproductive government expenditure, (consumption, for example) lowers the growth and savings rates. These effects arise because higher nonproductive government expenditure has no direct effect on private sector productivity, but does lead to higher income tax rate. Since individuals retain a

smaller fraction of their returns from investment, they have less incentive to invest and thus the economy tends to grow at a lower rate.

Barro (1990) subscribes to the fact that there are quite high returns to increase public spending when it is starting from a low base, without the imposition of rule of law or adequate health and education.

According to the World Bank Development Report (1988), the expanded role of public sector carries with it risks and opportunities. The risks come from the ineffective use of public resources and from the over extension of government into areas that are better left to private markets. In this case much of government interventions may be inappropriate because the bureaucracy is ill equipped to intervene. In the market system of efficient civil services, high market failures, and lower distortionary effect of tax, greater government involvement may be appropriate. It is the task of the public finance to balance the opportunities and risks, and thus improve the quality of government. The important aspects of public finance within which pragmatic policies should be pursued are the management of public deficits, revenue mobilization, and allocation of public spending and decentralization of functions.

e) *Structure of Government Expenditure (Capital versus Recurrent Expenditure)*

Capital expenditure is broadly defined as an outlay on acquisition of fixed assets to enhance production of goods and services. Such outlay include spending on land development, construction of power plants, buildings, dams, roads, schools, health, and purchase of plants and equipment (Bhatia, 2008).

Recurrent expenditure comprises expenditure items which are recurring in the process of delivering government economic and social services such as wages, subsidies, operation and maintenance services, pension and debt services are among the major components of recurrent expenditure (CBN Statistical Bulletin vol.21 Dec. 2010).

In 1976, General Olusegun Obasanjo emphasized the policy of direct state participation in business activities in the economy. This led to increase in investment and capital projects which increased capital expenditure. From1975 to 1983, capital expenditure as percentage of total government expenditure increased more than recurrent expenditure.

The democratically elected government of Shehu Shagari in 1979carried out public expenditures on Federal Capital Territory development, on housing scheme and River Basin development around the country (Ukwu 2004). All expenditures within the regime up to 1983 when the Shagari administration was toppled in a military coup in December, 1983 increased rapidly.

III. Method of Study

This study makes use of time series data from 1970 to 2014, using data collected for analysis since there was a perceivedcausal relationship between government expenditure (Recurrent and Capital) and economic development in Nigeria.

We are guided by the following research questions and/or hypotheses as follows:

Does public capital expenditure exert any significant impact on economic development in Nigeria?Has government investments spending on economic services contributed to economic development in Nigeria? Does government investment on social community services influenced economic development?Does government transfer expenditure in Nigeria impact significantly on economic development in Nigeria and at what pace? These encompassing questions has led the formulation of some hypotheses such as - Capital Investment Spending has no significant effect on economic development in Nigeria; Public Recurrent expenditure has no significant impact or influence on economic development in Nigeria.

The dependent variable is Gross Domestic Product (GDP) while the independent variables are Government Recurrent Expenditure (GREX) and Government Capital Expenditure (GCEX). The study is an empirical study design to show how government expenditure, which is classified into Government Recurrent Expenditure and Government Capital Expenditure impact on economic development of Nigeria within the period under review.The characteristics of this study on the effect of government (public) expenditure was on Administration, Economic Services, Social and Community Services and Transfers in the development of the economy. Variables that enter the model are gross domestic product (GDP) as explained variable, and government recurrent and capital expenditures on Administration (GREXAD and GCEXAD), Economic Services (GREXES and GCEXES), Social and Community Services (GREXSCS and GREXSCS) and Transfers (GREXTR and GCXETR), as explanatory variables. The explained variable (GDP) is the dependent variable while the explanatory variable is the independent variable which is classified into two groups: Government Recurrent Expenditure (GREXAD, GREXES, GREXSCS, GREXTR) and Government Capital Expenditure (GCEXAD, GCEXES, GCEXSCS, GCEXTR) are as shown on table 1.

The regression output includes other relevant statistics that enhance further analysis and evaluation. Estimates of model coefficients are evaluated for partial and joint significance of their effects on economic development. Basis of evaluation are the t- and F statistics respectively at 0.05 level of significance and relevant degrees of freedom.

Explanatory power of the model, as a measure of goodness of fit, is determined using the coefficient of determination (R-Square and adjusted R-Square). These statistics enhance insight into the extent to which the various government expenditures explain economic development in Nigeria for the period under review. Empirical econometric approach being adopted was toanalysing data considered relevant components of government expenditure and economic development.

a) Data Analysis

The values of Gross domestic product maintained an increasing trend during the period under study. In the year 1970, GDP was ₦5, 281,100,000 and it rose to ₦267,550,000,000 in 1990. It further increased from ₦4,582,127,300,000 in 2000 to ₦33,984,773,000,000 in 2010; and to ₦42,396,846,000,000 in 2013 and declined to ₦40,116,920,000,000 in 2014.

However, the values of Capital government expenditure had an irregular trend of movement. In the year 1981, CGEXP was ₦6,567,000,000 and it rose to ₦24,047 800,000 in 1990 and ₦498,027,600,000 in 1999 which later decreased to 241,688,600,000 in 2003. The Capital government expenditure later rose and steadily increased to 1,152,800,000,000 and 3,754,370,000,000 in 2009 and 2014 respectively.

The values of Recurrent government expenditure (RGEXP) had an increasing trend as it stood at 4846700000 in 1981 and steadily rose to 36219600000 in 1990 and to 461608500000 in 2000 and finally rose to 1238893310000 in year 2014.

The values of Gross fixed capital formation had an irregular flow trend. In the year 1981, GFCF was 133,217.52 and it declined to 40,121.31 in year 1990. Later,in year 2000, it further rose to 41,342.64; and then to 77,438.02 and 106,574.57 in 2010 and 2013 respectively.

b) Interpretaion of Regression Result

Appendix V1: Error Correction Mechanism Over Perametarized Error Correction Model

Dependent Variable: DLOG(GDP)
Method: Least Squares
Date: 12/10/16 Time: 08:47
Sample (adjusted): 1971 2011
Included observations: 41 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DLOG(GDP(1))	-0.543196	0.138268	-3.928556	0.0005
DLOG(GDP(2))	-0.400587	0.143333	-2.794796	0.0091
DLOG(GDP(3))	-0.297344	0.129263	-2.300300	0.0288
DLOG(GCEX)	0.246543	0.064979	3.794227	0.0007
DLOG(GCEX(1))	0.251060	0.057499	4.366314	0.0001
DLOG(GCEX(2))	0.206878	0.062611	3.304166	0.0025
DLOG(GCEX(3))	0.128997	0.053600	2.406655	0.0227
DLOG(GREX)	0.622866	0.091207	6.829174	0.0000
DLOG(GREX(1))	0.316564	0.113380	2.792066	0.0092
DLOG(GREX(2))	0.225529	0.116134	1.941970	0.0619
DLOG(GREX(3))	0.151510	0.076807	1.972609	0.0581
ECM(-1)	-0.865075	0.122678	-7.051609	0.0000

R-squared	0.722423	Mean dependent var	0.216233
Adjusted R-squared	0.617135	S.D. dependent var	0.193532
S.E. of regression	0.119750	Akaike info criterion	-1.167729
Sum squared resid	0.415863	Schwarz criterion	-0.666195
Log likelihood	35.93844	Hannan-Quinn criter.	-0.985098
Durbin-Watson stat	0.720375		

c) Parsimonious Error Correction Model

Dependent Variable: DLOG(GDP)
Method: Least Squares
Date: 12/10/16 Time: 08:50
Sample (adjusted): 1971 2011
Included observations: 41 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DLOG(GDP(1))	-0.437372	0.144372	-3.029471	0.0049
DLOG(GDP(2))	-0.251151	0.145336	-1.728077	0.0939
DLOG(GDP(3))	-0.090785	0.111227	-0.816212	0.4206
DLOG(GCEX)	0.229129	0.070270	3.260677	0.0027
DLOG(GCEX(1))	0.283502	0.061603	4.602079	0.0001
DLOG(GCEX(2))	0.192758	0.067999	2.834739	0.0080
DLOG(GREX)	0.577275	0.098356	5.869231	0.0000
DLOG(GREX(1))	0.251101	0.121153	2.072599	0.0466
DLOG(GREX(2))	0.096797	0.117540	0.823522	0.4165
ECM(-1)	-0.761114	0.128437	-5.925952	0.0000

R-squared	0.643087	Mean dependent var	0.216233
Adjusted R-squared	0.539467	S.D. dependent var	0.193532
S.E. of regression	0.131336	Akaike info criterion	-1.013895
Sum squared resid	0.534724	Schwarz criterion	-0.595951
Log likelihood	30.78485	Hannan-Quinn criter.	-0.861703
Durbin-Watson stat	0.903211		

MODEL ONE

GDP = F (CGEXP, RGEXP)

$GDP = b_0 + b_1CGEXP + b_2RGEXP + u$

GDP = -127832.8 + 0.832CGEXP + 11.138RGEXP

T-Stat = (-0.358) (0.449) (18.790)

$R^2 = 0.9883$

$R^{-2} = 0.9876$

F-Stat = 1276.797

D.W = 1.132

The estimate of a_0 is -127832.8, meaning that if the independent variables are zero, the dependent variable will autonomously become -127832.8.

The estimate of a_1 is 0.832; meaning that there is a direct relationship between CGEXP and GDP. It also implies that a unit change in CGEXP will lead to 0.832 changes in GDP.

The estimate of a_2 is 11.138, means that there is a positive relationship between RGEXP and GDP. This implies that a unit change in RGEXP will lead to 11.138 increases in GDP.

The t-ratio for the estimate of a_0 is -0.358. At 5% level of significance with a degree of freedom of 31, (where degree of freedom is N – 2 = 33 – 2 = 31); the critical t-ratio from the statistical table is 2.021. The empirical t-ratio is lesser than the critical t-ratio (i.e. -0.358 < 2.021). This implies that the estimate of a_0 is not statistically significant.

The t-ratio for the estimate of a_1 is 0.449. At 5% level of significance with a degree of freedom of 31, the critical t-ratio from the statistical table is 2.021. The empirical t-ratio is lesser than the critical t-ratio (i.e. 0.449 < 2.021). This implies that the estimate of a_1 is not statistically significant, meaning that capital government expenditure has no significant impact on economic growth.

The t-ratio for the estimate of a_2 is 18.790. At 5% level of significance with a degree of freedom of 31, the critical t-ratio from the statistical table is 2.021. The empirical t-ratio is less than the critical t-ratio (i.e. 18.790 > 2.021). This implies that the estimate of a_2 is statistically significant, meaning recurrent government expenditure has significant impact on economic growth.

The coefficient of determination (R^2) is 0.9883. This means that the independent variables were able to explain 98.83% of the total variations in the dependent variable, while the 1.17% unexplained were due to the stochastically or error term.

The adjusted coefficient of determination (R^2) is 0.9876. This implies that the explanatory variables were able to explain 98.76% of the total variation in the dependent variable while the 1.24% unexplained was captured by the error term after taking cognizance of the degree of freedom.

The value of F-statistics is 1276.797. At 5% level of significance with a degree of freedom of $v_1 = 1$, $v_2 = 31$, (where degree of freedom, $v_1 = K – 1 = 2 – 1 = 1$, $v_2 = N – K = 33 – 2 = 31$). The critical f-ratio from the statistical table is 4.08. The empirical f-ratio is greater than the critical f-ratio (i.e. 1276.797 > 4.08). This implies that the coefficient of determination is statistically significant; hence we accept the alternative

hypothesis that states; government expenditure has significant impact on economic growth in Nigeria.

The value for Durbin Watson statistics is 1.132. At 5% level of significance, with thirty three observations, and two independent variables, the upper and lower limits of Durbin Watson from the statistical table are d_U = 1.577, d_L = 1.321. These satisfies the relation 0< DW < d_l, that is, 0 < 1.132 < 1.321. This implies that there is presence of positive autocorrelation.

IV. Conclusion and Recommendations

a) Summary

We have empirically examined the impact of government expenditure on economic development in Nigeria using secondary data which were obtained from the Central bank of Nigeria Statistical Bulletins for a period of forty-five years (i.e. 1970-2014).

The result of the regression analysis in the first model reveals that government recurrent expenditure (GREX) and government capital (GCEX) expenditure were positively related to gross domestic product (GDP) as government expenditure has significant impact on economic development in Nigeria. The two explanatory variables GREX and GCEX being regressed have a value of 0.9942 being able to explain 99.42% of the total variation in gross domestic product after taking intocognizance the degree of freedom. It is our conclusion that government expenditure has significant impact on the economic development in Nigeria.Government consumption expenditure was found to have depression on economic growth in Nigeria which results corroborated the findings of Barro (1990) who hypothesizes that unproductive government expenditure is liable to depress economic development. Therefore, government should reduce its recurrent expenditure on wasteful ventures in order to stimulate economic development and growth.

The study was alsoable to establish that government capital expenditure stimulates economic development in Nigeria. This finding is in line with the theoretical postulation that government productive expenditure promotes economic development. So, the current poor performance of Nigeria's economy is attributable to improper distribution of government expenditure to areas of needs and not considering the direction of economic indicators.

The followings are our recommendations based on the conclusions:

1. Government should be able to manage her capital expenditure judiciously andprudently so enhance economic growthand development in Nigeria.
2. Government should direct her investmentto areas of profitable ventures to stimulate the economy.
3. Government to maximally avoid wasteful expenditures and if she must then, it should be absolutely minimized.
4. Government should minimize huge foreign borrowing unless for private investment in order not to incur excessive debt will lead to higher interest rates that will eventually resultin widespread economic recession and distortions.
5. Government should increase its Capital expenditure in the area of infrastructure development such as provision of rural roads, power generation and building up of the manufacturingsector by building industries to accelerate growth in the productive sector of the economy with the view of raising the standard of living in the country.
6. Government should endeavour to abstain from virement of fundsfrom manufacturing sector to the public sector for whatever purpose even for the provision of social servicesin order not to strangulate the economy of the nation.
7. Our political leadership should not beclouded with domineering governance by allowing political stalwarts and bureaucrats to dictate the fate of the economy without consulting renown economists of the nation.
8. Developmental strides should be the governing factor of Political leadership of the Federal Government of Nigeria while considering budgetary expenditures.
9. The country's political leadership should allow the anti-graft or anti-corruption agencies such as the Economic and Financial Crime Commission (EFCC), the Independent Corrupt Practices Commission (ICPC) any other such bodies to always administer due processes in every strata of the economy in order to sanitize the nation of corruption sparing no sacred cows.
10. EFCC, ICPC, the Judiciary and any other like body should discharge their duties creditably with no blind eyes in fighting corruption so as to forestall sanity in the country.

Appendix I: Research Data

YEARS	GDP	GREX	GCEX
1970	5281100000	715200000	187800000
1971	6650900000	823600000	173600000
1972	7187500000	1012300000	451300000
1973	8630500000	963500000	565700000
1974	8823100000	1517100000	1223500000
1975	21475200000	2734900000	3207700000
1976	26655800000	3815400000	3786600000
1977	31520300000	3819200000	5004600000
1978	34540100000	2800000000	5200000000
1979	41974700000	3187200000	4219500000
1980	49632300000	4805200000	10163400000
1981	47619700000	4846700000	6567000000
1982	49069300000	4885700000	6420200000
1983	53107400000	5278800000	4885700000
1984	59622500000	5827500000	4100100000
1985	67908600000	7576200000	5464700000
1986	69147000000	7696900000	8526800000
1987	105222800000	15646200000	6372500000
1988	139085300000	19409400000	8340100000
1989	216797500000	25994200000	15034100000
1990	267550000000	36219600000	24047800000
1991	312139700000	38243500000	28340900000
1992	532613800000	54072200000	39763600000
1993	683869800000	82143600000	54501800000
1994	899863200000	85918900000	70918300000
1995	1933211600000	132899700000	121138300000
1996	2702719100000	124291300000	158678300000
1997	2801972600000	158563500000	269652500000

1998	2708430900000	178097800000	309015600000
1999	3194015000000	449662400000	498027600000
2000	4582127300000	461608500000	239450900000
2001	4725086000000	579329100000	438696500000
2002	6912381500000	867336500000	321378100000
2003	8487031600000	984250100000	241688600000
2004	11411066910000	1032741300000	351259900000
2005	14572239120000	1223730000000	519510000000
2006	18564594730000	1485198200000	720768300000
2007	20657317670000	1589300000000	759281500000
2008	24296329290000	2117389000000	960890100000
2009	24712669900000	2127971500000	1152800000000
2010	33984773000000	3109378510000	883870000000
2011	37409862000000	3314513330000	918500000000
2012	40544052000000	3325178000000	874800000000
2013	42396846000000	3689148100000	1108377000000
2014	40116920000000	1238893310000	3754370000000

Source: CBN Statistical Bulletin (Various Issues)

Appendix II: Regression Results

Linear Regression Result

Dependent Variable: GDP
Method: Least Squares
Date: 12/10/16 Time: 08:14
Sample: 1970 2014
Included observations: 45

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.28E+11	2.44E+11	-2.166107	0.0360
GCEX	7.398352	0.407087	18.17387	0.0000
GREX	9.222649	0.246153	37.46710	0.0000

R-squared	0.989332	Mean dependent var	7.79E+12
Adjusted R-squared	0.988824	S.D. dependent var	1.30E+13
S.E. of regression	1.37E+12	Akaike info criterion	58.79423
Sum squared resid	7.89E+25	Schwarz criterion	58.91468
Log likelihood	-1319.870	Hannan-Quinn criter.	58.83913
F-statistic	1947.545	Durbin-Watson stat	0.910961
Prob(F-statistic)	0.000000		

b) Log-Linear Regression Result

Dependent Variable: LOG(GDP)
Method: Least Squares
Date: 12/10/16 Time: 08:15
Sample: 1970 2014
Included observations: 45

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.657470	0.328369	2.002231	0.0517
LOG(GCEX)	0.280998	0.057759	4.864989	0.0000
LOG(GREX)	0.790066	0.055148	14.32637	0.0000

R-squared	0.993859	Mean dependent var	27.09934
Adjusted R-squared	0.993567	S.D. dependent var	2.937895
S.E. of regression	0.235644	Akaike info criterion	0.011354
Sum squared resid	2.332186	Schwarz criterion	0.131798
Log likelihood	2.744535	Hannan-Quinn criter.	0.056254
F-statistic	3398.648	Durbin-Watson stat	1.082528
Prob(F-statistic)	0.000000		

Appendix III: Unit Root Test

Gdp at Level

Null Hypothesis: LOG(GDP) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=9)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-0.822054	0.8029
Test critical values:	1% level	-3.588509	
	5% level	-2.929734	
	10% level	-2.603064	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LOG(GDP))
Method: Least Squares
Date: 12/10/16 Time: 08:18
Sample (adjusted): 1971 2014
Included observations: 44 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(GDP(-1))	-0.008403	0.010222	-0.822054	0.4157
C	0.429990	0.277582	1.549057	0.1289

R-squared	0.015835	Mean dependent var	0.203078
Adjusted R-squared	-0.007597	S.D. dependent var	0.193629
S.E. of regression	0.194363	Akaike info criterion	-0.393793
Sum squared resid	1.586628	Schwarz criterion	-0.312693
Log likelihood	10.66344	Hannan-Quinn criter.	-0.363717
F-statistic	0.675773	Durbin-Watson stat	1.817288
Prob(F-statistic)	0.415689		

GDP 1ST Diff.

Null Hypothesis: D(LOG(GDP)) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=9)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-5.779831	0.0000
Test critical values:	1% level	-3.592462	
	5% level	-2.931404	
	10% level	-2.603944	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LOG(GDP),2)
Method: Least Squares
Date: 12/10/16 Time: 08:18
Sample (adjusted): 1972 2014
Included observations: 43 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOG(GDP(-1)))	-0.919305	0.159054	-5.779831	0.0000
C	0.185565	0.044880	4.134653	0.0002

R-squared	0.448973	Mean dependent var	-0.006649
Adjusted R-squared	0.435533	S.D. dependent var	0.263044
S.E. of regression	0.197628	Akaike info criterion	-0.359467
Sum squared resid	1.601327	Schwarz criterion	-0.277551
Log likelihood	9.728540	Hannan-Quinn criter.	-0.329259
F-statistic	33.40645	Durbin-Watson stat	1.957003
Prob(F-statistic)	0.000001		

Gcex at Level

Null Hypothesis: LOG(GCEX) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=9)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-1.110560	0.7034
Test critical values:	1% level	-3.588509	
	5% level	-2.929734	
	10% level	-2.603064	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LOG(GCEX))
Method: Least Squares
Date: 12/10/16 Time: 08:19
Sample (adjusted): 1971 2014
Included observations: 44 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(GCEX(-1))	-0.026048	0.023455	-1.110560	0.2731
C	0.858133	0.573203	1.497084	0.1418

R-squared	0.028528	Mean dependent var	0.225069
Adjusted R-squared	0.005397	S.D. dependent var	0.399976
S.E. of regression	0.398895	Akaike info criterion	1.044154
Sum squared resid	6.682939	Schwarz criterion	1.125254
Log likelihood	-20.97140	Hannan-Quinn criter.	1.074230
F-statistic	1.233344	Durbin-Watson stat	2.000070
Prob(F-statistic)	0.273075		

GCEX 1ST Diff.

Null Hypothesis: D(LOG(GCEX)) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=9)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-6.475518	0.0000
Test critical values:	1% level	-3.592462	
	5% level	-2.931404	
	10% level	-2.603944	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LOG(GCEX),2)
Method: Least Squares
Date: 12/10/16 Time: 08:20
Sample (adjusted): 1972 2014
Included observations: 43 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOG(GCEX(-1)))	-1.084263	0.167440	-6.475518	0.0000
C	0.249147	0.070484	3.534794	0.0010

R-squared	0.505621	Mean dependent var	0.030201
Adjusted R-squared	0.493563	S.D. dependent var	0.569872
S.E. of regression	0.405546	Akaike info criterion	1.078229
Sum squared resid	6.743160	Schwarz criterion	1.160145
Log likelihood	-21.18192	Hannan-Quinn criter.	1.108437
F-statistic	41.93233	Durbin-Watson stat	1.696133
Prob(F-statistic)	0.000000		

Grex at Level

Null Hypothesis: LOG(GREX) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=9)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-1.313078	0.6153
Test critical values:	1% level	-3.588509	
	5% level	-2.929734	
	10% level	-2.603064	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LOG(GREX))
Method: Least Squares
Date: 12/10/16 Time: 08:21
Sample (adjusted): 1971 2014
Included observations: 44 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(GREX(-1))	-0.021106	0.016074	-1.313078	0.1963
C	0.691184	0.399751	1.729037	0.0911

R-squared	0.039433	Mean dependent var	0.169481
Adjusted R-squared	0.016562	S.D. dependent var	0.294849
S.E. of regression	0.292397	Akaike info criterion	0.422982
Sum squared resid	3.590839	Schwarz criterion	0.504082
Log likelihood	-7.305615	Hannan-Quinn criter.	0.453058
F-statistic	1.724173	Durbin-Watson stat	1.686539
Prob(F-statistic)	0.196286		

GREX 1ST Diff.

Null Hypothesis: D(LOG(GREX)) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=9)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-5.132865	0.0001
Test critical values:	1% level	-3.592462	
	5% level	-2.931404	
	10% level	-2.603944	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(LOG(GREX),2)
Method: Least Squares
Date: 12/10/16 Time: 08:21
Sample (adjusted): 1972 2014
Included observations: 43 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOG(GREX(-1)))	-1.065084	0.207503	-5.132865	0.0000
C	0.183079	0.061778	2.963501	0.0050

R-squared	0.391206	Mean dependent var	-0.028658
Adjusted R-squared	0.376358	S.D. dependent var	0.381862
S.E. of regression	0.301560	Akaike info criterion	0.485701
Sum squared resid	3.728480	Schwarz criterion	0.567617
Log likelihood	-8.442570	Hannan-Quinn criter.	0.515909
F-statistic	26.34631	Durbin-Watson stat	1.561891
Prob(F-statistic)	0.000007		

Appendix IV: Granger Causality Test

Pairwise Granger Causality Tests
Date: 12/10/16 Time: 08:23
Sample: 1970 2014
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
GCEX does not Granger Cause GDP	43	9.15751	0.0006
GDP does not Granger Cause GCEX		8.38343	0.0010
GREX does not Granger Cause GDP	43	3.19725	0.0521
GDP does not Granger Cause GREX		6.88889	0.0028
GREX does not Granger Cause GCEX	43	7.13098	0.0023
GCEX does not Granger Cause GREX		12.3661	7.E-05

Appendix V: Johansen Cointegration Test

Date: 12/10/16 Time: 08:24
Sample (adjusted): 1972 2014
Included observations: 43 after adjustments
Trend assumption: Linear deterministic trend
Series: GDP GCEX GREX
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.666245	100.9352	29.79707	0.0000
At most 1 *	0.521639	53.74914	15.49471	0.0000
At most 2 *	0.401058	22.04136	3.841466	0.0000

Trace test indicates 3 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.666245	47.18602	21.13162	0.0000
At most 1 *	0.521639	31.70778	14.26460	0.0000
At most 2 *	0.401058	22.04136	3.841466	0.0000

Max-eigenvalue test indicates 3 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegrating Coefficients (normalized by b'*S11*b=I):

GDP	GCEX	GREX
-8.32E-14	9.91E-12	-1.62E-12
-6.47E-13	-6.84E-13	9.05E-12
-1.04E-12	5.29E-13	1.10E-11

Unrestricted Adjustment Coefficients (alpha):

D(GDP)	1.00E+12	3.73E+11	4.32E+11
D(GCEX)	-1.26E+11	1.44E+11	-1.80E+11
D(GREX)	2.33E+11	-1.21E+11	1.24E+11

1 Cointegrating Equation(s): Log likelihood -3601.800

Normalized cointegrating coefficients (standard error in parentheses)

GDP	GCEX	GREX
1.000000	-119.1493	19.41035
	(13.6923)	(4.38545)

Adjustment coefficients (standard error in parentheses)

D(GDP)	-0.083493
	(0.01501)
D(GCEX)	0.010458
	(0.00485)
D(GREX)	-0.019383
	(0.00412)

2 Cointegrating Equation(s): Log likelihood -3585.946

Normalized cointegrating coefficients (standard error in parentheses)

GDP	GCEX	GREX
1.000000	0.000000	-13.69231
		(0.39149)
0.000000	1.000000	-0.277825
		(0.01914)

Adjustment coefficients (standard error in parentheses)

D(GDP)	-0.324504	9.693146
	(0.11081)	(1.68864)
D(GCEX)	-0.082806	-1.344733
	(0.03478)	(0.53003)
D(GREX)	0.058939	2.392291
	(0.02968)	(0.45222)

Appendix VI: Error Correction Mechanism Over Perametarized Error Correction Model

Dependent Variable: DLOG(GDP)
Method: Least Squares
Date: 12/10/16 Time: 08:47
Sample (adjusted): 1971 2011
Included observations: 41 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DLOG(GDP(1))	-0.543196	0.138268	-3.928556	0.0005
DLOG(GDP(2))	-0.400587	0.143333	-2.794796	0.0091
DLOG(GDP(3))	-0.297344	0.129263	-2.300300	0.0288
DLOG(GCEX)	0.246543	0.064979	3.794227	0.0007
DLOG(GCEX(1))	0.251060	0.057499	4.366314	0.0001
DLOG(GCEX(2))	0.206878	0.062611	3.304166	0.0025

DLOG(GCEX(3))	0.128997	0.053600	2.406655	0.0227
DLOG(GREX)	0.622866	0.091207	6.829174	0.0000
DLOG(GREX(1))	0.316564	0.113380	2.792066	0.0092
DLOG(GREX(2))	0.225529	0.116134	1.941970	0.0619
DLOG(GREX(3))	0.151510	0.076807	1.972609	0.0581
ECM(-1)	-0.865075	0.122678	-7.051609	0.0000

R-squared	0.722423	Mean dependent var	0.216233
Adjusted R-squared	0.617135	S.D. dependent var	0.193532
S.E. of regression	0.119750	Akaike info criterion	-1.167729
Sum squared resid	0.415863	Schwarz criterion	-0.666195
Log likelihood	35.93844	Hannan-Quinn criter.	-0.985098
Durbin-Watson stat	0.720375		

Parsimonious Error Correction Model

Dependent Variable: DLOG(GDP)
Method: Least Squares
Date: 12/10/16 Time: 08:50
Sample (adjusted): 1971 2011
Included observations: 41 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DLOG(GDP(1))	-0.437372	0.144372	-3.029471	0.0049
DLOG(GDP(2))	-0.251151	0.145336	-1.728077	0.0939
DLOG(GDP(3))	-0.090785	0.111227	-0.816212	0.4206
DLOG(GCEX)	0.229129	0.070270	3.260677	0.0027
DLOG(GCEX(1))	0.283502	0.061603	4.602079	0.0001
DLOG(GCEX(2))	0.192758	0.067999	2.834739	0.0080
DLOG(GREX)	0.577275	0.098356	5.869231	0.0000
DLOG(GREX(1))	0.251101	0.121153	2.072599	0.0466
DLOG(GREX(2))	0.096797	0.117540	0.823522	0.4165
ECM(-1)	-0.761114	0.128437	-5.925952	0.0000

R-squared	0.643087	Mean dependent var	0.216233
Adjusted R-squared	0.539467	S.D. dependent var	0.193532
S.E. of regression	0.131336	Akaike info criterion	-1.013895
Sum squared resid	0.534724	Schwarz criterion	-0.595951
Log likelihood	30.78485	Hannan-Quinn criter.	-0.861703
Durbin-Watson stat	0.903211		

Gross Domestic Product (GDP), Total Government Recurrent Expenditure (GREX) and Total Government Capital Expenditure (GCEX) in Naira(₦)

YEARS	GDP	GREX	GCEX	LOGGDP	LOGGREX	LOGCEX
1970	5281100000	715200000	187800000	9.72	8.85	8.27
1971	6650900000	823600000	173600000	9.82	8.92	8.24
1972	7187500000	1012300000	451300000	9.86	9.01	8.65
1973	8630500000	963500000	565700000	9.94	8.98	8.75
1974	8823100000	1517100000	1223500000	9.95	9.18	9.09
1975	21475200000	2734900000	3207700000	10.33	9.44	9.51
1976	26655800000	3815400000	3786600000	10.43	9.58	9.58
1977	31520300000	3819200000	5004600000	10.5	9.58	9.7
1978	34540100000	2800000000	5200000000	10.54	9.45	9.72
1979	41974700000	3187200000	4219500000	10.62	9.5	9.63

1980	49632300000	4805200000	10163400000	10.7	9.68	10.01
1981	47619700000	4846700000	6567000000	10.68	9.69	9.82
1982	49069300000	4885700000	6420200000	10.69	9.69	9.81
1983	53107400000	5278800000	4885700000	10.73	9.72	9.69
1984	59622500000	5827500000	4100100000	10.78	9.77	9.61
1985	67908600000	7576200000	5464700000	10.83	9.88	9.74
1986	69147000000	7696900000	8526800000	10.84	9.89	9.93
1987	105222800000	15646200000	6372500000	11.02	10.19	9.8
1988	139085300000	19409400000	8340100000	11.14	10.29	9.92
1989	216797500000	25994200000	15034100000	11.34	10.41	10.18
1990	267550000000	36219600000	24047800000	11.43	10.56	10.38
1991	312139700000	38243500000	28340900000	11.49	10.58	10.45
1992	532613800000	54072200000	39763600000	11.73	10.73	10.6
1993	683869800000	82143600000	54501800000	11.83	10.91	10.74
1994	899863200000	85918900000	70918300000	11.95	10.93	10.85
1995	1933211600000	132899700000	121138300000	12.29	11.12	11.08
1996	2702719100000	124291300000	158678300000	12.43	11.09	11.2
1997	2801972600000	158563500000	269652500000	12.45	11.2	11.43
1998	2708430900000	178097800000	309015600000	12.43	11.25	11.49
1999	3194015000000	449662400000	498027600000	12.5	11.65	11.7
2000	4582127300000	461608500000	239450900000	12.66	11.66	11.38
2001	4725086000000	579329100000	438696500000	12.67	11.76	11.64
2002	6912381500000	867336500000	321378100000	12.84	11.94	11.51
2003	8487031600000	984250100000	241688600000	12.93	11.99	11.38
2004	11411066910000	1032741300000	351259900000	13.06	12.01	11.55
2005	14572239120000	1223730000000	519510000000	13.16	12.09	11.72
2006	18564594730000	1485198200000	720768300000	13.27	12.17	11.86
2007	20657317670000	1589300000000	759281500000	13.32	12.2	11.88
2008	24296329290000	2117389000000	960890100000	13.39	12.33	11.98
2009	24712669900000	2127971500000	1152800000000	13.39	12.33	12.06
2010	33984773000000	3109378510000	883870000000	13.53	12.49	11.95
2011	37409862000000	3314513330000	918500000000	13.57	12.52	11.96
2012	40544052000000	3325178000000	874800000000	13.61	12.52	11.94
2013	42396846000000	3689148100000	1108377000000	13.63	12.57	12.04
2014	40116920000000	1238893310000	3754370000000	13.60	12.09	12.57

Source: Cbnstatistical Bulletins (Various Issues)

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