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IMPACT OF GOVERNMENT EXPENDITURE ON ECONOMIC GROWTH IN NIGERIA

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ABSTRACT
The study analyzed the impact of government expenditure on Nigeria's economic growth from 1986 to 2021 using the Auto Regression Distributed Lag (ARDL) model. It focused on government capital expenditure, recurrent expenditure, and total expenditure. The Gross Domestic Product (RGDP) was used as a proxy for economic growth, while total capital expenditure, total recurrent expenditure, total expenditure, and domestic debt financing were used as explanatory variables. The results showed that total capital expenditure was positive and insignificant, while total recurrent expenditure was positive and insignificant. Total expenditure was negative and insignificant, while domestic debt finance showed a positive relationship with GDP in the long run. The study concluded that government expenditure indices had an insignificant impact on economic growth in the long-run. The recommendations include increasing budgetary allocation to capital projects, effectively utilizing funds, reducing debt patterns, increasing revenue sources, monitoring capital expenditure, balancing recurrent expenditure with growth in the real productive sector.

Keynotes: Gross Domestic Product (RGDP), Total Capital Expenditure (TCE), Total Recurrent Expenditure (TRE), Total Expenditure (TE), Domestic Debt Financing (DDF), and Auto Regression Distributed Lag (ARDL)

1.0 Introduction
Fiscal crises accredited to the bearing of government expenditure on economic growth had been historically argued all over the world. Both rich and developing countries argue about whether governments should foster economic growth and development (Olubokun, Ayooluwade, & Fawehinmi, 2016). Governments need taxes and other charges from people to finance their expenditures. The government must prioritize recurring and capital expenditure to boost economic development (Olubokun, Ayooluwade & Fawehinmi, 2016). Contract enforcement is the government's first priority to protect residents' lives and property. Governments also build important infrastructure and social amenities that may boost economic growth and reduce poverty. To achieve these expectations, emerging nations like Nigeria have expanded economic control and management (Okere, Uzowuru, & Amako, 2019). Mitchell (2005) claims that cutting financing for these vital government tasks would impede economic growth. This emphasizes government financial funding. Providing the government with the tools to fund economic

growth initiatives is vital. Thus, the government must distribute resources evenly throughout the economy to maximise growth (Okoye, Omankhanlen, Okoh, Urhie, & Ahmed, 2019). Keynesian economists believe government engagement is the greatest way to enhance productivity and growth. Mitchell (2005) predicts a sharp reduction in economic activity if the government cannot sufficiently support its essential duties. The speaker stressed the significance of government expenditure on growth-oriented projects including infrastructure, security, healthcare, water, energy, and education. The government must provide economic infrastructure for sustained development. Money supplyM2 may have expanded due to the Nigerian government's large economic investments for ongoing and one-time costs. This increase has not stabilised employment/unemployment, interest rates, balance of payments, consumer price index (CPI), or gross domestic product (GDP) (Monogbe, Achugbu, & Davies, 2016). Given Nigeria's rising state operations, the study suggests assessing government expenditure's impact on economic growth. according to Amzat, (2010) Over 65% of Nigerians live below $1 per day and the country has long struggled to prosper despite government investment due to extreme poverty, high unemployment, and illiteracy. In line with the Amzat world bank news publication on the report from Nigeria poverty Assessment (2022) show that up 4 out of 10 Nigerians live below the national poverty line. The World Bank (2011) says that 70% of Nigerians lack healthcare, clean water, and basic essentials. Nigeria is the largest economy in Africa (US$510 billion) but has struggled with balance of payments deficit, import needs, inflation, currency depletion, unemployment, and national savings for four decades (Afreximbank, 2020). Proponents of more government expenditure argue subsidising schools, hospitals, and roads enhance production. Government spending increases economic participants' spending capability and production. Keynesians advocate government intervention to boost productivity. More government spending will boost the domestic demand and economic development, and this is against the assertions of the neoclassical thought that government spending will only impact economic growth in the short run. Statistics has shown that government expenditure increases public and private sector demand for goods and services. Government expenditure ratio to gross domestic product (GDP) in Nigeria stand at 12.82 percent in 2018 and declined continuously to 12.52% in 2019 and 12.08% and appreciated to 13.34% and 14.61% in 2022 and 2023 respectively (IMF, 2023, and Statista, 2023). Large government expenditure hampers economic growth owing to inefficiencies in government structures and governance, claim critics. Large government participation in the economy has been accused of slowing progress by interfering with private sector activity. Since private expenditure is not politically driven like government spending, it may be more efficient and competitive. Economic development depends on efficiency and competitiveness. The trend of privatizing public sector companies shows that many believe the private sector can provide better, services. These studies show that government spending hurts economic growth. Economists disagree on whether government spending boosts GDP. Due to variances in study across the nation, data sources, and methodology academic literature has varied perspectives and controversies. Due to inconsistent empirical data, the relationship between the two factors needs greater debate. The study's main goals are to explore government capital investment, recurrent expenditure, and overall expenditure on economic growth in Nigeria. On this premise, this research reevaluates public expenditure's influence on Nigeria's economic development.

2.0 Literature Review

2.1 Conceptual Literature

2.1.1 Government Expenditure

Ogboru (2010) sees government spending as a budgetary process that encompasses both operating and capital expenditure, it rises with economic growth. Budgets are based on revenue to spend on necessities. Capital budgets are often used to acquire fixed and intermediate assets in an economy. Public spending affects inflation, unemployment, recessions, the balance of payments, and foreign currency prices, according to Taiwo (2012). Government spending may boost aggregate demand and productivity during recessions and high unemployment. Consumer spending increase may balance the economy and lower unemployment. Nigeria has two forms of spending: capital and recurring. Capital expenditures include highways, airports, hospitals, schools, power plants, cable lines, and water treatment facilities. However, wages, loan interest, maintenance, and overhead are recurrent expenses. Investment in capital boosts economic development. Government participation is needed to sustain wages and create jobs. Ogba (1999)

argues that equality requires publicly funded social services. The Nigerian government funds administration, economy, social services, community development, and transfers. In 2011, the Central Bank of Nigeria declared the buckets to include one-time and continuing charges. Maingi (2017) classified government spending as recurring and developmental. Recurrent costs are daily, non-discretionary expenses. It includes wages, salaries, debt payments, transfer payments, social services, maintenance, loan interest, administration, and other recurring expenditures. These expenses are necessary to maintain government operations. Recurrent spending may boost productivity, labor efficiency, and savings, which boosts economic development. Nwala and Ogboji (2020), Egbuwalo and Abere (2019), and Ogboru (2010) define recurring expenditure as all government general administrative spending that occurs repeatedly.

Development spending is more discretionary and goes to new programs or projects that are still in progress, these include railway, communications, electricity, irrigation, highways, airport, health, education, water, bridge, and other expenditures. These activities stimulate economic development by encouraging private investment directly and indirectly (Ag'enor, 2007). Capital expenditures provide public benefits to the economy, according to Barlas (2020), Nhlangwini and Tleane (2019), and Ajayi, Nyikyaa, and Abubakar (2020). Government expenditure (recurrent and capital) boosts economic growth by raising private sector marginal productivity. Government R&D funding enhances physical and human capital productivity.

This boosts national economic development. In a society with rising violence and crime, government security spending may reduce crime and boost physical investment. Social services, public goods, infrastructure, and targeted spending like export subsidies drive economic development, according to Maingi (2017), since other else being equal, government actions on these services should benefit the state. This expenditure boosts growth whereas government consumption spending slows it. The right mix of recurrent and capital government spending affects economic development in each country.

2.1.2 Economic Growth

Gukat and Ogboru (2017), sees economic growth as the process by which a country increases the breadth and depth of its domestic economy over time. This is accomplished by adapting to market needs via technological innovation and institutional and ideological shifts. The GDP of a country may rise as a result of its economic progress, but the exact measurements employed to measure this phenomenon may vary. Ogundipe and Oluwatobi (2010) argue that if poor countries want to break the cycle of poverty, they must maintain their economic gains. Todaro and Smith (2005) state that higher national productivity and income arise from economic development because of the gradual increase in productive capacity. Ogboru (2006) argues that quantitative considerations are the only ones that matter when it comes to growth. Lipsey and Chrystal (2007) state their conviction that long-term living standards are heavily influenced by economic development. This clarifies the reasoning for the worldwide pursuit of annual economic expansion. The term "economic growth" is used to describe a rise in the value of a country's products and services on the market. Real GDP growth is often expressed as a percentage by the International Monetary Fund (IMF) in 2012. This study follows the International Monetary Fund's (IMF) lead in using a proxy measure of economic growth based on real GDP. Per capita output or income, labour force, consumption, capital, and commerce are all said to increase with time by Jhinghan (2011). The term "economic development" may be used to describe a process distinguished by expansion and alteration. An economy has the ability to enjoy growth without experiencing considerable upheaval. Without expansion, the chances of economic growth are lower. They're two separate concepts that are often confused with one another.

2.1.3 Empirical Review

Okoye, Omankhanlen, Okoh, Urhie, and Ahmed (2019) explored how government spending affects Nigerian production growth. The research uses 1981–2017 data. The research analyzes government spending overall and by component, allowing for inflation. The research reveals that lagging current spending hurts economic growth in the near term. It also illustrates that delayed capital spending boosts growth. This research found no long-term influence of government spending on economic growth. This suggests unsustainable government spending in Nigeria. Thus, capital spending should be increased to boost sustainable development.

Gukat and Ogboru (2017) examined government expenditure and economic growth in Nigeria from 1981 to 2016. The government used two models to assess operational and capital budgets. Stationarity tests analysed the series' stochasticity. Each model has a unique co-integrating equation, says co-integration theory. Data analysis employed Ordinary Least Squares with Error Correction. The first model's coefficients were negative for economic and social services but positive and statistically significant for management. The second model had negative and negligible coefficients for economic services and positive and insignificant for administrative and social services. Government expenditures has varied effects on GDP. The results suggest the government should increase capital project expenditure and ensure it's well spent. Loizides, and Amvoukas (2005), employed bivariate error correction model with Granger causality framework, to examined the government expenditure and economic growth using data on Greece, UK and Ireland, the outcome of the study shows that government expenditure size in all country's granger causes economic growth in the short run while in the long run granger causes Greece and UK. In addition, economic growth granger causes government spending size in Greece but granger causes government spending in UK with the inclusion of inflation. Using OLS Murital and Taiwo (2011), find a positive relationship between real GDP, the recurrent and capital expenditure in Nigeria between 1970 -2008. Odubuasi, Ifuruze, and Ezeabasili (2020), using ARDL estimation revealed that government expenditure on highway and safety has significant positive effect on economic growth in Nigeria while recurrent expenditure experienced insignificant positive effect also to expenditure on education it was significantly affected economic growth negatively. This implies that, recurrent government expenditure in Nigeria contrasts economic growth. Bappahyaya, Abiah, and Bello (2020), examined the impact of government expenditure on economic growth in Nigeria using ARDL estimation the study findings show that at long run capital expenditure exhibits insignificant negative relationship with economic growth while recurrent expenditure exhibits a significant positive relationship with economic growth.

3.0 Research Method

The model for this study was built on the modification of the model used by Okoye, *et. al* (2019) which is stated below as:

$$RGDP = f(GCE, GRE, GTE, DDF) \dots\dots\dots\dots\dots\dots\dots (1)$$

Equation (1) can be stated in econometric form as:

$$RGDP_t = \beta_0 + \beta_1 GCE + \beta_2 GRE + \beta_3 GTE\ \beta_4 DDF + \mu \dots\dots\dots (2)$$

Where:

RGDP is Real Gross Domestic Product; GCE is Government Capital Expenditure; GRE is Government Recurrent Expenditure; GTE is Government Total Expenditure; EDF is Domestic Debt Financing; μ = Error Term, β_0 = Constant Parameter, β_1, β_2, β_3 and β_4 are the parameter estimate of the independent variables

4.0 Data Analysis and Interpretation

This study uses a heterogeneous integration order and an ARDL model to compare government spending and Nigerian economic development from 1986 to 2021. Total capital expenditure, recurrent expenditure, expenditures, and domestic debt financing linked RGDP to these variables. Since the ARDL approach already includes the short run result that the OLS methodology intends to convey, the Unit Root Test will be used to interpret results instead of OLS. This section analyzes and interprets the study's results.

Test for Stationary of Variables (Unit Root Test)

This study employed Augmented Dickey Fuller Unit Root Test (ADF URT test) to examine the stationarity of data employed in the model to avoid spurious results. The variable's stationarity may be assessed by accepting the alternative hypothesis and rejecting the null hypothesis when the absolute value of the ADF test statistics exceeds the Mackinnon Critical Value at 1%, 5% and 10% significance level.

Table 1.1; Result of ADF Unit Root Test at Level and first difference

	At Level			At First Difference			Order of
Variables	**Coefficient**	**t-test**	**Prob.**	**Coefficient**	**t-test**	**Prob.**	**Integration**
LNGDP	-0.030696	-3.978639	0.0041				I(0)
LNTCE	-0.057488	-1.724548	0.4105	-1.150287	-6.701816	0.0000	I(I)
LNTRE	-0.048771	-2.409287	0.1466	-1.305941	-8.309562	0.0000	I(I)
LNTE	-0.330063	-4.865630	0.0006				I(0)
LNDDF	-0.030917	-2.553686	0.1121	-0.737455	-4.341059	0.0016	I(I)

Source: Authors computation (2023)

Table 1.1 shows the computed results of ADF unit root test for the model, from the findings GDP and TE had ADF statistics above Mackinnon critical threshold at 5%, level of significant, the table above shown they were stationary at level. The result was in contrast of the null hypothesis, this led to the rejection of the null hypothesis and accepting the alternative hypothesis GDP and TE. As shown by the first difference, stationarity requires differences since other variables were non-stationary: The table above demonstrates that LNTCE, LNTRE, and LNDDF were stationary at first difference statistics above Mackinnon critical threshold at 5%. The outcome is in consonance with stated hypothesis and therefore accepts the null hypothesis and alternative hypothesis for the variables. Following the outcome of the unit root test for this study, which combined stationarity at both level and first difference (mixed order of integration) as a satisfied criterion to employ the Auto Regressive Distribution Lag (ARDL) model; this therefore, gives room for the use of The Auto Regressive Distribution Lag (ARDL) model to estimating the long-run relationship between the regressors and regressan.

The Augmented Dickey Fuller Test Equations

This shows the ADF test equation results for each variable, along with their stationarity, delayed period, and multiple determination coefficients.

Table 1.2; Result of ADF Test Equation on Variables at their Stationary point

Variables	**Coefficient**	**Std. Error**	**T-Statistics**	**Prob.**	**R^2**
LNGDP(-1)	-0.030696	0.007715	-3.978639	0.0002	0.324180
C	0.477459	0.073020	6.538770	0.0000	
D(LNTCE(-1))	-1.150287	0.171638	-6.701816	0.0000	0.583953
C	0.199090	0.062680	3.176306	0.0033	
D(LNTRE(-1))	-1.305941	0.157161	-8.309562	0.0000	0.683321
C	0.250080	0.051383	4.866935	0.0000	
LNTE(-1)	-0.330063	0.067836	-4.865630	0.0002	0.827045
C	3.324309	0.674245	4.930420	0.0002	
D(LNDDF(-1))	-0.737455	0.169879	-4.341059	0.0001	0.370634
C	0.135197	0.039815	3.395664	0.0018	

Source: Authors computation (2023)

ARDL Bound Test Approach to Co-integration

In the ARDL framework, Pesaran, Shin, and Smith (2001)'s limits testing technique is used to test for co-integration and long-run equilibrium between variables. For co-integration to be confirmed, the model's F-Statistic must be larger than the test ceiling at the 5% level of significance. Thus, if the F-Statistic value is larger than the critical value at 5% significance level, indicating a long-term association, the alternative hypothesis of co-integration among variables is supported. Otherwise, the null hypothesis is accepted. We provide and summarize the co-integration result in the table below. The research used the ARDL (1, 0, 0, 0) model using the Schwarz Information Criterion (SIC).

Table 1.3; Co-Integration Result (Bound Test)

F-Statistics	Lower Bound (5%)	Upper Bound (5%)
7.706526	2.86	4.01

Source: Authors computation (2023)

Since the F-Statistics was over the upper limit at 5% critical value, the alternative hypothesis is accepted, indicating long-run equilibrium relationships between variables. We show the long-run relationship as follow;

Table 1.4; Long Run Result of the Model Dependent Variable: GDP

Variable	Co-efficient	Std. Error	T-Statistics	Prob.
LNTCE	1.116670	0.828728	1.347451	0.1886
LNTRE	2.064668	1.241686	1.662794	0.1075
LNTE	-2.810954	2.218413	-1.267102	0.2156
LNDDF	0.636770	0.252293	2.523928	0.0176
C	5.311723	1.767943	3.004466	0.0056

Source: Authors computation (2023)

Note; (*), (**), and (***) shows the significant at 1%, 5% and 10% respectively

GDP = 5.311723 + 1.116670TCE + 2.064668TRE – 2.810954TE + 0.636770DDF

St err = $(0.252293)^{**}$ (0.828728) $(1.241686)^{***}$ (2.218413) $(0.252293)^{**}$

Judging from the result of long-run test from table, 1.4; the constant parameter coefficient in the long run equation above is 5.311723, show that the model is positively slope, meaning that gross domestic product (GDP), is positively related with all explanatory variable. Total Government Capital Expenditure (TCE) exhibit insignificant positively related with GDP by (1.1167) units at 5% level, meaning that a unit increase in TCE would raise GDP by (1.1) units in the long term. Similarly, Total Government Recurrent Expenditure (TRE) shown significant positive relationship with GDP by (2.0647) meaning that a unit rise in TRE will much effect on productivity level in the economy with about (2.1) rate of increase in the long term. In addition, Total expenditure (TE) has insignificant negative relationship with economic growth (GDP) with (-2.811), meaning that a unit increase in TE would has an inverse relationship with GDP at about (2.8) rate. This inverse relationship was attributed to incurring of capital projects which had not started yielding meaningfully to the economy. Finally, domestic debt financing (DDF) reveal a significant positive relations with GDP valued (0.6367) at 10% level of significant, this signifies that a unit increase in DDF would boost productivity by (0.6) GDP over time. The Error Correction Model (ECM) value was negatively signed, justifying its existence, and -0.241990, indicating the speed of correction of any prior departure to long-run equilibrium in the current time. It suggests that GDP values respond quickly to model explanatory variable changes.

Diagnostic and Stability Test

Diagnostic and stability tests evaluate the model's robustness, stability, and dependability using different methods; this includes serial correlation, autocorrelation, normalcy, and heteroskedasticity test.

Serial Correlation Test

The Breusch-Godfrey Serial Correlation Language Multiplier (LM) test was used to examine residual serial or autocorrelation in this investigation. LM is a broad error autocorrelation test (Asteriou & Hall, 2011). Hypothesis for serial correlation test in study model:

$H_{0:}$ There is no serial correlation

$H_{1:}$ There is serial correlation

Decision Rule:

If the F-Statistics p-value is less than 5%, the alternative hypothesis is accepted; otherwise, the null hypothesis is accepted.

Table, 1.5; Result of the Breusch-Godfrey Serial Correlation LM Test

F-Statistics	1.957192	Prob. F(2,26)	0.1615
Obs*R-squared	4.579851	Prob. Chi-Square(2)	0.1013

Source: Authors computation (2023)

With an F-Statistic of 1.957192 and a P-Value of 0.1615, this data meets or surpasses 95% significance. We accept the null hypothesis of no autocorrelation. The model may provide findings and good policy advice.

Heteroskedasticity Test

Heteroskedasticity tests are typical data analysis issues. When error variance changes among observations, heteroskedadticity must be tested since the predicted standard error might be too big or too little. It may lead to faulty conclusion (Hendry, 1995). Only a probability value more than 5% for F-Statistics supports the null hypothesis. However, the alternative hypothesis is accepted if the probability is less than 5%.

Table 1.6; Breusch-Pagan-Godfrey Heteroskedasticity Test Result

F-statistics	1.254991	Prob. F(6,28)	0.3094
Obs*R-squared	7.417633	Prob. Chi-Square(6)	0.2839
Scaled explained SS	6.401834	Prob. Chi-Square(6)	0.3797

Source: Authors computation (2023)

The table above shows that the white heteroskedasticity test has an F-Statistics of 1.254991 and a Probability Value of 0.3094. The null hypothesis of no heteroskedasticity is accepted, hence the model has no heteroskedasticity issue.

Normality Test

Hair (2010) recommends a linear, normally distributed robust model. The Jarque Bera normality test statistics were used to validate variable normality. The test hypothesis is below:

$H_{0:}$ Data is normally distributed

$H_{1:}$ Data is not normally distributed

Table, 1.7; Normality Test Result

Jarque Bera Statistics	4.705172	Probability Value	0.095123
Skewness	0.827726		

Source: Authors computation (2023)

From table above, the normality test showed that the Jarque Bera statistics has a value of 4.705172 and a probability value of 0.095123, supporting the null hypothesis that the model has a normal distribution. The skewness ranges from -1 to +1, indicating that the data is regularly distributed.

Summary of the Research Findings

This study empirically examined government expenditure and GDP growth in Nigeria between 1986 to 2021. To check for the appropriateness of the estimation techniques pre-test was conducted using Augmented Dickey Fuller Unit Root Test. The results show there is mixture in order of stationarity in the variables. Accordingly, GDP and TE demonstrate stationarity at level while LNTCE, LNTRE, and LNDDF were stationary at first difference statistics above Mackinnon critical threshold at 5% which gives advantage to Auto Regressive Distributed Lag (ARDL) estimation technique over other to minimize spurious results.

The Auto Regressive Distributed Lag (ARDL) technique was used to estimate short- and long-term variable relationships while accounting for mixed integration at different stationarities. A long-lasting and statistically significant relationship between variables was identified using ARDL Bounds testing. The autoregressive distributed lag (ARDL) long-run model demonstrated positive and minor effects on total capital, recurrent, and spending. Over time, domestic debt financing increased GDP. Therefore, the research findings may guide proposals and judgements.

Implication of Research Findings

This research examines how government spending affects Nigerian economic growth. Since the Auto Regressive Distributed Lag (ARDL) model showed no long-term link between variables, the long-term relationship was discovered. Total capital spending, total recurrent expenditure, and domestic debt financing were positively connected to long-term economic development, and all variables conformed to the a-priori assumption, supporting Nwala and Ogboji (2020). As expected, total capital, total recurrent, and total expenditure were positive and insignificant. Meanwhile, domestic debt financing was positive and significantly related with GDP over time.

5.0 Conclusion and Recommendations

Conclusively, the findings from this study summarily point to the fact that government expenditure indices have minute effect on economic growth in Nigeria over a period of years. As shown from the result majority of government spending over times had been majorly concentrated on recurrent expenditure rather than capital spending which has multiplier effect on productivity.

Based on these findings, it is therefore recommended that government should increase budgetary allocation on capital spending, advocate for their efficient use, and block wastage in the path of governance. Additionally, status quo ante should be sustained in terms of recurrent spending to balancing with growth in the real productive sector of the economy.

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