

The Effect of Public Expenditure on the Economic Growth in Nigeria (1980-2013)

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Abstract

This study examined the impact of public expenditure on economic growth of Nigeria; from the period 1980-2013. Secondary data were collected from Central Bank of Nigeria (CBN) statistical bulletin. The core objective of this study is to determine the impact of public expenditure on Nigeria's economic growth. In the model specification, multiple regression model was adopted, having reviewed the literature theoretically as well as empirically. The results obtained from our analysis revealed that less or no significant relationship existed between Nigeria's real public expenditure and level of economic growth from 1980-2013. However in terms of the individual contribution on the dependent variable, it was discovered that at 5% level of significance, all the variables are insignificant. This therefore, indicates a negative effect on the level of economic growth in Nigeria. The work therefore concludes that in the long-run, all the problems of inconsistency in the government spending will be corrected since there is a long-run relationship among the parameters estimates. The work finally recommends that government should ensure that capital and recurrent expenditure are properly managed so as to raise the nation's productive capacity. Also recommended in the study is proper monitoring of government expenditure in order to avoid misappropriation and diversion of funds and finally, government should direct more expenditure towards the production sector of the economy so as to reduce the cost of living as well as raising the standard of living of the citizenry.

Keywords: Cointegration, Capital formation, Economic growth, Public expenditure

INTRODUCTION

Public expenditure according to Nnamocha, (2008) is the expenditure of the public sector (government). It includes such expenditure on the maintenance of the government itself and also for the society and the economy. Public expenditure in Nigeria is usually divided into recurrent and capital expenditure. Suffice it to say that recurrent expenditure are payments for non-repayable transactions within one year while capital expenditure are payment for non-financial assets used in production process for more than one year. Over the past decades, the public sector spending has been increasing in geometric terms through government various activities and interactions with its Ministries, Departments and Agencies (MDA's), (Niloy *et al* 2007).

In the words of Taiwo and Abayomi (2011), the size and structure of public expenditure will determine the pattern and form of growth in output of the economy. In Nigeria, the recurrent expenditure of the government include expenses on administration, wages, salaries, interest on loan, maintenance etc, whereas expenses on capital project include roads, airports, education, telecommunication, electricity generation etc.

Both capital and recurrent expenditure that constitute the public expenditure recorded a steady increase for the period of 2007 to date. The steady increase would be as a result of undistorted democracy that was witnessed within the aforementioned period.

The effect of government spending on economic growth is still an unresolved issue theoretically as well as empirically. Although the theoretical positions on the subject are quite diverse. Few empirical studies report positive and significant relation between government spending and economic growth while several others find significantly negative or no relation between an increase in government spending and growth in real output (Olapade and Olapade 2010).

The Statement of the Problem

In the last decade, Nigerian economy has metamorphosed from the level of million naira to billion naira and postulating to trillion naira on the expenditure side of the budget (Aladejare, 2013).

Despite the rising public expenditure over the years, the Nigerian economy is still described as underdeveloped. We are therefore interested in investigating if the rising public expenditure has impacted positively on the growth of Nigerian economy. With the rising public expenditure, it will not be surprising if the economy is experiencing surplus or equilibrium on the records of balance of payment. Better still, if there are infrastructures to improve commerce within the system or social amenities to raise the welfare of average citizens of the economy. All these were not there, yet we always have a high estimated expenditure. It seems that rising government expenditure has not translated to meaningful growth and development of Nigerian economy as Nigeria ranks among the poorest in the world. In addition, many Nigerians have continue to wallow in abject

poverty, while more than 50 percent live on less than US \$2 per day and couple with this is dilapidated infrastructure (especially roads and power) that has led to the collapse of many industries, including high level of unemployment (Nurudeen and Usman, 2010).

The Objectives of the Study

The central objective of this study is to determine the impact of public expenditure on Nigeria's economic growth. The specific objectives are as follows:

- i. To ascertain the nature of relationship between public expenditure and economic growth in Nigeria.
- ii. To what extent has public expenditure through administration, economic services, social and community services and transfer affected economic growth in Nigeria.

The Research Questions

Following the objectives stated above, we consider the following research questions relevant to the study.

- i. What is the nature of relationship between public expenditure components and economic growth in Nigeria?
- ii. To what extent has public expenditure through administration, economic services, social and community services and transfer affected economic growth in Nigeria.
- iii. To what extent has gross fixed capital formation impacted on the growth of the Nigeria economy?

The Research Hypotheses

With the problems and objectives of the study, the following hypotheses have been formulated for the study.

- Ho₁: There is no significant relationship between public expenditure and economic growth in Nigeria.
Ho₂: Public expenditure on Administration, economic services, social and community services, transfers has not significantly affected economic growth in Nigeria.
Ho₃: Gross fixed capital formation has not significantly affected economic growth in Nigeria.

Review of Related Literature

Conceptual Framework

Public expenditure according to Nnamocha (2008) is the expenditure of the public sector (government). It includes such expenditure on the maintenance of government itself and also for the society and the economy. The rising trend in the growth of public expenditure is a worrisome development to the traditional Economist like the classical theorist who believed that government roles in the economy should be minimal because the extolled the virtue of the "invisible hand" through the working of market mechanism. Emerenini (2005), observed that the price system alone is incapable of bringing about social justice through equitable distribution of wealth and income. He further maintained that the economy fall short of desired stability (employment generation, price stability and economic growth) in the absence of government intervention.

Functional Composition and Structure of Public Expenditure in Nigeria

Public expenditure in Nigeria is usually split into capital and recurrent expenditure (Nnamocha, 2002). Capital expenditure could be defined as expenditure incurred in;

- a) The initial setting up of the business
- b) The acquisition of fixed assets required for use in one business and not for resale.
- c) The alteration or improvement of assets for the purpose of increasing their profit earning capacity. It is therefore, generally defined as money injected into the business permanently or for a long period of time beyond one accounting period or one year. The benefit from capital expenditure is usually spread over a long period of time usually beyond one accounting period of one year.

On the other hand, recurrent expenditure could be defined as expenditure incurred in;

- a) The maintenance of the revenue earning capacity of the fixed assets
- b) The acquisition of assets required for conversion in cash.
- c) The manufacturing, selling and distribution of goods and the day to day administration of the business.

Composition of Public Expenditure In Nigeria

According to Central Bank of Nigeria (2011), the composition of public expenditure refers to the components of public expenditure. The main functional subheads of public expenditure in Nigeria according to CBN (2011) include the followings;

- 1) Administration
- 2) Economic services
- 3) Social and Community Services
- 4) Transfers

Growth of Public Expenditure

Public expenditure has been in the increase over the years due to the following reasons as opined by Ejiofor and Okafor (1979).

- **Population Increase:** With increase in the human population, there is an increase in the demand for amenities provided by the government.
- **Urbanization:** High population growth rate also gave rise to migration of the people to the urban areas, thereby mounting pressure on the already existing facilities in the urban areas. There is the expansion of the cities and the emergence of new ones. These developments call for increased government expenditure in providing some goods and services like parks, schools, roads, street lights and so on.
- **Defence:** Government over the years have been setting aside reasonable amount for equipping the armed forces with current military war heads and other armaments to forestall foreign aggressions.
- **Welfare Activities:** Governments today are seen as having the responsibility of providing welfare services and the governments are actually providing services like free education, medical services and social security measures. The governments also have been encouraging cultural activities and sports.
- **Rise in Price Level:** There is the tendency for prices to be rising continuously as the economy grows. With inflation, the cost to the government of providing a given unit of service increases. Also with rising cost of living pressure is brought to bear on the government for increase in salaries and wages.
- **Economic Development:** Governments spend on Research. Developmental projects also take a lot from the public budget these years. Governments also take interest in the development of agriculture and industry.
- **Rising Income:** The incomes of governments have been increasing. Nigeria for instance has been enjoying oil boom since the 1970's and this resulted to the government spending 'left-right and centre'.
- **Public Debt:** Public debt servicing claims a reasonable proportion of government expenditure, particularly in the less developed countries like Nigeria.

Theoretical Framework

The physical size of a country, the size of its population, and its level of national income per capita are important determinants of its economic potential and major factors differentiating one developing nation from another. According to Todaro and Smith (2006) any portrayal of the structural diversity of developing nations requires an examination of eight critical components. These include such diversities as the size of the country, its historical and colonial background, endowments of physical and human resources, coupled with ethnic and religious composition. Others are the relative importance of its public and private sectors, the degree of dependence on external economic and political forces as well as the diversity in the distribution of power and the institutional and political structure within the nation. With these, there is therefore, no gain saying that diversities exist from one region to another and from one nation to another, such that no two countries can structurally be said to be the same (Kweka and Morrissey, 2000 ; Asiedu, 2005).

However, because most African and Asian nations were at one time or another colonies of Western European countries, primarily Britain and France, the economic structures of these nations, as well as their educational and social institutions appear to be typically modeled on those of their former colonial rulers. Obviously, countries like those in Africa that only recently gained their independence are therefore likely to be more concerned with consolidating and evolving their own national economic and political structures than with simply promoting rapid economic development (World Bank, 2004).

Theories of Public Expenditure Growth

A good number of theories have evolved on public expenditure in an effort to find predictable, long-term and functional relationship between the relative growth in the public sector and the causative factors. Some of these theories are the Wagner's hypothesis (law of increasing government activity), Wiseman – Peacock hypothesis, Critical-Limit hypothesis, and the Leviathan Hypothesis etc.

Wagner's Hypothesis

The proponent of the hypothesis, Adolph Wagner was a famous German Political Economist. Anyanwu (1993) reports that Wagner's work was focused on the inherent tendency of the activities of the various layers of government to increase, intensively and extensively, thus establishing a functional, and cause – and – effect relationship between economic growth and the growth of government activities, with the later growing faster. Wagner argued that government, at all times, and in all circumstances, show strong penchant at increasing public expenditure. Therefore, in his opinion social progress constitutes the primary cause of the relative growth in industrializing economies

Wiseman – Peacock Hypothesis

The authors of this hypothesis, Jack Wiseman and Allan Peacock focused their work on the U.K economy. The hypothesis according to Levitt (1984), propounded that government expenditure's mode of increment is not smooth and continuous, but appears in jerks and steps, just like fashion (Musgrave and Peacock, 1989). According to them the fiscal activities of the government rise step by step to successive new plateau. When there is depression or other social disorder such as wars the existing public revenue cannot meet the expenditure (Levitt, 1987). From this, therefore, the non-availability of sufficient revenue constrains the expansion of expenditure.

The Critical-Limit Hypothesis

The critical-limit hypothesis, according to Clarke (1973), posits that once public expenditure exceeds 25 percent of the total economic activity of any country, inflation should be expected to set in, especially when the country in question operates under a balanced budget. According to the improvement of this hypothesis, the 25 percent is referred as the critical limit and it is therefore, the limit which government activities will exceed to trigger off such incentives as high tax burden etc which ultimately give rise to low level of productivity (Likierman, 1988). The net effect is that even with balanced budget, there would still be a general inflation in the economy that give rise to other related price distortions.

The Leviathan Hypothesis.

In the leviathan hypothesis, as propounded by Brennan and Buchanan (1980), government is seen to be caught in the web of interplay with constitutional limitations and striving to maximize government revenue. While the government tries to impose taxes of varying degree and forms, there is however, a constitutional constraint such as the limitations arising from constitutional provision regarding decentralization of both spending and taxing powers between regions that make up the government.

Musgrave Theory of Public Expenditure Growth

This theory was propounded by Musgrave as he found changes in the income elasticity of demand for public services in three ranges of per capita income. He posits that at low levels of per capita income, demand for public services tends to be very low, this is so because according to him such income is devoted to satisfying primary needs and that when per capital income starts to rise above these levels of low income, the demand for services supplied by the public sector such as health, education and transport starts to rise, thereby forcing government to increase expenditure on them. He observes that at the high levels of per capita income, typical of developed economics, the rate of public sector growth tends to fall as the more basic wants are being satisfied.

The Keynesian Theory

Of all economists who discussed the relation between public expenditures and economic growth, Keynes was among the most noted with his apparently contrasting viewpoint on this relation. Keynes regards public expenditures as an exogenous factor which can be utilized as a policy instruments promote economic growth. From the Keynesian thought, public expenditure can contribute positively to economic growth. Hence, an increase in the government consumption is likely to lead to an increase in employment, profitability and investment through multiplier effects on aggregate demand. As a result, government expenditure augments the aggregate demand, which provokes an increased output depending on expenditure multipliers.

The Solow's Theory

Robert Solow and T. W. Swan introduced the Solow's model in 1956. Their model is also known as Solow-Swan model or simple Solow model. In Solow's model, other things being equal, saving/investment and population growth rates are important determinants of economic growth. Higher saving/investment rates lead to accumulation of more capital per worker and hence more output per worker. On the other hand, high population growth has a negative effect on economic growth simply because a higher fraction of saving in economies with high population growth has to go to keep the capital-labour ratio constant. In the absence of technological change and innovation, an increase in capital per worker would not be matched by a proportional increase in output per worker because of diminishing returns. Hence capital deepening would lower the rate of return on capital.

Empirical Review of Literature

Researchers have attempted to examine the effect of government spending on economic growth in different countries and periods.

Loizides and Vamvoukas (2005) employed the trivariate causality test to examine the relationship between government expenditure and economic growth using data set on Greece, United Kingdom and Ireland. The

authors found that government size granger causes economic growth in all the countries they studied. The finding was true for Ireland and the United Kingdom both in the long run and short run. The results also indicated that economic growth granger causes public expenditure for Greece and United Kingdom inflation is included.

Olugbenga and Owoye (2007) investigated the relationships between government expenditure and economic growth for a group of 30 OECD countries during the period 1970-2005. The regression results showed the existence of a long-run relationship between government expenditure and economic growth. In addition, the authors observed a unidirectional causality from government expenditure to growth or 16 out of the countries, thus supporting the Keynesian hypothesis. However, causality runs from economic growth to government expenditure in 10 out of the countries, confirming the Wagner's law. Finally, the authors found the existence of feedback relationship between government expenditure and economic growth for four countries.

Liu and Hsu and Younis (2005) examined the casual relationship between GDP and public expenditure for the US data during the period 1947-2002. The causality results revealed that total government expenditure causes growth of GDP. On the other hand, growth of GDP does not cause expansion of government expenditure. Moreover, the estimation results indicated that public expenditure raises the US economic growth. The authors concluded that, judging from the causality test Keynesian hypothesis exerts more influence than the Wagner's law in US.

In Nigeria, many authors have also attempted to examine government expenditure - economic growth relationship.

Akpan (2005) used a disaggregated approach to determine the components (that include capital, recurrent, administrative, economic service, social and community service, and transfers) of government expenditure that enhances growth, and those that do not. The author concluded that there was no significant association between most components of government expenditure and economic growth in Nigeria.

Ighodaro and Okiakhi (2010) used time series data for the period 1961 to 2007 and applied Cointegration Test and Granger Causality test to examine government expenditure disaggregated into general administration and community and social services in Nigeria. The results revealed negative impact of government on economic growth.

Loto (2011) investigated the impact of sectoral government expenditure on economic growth in Nigeria for the period 1980-2008 and applied Johansen cointegration technique and error correction model. The result inferred that in the short run expenditures on agricultures and education were negatively related to economic growth. However, expenditures on health, national security, transportation, and communication were positively related to economic growth, though the impacts were not statistically significant. Studies in Nigeria, like Nurudeen and Usman (2010) showed mixed results.

In the view of Fan *et al* (1999), Fan *et al* (2004) and Chemingui (2005), targeting government expenditure simply to reduce poverty was not sufficient. Government expenditure also needed to stimulate economic growth to help generate the resources required for future government expenditures such growth was the only way of providing a permanent solution to the problem and to increase the overall welfare of the people.

Aigbokhan (2005) on his part, however, did not see expansion in public expenditure as an inimical development that need to be curtailed so long as it was adequately matched expansion in government revenue, efficiently managed will not fuel inflation and the composition was productive enhancing and development oriented.

In less developed countries like Nigeria, less attention had been given to examining the productiveness of the various components of public spending. This was borne out of the observation that the primary objective of fiscal policy was aggregate demand management (Diamond 1990). By and large, this view placed prominence on aggregate government expenditure and appeared unenthusiastic to differentiate between or among the various components of public expenditures.

Mitchell (2005) evaluated the impact of government spending on economic performance in developed countries. He assessed the international evidence, reviewed the latest academic research, cited examples of countries that have significantly reduced government spending as a share of national output and analyzed the economic consequences of these reforms. Regardless of the methodology or mode, he concluded that a large and growing government is not conducive to better economic performance. He further argued that reducing the size of government would lead to higher incomes and improve American's competitiveness.

Olorunfemi, (2008) studied the direction and strength of the relationship between public investment and economic growth in Nigeria, using time series data from 1975 to 2004 and observed that public expenditure impacted positively on economic growth and that there was no link between gross fixed capital formation and Gross Domestic Product. He averred that from disaggregated analysis, the result reveal only 37.1% of government expenditure is devoted to capital expenditure while 62.9% share is to current expenditure.

Therefore, this work is an improvement on the previous studies on economic growth and government expenditure relationship in Nigeria. It considers government spending only in two categories – capital and

recurrent expenditure as important variables that affects economic growth. Secondly, it extends the study period to 2011 and finally employed the unit root test, co-integration test and granger causality in the study.

Data Presentation and Analysis

This study covers the impact of expenditure patterns on the economic growth of Nigeria for the period, 1980-2013. Furthermore, the expenditure components to be used are as functionally defined by the Central Bank of Nigeria (CBN) and therefore, all our data set are to be generated from the secondary sources as found in the CBN statistical Bulletin (various issues).

Model Specification

We specify that the growth of gross domestic product is a function of public expenditure on administration, public expenditure on economic services, public expenditure on social and community services, public expenditure on transfers and gross fixed capital formation

$$RGDP = F(RPOA, RPOES, RPOSACS, RPOT, RGFCF)$$

Putting in econometric form we have

$$RGDP = b_0 + b_1RPOA + b_2RPOES + b_3RPOSACS + b_4RGFCF + u$$

These components of public expenditure are hereby represented as follows:

- RPOA = Level of public expenditure on Administration in year t;
- RPOES = Level of public expenditure on Economic Services in year t;
- RPOSACS = Level of public expenditure on Social and Community Services in year t;
- RPOT = Level of public expenditure on Transfers in year t.
- RGFCF = Gross fixed capital formation

Table 1 Unit Root Estimate

Variables	T. Statistic	Critical		OI	Significance	
		1%	5%		1%	5%
RGDP	-4.69688	-3.670	-2.964	1 st Diff.	***	**
RGFCF	36.56123	-3.738	-2.992	1 st Diff.	***	**
RPOA	-3.773898	-3.724	-2.986	1 st Diff.	***	**
RPOES	2.484183	-3.724	-2.986	1 st Diff.	***	**
RPOSACS	-3.752213	-3.662	-2.960	1 st Diff.	***	**
RPOT	1.556747	-3.679	-2.968	1 st Diff.	***	**

Source: E-view 7.1 Statistical package

NB: *** = Significance at 1%

** = Significance at 5%

01 = Order of integration

Decision: Since the test statistic/absolute value of ADF calculated is greater than the critical value at 1% and 5%, we reject the null hypothesis (H_0) and accept alternative (H_1), therefore, conclude that all the time series data (RGDP, RGFCF, RPOA, RPOES, RPOSACS and RPOT) are stationary at 1st difference. 1(1) order.

Table 2 Cointegration Test

Hypothesized No. of CE(s)	Trace Statistic	0.05	Probability
None	259.1411	95.75366	0.0000
At most 1 *	126.4719	69.81889	0.0000
At most 2 *	61.76417	47.85613	0.0015
At most 3 *	29.87521	29.79707	0.0490
At most 4	7.866922	15.49471	0.4797
At most 5	1.843701	3.841466	0.1745

Trace test indicates 4 cointegrating equation at 5% level.

In Johansen's method, the trace statistic is used to determine if cointegration exist malign variables. The trace statistics was obtained as; 259.1411, 126.4719, 1.843701. The critical values of 95.75366, 69.81889, 47.85613 and 29.79707 are less than their corresponding trace statistics showing four (4) cointegrating equation. In other words, the null hypothesis of no cointegration among variables is rejected. The test result shows that there is existence of long-run equilibrium relationship in the equation at 5% significance level

Table 3 Results of The Global Statistics and Model Selection Criteria

Variables	Coefficient	STD. Error	T-statistics	P-value
C	0.274617	0.054555	5.033773	0.0000
RGFC	-1.27E-07	1.84E-06	-0.068794	0.9451
RPOA	2.63E-06	0.000129	0.020326	0.9839
RPOES	-8.08E-05	0.000191	-0.423466	0.6756
RPOSACS	-3.12E-06	1.93E-05	-0.161894	0.8327
RPOT	2.67E-05	0.000136	0.196813	0.8456
R-squared	0.029128	Mean dependent var.		0.263556
Adjusted R-squared	-0.167446	S.D. dependent var		0.242731
S.E of regression	0.262267	Akaike info. criterion		0.333077
Sum squared resid.	1.719598	Schwarz criterion		0.610623
Log likelihood	0.837304	Hannan-Quinn criterion		0.423550
F-statistic	0.139422	Durbin-Watson criterion		1.674238
Prob (F-statistic	0.981407			

Source; Eview 7.1 Statistical package

T-tabulated: 1% = 2-78, 5% = 2.06

F-tabulated: 1% = 3.85, 5% = 2.53

REGRESSION ESTIMATE OF THE MODEL (TABLE 4.5)

$$RGDP_t = 0.274617 - 1.27E - 07RGFCF + 2.63E - 06RPOA - 8.08E-05RPOES - 3.12E - 06RPOSACS + 2.67E - 05RPOT$$

INDIVIDUAL TEST OF THE LONG-RUN ESTIMATED PARAMETER

1st Parameter: RGFCF

Decision; since P-value is greater than 5%, we reject alternative hypotheses and accept the null hypothesis. We conclude that Real gross fixed capital formation single handedly have no significant impact on the real gross domestic product of Nigeria.

2ND PARAMETER; RPOA

H₀: Public expenditure on administration has no significant impact on RGDP

Decision; since the p-value is greater than 5%, we reject the alternative hypothesis and accept the null hypothesis and conclude that public expenditure on administration has no significant impact on RGDP.

3RD PARAMETER; RPOES

H₀: Public expenditure on economic service has no significant impact on RGDP

Decision; since the p-value is greater than 5%, we reject the alternative hypothesis and accept the null hypothesis concluding that public expenditure on economic service has no significant effect on RGDP at 5% level of significance.

4TH PARAMETER; RPOSACS

H₀: Public expenditure on social and community service has no significant impact on RGDP

Decision; since the p-value is greater than 5%, we shall reject the alternative hypothesis and accept the null hypothesis and conclude that public expenditure on social and community services has no significant effect on RGDP at 5% level of significance.

5TH PARAMETER; RPOT

H₀: Public expenditure on transfer has no significant impact on RGDP

Decision; since the p-value is greater than 5%, we shall reject the alternative hypothesis and accept the null hypothesis, concluding that public expenditure on transfer has no significant effect on RGDP.

From the result above, R² is 0.027128. This implies that 27 percent variation in Real gross domestic product between 1980-2013 can be accounted for by our explanatory variables of RGFCF, RPOA, RPOES, RPOSACS and RPOT. About 97.3% variations can be accounted for by the unexplanatory variables. The variables not accounted for in the model will be taken care of, in the long-run since all the variables have a long-run relationship when cointegrated.

Granger Causality Test

It was observed that Real GDP growth rate does not granger cause RGFCF, RPOA, RPOES, RPOSACS and RPOT It should be noted that all the variables as evidenced in the appendix does not granger cause RGDP. In the case of RPOA and RFCF, it was discovered that granger causality runs from RPOA to RGFCF and from RGFCF to RPOA. This implies that both variables granger cause each other at 5% level of significance. It was also evidenced that real GFCF, RPOEs, RPOSACs do not granger cause each other. It was discovered that RPOT

granger cause RGFCF while RGFCF does not granger cause RPOT. RPOE does not granger cause RPOA while RPOA granger cause RPOES. Both RPOSACS and RPOA does not granger cause each other.

In case of RPOT to RPOA, it was found that a one way granger causality exist. That is, RPOT granger cause RPOA while RPOA does not granger cause RPOT. This implies that a two way granger causality exist among this variables except for RPOT to RPOES and RPOT to RPOSACS. It should be noted that all the variables tested are stationary at level.

Summary of Findings

The result obtained from our analysis in the short run has less or no significance of public expenditure on Real Gross Domestic product in the nation within the period of 1980 – 2013. These may be due to mis-appropriation of public funds or non re-investment of capital expenditure within the confine of the nation. As the case may be, it is expected that at the long-run, the gross domestic product will experience the impact that ought to be created by government expenditure.

This result above evidently reveals that public expenditure on economic services (POEs), public expenditure on Gross Fixed Capital Formation (GFCF) and public expenditure on social and community services, failed the a priori expectation test with its negative coefficient, hence have a negative relation on gross domestic product in the nation within the study period. This obviously calls for policy direction.

In conducting the individual influences of the parameter on the dependent variable, it was discovered that at 5% level of significance, all the variables are insignificant. This indicates a negative effect on the level of economic growth in Nigeria, since the p-value is greater than 5%,

Conclusion

The study is on the impact of public expenditure on economic growth in Nigeria, covering a period of thirty-two years, from 1980-2013. Five hypotheses were actually tested which laid the basis for the following conclusions to be reached.

1. Public expenditure should actually be a desirable phenomenon, but in the case of Nigeria, it has been more of a bitter pill, especially with the non-significant nature of most of the explanatory variables, public expenditure components.
2. Public expenditure has shown a significant relationship with the gross domestic product.
3. Under the five tested hypotheses, three hypotheses were significant; public expenditure on economic services, public expenditure on transfers and gross fixed capital formation. This result appears particularly worrisome when compared with the results of other sub-sectors that failed to contribute significantly. To say the least, one cannot but conclude that most of the economic woes of Nigeria, can boldly be linked to this “ funds misappropriation theory” that has continued to point to the fact that most public expenditures end up in the hands of private individuals that manage government funds inappropriately.
4. This lack lustre performance of Nigeria’s public expenditure has been blamed on such factors as the lack of transparency in our economic dealings and its attendant problem of corruption even in high places of authority.
5. Similarly, appropriate sanctions appear not to be in place to deter offenders. What we see instead is a “mix bag” where those who fight corruption appear to be corrupt themselves especially as such agencies readily appear to turn to political arsenals for fighting political enemies.

Recommendations

The findings and conclusions of this study therefore have informed the following recommendations;

1. In order to bring about the salutary effects of public expenditure on economic growth, public expenditure needs to be more closely monitored. This will help to see that such monies are actually channeled into socially desirable targets that can improve the economy.
2. Closely linked to this is the need for the country to be more serious on the war on corrupt practices especially at places of high authority. To this end, the “selective discharge” attitude of such agencies as the nation’s Economic and Financial Crimes Commission (EFCC), should be urgently addressed if we are to improve the level of our economic development.
3. Also, there is need for officers of government to imbibe the spirit of adhering strictly to budgets. This budget discipline will no doubt, help to curtail unnecessary public expenditure while every kobo spent is also actually accounted for by officers thus culminating in less deficit budgets and the obvious deficit financing.

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