

ISRG Journal of Economics, Business & Management (ISRGJEBM)



ISRG PUBLISHERS

Abbreviated Key Title: Isrg J Econ Bus Manag

ISSN: 2584-0916 (Online)

Journal homepage: <https://isrgpublishers.com/isrgjebm/>

Volume – II Issue - IV (July – August) 2024

Frequency: Bimonthly



Public Sector expenditure and poverty alleviation in Nigeria: implications for Economic Growth

Oladele O. Aluko^{1*}, Olutoye O. Ayodeji², Ibrahim Musa³

^{1,3} Department of Economics, University of Abuja, Abuja-FCT, Nigeria.

² Department of Logistics, Faculty of Management science, Vaal University of Technology, Vanderbijpark - South Africa.

| **Received:** 06.07.2024 | **Accepted:** 09.07.2024 | **Published:** 05.08.2024

***Corresponding author:** Oladele O. Aluko

Department of Economics, University of Abuja, Abuja-FCT, Nigeria.

Abstract

This study examined the impact of public sector expenditure in the Nigerian economy. The study period covers 1990 to 2022. The study attempt to examine relevant variables such as Internal Revenue Generated, Government Recurrent Expenditure, Debt Financing, Government Capital Expenditure and Gross Domestic Product. With the application of Auto Regressive Distributed Lag (ARDL) model, the outcome of study reveals that government Debt Financing, government capital expenditure and government capital expenditure, Internal Generated Revenue all have a significant impact on the GDP. Conversely, government recurrent expenditure i.e governance and administrative cost have an insignificant impact on GDP. The result further showed that public sector expenditure and financing play fundamental role in impacting the level of productivity in the country. Following from the outcome of the study, it is recommended that: Government Expenditure should give priority attention to capital and public investments by making them of higher proportion in gross government expenditure, thereby creating more business investment, job and enhancing the quality of public spending and the attainment of measurable growth and development.

Key Words: Government Expenditure, fiscal policy, Growth, ARDL, Revenue, Finance

Introduction

The very central driver for the economy of most developing economy especially, in sub-Saharan Africa is the expenditure by the various arms and levels of government sector. This is

fundamental to any developing economy, even to most developed economies considering the proportion of government to gross spendings in the economy. As such, it plays a crucial role in the

functioning of an economy whether developed or underdeveloped. Public sector spending is borne out of the imperativeness to generate revenue and expediency of expenditure spending in order for fiscal capacity, distribution and redistribution of scarce resources between the various levels of government. Also, the disposition of responsibilities between various tiers of government further indicates need for efficient and effectual spending culture. Broadly speaking, public financing affects aggregate resources use together with monetary and exchange rate. Specifically public financing refers to the value of goods and services provided through the public sector.

Government spending can broadly be categorized into revenue and expenditure. The size of public expenditure and its components with respect its effect on economic growth, and vice versa, has been an issue of sustained interest for over decades now. The relationship between public expenditure and economic growth has continued to generate series of debate among scholars. Government performs two major functions - protection of lives and property (and security) and provisions of requisite public goods (Abdullah, 2000).

The position of Oyejide (2013) point of view is that public expenditure, whether recurrent or capital on social and economic infrastructure can be growth-enhancing. The provision of infrastructure services to meet the demands of business, households, and other users is one of the major challenges of economic development in developing countries like Nigeria. Developing countries invest about \$200billion a year in new infrastructure representing four percent of their national output and a fifth of their total investment. The result has been a dramatic increase in infrastructure services - for transport, power, water, sanitation, telecommunications, and irrigation (World Bank, 2010). Government spending in Nigeria has continued to rise due to the huge receipts from production and sales of crude oil, and the increased demand for public (utilities) goods like roads, communication, power, education and health. There is increasing need to provide both internal and external security for the people and the nation. Available statistics show that total public expenditure (capital and recurrent) and its components have continued to rise in the last three decades. For instance, government total recurrent expenditure increased from N4,805.20 million in 1980 to N36,219.60 million in 1990 and further to N1,589,270.00 in 2007 and further to N3,310,343.38 billion in 2010 and to N3,689,148.1 billion in 2015. On the other hand government capital expenditure rose from N10,163.40 million in 1980 to N24, 048.60 million in 1990. Capital expenditure stood at N239,450.90 million and N759, 323.00 million in 2000 and 2007 respectively, while it stood 2010 is N883,870 million and N1,108,377 billion in 2015 (CBN, 2016). The various components of capital expenditure have risen between 1980 and 2013.

Some schools of thought have posited that increase in government spendings expenditure on socio-economic and physical infrastructures facilitate economic growth. For example, public expenditure on health and education raises the productivity of labour and increase the growth of national output. Similarly, expenditure on infrastructure such as roads, telecommunications, power, etc, ensures production costs efficiency and competitiveness, increases private sector investment and profitability of firms, thus fostering economic growth. As observed by Adeoye (2006), Abdullah (2000), Niloy, Haque and Osborn

(2003); Barro (1990), the expansion of public expenditure contributes positively to economic growth.

However, the rising public expenditure at all levels may have not translated to meaningful growth and development, as Nigeria categorized with LDC's among other countries in the world. In addition, many Nigerians have continued to wallow in abject poverty, while more than fifty percent live on less than US\$1per day. Moreover, macroeconomic indicators like balance of payments, import obligations, inflation rate, exchange rate, and national savings reveal that Nigeria has not fared well in the last three decades. It is disturbing to note that public expenditure seems to have not replicated same level of economic growth in Nigeria, for instance between 1980 and 1990, while the GDP growth rate was decreasing (57.15% down to 2.87%), public expenditure growth rate was increasing (23.2% to 41.24%). Thus, there is an inverse relationship between the two periods (Nurudeen and Abdullahi, 2010).

However, it is found that the growth rate of public expenditure in 2000 and 2010 was 15.53% and 2.15% respectively, while GDP growth rate witnessed 8.79% and 1.54% in the same period respectively (Omitogun and Ayinla, 2017). Thus, public expenditure growth rate has been greater than GDP growth in the same period. Due to different views and findings by different researchers, the issue of government spending and its effect on economic growth remains inconclusive on whether there is positive or negative relationship in the context of Nigerian economy. Based on the above this research work attempts to investigate whether increasing government spending and revenue induces economic growth performance in Nigeria. This research work aims at investigating the effect of public finance on the economy of Nigeria.

Literature Review

A number of studies subsist on the impact and role of government financing in the long-term growth of national economies. However, there exists no consistent evidence for significant relationship between public finance and economic growth, in positive or negative direction. Results and evidence about the effects of government expenditure and revenue on economic growth differ by country or region, analytical method employed and the classification of public expenditures.

There are various empirical studies on the growth effects of government finance based on the experiences of set developed countries.

Glomm and Ravikumar (2017) provide empirical evidence on the impact economy of fiscal policy on long run growth for European economy. Their study required that at least two of the taxation/expenditure/deficit effects must be examined simultaneously and they employ panel and time series econometric techniques, including dealing with the endogeneity of fiscal policy. Their broad conclusions are: Some public investment spending impacts positively on growth and consumption and social security spending have zero or negative growth effects.

Aluko (2018) in a study empirically examined the link between government expenditure on healthcare and its effect on changes in health status in selected sixteen sub-Saharan African (SSA) countries. It highlighted persistent high mortality rate and low life expectancy in the region as creating growth instability and human capital detours. The result indicated that Private health expenditure

and Per capita income do not have any significant impact on life expectancy and mortality rate in the region suggesting that private health financing have been inadequate in the region. Furthermore, recommendations were made, one of which is the promotion of more equitable income distribution through improved government expenditure measures in the region to improve health status

Ekpo (2014) studied the productivity of government expenditure using the data from the 1975 to 2010. Using the production functions, he compared the productivity of government expenditure on the military capital, non-military capital and infrastructural expenditure. The study demonstrated that expenditure on non-military stock of capital was more productive than the expenditure on military stock and that government expenditure on infrastructures such as roads, bridges, dams, etc, are economic growth stimulating.

Oxley (2014) explored the rationale for governments' investments into science and technologies. Gannon posits that "if you want to harvest in autumn, you need to sow in spring. This ancient saying holds true not only for agriculture, but for all economic activities". When we changed the scenario from agriculture to economic growth in terms of employment level, per capita income, export, etc. the sowing can be viewed in terms of private and public investments. In the context of the present scenario, sowing refers to investment in research and development as a percentage of the GDP. It is argued that the higher the level of investment in science and technology as the percentage of the GDP, the higher the level of economic growth.

Olorunfemi (2008) investigate the growth effect of government expenditure on economic growth in Nigeria over the period of 1980-2008, focusing on sectorial expenditures. The sectors include security, health, education, transportation/communication and agriculture. Johanson co-integration technique of regression analysis was used. The result depict that expenditures on health, national security, transportation/communication were positively related to economic growth. Expenditure on agriculture in the short-run was not significant. Education also shows negative relationship.

Dickenson (2013) studied why government expenditure does not stimulate economic growth. In the study, he considered the myth of government spending to stimulate growth. He argued that the more government spending is, the higher the level of taxation from the public and therefore the more transfer payment are made. He argued that increasing productivity requires increasing material capital and human capital. Improved functioning of the market is another important ingredient that stimulates growth and productivity.

Fan and Rao (2012) studied the impact of government expenditure on economic growth. The study makes use of the neoclassical production function. It incorporates not only the size of government but the quality of governance. The study uses generalized moment method (GMM). The size of the government is measured based on the size of government expenditure. The quality of governance is based on the quality of decision-making paradigm. The study makes use of 71 countries. The study demonstrates that both the size and the quality of governance have impact on the level of economic growth.

Mitchell (2015) evaluated the impact of government spending on economic performance in developed countries. He assessed the international evidence, reviewed the latest academic research and

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 model employed, he concluded that a large and growing government is not conducive to better to economic performance.

Ram (2016) used cross section data for a larger sample of 115 countries and time-series data (1980-2013) for 17 individual countries to see the effect of government size on economic growth. Estimation was done with OLS and also on the premise of a first-order auto-regressive disturbance term (ART) for some countries from time series data; (4) it is possible that the positive effect of government size on growth is strong in lower income contexts.

The above empirical studies has little relevance in understanding the process by which public financial policies shape the prospect of economic growth for developing countries as there are not only a significant difference in the composition of public expenditure between developed and developing countries, but the difference is also profound in the role of public expenditures for growth (World Bank 2008). Thus exclusive focus on developing countries is imperative.

Afzal and Abbas (2010) studied the relationship between government expenditure and economic growth in Pakistan. He classified government expenditure into investment (GI), government expenditure (GE) and government consumption (GC). Using the error correction method (VEC model), he demonstrated that both government investment (GI) and government expenditure (GE) have significant impact on economic growth in Pakistan but government consumption expenditure does not have a significant impact on economic growth during the period of 1990 to 2008.

Gregoriou and Ghosh (2009) studied the impact of government expenditure growth using heterogeneous panel of developing countries. The method of analysis employed was the Generalized Method of Moment (GMM). The data employed covered the period of 1977 to 2007 and was derived Global Development Network Database, compiled by William Easterly. The study demonstrated that in some countries with the fast growing economics such as Brazil, the capital expenditure stimulate economic growth than in the less developed countries such as Sudan.

Olopade and Olapade (2010) examine the trends as well as the effects of government spending on the growth rate of the real GDP in Nigeria for the period of 1970 - 2008, using the time-series methodology of unit root test, cointegration and ordinary least square (OLS) analysis. The real GDP was used as the dependent variable while government capital and recurrent expenditures were used as independent variables. The results show that both recurrent and capital expenditures exhibited significant and positive relationship on the real GDP.

Ogbole Amadi and Essi (2011) examine empirically the contribution of fiscal policy in achieving sustainable economic growth in Nigeria. The study investigates the impact of deficit finance on the level of economic growth in Nigeria. The result demonstrates that fiscal policy has no impact on economic in Nigeria.

Samimi and Habibian (2011) estimate the impact of government expenditure on economic growth in developing countries, using a panel data of 17 developing countries, covering a times-series

period of 1990-2007, and random effect model. The study establishes that government consumption expenditure significantly depresses economic growth while trade openness and government investment have positive but insignificant effect on economic growth.

Alexiou (2012) provides further evidence on the relationship between economic growth and government spending. In this study, two different data methods were applied to seven transition economies in the south eastern (SEE) Europe. The results indicate that four out of the five variables used in the estimation, that is, government spending on capital formation, development assistance, private investment and trade openness all have positive and significant effect on economic growth. Population has no effect on economic growth.

Loizides and Vamvoukas (2010) seek to examine, if the relative size of government (measured as the share of total government expenditure) in GNP can be determined to granger cause the rate of economic growth or if the rate of economic growth can be determined to granger cause the size of government. Bivariate error correction (BEC) model was used within granger causality framework. Unemployment and inflation were used as dependent variables. Using data on Greece, United Kingdom (UK) and Ireland, the analysis shows that government size granger causes economic growth in all countries of the sample in the short-run and in the long-run for Ireland and UK. The analysis also shows that economic growth granger causes increase in the relative size of government in Greece, and, when inflation is included in the UK.

Kweka and Morrisey (2015) investigated the impact of public expenditures on economic growth using OLS method for a sample of time series data on Tanzania (for 32 years). They found that increased productive expenditure is associated with lower growth. According to them, this negative relationship suggests the inefficiency associated with the use of public funds and public investments in Tanzania. The negative associate between total government expenditure and growth also seems to indicate the unproductive effect of government investment spending. Consumption expenditure relates negatively to growth, as anticipated, but appears to be associated with increased private consumption. They also found that there is positive link between growth and expenditure on human capital.

Theoretical Framework

Public expenditure theory, traditionally received only a scanty attention until recently. This lop-sided interest in the theory of public finance is partly explained by a general acceptance of the philosophy of laissez-faire and belief in the efficacy of free market mechanism. However, with the advent of welfare economics, the role of the state has expanded considerably especially in the area of infrastructural provision and theory of public expenditure is attracting increasing attention. Therefore, this research work adopts the Peacock and Wiseman theory of public expenditure for its theoretical framework.

Peacock and Wiseman (1968) analyze the process of growth of public expenditure in terms of three different but related concepts; displacement, inspection and concentration effects. By the empirical analysis of the data of Britain on public expenditure, they were able to establish the relative growth of public sector expenditure in that country occurred on "step-like" pattern rather than on "continuous growth" pattern. They have discussed this hypothesis under three effects separately, namely;

1. Displacement Effect

The public expenditure increases and makes the inadequacy of the present revenue. Then a movement must take place so that the older level of expenditure and taxation to a new and higher level is the displacement effect. During the period of emergency or of major social disturbances such as war and depression that most of the upward steps in public expenditure had occurred. Displacement Effect is the process by which the previous lower expenditure levels were displaced by new and higher level of expenditure.

2. Inspection Effect

The inspection effect refers to the phenomenon where by a direct consequence of the social emergency, public expenditure comes to increase which may be insufficient compared to the revenue of the government, creates the inspection effects. The government and people review the revenue position and to find the solution of the important problems that have come up with gently to attain the new level of tax tolerance. They are now ready to tolerate a greater burden of taxation and as a result the general level of expenditure and revenue goes up. In such a way new level of expenditure and revenue comes to stabilize at a new level till the new disturbance occurs to cause the displacement effect.

3. Concentration Effect

The concentration effect also refers to the apparent tendency for central government economic activity to grow faster than that of the state and local level government. This is found fitted there in British economy but it is not needed to verify this to other countries. This concept is the evolution of expenditure undertaken at different level of government and their tendency to be concentrated in central government. This usually happens when the country is experiencing economic growth.

The main concentration of Peacock-Wiseman hypothesis is that factors both endogenous and exogenous to the economic system exert a force influence on public sector institutions to increase their expenditure over a secular period and this increase occurs on a step-like basis and at a faster rate than the growth in aggregate economic activities.

Peacock and Wiseman's Theory of Expenditure Peacock and Wiseman'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 would show a gradual upward trend even although 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. During the periods of social upheaval however, this gradual upward trend in public expenditure would be disturbed.

These periods would coincide with war, famine or some large-scale social disaster, which would require a rapid increase in public expenditures; the government would be forced to raise taxation levies. The rising of taxation levels would, however, is regarded as acceptable to the people during the period of crisis. Peacock and Wiseman 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. A war is not paid for from taxation; no nation has

such large taxable capacity. Countries therefore borrow and debt charges have to be not after the event. The government therefore expands its scope of services to improve these social conditions and because people 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.

Methodology

The research is empirical. Auto-Regressive Distributed Lag Model (ARDL) will be adapted to explore the impact of public sector financing in the Nigerian economy. The technique was adapted to test co-integration (long-run equilibrium relationship) and short-run relationship between the variables. The stationarity test (unit root test) was carried out first using the Augmented Dickey Fuller (ADF) test on each variable to test for stationarity and avoid for spurious regression as suggested by Granger and Newbold (1975). If variables are found to be non-stationary, the co-integration test, which is a pre-test for spurious regression will first be carried out. The ARDL bound test by Pesaran (2001) co-integration test will be used to test for long run relationship between variables. Furthermore, the Error Correction mechanism will be used to check for short-run relationship.

The model specified was adapted from the study of Weil (2009) and is stated as follows;

$$GDP = f(GCE, GRE, DBT, IGR)$$

Where;

GDP is Gross Domestic Product at constant Price

GCE is Government Capital Expenditure

GRE is Government Recurrent Expenditure

DBT is Debt Financing (comprising of both foreign and domestic Debt)

IGR is Internal Generated Revenue

Instructively, the ARDL model can be specified below as;

$$\Delta GDP_t = \alpha_0 + \sum_{j=1}^m \alpha_{1j} \Delta GDP_{t-j} + \sum_{j=1}^m \alpha_{2j} \Delta GCE_{t-j} + \sum_{j=1}^m \alpha_{3j} \Delta GRE_{t-j} + \sum_{j=1}^m \alpha_{4j} \Delta DBT_{t-j} + \sum_{j=1}^m \alpha_{5j} \Delta IGR_{t-j} + U_t$$

$$\theta_1 GDP_{t-1} + \theta_2 GCE_{t-1} + \theta_3 GRE_{t-1} + \theta_4 DBT_{t-1} + \theta_5 IGR_{t-1} + U_t$$

$\alpha_0 - \alpha_6$ are Coefficients to be estimated,

U_t Is the Gaussian white noise that is independently and identically distributed random variable.

Data Analysis and Interpretation

Stationarity Result

Table 1: Unit Root Stationarity Result

Variables	ADF Statistics	Critical Value	Stationary Status
GDP	-7.460302	-4.26274(1%) -3.55297(5%) -3.20964(10%)	I(1)
GCE	-8.382534	-4.26274(1%) -3.55297 (5%) -3.20964(10%)	I(1)
GRE	-6.009893	-4.26274(1%) -3.55297 (5%) -3.20964(10%)	I(1)

DBT	-4.611492	-4.26274(1%) -3.55297 (5%) -3.20964(10%)	I(1)
IGR	-5.860210	-4.5743 (1%) -3.6920 (5%) -3.2856 (10%)	I(1)

*The critical values for rejection of hypothesis of unit root were from MacKinnon (1991) as reported in e-views 9.0.

Source: Author's Computation

The five variables (Gross Domestic Product, Government Capital Expenditure, Government Recurrent Expenditure, Debt Financing and Internal Generated Revenue) undergone unit root test using the Augmented Dickey-Fuller (ADF) test. As is the case most times, all the variables were found to be non-stationary at levels but at first difference. As such there is need to establish co-integration among the variables.

Co-Integration Test

Table 2 ARDL Bound test of Co-integration

Null Hypothesis: No long-run relationships exist

Test Statistic	Value	K
F-statistic	8.019585	4
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

Source: Author's Computation

The Cointegration test was done using the ARDL Bound test. This became necessary to avoid a spurious regression result. Using the ARDL Bound test with critical value from Narayan (2005), the variables were cointegrated at 1per cent level of significance since the Wald F- statistics is greater than the critical lower and upper bound.

Table 3: ARDL Regression Result

Dependent Variable GDP

Selected Model: ARDL(4, 4, 4, 3, 4)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
GDP(-1)	0.220065	0.800542	0.274895	0.7913
GDP(-2)	0.317777	0.333284	0.953471	0.3721
GDP(-3)	-0.887144	0.549230	-1.615250	0.1503
GDP(-4)	0.688393	0.518137	1.328593	0.2257
GCE	3.520958	23.44457	0.150182	0.8849
GCE(-1)	7.241117	29.33467	0.246845	0.8121
GCE(-2)	23.15804	20.79997	1.113369	0.3023

GCE(-3)	41.06508	18.56939	2.211439	0.0627
GCE(-4)	40.67826	33.57292	1.211639	0.2650
GRE	-10.31441	5.356322	-1.925651	0.0955
GRE(-1)	12.57689	8.602212	1.462053	0.1871
GRE(-2)	-2.210811	16.34754	-0.135238	0.8962
GRE(-3)	-14.00319	15.44301	-0.906765	0.3947
GRE(-4)	-30.89914	41.17487	-0.750437	0.4775
DBT	-0.453804	1.446713	-0.313680	0.7629
DBT(-1)	0.585641	1.982737	0.295370	0.7763
DBT(-2)	0.110761	1.106589	0.100092	0.9231
DBT(-3)	1.561843	1.219929	1.280274	0.2412
IRG	3.426728	17.83924	0.192089	0.8531
IRG(-1)	17.55423	10.79008	1.626887	0.1478
IRG(-2)	20.69196	26.81557	0.771640	0.4656
IRG(-3)	39.04972	20.86850	1.871228	0.1035
IRG(-4)	21.09416	25.09317	0.840633	0.4283
C	-93.23601	115.6127	-0.806452	0.4465
R-squared	0.999988	Mean dependent var	22710.94	
Adjusted R-squared	0.999948	S.D. dependent var	29453.12	
S.E. of regression	211.9633	Akaike info criterion	13.61101	
Sum squared resid	314499.0	Schwarz criterion	14.72120	
Log likelihood	-186.9707	Hannan-Quinn criter.	13.97291	
F-statistic	25184.27	Durbin-Watson stat	1.300121	
Prob(F-statistic)	0.000000			

*Note: p-values and any subsequent tests do not account for model selection.

Source: Author's Computation

Table 3 Present the ARDL result which will be used to examine the impact of public financing on economic growth. From the ARDL result Wald test will be applied to test the significance of the variables simultaneously. The test begins with Government Capital Expenditure.

Table 4: Wald-Test on Government Capital Expenditure

Wald Test:			
Equation: Untitled			
Test Statistic	Value	Df	Probability

F-statistic	9.373492	(5, 7)	0.0052
Chi-square	46.86746	5	0.0000
Null Hypothesis: C(5) = C(6) = C(7) = C(8) = C(9) = 0			
Null Hypothesis Summary:			
Normalized Restriction (= 0)	Value	Std. Err.	
C(5)	3.520958	23.44457	
C(6)	7.241117	29.33467	
C(7)	23.15804	20.79997	
C(8)	41.06508	18.56939	
C(9)	40.67826	33.57292	

Restrictions are linear in coefficients.

From Table 4, the coefficient of Government Capital Expenditure are jointly significant and positive, as such Government Capital Expenditure have a significant impact on GDP. Increase in Government capital expenditure will lead to increase in Gross Domestic Product, Leading to Economic gains.

Table 5: Wald Test on Government Recurrent Expenditure

Wald Test:			
Equation: Untitled			
Test Statistic	Value	df	Probability
F-statistic	2.791953	(5, 7)	0.1067
Chi-square	13.95976	5	0.0159
Null Hypothesis: C(10) = C(11) = C(12) = C(13) = C(14) = 0			
Null Hypothesis Summary:			
Normalized Restriction (= 0)	Value	Std. Err.	
C(10)	-10.31441	5.356322	
C(11)	12.57689	8.602212	
C(12)	-2.210811	16.34754	
C(13)	-14.00319	15.44301	
C(14)	-30.89914	41.17487	

Restrictions are linear in coefficients.

Source: Author's Computation

From Table 5, the coefficient of Government recurrent Expenditure are jointly insignificant and negative, as such Government Recurrent Expenditure has an significant impact on GDP. Increase in Government capital expenditure will have a significant impact on Gross Domestic Product over the period investigated.

Table 6: Wald Test on Debt Financing

Wald Test:			
Equation: Untitled			
Test Statistic	Value	df	Probability

F-statistic	11.39978	(4, 7)	0.0035
Chi-square	45.59914	4	0.0000
Null Hypothesis: $C(15) = C(16) = C(17) = C(18) = 0$			
Null Hypothesis Summary:			
Normalized Restriction (= 0)	Value	Std. Err.	
C(15)	-0.453804	1.446713	
C(16)	0.585641	1.982737	
C(17)	0.110761	1.106589	
C(18)	1.561843	1.219929	
Restrictions are linear in coefficients.			

Source: Author's Computation

From Table 6, the coefficient of Debt Financing are jointly significant and positive, as such Debt Financing have a significant impact on GDP. Increase in Debt either foreign or domestic will lead to increase in Gross Domestic Product, Leading to Economic gains

Table 7: Wald Test for Internal Revenue Generated

Wald Test:			
Equation: Untitled			
Test Statistic	Value	Df	Probability
F-statistic	9.677456	(5, 7)	0.0048
Chi-square	48.38728	5	0.0000
Null Hypothesis: $C(19)=C(20)=C(21)=C(22)=C(23)=0$			
Null Hypothesis Summary:			
Normalized Restriction (= 0)	Value	Std. Err.	
C(19)	3.426728	17.83924	
C(20)	17.55423	10.79008	
C(21)	20.69196	26.81557	
C(22)	39.04972	20.86850	
C(23)	21.09416	25.09317	
Restrictions are linear in coefficients.			

Source : Author's Computation

From Table 7, the coefficient of Internal Revenue Generated are jointly significant and positive, as such Internal Revenue Generated have a significant impact on GDP. Increase in Government capital expenditure will lead to increase in Gross Domestic Product of Nigeria.

Conclusion and recommendations

From the Result, it is evident that public sector expenditure remains the formidable driver of economic growth in developing economies. It is therefore concluded that the government capital expenditure and investments in infrastructural amenities must be maintained in order for a sustained economic growth and development. In countries like Nigeria, where public spending occupies a given share of the economy, increase in spending will

almost by definition increase the cyclical component of output, and this may well enhance economic growth. There is need for policy cohesion and coordination on public finance and macroeconomic aggregates in Nigeria.

From the empirical researches conducted, the major findings of the research include the following.

Government Expenditure should give priority attention to capital and public investments by making them of higher proportion in gross government expenditure, thereby creating more jobs and enhancing the quality of public spending and the attainment of sustainable growth and development. To the Nigerian economy along the path of sustainable growth and development, the government must put a stop to the unproductive foreign borrowing, wasteful spending and uncontrolled money supply and embark upon specific policies aimed at achieving increased and sustained productivity in all sectors of the economy. In general, until macroeconomic policies are effectively implemented and particularly geared towards enhancing the overall productivity of the economy only then can their potential beneficial effects be appreciably felt in the country.

Attention must be on the development of basic infrastructure (example. transportation, energy and communication). Human capital development should be a priority. Government fiscal policy should refocus and redirect government expenditure towards production of goods and services so as to enhance GDP growth.

At all levels, government economic policies should focus on diversification of the economy to enhance the performance of the key economic sectors, so as to create more jobs in this across the productive sectors an value chains. The government should avoid unnecessary borrowings and ensure that existing debts are properly serviced as at when due. The government should ensure that policy inconsistency are minimized and policy reversals are properly checked for both short and long run effects on the economy. Government should fight the problem of corruption because without a reduction of the level of corruption in the country, fiscal policy components will not achieve the required level of economic growth in Nigeria.

The imperative for an improvement in government expenditure in key sectors such as health, education and economic services and value chain, as components of productive expenditure, to boost economic growth. What Nigeria needs is an institutionalised fiscal policy rules, which would commit government at all levels and tiers to a pre-determined conduct in fiscal and budgetary culture.

References

1. Aluko, O. O. (2018): Healthcare Financing and Changes in health Status; case study of selected sub-Saharan African countries. Bingham Journal of Economics and Allied state Bingham University Abuja, Vol.1 No. 1. Pg. 1–12
2. Abdullah, H. A. (2000). The Relationship between Government Expenditure and Economic Growth in Saudi Arabia. Journal of Administrative Science. 12(2):173 – 191.
3. Adeoye, T. (2006). Fiscal Policy and Growth of the Nigerian Economy. NISER Monograph Series.
4. Afzal, M. and Abbas, Q. (2010).” Wagner’s law in Pakistan: Another look”, Journal of Economics and International Finance, 2(1): 12-19.

5. Alexiou, I. (2012). "Public Finance in Models of Economic Growth" *Review of Economic Studies*, 59(3): 645-661.
6. Barro, R. J. (1990). "Government Spending in a Simple Model of Endogeneous Growth", *The Journal of Political Economy*, 98(5): 103-125.
7. CBN, (2016). Central Bank of Nigeria Statistical Bulletin
- Dickenson, T. D. I. (2013). *Economics of Public Sector*, Malaysia: Macmillan Press Ltd.
8. Ekpo, A. (2014). *Public expenditure and economic growth in Nigeria 1975 to 2010: Final Report*. Nairobi: AERC.
9. Fan, S. and Rao, N. (2012). "Public Spending in Developing Countries: Trends, Determination, and Impact", EPTD Discussion Paper No. 99, USA.
10. Glomm, J.J. and Ravikumar, D.J. (2017). "The Growth of Public Expenditure in Selected Developing Nations: Six Caribbean Countries", *Public Finance/Finances Publique*, 3(3): 57 – 74.
11. Gregorous, A. and Ghosh, S. (2009). "Fiscal Policy in an Endogenous Growth Model with Public Capital and Pollution", *Japanese Economic Review*, 56(6): 67-84.
12. Granger, E. Newbold, D. (1975). "Time Series Component and Regression", *Econometrica*, Volume 1(2): 129 -140
13. Kweka, J.D. and Morrisey (2015). "The Impact of Government Spending on Economic Growth", Available at: www.heritage.org.
14. Loizides, W. W. and Vamyoukas, G. (2070), "Measuring Economic Stability: 1955-65". *American Economic Reviews*, December, Vol. 60, 924-33.
15. Mitchell, J. (2015). Meta-analysis of the effect of Fiscal Policy on Long-Run Growth. *European Journal of Political Economy*, 20, 91-124.
16. Niloy, B.; Haque, M. E. and Osborn, D.R. (2003). "Public Expenditure and Economic Growth: A Disaggregated Analysis for Developing Countries", Available at: www.socialsce.ac.u.
17. Nurudeen, A. and Abdulahi, U. (2010). "Government Expenditure and Economic Growth in Nigeria, 1970-2008: A Disaggregated Analysis", *Business and Economic Journal*, 4(3): 237-330. Available at: <http://astoujournals/com>.
18. Olopade B.C and Olopade. D.O (2010). "The impact Growth and Development in Developing Countries: Nigeria as a case study. *Journal of Applied Economics*, Volume 6
19. Olorunfemi, S. (2008). "Public Investment and Economic Growth in Nigeria: An Autoregressive model", *Journal of international Finance and Economics*.
20. Oxley, L. (2014). "Cointegration, Causality and Wagner's Law: A Test for Britain 1870 –1913, *Scottish Journal of Political Economy*, 41(5): 286 – 297.
21. Ogbole, O.F; Amadi, S.N and Essi, I.D. (2011). Fiscal policy: Its impact on Economic Growth in Nigeria 1970 to 2006. *Journal of Economics and International Finance*. 3(6):407-417, June
22. Omitogun, O and Ayinla, T.A (2017). Fiscal Policy and Nigerian Economic Growth. *Journal of Research in National Development*. 5 (2) December
23. Oyejide, T. (2013). The Challenges of Monetary Management in an Environment of Fiscal Dominance, *Third Annual Monetary Policy Conference Proceedings on Issues in Fiscal Management: Implications for Monetary Policy in Nigeria*, 11-12 December 2003. Lagos, Central Bank of Nigeria Publications.
24. Peacock, M. and Wiseman, R. (1968). "A Theory of Public Expenditure", *Journal of Economics*, Vol. LXX
25. Pesaran, P. (2001), "Cointegration approach using Auto Regressive Distributed Lag.". *American Economic Reviews*, December, Vol. 60, 924-33.
26. Ran, S.G (2016). Econometric Analysis of the impact of Fiscal Policy Variables on Economic Growth. *International Journal of Economic Development Research and Investment*, 2(1).
27. Samimi, R. M. and Habibian, M. (2011). "government expenditure and Economic Growth", *Journal of Economics*, Vol. 85, pp 134-182
28. Weil, D. (2009). "Fiscal Policy and Public Spending Model with Public Capital and Pollution", *European Economic Review*, 56(6): 67-84.