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Modelling the Determinants of Government Expenditure and its Impact on Economic Growth: The case of Nigeria

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ABSTRACT

The role of government expenditure in an economy cannot be overemphasized. This is because government expenditure is presumed to be a veritable tool for promoting growth and development. This study is carried out to examine the determinants of the size of government expenditure and its impact on economic growth of Nigeria using time series data spanning between 1970 and 2017. The study slightly modifies the Wagner's law to include other variable such as inflation, oil revenue, public debt and trade openness. The study argues that these variables are important factors in understanding the size of government expenditure for developing country like Nigeria. Also, augmented Solow growth model is adopted and slightly modified within the spirit of endogenous model to help in explaining economic growth in Nigeria. The study employs Autoregressive Distributed Lag (ARDL) model for estimation of the specified models. Structural break – controlled ARDL is also conducted to control for structural break in the data and also check for robustness. The study also applies a qualitative method and utilized charts and tables to show the trend of fiscal elements. The findings from the study reveal that oil revenue, economic growth, population, inflation and trade openness are the major determinants of growth in the size of Nigeria's government expenditure in both short and long run. The result of the growth model reveals that capital stock, labour force, non-oil revenue and inflation have a significant positive relationship with economic growth in both short and long run while recurrent expenditure and trade openness shows a negative correlation with economic growth in both shorter and longer periods. The trend and qualitative analyses also reveal that Nigeria's fiscal policy remains largely inefficient in providing suitable macroeconomic environment. This is due to continued fiscal deficit arising from unmanaged government expenditure and volatile revenue base resulting to heavy debt burden over the years. Moreover, the study found that Nigeria has not given priorities to its key sectors especially when compared with some countries which is believed to contribute to its poor performance. Corruption and mismanagement has also been found to bedevilled Nigeria's public fiscal management and contributed immensely in the poor performance of the economy especially during the present democratic era. The study recommends among others that government fiscal policy needs to be re-considered by moving from broad fiscal policy to a fiscal policy that will consider the needs and demand of people and derive the fiscal policies from such considerations, reduction in the cost of governance, population reduction policies and legislation should be established; improve in spending on key sectors of the economy such as education, health, agriculture, improving the quality of government spending and reconsider its spending through meaningful selection of projects that are viable, cost effective and are also compatible with revenue constraint and development. Strengthening of the existing anti-graft agencies through establishment of special tribunal court to speedily handle corruption cases like budget padding, budget manipulation, inflation of contracts and diversion of projects and monies meant for societal development. The study also pointed out areas to consider for further research like extending of sample size and the level of disaggregation of the data where possible, the quality of public spending should be taken into account in connection with efficiency analysis using governance and policy index variables and lastly to consider sub-national levels in the analysis so as to address the issue of fiscal federalism.