IMPLICATIONS OF FEDERAL GOVERNMENT CAPITAL EXPENDITURE ON THE NIGERIA ECONOMY

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ABSTRACT

This fact remains in the heart of many people that High Federal Capital expenditure will lead to economic growth, especially in a developing country like Nigeria. This paper therefore, is an attempt to ascertain this fact by investigating the implications of federal capital expenditure on economic growth in Nigeria from 1980-2014. To establish this empirical fact, R/hypotheses were formulated and tested using multiple regress mode of ordinary least square method. The study used secondary data. From the result, the Total Expenditure (TCE), Capital Expenditure on administration (ADM), capital expenditure on social community services (SCS) and Capital Expenditure on Transfers (TRT) have impact on economic growth in Nigeria; this implies that increase in these variables will cause positive change in economic growth. On the contrary, capital expenditure on economic (ECO) has a negative impact on economic growth in Nigeria. It is recommended that government should increase its funding of anti-graft or anti-corruption agencies like Economic and financial Crime Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC) in order to arrest and penalize those who divert and embezzle public funds, especially funds for capital expenditure.

1.0   Background of the Study

Every country's budget has two sides of its expenditure, the recurrent expenditures and capital expenditures. The former are Government's payments for non-repayable transactions within a year, while the later are Government's payment for non-financial (non profit) assets used in the production for more than one year (CBN 2010). Most developing countries in Africa including Nigeria experience high demand for capital projects that require high Government expenditure and attention. But it is sad to know that most developing countries put fewer resources in financing capital projects and more resources in financing recurrent needs of the country.

Aregbeyen (2007) established a positive and significant correlation between Government capital and public investment and economic growth, while he found out that current and consumption expenditures were negatively associated with it. Laudau (1983) studies the effect of Government (consumption) expenditure on economic growth for a sample of 96 nations. His result was that there is a negative effect on Government recurrent expenditure on growth of real output and the capital expenditure contributes positively to economic growth. But over the-years, in Nigeria Government has given more funds to recurrent expenditure than the capital expenditure given a comparative analysis.

In the recent years, Government has also given attention to capital expenditure in Nigeria. In (2003) the capital expenditures increased from N241,688.3 million to 351,300.00 million in(2004). The capital expenditure increased from N519,500 million in (2005) to N552,385.8 million in (2006). It as well increased to N759,323 million in (2007). It as well increased from N1,152,796.6 in (2009) to N2,000,000 in (2010).

Despite this huge amount of capital expenditures there is still an insignificant level of development witnessed. Public expenditure on all sectors of the Nigerian economy is expected to lead to economic growth in the sense that capital expenditure will boost the productive base of the economy which in turn will lead to growth. The interest by economists in Nigeria and other jurisdictions on the role of government capital expenditure is still inconclusive.

Baro (1990) said something on government spending a growth model and analyzed the relationship between size of Government and rate of growth and saving. He concluded that an increase in resources devoted to non- productive government service is associated with lower per capital growth. Therefore, Government expenditure which enhances economic growth should be tailored towards productive services.

Nurudeen and Usman (2010) observed that rising government expenditure has not translated to meaningful development as Nigeria still ranks among world's poorest countries. Using disaggregated analysis approach, they investigated the effect of government expenditure on economic growth in Nigeria in the period 1970 - 2008 and found that government total capital expenditure, total recurrent expenditure and expenditure on education have negative effect on economic growth; but rising government expenditure on transportation, communication, and health expects positive effect on economic growth.

However, this study faults the extent disaggregating of data that constituted variables of research interest in Nurudeen and Usman's study since expenditure on education, transportation, communication and health must have been part of total capital and total recurrent expenditure respectively.

Therefore, this paper is an attempt to examine the impact of federal capital expenditure on economic growth in Nigeria.

Capital expenditure is not expected to yield immediate dividend on the economic growth, but it is expected to have positive impact in the economic growth in Nigerian due to mismanagement, and misappropriation of funds by those in the authority. In some states for instance, it is expected that internally generated revenue and allocations received from federation account will be substantial enough to pay workers salary, in' the states. Some states like Osun, Kogi and so on are looking unto the Federal Government to bail them out for payment of arrears of workers salaries.

The former Governor of Central Bank of Nigeria (CBN) accused national Nigerian Petroleum Corporation (NNPC) of non remittance of twenty million us Dollars (US $20 Million) to Central Bank Account. The former Governor of Edo State Accused the former minister of Finance for misappropriations of three trillion naira (W3 trillion). All these mismanagement and misappropriation of public fund will no doubt, negatively affect the economic growth of the country.

This study therefore, is to investigate and find a lasting solution to funds embezzlement by the corrupted authorities so that funds invested on capital expenditure will have positive impact on the economic growth in the long run.

Other challenging factors identified being the low proportionality of capital expenditure relative to recurrent expenditure poor planning of federal capital expenditure due to the absence of proper planning and adoption of a programme based budget strategy, late disbursement of federal capital funds, all these have hindered and prevented the capital expenditure from meeting its goal and objectives to their fullest.

2.0   LITERATURE REVIEW

Baro and Grilli (1994) believed Government expenditure includes all government consumption and investment but exclude transfer payment made by state. Government expenditure can be for the acquisition of goods and services for current use or· for direct satisfaction of individual or collective

needs of the members of the community or it can be for acquisition of goods and services intended to create future benefits such as infrastructural investment and expenditures which can represent transfer of money, such as social, salaries and cost of administration. Ijaiye (2003) also stated that Government expenditure is determined by rapid population growth and subsequent demographic transitions, increase in income and taste of the people in a country that had led to increase in demand for government goods and services, increase in technological requirements for industrialization, increase in urbanization, increase in inflation over time, balance in productivity growth between public and private sector, and the need to address natural disasters among other things.

Similarly Government expenditure is influenced by the expanded roles of government which include among others, the provision of pure public goods, for example defence, law and order, macroeconomic management, public health and education, protect the poor through the provision of anti-poverty programmes and disaster, relief programmes, addressing externalities for example environmental protection, provision of social insurance scheme, co- ordinating private sector activities and redistribution of income and assets (2006).

On economic growth, Olopade and Olopade, (2010) define economic growth as the expansion of a country's potential GDP or output. For instance, if the social rate of return on investment exceeds the private return, then tax policies if encouraged can raise the growth rate and levels of utility. Growth models that incorporate public services, the optimal tax policy lingers on the characteristic of services.

EMPIRICAL REVIEW

So many empirical studies have been done on the implication of Government expenditure on economic growth in different countries or economies like the work of Laudau (1983) who examined the effect of Government expenditure on economic growth, with a sample of 96 countries. He found that Government expenditure exerts a negative effect on real output.

Donald and Sharanglin (1993) investigated the differential effect of various categories of expenditures on economic growth for a sample of 58 countries. Their findings suggested that while Government expenditures on education and defence have positive effect, expenditure on welfare has insignificant negative effect on economic growth. An obvious deficiency of the study is that it does not provide a well-developed methodology to incorporate Government expenditures in standard growth models.

In their empirical analysis of the relationship between Government expenditure and economic growth, Folster and Henrekson (2001) employed various econometric approaches to study a sample of wealthy countries for the period 1970 to 1995. Based on their findings, they submitted that more meaningful and reliable results are generated, as economic problems are addressed. In their own study, Abu-Bader and Abu-Qarn (2003) used multivariate co-integration and variance decomposition approach to analyze the causal relationship between Government expenditures and economic growth in Egypt, Israel and Syria. The variables used in the analysis included share of government civilian expenditures in GDP, military burden, and economic growth. They observed that, in the bivariate frame work, a bi-direction and long run negative relationships existed between government spending and economic growth. But the causality test within the trivariate frame work based on the above variables indicated that military burden has a negative impact on economic growth in all the countries, while civilian Government expenditures have positive effect on economic growth for both Israel and Egypt.

Using data set on Greece, United Kingdom and Ireland, Loizides and Vanvoukas (2005) employed the tripartite causality test to investigate the relationship between government expenditure and economic growth. The result showed that size of government granger-causes economic growth in the three countries. Such growth was experienced both in the long and short runs in Ireland and UK when inflation is included in the analysis, the result showed that economic growth granger causes public expenditure expansion on Greece and UK.

Komain and Brahmasrene (2007), employing the granger causality test, examined the relationship between Government expenditures and economic growth in Thailand and found that Government expenditures and economic growth are not co-integrated. The result also suggested that an unidirectional relationship, as causality runs from government expenditures to economic growth. However, the result indicated on a significant positive effect of government spending on economic growth.

Olugbenga and Owoeye (2007) investigated the relationships between Government expenditure and economic growth a group of 30 OECD countries for the periods 1970·2005 using regression analysis. Their analysis showed that a long-run relationship exists between government expenditure and economic growth. The study also indicated a unindirectional causality from Government expenditure to economic growth for 16 of the countries, thus supporting the Keynesian hypothesis government intervention. But, causality runs from economic growth to Government expenditure in 10 of the countries, thereby confirming the Wagner's Law. For the remaining 4 countries, findings indicated existence of feedback relationship between Government expenditure and economic growth.

Ranjan and Sharma (2008) showed that Government expenditure exerted significant positive impact on economic growth in India during the period 1950-2007, and that the two sets of variables co-integrated. In the study of Government expenditure and economic growth in the United States, Liu et al (2008) examined the caused relationship between GDP and public expenditure for the period 1947-2002 the causality results revealed that while total Government expenditure causes growth of GDP, the later does not cause expansion of Government expenditure. The study concluded that since public expenditure grows, the US economy, based on the causality test, Keynesian hypothesis exerts more influence than the Wagner's law in US.

Coorary (2009) employed an economic model that incorporates Government expenditure and quality of governance in a cross-sectional study of the relationship between Government expenditure and economic growth in 71 countries. The results showed that both the size and quality of governance correlated positively with economic growth.

In Nigeria, many studies have attempted to investigate the relationship between Government expenditure and economic growth, and the implication there of. Example, Oyinlila (1993) used defense expenditure and economic growth in Nigeria and found positive relationship between Government expenditure and economic growth. However, some empirical studies in Nigeria suggest no long run relationship between Government expenditure and economic growth. Such studies like (Aigbokhan, 1996; Essien 1997; Aregbeyen 2006, Babatunde 2007). Thus, there appears to be a controversy over the long-run relationship between government expenditure and economic growth. For instance, empirical analysis by Fajingbesi and Odusola (1999) showed that government capital expenditure has a significant positive effect on real output, but that real government recurrent expenditure has significant effect on economic growth. Akpan (2005) used a disaggregated approach to examine the relationship between components of public expenditure. Considered in his analysis were capital, recurrent, administrative, economic services, social and community services and transfers. The study found no significant relationship between economic growth and most components of government expenditure in Nigeria.

Olorufemi (2008) in a study on the relationship between economic growth proxies by GDP and public expenditure in Nigeria surprisingly concluded that there is no link between gross fixed capital formation and GDP and that public expenditure affects GDP without elaborating the type relationship. He also failed to analyze the relationship between the government of public expenditure and economic growth. Additionally, the study proxy of GDP for growth in their analysis instead of real GDP which is a better measurement of economic growth.

Suleiman (2009) observes that such understanding could help to assess the impact on government expenditures and then on deficits arising from a structural declaration in or from an improvement in the growth potential. He submits that a good knowledge of the structural relationship between the non-cyclical component of government expenditure and potential output is key to obtaining a bench mark against which to evaluate the stance of expenditure policy and then of overall fiscal policy. Consequently, he empirically examined the relationship between government revenues and expenditure, expenditures and economic growth as a fundamental step in understanding the behaviour of Nigerian public expenditure and the economy. His study found support for Wagner's law of ever increasing public finance and Friedman's Hypothesis. The study also showed that growth in real GDP was significant before the mid 1990s but thereafter fell below average government revenue and expenditure. He concluded that, during the period 1978-2008, government expenditure was not employed as fiscal instrument and that revenue growth drove government expenditure.

Adewara and Oloni (2012) explored the relationship between the composition of public expenditure and economic growth in Nigeria between 1960 and 2008 using the Vector Autoregressive model (VAR). Their findings shows that expenditure on education has failed to enhance economic growth due to the high rate of rent seeking in the country as well as the growing rate of unemployment. They also found that expenditure on health and agriculture contributed positively to growth.

These literatures, have tried in investigating the impact of public expenditure on economic growth in Nigeria and some have agreed that public expenditure have a positive impact on economic growth, while some disagreed to that and also established that some component of recurrent expenditure are negatively related to economic growth. Most studies focus on the aggregated impact of government expenditure on economic growth. From the reviewed literature there is no clear studies on the impact of federal capital expenditures on growth especially in Nigeria, therefore this paper will bridge the gap by examining the impact of federal government capital expenditure on economic growth.

3.0   METHODOLOGY

Secondary data were used in this study and these data were gotten from central bank of Nigeria (CBN) Statistical Bulletin of December, 2009 and 2010 and Nigeria Bureau of Statistics. In an attempt to establish empirical evidence on the implication of federal capital expenditure on economic growth, econometric model of Akpan (2005) who used a disaggregated approach to examine the relationship. Components of public expenditure considered in his analysis were capital, recurrent, administrative, economic service, social and community service, and transfers. This model was chosen because it used the disaggregated approach to examine the two economic variables.

In this study the model of Akpan (2005) was modified to examine the impact of federal capital expenditure on economic growth in Nigeria.

$$RGDP = f \ (TCE, ADM, ECO, SCS, TRF) \ \ldots\ldots\ldots\ldots\ldots\ldots3.1$$

From equation 3.1 above the real Gross Domestic product (RGDP) is a function of Total capital expenditure on economic, capital expenditure (TCE), capital expenditure on Administration (ADM); capital Expenditure on economic, capital expenditure on social community services (SCS) and capital expenditure on transfers.

From equation 3.1, we derived the econometric model below:

$$RGDP = a + \beta_1 TCE + \beta_2 ADM + \beta_3 ECO + \beta_4 SCS + \beta_5 TRF + N \ \ldots\ldots\ldots\ldots 3.2$$

Taking the natural log of the equation 3.1 above, we have the following equation

$$LnRGDP = a + \beta_1 LnTCE + \beta_2 LnADM + \beta_3 LnECO + \beta_4 LnSCS + \beta_5 LnTRF + N \ \ldots\ldots \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.. \ 3.3$$

Where a is the constant, β_1, β_2, β_3, β_4 and β_5 are the parameters and the variables have been explained above. The apriori expectations of the variables are given as (β_1, β_2, β_3, β_4 and $\beta_5 > 0$). This implies that the variables are expected to have positive impact on the dependent variable.

The ordinary least square was used in the estimation of parameters and E-views 7.0 was used in analysis of the data.

4.0 DATA PRESENTATION AND ANALYSIS

The data for analysis is presented below the variables are the Real Gross Domestic Product (RGDP), total capital expenditure on administration (ADM), capital expenditure on economic (ECO), capital expenditure on social community services (SCS) and capital expenditure on transfers (TRF).

Table 4.1: Result of Augmented Dickey – fuller (ADF) Test for Stationary

Variable	ADF statistic	1% critical value	5% critical value	Difference
RGDP	5.432041	-3.6752	-2.9665	1ST
TCE	5.930097	-3.6852	-2.9705	2ND
ADM	5.278954	-3.6752	-2.9665	1ST
ECO	5.862866	-3.6959	-2.9750	3RD
SCS	5.645654	-3.6852	-2.9705	2ND
TRF	4.982861	-3.6959	-2.9750	3RD

From the above, the Real Gross Domestic Product in Nigeria is stationary at first difference with ADF statistic value of 5.432041 at 1 percent, total capital expenditure (TCE) is stationary at second difference with ADF value of 5.930097 at 1 percent. Similarly, capital expenditure on economic (ECO) is stationary third difference with ADF value 5.862866 at 1 percent; capital expenditure on social community services (SCS) is stationary at second difference with ADF value of 5.645654 at 1percetnt and capital expenditure on transfers (TRF) is stationary at third difference with ADF value of 4.982861 at 1 percent, 5 percent and 10 percent. Therefore, data are fit to be used for regression estimation and for economic analysis and inference.

Table 4.2 Data Estimation Results

Variable	Coefficient	Standard Error	T-STAT	PROB
C	9.85	0.738	13.50	0.0000
TCE	0.215	0.267	0.804	0.029
ADM	0.193	0.158	1.22	0.235
ECO	-0.306	0.1427	-2.140	0.347
SCS	0.137	0.159	0.857	0.099
TRF	0.046	0.053	0.859	0.398
R SQUARE	0.685	-	-	-
ADJ SQUARE	0.621	-	-	-
F statistic	10.481	-	-	-
D –W STATISTIC	1.65	-	-	-
PROB	0.000020	-	-	-

Source: Computation Using E- Views Package

INTERPRETATION AND DISCUSSION OF RESULTS

The growth and federal capital expenditure equation given the R-square of 0.685 suggests that federal capital expenditure has a strong and positive relationship on Real Gross Domestic Product and the Adusted R-square of 62 percent shows that the model in use is capable of determining the total variation on dependent variable. The function shows that 62 percent variation is the dependent variable that can be accountable by the change in the independent variables. Similarly, the F-statistic suggest that the model employed in the study is statistically significant given the value as 10.481, meaning at 5 percent level of significant, the equation in use is statistically significant. This implies that the equation is useful in explaining a unit change in Real Gross Domestic Product in Nigeria.

The results indicate that Total Capital Expenditure (TCE), Capital Expenditure on Administration (ADM), Capital Expenditure on Social Community Services (SCS) and Capital Expenditure on Transfers (TRF) are positively related to gross domestic product. Total Capital Expenditure (TCE) was statistically significant, while Capital Expenditure on Administration (AND), Capital Expenditure on Social Community Services (SCS) and Capital Expenditure on Transfers (TRF) are statistically in significant in explaining the variation in Real Gross Domestic Product in Nigeria.

From the result, the aprior expectation of total capital expenditure (TCE), Capital Expenditure on Administration (ADM), Capital Expenditure on Social Community Services (SCS) and Capital Expenditure on Transfers (TRF) were proved to be true being positively signed.

On the other hand, Capital Expenditure on Economic (ECO) was negatively related to the Real Gross Domestic Product in Nigeria and statistically significant in explaining the variation in Real Gross Domestic Product in Nigeria.

5.0   FINDINGS

The result suggests that there is a positive impact of Federal Capital Expenditure on economic growth in Nigeria, implying the dominance of public sector as the major economic growth driver for the national economy.

This study investigated some of the problems of the Federal Capital Expenditure in Nigeria, the most challenging factors identified being the low proportionality of capital Expenditure relative to recurrent Expenditure, poor planning of Federal capital Expenditure due to the absence of proper planning and adoption of a programme based budgeting strategy, late disbursement of federal capital funds and mismanagement (embezzlement) of funds by government officers, these have hindered and prevented the federal capital Expenditure from meeting its goal and objectives to their fullest.

5.1   CONCLUSION

This study attempted to examine the implication of capital Expenditure on economic growth in Nigeria. Most literature reviewed were on the impact of public Expenditure on economic growth. But this study was able to do empirical study on implication of capital Expenditure on economic growth from 1980-2014. Secondary data were used and the study adopted ordinary least square with multiple equation. E-view 7.0 was used in the model data used and all the variables were stationary at various differences.

5.2   RECOMMENDATIONS

The Federal Government need to revert to development planning, utilizing programme based budget that address development interventions in an objective and result oriented framework, hence making capital expenditure spent, more positively impactful on national development needs.

In view of the positive correlation between economic growth and capital expenditure in the overall public expenditure programme, government should strive towards increasing the percentage of capital expenditure and properly be managed in a manner that will raise the quantum of national economic assets, hence improving productive capacity and accelerate economic growth to a double digit.

Government should increase its investment in transport and communication sectors through direct funding and Public-Private-Partnership (PPP) model, since it would reduce the cost of doing business as well as raise the profitability of firms, hence contributing to overall national output and economic prosperity.

Government should encourage massive investment directly and through Public-Private-Partnership(PPP) in the human capital sector of the national economy education and health sectors through increased funding especially the funds for capital projects and maintenance as well as ensure strick, due diligence and implementation of (PPP) guide lines and processes for the development of education and health services.

Government should increase its funding of anti-graft or anti-corruption agencies like the Economic and Financial Crime Commission (EFCC) and the Independent Corrupt Practices Commission (CPC) in order to arrest and penalize those who divert and embezzle public funds.

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APPENDIX 1

FEDERAL GOVERNMENT CAPITAL EXPENDITURE 1980- 2014

Year	Administration # Million	Social and community service # million	Economic services # million	Transfer # million	Total recurrent Expenditure # million	Total recurrent expenditure percentage of gross domestic product (GDP)%

1980	1501.1	2456.7	5981.1	224.5	10163.4	20.47
1981	720.1	1299	3629.4	918.5	6567.0	13.79
1982	385.4	968.3	2542.5	2521	6417.2	13.07
1983	1098.2	1026.5	2290.7	470.3	4885.7	9.19
1984	262.7	237.6	656.3	2943.5	4100.1	6.87
1985	459.6	1154	892.7	2958.4	5464.7	8.04
1986	264.8	655.4	1099.9	6506.7	8526.8	12.33
1987	1816.2	619.1	2159.7	1777.5	6372.5	6.05
1988	1898.6	1726	2128.7	2586.8	8340.1	5.99
1989	2,617.5	1844.8	3926.3	6645.5	15034.1	6.93
1990	2919.9	2096	3485.7	15547.0	24048.6	8.98
1991	3345	1491.7	3145	20359.2	28340.9	9.07
1992	5118.5	2132.6	2336.7	30175.5	39763.3	7.46
1993	8081.7	3575.3	18344.7	24500.1	54501.8	7.96
1994	8785.1	4994.4	27102.8	30036	70918.3	7.88
1995	13337.8	9215.6	43149.2	55435.7	121138.3	6.26
1996	14863.6	8656.2	117829.1	71577.4	212926.3	7.87
1997	49549	6902	169613.1	43587.6	269651.7	9.62
1998	35270.4	23365.6	200861.9	49517.7	309015.6	11.4
1999	42737.2	17253.5	323580.8	114456.1	498027.6	15.59
2000	53279.5	27965.2	111508.6	46697.6	239450.9	5.22
2001	49254.9	53336	259757.8	76347.8	438696.5	9.28
2002	73577.4	32467.3	215333.4	0	321375.1	4.64
2003	87958.9	55736	97982.1	11.3	241688.3	2.84
2004	137765.85	30032.52	167721.8	15729.83	351250	3.07
2005	171574.13	71361.19	265034.67	11500	519470	3.56
2006	185224.25	78681.34	262207.29	26272.91	552385.8	2.97
2007	226974.4	150895.16	358375.64	23036	759281.21	3.67
2008	287103.58	152174.64	504286.87	17325	960890.1	3.95
2009	291660.0	144926.5	506010	210200	1152796.5	4.64
2010	260200.2	151774.5	412200	59700	883874.5	1.63
2011	231800	92848.9	386400	207500	918548.9	1.45
2012	190500	97400	321040	265900	874840	1.22
2013	283649.3	154706.68	505765	164265	1108386.4	1.38

	6			.34		
2014	291548	162918.5	556145	165372 .5	1256764	1.45

SOURCE: Central Bank of Nigeria Statistical & Bulletin for various years