ISSN: 6370 - 5978
Volume 10, Number 3, 2022
International Journal of Accounting and Management Innovations

# ANALYSIS OF GOVERNMENT EXPENDITURE ON THE DEVELOPMENT OF NIGERIA ECONOMY

**Nwanaka, Chigozie**
**Department of Accounting, Faculty of Business Studies**
**Ignatius Ajuru University of Education Rumuolumeni, Port Harcourt**

***ABSTRACT***
*The aim of this study is to investigate government expenditures and economic development . In the light of growing concern on government expenditures and national economic development, this study will help to enhance the understanding of the problems that are genetic to the unproductive government expenditures and national economic development that will potentially spell myriad catastrophe on the country if not addressed appropriately. Development in Nigeria. Thus, the study concludes that, government expenditure impact on administration and real gross domestic product (RLGDP).*

***Keywords: Government Expenditure, Economic Development, Gross Domestic Product***

## INTRODUCTION

Public expenditure in Nigeria has been on the increase in nominal terms year in year out, of the components of public spending, recurrent expenditure accounts for about 77 percent of total expenditure, leaving behind a paltry 23 percent to capital expenditure (Source: CBN Statistical Bulletin, 2014). The huge sum of government spending in Nigeria has not translated into significant growth and development of the country. To buttress this notion, Abu and Abdullahi (2010) noted that; many Nigerians have continued to wallow in abject poverty, while more than 50 percent live on less than US $2 per day, coupled with this is a dilapidated infrastructure that has led to the collapse of many industries, hence causing high level of unemployment.

It is noteworthy to observe that government expenditures on various sectors seem to have also contributed to the economic growth at the different rate in Nigeria. Empirical studies of Udoffia and Godson (2016), Echekoba and Amakor (2017), Jelilov and Musa (2016), Adu, et al (2014), Richardson, (2014), and Maingi (2010), etc It was found that government expenditure has a positive and significant impact on economic growth. Government expenditure drives economic growth in Nigeria. Owing to the diverse feelings on the above, the argument has been inconclusive on whether or not these critical sectors contribute significantly to the economic growth in Nigeria. These point at the need to examine the pattern of federal government expenditure and its impact on the economic development of Nigeria.

### Wagner's Theory of Increasing State Activity of (1893)

This theory was put forward by German political economist, Adolph Wagner (1835-1917). He argued that government growth is a function of increased industrialization and economic development. Wagner stated that during the industrialization process, as the real income per capita of a nation increases, the share of public expenditures in total expenditures increases. The law cited that "The advent of modern industrial society will result in increasing political pressure for social progress and increased allowance for social consideration by industry." Wagner (1893) designed three focal bases for the increased in state expenditure. Firstly, during industrialization process, public sector activity will replace private sector activity. State functions like administrative and protective functions will increase. Secondly, governments needed to provide cultural and welfare services like education, public health, old age pension or retirement insurance, food subsidy, natural disaster aid, environmental protection programs and other welfare functions. Thirdly, increased industrialization will bring out technological change and large firms that tend to monopolize. Governments will have to offset these effects by providing social and merit goods through budgetary means.

**Keynesian Theory of Public Expenditure and Economic Development (1936)**
This theory was put forward by economist; John Maynard Keynes (1883-1946). He argued that government intervention was necessary in the short run to save the economy from depression. He argued that in the long run we are all dead. Increasing saving during depression will not help but instead spending saves the economy. Increased spending raises the purchasing power of people and hence consumption increases. Producers expand their production and hence employment is created. He further said that expansion of government expenditure should be done with a lot of care since too much of it could lead to inflation.
The flaws of Keynes theory are: The theory tended to give rise to the phenomenon known as stop-go. That is, in periods of high unemployment, the government would expand aggregate demand. This would reduce the unemployment but at the same time tend to create inflationary pressure so that eventually the government would have to reduce aggregate demand again. Thus, all go period tended to be followed by stop period and it became difficult to achieve long term economic growth. A second limitation of the Keynesian model is that it fails to take adequately into account the problem of inflation. Third, it tends to understate the influence of money on the real variables in the economy. A change in the money supply, only affects national income through its effects on the rate of interest.

**Review 0f Related Literature**
**The Concept of Expenditures of Government**
Government expenditure is a major component of national income as seen in the expenditure approach to measuring national income: $(Y = C+I+G + (X – M))$. This implies that government expenditure is a key determinant of the size of the economy and of economic development. However, it could act as a two-edged sword: It could significantly boost aggregate output, especially in developing countries where there are massive market failures and poverty traps, and it could also have adverse consequences such as unintended inflation and boom-bust cycles (Wang and Wen, 2013). The effectiveness of government expenditure in expanding the economy and fostering rapid economic development depends on whether it is productive or unproductive. All things being equal, productive government expenditure would have positive effect on the economy, while unproductive expenditure would have the reverse effect.
Government expenditure refers to the purchase of goods and services, which include public consumption and public investment, and transfer payments consisting of income transfers (pensions, social benefits) and capital transfer. A government spends money towards the supply of goods and services that are not provided by the private sector but are important for the nation's welfare. Government spending goes to the nation's defense, infrastructure, health and welfare benefits.
The volume of public expenditure has been on arising in Nigeria if not almost all countries of the world, because of the continuous expansion in the activities of the state and other public bodies on several fronts. Since the twentieth century, the developments of the functions of the state in social matters such as education, public health, commercial and industrial undertakings and so on, has increased public expenditure to a large extent. Economic development is fundamental although not a sufficient condition for sustainable development. Economic development and development is mainly enhanced by the expansion of infrastructural facilities, the improvement of education and health service, the encouragement of foreign local investments, low cost housing, environmental restoration, and the strengthening of the agricultural sector. The approach consists of simulating the economy by addressing the nations forecast needs. Dealing with these issues will result in a great amount of money spending by the government and certainly lead to increased public

expenditure. Public expenditure is claimed as "the most powerful economic agent in all modern societies (Arrow & kurz, 1970).

**Expenditure on Economic Services**

Expenditure on economic services are directed toward the development and strengthening of the economic infrastructure and other economic activities in the country. Expenditure on economic services provision by the government is aimed at human development and also the provision of economic services is aimed at economic development. Expenditure on economic services are divided in to separate sections for each ministry, department, or agency. These are projects that fall in to both capital and recurrent expenditure such as expenditure on agriculture, trade, industry, mining, power stations, communication, forestry, etc. According to Afolugbo (2004), Expenditure on economic services is cost of governance incurred on investment for future benefits. It is the cost of performing economic infrastructures.

Agriculture: Agricultural sector output has fluctuated widely and productivity has also declined. In terms of government expenditure and its contribution to GDP. Available statistics from the CBN show that the agricultural sector's share of GDP increased from 28% in 1985 to 32% in 1988, dropped to 31% in 1989, rose again to 37% in 1990 but fell significantly to 24% in 1992 and increased to 37% in1994. It was 32% in 1996 and rose to 40% in 1998, dropped again to 27% in 2000, increased to 37% and fell to 31% in 2002 and 2006 respectively. The percentage contribution of the agricultural sector to GDP fell persistently despite the continuous rise in government expenditure from 0.37 in 2009 to 0.22 in 2012 and to 0.20 in 2014 (CBN, 2014).

**Expenditure on Social Community Service**

Bodunrin (2016) stated that government spend on social and community services, remains a debate as the effort put in by previous and present administrations have not yielded positive evidence, the nation's economy is in recession, rated high in poverty, high level of unemployment and unfavourable exchange rate situation. It is believed that as a country develops economically, it is able to provide more for the basic needs of its citizens such as education, healthcare and a better quality of life.

Expenditure on social community services or policies is still widely recognized as a potent tool to enhance growth, redistribute income and improve the welfare of the people especially in Nigeria. Nonetheless, the trend in the Nigerian case seems to negate this assertion. For instance, despite the huge government spending, the several social community services, and a variety of economic programmes that the Nigerian government had introduced and implemented over the years, it is a dismay that growth has not accelerated and poverty remains widespread and pervasive. Every year Nigerian government usually allocates large sums of money for the provision of social amenities which includes: education, health care and delivery, market, recreational facilities, environmental sanitation, etc (Chude, et al, 2019).

**Empirical Review**

Nworji, Okwu, Obiwuru, and Nworji (2012) looked at the impact of government spending on economic development in Nigeria from 1970 to 2009. The OLS multiple regression model, which established a perceived causal link between government expenditure and economic growth, was used to conduct the analysis. The main goal of this study is to examine the impact of government spending on the Nigerian economy using time series data on variables that are regarded important indicators of economic development and government expenditures. As a result, time series data on the gross domestic product (GDP) and other components of government expenditure were incorporated in the model. The data for this analysis came from the Central Bank of Nigeria's Statistical Bulletin. During the research period, capital and recurrent expenditure on economic services had a negligible negative impact on economic growth, according to the findings. In addition, capital spending on transfers had a little beneficial impact on growth. However, capital

and recurrent spending on social and community services, as well as recurrent spending on transfers, all had a considerable beneficial impact on economic growth. As a result, the study advised allocating greater resources to programs that have a large beneficial impact.
Government expenditures, according to Echekoba and Amakor (2017), are the costs incurred by the government for the supply and upkeep of itself as an institution, the economy, and society. According to the Central Bank of Nigeria (CBN), public spending in Nigeria is functionally categorized into four (4) categories: administration, economic services, social and community services, and transfers, with capital and recurrent expenditure consumption for each class. Government spending is described by Udoffia and Godson (2016) as costs incurred by the government for its own upkeep as well as the provision of public goods, services, and works necessary to nurture or support economic development and increase people's welfare in society. Government expenditure, according to Alice (2014), can be defined as expenses incurred by any government for its own maintenance, the good of society and the economy, and assistance to external bodies and other countries. It refers to the amount of money spent by the government on various government agencies and sectors of the economy. A good pattern of government spending promotes economic development, favors the creation of jobs and excellent roads, and guarantees that public officials' wages rise.

## CONCLUSION

Government expenditure is an important instrument for government in functioning and controlling the economy whether developed or underdeveloped. Oziengbe (2013), maintained that, government (public) expenditures are generally expenditures on administration, defense, internal securities, health, education, foreign affairs, etc. According to CBN (2011), public expenditure is functionally classified into four (4) categories in Nigeria: administration, economic services, social and community services, and transfers with capital and recurrent expenditure consumptions for each class. On the other hand, that economic development is the increase in per capital national output or net national product over a long period of time (USAID, 2014).

## RECOMMENDATIONS

The study have important policy implications which led to making of the following recommendations below;

1. The study recommends efficient and better management of government expenditure on administration as it has not significantly impacted on real gross domestic product.
2. The government should continue in economic and social community service as to provide more infrastructure, agriculture, power or electricity and transportation, so as to reduce fraud, fund diversion and mismanagement.
3. The study recommends that spending on capital administration expenses should be reduced while more money should be invested in providing the enabling policies and environment for private sector initiatives to strive for human capital development in Nigeria.
4. Government should increase its capital social and community services expenditure allocation bearing in mind its multiplier effects on long-run economic growth.

## REFERENCES

Abu, N., & Abdullahi, U. (2010). The relationship between government expenditure and economic growth in Saudi Arabia. *Journal of Administrative Economic Science, 3*(7), 173–191.

Adu, F., Ohene-Manu, J. & Ishmael, A. (2014). Government expenditures and economic growth dynamics in Ghana. *International Journal of Economics and Empirical Research*, *2*(5), 180-190.

Afolugbo. O. (2004). Institutions as the fundamental cause of rising cost of governance. *American Economic Review*, *7*(5), 1369-1378.

Alice, N. (2014). Government expenditure in Nigeria and its impact on the Nigerian economy, 1986-2014*. Journal on Banking Financial Services & Insurance, 7*(11), 2231-4288.

Arrow, O. T., & kurz, L. G. (1970). Rail transport and economic growth in Nigeria (1970 – 2011). *Australian Journal of Business and Management Research*, *3*(5), 18-24.

Bodunrin, F. (2016). *The impact of fiscal and monetary policy on Nigerian economic growth*: University Library of Munich.

Central Bank of Nigeria, (2014), *Statistical Bulletin*, CBN.

Chude, N. P., Chude, D. I., & Anah, S. A. (2019). The relationship between government expenditure, economic growth, and poverty reduction in Nigeria. *International Journal of Developing and Emerging Economies*, *7*(2), 1-10.

Echekoba, F., & Amakor, I. C. (2017). The impact of government expenditure on Nigeria economic growth: A further disaggregated approach. *Journal of Social Development*, *6*(3), 50-65.

Maingi, J. (2010). *The impact of public expenditure on economic growth in Kenya.* [Unpublished *Ph.D.* Thesis], University of Kenyatta.

Nworji, I. D., Okwu, A. T., Obiwuru, T. C., & Nworji, L. O. (2012). Effects of public expenditure on economic growth in Nigeria: A disaggregated time series analysis *International Journal of Management Sciences and Business Research, 1*(7), 226-255.

Oziengbe Scott, A., & Aigheyisi, O. (2013). Dynamic relationships among non-oil revenue, government spending and economic growth in an oil producing country: Evidence from Nigeria. *Future Business Journal, 4*(2), 246-260.

Udoffia, H., & Godson, J. R. (2016). Effects of public expenditure on economic growth in Nigeria: A disaggregated time series analysis. *International Journal of Management Sciences and Business Research, 1*(7), 2226-8235.

Wagner, I. (1893). *Economic development. [9th Edition]*. Pearson Educational Limited England.

Wang, X., & Wen, Y. (2013). Is government spending a free lunch? Evidence from China, research division, federal reserve bank of St. Louis, *Working Paper Series*. http://research.stlouisfed.org/wp/2013/2013-013.pdf