

## **ASSESSING THE IMPACT OF GOVERNMENT ECONOMIC EXPENDITURES ON ADMINISTRATIVE GROWTH**

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### **ABSTRACT**

*The study examined the impact of government economic expenditure on administrative growth. Accordingly, it is the view of this study that with proper handling of expenditure on administration, expenditure on economic and social and community services will be easier for the government to manipulate Macroeconomic variables (real gross domestic product and human development index) to ensure steady and accelerated economic development in Nigeria. The recommendations of the study were that; The study recommends efficient and better management of government expenditure on administration as it has not significantly impacted on real gross domestic product. Also, that 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.*

***Keywords: Government Expenditures, Economic, Administration, Growth***

### **INTRODUCTION**

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), Echekeba 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. Thus, this incited the researcher to fill the gap on the study titled government expenditures and national economic development by introducing the four (4) categories of public expenditure functionalities in Nigeria as dimensions of the study: expenditure on administration, expenditure on economic services, expenditure on social and community services, and expenditure on transfers. Also introduced human development index (HDI) in order to examine and measure the physical development within the rising government expenditures and maintained real gross domestic product (RLGDP). Also, in order to further cover the literature gap the study introduced real exchange rate as moderating variable. The study is also uniquely providing analytical scope that cover 31 years' time lag (1990 - 2020) time series analysis to fill the problem of obsolescence of empirical information data. And shifted from the overflowed economic growth literatures to more comprehensive view of national economic development. Thus, it on the above content, dimensions, measures and scope gaps noted, that incited the researcher in writing on government expenditure and economic development in Nigeria.

### **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% in 1994. 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).

### **Government Expenditure and Real Gross Domestic Product (RGDP)**

Government expenditure on administration has the expected positive sign and is significant at 5%. The result showed that every 1% increase in government expenditure on administration leads to 1.34% increase in economic development during the years under study. This finding is in line with the findings by Ebiringa and Charles-Anyagou (2012) which obtained positive significant relationship between government expenditure on defence and security which are components of administration. On the other hand, government expenditure on social and community services (TC) apart from not having the expected result, it is also not significant in the period under study. A 1% increase in government expenditure on social and community services (TC) leads to a decrease of 0.08% in the real per capita GDP in the period under study. This finding supports earlier studies by Adewara and Oloni (2012) and Nwadiubu and Onuka (2015), who investigated the impact of government expenditure on economic development. They found that government expenditure on social and community services failed to enhance economic development. Adewara and Oloni (2012) attributed the non-performance of the expenditure on social and community services to high rent-seeking prevailing in the economy and high unemployment rate.

Government expenditure on economic services is neither significant at 5% nor has the expected sign. The coefficient is negative. The result showed that 1% increase in government expenditure on economic services leads to a decrease of 0.32% in real per capita GDP in the period under study. This finding is similar to the findings of Tawose (2014). His findings showed that government expenditure on economic services has inverse relationship with industrial productivity in Nigeria. Expenditure on government economic services should have promoted economic development in the country but high level of corrupt practices prevalent in Nigeria (diversion of public funds into private accounts, misappropriation of public fund and inflating contract price) have become impediments to economic development. Government expenditure on transfers neither has the expected sign nor significant. A 1% increase in government expenditure on transfers led to a decrease of 0.17% in the real per capita GDP during the period under study. This negative relationship between government expenditure and economic development supports study conducted by Rahman, et al. (2015). Their findings showed that debt-servicing crowded out private investment in Pakistan. A major reason that can be attributed to non-significance of the coefficient of government expenditure on transfers is the increase in the burden of debts when a country does not redeem within stipulated time. It also indicates that the size of government expenditures on transfers rises with increase in economic development. In the same vein, the total government revenue does not have the expected sign nor was it significant. It is negatively signed. A 1% increase in government expenditure decreases real per capita GDP by 0.64% contrary to a priori expectation. The last independent variable is exchange rate. As expected, it has negative sign and it is significant at 1% level of significance. This finding has shown that exchange rate has significant impact on economic development in Nigeria and it determines the performance of other macroeconomic indicators because of the import-dependent nature of the economy.

#### **Musgrave Theory of Public Expenditure Growth (1988),**

Just as the name indicates, this theory was propounded by Musgrave (1988), as he considers changes in the income elasticity of demand for public goods in three dimensions of per capita income. He stressed that at low levels of per capita income, demand for public goods tend to be very low; this, he justified by asserting that at this level such income is devoted to satisfying the primary needs that would have been provided by the government, and that, as such, when per capita income starts to increase above these levels of low income, the demand for goods and services supplied by the public sector, such as health, education and transport, etc., starts to rise, thereby forcing the government to increase the expenditure on them. He opined that at the high levels of per capita income, especially of developed economics, the rate of public sector growth tends to fall as the more basic wants are being satisfied.

#### **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 Echekeba 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.

Shakirat (2018) looked at Nigerian government infrastructure investment and economic growth. The study used both primary and secondary data. Secondary data included reported yearly infrastructure investment and annual Gross Domestic Product for Nigeria from 1980 to 2016. Unit root and co-integration tests utilizing the Augmented Dickey–Fuller and Phillip–Perron models were utilized to treat the secondary data. The weighted least square method was used to assess a sample of 37-year yearly time series using a vector error correction model. The study relied on a sample of 242 respondents for the primary data. The sample was chosen using statistical random sampling. The descriptive statistics were used to analyze the data. The study found that government expenditure on transportation and communication, education, and health infrastructure has a substantial positive impact on economic growth in Nigeria, whereas spending on agricultural and natural resource infrastructure had a major negative impact. The government's expenditure on agricultural and natural resources has an element of fiscal illusion, implying that the government is not contributing as much to agriculture and natural resource infrastructure in Nigeria as the private sector.

Chukwuemeka, Richardson, and Chinanuife (2018) used time series from 1970 to 2017 to investigate the influence of capital spending on infrastructural development in Nigeria. The study adopted the autoregressive distributed lag (ARDL) model due to the possibility of the past value of the dependent variable explaining its present value, and found that capital expenditure, construction expenditure, and non-oil revenue have the potency to accentuate infrastructural development in the long run, but such is being hampered by external debt. The beneficial impact of recurring expenditure on infrastructure development is a reflection of the fact that recurrent expenditure has accounted for the majority of expenditure in Nigeria throughout the years. These indicate that non-oil revenue should be increased, recurrent debt should be reduced, and foreign debt should be channeled into productive infrastructure development.

Using the cointegration and error correction Specifications, Edame and Fonta (2014) examined the impact of government expenditure on infrastructure in Nigeria. The error correction mechanism (ECM) reveals that long-run elasticity of rate of urbanization, openness, government revenue, foreign reserves, population density, and form of government has a feedback of around 99.38 percent of the previous year's disequilibrium. The Chow test indicated that public infrastructure spending was constant and did not fluctuate over time, as demonstrated by a  $F^*$  value of 1.8214 vs an  $F$ -critical value of 2.580 at the 5% level over the time frame.

Oziengbe (2013) looked at the effects of government capital and recurrent spending on the Nigerian economy from 1980 to 2011. The empirical inquiry begins with a multiple linear regression analysis of the influence of total government spending (GOVEXP) on gross domestic product (GDP). The estimation result demonstrates that Ram's growth accounting model is correct. GOVEXP was then disaggregated into capital expenditure (CAPEXP) and recurrent expenditure (RECEXP), with the cointegration and error correction mechanisms used to evaluate the effects on GDP. After

initial differencing, the variables that were non-stationary in levels became stationary, according to the unit root test findings. The presence of a long-run connection between the variables is indicated by the cointegration test result. The estimated ECM model shows that each explanatory variable's short-run influence on GDP was statistically insignificant in the short run, but significant with a lag, with RECEXP having a higher impact than CAPEXP, while the former's impact was negative while the latter's was positive. In all periods, the percentage of prediction error variance described by innovations in RECEXP exceeds the proportion explained by innovations in CAPEXP, according to the variance decomposition results. The report suggests, among other things, that a higher portion of government spending be allocated to infrastructure and other capital projects. Oyediran, Sherifdeen<sup>1</sup>, Ibrahim, and Oyewole (2016) studied the substantial impact of government capital spending and recurrent expenditure on Nigerian economic development.

The model was estimated using ordinary least square (OLS) multiple regression analysis, with GDP as the dependent variable and Capital Expenditure (CAPEXP) and Recurrent Expenditure (REXP) as the independent variables. Data was gathered from secondary sources between 1980 and 2013 by the National Bureau of Statistics (NBS) and the Central Bank of Nigeria (CBN). The findings revealed that in Nigeria, there is a strong link between government spending and economic development. To improve the nation's human and social capital, the research proposes establishing fiscal discipline in government expenditures and putting in place structural mechanisms to function as surveillance on capital spending.

For the last 47 years, Egbuwalo and Abere (2019) have presented evidence on the link between government expenditure and economic development in Nigeria (1970-2016). It gives a thorough examination of government spending and the impact it has on the economy's growth. The study's major estimating approaches were co-integration and the Error Correction Mechanism (ECM). Government spending and evaluations have been shown to be important variables in understanding Nigerian economic patterns. Government capital spending, physical capital expenditure, and the currency rate are all adversely connected to GDP in the long run, according to the empirical finding of the long run co-integration equation. In the long run, however, government recurrent spending and human capital are positively connected to GDP. As a result, it was suggested that government officials prioritize their public responsibilities over personal gain in order to improve the consistency of planning and implementation of development initiatives. In addition, funds should be allocated to the development of human capital, which will result in good and consistent economic growth.

From 2003 to 2017, Cordelia (2019) investigated the influence of government general spending on human development in Nigeria. The goal was to see how the human development index (HDI) reacted to recurrent and capital government spending. The multiple linear regression model connecting the research variables was employed to attain this goal, and the ordinary least squares method was utilized to assess the model. The findings show that government capital spending and inflation have a little negative impact on HDI, that corruption has no effect on HDI, and that government recurrent spending has a large and considerable positive impact on HDI. According to the research, recurrent expenditures should be cut and more money should be invested in capital projects for Nigeria's human capital development.

In Jambi Province, Zahari and Sudirman (2017) investigated the impact of government expenditures on education and health on the human development index. Increases and decreases in the index of human development, as well as government spending, have a significant impact because if the government spends more, the potential of human development increases as well. Furthermore, government expenditures in the sectors of education and health can assist the community in our nation, particularly in Jambi Province, in achieving human development. From 2001 to 2015, this study examined government expenditure statistics in the domains of education, health, and public welfare as measured by the human development index in Jambi province. Then, in this study, they utilized a traditional assumption analysis tool using SPSS data processing tool to see the effect between independent factors and the dependent variable, as well as how the two

variables affect each other, using a model of multiple regression equation. According to the results of the simultaneous statistical test (F), the value of F arithmetic is greater than the F table value ( $4.824 > 3.89$ ), indicating that the independent variables (government expenditure on education and government expenditure in the health sector) have a significant positive influence on the dependent variable (Human Development Index in Jambi Province). With a significance level of 0,674, it can be concluded that the value of t count is smaller than the value of t table on the variable of government expenditure in the field of education (0,431 2,179), implying that government expenditure in the field of education has no influence on the human development index in Jambi Province. Because the government spending variable in the health sector is greater than the t table ( $3,057 > 2,179$ ) with a significance level of 0,010, it has a positive and substantial impact on the index of human development in Jambi province. The coefficient value of 0,042 for the regression variable of government spending in the field of health (X2) means that if government expenditures in the field of health increase by 1%, the human development index will increase by 0.042.

### CONCLUSION

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). According to Akpokerere and Ighoroje (2013), economic development is an increase in total output level more than the population growth level. They further explained that economic development is the development of economic wealth of countries or regions for the well-being of their citizens. This implies that economic development embraces economic growth as it is aimed at the general improvement in the people's standard of living and welfare.

### RECOMMENDATIONS

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

1. 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.
2. Government should increase its capital social and community services expenditure allocation bearing in mind its multiplier effects on long-run economic growth.

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