

THE IMPACT OF GOVERNMENT EXPENDITURE ON ECONOMIC GROWTH

UGWU SAMSON UGOCHUKWU

Department of Economics,
Faculty of Humanities, Management and Social Sciences,
Federal University Wukari, Taraba State.

AJIE, H. A. PhD.

Department of Economics,
Faculty of Humanities, Management and Social Sciences,
Federal University Wukari, Taraba State.

ABSTRACT

This study investigates the impact of government expenditure on economic growth in Nigeria over a period from 1981 to 2014, with particular focus on functional expenditures analysis. The study used analytical research design by adopting the Ordinary Least Square (OLS) regression techniques to examine the short and long run impact of government expenditure on economic growth in Nigeria. The results indicate that total expenditures on Administration is statistically significant and have a positive impact on economic growth. Transfer payment, Social and Community services were also positive but statistically insignificant. Economic services were statistically insignificant and negative. Given this results, we conclude that government expenditure have positive but insignificant impact on economic growth in Nigeria. The insignificant relationship is largely attributed to massive corruption in the public sectors, misuse of public funds, political instability and spending in low priority sectors of the economy. It is therefore recommended that government should strive to maintain stability and ensure continuity in government policies and projects. Avoid diversion of funds meant for specific projects and ensure that resources are properly allocated to high priority sectors of the economy. The fight against corruption should be intensified, and civil servants and political office holders should be encouraged to shun corruption and show patriotism in the discharge of their duties. Government should increase the spending in the area of infrastructure needed to develop the real sectors in order to bring about structural change and modernization in the economy.

KEYWORDS: *growth, government, expenditure & economy*

Introduction

Policy makers are divided as to whether government expansion helps or hinders economic growth. Advocates of bigger government argue that government programmes provide valuable "public goods" such as education and infrastructure. They also claim that increase in government spending can bolster economic growth by putting money into people's pockets. (Mitchell, 2015). Proponents of smaller government have the opposite view. They explain that government is too big and that higher spending undermines economic growth by

transferring additional resources from productive sector of the economy to government which uses them less efficiently. They also warn that an expanding public sector complicates efforts to implement pro-growth policies such as fundamental tax reform and personal retirement accounts, because critics can use the existence of budget deficits as a reason to oppose policies that would strengthen the economy.

Government Expenditure is no doubt, an important instrument for a government to control the economy of a nation. Economists have been well aware of the effects in promoting economic growth. The general view is that government expenditure notably on social and economic services can be growth enhancing, although the financing of such infrastructural facilities. Empirical research does not conclusively support the conventional wisdom, a few studies report positive and significant relationship between the government spending and economic growth while others find significantly negative or no relationship between an increase in government spending and growth in real output.

Keynes (1936) argues that the solution to economic depression is to induce the firms to invest through some combination of reduction in interest rates and government capital investment including infrastructure. This claim that increasing government expenditure promotes economic growth is not supported by most scholars. A number of prominent authors especially of the neoclassical school argue that increased government expenditure may slow down the aggregate performance of the economy because in an attempt to finance raising expenditure, government may have to increase taxes and or borrowing. The higher income tax may discourage or may be a disincentive to additional work which in turn may reduce income and aggregate demand.

In the same manner, high corporate tax leads to increase in production costs and reduce profitability of firms and their capital to incur investment expenditure. On the other hand, increased government borrowing (from the banks) required to finance its expenditure may compete and crowd-out private investment in the economy. Sach (2006) argues that among the developed countries, those with high rates of taxation and high social welfare spending perform better on most measures of economic performance compared with countries with low rates of taxation and low social services spending. Hayek (1989) however countered this argument saying that high levels of government spending in addition to harming does not through social welfare engender fairness, economic equality, and international competitiveness. This argument is in line with Sudha (2007) who points out that countries with large public sectors have grown slowly. Thus there is no general consensus among scholars on the impact of increasing government expenditure on economic growth.

According to the Revenue Mobilization Allocation and Fiscal Commission (RMAFC, 2011), the Federal government of Nigeria spends 52.2% of total government revenues. The remaining revenues are shared among the federating states and Local government Areas (LGAs) on the basis of detailed sharing formula.

The level of increase of government revenues from oil revenue and non-oil revenues including borrowing from internal and external sources has significantly affected the level of government expenditure in Nigeria over the years under review. For instance the total recurrent expenditure increased from M716.1 million in 1970 to N4.8 billion in 1980 and

further to N3.3 trillion in 2010. The government capital expenditure rose from N187.8 million in 1970 to N10.163 billion in 1980 and further to N1.76 trillion in 2010. (CBN, 2010, 2012)

Statement of the Problem

In the last decades, Nigerian economy has metamorphosed from the level of billions of Naira to trillions of Naira on the expenditure side of the budget. The effects of these expenditures are largely unnoticeable on the citizenry (Muritala, 2011). Empirically, there has been an inconclusive argument on the impact of government expenditure on economic growth. While a positive and significant relationship between government spending and economic growth have been established, there are much significant negative or no relationship between an increase in government expenditure and economic growth. Following these mixed findings, this study seeks to empirically examine the impact of government expenditure on the economic growth in Nigeria and take a stand, if government expenditure has a positive or negative relationship with economic growth.

Objectives of the Study

The main objective of this study is to examine the impact of government expenditure in Nigeria. However the following specific objectives are to be examined.

To ascertain the relationship between government expenditures on Administration and economic growth of Nigeria

1. To examine the effects of government Economic Services Spending on the economic growth.
2. To ascertain whether government spending on social and community services impact positively on the economic growth of Nigeria.
3. To ascertain if a positive relationship exist between the government transfer payments and the economic growth.

Research Questions

This study attempted to answer the following questions:

1. What is the relationship between government expenditures and economic growth in Nigeria?
2. Is there a relationship between the government expenditures on administration and economic growth?'
3. What are the effects of government expenditures on Economic services, and economic growth?
4. Does the government spending on social and community services impact positively on economic growth?
5. Is there a positive relationship between the government transfer payments and economic growth?

Research Hypotheses

This is used to test the research work based on the problem analysis. It is done to verify whether there are grounds to ascertain a statement of research. In order to adequately

evaluate the impact of government expenditure on the economic growth of Nigeria, the following null hypotheses were tested.

1. H_0 : There is no significant relationship between government expenditures on administration and economic growth.
2. H_0 : There is no significant relationship between government expenditures on Economic services and economic growth.
3. H_0 : There is no significant relationship between government expenditures on Social and Community Services and economic growth.
4. There is no significant relationship between government transfer payments and economic growth.

Government Expenditure

Government expenditure can be defined as the expenditure incurred by the public authorities like central, state and local governments to satisfy the collective social wants of the people. It is basically spending made by the government of a country on citizens' needs items such as pension, provision of infrastructural facilities etc. Public expenditure was restricted only to a small extent till the 19th century due to laissez faire followed by the government, as the classical then believed money left in private hands could bring better returns. It was only in the 20th century when John Maynard Keynes pointed out the important role of government expenditure in determining the level of income and distribution in the economy. Since then, government expenditure has shown an increasing trend. Since then, government expenditure has shown an increasing trend.

The Role of Government Expenditure

Government expenditure policy not only accelerates economic growth and promotes employment opportunities in developing countries, but also plays a vital role in reducing poverty and inequalities in income distribution. Ajie et al, in their book "*praxis of Public Sector Economics and Finance*" (2014) identified four-major roles of public' expenditures as;

1. It contributes to current effective demand;
2. It expresses a coordinated impulse on the economy, which can be used for stabilization, business cycle inversion, and growth purposes;
3. It increases the public endowment of goods and services for everybody;
4. It gives rise to positive externalities to the economy and society as a whole (or in specific sectors and geographical areas), the more so: through its capital component.

Other important roles of government expenditure in a developing country such as Nigeria include:

1. Social and Economic Overheads: Economic development is handicapped in under developed countries due to deficiency of capital and infrastructure. Economic overheads like roads and railways, irrigation and power projects are essential for speeding-up economic development. Social overheads like hospitals, schools, colleges and technical institutions are also necessary for development. But capital for such overheads cannot come out sufficiently from private sources. Public expenditure is therefore necessary to build up these social and economic overheads.

2. Balanced Regional Growth: it is considered desirable to bring about a balanced regional growth. Special attention has to be paid to the development of backward areas and under-developed regions. This requires huge amounts for which reliance has to be placed on public expenditure.

3. Development of Agriculture and Industries: Economic development is regarded synonymous with industrial development but Agricultural development provides the base for this development, and has to be given the priority. Government has to incur -lots of expenditures in the Agricultural sectors e.g. On irrigation and power, seed farms, fertilizer factories, warehouses etc. and in the industrial sector by setting up public enterprises like steel plant, heavy electrical, heavy engineering, machine-making factories, etc. all these enterprises are calculated to promote economic growth and development.

4. Exploitation and Development of Mineral Resources: Minerals provide a base for further economic development. The government has to undertake schemes of exploration and development of essential minerals e.g. gas, petroleum, coal, etc. public expenditure has to play its pivotal role in the exploration and development of mineral resources.

Classification of Government Expenditure

Government expenditure is broadly classified into "current and capital expenditure"

Current Expenditure: This is the expenses incurred by government on consumable items such as wages and salaries, supplies and services, rents, pensions, etc. the benefits of which are" consumed within one year. The main sources of financing current expenditure or revenue expenditure is the revenue of government which consist mainly of taxes, incidental incomes, fees and some other extraordinary items. Current revenue and expenditure are appeared in the "Revenue Budget" of the government. Such expenditure is incurred on the day - to - day functioning of the government machinery including civil administration, police, judiciary, and current expenses of beneficent departments like, education, health, agriculture etc. These heads are controlled by provincial governments.

Capital Expenditure: The expenditure in the capital budget is incurred on building assets of a lasting character, like construction of canals, dams, water storage, roads and railway lines, public buildings of various kinds, ports etc. Such expenditure is of such a magnitude that it is not possible to meet it from current revenues. It is mostly financed by raising loans, internal or even external. More recently in developing countries, government expenditure has been classified into "Development Expenditure" and "Non-Development Expenditure".

Development Expenditure: This is the expenditure that results in the replacement or in the creation of new capacity in the field of Agriculture or industry. It has its characteristics as following:

- It should be designed to keep intact or enlarge and improve the physical resources of the country.
- It should improve the knowledge, skill and productivity of the people.
- It should encourage efficiency with which the available resources are used.

Non-Development Expenditure: This is the expenditures on ordinary maintenance and running of existing facilities.

The main heads of government expenditure in Nigeria are:

1. General Administration, i.e. expenditure on various departments of the Federal government.

2. Defense Expenditure
3. Law and Order
4. Community and Economic Services, e.g. spending on roads, railways, water supply, sewage, broadcasting transport and communication etc.
5. Subsidies on selected commodities like, fertilizer, seeds, wheat etc.
6. Debt servicing, i.e., interest paid on internal and external borrowings or loans.

Economic Growth

Economic growth is broadly defined as a sustained annual increase in the real output of goods and services of a country. Prof. Simon Kuznets in his Nobel memorial lecture defined economic growth "as a long-term rise in the capacity of an economy to supply increasingly diverse economic goods to its population. This growing capacity is based on advancing technology and institutional and ideological adjustments that it demands. Economic growth is usually measured by Gross Domestic Product (GDP). The GDP is the total monetary value of all the final or finished goods and services produced within a country's border in a specific time period usually a year. The GDP includes all private and public consumption, government outlays, investments and exports minus imports that occur within a defined territory. Thus, the GDP is a broad measurement of a nation's overall economic activities.

Using the Gross Domestic product (GDP) as a tool of measurement, Economic growth can be measured in nominal terms which include inflation, or in real terms, adjusted for inflation. Economic growth is usually associated with technological changes. The growth of an economy is thought of not only as an increase in productive capacity but also as an improvement in the quality of life to the people of that economy. To this end, the GDP is most commonly used as an indicator of the economic health of a country, as well as a gauge of a country's standard of living. Since the mode of measuring GDP is uniform from country to country, it can be used to compare the productivity of various countries with a high degree of accuracy.

The Importance of Economic Growth

The goal of every national government is to provide and ensure sustainable development for their citizenry. This development as defined by Akpakpan (1987) is a process of improvements in the general wellbeing of the entire society usually manifested in desired changes in the various aspect of the life of the individuals in the society such as:

- A reduction in the level of unemployment.
- A reduction in the extent of personal and regional inequalities.
- A rise in real, output of goods and services and improvement in production technique.
- A reduction in the rate of child and maternal mortality.
- Improvement in literacy, health services housing conditions and government services etc.

These developmental indices can only be achieved or sustained in an economy with a high rate of GDP growth to cater for their huge capital or financial requirements. The importance of economic growth therefore lies in the fact that, though it does not necessarily guarantee development in an economy, it can and does enhance development in most

economies. This is because there can never be any meaningful development without economic growth.

Theoretical Framework.

The role of a government to economic growth is mostly depicted on through their choice of monetary and fiscal policies. Little literature on government expenditure was present until the post-era of 1929 - 1930 great depression where economies underwent rising public expenditures. Subsequently, the post-war economic reconstruction and public welfare programmes grasped many economists interest on the study of public expenditure. A judicious theoretical approach on public expenditure was therefore requisite. This section highlights some basic theories that have been used to support the effects of public expenditure on economic growth.

The Wagner's Law/Theory of Increasing Stage Activities

Wagner's law is named after the German political economist, Adolf Wagner (1835 - 1917), who developed the "law of increasing state activity" after empirical analysis on Western Europe at the end of the 19th century. 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 expenditure 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 increase in state expenditure. Firstly, during industrialization process, public sector activity will replace private sector activity. State functions will increase. Secondly government 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. Government will have to offset these effects by providing social and merit goods through budgetary means.

Finanz Wissenschaft (1883) and Grundle gung der politischen Wissen Schaft (1893), Adolf Wagner pointed out that public spending is an endogenous factor, which is determined by the growth of national income. Hence, it is national income that causes public expenditure. The Wagner's law tends to be a long-run phenomenon: the longer the time-series, the better the economic interpretations and statistical inferences. It was noted that these trends were to be realized after fifty to hundred years of modern industrial society.

Peacock and Wiseman Theory of Public Expenditure

In 1961, peacock and Wiseman elicited salient shaft of light about the nature of increase in public expenditure based on their study of public expenditure in England. Peacock and Wiseman (1967) suggested that the growth in public expenditure does not occur in the same way that Wagner theorized. Peacock and Wiseman choose the political propositions instead of

the organic state where it is deemed that government like to spend money, people do not like increasing taxation and the population voting for ever-increasing social services.

There may be divergence of ideas about desirable public spending and limits of taxation but these can be narrowed by large scale disturbances such as major wars. According to Peacock and Wiseman, these disturbances will cause displacement effects, shifting public revenue and "expenditure to new levels. Government will fall short of revenue and there will, be upward revision of taxation. Initially, citizens will engender displeasure but later on, will accept the verdict in times of crisis. There will be a new level of "tax tolerance". Individuals will now accept new taxation levels," previously thought to be intolerable. Furthermore, the public expect the state to heal up the economy and adjust to the *new-* social ideas, or otherwise, there will be the inspection effect. Peacock and Wiseman viewed the period of displacement as reducing barriers that protect local autonomy and increasing the concentration power over public expenditure to the central government. During the process of public expenditure centralization, the role of state activities tends to grow larger and larger. This can be referred to as the concentration process of increasing public sector activities. Nowadays, the growth in public expenditure has become a compulsion and thus, the disturbance situations matter little.

The Classical Theory of Public Expenditure

The classical economists believed that the government intervention brings more harm than good to an economy and that the private sector should carry out most of the activities. In his book, *Wealth of Nations*, Adam Smith (1776) advocates much on the "laissez-faire" economy where the profit motive was to be the main cause of economic developments. According to the classical dichotomy, an increase in the total amount of money leads to a proportionate increase in all money prices, with no change in the allocation of resources or the level of Real Gross Domestic Product (RGDP), which is known as the money neutrality. The classical economists assumed that the economy was perfect: it is always at full employment level, wage rate and the rate of interest is self-adjusting and as a matter of fact, the budget should always balance as savings is always equal to investment. Since they believed that the economy was always at its full employment level, their objective was certainly not growth.

Keynesian Theory of Public Expenditure

Following the 1929 - to - 1930 Great Depression, the classical economists that opposed government interventions argued that strong trade unions prevented wage flexibility which resulted in high unemployment. The Keynesians, on the other hand, favoured government intervention to correct market failures. In 1936, John Maynard Keynes (1883 - 1946) in his book *"The General Theory of Employment, Interest and Money"* criticized the classical economists who put too much emphasis on the long-run. According to Keynes, "we are all dead in the long run". Keynes believed depression needed government intervention as a short -term cure. Increasing savings will not help but spending will. Government will increase public spending giving individuals, purchasing power and producers will produce more, creating more employment. This is the multiplier effect that shows causality from public expenditure to national income.

Keynes regards public expenditure as an exogenous factor which can be utilized as a policy instrument to promote economic growth. Thus, from the Keynesian thought, public expenditure can contribute positively to economic growth. Hence, an increase in the government consumption is likely to lead to an increase in employment, profitability, and investment through the multiplier effects on aggregate demand. As a result, government expenditure augments the aggregate demand, which provokes an increased output depending on the expenditure multiplier in output per worker because of diminishing returns. Hence capital deepening would lower the rate of return on capital.

The Endogenous Growth Theory

The basic improvement of endogenous growth theory over the previous models is that it explicitly tries to model technology (that is it looks into the determinants of technology) rather than assuming it to be exogenous. Mostly, economic growth comes from technological progress which is essentially the ability of an economic organization to utilize its productive resources more effectively over time. Much of this ability comes from the process of learning to operate newly created production facilities in a more productive way or more generally, from learning to cope with rapid changes in the structure of production which industrial progress must imply (Verbeck, 2000).

Dalton's Principle of Maximum Social Advantage

Taxation (government revenue) and government expenditure are the two tools in public sector financing. The two items has to be balanced to achieve maximum social benefit. According to Dalton, maximum satisfaction should be attained by striking a balance between public revenue and expenditure by the government. Economic welfare is achieved when benefit from the marginal utility (MU) of expenditure equal the marginal disutility (MDU) due to imposition of taxation. -He explains this principle with reference to Maximum Social Benefits (MSB) and Maximum Social Sacrifice (MSS), in the graph below.

Theories of Economic Growth, Harrod Domar's Growth Model

The Harrod-Domar model is popular for its simplicity. Their models of economic growth are based on the experience of the advanced economies. They are primarily addressed to an advanced capitalist economy and attempt to analyze the requirement of the steady growth in such economies. Harrod and Domar were both interested in discovering the rate of income necessary for a smooth and uninterrupted working of the economy. They both assigned a key role to investment in the process of economic growth and laid emphasis on the dual character of investment. According to Harrod and Domar, if growth target is aimed at, it is easy to find out the level of saving out of the national income that must be attained to achieve this growth target and if the level of domestic savings is not enough, the model specifies the required amount of foreign loan that is needed to augment domestic savings. Savings is required or undertaken to replace worn-out capital.

If the economy must grow, savings must be undertaken for new investment representing net addition to the stock of capital. Hence, as long as net investment has taken place, the total output of goods and services in the economy will be expanding.

The model is based on some simplifying assumptions which are:

1. There is a fixed technological relationship between capital stock and output of income flow, i.e., the capital/ output ratio is constant.
2. The saving ratio is constant i.e., savings is some proportion of national income hence, we have a simple relationship of $S = sY$ (where S = savings, s = savings ratio and Y = national income).
3. There are no lags in adjustment between investment and creation of production capacity.
4. The model operates in a closed economy, i.e., there is no foreign trade.
5. The total of new investment is determined by the level of total savings, i.e.

$$S = sY \dots\dots\dots (1) \text{ and}$$

$$I = \Delta K \dots\dots\dots (2) \text{ i.e. Investment = change in capital stock.}$$

6. Capital output ratio $K/Y = R$ or

$$\Delta K \Delta Y = R \Delta Y \dots\dots\dots (3)$$

ΔK is change in capital stock and investment equal to capital stock. The total capital (K) has direct relationship with total national income as expressed by the capital output ratio

$$S = I \dots\dots\dots (4)$$

From the above equation, we have this, relationship:

$$I = \Delta K = R \Delta Y \dots\dots\dots (5)$$

By combining equations (2) and (3) we have

$$S = sY = R \Delta Y \dots\dots\dots (6)$$

$$sY = R \Delta Y \dots\dots\dots (7)$$

Dividing both sides of equation (7) by Y and R gives,

$$\frac{SY}{Y} = \frac{R\Delta Y}{Y}$$

$$S = \frac{R\Delta Y}{Y}$$

$$\frac{S}{R} = \frac{\Delta Y}{Y}$$

Therefore, $\frac{S}{R} = \frac{\Delta Y}{Y}$

Let $\frac{\Delta Y}{Y} = g = \text{growth rate.}$

Therefore, $g = \frac{\Delta Y}{Y}$

The equation state that the rate of growth of GDP is determined by national savings ratio (s) and the national capital/output ratio (r). Hence, the growth rate of the national income will be:Positively related to the savings ratio, i.e. the more an economy is able to save and invest the greater growth of the GNP.Inversely related to the economy's capital/output ratio. The higher the capital/output ratio, the lower the growth rate of GNP and vice versa.

The essence of government expenditure and participation in the economy is to correct for market imperfection by ensuring a good macro-economic environment conducive for profitable investments and high savings through stimulation of aggregate demand, provision of social and economic overheads etc. It should however, be noted that it is savings that translates into investment which has a multiplier effect on economic growth.

In conclusion, savings rate is observed to have a positive relationship with growth. As postulated by the assumption of the model, saving is assumed to be equal to investment. Besides, a higher savings is expected to have a positive relationship with real interest rate and since real interest rate is used in knowing the efficiency of investment hence, to encourage investment thus, the higher the savings, the higher the investment and the higher the economic growth or growth in GDP.

The Public Sector/Government in Nigerian Economy

During the colonial era up to the first post-independence decade, the private sector dominated the Nigerian economy. The government's role was limited to the traditional role of maintenance of law and order, defense, administration of justice, regulation of the monetary system and provision of some basic socio-economic infrastructures and social services (Anyanwu, J.C. et al, 1997). However in 1970, the Nigerian government revealed her intension to occupy from then on the commanding heights of the national economy, this is in the quest for purposeful leadership and honest administration necessary for attainment of national sense of purpose (Second National Development plan, NDP, 1970:32). The development models of the sixties (i.e., the years 1960s) which prescribed a dominant role for government, at least, in the early phases of development was a major factor that led to this decision.

Consequently, the federal and State governments of Nigeria invested heavily in a host of industries including:

- Sugar, beverages and meat products.
- Spinning, weaving and finished textiles
- Wood furniture
- Pulp and paper
- Basic industrial chemicals
- Fertilizers and pesticides
- Cement
- Machine tools and electronic machine
- Insurance and
- Oil

It has been estimated that by 1986 (before the introduction of the Structural Adjustment Policy (SAP) the federal government alone owned nearly 200, noncommercial and commercial parastatals (Ayodele, 1987 and Ojo, 1992 cited in Anyanwu et al, (1997), while the total number of public enterprise was over 500 with total government in them (in the form of equity, loan guaranties and subventions) over 1*36, billion (Usman 1991 cited in Anyanwu et al, 1997)It should however be noted that government expenditure over the years has been able to achieve the following feat:

- Increased employment opportunities for the citizens.

- Establishment of schools, colleges and even tertiary institutions to ensure a sound educational base in the economy.
- Improvement in the Agricultural Sector.
- Improvement in the health sector amongst others.

Empirical Literature

A number of studies have focused on the relationship between government expenditure and economic growth in developed and developing countries like Nigeria. The results vary from one study to another. Daniel, J. Mitchell (2015) analyzed the impact of government spending on economic growth and concludes that a large and growing government is not conducive to better economic performance. Indeed he postulates that reducing the size of the government would lead to higher incomes and improve a country's competitiveness. Inuwa, N. and Usman, H.M. (2012) studied the dynamic relationship between health expenditure and economic growth from 1980-2010. They used the newly developed ARDL Bounds testing procedure and Granger causality test. The result suggests that there is long-run relationship between government health expenditure and economic growth.

Mutiu, A.O. and Akinnibosun, O. (2012) examined the relationship between public expenditure and economic growth in Nigeria during the period 1970-2009. Using Gregory Hansen structural breaks co-integration technique, they employed a disaggregated public expenditure level. The result shows that economic growth and development are the main objectives of government expenditure, especially resources all of which fall under social and community services. Based on the result they recommended that there should be efforts to maintain adequate levels of investments in social and economic infrastructure. Alexiou, C. (2009) analyzed the relationship between Government spending and economic growth. He applied two different panel data methodologies to seven transition economies in the South Eastern Europe (SEE), generating significant results which, if considered, may enhance the economic performance of the countries in the region. More specifically, the result show that four out of the five variables used in the estimation, i.e. government spending on capital formation development assistance, private investment and trade-openness all have positive effects on economic growth, while population growth was found to be statistically insignificant.

Usman, A. et al., (2011) examined the relationship between public expenditure and economic growth in Nigeria for the period 1970 - 2008 using aggregate production function of Barro (1990). The study classified government expenditure into administration, education, transport and communication. They concluded in their result that there is a long run relationship between public expenditure and economic growth. Abu and Abdullahi (2010) investigate the relationship between government expenditure and economic growth in Nigeria from the period ranging from 1979-2008. They used disaggregated analysis in an attempt to unravel the impact of government expenditure on economic growth. Their result reveals that government total capital expenditures, total recurrent expenditure and education have negative effect on the economic growth. While government expenditures on transport, communication and health results in an; increase in economic growth. They recommend that government should increase both capital and recurrent expenditures including expenditures on educations as well as ensure that funds meant for development on these sectors are properly

utilized. They also recommend that government should encourage and increase the funding of anti-corruption agencies in order to tackle the high level of corruption found in public offices in Nigeria.

Olopade and Olepade (2010) assessed how fiscal and monetary policies influence economic growth and development. The essence of their study was to determine the component of government expenditure that enhance growth and development, identify those that do not, recommend those that should be cut or reduced to the barest minimum. The study employs an analytical framework based on economic models, statistical methods encompassing trend analysis and simple regression. They find no significant relationship between, most of the components of expenditure and economic growth. Olorunfemi (2008) studies the direction and strength of the relationship between public investment and economic growth in Nigeria, using time series data from 1975 to 2004 and observed that public expenditure impacted positively on economic growth and that there was no link between gross fixed capital formation and Gross domestic product. He averred that from the disaggregated analysis, the result revealed that only 7.1% of government expenditure is devoted to capital expenditure while 62.9% share is to current expenditure.

Gregorious and Ghosh (2007) made use of the heterogeneous panel data to study the impact of government expenditure on economic growth. Their results suggest that countries with large government spending tend to experience higher economic growth. Mitchell D. (2005) evaluated the impact of government spending on economic performance in developed countries. He assessed the international evidence, reviewed the latest academic research, cited examples of countries that have significantly reduced government spending as a share of national output and/or reduced to the barest minimum. The study employs an analytical framework based on economic models, statistical methods encompassing trend analysis and simple regression. They find no significant relationship between, most of the components of expenditure and economic growth. Olorunfemi (2008) studies the direction and strength of the relationship between public investment and economic growth in Nigeria, using time series data from 1975 to 2004 and observed that public expenditure impacted positively on economic growth and that there was no link between gross fixed capital formation and Gross domestic product. He averred that from the disaggregated analysis, the result revealed that only 7.1% of government expenditure is devoted to capital expenditure while 62.9% share is to current expenditure.

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Mitchell D. (2005) 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.

Method of Study

This research work is fundamentally analytical as it embraces the use of secondary data in examining the impact of government expenditure on the economic growth in Nigeria. The

analytical tool consist of the econometrics test, specifically, Ordinary Least Square (OLS) regression. The needed data for this research work include, data on Gross Domestic Product (GDP) at constant basic prices, i.e. real GDP. Data on the government expenditures on: Administration, Economic Services, Social and Community Services and Transfers. The Data would cover the period from 1981 to 2014. The data to be used in this study are obtained mainly from the secondary sources. Specifically, the major sources of the data are; the Central Bank of Nigeria (CBN) Statistical Bulletin, National Bureau of Statistics (NBS), business magazines, journals, and other relevant text books.

The data was analyzed using the econometric technique; the Ordinary Least Square (OLS) method of multiple regressions. Other statistical test such as correlation coefficient of Determination (R^2), student T' Test; Standard Error Test, Unit root test and co-integration and Durbin Watson Statistics were also carried out to correct for errors.

Specification of the Model

In the model specification the first step is to identify the dependent and the independent variables. In this study government expenditures on administration, Economic Services, Social and Community Services and Transfers are the independent or explanatory variables while the Real Gross Domestic Product (RGDP) is the dependent or explained variable. In building this model, the Ordinary Least Square method of regression analysis in the form of $RGDP = \beta_0 + \beta_1 ADM + \beta_2 ES + \beta_3 SCS + \beta_4 TRANS + U$ as adopted from the work of Devrajan and Vinay (1993) was employed. The model is specified in Mathematical form as: $RGDP = F(ADM, ES, SCS, TRANS)$

Where:

RGDP = Economic Growth

β_0 = Constant intercept (GDP rate irrespective of the various expenditures)

$\beta_1 - \beta_4$ = parameters of the various functional types of expenditures contained in the model

ADM = Government Expenditure on Administration.

ES - Government Expenditure on Economic Services

SCS = Government Expenditure on Social and Community Services

TRANS = Government Transfer Payments.

U = Random disturbance or stochastic variable.

Method of Evaluation

The regression results in this study were evaluated based on the basis of the economic a priori expectations of the parameters and the statistical test.

A. Economic A Priori Expectation

The economic a priori expectation involves an examination of the signs and magnitude of the estimated parameters to ascertain their conformity with the theoretical expectation.

In our model above, the parameters, β_1 , β_2 and β_3 are expected to be positive, implying that (ADM, ES and SCS) impact positively on economic growth (RGDP). Thus, $\beta_1 > 0$, $\beta_2 > 0$ and $\beta_3 > 0$. On the other hand, β_4 is expected to be negative, showing a negative relationship between TRANS and RGDP. Thus, $\beta_4 < 0$.

B. Statistical Test

The following tests were employed to evaluate the reliability of the parameter estimates.

T - test to see if the parameter estimates are statistically different from zero or not.

The co-efficient of multiple determinations (R^2) to test for the goodness of fit. The Unit Root test and Co-integration test to verify causality.

Justification of the Technique/Model Adopted.

The Ordinary Least Square (OLS) regression technique was adopted in this study for the following reasons:

1. The OLS is easy and simple to adopt
2. Parameter estimates obtained from OLS have optimal properties.
3. OLS gives a Best Linear Unbiased Estimates (BLUE)
4. OLS gives Fairly Satisfactory result.
5. The OLS is an essential component of other econometric models.

Data Presentation

The data used in this study are as presented in table 1 below

Table .1 Variables in the model

Year	GDP (₦ Billions)	ADM (₦ Billions)	SCS (₦ Billions)	ES (₦ Billions)	TRANS (₦ Billions)	Total
1981	251.10	1.63	1.59	3.81	4.38	11.41
1982	246.70	1.43	1.30	2.74	6.45	11.92
1983	230.40	2.00	1.32	2.46	3.86	9.64
1984	227.30	1.36	0.59	0.87	7.10	9.92
1985	253.00	1.89	1.61	1.16	8.37	13.03
1986	257.80	1.71	1.13	1.38	12.01	16.23
1987	256.00	5.66	0.92	2.85	12.59	113.10
1988	275.40	7.68	3.84	3.35	12.89	27.76
1989	295.10	8.89	6.07	5.35	20.72	41.03
1990	328.60	9.46	5.50	5.10	40.22	60.28
1991	328.60	10.30	4.17	4.45	47.67	66.59
1992	337.30	13.80	3.47	5.42	70.11	92.80
1993	342.50	38.65	18.24	26.09	108.25	191.23
1994	345.20	29.33	15.08	31.01	85.48	LL60.90
1995	352.60	42.100	23.04	49.07	134.57	248.78
1996	367.20	61.41	24.65	122.58	128.78	337.42
1997	377.80	105.73	24.96	175.81	117.71	428.21
1998	388.50	85.95	44.81	212.43	143.92	487.11
1999	393.10	226.38	88.62	410.66	222.04	947.70
2000	412.30	197.81	112.76	140.10	250.39	701.06

2001	431.80	230.05	132.97	312.77	342.21	1018.00
2002	451.80	340.09	184.66	268.28	225.15	1018.18
2003	495.00	395.93	158.35	194.05	477.66	1225.99
2004	527.60	444.59	164.42	226.50	626.43	1461.89
2005	561.90	606.24	223.01	329.34	682.10	1840.69
2006	595.80	707.42	272.85	341.90	620.32	1942.49
2007	634.30	853.33	407.57	537.45	550.21	2348.56
2008	672.20	1018.12	485.10	818.04	756.99	3078.25
2009	719.00	1006.08	499.12	929.62	845.95	3280.77
2010	776.30	1377.64	702.67	974.95	938.04	3993.30
2011	834.00	1494.19	878.29	696.84	1163.68	4233.00
2012	888.90	1349.90	887.46	551.14	1411.50	4200.00
2013	950.10	1395.47	998.78	797.00	1606.22	4797.47
2014	1100.00	1947.81	1230.68	363.65	1669.24	5211.38

Source: Central Bank of Nigeria statistical bulletin volume 24 December 2013

Where:

GDP= Gross Domestic Product

ADM= Government Expenditures on Administration

SCS= Government Expenditures on Social and Community Services

ES= Government Expenditures on Economic Services

TRANS= Government Transfer Payments

Presentation of Estimated Regression Result

Table 4.2: Short Run Result:

Dependent Variable: GDP

Method: Least Squares Date: 06/16/16 Time: 15:25

Sample: 1981 2014

Included observations: 34

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ES	0.263730	0.247946	1.063658	0.2960
SCS	-1.234669	0.682491	-1.809063	0.0805
ADM	0.318178	0.460842	0.690427	0.4952
TRANS	1.050917	0.315967	3.326037	0.0023
R-squared	0.240815	Mean dependent var		467.8000
Adjusted R-squared	0.164897	S.D. dependent var		230.1211
S.E. of regression	210.2938	Akaike info criterion		13.64502
Sum squared resid	1326705.	Schwarz criterion		13.82459
Log likelihood	-227.9653	Hannan-Quinn criter.		13.70626
Durbin-Watson stat	0.287795			

We begin our empirical analysis by showing the degree of relationship between economic growth (GDP) and government expenditures on Economic services (ES), Administration (ADM), Transfer payment (TRANS), and Social and Community services (SCS) through the multiple regression analysis.

The hypotheses proposed for the verification was analyzed using the data in table 1 above, the result of the estimates are provided and their implications discussed. The following results were obtained as shown in the tables.

Table 1 depicts the result of the Ordinary Least Square (OLS) and it shows that there is a positive insignificant relationship between GDP and ES, ADM, whereas TRANS is also positive but significant. The table above also shows a negative and insignificant relationship between SCS and GDP.

From the above table, the degree of responsiveness of GDP to ES, ADM and TRANS is 0.263730, 0.318178 and 1.050917 respectively. This is such that for every 1% increase in government expenditures on ES, ADM, and TRANS, GDP

The coefficient of determination (R²) indicates that about 24% of the changes in GDP in the country are explained by the independent variables in the model.

Given this result, it is necessary that we test its reliability, that is, whether it is not a spurious regression. This we did through the Augmented Dickey – Fuller (ADF) Test, as shown in table 2 below.

Table 2 Augmented Dickey-Fuller (ADF) Test:

Variable	Level	First Difference	Second Difference		Probability	Intergrated Order
ES	—	-5.881562	—		0.0000	1(1)
SCS	—	—	0.794119		0.9916	1(2)
ADM	-4.115159	—	—		0.0037	1(0)
TRANS	—	-4.046227	—		0.0037	1(1)
GDP	—	—	-4.352206		0.0017	1(2)

Table 2 above shows that the time series data that were used in the study are not stationary at the same level. While some were stationary at level, some were stationary at first difference and others too were stationary at second difference. Thus, given the fact that all the variables are not stationary at level, we need to know whether using them together in the model would yield reliable result. This we do through the cointegration test.

Johansen Co-integration Test:

Date: 06/16/16 Time: 15:44

Sample (adjusted): 1983 2014

Included observations: 32 after adjustments

Trend assumption: Linear deterministic trend

Series: GDP ES SCS TRANS ADM

Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypnotized No. of CE(s)	Eigenvalue	Trace Statistic	0.5 Critical Value	Prob.**
None *	0.793147	131.3105	69.81889	0.0000
At most 1*	0.697448	80.88656	47.85613	0.0000
At most 2 *	0.624820	42.63045	29.79707	0.0010
At most 3	0.224783	11.25927	15.49471	0.1960
At most 4	0.092661	3.111663	3.841466	0.0777

Trace test indicates 3 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

The table 3 above shows the result of the Johansen Co-integration test. It shows that the value of the trace statistic is more than the critical value at 5% in three of the five null hypotheses, which indicate three co-integrating vectors. Since the variables are co-integrated, then there would be no loss of information, implying that there exist a long-run relationship between economic growth (GDP) and government expenditures.

Long - Run Result

Dependent Variable: D(GDP(2))

Method: Least Squares

Date: 06/16/16 Time: 15:39

Sample (adjusted): 1982 2012

Included observations: 31 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ADM	0.042619	0.010007	4.259016	0.0002
D(ES)	-0.003041	0.028931	-0.105106	0.9171
D(TRANS)	0.037089	0.048959	0.757556	0.4553
D(SCS(2))	0.144957	0.080167	1.808185	0.0817
R-squared	0.661876	Mean dependent var		28.05161
Adjusted R-squared	0.624307	S.D. dependent var		29.53522
S.E. of regression	18.10326	Akaike info criterion		8.749976
Sum squared resid	8848.661	Schwarz criterion		8.935006
Log likelihood	-131.6246	Hannan-Quinn criter.		8.810291
Durbin-Watson stat	1.512414			

Discussion of Findings

The long-run result in table 2 above deviated drastically from the short-run result of table 4.1. In the result, it is revealed that there is a long-run positive relationship between GDP and ADM, TRANS, as well as SCS. The ADM is significant at 5%, whereas TRANS and SCS are insignificant. The result also indicated that ES is negatively and insignificantly related with GDP.

The degree of responsiveness of GDP to ADM, TRANS and SCS are 0.042619, 0.037089 and 0.144957 respectively. This is such that for every 1% increase in government expenditures on ADM, TRANS and SCS, the GDP will increase by 0.042619, 0.037089 and 0.144957% respectively. The result also revealed that for every 1% increase in government expenditure on ES, GDP will reduce by 0.003041%.

The coefficient of determination (R^2) indicates that about 66% of the changes in the level of GDP in the country are explained by the level of government expenditures. The result also reveal that the level of Durbin Wattson (DW) statistic is 1.5124 which is reasonable and suggests absence of autocorrelation in the model. The result of the study comply with our a priori expectation on ADM and SCS. But it failed to comply with that of the ES and TRANS. This could be attributed to the massive corruption inherent in the Nigerian public sector. From the long-run regression result, it is obvious that there is a negative relationship between government expenditures on Economic Services ES and Economic Growth GDP. But there are positive relationships between the government expenditures on Administration ADM, Social and Community Services SCS as well as Transfer Payment TRANS and Economic Growth GDP as revealed in the model. This satisfied a priori expectation that the coefficients β_1 and β_3 should be positive. But it failed to satisfy that of the coefficients β_2 and β_4 which instead of appearing positive and negative respectively took the reverse (i.e, $\beta_2 < 0$ and $\beta_4 > 0$).

This fallout or deviation from the a priori economic expectation is largely attributed to the massive corruption inherent in the Nigerian public sector with prevalent diversion of fund and outright embezzlement of fund meant for government projects. From the test of hypothesis in 4.4 below, Economic Services ES, Social and Community Services SCS and Transfer Payment TRANS were shown to be insignificant. This could be attributed to the massive miss management and outright neglect of these sectors of the economy. For instance, most of the retired civil servants have not been paid their gratuities let alone the monthly pensions. In the area of SCS, there is huge neglect of the health sector and even the educational sector is not being properly funded and maintained to standard. In the area of economic services, the transportation systems are invariables which are captured implicitly by the error term U. This therefore implies that there is a strong relationship between government expenditures on ES, SCS, ADM as well as TRANS and economic growth in Nigeria.

In conclusion, we align our thought and lend our support to the positive school of thought and assert that government expenditures impacts positively on economic growth, that is there is a positive relationship between government expenditures and economic growth.

Test of Hypotheses

This deals with the test of hypothetical statements made in the beginning of this research. These hypotheses stated in the null form were tested using the long run OLS result in table 4.5

1. H_0 : There is no significant relationship between government expenditures on Administrative and economic growth.

From thee result, there is a significant relationship between government expenditures on administrations and economic growth. We conclude thus by rejecting the null hypothesis of no significant relationship.

2. H_0 : There is no significant relationship between government expenditure on economic services and economic growth

Given the result in table 4.5 there is no significant relationship between government expenditure on economic services and GDP. Thus we conclude by accepting the null hypothesis of no significant relationship.

3. H_0 : There is no significant relationship between government expenditure on social and community services and economic growth.

The long run result in table 4.5 Indicates that an insignificant relationship exist between government expenditure on social community services and economic growth. Therefore we conclude by accepting the null hypothesis of no significant relationship.

4. H_0 : There is no significant relationship between government transfer payment and economic growth.

From the long run OLS result in table 4.5 there is an insignificant relationship between Government transfer payment and economic growth. We therefore conclude by accepting the null hypothesis of no significant relationship.

Summary

The impact of government expenditures on economic growth (GDP) has been thoroughly evaluated in this work by addressing empirically the critical hypotheses of government expenditure components on economic growth. It was observed from the study that government expenditures had a positive but insignificant impact on the economic growth of Nigeria within the period under review.

The implication of this research findings is that though government expenditures tend to enhance the level of growth in the GDP of Nigeria, the insignificant level / growth retardation in GDP as has been experienced in the Nigeria case is due to massive corruption in the public sectors, misuse of public funds by public office holders, political instability and spending in low priority sectors of the economy.

Estimates from the model gave an indication on the various components of government expenditures on economic growth (GDP). It was observed from the model that government expenditures on Administration ADM, Social and Community Services SCS and Transfer Payments TRANS, have positive relationship with GDP going by their coefficients. Thus, the model revealed that a unit change/ a 1% increase in GDP is caused by 0.042619, 0.037089, and 0.144957% increases in government expenditures on ADM, SCS and TRANS respectively.

Conclusion:

Government expenditures as postulated by its advocates such as Keynes and his followers (the Keynesians), is expected to help an economy attain a desired level of economic growth and development through its stabilization and efficient market allocation process.

However, the experience of most countries that adopted this phenomenon, such as Nigeria is quite appalling in that government expenditures have not been able to achieve this desired result. Besides, it has been acclaimed by other researchers in the developed world that the reason why government expenditures have not been able to meet up with its expectations is because most countries have failed in the order of allocation of resources to high priority

sectors of the economy. Others include government instability and huge corruption in government/public sectors of the economy.

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