

Public Expenditure and Economic Growth in Nigeria (2001 - 2021)

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DOI [10.56201/ijebm.v9.no10.2023.pg172.184](https://doi.org/10.56201/ijebm.v9.no10.2023.pg172.184)

Abstract

The study attempts to establish the relationship between government spending and GDP in Nigeria from 2001 to 2021. The multiple regression analysis's ordinary least squares (OLS) method was employed. The econometric research shows that the independent variables (recurrent spending, capital expenditure, domestic debt, foreign debt, and exchange rate) have a positive connection with the dependent variable GDP. The OLS findings also show that the overall model accounts for over 94.98% of the changes in the dependent variable ($R^2 = 0.9498$). This means that the variable will have a considerable impact on the GDP. The study suggests that there is an urgent need to instill fiscal discipline in government expenditure by initiating effective internal control measures and more proactive economic management coordination and implementation, as well as discouraging all known productive activities and expenditures at all levels of government. There is also a need for the government to ensure that its expenditures are channeled appropriately to sectors such as infrastructure development in order to boost investment and output, with the expected outcome of price stabilization.

Keywords: Government Spending, Growth, The Nigerian Economy, Macroeconomics, Domestic and External Debt, and GDP.

INTRODUCTION

Background to the Study

Without a doubt, government expenditure is a critical weapon for a government in affecting the level of economic activity in a country. As a result, economists have recognized its importance in promoting economic progress. Government spending, particularly on social and economic infrastructure, can boost growth; however, spending on essential infrastructure such as transportation, electricity, telecommunications, water and sanitation, waste disposal, education, and health can stifle growth (Olukeyode, 2009). Economists have argued throughout the years about the connection between government expenditure and economic expansion (Inuwa, 2012). He claims that the nature of the relationship between government spending and economic growth has been determined, but the student researcher thinks there is still debate about it. In fact, according to some writers and experts, government spending has little to no effect on growth (Tuban, 2010).

Others claimed that the impact was significant and favorable (Alexiou, 2009). Capital and recurring expenditures make up the two main budget categories for the Nigerian government (Muritata 2011).

The majority of government administrative expenses, including pay and salary, interest on loans, and maintenance costs, are classified as recurring expenditures. On the other hand, capital expenditure describes the expenses related to large-scale projects like building roads, airports, schools, telecommunications, and power plants, among other things (Maritata 2011). Paradoxically, at least in theory, the relationship between government expenditure and the Nigerian economy remains unclear and unexplored. There are a variety of theoretical stances on the matter, but generally speaking, spending is seen as a cause of economic instability or stagnation. The study supports conventional wisdom with equivocal evidence. Some studies reveal a significant inverse relationship between government spending and economic growth, while others show no association at all or a significant negative relationship between increases in real production growth. In light of this, the study makes an empirical effort to look into the relationship between government spending and economic growth in Nigeria.

Over the last decade, the Nigerian economy has transformed into government spending in the trillions of naira. This is not surprising whether the economy is in surplus or out of balance on the balance of payment records. This demonstrates that something is plainly wrong, either with the way the government expands its budget or with the processes and methodologies used to estimate it in the past. Unfortunately, increased government spending has not resulted in significant growth and development, and Nigeria remains one of the world's poorest countries. Furthermore, many Nigerians remain underprivileged, with more than half of the population living on less than US\$ per day (National Bureau of Statistics, 2019). In addition, failing infrastructure (especially roads and power supply) has resulted in the failure of various industries and high levels of unemployment (Nurudeen and Usman, 2010).

Furthermore, Nigeria has not done well in recent years according to macroeconomic indices like the national debt, inflation rates, import obligations, currency rate, and balance of payments. There are theoretical theories, yet practical data produces contradicting findings. Therefore, this study's objective is to investigate the connection between government spending and Nigeria's economic growth. Examining the connection between government spending and economic growth in Nigeria is the main goal of the study. Additionally, the relationship between government capital expenditure and growth in the Nigerian economy, government recurrent expenditure and growth in the economy, domestic debt and growth in the Nigerian economy, external debt and growth in the Nigerian economy, and exchange rate fluctuations and growth in the Nigerian economy were all established by the study.

Users will benefit from this study in the following ways. The study's findings will help the country's top MDAs assess the government's contribution to the country's economic growth and development. The significance of this study cannot be emphasized, given that the Nigerian government would find the study's findings beneficial in establishing how best to organize yearly budgets to benefit citizens and enhance the economy, independent of Nigeria's economic progress. This work will undoubtedly be very valuable to policymakers. Economists and other scholars

would benefit from this finding in future studies. The research would also be valuable as a source of knowledge or reference resources for other students interested in conducting research or working on a related topic. It is also hoped that all corporate organizations, individuals, farmers, fishermen, and others will be informed about the many economic assistance programs offered by the Nigerian government.

CONCEPTUAL FRAMEWORK

Public Expenditure

Public Expenditure is an important component of any country's economic activity and contributes significantly to the process of economic and social growth. The value of goods and services provided by the government is referred to as public spending (Okoro, 2013). Furthermore, Umeh et al (2022) and Adamgbo (2012) stated that federal, state, and local government expenses are included in public expenditure. Government spending is classified into two types: capital and recurring. According to Adamgbo (2012), capital expenditure is government spending on the acquisition, establishment, and execution of capital projects/assets that are not made frequently, whereas recurrent expenditure is spending on state maintenance, repairs of fixed assets, security votes, salaries, and so on. Aside from basic productivity and economic benefits of service problems, current expenditure plays a role in increasing domestic liquidity and thus increasing economic activity, and capital expenditure is required to build real businesses that work to increase production and employment. Public capital refers to expenditures allocated to the formation of community capital, such as the establishment of new projects (Mahaini, 2013).

In general, government spending is classified as either capital or recurring. Government expenditure in Nigeria, like in any other country throughout the world, is separated into two categories: capital and recurring, and is evaluated according to its weight, sort, and material worth.

a) Capital Expenditure: Capital expenditure refers to costs associated with capital projects such as roads, airports, education, communication, and energy, to name a few. Capital investment in Nigeria has been very low in compared to the enormous government recurrent expenditure profile, which accounts for around 20-30% of total government expenditure.

b) Recurrent expenditure: Government administrative expenses such as labor and salaries, loan interest, maintenance, and so on are examples of recurring expenditures. Recurrent spending, which accounts for the majority of total government expenditure, is incurred on regular and recurrent government activities. Over the years, government recurrent expenditure has consistently been 70-80% of overall government expenditure. Furthermore, the effectiveness of government spending might be scrutinized. Adamgbo (2012) also mentioned that categorizing both recurrent and capital expenditures takes into account three important expenditure heads: administration, economic, and social expenditures. However, transfers must be specified as a fourth item.

The Relationship of Government Spending to Economic Growth

Government spending is an important instrument in the development process. It is essential to the operation of any economy at almost all stages of growth and development. Today, most emerging and developed countries use public spending to promote income distribution, direct resource

allocation, and influence national income composition (Assi et al., 2019; Vtyurina, 2020; World Bank, 2008). Sustainable and equitable economic growth is certainly a fundamental goal of government spending. Many government programs are specifically intended to foster long-term, equitable economic growth. Over time, public spending can and has played an important role in the development of physical and human capital. Appropriate public spending can also be beneficial in encouraging economic growth, particularly in the short run when infrastructure or skilled labor shortages act as an effective constraint on production growth.

For decades, politicians and economists have debated the relationship between public sector spending and economic growth (Ibrahim, 2019). Researchers have largely agreed that public sector spending is considerable and a key instrument for influencing the economy's performance (Adu et al., 2013). Thus, public expenditure is the most certain means by which public authorities can meet citizens' collective needs. As a result, the impact of government expenditure on economic growth may serve as a comprehensive assessment of government spending productivity. The link between government spending and economic growth is not always one-way. Economic growth influences public spending, but economic growth can also induce changes in aggregate public spending (for example, in accordance with Wagner's Law)³ or some of its components (for example, through changes in the fiscal deficit) demand for specific government services. According to Onifade et al. (2020), public expenditure in Nigeria has increased over the last two decades; however, it is uncertain if the increases have resulted in the predicted economic growth.

Internal and external government debt

Public debt, commonly called government debt, is the entire amount of debt a nation owes to people, businesses, and governments both domestically and abroad. All types of government borrowings at all governmental levels are included in government debt (Christabel, 2013). Governments use public debt as a means of financing their operations everywhere in the world. While this tactic is typically employed in situations where no other options remain, it is thought to be better than options like creating new money and selling national assets (Martin, 2009). The two types of debt are external debt, which is debt incurred outside the nation, and domestic debt, which is defined as debt incurred by people and businesses within the nation. Public debt, according to Nda (2007), is a fantastic tool for promoting economic growth, especially when it's utilized to develop national assets that can generate employment possibilities. The idea is that public debt should only be utilized when it is really necessary and when appropriate measures for its utility and management are in place, even though it can cause a host of economic problems when handled improperly or employed inefficiently (Nda, 2007).

Economic Growth

Economic growth has long been regarded as a critical goal of economic policy, and substantial research has been performed to determine how this goal might be achieved (Fadare, 2010). Economic expansion is causing alarm among academics. Economic growth, according to Khorravi and Karimi (2010), is defined as an increase in a country's national output or gross domestic product. It also demonstrates an increase in the economic ability to generate products and services as compared to previous years' output. Growth occurs when a unit of production is correctly fed into the economic system. As a result, we argue that economic growth is defined by the number of

goods and services produced, rather than how the commodities and services are created (Matiti, 2013). Economic growth can be assessed in nominal terms, such as inflation, or as a percentage rate of rise in GDP. Regardless, economic growth focuses solely on monetary expansion, ignoring all other indicators of advancement (Ayres and Warr, 2006).

EXPENDITURE THEORY

The literature has paid close attention to the factors that influence government spending, and various theories explaining this phenomenon still persist. This study, on the other hand, is based on Wagner's concept.

Wagner's theory

In the 1860s, Adolph Wagner, a German economist and politician, saw an increase in government spending. He discovered a long-run positive co-movement in the two variables, public spending and national income. He maintained that the rate of increase in public expenditure is faster than the rate of economic growth, resulting in increased political pressure for state activities and cooperation from industry (Serena and Andrea, 2011; Babatunde, 2011; and Egyankosh (NoDate). According to (Rowley and Tollison, 1994), in a rising economy, both the government and the private sector will have comparative advantages (e.g., capital). Wagner legislation is frequently referred to as the law of growing state operations. He focuses on the vast and aggressive expansion of state activity. Social activities, administrative and protective action, and welfare functions are examples of these activities. Others include technological advancements and institutional changes, all of which result in increased government spending. Wagner legislation is a phrase for the law of increasing government spending (Egyankosh No Date).

REVIEW OF EMPIRICAL LITERATURES

Numerous research projects have been conducted to determine the correlation between economic growth and government spending. The goal of these studies has been to better understand the nature of the relationship between economic growth and government spending, as well as the short-, medium-, and long-term problems associated with the government's constant increase in spending. Here is a selection of these pieces:

The link between GDP and government spending in the US from 1947 to 2002 was studied by LiuChih, Hsu, and Younis (2008). The results of the causal analysis showed that GDP growth is a direct result of total government spending. On the other hand, government spending is unaffected by GDP growth. Estimates also showed that government spending increased US economic growth. Based on the causality test, the authors found that the Keynesian hypothesis has a greater influence in the United States than Wanger's law. Consequently, greater government involvement in the economy was advised.

Gregorious and Ghosh (2009) investigated the relationship between government spending and economic growth using a heterogeneous panel. The authors employed the GMM technique to find that, although the influence varies by nation, countries with higher government spending tend to have better growth. Therefore, having an effective and efficient budget is crucial. Using the Ordinary Least Squares (OLS) method, Ekpo (1995) investigated the contributions of government

spending to economic growth in Nigeria between 1960 and 1992. The study's conclusions supported growth driven by fiscal policy by demonstrating how government spending on infrastructure may attract private investment. In order to promote long-term growth, he argued for a more robust framework for fiscal policy.

Disaggregated analysis was used by Nurudeen and Usman (2010) to examine how government spending affects Nigeria's economic expansion. The results show that government spending on education (EDU), total recurrent expenditures (TREC), and total capital expenditures (TCAP) all have a detrimental effect on economic growth. On the other hand, better economic growth results from higher government spending on health (HEA) and transportation and communication (TRACO). Among other things, the report suggested that the government raise capital and ongoing investments, such as expenditure on education, and that money meant for these areas' development be managed appropriately. Secondly, to foster an atmosphere that encourages business expansion, the government ought to put more money into the construction of communication and transportation infrastructure.

The trend and empirical study of government spending in Nigeria and its effect on economic growth were examined by Onuorah and Akujuobi (2012). The researchers found a long-term correlation between RGDP and recurring government spending by using VEC and Johansen Cointegration. Lastly, there is no statistically significant correlation between the variables pertaining to public expenditure and the economic progress of Nigeria. The author suggests that fiscal authorities should devise a strategy to stop corruption and embezzlement of public funds. Nworji, Okwu, Obiwuru, and Nworji (2012) evaluated the impact of public spending on economic growth in Nigeria from 1970 to 2009 using OLS multiple regression on GDP and different government expenditure components. The analysis found that over the examined period, capital and ongoing spending on economic services had a minor negative effect on economic growth. Moreover, the growth benefit of capital investment on transfers was insignificant. Transfers, as well as capital and ongoing spending on social and community services, significantly boosted economic growth. The government must make sure that funds are appropriately and effectively directed toward regions with significant growth potential even as it cuts back on ongoing costs.

Okoro (2013) looked into how government expenditure affected the expansion of the Nigerian economy between 1980 and 2011. To estimate the given model, multiple regression using ordinary least squares is used. Real Gross Domestic Product (RGDP) is the dependent variable, and government capital expenditure (GCEXP) and government recurrent expenditure (GREXP) are the independent variables. In Nigeria, a long-run equilibrium relationship between government spending and economic growth is produced by the use of the Granger Causality Test, Johansen Cointegration Test, and Error Correction Mechanism. Arewa and Nwakahma (2013) examined the long-term correlation between government spending and a set of macroeconomic indicators (the GDP, the consumer price index, and unemployment) using yearly data from the CBN statistical bulletin from 1991 to 2011. The study used the Johansen multivariate cointegration estimation approach and found that government spending and the chosen macroeconomic variables had a long-term relationship. It also finds that while cutting back on ongoing expenses is bad for growth, increasing capital investment increases economic happiness. Ultimately, the results indicate that

while the majority of factors do not positively or negatively influence one another, capital expenditure positively and continuously influences prices and unemployment negatively.

Using the boundary testing (ARDL) method, Egbetunde and Fasanya (2013) investigated the effect of government spending on economic growth in Nigeria from 1970 to 2010. The framework's variables of interest are in the long run bound together, according to the limits test. The equilibrium adjustment that followed was likewise significant, indicating the existence of long-run linkages. Consistent with previous studies, the results show that total government spending has a negative effect on growth. Recurring expenses, however, were found to have minimally significant positive effects on growth. Therefore, more money should be spent by the government on social and economic programs, infrastructure, and anti-corruption campaigns.

RESEARCH DESIGN

The quasi-experimental research design was employed in this study. In most circumstances, quasi-experimental designs enable the researcher to influence treatment condition assignment using a factor other than random assignment.

Data Collection Method

The data for this study are annual time series data of government expenditure on Nigeria's economic growth, including capital and recurring expenditures, internal debt, external debt, and currency rate over a 20-year period from 2001 to 2021. The variables under consideration are recurrent expenditure, capital expenditure, internal debt, external debt, exchange rate, and GDP at current market values.

The data for this study came primarily from secondary sources, including the C.B.N statistical bulletin and the Debt Management Office (2022).

Data Analysis Method

The basic regression analysis is employed as the primary analytical method to test hypothesis during the testing stage of this study. A multiple regression model of ordinary least squares (OLS) technique is used to achieve the study's goal, with Real Gross Domestic Product (GDP) as the dependent variable and proxy for economic growth, and Government Capital Expenditure (GCE), Government Recurrent Expenditure (GRE), Government Internal Debt (GID), Government External Debt (GED), and Exchange Rate (EXR) as independent variables. The functional form of the model is as follows:

$$GDP = F(GCE, GRE, GID, GED, EXR)(3.1)$$

Equation (3.1) in an explicit linear econometric model yields:

$$RGDP = a + \beta_1 GCE + \beta_2 GRE + \beta_3 GID + \beta_4 GED + \beta_5 EXR + \mu \dots\dots\dots(3.2)$$

Where:

As a dependent variable, RGDP stands for Gross Domestic Product.

GCE stands for Government Capital Expenditure.

GRE stands for Government Recurrent Expenditure.

GID stands for Government Internal Debt.

GED stands for Government External Debt.

EXR stands for Exchange Rate.

a_i = Intercept 1, 2, 3, 4, and 5 = GCE, GRE, GID, GED, and EXR coefficients, correspondingly = Error term

Data Presentation

The data presented in this subsection was derived from the Central Bank of Nigeria's statistical bulletin and the Debt Management Office, and it covers capital investment, recurring expenditure, internal debt, external debt, and GDP from 2001 to 2021. It is given in a tabular format to aid comprehension, interpretation, and analysis

3.4 Descriptive Statistics

Table 1

	GCE	GRE	GED	GID	EXR	RGDP
Mean	985.20	3407.66	3,978.85	7,571.75	204.29	54741.82
Maximum	2522.47	9145.16	15,855.23	23,700.80	411.93	73382.77
Minimum	241.69	579.30	438.89	1,016.97	99	26935.32
Standard Dev	608.7	2430.50	1123.67	23,700.80	108.51	15586.27
Probability	0.01375	0.02936	0.01473	0.02936	0.01174	0.04872
Observations	21	21	21	21	21	21

Source: Authors Computation, (2023)

According to descriptive statistics, Nigeria's Real GDP (RGDP) averaged 54,741.82 billion between 2001 and 2021. The largest RGDP during the time was 73,382.77 billion, while the minimum RGDP was 26.935.32 billion. GCE (Government Capital Expenditure) has averaged 985.20 billion during the last 21 years. For the specified period, the maximum GCE was 2,522.47 billion, and the minimum GCE was 241.69 billion. Government Recurrent Expenditure (GRE) averaged 3407.66 billion for the time period studied. For the specified period, the maximum GRE was 9145.16 billion, while the minimum GRE was 579.30. Between 2001 and 2021, the government's external debt (GED) averaged \$3,978.85 billion. For the specified time period, the maximum GED was 15,855.23 billion, and the minimum GCE was 438.89 billion. Government Internal Debt (GID) averaged 7571.75 billion for the time period studied. For the specified period, the greatest GDD was 23,700 billion, while the minimum GRE was 1,016.97. The average

Exchange Rate (EXR) was 204.29. For the period, the greatest EXR was 411.93, while the minimum EXR was 99.

DATA ANALYSIS

The above-mentioned data was examined using the ordinary least squares (OLS) regression statistical approach, and the results are shown in the table below.

Table 2: Ordinary Least Squares Solution

Dependent Variable: GDP
 Method: Least Squares
 Sample: 2001- 2021
 Included observations: 21

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	185.98	1183.686	15.21546	0.0000
GCE	12.86017	3.157000	5.063542	0.0005
GRE	8.712883	0.716931	12.15304	0.0000
GED	0.073441	0.075789	0.969013	0.3394
GID	0.703732	0.054006	13.03067	0.0000
EXR	1.193588	0.051041	23.38486	0.0000
R ²	0.949820	Mean dependent var		1923.573
Adjusted R ²	0.944510	S.D. dependent var		2342.341
S.E. of regression	732.621			
Sum squared residual	13.133387			
Log likelihood	-296.2282			
F-statistic	186.9810	Durbin-Watson stat		2.074521
Prob(F-statistic)	0.000000			

Source: Researcher's computation using E-views 9.5

The table shows the results of the multiple regressions performed on the study variables.

Results Interpretation

When the aforementioned linear regression model is transposed inside the model, the outcome is $RGDP = 185.98 + 12.86017 GCE + 8.712883 GRE + 0.07344 GED + 0.70373 GID + 1.193588 EXR + U$. The multiple regression result showed a coefficient of determination of 0.949820, implying that several independent variables (Capital expenditure, Recurrent spending, External debt, Internal debt, and Exchange Rate) accounted for over 94.98% of the changes in the dependent variable, while factors not captured in the model accounted for the remaining 5.02%. The goodness of fit of the whole model was demonstrated by an F-statistic of 176.99, which was significant at

the 0.05 level of significance. The Durbin Watson Statistic of 2.07 indicates that there are no autocorrelations in the level series. When the impact of the various independent variables (GCE, GRE, GED, GID, and EXR) on the dependent variable (Economic growth/RGDP) is examined, four factors are statistically significant, while the other is statistically negligible. Government Capital Expenditure, Government Recurrent Expenditure, Government Domestic Debt, and Exchange Rate were statistically significant at the 5% level, with corresponding t-test values of 5.06, 12.15, 13.03, and 23.38. The Government External Debt (GED), on the other hand, was statistically negligible, with a probability value of 0.3394 ($p > 0.05$) and a t-test value of 0.969013. Based on these findings, the null hypothesis (H_0) is rejected, whereas the alternative hypothesis (H_1) is supported. On the other side, the null hypothesis, which claims that "External debt has no significant impact on Nigeria's economic growth," is accepted, while the alternative hypothesis (H_1) is rejected.

DISCUSSION OF RESULTS

According to the findings in table 4.2, government capital spending, recurrent expenditure, internal debt, and exchange rate have a positive and significant association with Real GDP, whereas government external debt has a positive but non-significant relationship with Real GDP. The OLS regression results show that the overall model accounts for almost 94.98% of the changes in the dependant variable (given the R^2 value of 0.9498). This implies that the variables have a considerable impact on GDP. Furthermore, the results show that capital expenditures contribute more to GDP than recurrent expenditures. Similarly, the data implies that government domestic debt contributes more to GDP than government external debt. However, the government has spent more on recurrent than capital expenditures over the years. According to statistics, capital expenditures account for approximately 20% of total yearly expenditures, resulting in low infrastructure development in the country; this is accountable for the poor operating environment of most enterprises, and hence low productivity in the Nigerian economy. Similarly, at the 1% threshold of significance, recurrent expenditure exhibits a positive connection with Real GDP. The positive link is supported by the fact that GRE accounts for over 80% of total yearly government expenditures, the majority of which is spent on administration, security, transfers, and so forth. Overall, recurrent spending improves the macroeconomic environment, which boosts economic growth. Increased recurrent spending also contributes to increased money supply, which has a positive and significant association with economic growth.

Nigeria accumulated both domestic and foreign debts. The debt profile has continuously increased over the study period. Domestic debt has a positive and statistically significant influence on overall Federal Government of Nigeria expenditure (economic growth), but international debt has a positive but non-significant influence on the country's economic growth. The poor performance of the foreign debt can be attributed in part to the payment of principal and interest, which is usually repatriated outside the country whenever payments are made, and in part to poor loan management. On the other hand, debt payment costs have risen, resulting in budget deficits and more borrowing to finance the budget. Adesola (2009), Kehinde (2015), and Chinanuife, Eze, and Nwodo (2018) all found similar results. As a result, the study concludes that the federal government should slow the rate at which it originates loans, particularly foreign loans, to fund budget deficits.

CONCLUSION

Using secondary data, the paper investigates experimentally the relationship between government spending and economic growth in Nigeria from 2001 to 2021. The findings indicate that public expenditure variables such as Government Capital Expenditure (GCE), Government Recurrent Expenditure (GRE), and Government Internal Debt (GID) have a positive and significant relationship with economic growth (RGDP), whereas government external debt as a variable of public expenditure does not. It is thus concluded that the insignificant relationship between some public expenditure variables and economic growth during the study period may have resulted from inefficient use of government funds, widespread corruption, and improper channeling of expenditure to unproductive sectors.

RECOMMENDATIONS

The following recommendations are made based on the findings of this study.

1. The government should lower its spending, but not below the threshold figure.
2. The government should cut its spending in areas of the economy where the private sector is more productive.
3. The government should prepare the way for stronger institutional frameworks in the fiscal system to prevent corruption and theft of public monies.

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