Federal Government Recurrent Expenditure and the Nigerian Economy

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Abstract
this study looked into the impact of federal government recurrent expenditure on economic growth in Nigeria for the period 1981-2017. Time series data included in the Model were those on the gross domestic product (GDP) and various components of federal government recurrent expenditure. The analysis was based on data got from the Statistical Bulletin of the Central Bank of Nigeria. Results of the analysis revealed that Nigeria federal government recurrent expenditure in economic services, social community services, and transfers has a positive impact on the Nigerian economic growth while the administration had a negative impact during the Study Period. The Nigeria federal government recurrent expenditures in administration, social community services, economic services, and transfers had a positive relationship with GDP. The study concluded that the federal government recurrent expenditure in administration, economic services, and social community services and transfers have an impact on the economic growth in Nigeria. Consequently, the study recommended more allocation of budgeted expenditures to the federal government recurrent expenditures in economic services, transfers, and social community services as appeared in the result while recurrent expenditure on administration should be reduced since the result showed a negative impact on the GDP

Keywords: Expenditure, Recurrent, Budgeting, Growth, allocation

1.0 Introduction

Nigeria’s independence in 1960 paved the way for the responsibility of indigenous governance, hence the responsibility to the citizens by creating a good environment, use good fiscal and monetary policies to ensure good tax system, good expenditure pattern, a budgetary system to stabilize and promote economic growth. The Nigerian public service had a good history of commitment, dedication, and valuable services until a few decades ago, when charlatans, unpatriotic and inefficient leaders with mismanagement resulted in an uncontrollable decline, systemic and institutional failures. The service featured lack of professionalism, extreme partisanship, widespread, ubiquitous and irredeemable corruption, stagnancy and inefficiency, and crass self-centeredness and greed (Hamid 2016; Agu and Okoli 2013). It is the government duty to the public to provide social goods, allocate and distribute resources and amenities, check inflation and unemployment, eliminate or minimize current account and balance of payment deficits and plan normal economic growth and development with the full potential output.

It follows that the government incurs costs in the process of governance known as the government expenditure. The achievement of full potential outputs (i.e., full utilization of all non-labor resources and reduction of excess capacity) is the evidence of good cost management. This certainly translates to economic growth.

Government expenditure is a vital tool for the government to control the economy of a nation. It is widely viewed that government expenditure on social and economic infrastructure can promote growth, but the actual financing of such expenditure to provide essential infrastructural facilities including transport, electricity, telecommunication, water and sanitation, waste disposal, education, and health can be antagonistic to growth (Olukayode, 2015). It is not hard to find the answer to this from economic theory and studies and recurrent expenditure has an inverse relationship with Gross Domestic Product.

Federal Government Expenditure is categorized into capital and recurrent expenditure. These are grouped into administration, defense, internal securities, health education, foreign affairs, etc. These expenditures so categorized have both capital and recurrent components.

The recurrent expenditures refer to spending on buying of goods and service, wages and salaries, operations, current grants and subsidies (termed transfer payments). Recurrent expenditure, excluding transfer payments, is also recognized as government final consumption expenditure.
Capital expenditure relates to the amount spent on acquisition of a fixed asset whose useful life extends beyond the accounting or fiscal year. It also includes expenditure incurred in the upgrade or improvement of existing assets. This expenditure in nature creates future benefits.

In particular, the necessity to consider and explore the impact of recurrent expenditure on economic growth forms the direction of these studies. Taking each of the categorized items that appear under the Federal Government expenditure to ascertaining there impact on the economy.

Under the Federal Government recurrent expenditure, the first category is administration, which is further broken down to General administration, defense, internal security, and National assembly. How does spending in these areas affect the economy? A number of studies have exposed many areas of wastages and fund leakages in the public budget, at all levels of government in Nigeria in the last 17 years of democracy. The following studies from 2007 to 2016 expanded this concept (Adeolu and Evans, 2013; Hamid, 2016; Nurudeen and Usman, 2010; Hamid, 2011; Kalama, Etreb, Charles and John, 2012; Nzesi, 2012, Agu, 2013; Oni, Aninkan and Akinsanya 2014; Siew and Yan, 2015; Adamu and Rasheed, 2016; Uguru, 2016). Their observation has to do with the negativity of the budget. The budget which supposed to be an instrument of growth macroeconomically has become an instrument for the looting of public funds. No wonder that senior civil servants are some of the richest persons in Nigeria today as a result of embezzlement of public fund. The structure of Government and the size of the Executive arm and the National Assembly together with their salaries structure and allowances will have a great effect on the economy.

The rising government expenditure in Nigeria is should normally to translate into meaningful economic growth, with efficient and effective government resource utilization. Public expenditure on social and economic infrastructure like education, health, transport, communication, agriculture, electricity, road, and construction, etc., normally result in better economic performance, this follows the promotion of infant industries in the economy; stabilization of prices; reduction of unemployment rate; reduction in poverty level (boosting the standard of living of the people); inviting foreign investment and promote higher productivity.

In Nigeria, Federal Government Recurrent costs have increased in alarming magnitude over the years such that a small portion of public revenue is available to support and implement the capital project of the government. Consequently, the major programs of government suffered wants. The result is that for a country so endowed with wealth having 50% of its population (living below US$2 per day) in abject poverty conditions; infrastructures are in a state of decay; health, education is in the state of collapse; with high rate of unemployment; roads have become death traps due to their deplorable conditions; and power sector is in a state of moribund and pitiable condition. It can be clearly known that the nature of the problem is the expenditure structure which allows for fund leakages. Capital expenditure is a catalyst for economic growth should dominate the expenditure profile, but for a long time in Nigeria, the reverse has been the case. The high rates of unemployment, illiteracy rate, poverty rate, low human development index, high debt profile, high rate of interest, high rate of inflation, the balance of payment problem, etc., do not match the ever growing expenditures dominated by recurrent expenditure. This is because of the Federal Government inability to restructure its expenditure pattern.

It is held in apriori in this study that Nigeria is likely to be better off with higher capital expenditure for infrastructural development with a smaller bureaucracy to be able to implement economic programs and easier control effectively. This is to say restructured economy with a reduction in recurrent expenditure to a sustainable level through reducing waste, inefficiency, corruption, and duplication in the government process, as well as ensuring effectiveness on capital spending. This is what may be needed to curb the economic and political quagmires Nigeria finds itself. Nevertheless, the conclusion of the dominance of recurrent expenditure over capital expenditure having an adverse effect on the economy is an assumption that needs empirical validation. It is against this background that this empirical work is motivated to investigate the Federal Government recurrent expenditure and the Nigerian economy using time series data for analysis.

2.1 Theoretical Review

2.1.1 Maximum Social Advantage Theory

This theory developed by Pigou stressed that public expenditure should be made in such manner that satisfaction becomes the end product of the activities. In other to attain maximum satisfaction, the government has to distribute the various
items in such a way that the marginal returns from an item of expenditure are equal. The optimum social advantage is determined by the optimum allocation of resources. Thus the optimum level is at the point when the marginal return is equal to the marginal.

### 2.1.2 Adolph Wagner’s Law of Increasing Activity

Adolph Wagner who was a German economist made an in depth investigation into the rise in government expenditure in the late 19th century. After his research work findings, he propounded the “Law of increasing activity.”

This law states that as the economy grows with time, the undertakings and functions of the government increase.

Wagner’s law implies the following:

1. In progressive societies, the activities of the central and local government increase consistently.
2. This increase in government functions is both intensive and extensive.
3. New functions are undertaking in the interest of the society.
4. The new and old functions are assumed to be performed more efficiently.
5. The purpose of government undertakings is to meet the economic needs of the people.
6. The broadening and deepening of government functions lead to an increase in public expenditure.
7. The economic growth of German was studied by Wagner; it was made applicable to develop and developing Nations.

Wagner’s was principally criticized for his view of history and of the relationship between the state and its citizens

### 2.1.2 The Keynesian Theory

Keynes categorized government expenditure as an exogenous factor. Keynes postulated that public expenditure contributes positively to economic growth. Hence, an increase in government consumption is likely to lead to an increase in employment, profitability, and investment through multiplier effects on aggregate demand. Consequently, government expenditure augments the aggregate demand, which results in an increased output depending on expenditure multipliers.

Keynes in discussing the role of government in income stabilization examined the budget as an instrument influence of government on the economy. Recalling the notion of aggregate demand in the closed economy, mathematically represented by \( AD = C+I+G \). Where the AD is aggregate demand, C is consumption, I is an investment, and G is government expenditure. Clearly stated government spending is an addition to aggregate demand. Therefore an increase in government spending, all things being equal, has an expansionary on income. Symmetrically, a decrease in government spending has a contractionary effect on income. It is noted that taxes like savings, represent leakages from the income stream while government expenditures, like investment, are injections into the income stream. Iyoha(2017). J.M. Keynes advocated that the government should consistently run a deficit budget during recession or depression in other to raise the level of income and increase employment.

### 2.1.3 Three Gap Model

The gap model started with Chenery and Bruno, but before now, in the 1950s, the Horrod-Domar work on related material and Rosenstein-Rodan (1961) computation was found using a few years later by Chenery who was visiting United Nations Economic Commission for Latin America in Santiago, where the concept of external strangulation was in vogue. He was inspired to extend the Howard — Dornar formulation. The three gap model refers to the saving — investment gap, the trade gap, and the fiscal gap. The fiscal gap refers to a gap between government revenues and expenditures although the fiscal gap is a subset of the saving gap. Due to this fiscal gap, a government effort to stimulate private investment may be restrained when government resources for investment are insufficient, among other things, as a result of debt service. There is enough evidence showing that the government expenditures in Sub-Saharan African Countries have been curtailed by foreign debt service. Thus the closing of this gap may be facilitated by external resources directed to the government budget. Okhumaile (2016).
In manifestation, debt payment creates further demand for foreign currency and government revenues in general. Also, debt service can result in the import capacity of the government thus reducing government investment, particularly infrastructure, education and health facilities, a factor which is likely to affect private investments negatively.

2.2 Empirical Review

While the government must be run and cost incurred, the effective and efficient deployment of the available and limited resources remains the key challenge that confronts the government. Nigeria inability to develop socially and economically is blamed on the Recurrent high Expenditure. Sanusi (2012) collaborated this by opening that it has become impossible to develop in such a situation. Nevertheless, Government spending could impact positively or negatively on the growth of any nation. Agu, (2013) examined the concept, cost of governance and revenue assurance mechanisms at states level in Nigeria. Data were from the annual report and accounts of the Central Bank of Nigeria. The study uses quantitative data for 9 years, from 2002 to 2010. The data generated for the research was analyzed using graphs and simple percentage analysis. The outcome of the study reveals that Government Recurrent Expenditure in Nigeria has deeply amplified due to pointless rise in the number of government agencies, high number of Commissioners, Special Advisers, Special Assistants and Personal Assistants, gigantic pay of political office holders, payroll scam as a result of ghost workers, high number of official vehicles despite the monetization policy of the government, relentless foreign trips, gargantuan security vote and extra-budgetary expenditure. Thus, querying the cost minimization strategies and revenue assurance devices in the States.

Finally, the paper recommended the need to reduce recurrent expenditure to a sustainable level by reducing waste, inefficiency, corruption, and duplication in government, as well as, make capital spending more effective. According to Yasin (2000), in examining the effect of government spending on economic growth using panel data set from Sub-Saharan Africa indicated that government spending had a positive and significant effect on economic growth. Heopine that by nurturing productive activities, reducing unproductive ones and implementing appropriate policies, this enhances good spending and maintain economic growth.

Some studies were carried out on public debt and other macroeconomic variables like economic growth, economic stabilization, public investment, and so on; while others conducted research on public expenditure of government. Dilrukshini(2012) looks at the relationship that exists between public expenditure and economic growth in Sri Lanka from 1952-2002. With the use of Johansen co-integration technique and the Granger causality test, the results show the surge in public expenditure in Sri Lanka is not directly dependent and determined by economic growth. Olugbenga and Owoye (2007) examine the connection between government expenditure and economic growth for a group of 30 countries during the period of1970-2005. The findings were that a long-run relationship exists between government expenditure and economic growth. Also, the causality on 10 of the countries, confirmed the Wagner’s law.

Taiwo and Agbatogun (2011) examined the implications of government spending on the growth of Nigeria economy over the period 1980 — 2009, using Johansen co-integration, unit root test, and error correction model. It was discovered that total capital expenditure, inflation rate, the degree of openness and current government revenue are significant variables that enhance growth in Nigeria. The study recommends that government should search more avenue of making revenue rather than secure colossal debt either internally or externally. In Peter, Sweden (2003) the effects of government expenditure on economic growth was examined from 1960 to 2001 periods. The Author submitted that if government spending is too much and that might slow down economic growth. While Ariyo and Raheern posited that the size and mix of government expenditureis a major determinant of the overall performance of the economy. Ariyo (2011) discovered that the government expenditure could crowd in or crowd out the private sector depending on how it appears. This is to show the effect of high cost of governance on investment.

3.1 Methods

The nature of the study requires time series data of the dependent variable which is economic growth proxy by gross domestic product, and independent variables (Recurrent Administration expenditure, Social and Community Services Recurrent Expenditure, Economic Services Expenditure, and Recurrent Transfer Expenditure.) were diagnostically checked based on Ordinary Least Square (OLS) method. The Analysis was performed with the help of an econometric tool (E-Views7.0). To avoid spurious result, unit root test was carried out first on the data. In order, to test for stationarity and to determine the order of integration of the variables using the Augumented Dicey Fuller (ADF) test. A co-integration test was also carried out to determine the existence of a long run equilibrium relationship between the variables, to enable the result amenable and appropriate for long run forecasting.
3.2 Model Specification

The functional form expression of the model is presented as:

\[ Y = F (X_1, X_2, X_3, X_4) \]  Eq. 1

Where \( Y \) represents the dependent variable, \( F \) is the function, \( X_1 - X_4 \) represent the independent variables.

The Operational function:

\[ \text{GDP} = F (\text{ADM, SCS, ECS, TRS}) \]  Eq. 2

The Econometric function is thus:

\[ \text{GDP} = \beta_0 + \beta_1 \text{ADM} + \beta_2 \text{SCS} + \beta_3 \text{ECS} + \beta_4 \text{TRS} + \mu \]  Eq. 3

Where:

\( \text{GDP} = \text{Gross domestic Product}, \text{ADM} = \text{Administration Expenditure}, \text{SCS} = \text{Social and Community Services Expenditure}, \text{ECS} = \text{Economic Services Expenditure}, \text{TRS} = \text{Transfers Expenditure}, \beta_0 = \text{Constant Intercept}; \beta_1 - \beta_4 = \text{Coefficients}; \mu = \text{Error term.} \)

Apriori Expectation: \( \beta_1, \beta_2, \beta_3, \beta_4 < 0. \)

It is expected that ADM, SCS, ECS, and TRS will have a negative impact on GDP.

It is believed that because of the nature of recurrent expenditure which may not contribute to the economic output in the short run, all recurrent expenditure may have an inverse relationship with GDP. Therefore it is expected that Administrative expenditure, Social and Community Services Expenditure, Economic Services, and Transfers expenditure will have a negative impact on GDP in Nigeria.

4.0 RESULT AND DISCUSSIONS

4.1 Test of Hypotheses

### Table 4.1: Coefficient Table

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient (Beta)</th>
<th>Standard Error</th>
<th>T-statistics</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.013248</td>
<td>0.000721</td>
<td>18.37233</td>
<td>0.0000</td>
</tr>
<tr>
<td>ADM</td>
<td>-0.768578</td>
<td>0.349807</td>
<td>-2.197149</td>
<td>0.0356</td>
</tr>
<tr>
<td>SCS</td>
<td>2.841918</td>
<td>0.368927</td>
<td>7.7031960</td>
<td>0.0000</td>
</tr>
<tr>
<td>ECS</td>
<td>0.911085</td>
<td>0.425903</td>
<td>2.139186</td>
<td>0.0404</td>
</tr>
<tr>
<td>TRS</td>
<td>0.814252</td>
<td>0.147364</td>
<td>5.525454</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Dependent Variable: GDP

Source: Researcher’s Computation (2017)

### Table 4.1: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>GDP</th>
<th>ADM</th>
<th>SCS</th>
<th>ECS</th>
<th>TRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>1.00000</td>
<td>0.937927</td>
<td>0.969540</td>
<td>0.775594</td>
<td>0.924358</td>
</tr>
<tr>
<td>ADM</td>
<td>0.937927</td>
<td>1.00000</td>
<td>0.953577</td>
<td>0.867675</td>
<td>0.897370</td>
</tr>
<tr>
<td>SCS</td>
<td>0.969540</td>
<td>0.953577</td>
<td>1.00000</td>
<td>0.779711</td>
<td>0.872888</td>
</tr>
<tr>
<td>ECS</td>
<td>0.775594</td>
<td>0.867675</td>
<td>0.779711</td>
<td>1.00000</td>
<td>0.692861</td>
</tr>
<tr>
<td>TRS</td>
<td>0.924358</td>
<td>0.897370</td>
<td>0.872888</td>
<td>0.692861</td>
<td>1.00000</td>
</tr>
</tbody>
</table>

Source: Researcher’s Computation (2017)
The constant value of 0.0 13248 shows the extension of the independent variables (recurrent expenditure in administration, economical service, social community service, and transfers) to the dependent variable Gross Domestic Product (GDP). The constant result being positive shows that the independence of federal government recurrent expenditure contributed to the movement of the dependent variable (GDP) while independent variable ADM had a negative slope movement towards the dependent variable (GDP). The values of the independent variables; (2.84, 0.91 and 0.81) explains that as the values in the independent variables increase so will the value of the dependent variable increases while the negative value of the independent variable (ADM) -0.76 explains that as the dependent variable decreases the independent variable increases. The correlation matrix results in Table IV above shows that the dependent variable had a positive relationship with all the independent variables (ADM, SCS, ECS, and TRS). The level of the relationship existing between the GDP and the independent variables is a strong positive correlated relationship, i.e., 0.93, 0.96, 0.77 and 0.77 with ADM, SCS, ECS, and TRS respectively. ADM has a positive relationship (0.95, 0.86 and 0.85) with SCS, ECS, and TRS respectively. SCS has a strong positive relationship (0.77 and 0.87) with ECS and TRS respectively while ECS also has a positive relationship (0.69) with TRS.

4.2 Discussion of Findings
The general objective of this research is to investigate the impact of federal government recurrent expenditure on the Nigerian economic growth, based on the analysis of data; the following was found out. The first hypothesis tested that Federal Government recurrent administration expenditure (ADM) has no significant effect on GDP in Nigeria. The result reviewed that the independent variable (ADM) had a negative effect on GDP, efficient expenditure on government administration helps to explain 5% of the variance in the growth of the Nigerian GDP. The study revealed that less of federal government recurrent expenditure on administration would stimulate the economic growth in Nigeria through its significance level from the regression results. This supports Eboh, Amakom and Oduh (2012) who found out that minimum recurrent expenditure on federal government administration will continually stimulate the growth of the Nigerian economy.

The second hypothesis tested that Federal Government recurrent social community services expenditure (SCS) has no significant effect on GDP in Nigeria. The result reviewed that the independent variable (recurrent expenditure on social community service) have a positive effect on GDP, efficient expenditure on government economic projects helps to explain 5.8% of the variance in the growth of the Nigerian GDP. The study revealed that more of federal government recurrent expenditure on communities’ welfare and projects would stimulate the economic growth in Nigeria. This supports Eboh, Amakom and Oduh (2012) who discovered that budgeted recurrent expenditure on federal government social community services would continually stimulate the growth of the Nigerian economy.

The third hypothesis tested that Federal Government recurrent economic services expenditure (ECS) has no significant impact on GDP in Nigeria. The result reviewed that the independent variable (recurrent expenditure on economic services) have a positive effect on GDP, efficient expenditure on government administration helps to explain 2.2% of the variance in the growth of the Nigerian GDP. The study revealed that more of federal government recurrent expenditure on economic infrastructures would stimulate the economic growth in Nigeria. This supports Adebiyi (2015) who disclosed that recurrent expenditure on federal government economic infrastructures would continually stimulate the growth of the Nigerian economy.

The fourth hypothesis tested that Federal Government recurrent transfers expenditure (TRS) has no significant effect on GDP in Nigeria. The result reviewed that the independent variable (recurrent expenditure on transfers) have a positive impact on GDP, efficient expenditure on government administration helps to explain 4.5% of the variance in the growth of the Nigerian GDP. The study revealed that more of federal government recurrent expenditure on transfers would stimulate the economic growth in Nigeria. This supports Aigbokham, Imahe, and Ailemen (2015) who found out that budgeted recurrent expenditure on federal government transfers that decreases external borrowings will continually stimulate the growth of the Nigerian economy.

5.1 Conclusion and Recommendation
In a literal view, capital expenditure is expected to contribute indirectly to the economic growth of any economy. The Nigerian economy through its fiscal policies have embarked on different recurrent expenditure in the different sectors of the economy and to this avail, the statistical result of the variables tested in the four hypotheses reveals that there is significant impact of the Federal government recurrent expenditure on administration, economic services, social community services and transfers on the Nigeria GDP. These results have shown the effective participation of the federal government recurrent expenditure to be of high esteem towards the growing and emerging sectors through these
components used in the study in the Nigeria economy. The data analysis also proved that the recurrent expenditure on transfers was low in 2013 and 2014 as compared to the previous year 2012. It is imperative that the Federal government must take a courageous step in ensuring that this recurrent expenditure (with the exception of expenditure on administration) through these sectors does not decline in their budget in the future. The administration, economical service, social community services, and transfers are significant components to the federal government recurrent expenditures as a fiscal policy geared towards the Nigerian economy growth and if necessary measures should be taken to increase the growth in those sectors and the state of infrastructure in the economy to avoid the recession era. The result of federal government recurrent expenditure on administration and social community services (see appendix 1) have shown that to sustain the rising capital expenditure through these components on fixed assets, investment projects, power, etc. will stimulate the growth of the sectors and the general economy in Nigeria. The negative relationship between the GDP and federal government recurrent expenditure in economic services and transfers concludes that the federal government reduced its expenditures through these components in the agriculture sector, transportation sector, construction and economic services which are the cause of the weak positive relationship in the correlation result table (see appendix 2).

Conclusively, the study has identified that Federal government recurrent expenditure has a significant effect on the economic growth of the Nigeria economy over the period studied.

5.2 Recommendations
The following recommendations below are suggested as:

a. Federal government recurrent expenditure on administration should be managed properly and efficiently in the future budget since it has a negative and effective relationship to the economic growth in Nigeria. The government should consider going back to the parliamentary system of government with fewer corruption opportunities and minimum cost of governance or restructure government and institution with low cost and efficient governance

b. The Federal government recurrent expenditure on economic service should increase and channelled effectively into the education and health sector in Nigeria for economic growth.

c. The federal government recurrent expenditure on social community service should be maintained in the agriculture, transportation, communication and construction sectors for economic growth in Nigeria.

d. The Federal government should increase its budget on recurrent expenditure in transfers to service pension funds and debt services by reducing the economy debts so as to increase the GDP of the Nigerian economy.

REFERENCES


