FEDERAL GOVT RECURRENT EXPENDITURE AND THE NIGERIAN ECONOMY

BY

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BEING A DISSERTATION SUBMITTED TO THE POST GRADUATE SCHOOL, DELTA STATE UNIVERSITY ABRAKA, IN PARTIAL FULFILLMENT FOR THE REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE DEGREE (M.SC.) IN BANKING AND FINANCE

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DECLARATION

I **REV DAVID OHIOCHEOYA AHONKHAI** of the Department of Banking and Finance, Delta State University, hereby declare that, this project is an original work, and has not been previously presented wholly or in part for the award of another degree.

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CERTIFICATION

We the undersigned certify that this Dissertation was written by AHONKHAI, David Ohiocheoya (Matric No. PG/15/16/239694) in the Department of Banking and Finance, Delta State University. Having been found to be adequate both in scope and content. This is in partial fulfillment of the requirements for the award of Master of Science (M.Sc.) Degree in Banking and Finance.

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DEDICATION

This research work is dedicated To: The Almighty God my Redeemer and my LORD who made all things possible.

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ABSTRACT

This study looked into the impact of federal government recurrent expenditure on economic growth in Nigeria for the period 1981-2016. Four specific objectives, research questions and hypotheses were formulated to carry out this research. The major objective of this study is to find the impact of federal government recurrent expenditure in administration, economic services, social community services and transfers on economic growth in Nigeria. In respect to this, the research design applied was the ex-post facto since the data collection were secondary and existing data. Therefore, time series data included in the Model were those on 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 positive impact on the Nigerian economic growth while 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. The supervision of these allocations should be rigid for better performance from these sectors towards economic growth. Therefore, this study which created a model of Federal Government Recurrent Expenditure and Economic growth in Nigeria, enables us to see what spur economic growth and what mar it and the necessary corrective measure.

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CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

Nigeria's independence in 1960 paved way for the responsibility of indigenous governance, hence the responsibility to the citizens by creating good environment, use good fiscal and monetary policies to ensure good tax system, good expenditure pattern, budgetary system to stabilize and promote economic growth. The Nigerian public service had a good history of commitment, dedication and valuable services until few decades ago, when charlatans, unpatriotic and inefficient leaders with mismanagement resulted to 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 full potential output.

It follows that government incur costs in the process of governance known as the government expenditure. The achievement of full potential outputs (i.e., full utilization of all non-labour 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 answer to this from economic theory and studies that 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 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 item that appears under the Federal Government expenditure to ascertaining there impact on the economy.

Under the Federal Government Recurrent expenditure, the first category is administration, which are 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, 2007; Nurudeen and Usman, 2010; Hamid, 2011; Kalama, Etebu, Charles and John, 2012; Nzeshi, 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 macro economically has become an instrument for 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 great effect on the economy.

The next on the categories of Federal Government Recurrent Expenditure is social and community services. Under this, we have Education, Health, and other social and community services. The recurrent cost on this category may not contribute significantly to GDP on the short run, but it will yield significant increase at the long run, provided the cost on them is not more than capital expenditure on them.

Down the line of grouping of Federal Government Recurrent Expenditure are Economic services. This covers Agriculture, Road and construction, transport and communication and other economic services. It is expected that the major junk of government spending on this category should be capital expenditure. Where the actuality of over bloated figure, the high cost can easily be traced to the inefficiency and fraud in the system. And this has negative effect on the economy.

Transfers are the last category and deals with number financial activities such as: public debt charges, pensions and gratuity, FCT and others, external obligations, extra-Budgetary Expenditure, deferred custom duties and unspecified expenditures. Expenditure of this nature certainly has inverse relationship with GDP.

The problem of debt servicing is a direct consequence of high cost of government management. When government effort is geared towards how to service debt burden, the initiative to invest is hampered. And again, government bid to finance budget deficit as experienced in Nigeria for many years now, have crowding consequence on private investment as government would have upper hand in getting domestic loan to finance deficit budget. High cost of governance have tendency to cripple the markets, stunt economic growth, leads to rapidly rising inflation, provide unfavourable environment for private investment and endangers the basic relationship between productivity and rewards.

The way forward is that all the constitutional mechanisms on legal control of budgeting and actual expenditure must be thoroughly attended to if we are to ensure transparency, accountability and eventually good governance. A model of cost and benefit of project, transparency in the formulation and application of budget execution, and the procurement process should be followed so as to track government spending. The need to reduce recurrent expenditure to a minimal level will form task of minimizing waste, inefficiency, corruption and inflating contracts in government as well as making capital expenditure more effective.

The issue of government spending and economic growth in Nigeria is still receiving more attention as there is yet no conclusive stand on it. Some studies validated claims that there exist substantial negative impact between government spending and economic growth while others are upholding the reverse situation.

Whatever, it is with this mindset this study is undertaking to empirically evaluate Federal Government recurrent expenditure and the Nigerian economy.

1.2 Statement of the Problem

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 to 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 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 are in 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 being 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, 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 imperative to check the cost of running Nigeria bureaucratic system with the economy to see if this is too high and unsustainable. The government spend 20% of its total revenue on public administration, and of the balance 30% which should go to capital projects, at least 15% is lost through policy slippages and uncontrollable cancerous corruption.

In the light of the above findings, it could be inferred that the current state of Nigeria's economy could be partly linked to the pattern of government expenditure. It is held in apriori in this study that Nigeria is likely to be better off with a higher capital expenditure for infrastructural development with a smaller bureaucracy to be able to effectively implement economic programs and easier control. This is to say restructured economy with reduction on recurrent expenditure to sustainable level through reducing waste, inefficiency, corruption and duplication in 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 adverse effect on the economy is an assumption that need 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.

1.3 Research Questions

This study is to examine the impact of Federal Government Recurrent Expenditure on the Nigeria Economy measured by the growth rate, Gross Domestic Product (GDP). In pursuant of this objective the following pertinent research questions are raised:

1. How does Federal Government Administration Expenditure impact on economic growth (GDP) in Nigeria?
2. To what extent does Nigeria Federal Government social and community services expenditure affect GDP in Nigeria?
3. What is the impact of Federal Government economic services Expenditure on GDP in Nigeria?
4. What is the impact of Federal Government transfers Expenditure on economic growth (GDP) in Nigeria?

1.4 Objectives of the Study

The general objective of this study is to examine the impact of Federal Government Recurrent Expenditure on the Nigeria economy. The specific objectives are as follows:

1. To examine the impact of Federal Government administration expenditure on GDP in Nigeria.
2. To examine the impact of Federal Government social and community services Expenditure on GDP in Nigeria.
3. To determine if Recurrent Expenditure on economic services affects GDP in Nigeria.
4. To investigate the impact of Federal Government transfer expenditures on economic growth in Nigeria.

1.5 Research Hypotheses

The following are the testable hypotheses for this study:

HO_1: Federal Government recurrent administration expenditure has no significant impact on GDP in Nigeria.

HO_2: Federal Government social and community services expenditure has no significant impact on economic growth in Nigeria.

HO_3: Federal Government Economic services expenditure has no significant impact on GDP in Nigeria.

HO_4: Federal Government transfers expenditure has no significant impact on GDP in Nigeria.

1.6 Significance of the Study

This study which covers a period of 36 years (1981-2016) standout to fill the gap in knowledge as most researchers who carried out similar studies did not cover many periods and besides the studies are not comprehensive and mostly in journal presentations rendered as cost of governance. Previous studies that examined government expenditure took causative comparative analysis on Recurrent and capital expenditure with relationship with economic growth. This study examines the impact of Recurrent Expenditure on the Nigeria economy. This approach which established the impact of Recurrent Expenditure component alone separating it from capital expenditure is to form a fact of been able to control this variable to stimulate economic growth. This certainly is a novelty in this expanse of study, thus filling the gap in knowledge.

The model developed will be useful to the Government to understand:

a. That the size and structure of public recurrent expenditure will determine the pattern and growth in output of the economy,
b. That efficient and effective government resource utilization result to economic growth.
c. The dangers of high cost of governance on the economy.

Based on the above knowledge government will be able to carry out the following specific action:

a. Reduce high cost of recurrent expenditure.
b. Certainly reduce the accumulation of public debt and promote investment for fast economic growth.

This study which serves as reference material will be a valuable tool for Researchers in this region of study.

The citizens who are the tax payers will also find this study very useful as a means of understanding impact of the Federal Government Recurrent expenditure in relation to economic growth, and to use their rights to air out their views individually or collectively as pressure group, as well as exercise their franchise to change government in democratic process.

1.7 Scope of the Study

This study is geared towards examining the concept- Federal Government Recurrent Expenditure and the Nigeria Economy. While Nigeria Economy captured in the purview of economic growth is proxy by Gross Domestic Product as the Dependent variable, Federal Government Recurrent Expenditure is decomposed into four explanatory or independent variables as follows: administration expenditure; social and community services; economic services; transfers expenditure.

The data employed, covers 36 years period from 1981 to 2016. Data were sourced from Central Bank of Nigeria (CBN) Statistical Bulletin and Nigeria budget, newspapers, and financial bulletins.

The study covers a period of 36years (1981-2016) this is to cover the gap of study as most researchers who carried out near similar studies did not cover many periods, and besides the studies are not comprehensive, and mostly in journal presentation.

1.8 Limitations of the Study

The study is limited to Federal Government Recurrent Expenditure in Nigeria. And at such Administration expenditure, Social and Community Services expenditures, Economic Services expenditures and Transfers expenditure were used as independent variables. The study is subject to the accuracy of the secondary data from CBN Statistical bulletin, Annual Budgets, newspapers, financial bulletins utilized. This study is limited by model specified as it is near impossible to have a 100% R^2 Adjusted value.

Again, much work have not been done in this area, therefore material for writing literature review was scarce.

1.9 Definition of Terms

1. **Administrative Expenditure**

   This expenditure includes the following:

   General Administration: it covers Salary and wages, Presidency refreshment, fueling cost, allowances to the president and vice President, cost of newspaper, cost purchase of vehicles for President and cabinet, cost of vehicle maintenances etc. note that expenditure which involves more permanent asset such as land and building are regarded as capital expenditure.

   Defense: Nigeria Armed forces expenditure which including cost procurement of ammunition and maintenance of Internal Security in the economy.

   National Assembly: wall robe allowances, fueling, refreshment, vehicle for members of National Assembly and staff, seating allowances, furniture allowances etc.

2. **Capital Administrative Expenditure:** While capital expenditure is part of the government finance used for the payments for acquisition of fixed capital assets, stock, land or intangible assets. (Capital expenditure bring about the formation of assets), Capital Administrative Expenditure is that portion of capital expenditure which has do with the overhead cost in capital expenditure. In the cost of acquisition of fixed assets, stock, land or intangible assets expenses are incurred by the government which cannot by nature added to the cost of such assets acquisition. For example the cost of general administrative costs which were not originally part of recurrent expenditure. The cost of consultancy services on the assets acquired. The cost of bank transaction regarding those assets. Etc. According to the Statement of Accounting Standard 3 (SAS 3) once recognized as assets, items of property, plant and equipment should be measured at cost. Cost is the purchase price

less trade discount, import duties and non-refundable purchase taxes and other directly attributable costs incurred in bringing the assets to the location and working fitness in manner intended by management. The relevant Statement of Accounting Standard serves as guide as to which expense should be regarded as purely capital expenditure and while others as administrative.

3. **Cost of Governance:** The cost of governance refers to the money spent on government administrative process. This is the Total administrative expenses of the government. Adeolu and Evans (2013) decomposed cost of governance into two: Recurrent administrative expenditure and capital administrative expenditure. Cost of governance was defined as the cost associated with running of the government. In the same vein, Fluvian (2016) defined cost of governance as any expenditure in maintaining government administrative structures. Theoretically, there is an inverse relationship between cost of governance being Total administrative expenditure and Gross Domestic Product. Therefore, an increase in cost of governance reduces the availability of Public Funds for Investment which invariably impedes on growth. Put in other way, an excessive increase of recurrent administrative expenditure and capital administrative expenditures, or increase beyond the limited level encumbers growth. Thus increase in cost of governance (Total Administrative Expenditures) has negative impact on GDP.
4. **Economic Growth:** Economic growth is defined as an increase in the Total Output of an economy, usually an increase in real GDP per capital. Kimberly Amadeo (2017) defined Economic growth as how much the economy of any nation has fare above the prior period, having remove the effects of inflation.
5. **Economic Services Recurrent Expenditure**

   This covers recurrent expenditure component on agriculture, manufacturing and craft, mining and quarrying, transport and communication etc.

6. **Recurrent Administrative Expenditure:** Recurrent expenditures is the public expenditure which represent the outlays that are necessary to maintain existing levels of government services. (Osiegbu, 2010). It is usually classified based on administration, social and community services, economic services and transfers. These expenditures are routine which occurs yearly. Recurrent administrative expenditure being part of recurrent expenditure has to do with the total administrative expenditure in running of government process.

   Recurrent Administrative expenditure has an inverse relationship with GDP. Therefore, an increase in cost of recurrent administrative expenditure reduces the availability of Public Funds for Investment which invariably impedes on growth.
7. **Social and Community Services Recurrent Expenditure**

   This involve recurrent expenditure component on Education, health and others.

8. **Transfers Recurrent Expenditure**

   This deal with public Debt charges- foreign and domestic obligations, pensions and gratuities, FCT and others, external obligations, extra-budgetary expenditure, deferred custom duties, unspecified expenditures and others.

1.10 Organization of the Study

This study is structured into five chapters as follows:

Chapter one is the introduction of the research, it deals with the general overview of the study and among other things the objective of the research with its significance.

Chapter two is the relevant literature review germane to the research. It includes conceptual framework, theoretical review and empirical studies. The Author of this research work made various comments agreement or disagreement with the Authors quoted.

Chapter Three present the methodology upon which the research is centered. In this chapter the population and sample size, the sample techniques, methods of obtaining data and the techniques of data analysis are projected.

Chapter Four entail of an intense data presentation and analysis as obtained from pertinent sources in order to test the hypotheses.

Chapter five being the last session of the work consists of the Researcher's findings, conclusions and recommendations.

1.11 Summary

The Federal Government Recurrent expenditure is the money spends on administrative work of the Federal government of Nigeria (Adeolu and Evans Osabuohien (2013). A successful enterprise is adjudged to be profitable when the expenditure is less than the revenue to a large extent. In the same tone the question of efficiency in running the government is all concerned with prudent use of public fund in the best interest and for maximum benefit and satisfaction of the masses. The objective of this research therefore is to examine Federal Government Recurrent Expenditure and the Nigeria economy. The problems, research questions and significance of the study were presented. The chapters consist of factors that pose limitations to the study as well as Hypotheses to test the research work.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The consistent escalation in the size, structure and growth of government expenditure over the years and the attendant degenerating level of poverty in the Nigeria nation has called for enquiries that there must be link between economic backwardness and government expenditure since no economic policy is able to revamp the bedridden economy. In this view, the management of the Federal Government Recurrent Expenditure has been a burning issue in the economic discuss in Nigeria, as the reality of recession is dawning on the citizens. The challenge of ensuring economic recovery forms the investigation into the impact of Federal Government Recurrent expenditure on economic growth in Nigeria.

This chapter therefore focuses on conceptual issues, theoretical review and empirical literature.

2.1 Conceptual Review

2.1.1 Governance

Governance is the system of management and maximizing of a country labour and non-labour resource to achieve full potential output and rapid economic growth. Agu, and Okoli (2013) defined the concept governance as way in which power is used in the management of a country resources for socio economic development. It was explained as the application of political authority and exercises a control over a society.

Osiegbu (2010) defined Governance as a way of pulling together of all financial resources to support the formulation of policies, provision of infrastructure for economic growth. Dapo (2015) explained that the secret of the success of big nations such as United State and United Kingdom is largely to a well-managed expenditure. Putting it succinctly, most successful nation of the world owe their successes of good governance to sound and ordinate public expenditure, which provided the enabling environment. United State has a narrower and more cost effective bureaucracy than Nigeria a smaller nation comparatively. The British cabinet is also smaller than that of Nigeria. The advantage of this is that apart from cost effectiveness, it is easier to control paving way for efficient system.

It follows that, the government has the imperative of managing country resources in the most efficient way to achieve:

i. Equitable distribution of income.
ii. Elimination of economic dualism

iii. Provision of basic needs
iv. Price stability
v. Efficient debt management
vi. Environmental protection.
vii. Balance of payments equilibrium
viii. Full employment
ix. Full potential output and
x. Rapid economic recovery.

2.1.2 Cost of Governance

Several writers have defined cost of governance each emphasizing what it cost government to run its administrative structures. Our focus here is the actual cost and not the opportunity cost of running the government. Drucker (2007) opined that cost of governance is referred to the government budget allocated to capital and recurrent expenditures on maintaining government administrative structures. Adeolu and Evans (2013) also divided the cost of governance into recurrent administrative expenditures and capital administrative expenditures.

In ideal situation, the cost of running government is geared towards achieving the overall objectives of the government which is rapid economic growth. Economic development is considered to have be achieved if there is a constant rise over a long period of time in per capita output or product of a country. The standard to define economic development in recent times is economic growth accompany by structural change in the economy. This was said not to be compulsory as sustained growth over a long period of time will necessarily bring with it changes in the structure of the economy. (Iyoha, 2004).

Critical to the concept of aggregate demand in the Keynesian theory of income determination is the sum of consumption, investment and government spending.

Iyoha (supra) opined that the same effect on aggregate demand can be arrived at by either the increase in investment alone or rise in government spending or combination of both to achieve equilibrium income. The point here is that the manipulation of government expenditure and investment as part of the variables for this study is important to the market equilibrium.

A proper evaluation of cost of running government ensures that assessment and feasibility of projects are done to attain efficient and product utilization of labour and non labour inputs resources. In Nigeria the government does not work with evaluation, if ever it exists. The cost of government is enormous with absence of efficiency. The running of government on constant deficit budget and extra budgetary often lead to the consequences of debt accumulation and debt over hang servicing. Noble laureate Professor Wole Soyinka after reviewing the country Presidential system of government concluded that the Nigeria Presidential System is expensive, albatross to National development and develop an empire that is antagonistic to the circumstances of the people. (Soyinka, 2010 and Onu, 2010). Soludo (2013) also complained about the high cost of governance in Nigeria; He said "This is a problem that has gone for too long, the cost of governance in Nigeria is without doubt high, and actually it is outrageous." He disclosed that he had observed some Parastatals contributing nothing to the economic growth and being funded by the then administration and when asked why they are not productive, they based it on poor funding. Who is to be blame for high cost of governance in Nigeria? Obi (2014) during his speech to the World Bank Youth Forum interactive session blamed the high cost of governance in Nigeria on the inability of the government officials to curb wasteful expenditures that do not contribute to economic growth and wellbeing of the citizens. Olaopa (2016) reported the minister of finance Mrs. Kemi Adeosun as saying that it is no longer news that the Nigeria economy has officially entered recession. The consequence of this is that only a few states out of the 36 states are able to pay workers' salaries while the Federal Government is still borrowing to pay its workers' salaries. The change slogan of Buhari administration is not working because of several economic forces and intervening variables. A key overriding variable is high cost of governance epidemic. Like epidemic the government require more than cosmetic approach in reduction in personnel and structures to achieve a significant restructuring of the economy.

Each successive government regime has adopted squander mania instinct with decency and conscience relegated. For example a situation where government spend stupendous amount of money annually on accommodations rent for permanent secretaries, commissioners and legislatures for the past 25 years ago increase the government recurrent expenditure and reduce fund available infrastructural facilities for growth to take place.

Therefore, the suitable method is to collect time series data relating to administration, social and community services, economic services and transfers relate them to the Gross Domestic Product in other to see how the Nigeria economy is affected.

Nigeria's presidential democracy seems to be one of the most expensive in the world. This is reflected in the country's recurrent cost in its successive budgets and the rising debt profile raising inquisitive deep concerns and also warnings too about the high cost of governance and the wellbeing of the economy. Central Bank of Nigeria (CBN) Annual Report for the year ended 31st December 2010, the consolidated expenditure of the three tiers of government disclosed was 8,370.9billion in 2010 while the revenues was N7.135.8b. consequently, the combine fiscal operations resulted in an overall national deficit of N1,235.0b or 4.2% of GDP. The fiscal operation of the federal government resulted in an overall national deficit of N1, 105.4b, or 3.7% of GDP. The cost of maintaining the National Assembly stood at N138.015b, and in 2011 it was N232.736b. The budget in 2011

was 4.5 trillion; recurrent expenditure took a whooping sum of N2.4 trillion with N1.5 trillion as capital expenditure. Subsequent budget shows the same trend. For example in 2017 budget like the previous years, it showed 18% increase in recurrent expenditure. Allocation for personnel and overhead costs rose by 8.8% and 41% to ₦1.86 Trillion and ₦230 billion respectively from the cost in previous budget. The rising cost of governance in 2017 means that 95% of the government's revenue would be used to finance overheads, pensions, personnel costs and debt servicing.
2015 came with a budget of ₦4.454 trillion. The budget gulped ₦1.83 trillion as personnel cost and with a meager ₦690.58b as capital expenditure. Deficit of ₦1.8 trillion was financed mainly by borrowing. It should be noted that the consequences of borrowing this money in domestic market would mean crowding out the private sector thus hamper investment. While it is easy for the federal government to have recourse to deficit financing through the CBN to meet its wage obligations, the states do not enjoy that fiscal privilege. This dilemma and financial predicament the state has to resolve. Debt servicing went up so high with unbelievable sum of ₦953b. 2016 budget which had an increase of 35% over 2015 had ₦6.06 trillion budget, recurrent expenditure ₦2.65 trillion, capital expenditure ₦1.75 trillion and debt servicing of ₦1.48 trillion. The fiscal deficit was about 2.14% of the GDP. A look at the budget from 2005 to 2017 has showed recurrent expenditure consistently well over capital expenditure.

2.1.3 Managing the High Cost of Nigeria Federal Government Recurrent Expenditure.

There were series of attempts in the past by government to curb the rising cost of recurrent expenditure. None of these attempts is the catholicon needed to stem the tide. In the civilian political era of President Obasanjo in 1999, government announced program to address the issue. Due Process mechanism was anchored by

Dr. Obi Ezekwesili of the then Budget Monitoring and Intelligent Unit. It turned out be a cosmetic approach with no good policy initiative that could adequately drive down the cost. This restructure later became Bureau of Public Procurement (BPP), the structure of the bureau was laid on a very defective pedestal. Advice from institute of cost of Nigeria was not heeded. The suggested to the government that, the scope was too limited to capital expenditure, and also that the bureau should be devoid of government interference and should therefore be professionalized with personnel duly guided by relevant cost management professional ethics. (Omoregie, 2015). It is unfortunate that this bureau has gone into comatose having been swallowed up by Nigeria government bureaucracy.

Omoregie (supra) noted that during the Jonathan administration the focus was essentially on stemming the tide of corruption and leakages through the setting up of the Pension Transition Arrangement Department under a new Director General, prosecution of those involved in stealing from the retired people, stemming oil theft and pipeline vandalism, review of foreign trade policy as it affect the personnel of MDAs and parastatals, introduction of new technologies such as biometrics and digitalization of government payments e.g. treasury single account (TSA), government integrated financial management information system (GIFMS) and the integrated Payroll and personnel information System (IPPS) which were all geared towards improving efficiency and transparency in public finance. In the 2014 budget address by the theme "a budget for jobs and inclusive growth", government claimed to have saved ₦126bn in leaked fund through the above reforms. These are however not at the very core of the cause of the high cost of governance in Nigeria.

There have always been the agitations to reducing the size of the Nigerian bureaucracy such as to maximize benefits and minimize the cost of running governance. Why it seems that the government take the posture of cost reduction most regime end up creating more cost because of corruption administrations in the country. One can begin to imagine if the effort is get more money in the system to squander and embezzle. For example, the military regime of Gen. Muhammadu Buhari immediately carried out a mass retrenchment exercise in the Federal Civil Service after it took over from the civilian government of Alhaji Shehu Shagari in 1983. Between 1999 and 2007, when Obasanjo ruled as a civilian president, he observed that it was dangerous for the government to be spending over 60 per cent of its annual budget on recurrent expenditure, the regime, in 2003, introduced the monetization policy. This was aimed at stopping of provision of official vehicles and housing to civil servants. And in the long run reduce the cost of governance and make funds available for investments for economic development. Eme and Ogbochie (2013) penned down the statistics of the stoppage of the provision as follows: the policy to stop the provision of vehicles to about 996,744 civil servants, 1,448 political office holders, 469 federal legislators and 1,152 judicial officers. In place of official vehicles, 350 per cent of the annual basic salary was provided as vehicle loan. Government officials entitled to drivers were paid to employ them. Also, ministries, extra-ministerial departments and agencies were barred from purchasing new cars. Government believed that the policy had the potential to save considerable sums spent on renovation, maintenance and furnishing of accommodation as well as on purchase, fuelling and maintenance of vehicles for public servants. Government vehicles and houses across the country were sold off at discounted prices to the occupiers if they were able to buy them. The policy naturally irked top civil servants and government appointees, who were raised on or had grown accustomed to such perks. Not up to the years of experimenting this, politicians started circumventing the policy. In 2006, Ufot Ekaette, then Secretary to the Government of the Federation, SGF, noted: "A number of ministers, special advisers and permanent secretaries have allocated fleets of vehicles to their offices and, in so doing, for their personal use." This development, made Obasanjo to enforce compliance with the policy. However this did not continue as civil servants and political appointees eventually had a lee way duringPresident Yar'Adua regime. The implication of none compliance brought the economy backward. During the Alhaji Musa Yar' Adua administration Alhaji Babagana Kingibe, Secretary to the Government of the Federation was made to appear before the Senate Committee on Federal Character and Governmental Affairs to defend the ₦10.4bn allocated to his office in the 2008 Budget, he told the lawmakers that ₦1bn out of the budgeted sum was for the purchase of vehicles for ministers, permanent secretaries and special advisers for that year. He revealed that the ₦1bn provided indicated a reversal of the monetization policy. Kingibe made the reversal of the monetization policy official with a circular he issued on 29 August 2007. In the circular, which repudiated the one issued on 27 June 2003 by Ekaette on the monetization policy, Kingibe directed that all political appointees like ministers and presidential advisers should be issued official cars. Permanent secretaries also benefitted from the directive. From this dispensation a lot had begun to happen in the system; a case in point was the controversial purchase of Peugeot cars for the 88 committees of the House of Representatives which was termed illegal, as it is against the spirit of the monetization policy. The Senate had similarly bought vehicles for the use of its committees. The vehicles were, however, sold to the members using them just before the sixth National Assembly was dissolved, at rock bottom prices. Obasanjo 2007, before his administration ended, he had the record to his credit of trimming the number of federal ministries from 22 to 16 by merging some of them. These were, however, demerged by Yar'Adua, who also created new ones. Jonathan, his successor, increased the number to 29.

The Federal Government spends ₦200bn yearly on emoluments for civil servants on its payroll. Personnel cost for 2017 stood at ₦1.86 trillion, 8.86 per cent higher than 2016 cost of ₦1.71 trillion despite the purported elimination of ghost workers and linkages. Although there was consistent drop of personnel cost from ₦1.85 trillion in

2011 to ₦1.65 trillion by 2014. Government planned to spend ₦229.8 billion on overheads, up massively by 40.7 per cent from ₦163.39 billion budgeted last year. The government had dropped its overhead budget last year 2016 to ₦163.39 billion down by 8.0 per cent from ₦177.6 billion in 2015 previous year. Recurrent (non-debt) expenditure stood at ₦2.98 trillion. Analyzing the facts about expenditure components; aggregate recurrent spending accounts for 35.3 per cent of aggregate expenditure. This went up by 8.7 per cent from ₦2.3 trillion in 2016. Capital expenditure is budget to rise 4.1 per cent to ₦2.2 trillion representing 31 per cent of the total expenditure. Debt service is projected to be third largest components of total expenditure proposed to grow by 8.7 per cent to ₦17 trillion as a consequence of increasing debt obligations while taking up 23 per cent and 33.6 per cent of gross expenditure and revenue respectively.

Let's attempt to look at the situation before these recent years. The ₦4.43 trillion 2010 budget, for example, was made up of ₦2.14tn recurrent expenditure – the equivalent of 44.4 per cent of the total budget. Capital expenditure was left with only ₦1.56tn, about 35.3 per cent of the budget. The remaining 16.3 per cent was earmarked for statutory transfer and debt servicing. A breakdown of the allocation shows that the Executive arm had the biggest share, spending a staggering ₦1.326tn on recurrent non-debt expenditure. The legislature gulped ₦150bn in recurrent expenditure. The recurrent expenditure is basically the cost of servicing overhead and personnel expenses. For the office of the SGF and its appendages, a sum of ₦71bn was allocated in 2010. Of this, ₦52.5bn was earmarked for recurrent expenditure, leaving only ₦18.2bn for capital expenditure. This scenario had adverse effect on economic growth. Though the government claimed it was taking strategic steps to stem down costs, the content of the 2011 budget proved contrary. The 2011 budget is ₦487bn lower than the figure proposed by the National Assembly. While a total of ₦1.5bn was budgeted for both training and non-training related travels in

2010 for the State House, the government, contrary to its claim, raised the allocation to the same sub-head by over ₦500mn in the 2011 budget. It was discovered that the sum of ₦2.015bn was allocated for transport and travel in the current fiscal year. Out of the total sum, only ₦281mn was allocated for training-related travels, while a whopping ₦1.7bn is earmarked for unexplained journey for Presidency staff. In that same manner, in the 2011, the government also allocated the sum of ₦1.03bn for miscellaneous expenses out of which the sum of ₦313mn is for refreshments in the Presidential Villa. Another ₦383mn is budgeted for welfare packages. In 2010, the sum of ₦1.19mn was approved for the purchase of canteen and kitchen equipment for the State House. Barely a year after, the Presidency found another reason to expend ₦489mn for the same items. In similar vein, computers and computer accessories for the Presidential Villa, which gulped ₦53mn in 2010, received a budgetary vote of ₦325mn in 2011. In the 2010 budget, ₦2.3bn was budgeted for maintenance activities. In 2013, the figure grew to ₦2.9bn. The total maintenance package, according to the breakdown, entails the maintenance of office buildings, maintenance of other infrastructure and the rehabilitation and repairs of office and residential buildings. In 2010, about ₦850mn was approved for the maintenance of office buildings in the Presidential Villa. The government also intends to repeat the exercise, but this time, the cost has almost tripled to an estimated ₦2.04bn. In the same 2011 budget, ₦376mn was allocated to the planned extension of the new administrative building, ₦267mn for the rehabilitation of Villa Admin and ₦220mn for the "upgrade of Villa facilities". In yet another allocation, the sum of ₦76.3mn was voted for the completion of Villa Water (additional storage and provision of higher capacity treatment plant). This allocation was after a similar allocation of ₦85mn in the 2010 budget. In 2010, ₦160min was voted for the rehabilitation of Banquet Hall Dome (roof, air conditioners, power house, and kitchen). In 2012, the project received another allocation of ₦72mn. But under another sub-head the same

2011 budget, ₦39.8mn was voted for the improvement of electrical installation inside the same hall. Another is the project for the completion of the State House Medical Centre extension works, which received about ₦60mn in the 2010 budget, but had its allocation raised to ₦106mn in 2011. The same fraudulent activities are perpetrated this new regime of change. The cost of running governance is even increasing by the year.

A better way of managing cost in Nigeria is to apply the concept of project appraisal and evaluation to ascertain cost benefit analysis before embarking on it. This is to ensure financial discipline. And again, cost reduction approach should be vigorously pursued by restructuring and reducing bureaucracy.

2.1.4Federal Government Recurrent Expenditure and Economic Growth in Nigeria.

Since Government recurrent expenditure is decomposed into Recurrent Administrative expenditure, recurrent social and community services expenditure, economic services recurrent expenditure and recurrent transfer expenditure, come under purview of cost of governance. It is therefore safe to know how these variables interact with other variable under study.

Government spending on development project such as economics services in the rubric of investment had been identified to have positive impact on economic growth. According to Maku (2014), government spending on infrastructure impact on economic growth based on the form and quantum of total public expenditure allocated to economic and social development projects in the economy.

The propensity of the government to far over stretch recurrent expenditure especially on administrative expenditure over capital expenditure is the result of high cost of governance, a variable having inverse relationship with economic growth. Government insufficient income expected to cover for its expenditure result in deficit budget a situation which hinders investment. This further goes to exacerbate the burden of transfer expenditure. The slimmer the expenditure on transfer services the better it is for the economy. For instance, the fiscal activities of government in Nigeria has been resulting in a deficit for so long right from Babangida's regime and the mode of financing such budgetary gaps has implications on economic performance especially in the area of macroeconomic stability and growth. (Osiegbu, 2010). The effect of this is that such budget deficits financing from the domestic market reduces aggregate demand as disposable incomes of household are shared between consumption and investment in government securities. And again, financing, the budget gap through the CBN result to the fiscal operations of injection of money into the economy. This brings about excess demand for foreign exchange leading to the depreciation of the naira exchange rate. The combination of interest rate on private investments and the effect of foreign exchange pressures on imported inputs for production of goods and services result to high production costs leading to reduced production.

A retrospective look of the above discussed scenario reveals the following:

In the period 1988 - 1993, net credit to the federal government increased on the average by 58.2%. While on the other end, net credit to domestic economy rose by 38.75 while money supply increased by 41.3%. This expansionary effect in the economy as against the low increase in national output resulted to inflation which has cumulative effect in the last twenty four years 1993 to 2017. The steady and un-easy staggering decline in the rate of GDP from1980 to 2017 is the cumulative effect of recession.

Federal Government Recurrent Expenditure has greatly increased in Nigeria over capital expenditure over the years due to alarming increase of bureaucracy and their high pay packets, payroll fraud as a result of ghost workers, high number of official vehicles despite the monetization policy in place, frequent foreign trips, extra budgetary expenditures and security votes.

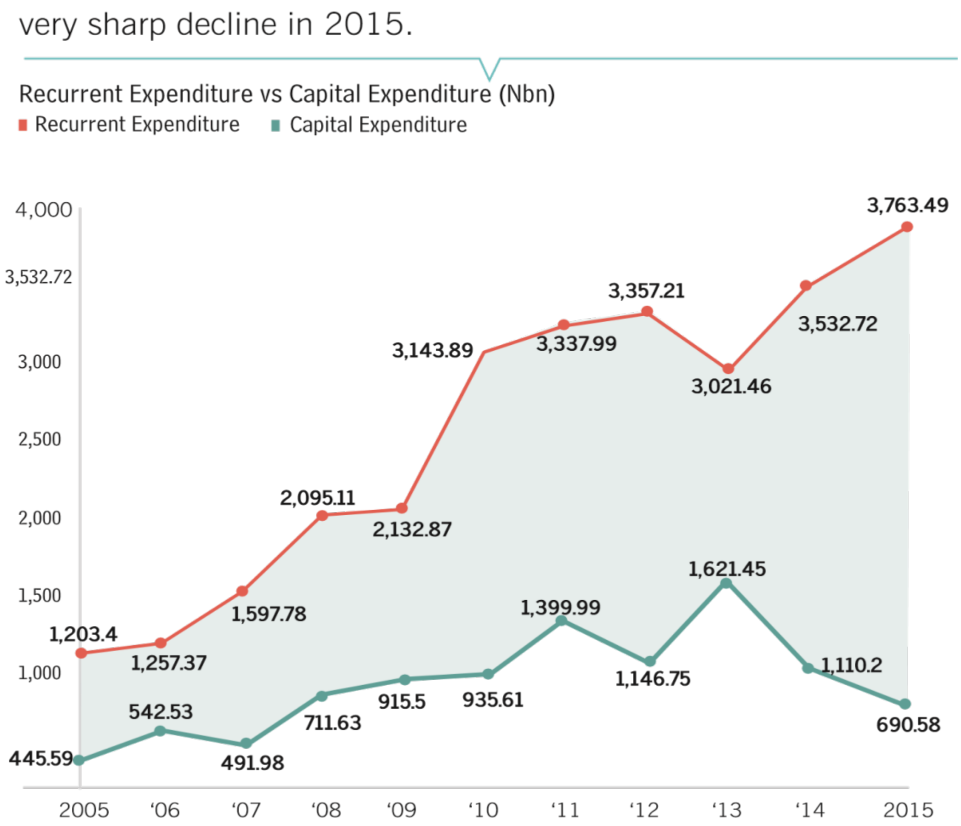


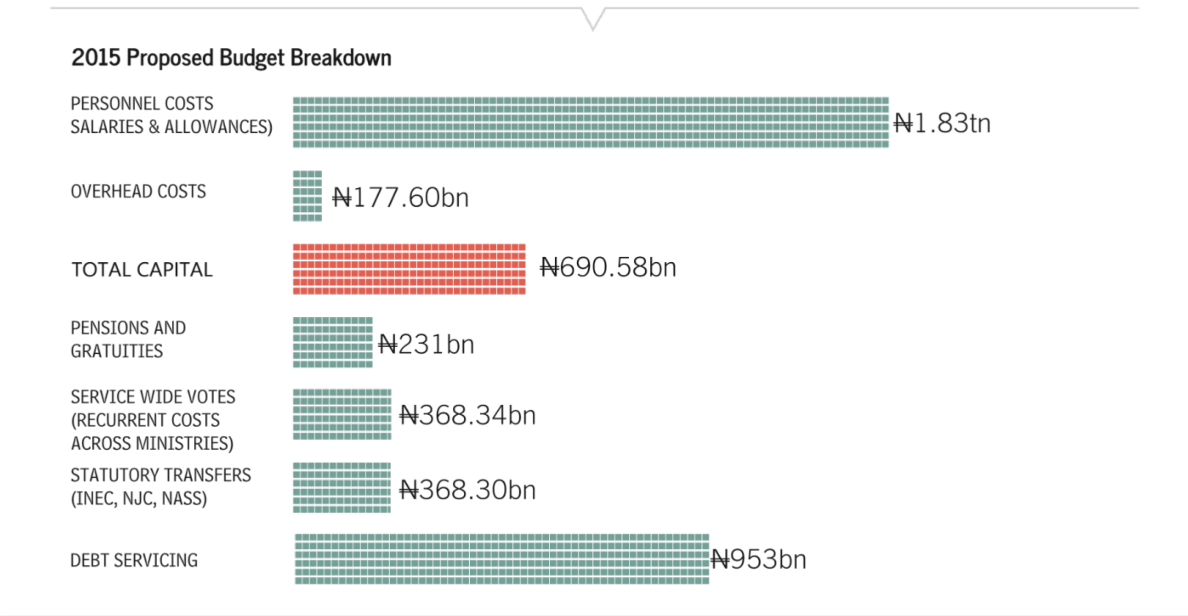
Fig. 2.1

Source: Budget Office of the Federation, BudgIT Research

For more 2015 Budget, **visit yourbudgit.com/data**

Recurrent expenditure has always far out weight the capital expenditure with a ratio of 60:40 in favour of recurrent expenditures. A look at the chart above shows the figure from 2005 to 2015. Capital expenditure took a very sharp decline in 2015.

In 2015 budget personnel cost far outweigh fund for capital project. And the cost debt servicing is next to it. Nigeria nation will not be able to grow this way.



Source: Budget Office of the Federation, BudgIT Research

Fig.2.2

However, Osiegbu (2010) has suggested ways of resolving this problem, by giving three options as follows:

1. Borrowing from the non-bank public
2. Reduction in public spending; and generating revenue.
3. The truth remains that the options as suggested above should be a combination of all the three options in addition to restructuring and has a model of Nigeria nation project management.

2.1.5 High Cost of Federal Government Recurrent Expenditure over Capital Expenditure- A Major Cause of Debt Burden and Debt Servicing in Nigeria

Sanusi, (1993) in Osiegbu (2004) classified cause of Nigeria debt problem as endogenous and exogenous factors. Most of the these factors bordered on economic failures, diversion of loans, poor debt management, financing long term projects with short/medium term loan, inconsistent monetary and fiscal policy, accumulation of trade arrears, etc.

The need to meet up with budget deficit which has become a regular feature in Nigeria fiscal operation is the need to meet up with the gap by taking loan. This has in no small measure created debt burden for the country and debt serving problem. It follows that this has impact on economy growth.

On the other outrageous cost of Federal Government Recurrent Expenditure over capital expenditure has always resulted to mismanagement of borrowed fund. And the benefit such fund borrowed instead of having positive impact on the economy, has negative effect to growth.

For example in 2016, as a result of fiscal spending, directed at reflating the economy, the fiscal deficit was billed N2.2 trillion that is about 2.14% of the GDP although this is will the threshold of 3% of GDP as stipulated by the act. But the deficit was financed by borrowing projected at about N1.8 trillion, foreign and domestic. It would be recalled that large percentage of domestic borrowing crowd out the private sector and this hamper investment. 2016 budget which stood at N6.06

trillion was 35% increase over 2015 budget. Debt servicing took N1.48 trillion which is 25% of the total budget. While capital expenditure was just N1.75 trillion. Debt servicing figure was 85% of capital expenditure.

In 2017, debt service was projected to be third largest component of the total expenditure. Commenting on the large figure, analyst Afrivest West Africa a Lagos based investment house (2007) opined that despite the optimistic projected revenue, it should be cautioned by that fact that actual government revenues have remained pressured and performance rate would be less than desired. Either of the following is expected to play out in 2017. Fiscal deficit expands above 2.2% of GDP in proposed budget to be financed completely with domestic borrowing at the cost of tighter monetary policy and crowding-out of the private sector, or government in due course forced to make concessions on tax rate and foreign exchange market structure to improve the Naira revenue and access long term concessionary external financing. It expected that it would be the mixture both options. Actually the government planned to finance the 2017 budget deficit through debt and about 52 per cent of that debt is to be sourced locally which is about 1.2 trillion. In April and July this year this Federal government has sold domestic bond to achieve its fiscal objective. A look at the break down of 2017 budget as shown below will reflect the above discussion:

Table 2.1

NIGERIA'S 2017 BUDGET BREAKDOWN

	2017	2016	VARIANCE
REVENUE (N TRILLION)			
AGGREGATE REVENUE	4.9	3.9	28.0%
OIL REVENUE	2.0	0.8	142.7%
NON OIL REVENUE	1.4	1.5	-5.5%
INDEPENDENT REVENUE	0.8	1.5	-46.4%
EXPENDITURE (N TRILLION)			
AGGREGATE EXPENDITURE	7.3	6.1	28.0%

CAPITAL EXPENDITURE	2.1	1.6	20.4%
NON DEBT RECURRENT	3.0	2.7	12.5%
DEBT SERVICING	1.8	1.5	20.0%
STATUTORY TRANSFER	0.4	0.4	0.0%
BUDGET DEFICIT (N TRILLION)	2.3	2.2	4.5%
EXTERNAL BORROWINGS	1.1	1.0	9.2%
INTERNAL BORROWING	1.3	0.9	38.9%
FISCAL DEFICIT (% OF GDP)	2.1%	2.2%	0.9%

Source: Ministry of Budget and National Planning 2017

Over the years there has always be Nigeria debt growing profile and the cost of servicing it. The chart below is the cost of servicing Nigeria's debt from 2005 to 2015.

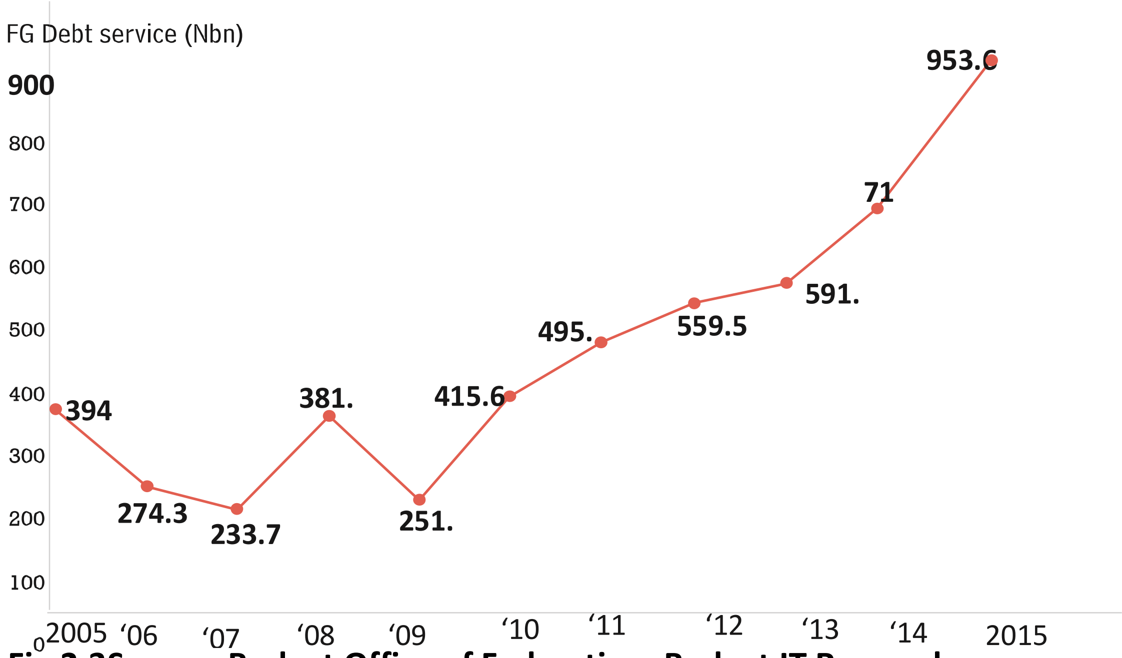


Fig.2.3Source: Budget Office of Federation. Budget IT Research

2.1.6 The Purpose of Government Budgeting.

Section 75 (1) of the 1999 constitution of the Federal Republic of Nigeria states that, "The President shall cause to be prepared and laid before each house of the National Assembly at any time in each financial year estimates of the revenue and expenditure of the federation for the next financial year.

Government budget is prepare to meet the basic nation's macroeconomic needs. Uchenna (1998, P.128-129) specified the purpose of government budget as follows:

1. Resource Allocation: The budget is a document that enable a rational and objective basis for allocation of scarce resources in an economy. Government is tasked on the need to be discreet in allocating limited resources to meet insatiable expenditure needs.
2. Macroeconomic framework: The government budget is a document to achieve macroeconomic objective of full employment, price stability, rapid economic growth in order to ensure, a rising standard of living and increase per capital income for the citizens.
3. Legal basis for authorization of expenditure: it is the requirement of the constitution that estimates of revenue and expenditure of the federation or state as the case may be must be laid before the legislature for authorization. In this case, it proves that the government is accountable to the people and that permission should be taken from them before their money should be appropriated for their wellbeing. And etc.

   Today things are really different in Nigeria. In Vanguard Newspaper. (2017).The minister of information Alhaji Lai Mohammed on September 26th 2017 was quoted to have said that Buhari's health is private even if the state is paying. It would be recalled that President Muhammadu Buhari spent extensive time in London since January 2017, flickering speculation about his fitness to govern and also question about who was going to foot the bill was being raised. In Lai Mohammed's words "it is not strange at all for a sitting president to be ill and it's not strange either for the state to take care of his medical bill". But the people who elected him to office have right to know about his fitness to continue in government in view of his long absence from his duty post. And again the disclosure of how much was spent on his medical is a measure of stewardship.

Your article. Library.com (2016) explained that government prepares the budget for achieving certain objectives. These objectives are the direct outcome of government's economic, social and political policies. And the objectives of government budget were given as follows:

1. Reallocation of Resources: The budgetary policy instrument enables the allocation of resources in accordance with the economic and social (public welfare) priorities of the country. This can be done by the government through:

(i) Tax concessions or subsidies- this is to encourage investment, in other to do this government can give tax concession, subsidies etc. to producers. On the other hand, government can discourage the production of harmful consumption goods through heavy taxes.

(ii) Directly producing goods and services- this is done in most cases if the private sector has no interest in producing those things. Government can directly undertake the production.

2. Reducing inequalities in income and wealth: this is mostly done to care for the poor. Government aim to reduce the imbalance or inequalities of income and wealth, through its budgetary policy. The distribution of income is influenced by imposing taxes on the rich and spending more on the welfare of the poor. This will reduce the income of the rich and raise the standard of living for the poor, thus reducing inequalities in the distribution of income.

3. Economic Stability: the budget is aimed to put the issue of volatility in fluctuation of inflation or deflation as the case may be into check. This can be done with the policy of surplus budget in time of inflation and deficit budget during deflation to maintain stability of prices in the economy.
4. Management of Public Enterprises: incorporated in the budget is the provision for managing public sector industries (especially with natural monopoly).
5. Economic Growth: the rate of growth in an economy is dependent on the saving rate and investment. At such government through the budget tend to mobilize resources for investment in the public sector by raising the overall rate of savings and investments in the economy.
6. Reducing Regional Disparities: government makes provision in the budget to set up production units in economically backward regions.

It should be added that the budget is a document to achieve economic equilibrium as it spell out the fiscal and monetary measure for the year. The house of Assembly owes the citizen the fiduciary responsibility to ensure that the estimate of costs are not high so as to hamper economic growth which the budget stand to promote. For example, like in previous years, the 2017 budget showed 18% increase in the cost of running the government (recurrent expenditure) recurrent expenditure has consistently trended upwards in the following areas: cost of personnel and overhead. In the 2017 budget for instance, allocation for personnel and overhead costs rose by 8.8% and 41% to =N=1.6 Trillion and =N=230 billion respectively from the figure in 2016. =N=22 Billion was earmarked for the purchase of computers, over =N=40 Billion for vehicle purchase, and maintenance cost stood at over =N=100 Billion. Many of these items reflected in 2016 budget and in the previous years. Service wide votes, travel expenses, sitting allowances of board members of government agencies, maintenance cost and ghost workers continue to be a major challenge, contributing a great significant share of recurrent expenditure.

Another problematic area of the nation recurrent expenditure is on the rising cost of debt servicing. Nigeria currently spend 23% of total budget expenditure and 33% of total expected revenue of =N=5 trillion on debt servicing.

It follows that the implication of the rising cost of governance is that 95% of the government revenue would be used to finance overheads, pensions, personnel costs and debt servicing.

2.1.7 High Cost of Federal Government Recurrent Expenditure on Investment as a Macroeconomic Component of Economic Growth.

Iyoha (2004) opined that Investment can be viewed from, various perspectives. First investment is a key component of aggregate demand and of Gross National Product in the closed economy, giving Y= C+I+G. from economic theory, we know that increase in investment results in a multiplied increase in income. And secondly investment is related to economic growth because the fluctuations in investment are highly related with fluctuations in Gross National Product (GNP), known as business cycles. And thirdly investment expansion of productive capacity is a major explanation of and contributing factor to long run growth. In modern economies, investment accounts on average about 20% of GNP.

Practically, investment is financed from savings, when the cost of governance or Federal Government Recurrent expenditure is on the optimum level, enough savings is facilitated, there is fund sufficient for investment especially when government have surplus budget.

The fiscal activities of government in a deficit period occasioned by excessive government recurrent expenditure has adverse effect on investment. The method of financing such budgetary gaps has implications on economic performance especially in the area of macroeconomic stability and growth. Osiegbu (supra, 170). The effect of this is that such budget deficits financing from the domestic market reduces aggregate demand as disposable incomes of household are shared between consumption and investment in government securities. And again, financing the budget gap through the CBN result to the fiscal operations of injection of money into the economy. This bring about excess demand for foreign exchange leading to the depreciation of the naira exchange rate. The combination of interest rate on private investments and the effect of foreign exchange pressures on imported inputs for production of goods and services result to high production costs leading to reduced production. And again it hampers private investment since private investor cannot have the needed loan for investment when the Government has already comb the domestic market for loans to finance budget gap.

Again, the consequences of debt overhang servicing is far reaching, the government would be encumbered with debt servicing burden and the needed saving or income for investment is short circuited.

2.2 Theoretical Review

2.2.1 Introduction

Opinions on the way forward on managing Federal Government Recurrent Expenditure have however differed with some recommending, outright cut in government spending, a deliberate realignment of capital to recurrent expenditure ratio in the Nigerian annual budget as well as downsizing of the civil service.

It has been an established fact from available theories that cost associated with production determines the profitability of the enterprise. In the same vein cost is the determinant of efficiency in other system. Therefore when the cost of governance or Government Recurrent Expenditure is too high, it can been seen to be counterproductive and leading to negative impact on the economy. This section highlights basic theories that support the effect of Recurrent Expenditure on economic growth.

2.2.2 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, government has to distribute the various items in such a way that the marginal returns from item of expenditure is equal. The optimum social advantage is determined by the optimum allocation of resources. Thus the optimum level is at point when marginal return is equal to the marginal cost. At this instance the optimum level of expenditure is attained by equating the marginal social cost and marginal social benefits.

2.2.3 Project Author's Contribution to Maximum Social Advantage Theory

It follows that this principle pointed the need for cost control in government expenditure. In essence efficient utilization of resources for beneficial production. This theory did not explain what optimum allocation of resources is, it can be inferred that maximum benefit could be derived when recurrent expenditure is less than capital expenditure. Not just that, but allocating resources to profitable ventures with a controlled cost.

Nevertheless the principle as enunciated by piqou serves as a good foundation for this project work.

2.2.4 Principle of Strict Budget

Osiegbu (supra, 281) opined that important guiding principle of public expenditure is the philosophy of strict budget discipline whereby all levels of government should restrict themselves to the limit of expenditure in the approved estimate and supplementary estimate.

Comment

This principles seek to curb the growth of budget deficit which affect the economy negatively. Fiscal discipline is a restriction on moving beyond the budget it does not go beyond that to check embezzlement and mismanagement of fund. Although it may not have been for budget monitoring, but it suffice to serve as a cost control measure in that it serves the need for fiscal discipline and the need to match planned expenditure with projected revenue.

2.2.5 Theory of Comparative Advantage

To ensure good impact of government spending, maximum funds should be allocated to growth inducing projects with a minimum cost. The Government Recurrent Expenditure is minimal when the public sector and the private sector do what it can do best. The free market economy influences to produce at minimum cost. But in the Nigerian experience rules are not followed because of self-interest and the propensity towards corruption.

2.2.6 Theories of Public Expenditures

Ibrahim (2013) posted the theories of public expenditure. We shall take journey to see how relevant some of these relate with this study as follows:

2.2.6.1 Adam Smith

In describing the function of the government in relation to public expenditure Adam Smith in his book "Wealth of the Nation" posited that the government should restrict their activities to:

1. Defense against foreign aggression.
2. Maintenance of internal peace and order. Security votes.
3. Public development. Such as education, health care, communication, transportation, and etc.

Comment

Any other functions outsides the three points stated is seen and regarded as beyond government scope and expenditure on them was treated as unfair and also wasteful too.

However, government inability to restrict their activities to the one mentioned by Adam Smith is the result of phenomenal increase in public expenditure as well as Recurrent Expenditure. Other scholars also made their contribution, we shall take a look at them.

2.2.6.2 Adolph Wagner's Law of Increasing Activity

Adoph Wagner who was a German economist made an in depth investigation into the rise in government expenditure in 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 are 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 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. Peacock and Wiseman also argued whether Wagner's principle could be applied to all societies at all times and suggested that the time pattern of actual public expenditure growth did not fit well with Wagner's law.

2.2.6.3 Peacock-Wiseman Hypothesis

Peacock and Wise made an enquiries studies into the so called Wagner's law. They studied the public expenditure from 1891 to 1955 in U.K. they concluded that Wagner's law was still valid.

Wagner's law and Peacock-Wiseman hypothesis emphasize on the fact that public expenditure has tendency to increase.

2.2.6.4 Musgrave And Rostow's Development Model

Musgrave an Economist and Rostow an Economist Historian in a separate study affirmed that the growth of public expenditure might be related to the pattern of economic growth in the society.

Comment

These studies focus was on the etiology of the rise of public expenditure and stating that it was a normal phenomenon. Their major concentration is on capital expenditure and that recurrent expenditure will go normally with government being judicious. These theories fail to give us a measure of what the recurrent expenditure should be to promote economic growth. Although Wagner assumed efficiency in the running of government expenditure, but he fails to pin point the adverse effect the rise in government expenditure can be when it is not channeled properly and when it is not meet with proportionate productivity. The theories did not also talk about, if the government should borrow or not to meet the state obligations and state the limit and effect of such borrowed fund. The strong point of this study therefore, is the proposal to dissect the component of public expenditure and get a healthy mix.

2.2.7 The Keynesian Theory

Keynes categorized government expenditure as an exogenous factor. Keynes postulate that public expenditure contribute 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 to an increase 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 AD is aggregate demand, C is consumption, I is investment, and G is government expenditure. Clearly stated government spending is an addition to aggregate demand. Therefore an increase in government spending, all things be 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 (supra, 130)

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.

2.2.8 The Shortcoming of Keynesian Theory Relating to Government Recurrent Expenditure as Spotlighted by the Author of this Project Work.

To run budget consistently on deficit in other to raise the level of income and employment can be antagonistic to price stability goals as demonstrated by the tradeoff between inflation and unemployment as reflected in the Philips curve, and the objective of rapid economic growth and a more equitable distribution of income.

It follows that Keynes did not perceive the implication on the economy of having to borrow to fill the budget gap. Borrowing creates a lot of burden on the economy, ranging from rendering the nation to be subservient to the whim and caprices of external borrowers; to unpleasant consequences of the inability to pay debt. It should also be said that the consequences of borrowing fund in the domestic market often over crowd out private investors thus jeopardizing investment.

And again it was assumed that government spending will go normally without the vices of diversion of fund, mismanagement, stealing of fund, using long term fund for short term projects, improper project evaluation, high Government Recurrent Expenditure, etc. it can be said that Keynes theory will hold if all things be equal. This make this theory unrealistic because in practical terms the variables which affects government expenditures are real to life.

Nevertheless, the Keynesian on government expenditure is relevant to this study in that the structure that result to a good level of saving and investment bring about economic growth.

2.2.9 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 useful 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 Horward – Domar formulation.

The three gap model, refers to the saving – investment gap, trade gap and 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, 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, P.29)

In manifestation, debt payment creates a further demand on 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.

2.2.10 Displacement Theory

Jack Wiseman and Allan T. Peacock founded the theory in 1961. Peacock and Wiseman's study is likely one of the famous analyses of the time pattern of public expenditures. They argued that public expenditure does not increase in a straight or continuous way, but in "Jack or Stepwise" fashion. They argued from a political theory of public determination purview, they opined that government in bid for the government to provide public goods for the tax payers encounters other disturbances which shows the need for increase in public expenditure. The inadequacy and insufficiency of revenue to meet up with the financial challenge often result to borrowing, leading to public debt. This radical movement on the continuum of expenditure from initial stage to a low level expenditure to a higher level is known as displacement effect. Once public expenditure is displace upwards in a crisis period, does not however falls to original levels.

Public expenditure is displaced upwards and for the period of the crisis displaced private for public expenditure does not however fall to its original level. The inadequacy creates the imperfection effect. In a bid for government to expands its scope of services to ameliorate these social conditions and because people perception to tolerable levels of taxation (as a source of revenue) does not return to its former level, lead the government to finance these higher levels of expenditures by expanding the scope of government debt.

Since each major disturbance always leads to government to assume a larger proportion of the national economic activities, the net result is the concentration effect. Which means the tendency of the government activities to grow faster than the economy. ICAN (2010) opines that the increasing public expenditure can be explained in terms of increasing cost of debt servicing.

2.2.11 Restructuring the Nigeria Federation System Model for Efficient Expenditure Pattern.

There are many advocates for changing the federal system of government to parliamentary system of government to reduce the cost of governance and to curtail the excesses of politician. Among those in fore front of this advocacy is Katherine Bafour (2015) who penned down her article titled "why parliamentary system is better for Nigeria) before the 1966 coup Nigeria practiced parliamentary system of government.

The presidential system of government was faulted with the following shortcomings:

1. Expensive national elections: Many politicians are sponsored by parties and individual. When election is won, such individuals are being settled out of the

government treasury, perpetually throughout the government. The result is that the economy is worse off.

2. Stupid and incompetent famous people come to power: In the presidential system Nigeria has never been blessed with very competent president. It seems that the present president Mohammadu Buhari does not know what to do with the nation economy. Things are going out of hand and the nation is on the slide of precipice.
3. Top leaders are most likely to use ‘I’ in speeches
4. Very inefficient and slow
5. Hard to pass good laws
6. If a bad law is passed, it is difficult to repeal it. And etc.

Whereas the parliamentary system is credited as follows:

1. Voters focus on parties and what they stand for as against focusing on persons in the presidential system.
2. Cheaper local elections.
3. No gridlock as executive is answerable to legislative
4. Highly unlikely for incompetent people to become the Prime Minister.
5. Top leader is likely to use ‘we’ in speeches.
6. More efficient and faster. Efficiency reduces cost of governance. Inefficiency result to waste and breeds high cost of governance.
7. Easy to pass good laws.
8. If a law is bad, it is easy to repeal the bad laws. Etc.

Against this backdrop, Nigeria can consider the parliamentary system which favours minimum cost. And Bafour (2015) opined that the parliamentary system is more suitable for multi-cultured country like Nigeria where regions can back a party based on their tribal and regional inclination.

However, some are of the opinion that the Nigeria need to be restructured by breaking it up into regional government, why others believe that restructuring has to do with the overhauling of the 1999 constitution to reflect realities. Whichever, the nation is in dear need of change.

Uwalaka (2017) wrote an article on restructuring the Nigeria federation. He define restructuring concept as reforms, reviews and reorganization undertaking in the diverse frame work of political, economic, social, technological, ecological and legal subsystems comprising the system.

The reforms of Nigeria institution is long overdue. Any further delay in responding to this demand will spell further doom. The legislature, executive and judiciary need this reforms to galvanize leading more efficient system and minimum cost of running government. Through the scheme of restructuring intersecting functions and abandonment of institutional functions and responsibilities will be laid plain and corrected. The last 17 years is marked with tenacious budget battles between the legislature and executive.

Adeolu and Evans (2013) gave three areas of restructuring and they are:

1. **Optima size of cabinet:** The Nigeria government waste a lot of funds servicing the payment over bloated cabinet. Having optimal size of cabinet will reduce cost and what follows would be economic growth. For instance to have a minister with several special advisers and a permanent secretary with many other portfolio is drain on the economy. Adeolu and Evans (2013) opined that special Advisers, and legislature can be on part time to reduce the cost of governance.
2. **Fiscal federalism:** This when political zones are adopted as federating units (with states and local governments) cost will be reduced. The near homogeneity, cultural and historical affinity within the zones will ensure stability and good governance. Also the overbearing of the central government

will be drastically reduce. The internal political and economic autonomy that will ensue will reduce the agitation and aggression that has resulted in colossal waste (Okoye, 2005; Dunmoye, 2002; Alade et al, 2003). This corroborate with the findings of kwon (2003) using the Brennan and Buchanan decentralization hypothesis in which case fiscal decentralization decreased the size of the central budget of South Korea while boosting the viability of the federating units. If ethnic units servers as federal unit we can achieve efficiency and reduce the cost of governance. (Kimenyi, 2001)

3. **Separation of power:** The issue of separation of power is believed to reduce cost. This is a situation where check and balances take place. The collusion and abuse of powers checked mated will definitely translate to reduction of governance cost. Adeolu and Evans (2013) gave the following opinions:

a. Election into legislative arm of government at whatever level should be done zero party basis. This remove the need to vote on public policy along party lines, which most often has serious efficiency problems.
b. The constitutional power of the president to appoint the chief justice of the federation should be withdrawn. Rather the masses should elect a chief justice from a number of outstanding competent Justices.
c. Constitutionally fixed proportions should be allotted to both the judiciary and the legislature
d. Vital agencies of the executive should be brought under the direct control of the public they are supposed to serve. Their continue stay in office should be subject to annual referenda based on their efficiency and effective performance in office.
e. Public office holder such as the Chairman of Independent Electoral Commission, the Governor of the Central Bank, the Inspector General of Police and holders of other important government agencies presently under

the arm of the executive should have their appointment renewed annually through open referenda. This action will compel the executive to appoint and utilize competent people, paving way for cost efficiency in the delivering of public service.

f. In addition, the judiciary should be more proactive by allowing it to declare actions or laws of government unconstitutional even when such actions are not brought before it.

2.2.12 Market Economy Theory.

A market economy is an economic system where aggregates relationship of a country's citizens and businesses results to automatic decisions and pricing of goods and services with little government intervention or central planning. This is the opposite of a centrally planned economy, in which government decisions drive most aspects of a country's economic activity. The theoretical basis was formulated and developed by classical economist such as Adam Smith, David Richardo and Jean-Baptiste say in the 19^{th} and early 20^{th} centuries. These classical postulation of liberal free market believed that protectionism and government intervention tended to lead to economic inefficiencies that actually made people worse off.

2.2.13 Modern Market Economy Theory

Most developed nations follow the pattern of mixed economy because of the blending of free markets with some government interference. This neoclassical idea is said to happen when market forces drives the vast majority of activities, typically engaging in government interventions only to the extent it is needed to provide social aims, stability, and fairly regulate markets to encourage target industries by creating agglomerations and reducing barriers to entry in an attempt to achieve comparative advantage.

Comment

The Nigeria mixed economic systems is a laissez-faire systems, because of the government inept involvement in planning the use of scarce resources, inability to exercise control over businesses in the private sector, failure to redistribute wealth by taxing the private sector, and using the funds from taxes to promote social objectives.

2.3 Empirical Review

While government must be run and cost incurred, the effective and efficient deployment of the available and limited resources remains the key challenge that confronts government. Nigeria inability to develop socially and economically is blamed on the high Recurrent Expenditure. Sanusi (2012) collaborated this by opining that it has become impossible to develop under such situation. Nevertheless, Government spending could impact positively or negatively on the growth of any nation.

Agu, Chigozie (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 use 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 sustainable level through 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 positive and significant effect on economic growth. He opine that by nurturing productive activities, reducing unproductive ones and implementing appropriate policies, this enhances good spending and maintain economic growth.

Ejuvbekpokpo (2012) investigated the impact of governance on economic development in Nigeria. Cost of governance was captured by recurrent and capital administrative expenditures, while gross domestic product was used as a proxy for economic growth. The data covers from 1970 to 2010 and ordinary Least Square technique was used to analyze the data. It was observed that a unit rise in recurrent administrative expenditure will lead to 0.52 unit fall in GDP; while a unit rise in capital administrative expenditure will cause GDP to fall by 0.45 unit. Making it line with his theoretical expectation that both recurrent and capital administrative expenditures have negative impact on GDP. The T-statistic figures also disclosed sufficiently that the independent variables are statistically significant in changes in GDP. 93% of the variations in GDP is explained by both recurrent administrative and capital administrative expenditure. The study reveals that recurrent expenditure hampers economic development in Nigeria. The study recommended institution constraints on public office holders and technocrats in other to minimize the extraction of rent from the state and enhance the availability of public funds for development projects and vital sectors of the economy.

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 (2002) looks at the relationship that exist between public expenditure and economic growth in Sri Lanka from 1952-2002. With the use of Johansen co-integration technique and 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 of 1970-2005. The findings was 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.

Muritala and Taiwo (2011) conducted a research to study the effects of government spending on the growth rate of real GDP in Nigeria using econometric model with Ordinary Least square (OLS) technique. The result shows that there is a positive relationship between real GDP with recurrent and capital expenditure. It then recommended that government should promote efficiency in the allocation of development resources through emphasis on private sector participation and privatization/commercialization.

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, 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 Raheem posited that the size and mix of government expenditure is a major determinant of the overall performance of the economy. Ariyo (1996) discovered that the government expenditure can 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. It hinder private investment. Government Capital expenditure is beneficial to the economy. Busary (1998) revealed this in his study. He learnt that government capital expenditure induces economic growth.

Uguru, Leoland (2016) empirically examines the relationship between public debt and government expenditure in Nigeria from 1980 to 2013. Data were sourced from the Central Bank of Nigeria Statistical Bulletin for various years. The study used a model with public debt as the dependent variable while the capital expenditure and recurrent expenditure are the independent variables. Using the ordinary least square regression technique, the t-test statistic results at 5% level of significance, showed that there exist a significant relationship between public debt and government expenditure in Nigeria. It then recommends that the government of Nigeria should urgently reduce its recurrent expenditure and spend more on capital expenditure in order to meet the Vision 20:2020. It also recommended that Nigeria should diversify her productive base minimizing the over dependence on crude oil revenue. This will result to reduction of public debt burden.

Eboigbe and Idolor (2013) investigated the impact of external debt on public sector investment in Nigerian economy, using the co-integration economic technique on annual time series data for 46 years (1970 – 2011) to test the hypothesized relationship. The result of the study shows that there is a positive relationship between external debt and public investment, meaning that arise in debt stock will lead to increase in capital expenditure and public investment in turns. The project recommends that Nigeria should pay attention to absorptive capacity of the economy before securing more external debt; and while diversifying portfolio of debt in terms of sources and types to escape concentrations of debt service imperatives.

Oyinlola and Akinnibosun (2013) investigated the relationship between public expenditure and economic growth in Nigeria from 1970 to 2009. Applying the Gregory-Hansen structural breaks cointegration technique, and using a disaggregated public expenditure level, the study agree with Wagner's law in two models in the long run. The long run elasticity results showed that economic growth does not translate to growth in recurrent expenditure, administrative expenses and transfer expenditures. The result also shows that economic growth leads to growth in capital expenditure as well as in social community service. The study recommended that efforts should be made towards sustaining adequate level of investment in social and economic services.

Oladayo (2015) studied the rising cost of governance in Nigeria. His focus is on Goodluck Jonathan's administration. The work used descriptive analysis and relied primarily on secondary source of data collection. The empirical literature reviewed brought to light the rising cost of governance as inimical and also retrogressive to Nigeria socioeconomic development. He recommended that Nigeria should run true federalism and shrink the size of cabinet and merge ministries.

Adeolu and Evans (2013) investigated the cost of governance and options for its reduction. His study was hinged on the theory of monopoly and traditional theory of cost to explain the cost structure of the government. The research work revealed that Total administrative expenditures as a percentage of GDP was 8.72% high in 1977, but came down on 2.04% low in 2002. It was analyzed that the administrative cost of 9 kobo went into the production of =N=1 worth of goods and services for the period of 1977 to 2002. Over the subsequent years, the administrative cost of producing

=N=1 worth of goods and services fell to 2 kobo in 1989. It rose to 4 kobo in 1999 and then to 7 kobo in 2002.

After the analysis of time series data on recurrent and capital expenditure, it was concluded that if the government is left unchecked like any other private monopoly, certainly will yield sub-optimal units of public good in which it has comparative advantage. The study recommended constitutional provisions that will guarantee true separation of powers, take necessary measure to lessen the cost of governance.

2.4 Literature Gap

The Gap in Literature relate to the impact of Government Recurrent expenditure on economic growth. Therefore, this study fill the gap of the need of predictive model for Federal Government Recurrent Expenditure and the Nigerian economy. There are some literature dwelling on the impact of capital and recurrent expenditure on the economy simultaneously which bring about ambiguity and discrepancies. But on the impact of recurrent expenditure on economic growth, the work that have be done in this areas are in limited journal publications. The beauty of separating recurrent expenditure to relate it to the impact on economic growth is to see clearly what spur economic growth or what mar it. With this at our disposal policy maker will be guided on the essential remedial measure to be chosen on the configuration of public recurrent expenditure.

2.5 Summary

This chapter has deals with the review of pertinent Literature that are germane to the study. It deals with Conceptual review, Theoretical review and empirical review.

Conceptually, sufficient insight of the subject matter was revealed as the relationship of the chosen variables with economic growth was clearly explained. And the models that are germane to the study were discussed and the most prominent policy instrument model of fixing the high cost of governance for better economic performance is restructuring. Empirical review revealed that there exist correlation between economic backwardness and high Federal Government administrative cost. This is to say Federal Government Recurrent Expenditure has impact on Nigeria economic growth.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describe the scientific methods that was adopted in showing the relationship amongst variables. In specific terms the chapter spelt out the research design, the population and sample of the study, sources of data, method of data analysis, model specification and with the operational function.

3.1 Research Design

This is the guide and framework that was used in the course of collecting, analyzing and interpreting data showing relationship of variables. Therefore the suitable method applied in the study is the ex-post facto research design. This is to enable proper demonstration and establishing of relationship between dependent variable and independent variables, showing cause and effect by using historical records.

3.2 Population, Sample and Sample Size

The population for the study is the Nigeria economy, where data relating to the following independent variable were collected and collated: Recurrent Administration expenditure, Social and Community Services Recurrent Expenditure, Economic Services Expenditure, and Recurrent Transfer Expenditure. And a time series data covering from 1981 to 2016 is used as sample size. The choice of this sample size is to have a period long enough for meaningful analysis.

3.3 Sampling Techniques

This refers to the method or the procedure adopted in choosing items for the sample. For the purpose of this study, the probability sampling techniques and stratified sampling method was used which fit into the manner of empirical research. This is borne out of the advantages associated with it, which entails the application of mathematical models laws and theories to test research hypotheses in order to generate findings in objective and validly acceptable ways that are fashioned after the values of scientific thinking.

The use of stratified sampling method is to maximize information or characteristics need for the population. This method will also enhance the precision or accuracy with which estimates and inferences are made from the sample to the total population, since the sample generated are true representative of the population. Besides, it generates considerable less error.

3.4 Method of Data Collection

In this type of research design, the best option available for data collection is secondary source. This research work relied on secondary data. Time series data was sourced from the Central Bank of Nigeria Statistical Bulletin, World Bank Development Indicator 2015, and Nigeria's budget. Other secondary sources include Textbooks, journals, newspapers, etc.

3.5 Techniques of Data Analysis

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 econometric tool (E-Views 7.0).

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 among the variables, to enable the result amenable and appropriate for long run forecasting.

3.6 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, represent the dependent variable, F is the function, $X_1 – X_4$ represent the independent variables.

The Operational function:

GDP = F (ADM, SCS, ECS, TRS) ……………………………………..Eq. 2

The Econometric function is thus:

$GDP = \beta_0 + \beta_1 ADM + \beta_2 SCS + \beta_3 ECS + \beta_4 TRS + \mu$…..........................Eq. 3

Where:

GDP = Gross domestic Product, ADM =Administration Expenditure, SCS = Social and Community Services Expenditure, ECS = Economic Services Expenditure, TRS = Transfers Expenditure, $\beta 0$ = Constant Intercept; $\beta 1$- β_4= Coefficients; μ = Error term.

Apriori Expectation:

$\beta_1, \beta_2, \beta_3, \beta_4, < 0$.

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

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

3.7 Validity and reliability of Data

The data obtained and used for this study were valid and reliable since they were sourced from CBN Statistical Bulletin, CBN Economic Annual Reports and Accounts, and World Bank Database for the period under consideration.

3.8 Summary

The chapter shows the research methodology adopted in this study in other to measure the impact of Federal Government Expenditure on GDP in Nigeria. The research design with the population and sample period were specified. The sources of data collection with the method of analysis used were stated. The model to test the hypotheses formulated is also part of this chapter.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter discusses all the sourced data that are presented in tables raging from their efficiency and time series comparism to explain their discrepancy within such time frame. The formulated hypotheses will also be tested and the results will be discussed.

4.2 Data Presentation

The data is presented in the table below;

Table 4.2.1: Data for Federal Government Recurrent Expenditure and Nigerian Economy

Years	Gross Domestic Product ₦'Billion	Administration ₦'Billion	Social Community Service ₦'Billion	Economic Services ₦'Billion	Transfers ₦'Billion
1981	15,258.00	0.91	0.29	0.18	3.46
1982	14,985.08	1.04	0.33	0.20	3.93
1983	13,849.00	0.90	0.29	0.17	3.39
1984	13,779.26	1.10	0.35	0.21	4.16
1985	14,953.91	1.43	0.46	0.27	5.41
1986	15,237.99	1.45	0.47	0.28	5.50
1987	15,263.93	3.84	0.30	0.69	10.81
1988	16,215.68	5.78	2.11	1.22	10.30
1989	17,294.68	6.27	4.23	1.42	14.07
1990	19,305.63	6.54	3.40	1.61	24.67
1991	19,199.06	6.95	2.68	1.30	27.31
1992	19,620.19	8.68	1.34	3.08	39.93
1993	19,927.99	30.57	14.66	7.75	83.75
1994	19,979.12	20.54	10.09	3.91	55.44
1995	20,353.20	28.76	13.82	5.92	79.13
1996	21,177.92	46.55	15.99	4.75	57.20
1997	21,789.10	56.18	22.06	6.20	74.12
1998	22,332.87	50.68	21.44	11.57	94.40
1999	22,449.41	183.64	71.37	87.08	107.58
2000	23,688.28	144.53	84.79	28.59	203.69
2001	25,267.54	180.80	79.63	53.01	265.86
2002	28,957.71	266.51	152.19	52.95	225.15
2003	31,709.45	307.97	102.61	96.07	477.65
2004	35,020.55	306.77	134.39	58.78	610.70
2005	37,474.95	434.67	151.65	64.31	670.60
2006	39,995.50	522.20	194.17	79.69	594.05
2007	42,922.41	626.36	256.67	179.07	527.17
2008	46,012.52	731.02	332.93	313.75	739.66
2009	49,856.10	714.42	354.19	423.61	635.75
2010	54,612.26	1,117.44	550.90	562.75	878.34

2011	57,511.04	1,262.40	785.44	310.50	956.18
2012	59,929.89	1,159.40	790.06	230.10	1,145.60
2013	63,218.72	1,111.82	844.07	291.23	967.83
2014	67,152.79	992.84	774.77	266.40	1,392.93
2015	69,023.93	1,228.99	807.62	275.36	1,520.01
2016	67,984.19	1,091.95	781.49	257.73	2,047.42

Source: Central Bank of Nigeria Statistical Bulletin (CBN), (2016)

Recurrent expenditure in the four components (administration, economic service, social community services and transfers) has tremendously been in an increasing figure from 1981-2016 as shown in table 4.2.1 above. The recurrent expenditure in administration dropped in 2000 with an amount of ₦144.53 Billion from ₦183.64 Billion in 1999 and experienced a further decrease in 2012, 2013 and 2014 (₦1159.40 Billion, ₦1,111.82 and ₦992.84 Billion consecutively from ₦1,262.40); recurrent expenditure in economic service fluctuating increase and decrease in its value in the thirty-six (36) years data presented above. Recurrent expenditure in social community service witnessed a huge increase in its amount in 1999 with an amount of ₦71.37 Billion from ₦21.44 Billion in 1998 and also in 2001 ₦152.19 Billion from ₦79.40 Billion. When it drastic increased in 2002 recurrent expenditure in Transfers dropped drastically in that same year. But the Gross Domestic Product (GDP) increased to ₦28,957.71 Billion from ₦25,267.54 Billion which explains the non-payment of public debt servicing and focused on contingencies and pensions for that period. The above table also showed that total recurrent expenditure in these four components had a remote increase as the federal government increased its budget in recurrent expenditures to the sectors in the economy.

4.3 Data Analysis

Table 4.3.1: Ratio of Federal Government Recurrent Expenditure to the Nigerian Economy

Years	ADM	SCS	ECS	TRS	GDP
1981	5.96E-05	1.90E-05	1.18E-05	0.000227	0.013345
1982	6.94E-05	2.20E-05	1.33E-05	0.000262	0.013107
1983	6.50E-05	2.09E-05	1.23E-05	0.000245	0.012113
1984	7.98E-05	2.54E-05	1.52E-05	0.000302	0.012052
1985	9.56E-05	3.08E-05	1.81E-05	0.000362	0.013079
1986	9.52E-05	3.08E-05	1.84E-05	0.000361	0.013328
1987	0.000252	1.97E-05	4.52E-05	0.000708	0.013351
1988	0.000356	0.00013	7.52E-05	0.000635	0.014183
1989	0.000363	0.000245	8.21E-05	0.000814	0.015127
1990	0.000339	0.000176	8.34E-05	0.001278	0.016886
1991	0.000362	0.00014	6.77E-05	0.001422	0.016793
1992	0.000442	6.83E-05	0.000157	0.002035	0.017161
1993	0.001534	0.000736	0.000389	0.004203	0.01743
1994	0.001028	0.000505	0.000196	0.002775	0.017475
1995	0.001413	0.000679	0.000291	0.003888	0.017802
1996	0.002198	0.000755	0.000224	0.002701	0.018523
1997	0.002578	0.001012	0.000285	0.003402	0.019058
1998	0.002269	0.00096	0.000518	0.004227	0.019534
1999	0.00818	0.003179	0.003879	0.004792	0.019635
2000	0.006101	0.003579	0.001207	0.008599	0.020719
2001	0.007155	0.003151	0.002098	0.010522	0.0221
2002	0.009203	0.005256	0.001829	0.007775	0.025328
2003	0.009712	0.003236	0.00303	0.015063	0.027735
2004	0.00876	0.003837	0.001678	0.017438	0.030631
2005	0.011599	0.004047	0.001716	0.017895	0.032778

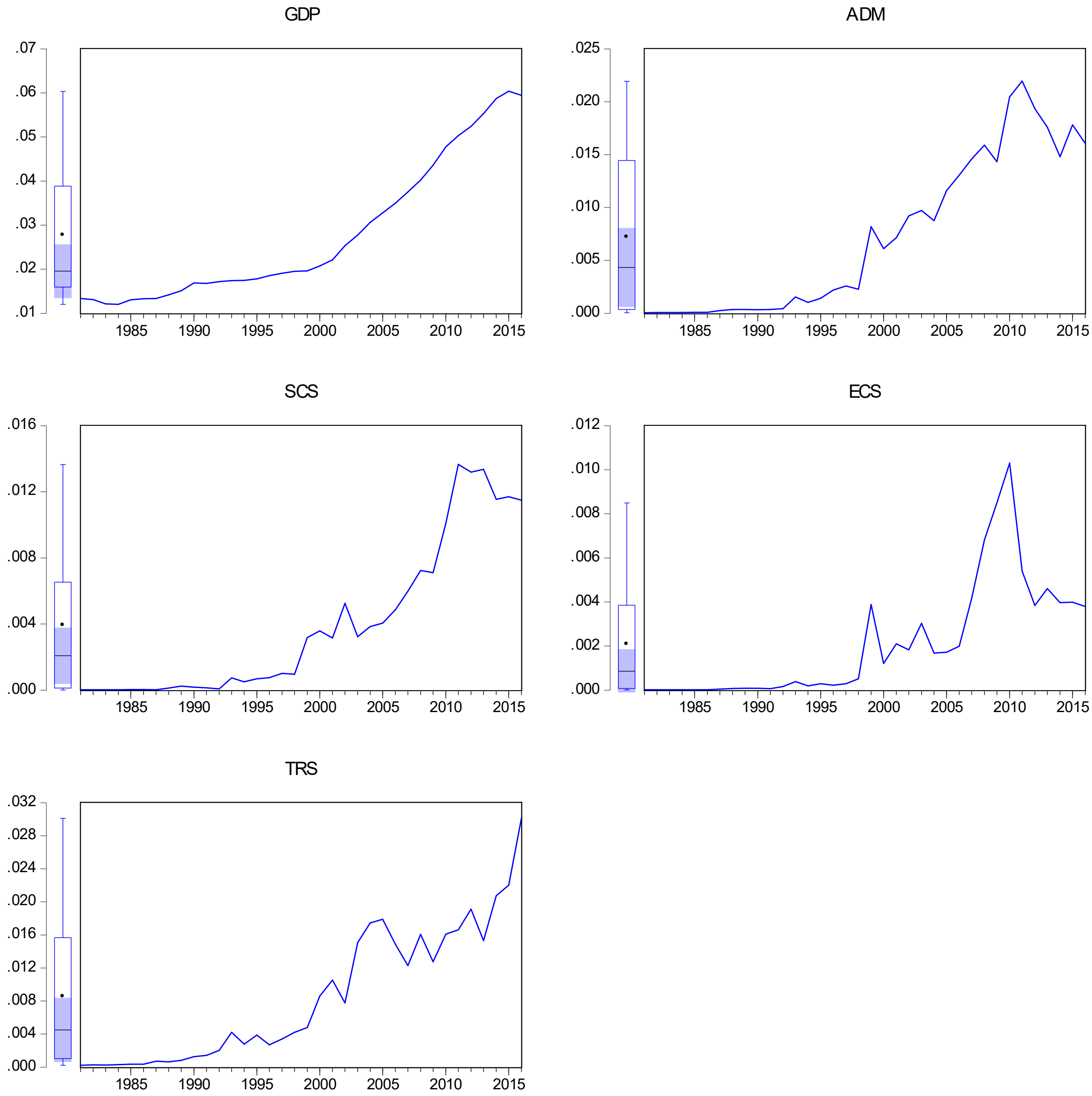
Years	ADM	SCS	ECS	TRS	GDP
2006	0.013056	0.004855	0.001992	0.014853	0.034982
2007	0.014593	0.00598	0.004172	0.012282	0.037542
2008	0.015887	0.007236	0.006819	0.016075	0.040245
2009	0.01433	0.007104	0.008497	0.012752	0.043607
2010	0.020461	0.010087	0.010304	0.016083	0.047767
2011	0.021951	0.013657	0.005399	0.016626	0.050302
2012	0.019346	0.013183	0.003839	0.019116	0.052418
2013	0.017587	0.013352	0.004607	0.015309	0.055294
2014	0.014785	0.011537	0.003967	0.020743	0.058735
2015	0.017805	0.011701	0.003989	0.022021	0.060372
2016	0.016062	0.011495	0.003791	0.030116	0.059463

Source: Researcher's Computation (2017)

The table above shows the percentage input of the recurrent expenditure in administration, economic service, social community service and transfers by the Federal government towards the GDP in the Nigeria economy for last three decades (1981-2016). The table shows that the federal government recurrent expenditure had a decreased percentage in administration 2004, 2009, 2012, 2013, 2014 and 2016 (0.8%, 1.4%, 1.9%, 1.7%, 1.4% and 1.6%) respectively. It explains the poor recurrent expenditure in administration on internal security and defence throughout those years which contributed poorly to the GDP of the Nigerian economy. Federal government recurrent expenditure on economic service had its decrease in the years; 1996, 2000, 2002, 2004 and 2009 (0.0%, 0.1%, 0.1%, 0.1% and 0.8%) respectively as it explains low recurrent expenditure by the federal government in the agriculture and construction sectors which includes in the inadequacy of power supply for commercial agricultural services and trade which supposed to contribute to the growth of the Nigerian economy. This also had a continuous decrease from 2011 to 2016 simultaneously from the table above. Recurrent expenditure by the federal government in social community services experienced a decline in its expenditure in 1994, 1998, 2003, 2014, 2015 and 2016 (0.05%, 0.09%, 0.3%, 1.1%, 1.1% and 1.1%) respectively as compared to the preceding years (shown in Table 4.3.1 above) has affected the poor growth in the health and education sector which at those years had inadequate infrastructure in boosting the services of their activities. In the segment of the transfers through the federal government recurrent expenditure budgeted; dropped in 1994, 1996, 2002, 2006, 2007, 2009and 2013 (0.2%, 0.2%, 0.7%, 1.4%, 1.2%, 1.2% and 1.5%) respectively.

Table 4.3.1: Graph showing Federal Government Recurrent Expenditure and GDP

The graph below illustrates the movement of the federal government recurrent expenditure in administration, social and community services, economic services and transfers. It showed clearly that the Gross Domestic Product has always been on a tremendous increase in the past thirty-six years (36years) dating from 1981 to 2016 while the recurrent expenditure in administration has its peak increment in the year 2010 likewise recurrent expenditure in social and community services with economic services while transfers had its peak in 2016 showing that the federal government spent more in transfers maintenance reducing the debt servicing of foreign loans to a minimal affecting the growth of the Nigerian economy.



4.4 Test of Hypotheses

Table 4.4.1: Coefficient Table

Variables	Coefficient (Beta)	Standard Error	T-statistics	P-Value
Constant	0.013248	0.000721	18.37233	0.0000
ADM	-0.768578	0.349807	-2.197149	0.0356
SCS	2.841918	0.368927	7.7031960	0.0000
ECS	0.911085	0.425903	2.139186	0.0404
TRS	0.814252	0.147364	5.525454	0.0000

Dependent Variable: GDP

Source: Researcher's Computation (2017)

Table 4.4.2: Correlation Matrix

	GDP	ADM	SCS	ECS	TRS
GDP	1.000000	0.937927	0.969540	0.775594	0.924358
ADM	0.937927	1.000000	0.953577	0.867675	0.897370
SCS	0.969540	0.953577	1.000000	0.779711	0.872888
ECS	0.775594	0.867675	0.779711	1.000000	0.692861
TRS	0.924358	0.897370	0.872888	0.692861	1.000000

Source: Researcher's Computation (2017)

The constant value of 0.013248 shows the extension of the independent variables (recurrent expenditure in administration, economic 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 growth of the GDP. The independent variables; SCS, ECS, TRS have a positive impact on 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 increases 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 on 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 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.

Hypothesis One:

Ho_1: Federal Government recurrent administration expenditure (ADM) has no significant effect on GDP in Nigeria.

From the above table III, the t-value calculated for ADM is -2.197149 and significant at 0.0356. This value is within the critical value of 5% (0.05) that is; it is equal to our critical value. Therefore, we reject the null hypothesis stating that Federal Government recurrent administration expenditure (ADM) has no significant effect on GDP in Nigeria and accept the alternate that federal government recurrent administration expenditure (ADM) has an effect on the Gross Domestic Product (GDP) of Nigeria.

Hypothesis Two:

Ho_2: Federal Government recurrent social community service expenditure (SCS) has no significant effect on GDP in Nigeria.

The t-value calculated for health in the above table is 7.703196 which are positive and significant at 0.0000. This value is within the critical value of 5% (0.05). We, therefore, reject the null hypothesis and accept the alternate hypothesis which states that Federal Government recurrent social community service expenditure (SCS) has a significant effect on GDP in Nigeria.

Hypothesis Three:

Ho_3: Federal Government recurrent economic service expenditure (ECS) has no significant effect on GDP in Nigeria.

In the above table III, the t-value of ECS shows a positive value of 2.139186 and it is significant at 0.0404. This value is also below the 5% (0.05) critical value stipulated for this empirical test. Therefore, the null hypothesis is rejected and the alternate hypothesis stating that Federal Government recurrent economic service expenditure (ECS) has a significant effect on GDP in Nigeria will be accepted.

Hypothesis Four:

Ho_4: Federal Government recurrent transfers expenditure (TRS) has no significant effect on GDP in Nigeria.

From the above table 4.4.1, the t-value calculated for TRS is 5.525454 which are positive and it is significant at 0.0000. This value is within the critical value of 5% (0.05) that is; it equals our critical value. Therefore, we reject the null hypothesis stating that Federal Government recurrent transfers expenditure (TRS) has no significant effect on GDP in Nigeria and accept the alternate hypothesis stating that Federal Government recurrent transfers expenditure (TRS) has a significant effect on GDP in Nigeria.

4.5 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 were 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 will 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 will 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 will 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 will stimulate the economic growth in Nigeria. This supports Adebiyi (2015) who disclosed that recurrent expenditure on federal government economic infrastructures will 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 will 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.

4.6 Summary

The chapter discusses the data of the variables designed in the model of this research. The data covers Federal government recurrent expenditure on administration, social community service, economic service and transfers. Table 4.2.1 revealed that the federal government reduced its recurrent expenditure on the four variables in 2001, 2011, 2012, 20113 and 2014 which affected the sectors in the economy. The analysis of data showed that federal government capital expenditure was spent more on administration, transfers, economic services and social community services respectively making social community service as the least components to the sectors under which is an assumed concern to the federal government. The hypotheses tested were four in number and the null hypotheses of each were rejected identifying that the federal government recurrent expenditure on administration, economic service, social community service and transfers have an impact on the Gross Domestic Product (GDP). The result of the model summary revealed through the R^2 value of 0.970776 that 97.07% of the independent variables explain the total variable in the dependent variable, the F-statistics value was 257.4440 which was significant at 0.0000 showing that the model designed for the research was significant for the research while the Durbin Watson (DW) value of 0.913447 explained there existence of autocorrelation among the variables, but of insignificant figure that can be accommodated.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

Nigeria, as one of the fast growing African economy, is faced with economic and political challenges which are identified in the study as its affects the federal government recurrent expenditures towards job creations, infrastructures and welfare for its citizens. Many studies are yet to seek solutions in solving this demise; this study therefore analyzed data associated with federal recurrent expenditure components and economic growth in Nigeria? The solution to problems, objectives and questions poised in the study is for the purpose of empirical findings being asserted and solved in the study. The analysis and statistical interpretation and hypotheses tests discussed; show the significant impact of federal government recurrent expenditure components on the gross domestic product (GDP) in Nigeria. Therefore, the empirical findings are summarized as

i. The four independent variables (federal government recurrent expenditure in administration, economic services, social community services and transfer) have an impact on the GDP in Nigeria.

ii. The Gross Domestic Product had a positive relationship with federal government recurrent expenditure on administration, social community services, economic service and transfers (see appendix 2).

iii. The variables applied in the model are significant to the study as the f-statistics (prob.) was at 0.0000 (see appendix 1) which is below 1% and 5% significance level. The variation explaining the dependent variable is high i.e. the R^2 (0.970776) is above 50% while the Durbin Watson results (see appendix 1) proved that there was no incident of autocorrelation among the variables in the model.

5.2 Conclusion

In a literally view, capital expenditure are 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, economic 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.

5.3 Recommendations

The following recommendations below are suggested as;

a. Federal government recurrent expenditure on administration should be managed properly and efficiently in 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 less 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 channeled 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 in reducing the economy debts so as to increase the GDP of the Nigerian economy.

e. Generally, the Federal government should increase its budget on recurrent expenditure in order to increase the economy per capita income and boost productive sectors and grow the Nigerian economy rapidly.

5.4 Contributions to Knowledge

Recurrent expenditure is as one of the fiscal tools the Federal government uses to boost economic growth in any country, and it has a vital role to play in the implementation of monetary policy. This aspect of public finance has created many contributions to knowledge through this study. Therefore, this research has made the following as its contribution to knowledge. Thus;

a. The work successfully developed a predictive model for Federal Government Recurrent Expenditure and Nigerian Economy, viz:

$GDP = 0.013248-0.768578ADM +2.8419185SCS+0.911085ECS+0.814252TRS$

b. The study developed a model that serves as an essential corrective measure to be adopted by monetary authorities in Nigeria.

c. This study established on analytical model for Nigeria Recurrent Expenditure and statistical tools which serves as a measure of cost control and the control of variable to stimulate economic growth.

d. The literature contributed in the field of banking and finance, and particularly public finance, widen the understanding of public finance subject as it relates to federal government recurrent expenditure and economic growth.

5.5 Suggestion for further Studies

The following are suggestions for further studies by the researcher;

a. The study suggests that other variables like recurrent expenditures in agriculture, interiors and others should be investigated into by observing the effect of recurrent expenditure in other sectors on the economic growth of the Nigerian economy.

b. The study also suggests that other researchers should expand the time series of the study to estimate the effect of Federal government recurrent expenditure in this four selected sectors on the Nigerian economy and GDP.

c. The study also suggests that researchers should make use of other statistical tools in these hypotheses to checkmate the results and findings of these variables selected for this research.

d. This study suggests that other studies should do an empirical study between recurrent expenditure and sectorial GDP.

e. The study suggests for more empirical studies on this research to elevate public finance knowledge in this field of study.

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APPENDIX

Appendix 1: REGRESSION RESULTS

Dependent Variable: GDP
Method: Least Squares
Date: 11/28/17 Time: 11:08
Sample: 1981 2016
Included observations: 36

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.013248	0.000721	18.37233	0.0000
ADM	-0.768578	0.349807	-2.197149	0.0356

SCS	2.841918	0.368927	7.703196	0.0000
ECS	0.911085	0.425903	2.139186	0.0404
TRS	0.814252	0.147364	5.525454	0.0000

R-squared	0.970776	Mean dependent var	0.027778
Adjusted R-squared	0.967005	S.D. dependent var	0.015879
S.E. of regression	0.002884	Akaike info criterion	-8.730786
Sum squared resid	0.000258	Schwarz criterion	-8.510853
Log likelihood	162.1542	Hannan-Quinn criter.	-8.654024
F-statistic	257.4440	Durbin-Watson stat	0.913447
Prob(F-statistic)	0.000000		

Appendix 2: Correlation

	GDP	ADM	SCS	ECS	TRS
GDP	1.000000	0.937927	0.969540	0.775594	0.924358
ADM	0.937927	1.000000	0.953577	0.867675	0.897370
SCS	0.969540	0.953577	1.000000	0.779711	0.872888
ECS	0.775594	0.867675	0.779711	1.000000	0.692861
TRS	0.924358	0.897370	0.872888	0.692861	1.000000

Appendix 3: Co-integration Results

Date: 11/27/17 Time: 23:06
Sample (adjusted): 1983 2016
Included observations: 34 after adjustments
Trend assumption: Linear deterministic trend
Series: GDP ADM SCS ECS TRS
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**

None *	0.797373	142.6646	69.81889	0.0000
At most 1 *	0.657792	88.38731	47.85613	0.0000
At most 2 *	0.585711	51.92787	29.79707	0.0000
At most 3 *	0.466304	21.96734	15.49471	0.0046
At most 4	0.018005	0.617736	3.841466	0.4319

Trace test indicates 4 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.797373	54.27728	33.87687	0.0001
At most 1 *	0.657792	36.45944	27.58434	0.0028
At most 2 *	0.585711	29.96053	21.13162	0.0022
At most 3 *	0.466304	21.34960	14.26460	0.0032
At most 4	0.018005	0.617736	3.841466	0.4319

Max-eigenvalue test indicates 4 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegrating Coefficients (normalized by b'*S11*b=I):

GDP	ADM	SCS	ECS	TRS
-14.23173	957.2114	-653.7962	-285.7093	-277.6038
-26.16332	-230.5116	207.0755	1008.155	-64.83667
-374.2033	-431.6298	788.5291	748.0448	514.4941
279.8589	293.1687	-1389.498	150.3336	-79.66269
33.05780	688.2909	-466.7521	-485.3765	-547.5054

Unrestricted Adjustment Coefficients (alpha):

D(GDP)	0.000445	-8.16E-06	0.000447	-0.000134	1.11E-05
D(ADM)	-0.000424	0.000255	0.000570	0.001005	-4.86E-05
D(SCS)	0.000189	0.000438	0.000185	0.000492	1.43E-05

D(ECS)	0.000286	-0.000579	-2.60E-05	0.000443	-5.41E-05
D(TRS)	-0.000560	0.000457	-0.000506	-0.000647	-0.000265

1 Cointegrating Equation(s): Log likelihood 940.9805

Normalized cointegrating coefficients (standard error in parentheses)

GDP	ADM	SCS	ECS	TRS
1.000000	-67.25894	45.93932	20.07551	19.50597
	(8.09896)	(6.96969)	(8.54005)	(4.40537)

Adjustment coefficients (standard error in parentheses)

D(GDP)	-0.006328
	(0.00181)
D(ADM)	0.006031
	(0.00474)
D(SCS)	-0.002692
	(0.00258)
D(ECS)	-0.004065
	(0.00289)
D(TRS)	0.007971
	(0.00651)

2 Cointegrating Equation(s): Log likelihood 959.2102

Normalized cointegrating coefficients (standard error in parentheses)

GDP	ADM	SCS	ECS	TRS
1.000000	0.000000	-1.677262	-31.74499	4.450341
		(3.14863)	(5.03976)	(1.88690)
0.000000	1.000000	-0.707959	-0.770463	-0.223846
		(0.07516)	(0.12031)	(0.04504)

Adjustment coefficients (standard error in parentheses)

D(GDP)	-0.006115	0.427528
	(0.00379)	(0.12527)
D(ADM)	-0.000640	-0.464378
	(0.00981)	(0.32436)
D(SCS)	-0.014140	0.080186

	(0.00478)	(0.15816)
D(ECS)	0.011093	0.406988
	(0.00506)	(0.16731)
D(TRS)	-0.003995	-0.641563
	(0.01337)	(0.44182)

3 Cointegrating Equation(s): Log likelihood 974.1905

Normalized cointegrating coefficients (standard error in parentheses)

GDP	ADM	SCS	ECS	TRS
1.000000	0.000000	0.000000	101.1475	-19.69940
			(14.3235)	(4.80997)
0.000000	1.000000	0.000000	55.32241	-10.41726
			(7.75541)	(2.60434)
0.000000	0.000000	1.000000	79.23180	-14.39831
			(11.0236)	(3.70184)

Adjustment coefficients (standard error in parentheses)

D(GDP)	-0.173486	0.234472	0.060271
	(0.03517)	(0.10072)	(0.09791)
D(ADM)	-0.213954	-0.710428	0.779334
	(0.11661)	(0.33395)	(0.32463)
D(SCS)	-0.083333	0.000375	0.112752
	(0.05880)	(0.16840)	(0.16370)
D(ECS)	0.020821	0.418208	-0.327236
	(0.06376)	(0.18260)	(0.17751)
D(TRS)	0.185488	-0.423002	0.061620
	(0.16443)	(0.47090)	(0.45776)

4 Cointegrating Equation(s): Log likelihood 984.8653

Normalized cointegrating coefficients (standard error in parentheses)

GDP	ADM	SCS	ECS	TRS
1.000000	0.000000	0.000000	0.000000	-1.970024
				(0.21533)
0.000000	1.000000	0.000000	0.000000	-0.720217
				(0.07203)
0.000000	0.000000	1.000000	0.000000	-0.510373
				(0.08281)
0.000000	0.000000	0.000000	1.000000	-0.175282
				(0.04011)

Adjustment coefficients (standard error in parentheses)

D(GDP)	-0.210925	0.195252	0.246159	0.179191
	(0.04218)	(0.10038)	(0.15663)	(0.11677)
D(ADM)	0.067239	-0.415861	-0.616788	0.955578
	(0.11384)	(0.27091)	(0.42270)	(0.31514)
D(SCS)	0.054245	0.144496	-0.570322	0.599326
	(0.05846)	(0.13912)	(0.21707)	(0.16183)
D(ECS)	0.144752	0.548033	-0.942550	-0.618596
	(0.06880)	(0.16372)	(0.25546)	(0.19046)
D(TRS)	0.004457	-0.612642	0.960436	0.145091
	(0.19664)	(0.46797)	(0.73017)	(0.54437)