Sapientia Global Journal of Arts, Humanities and Development Studies (SGOJAHDS), Vol.9 No.1 March, 2026; pg. 129 – 135; ISSN: 2695-2319 (Print); ISSN: 2695-2327 (Online)

THE DILEMMA OF NIGERIA'S GOVERNMENT EXPENDITURE AND ECONOMIC GROWTH

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ABSTRACT

Economic growth entails improvement in development indicators like standard of living, job creation, price stability, favourable balance of payments. It also implies the expansion of a country's productive capacity and increase in the amount of goods and services produced in a country over a period of time measured by Gross Domestic Product (GDP). Nigeria's GDP indicates positive growth for over three decades yet all the development indicators are negative giving the experiential lives of Nigerians. This study seeks to investigate why Nigeria's GDP is growing yet the growth is negatively affecting all the development indicators as witnessed in poor standard of living, high unemployment, deficit of balance of payment, price instability, high inflation and high incidence of poverty. The study adopted Wagner's Theory of Increasing State Activities using OLS estimation in analyzing government expenditures' on economic development. The findings indicate that the core variables of interest (capital and current) expenditures though statistically significant but fails to spur development in Nigeria. We therefore recommend critical budget appraisal and appropriate checks and balances of public fund as a panacea of development in Nigeria.

Keywords: economic development, capital expenditure, current expenditure, Gross Domestic Product.

Introduction

Government Expenditure no doubt is one of the most essential fiscal instruments deployed for achieving macroeconomic goals. Public expenditure is described as tool used to achieve three distinct objectives which include allocation, distribution and stabilization purposes. Nigeria embarked on various spending programs in order to achieve this goal. Unfortunately, the effect of government expenditure in Nigeria for economic development have not manifested given the non-existential development indicators. Indeed, it has generated a series of controversy among scholars on why the intended goals are not realized given the huge investment over the years. Some scholars believe that a rise in government expenditure is

necessary for increase in output and can reverse economic downturns. For instance, Agbonkhese and Asekhome (2014), Akpan and Abang (2013) in their different studies noted that government expenditure has a positive and significant effect on economic growth. What then is fundamentally wrong as Nigeria's economy negates this finding. Other scholars like Egbetunde and Fasanya (2013), Folster and Henrekson (2001) assert that a rise in government expenditure (especially when it is funded by borrowing) may impede economic growth given no significant relationship between government expenditure and economic growth in their findings. Nigeria economy falls into this category because she borrows externally to fund her annual budgets and this borrowing has been constant over the years.

The relationship between government expenditure and development has continued to generate dust over the years in Nigeria. Expenses on social and economic infrastructures such as health, education, roads, telecommunication, schools and electricity which ought to have a positive impact on national output is rather having negative effects. In Nigeria, increase in government expenditure usually implies increase in tax or borrowing. This reduces per capita income and the desire to work thus reducing aggregate demand. All these spikes up interest rate in knowing what influence government expenditure has on economic development.

The emergence of public expenditure in achieving macroeconomic objectives has been a topical issue between two contending proponents; the Wagnerians and Keynesians presenting two parallel and polarized views in terms of the relationship between public expenditure and development. Wagner introduced a model showing that public expenditures are endogenous to economic growth, and that there exist long-run tendencies for public expenditure to grow relatively to some income aggregates such as the Gross Domestic Product (GDP). Keynes (1936) however, argued that public spending is a catalyst to economic spending as it is capable of pulling an economy back to equilibrium. Interestingly, achieving a sustained economic growth is a macroeconomic objective that every nation strives for. Admittedly, Ijuo & Andohol (2020) observed that ensuring a rapid and sustainable economic growth and development is a major goal of most economies of the world and wonders why Nigeria's goal is different considering his expenditure history that has yielded negative results given her development profile. Nigerian economy is rather associated with rising fiscal deficits, resulting from inadequate system of expenditure control, intense competition for funds among various Ministries, Agencies and Departments (MDAs), suggesting their limited ability to raise sufficient revenue to finance higher levels of government expenditure (Kolawole, 2016). For instance, between 2010 and 2015 total government expenditure increased from ₦153.9 billion to ₦5.06 trillion while GDP continued to wobble between 4.9% in 2010 and 2.7% in 2015 with less than 1% in the first and second quarters of 2016. In general, it is believed that Nigerian economic policies have had a big influence on the trend of government expenditures for economic growth. Economic policy makers are divided as whether the expansion of government expenditure promotes or impedes economic development because in spite of the annual budgetary projects and external borrowing, there's yet no sign of development. The rising government expenditure in Nigeria aimed at achieving some level of development, is elusive and seems unattainable as evidenced in high rates of unemployment, illiteracy, poverty, health inequality. As high as 70% of Nigerians also still lack medical care, do not have access to clean and portable water and basic needs of live (WHO, 2018). Macroeconomic indicators that is characteristic of development are non-existent like favourable balance of payments, import obligations (35.2 billion USD), inflation rate (31.7.

%), exchange rate (304.7), unemployment (14.2%) and national savings (13.1% of GDP) reveal Nigeria had not fared well in the last four-decade despite being the largest economy in Africa with an estimated GDP of US$510billion (World Bank, 2018; CIA, 2016). Is GDP measure in Nigeria different from other countries' measures whose positive outcome translates to measurable development indications like improved standard of living, life expectancy, poverty reduction, low rate of inflation, price stability, minimal unemployment, favourable balance of payment etc.

In view of the importance of government expenditures in the transformation of an economy, it is imperative to determine the effect of government expenditure on the Nigeria economy in relation to her development aspirations. Nigerian economy seems to have demystified theories that believed that economies' growth lies on productive government expenditures whether financed through external borrowing or government generated revenues. It is in the light of the foregoing that this study is anchored on. This study will therefore attempt to provide answers to the effects of government expenditures on development in Nigeria?

Review of Related Literature

Empirical studies on the relationship between government expenditure and economic growth in Nigeria and other developing countries present mixed findings. Onuoha and Okoye (2020) found that while aggregate public spending positively affects growth, recurrent and capital expenditures were largely insignificant, though economic growth positively influences government spending. Similarly, Kairo et al. (2017) showed that government expenditure has a positive but largely insignificant effect on human capital development. Other Nigerian studies reveal varied results: Egbetunde and Fasanya (2013) reported that total public spending may hinder growth, but recurrent expenditure supports it, while Usman and Esther (2015) found a positive long-run relationship between both capital and recurrent expenditure and GDP growth. Njoku et al. (2014), Akpokerere and Ighoroje (2013) also highlighted the limited or negative impact of government spending on development, particularly when misallocated across sectors such as education, power, or capital projects.

Evidence from other countries, including Pakistan (Faqeer et al., 2015), and East Africa (Naftaly et al., 2014), similarly shows that the growth effects of public expenditure vary by sector, often being significant for consumption, health, and defense, but weak or delayed for human capital investment. Santayanan, cited in Idenyi et al. (2016), observed that recurrent expenditure typically promotes growth, whereas capital spending may be growth-retarding if poorly managed.

Overall, the literature reflects an inconclusive relationship: some studies find government spending growth-enhancing, others growth-retarding. These mixed results, along with contrasting theoretical perspectives Keynesian theory suggesting that government expenditure stimulates growth and Wagner's law positing that spending rises with economic development underscore the need for renewed empirical examination of how public expenditure affects economic growth, particularly in the Nigerian context.

Methods and Data

The theoretical foundation of this study is grounded in Adolph Wagner's Law of Increasing State Activities, which posits that government expenditure tends to rise as a country's income

and economic output expand. Wagner (1835–1917) observed that as economies develop, governments intensify traditional functions (e.g., defense, law and order) and undertake new activities such as industrial development, social welfare, and public health, resulting in higher public spending. While originally based on industrialized nations, this principle also applies to developing economies, including Nigeria.

This study also draws on the endogenous growth theory, which emphasizes that long-run economic growth is driven by internal factors such as human capital, innovation, and investment rather than exogenous technological shocks. Accordingly, the model uses Gross Domestic Product (GDP) as the dependent variable and Capital Expenditure, Recurrent Expenditure, Inflation, Interest Rate, and Exchange Rate as independent variables, linking government spending and macroeconomic factors to economic growth outcomes.

The model is thus specified:

$GDP = \beta_0+\beta_1 CEXP+\beta_2 REXP+ \beta_3 INFL+ \beta_4 INTR + \beta_5 EXCHR + Ui$ ----------1

Taking the natural logarithm form of the model for only the expenditure variables, which allows for easy interpretation of their coefficient as elasticity's, we have:

$lnGDP = \beta_0+\beta_1 lnCEXP+\beta_2 lnREXP+ \beta 3 INFL+ \beta_4 INTR + \beta_5 EXCHR + Ui$---------- (2)

Where:

LNCEXP = Natural log of Capital Expenditure

LNREXP = Natural log of Recurrent Expenditure

INFL = Inflation rate.

INTR= Interest rate

EXCHR= Exchange rate

β_0 = Regression constant or the intercept

β_1-β_5 = Regression parameters or slope coefficient explanatory variables expressed in logarithm.

Ui = Stochastic or error term

RESULTS

This section seeks to evaluate the regression result based on apriori expectations. This evaluation is aimed at ascertaining if the time series data of the variables used conform to the established economic theories.

Short Run Regression Result (Dependent Variable=Lngdp)

Table 1

VARIABLE	COEFFICIENT	STD. ERROR	T-STATISTICS	PROB.
LNCEXP	-0.431656	0.102524	-4.210280	0.0002
LNREXP	0.790912	0.104804	7.546605	0.0000
INFL	-0.002211	0.001354	-1.632046	0.1131
INTEREST	-0.032847	0.005949	-5.521724	0.0000
EXCH_RATE	-0.000562	0.000416	-1.349791	0.1872
C	10.72938	0.135657	79.09197	0.0000

R-SQUARE = 0.939577

R-SQUARE ADJUSTED = 0.929507

F-STATISTICS = 93.30076

PROB (F-STAT) = 0.000000
DURBIN WATSON STAT = 1.148311
Source: Authors' Computation Using E-Views

Government Capital Expenditure (LNCEXP)
From the table 1, Government capital expenditure is (-0.431656) shows that a percentage increase capital expenditure decreases Nigeria's gross Domestic by approximately 43.2%. This is totally a negation of economic theory's postulation which explains the dilemma in Nigeria's development aspirations. This abnormality could be explained by investments on non-productive projects, poor project appraisal, execution, and implementation. It could also be the outcome of corruption where public funds are siphoned by political office holders.

Government recurrent expenditure of (0.790912 shows that a percentage increase in government recurrent expenditure which was witnessed over two decades is expected to improve GDP by 79%, and by extension improve some development indicators in Nigeria but in reality, all the development indicators standard of living, life expectancy, poverty line, mortality rates, unemployment are all negative in Nigeria.

The coefficient of interest rate which is -0.032847 is negative which shows that a unit change in interest rate will lead to a decrease in economic development in Nigeria by 33%. In reality, Nigeria has high interest rate relative to other countries leading to exit or both indigenous and foreign investors due to high cost of investment.

Inflation rate of (-0.002211) shows that a unit change in inflation rate will lead to a decrease in economic development in Nigeria by 0.0022 units. The skyrocketing inflation has affected all sectors of the Nigerian economy leading to poor capital investment and thus absence of development indicators.

Exchange rate value of (-0.000562) indicates increasing exchange rate will negatively affect development. In Nigeria, the naira has less value relative to other currencies like the dollar, Euros, Pounds sterling. This has affected both Nigeria's imports and exports negatively as fewer monies are realized from her exports and spend heavily on imports leading to unfavourable or trade deficits. The discouragement in international trade negatively affects the development goals in Nigeria.

Implications for Policy and Research
The core variables of interest (Capital and Recurrent) expenditures, though are statistically significant, yet failed to have positive impacts on Nigeria's development. This puzzle need to be addressed through appropriate policies and institutionalization of checks and balances. Countries whose expenditures are either financed through revenues or borrowing but the investments are not able to pull them out from under development needs projects appropriate appraisal. If the relative investment to other countries have transformed those countries, the fundamental investment lack in the affected countries need proper interrogation. This can only be done through research which policy measures will be recommended.

Conclusion

Capital and recurrent expenditures are vital for economic development. These expenditures must be invested to institutionalize the culture of productivity. A country that consumes what other countries produce will perpetually remain underdeveloped but when capital and recurrent expenditures are judiciously invested, the pull factor will pull other sectors of the economy to development. Nigeria over the years have not tracked the direction of her investment and constantly doing the right thing and yet being on the wrong path of economic development. This is the dilemma of Nigeria's economy. Her investments are anti-development and yet annually the same budgetary allocation that has no positive economic effect both in human capital development and capital development.

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