THE EFFECT OF PUBLIC EXPENDITURE MANAGEMENT ON ECONOMIC GROWTH OF NIGERIA

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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Economic growth is frequently measured by an increase in a country's Gross Domestic Product (GDP), and sustained growth is necessary for Nigeria to break free from the cycle of poverty. Kasasbeh (2021) notes, fiscal policy reflects the state use of its economic programs, which includes revenues and expenses in the most efficient manner. To attain the highest levels of economic balance, this is accomplished by directing the state economic plans to identify the sources of income, how they should be spent, and the most significant spending trends, such as government employee wages and various service projects.

Public expenditure plays a vital part of the economy management and expansion of developing nations like Nigeria. It is a critical tool used by governments to allocate resources towards fostering sustainable economic development. According to Rapheal *et al.* (2024), the impact of government spending on economic growth has sparked debate, with some arguing that public expenditure promotes investment and employment, while others suggest that excessive government involvement can hinder private sector growth and competition. In Nigeria, public Spending has kept up with grow, demonstrating more government intervention in economic activities, particularly through fiscal policy aimed at stimulating economic growth. The connection between economic development and public spending has attracted significant attention in Research that is both theoretical and empirical. Studies have shown that public expenditure, when directed toward productive sectors such as infrastructure, education, and health, can promote growth and increase economic productivity. However, the misallocation of funds or inefficient public spending can have adverse effects on the economy.

Most governments all over the world embark on public expenditure to stimulate the economy. According to them, the economy cannot expand unless the government steps in and uses public spending as a tool to regulate it. Public investments in physical and socioeconomic infrastructure, according to academics, boost economic growth. Okoro (2023), has maintained, for example, that public spending on health and education raises worker productivity, which in turn boosts the expansion of national output. Once more, investments in infrastructure such as power, communications, and roads lower production costs, which boost private sector investment and profitability and boost economic growth (Okoro, 2023).

The Nigerian government classifies public spending into two main categories: capital expenditure and recurrent expenditure. Capital expenditure focuses on long-term investments such as infrastructure and human capital development, while recurrent expenditure covers ongoing costs, including wages, salaries, and debt servicing. Studies have shown that while capital expenditure tends to have a positive impact on economic growth, recurrent expenditure does not significantly contribute to growth (Odubuasi *et al.,* 2020). This imbalance in expenditure allocation is one of the key challenges facing Nigeria's public expenditure management. Nigeria's economic growth is heavily dependent on the government's ability to manage its public resources efficiently. However, over the years, inefficiencies in public expenditure management, including corruption, misallocation of resources, and lack of accountability, have hindered the country's economic development (Ewa & Okoi, 2018). The country's reliance on oil revenue has also made it vulnerable to external shocks, such as fluctuations in global oil prices, which have negatively impacted public spending and consequently, economic growth.

In the past years, it has been an unhealthy state for the federal government to take full charge of its Capital spending is important for the growth of the economy and the country. Both the federal and state governments in Nigeria have had trouble getting money to pay for capital projects recently. Experts and policymakers expect the federal government to allocate funds to key sectors like infrastructure, social services, healthcare, and education. The goal of these investments is to improve the well-being of the public and make money in the long term to pay for future projects. Many studies have looked at how government spending affects Nigeria's economy, but few have looked at how capital spending has been going down. Also, there are still no good strategies that everyone agrees on to deal with this decline. This situation keeps getting in the way of long-term growth and makes public investment less useful overall. To make real economic progress and boost national productivity, we need to fix the lack of capital spending. Studies have shown that public expenditure on education and health, which are crucial for human capital development, remains inadequate to have an insignificant impact on economic growth in Nigeria (Sani *et al.,* 2022). Underinvestment, bad management, and corruption in these areas are to blame for the consistently low levels of public spending on health and education. As a result, Nigeria continues to lag in key indicators of human development, which in turn hampers its economic growth prospects. Additionally, because a large amount of government revenue is allocated to debt servicing rather than investments in manufacturing industries, public debt has grown to be a major burden on Nigeria's economy (Sani et al., 2022). This has limited the government's ability to stimulate economic growth through public expenditure, as a substantial amount of resources is diverted toward debt repayment.

In conclusion, while public expenditure is essential for Nigeria's economic growth, its impact is dependent on how effectively it is managed. The inefficiencies in public expenditure management, coupled with corruption and misallocation of resources, have hindered the country’s ability to achieve sustainable economic growth. Therefore, improving the management of public resources, ensuring transparency, and prioritizing investments in productive sectors are crucial for fostering long-term economic growth in Nigeria.

1.2 Statement of the Problem

Public expenditure in Nigeria has been on the rise over the past few decades, yet the expected positive impact on economic growth has not been fully realized. Despite significant budgetary allocations to infrastructure, education, and healthcare, the country continues to face challenges such as high unemployment, poor infrastructure, and low productivity. The inefficiency in managing public resources has led to suboptimal outcomes, with little improvement in the standard of living for most Nigerians.

One of the major issues with public expenditure management in Nigeria is the imbalance between recurrent and capital spending. A large portion of the budget is allocated to recurrent expenditure, including salaries, overheads, and debt servicing, leaving inadequate resources for capital projects that could drive economic growth. This overemphasis on recurrent expenditure has limited the government's ability to invest in key sectors that could boost productivity and stimulate growth (Muhammed *et al.,* 2024).Corruption and lack of transparency in public expenditure management further exacerbate the problem. Funds allocated for development projects are often misappropriated or diverted, leading to the abandonment of projects or poor-quality infrastructure. This has undermined the effectiveness of public spending and stifled economic growth (Ewa & Okoi, 2018).Additionally, the reliance on oil revenues to finance public expenditure has made Nigeria's economy vulnerable to external shocks. Fluctuations in global oil prices have led to budget shortfalls, forcing the government to cut spending or borrow to finance deficits. This has resulted in rising public debt, which now consumes a significant portion of the budget, leaving little room for productive investments. In light of these challenges, there is a need to examine the effect of public expenditure management on Nigeria's economic growth and to identify strategies for improving the efficiency and effectiveness of public spending.

1.3 Research Questions

To guide the Research, the following research questions were posed.

i. What is the relationship between capital expenditure and economic growth in Nigeria?

ii. How do recurrent and recurrent expenditures impact economic growth in Nigeria?

iii. What is the effect of total public expenditure on key sectors such as infrastructure, education, and health?

1.4 Objectives of the Study

The primary objective of this study is to determine the effect of public expenditure management on the economic growth of Nigeria and this prime objective is further measured by the following Specific objectives, which are to:

i. examine the relationship between capital expenditure and economic growth in Nigeria.

ii. analyze the effect of total recurrent expenditure on economic growth in Nigeria.

iii. evaluate the role of total public expenditure on economic growth Nigeria.

1.5 Statement of Hypotheses

$H0_1$: There is no meaningful relationship between capital expenditure and economic growth in Nigeria.

$H0_2$: Recurrent expenditure has no significant impact on economic growth in Nigeria.

$H0_3$: Public expenditure has no significant impact on economic growth in Nigeria.

1.6 Significance of the Study

Since the impact of public spending on economic growth is still a hotly debated topic, the flurry of conversations surrounding it has continued to soar high. In actuality, depending on the analytical tool being used, the region, and the method of classifying public expenditures, scholars have continued to assert differing implications for various economies. None of these have produced any tangible outcomes for the creation of national policies. Because of this strength, policymakers found this study on Nigeria to be helpful in a variety of ways. First, the study successfully identified the factors that make up public spending and their impact on the growth of the Nigerian economy for the first time. Since no two nations are structurally alike, any investigation into a particular nation's issues will undoubtedly be far more instructive for everyone, and policymakers, than cross-sectional studies. Second, the study offers a solid foundation for policy formation. This is especially true, given that researchers have unquestionably supported the results with solid empirical data drawn from the Nigerian experience. The study also has the potential to spark increased interest in the topics of economic growth and public spending. Researchers and other knowledge seekers are thus given a rich environment in which to expand their knowledge. It is anticipated that this study will compile the body of research on the topics pertaining to the connection between public spending and economic growth in Nigeria. Additionally, the findings of this study will be useful for international organizations and development partners interested in supporting Nigeria's economic development through improved fiscal management. As a result of the findings of the study, the government would be motivated to give immediate attention to the development of healthy policies concerning the public expenditure, capital expenditure, recurrent expenditure, economic growth, and inflation rate because these factors complement the growth and productivity of the economy.

Finally, the study will serve as a reference for future research on public expenditure management and its impact on economic growth in developing countries.

1.7 Scope of the Study

The scope of study is to investigate the effect of public expenditure management on economic growth in Nigeria. It covers the period from 1993 to 2024, with an emphasis on the relationship between public expenditure, economic growth, sectoral development, capital expenditure, recurrent expenditure, and inflation rate. The study also examines the challenges associated with public expenditure management and proposes recommendations for improvement. Many scholars argue that this broader scope is more comprehensive, as it includes recent policy modifications aimed at promoting economic growth in Nigeria.

1.8 Definition of Terms

Public Expenditure: This refers to government spending on goods, services, and public projects aimed at fulfilling the needs of the country. It includes both recurrent and capital expenditures made by the government to promote economic and social welfare.

Economic Growth: The increase in the production of goods and services in a country over a specific period, typically measured by the Gross Domestic Product (GDP) growth rate. It reflects the overall health and performance of an economy.

Capital Expenditure: Government spending on long-term investments such as infrastructure, education, and healthcare. These expenditures are expected to create future economic benefits and promote sustainable development.

Recurrent Expenditure: This consists of government spending on the day-to-day running of the public sector, such as salaries, wages, maintenance, and other operational costs. It covers expenditures that are consumed within a fiscal year.

Public Debt: The total amount of money that the government owes to creditors, both domestic and foreign. Public debt arises when a government borrows to finance its budget deficits.

Inflation Rate: The percentage change in the general price level of goods and services in an economy over a specific period. Inflation reduces the purchasing power of money and is a key indicator of economic stability.

Gross Domestic Product (GDP): The total monetary value of all finished goods and services produced within a country's borders over a specific period, typically a year. It is the primary indicator of a country's economic performance.

Autoregressive Distributed Lag (ARDL) Model: This statistical model is frequently used by researchers and economists to analyze the relationship between variables over time, particularly when the variables exhibit different orders of integration, that is, when some are stationery and others become stationary only after differencing. It aids in examining how independent variables affect a dependent variable over the short and long term.

Granger Causality Test: A statistical hypothesis test used to determine whether one time series can predict another. It assesses the direction of causality between variables, such as public expenditure and economic growth.

Time Series Data: Data collected over a period at consistent intervals, used to identify trends, cycles, and relationships between variables in a study.

CHAPTER TWO

LITERATURE REVIEW

The conceptual framework, empirical review, theoretical framework, and summary are all covered in this chapter.

2.1 Conceptual Framework

In this chapter, the researcher reviews the concept of public expenditure management and its effect on economic growth. The researcher structures the discussion into several sections, beginning with the conceptual framework, which defines key terms such as public expenditure and economic growth. The empirical review follows, examining findings from previous studies on the relationship between public expenditure management and economic growth, with a focus on Nigeria. Finally, the chapter explores the theoretical framework and relevant literature related to the research topic.

The conceptual framework explored various detailed examinations which is applicable for this study public expenditure management and its impact on economic growth. Public expenditure, which encompasses government spending on goods and services, plays a crucial role in determining the economic performance of a country. On the other hand, economic growth refers to the increase in the production and consumption of goods and services within an economy over time. The relationship between these two variables is critical to understanding the role of fiscal policy in promoting development, especially in developing countries like Nigeria.

2.1.1 Public Expenditure

Public expenditure refers to the spending by government authorities to meet the needs of the public. Also, this is the spending of public income by government to provide social, political and economic infrastructures that will grow and provide higher standard of living for its citizens. This expenditure includes recurrent and capital spending, with recurrent expenditure focused on the day-to-day running of the government, such as salaries and operational costs, and capital expenditure directed toward long-term investments, including infrastructure, health, and education.

Governments typically divide public spending into distinct categories based on its intended use. Economic services, social services, and public administration are the primary areas where funds are allocated. In Nigeria, the federal government has historically focused more on recurrent expenditure, which has limited the impact on productivity and economic development (Ewa & Okoi, 2018). Effective management of public expenditure is crucial for ensuring that spending in these areas leads to meaningful improvements in the economy. Government expenditures include the costs that the governing body of an economy directly incurs in its daily operations, as well as expenses made to provide tangible goods and services that benefit both society and the economy. When it comes to budgeting, public expenditure is one of the most important engines in a country's public financial system. This is because it enables the many stakeholders in the country to be aware of the programs and services the government is providing. According to Jay Pee (2021), it is unequivocally an essential element of both the national finance and fiscal policy. In the context of an economy, the word "government expenditure" refers to the money that the government spends across the economy. Spending by the government is something that happens at every level of government, from municipal city councils to the overall federal organisation.

Additionally, public expenditure is a tool for implementing fiscal policy and addressing market failures. Governments use public expenditure to provide public goods and services that the private sector may not adequately supply, such as national defense, education, and healthcare. Osmond *et al.,* (2024) explains that public expenditure plays a crucial role in shaping the economic development trajectory of nations, particularly in the context of Africa, a continent characterized by diverse economic, social and political landscapes. Public expenditure management involves the process of planning, implementing, and monitoring government spending to ensure it is efficient and aligned with national development objectives. Effective public expenditure management helps to allocate resources where they are most needed, reduce waste, and ensures transparency and accountability in the use of public funds. Without proper management, public expenditure may lead to inefficiencies, misallocation of resources, and poor economic outcomes (Nggada & Yusha'u, 2021).

In conclusion, public expenditure plays a vital role in shaping a nation's economic performance. Its effectiveness depends on how well government authorities manage spending and allocate resources to productive sectors. Poor management and misallocation by public institutions can hinder economic growth, as researchers and international organizations, including the World Bank (2017), have observed in several developing countries, including Nigeria.

2.1.2 Capital Expenditure

The money that the government spends on the development of machinery is known as capital expenditure. equipment, buildings, health facilities, education, etc. The benefits of which are durable and last for several years. It also covers the costs associated with purchasing fixed assets, such as land, and government investments that yield future profits or dividends. (Okolo and others, 2018). By enhancing production facilities and increasing operational efficiency, capital expenditures that result in the creation of assets are long-term in nature and enable the economy to generate income for many years. Additionally, it boosts labor force participation, assesses the economy, and increases its potential for future production. Capital expenditures have far an extremely high effect on the overall economic activities of any nation. Three factors determine capital expenditure on production: the ability to work, save, and invest; the willingness to work, save, and invest; and the diversion of economic activities between various uses and localities (Musa & Asare, 2013). Furthermore, because it lowers production costs and consequently lowers prices, capital expenditure in the form of grants and subsidies to farmers, businesses, and industries is very productive. On the other hand, spending on health and education directly affects society's welfare. According to (Uwaezuoke *et al.* 2018), spending on health and education is viewed as an investment in human capital since it enhances skill development and productivity, which raises disposable income and spurs investment and consumption. On the other hand, capital expenditures are those that are incurred on things that are intended to last for a long time. Consequently, when it comes to the same item, it is possible to incur both recurrent and capital costs. However, while capital expenditures are responsible for providing commodities for use by the government and the public, recurrent expenditures are responsible for the maintenance of these assets (Odeh, 2015). One way to understand capital expenditure is as an expense that a government or organization incurs to initiate a project or investment. Additionally, many economists regard it as covering the costs of purchasing fixed assets, which are then used to generate further income (Oladokun, 2015). It is an expense that is incurred on essential infrastructure, such as the building of bridges, roads, schools, hospitals, highways, prisons, dams, irrigation systems, and public administrative buildings; the acquisition of equipment and machinery; the provision of electricity power; the supply of pipe-borne water; the transportation system; and the establishment of educational and medical facilities (Bamidele et al., 2020). An expenditure that is required to balance the current discrepancies in sectoral development is referred to as a government expenditure, according to Munish et al., (2012).

In a similar vein, the term "government spending on agriculture" is used by Mohammed (2020) to refer to the fraction or proportion of a nation's national budget that is specifically aimed towards the agricultural sector of that nation. In a more particular sense, this refers to the sum of money that the government reserves and then invests in the agricultural sector of the economy in order to foster expansion. The money that is directed towards this sector is typically utilised for the purchase of new machinery that is utilised by farmers, the purchase of pesticides and medication that is utilised for the animals as well as the crops that are grown on the farm, and the purchase of general upkeep for the farm in order to achieve a greater level of output.

In the context of determining fiscal deficits, the expenditures of the government would have. In a practical sense, when there is an increase in government expenditure in the agricultural sector, the cost of production will be made minimal, which will result in an increase in output and a stabilisation of prices for agricultural products.

However, along with the creation of assets, repayment of loan is also capital expenditure, as it lowers liability. The government must exercise caution when allocating funds. Capital expenditures accounted for 14.2% of budget estimates in the 2019–20 fiscal year. To meet the deficit target, the government had to make significant cuts to public spending near the end of the fiscal year. Compared to 2017–18, total spending decreased by 0.3 percentage points in 2018–19. This includes a 0.1 percentage point increase in capital expenditure and a 0.4 percentage point decrease in revenue expenditures. (People, 2021). The Budget estimate of the government's capital expenditure for the year 2020-21 was Rs 1,084,748 crore. The revised estimates of capital expenditure for the 2019-20 Budget came at Rs 1,059,472 crore, while the actuals for the 2018-19 Budget stood at Rs 915,670 crore.

2.1.3 Recurrent Expenditure

Recurrent expenditure on goods and services is expenditure, which does not result in the creation or acquisition of fixed assets (new or second-hand). It consists mainly of expenditure on wages, salaries and supplements, purchases of goods and services and consumption of fixed capital (depreciation). Therefore, Government expenditure can be categorised into either recurrent expenditure or capital expenditure. Recurrent expenditure is recurring spending or, in other words, spending on items that are consumed and only last a limited period of time. They are items that are used up in the process of providing goods or services. In the case of the government, recurrent expenditure would include wages and salaries and expenditure on consumables - stationery, drugs for health service, bandages and so on. By contrast, capital expenditure is spending on assets. It is the purchase of items that will last and will be used time and time again in the provision of goods and services. In the case of the government, examples would be the building of a new hospital, the purchase of new computer equipment or networks, building new roads and so on (Nwamuo, 2020).

In Nigeria for instance, despite the huge amount of public expenditures, there is still an insignificant level of development witnessed. Public expenditure on all sectors of the Nigerian economy is expected to lead to economic growth in the sense that capital and recurrent expenditure will boost the productive base of the economy which inturn will lead to growth. The interest by economists in Nigeria and other jurisdictions on the role of government expenditure is still inconclusive. Gukat and Ogboru (2017) endogenize government spending in a growth model and analyze the relationship between size of government and rates of growth and saving. He concluded that an increase in resources devoted to non-productive government services is associated with lower per capita growth. Therefore, government expenditure which enhances economic growth should be tailored towards productive services.

According to Burkhead and Miner (2016), Government spending or government expenditure includes all government consumption and investment but excludes transfer payments made by a state. Public expenditure can be for the acquisition of goods and services for recurrent use to directly satisfy individual or collective needs of the members of the community or it can be for acquisition of goods and services intended to create future benefits such as infrastructure investment and the expenditures can represent transfers of money, such as social salaries and cost of administration. The breakdown between these two types of spending is very important. While capital expenditure has a lasting impact on the economy and helps provide a more efficient, productive economy. Recurrent expenditure, however, does not have such a lasting impact. Once the money is spent, it is gone and the effect on the economy is simply a short-term one. It is against the importance of these two categories of expenditure and the increasing quantum made by the Nigeria government over the years.

2.1.4 Inflation Rate

In the meantime, a decreased rate of inflation is referred to as disinflation, and a decrease in prices is referred to as deflation. Investors respond to high inflation by selling off their assets, including stocks, in order to increase their purchasing power. This is because high inflation causes a drop in real income. On the other hand, low inflation encourages investors to purchase additional assets of their own. There is no denying the reality that many economies in various regions of the world are experiencing inflation. This is a fact that cannot be denied. It is possible that for some economies, it is nothing more than oscillations, while for others, it is a steady and unending increase in price (Jeremiah & Emmanuel, 2015). One of the arguments put forward by monetarists was that inflation is brought on by excessive monetary growth. The pace of growth in the money stock is significantly higher than the rate of growth in real output, which means that the money stock is growing at a different rate. Friedman (1956, 1960, and 1971) was the first person to provide this monetarist argument during his career. In his opinion, alterations in the money supply have been observed to be the source of variations in prices. The conclusion that can be drawn from this is that an increase in the money supply is likely to result in an increase in prices, which eventually leads to inflation. In order to pay its expenditures, the government engages in the practice of money creation, which results in a growth in the nominal stock of money and, as a consequence, an increase in the demand for goods and services.

The outcome will be an increase in the amount of upward pressure on prices if the production does not expand in parallel with the increase in demand. As a factor that determines the level of fiscal deficits in relation to agricultural output, the inflation rate has a negative impact on it. This occurs when there is a perceived increase in the cost of the goods and services that are required for agricultural output. As a result, there is an increase in spending on the part of both the government and investors. There is a direct correlation between the amount of money spent and the price of agricultural products. The recent worrisome price of food goods on the market is a good example of something that is feasible. A fiscal deficit may be the result of an increase in government spending that is greater than the increase in tax receipts.

An increase in the rate of inflation may also have an impact on the value of the government's existing debt. The real worth of the government's debt goes down whenever inflation rises to levels that are greater than they should be. It is possible that this will lower the cost of servicing the debt, which will in turn make it possible for the government to borrow additional money.

2.1.5 Economic Growth

Economic growth is the sustained increase in the output of goods and services in an economy over a specific period, typically measured as the percentage change in Gross Domestic Product (GDP). Economic growth is a key indicator of a country's economic health, as it reflects the capacity of an economy to produce more goods and services, generate employment, and improve living standards. For developing countries like Nigeria, economic growth is essential for poverty reduction and sustainable development (Aluthge et al., 2020).

Several factors drive economic growth, including investment in physical capital, human capital development, technological advancement, and improvements in productivity. In developing economies, government intervention through public expenditure is often necessary to stimulate growth, especially in sectors like infrastructure, education, and healthcare. These investments are critical for laying the foundation for long-term economic growth (Odubuasi et al., 2020).

In Nigeria, the economy has experienced fluctuating growth rates, with periods of expansion often followed by economic downturns. These fluctuations are partly attributed to the country's heavy reliance on oil revenues, which expose the economy to external shocks. As such, diversification of the economy and prudent public expenditure management are vital for achieving sustained economic growth (World Bank, 2016).

Economic growth is also influenced by fiscal policy, particularly how the government manages its revenue and expenditure. Prudent fiscal management, including effective public expenditure management, ensures that resources are allocated efficiently, promotes investment, and supports economic stability. Conversely, poor fiscal management can lead to macroeconomic imbalances, such as inflation, high debt levels, and fiscal deficits, which hinder economic growth (Sani et al., 2022).

In summary, economic growth is a multifaceted process that is influenced by various factors, including public expenditure. The role of government spending in promoting growth is particularly important in developing countries, where investments in infrastructure, education, and health are necessary to create a conducive environment for economic expansion. However, the impact of public expenditure on growth depends on how effectively it is managed.

2.1.6 Relationship between Public Expenditure Management and Economic Growth

The relationship between public expenditure management and economic growth has been the subject of extensive research, with mixed findings on the nature and strength of this relationship. Public expenditure, when effectively managed, has the potential to stimulate economic growth by providing essential infrastructure, improving human capital, healthcare, investing in education, skill development and supporting technological advancements (Sinha et al., 2023). However, mismanagement of public expenditure can result in inefficiencies, wastage of resources, and poor economic outcomes.

In Nigeria, the management of public expenditure has been a critical issue in determining the country's economic performance. Over the years, government spending has increased significantly, particularly in sectors such as infrastructure, education, and health. However, the expected economic growth has not always materialized, partly due to inefficiencies in public expenditure management, including corruption, misallocation of resources, and lack of transparency (Ewa & Okoi, 2018). Empirical studies suggest that the composition of public expenditure plays a key role in determining its impact on economic growth. Capital expenditure, which is directed toward long-term investments, is generally found to have a positive impact on growth. In contrast, recurrent expenditure, which is focused on short-term operational costs, often has a limited or negative effect on growth, particularly when it is not matched by corresponding revenue generation (Odubuasi et al., 2020).

The effectiveness of public expenditure management also depends on the institutional framework within which it operates. Strong institutions, including transparent and accountable public financial management systems, are essential for ensuring that public resources are used efficiently and that expenditure decisions are aligned with national development goals. In Nigeria, weaknesses in the institutional framework have contributed to the suboptimal management of public expenditure and limited the impact of government spending on economic growth (Sani et al., 2022). Public expenditure management is also influenced by external factors, such as fluctuations in global commodity prices and changes in international financial markets. In Nigeria, the reliance on oil revenue has made the country vulnerable to external shocks, which have disrupted public expenditure plans and hindered economic growth. To mitigate these risks, it is essential to diversify the economy and strengthen public expenditure management systems (World Bank, 2016).

Furthermore, the relationship between public expenditure management and economic growth is affected by the level of public debt. High levels of public debt can constrain government spending and reduce the fiscal space available for productive investments. In Nigeria, the growing burden of public debt has limited the government's ability to invest in key sectors, such as infrastructure and education, thereby stifling economic growth (Sani et al., 2022). In conclusion, the relationship between public expenditure management and economic growth is complex and influenced by multiple factors. Effective management of public expenditure is essential for ensuring that government spending contributes to economic growth, while poor management can lead to inefficiencies and hinder development. The challenge for Nigeria is to improve its public expenditure management systems to ensure that resources are allocated efficiently and used to promote long-term economic growth.

2.2 Empirical Review

Several works have been done by different researchers using different techniques on the public Expenditure on the Nigerian economy. Jibir and Babayo (2015) examined the impact of government expenditure on national output in Nigeria based on statistical data generated between 1970 and 2012. Secondary data were gotten from the CBN, NBS, Journals, text books etc. The study reports that the model was fitted with three variables: real GDP, capital and recurrent expenditure. The econometric tools of analysis used were the ADF unit root test and ordinary least square multiple regression followed by pair wise Granger causality test. The study objective is to investigate the overall effect of government expenditure on national output and also consider whether government expenditure granger causes national output. The result showed that all the variables in the model were stationary at level. Other findings showed positive and insignificant relationship between capital spending and national output while recurrent spending had a significant positive impact on national output. Granger causality test showed a unidirectional causality moving from the fiscal variables to national output in support of Keynes theory.

According to Ahonkhai (2017), there is a correlation between education and economic development. One of the conclusions of this study is that insufficient and uncertain budgetary allocations to education have no doubt, resulted in the deterioration of its impact on human capital development.

That severe financial and economic constraints affected all levels of education and their capacities to provide services and also the capacities of the students and their families to finance formal education studies.

That the shortfalls in manpower supply in the targeted sector-technology teachers, university academic staff, and the inadequate existing avenues for training technology teachers in Nigeria are all frontiers to the fact that education sub-sector has failed in its role in human capital development in Nigeria. The general conclusion from this study by Ahonkhai (2017) is "that the investment expenditure on education did not demonstrate a positive effect on the overall human capital development in Niger. The overwhelming nature of human capital development vis-à-vis the technology implications and the socio-economic threats of globalization trends should constitute enough reasons for any nation especially the developing one to feel concerned about the future survival of education."

Accordingly, this report recommends higher and fixed percentages of annual budgetary allocations to be devoted to education while ensuring that such allocations are monitored, disbursements and timely utilization of Educational Trust Funds (ETF) in education sub-sector. Also, the study further recommends the sourcing of both the internal and external education funds as antidotes. Contributing, Adebiyi (2023) while exploring the impact of public expenditure on human capital in Nigeria, considered government spending on both education and health. The conclusion of this study is that debt service obligations determine human capital expenditure such as education. This study further reports that while public expenditure such as defense spending and debt service obligation shocks in Nigeria appear to reduce health expenditure in the short rum significantly, nonetheless, they increase education expenditure in the same period.

Ewa and Okoi (2018) conducted a thorough assessment of the impact of government expenditure on Nigeria's economic development, focusing on data from 2000 to 2015. Their analysis revealed that different types of government spending had varied effects on economic indicators. Specifically, capital expenditure directed towards economic services, such as infrastructure and industry, and recurrent expenditure on administrative functions, had a positive impact on private investment. This suggests that investments in economic infrastructure and efficient administration can stimulate private sector engagement, potentially leading to enhanced economic growth. Conversely, the study highlighted a negative effect of public expenditure on social and community services, such as education and health, on unemployment rates. This outcome suggests that while spending on social services is critical for societal welfare, it may not directly translate into reduced unemployment. The findings imply that such expenditures might not be effectively aligned with labor market needs or fail to create the types of job opportunities required to significantly impact unemployment rates. In light of these findings, Ewa and Okoi (2018) recommended a strategic reallocation of public expenditure towards sectors with the highest potential for economic growth. They emphasized that government spending should be directed more effectively to maximize its impact on economic development. By focusing on sectors that drive private investment and economic expansion, policymakers can better leverage public expenditure to foster sustainable economic growth and address critical development challenges in Nigeria.

Sani et al. (2022) explored the influence of government expenditure on Nigeria’s economic growth using time series data spanning from 1986 to 2020. Their study found that, despite substantial investments, government spending on health and education did not significantly impact economic growth. This observation suggests that while these expenditures are crucial for improving social welfare and human capital, they may not immediately translate into measurable economic growth due to factors like inefficiencies in service delivery or misalignment with economic development goals. Additionally, the study identified public debt as having a significant negative effect on economic growth. This finding underscores the challenges associated with high levels of public debt, which can burden the economy through increased interest payments, reduced fiscal flexibility, and potential crowding out of private investment. High public debt may undermine the effectiveness of government spending by constraining fiscal resources and creating economic uncertainty. Based on these findings, Saniet al. (2022) recommended a strategic increase in public spending on education and health to meet both regional and global benchmarks. They suggested that improving these sectors is essential for long-term economic development, though it may require enhancing the efficiency and effectiveness of such expenditures. By aligning spending with international standards and ensuring better management of public debt, Nigeria could potentially foster a more robust economic growth trajectory and achieve greater socio-economic progress.

Odubuasi et al. (2020) assessed the impact of government expenditure on Nigeria's economic growth using data from 2004 to 2018. Their study revealed that expenditure on highways and safety had a significant positive effect on economic growth. This finding highlights the importance of investing in infrastructure and public safety, as these areas are crucial for facilitating economic activities, improving transportation efficiency, and fostering a secure environment conducive to business operations and economic expansion. In contrast, the study found that government spending on education had a negative and statistically insignificant impact on economic growth during the period analyzed. This result suggests that, despite the importance of education for long-term human capital development, such expenditure may not have immediately translated into economic growth due to potential issues such as inefficient allocation of resources or structural challenges within the education sector that hinder its impact on economic performance. Based on these findings, Odubuasi et al. (2020) recommended a strategic increase in capital expenditure focused on infrastructure development. They argued that investing more in infrastructure, such as highways and safety, could significantly enhance economic growth by improving connectivity, reducing transaction costs, and creating a more favorable environment for private sector investment. Their recommendations emphasize the need for targeted expenditure strategies to maximize economic benefits and address the specific areas that drive growth effectively.

Musa and Ismail (2023) examine the impact of government expenditure on Nigeria's using annual data for 1970 – 2020, we estimate a long-run growth equation with ordinary least squares. Real GDP (logarithmic form) shows a positive and statistically significant relationship with its own first lag. Recurrent government outlays both contemporaneous and lagged also display positive coefficients. Capital expenditure is positively related to output in the current period but turns negative at a one-period lag, indicating possible short-run crowding-out. Domestic public debt exerts an immediate negative effect on growth, yet its first lag is positive. The model explains roughly 70 % of output variation ($R^2 \approx 0.699$), and the joint F-statistic (≈ 3595.91, $p < 0.01$) confirms overall significance. Since the mid-1980s, the upward trend in these fiscal variables has closely tracked GDP. Accordingly, strengthening expenditure management especially the balance between capital and recurrent spending could enhance Nigeria’s growth trajectory.

Aluthge *et al*. (2020) Top of for Bottom of Form examined the effect of Nigerian government expenditure on economic growth from 1970 to 2019 using the Autoregressive Distributed Lag (ARDL) model. Their analysis revealed that capital expenditure had a positive and significant impact on economic growth in both the short and long run. This finding underscores the critical role of investments in physical infrastructure and capital projects, which can drive economic development by enhancing productivity, improving infrastructure, and fostering an environment conducive to economic activities. Conversely, the study found that recurrent expenditure, which includes spending on salaries, administrative costs, and other operational expenses, did not have a significant impact on economic growth. This suggests that while recurrent expenditures are essential for maintaining government operations, they may not contribute directly to economic growth in the same way that capital expenditures do. The lack of significant impact from recurrent expenditure highlights the need for a more strategic approach to spending. Based on their findings, Aluthge et al. (2020) recommended improving the allocation of public resources towards capital projects that provide direct benefits to citizens. By focusing on capital expenditure that directly contributes to infrastructure and development projects, the government can potentially enhance economic growth and ensure that public resources are used more effectively. Their recommendations emphasize the importance of prioritizing investments that have a tangible impact on economic development and citizen well-being.

Okonye et al. (2020) investigated the impact of public sector spending on Nigeria’s economic growth, revealing nuanced insights into how different types of expenditure affect growth. The study demonstrated that both recurrent and capital expenditures had significant relationships with economic growth when considered independently. This implies that each type of expenditure plays a role in influencing growth—capital expenditure through investment in infrastructure and development projects, and recurrent expenditure through operational and administrative support. However, the study's findings took a different turn when examining public expenditure in aggregate. It was found that, when combined, the overall volume of public expenditure did not have a significant impact on economic growth. This result suggests that the mere volume of government spending, regardless of whether it is allocated to recurrent or capital purposes, may not be as crucial as previously thought. Instead, the effectiveness and efficiency of how these expenditures are managed and utilized appear to be more critical for fostering economic growth. The implications of these findings highlight the need for a strategic approach to public spending. It suggests that optimizing the allocation and management of government expenditures, rather than simply increasing the total amount spent, is essential for achieving sustainable economic growth. By focusing on ensuring that expenditures are effectively targeted and managed, policymakers can potentially enhance the impact of public spending on economic development.

Nggada and Yusha'u (2021) employed a nonlinear analysis to explore the impact of public expenditure on economic growth in Nigeria. Their study found that public expenditure had a positive and significant impact on growth, suggesting that government spending can indeed drive economic development. However, the analysis also revealed that the level of spending was above the optimal threshold. This indicates that while public expenditure contributes positively to growth, excessive spending might lead to diminishing returns or inefficiencies. The study's findings underscore the importance of not just increasing public expenditure but ensuring it is managed within an optimal range. Excessive spending beyond this optimal level can lead to inefficiencies and potentially crowd out private investment or create macroeconomic imbalances. This suggests that a balanced approach is necessary to maximize the benefits of public spending without encountering negative consequences. In response to these issues, Nggada et al., (2021) recommended implementing policy measures to curtail excessive public expenditure and enhance its efficiency. They advocated for a more strategic allocation of resources and better management practices to ensure that government spending supports sustainable economic growth effectively. Their recommendations emphasize the need for policymakers to focus on optimizing expenditure levels and improving the efficiency of spending to achieve better economic outcomes.

Adejuwon (2016) explored the challenges surrounding public accountability and performance within Nigeria's public sector, focusing on how these issues affect economic growth. The study identified poor accountability as a significant barrier to effective management of public funds, highlighting how weak oversight mechanisms and a lack of transparency hinder the efficient use of government resources. This lack of accountability creates an environment where public funds may not be used optimally, reducing the potential impact of government spending on economic development. Corruption was another major challenge uncovered by Adejuwon (2016), further complicating efforts to manage public expenditure effectively. The study found that corruption not only misdirects public funds but also undermines trust in government institutions, leading to inefficient resource allocation. As a result, despite substantial public sector spending, corruption erodes the benefits of such investments, preventing them from translating into meaningful economic growth. In light of these findings, the study emphasized that poor accountability and corruption within the public sector significantly limit the effectiveness of government expenditure. Adejuwon (2016) concluded that strengthening accountability mechanisms and combating corruption are crucial steps toward improving public sector performance. By addressing these challenges, Nigeria could better manage its public resources and ensure that government spending contributes more effectively to economic growth.

Oziengbe (2013) explores the relative impacts of the federal capital and recurrent expenditures on During 1980-2011, the Nigerian economic performance was affected by a range of fiscal dynamics. Variance decomposition analysis indicated that recurrent expenditure (RECEXP) explained a higher percentage of the forecast error variance in GDP compared to capital expenditure (CAPEXP) over the entire period.

Nwofor and Gordon (2013) investigated the relationship between Nigerian government spending and tax receipts. To assess the effect of tax revenue on public spending, they used secondary data. The authors used Pearson's correlation coefficient to test their hypotheses and found that excessive government spending, particularly on recurring items, may negatively impact total tax revenue.

Ogbonna and Appah (2016) examine the effect of tax administration and revenue on the economic growth of Nigeria. The data collected from the questionnaire and secondary data were analyzed using relevant regression analysis. The results reveal that there is a significant relationship between Personal income tax revenue (PITR) and per capita income, Company income Tax Revenue and Gross Domestic product of Nigeria, VAT revenue and PCI of Nigeria, Petroleum Profit Tax revenue and GDP of Nigeria and tax administration and Gross Domestic Product of Nigeria. Hence, the study concludes that tax administration andrevenue does affect the economic growth of Nigeria for the period under review.

Ojong et al. (2016) also investigated the effect of tax revenue on the economy of Nigeria. They obtained data from the Statistical Bulletin of the Central Bank of Nigeria and used multiple regression analysis. The study disclosed strong positive correlations between petroleum profit tax and economic growth, and between non-oil revenue and GDP. The study, however, did not establish any significant relationship between company income tax and economic growth of the nation. Miftahu and Rosni (2017) investigated public sector spending and economic growth in Nigeria: In search of a stable relationship employed ARDL model. The model revealed the existence of positive and meaningful relationship between public spending and economic growth in Nigeria. From the findings, it is evident that government expenditure is highly important in creating opportunities and widening the productive base at which developing countries can grow, Nigeria is inclusive.

2.3 Theoretical Framework

The theoretical framework for this study is based on economic theories that explain the relationship between public expenditure and economic growth. These theories provide a foundation for understanding how government spending influences economic performance and the conditions under which public expenditure contributes to or hinders growth. This section discusses three relevant theories that are applicable to the study of public expenditure management and economic growth in Nigeria.

2.3.1 Keynesian Theory

The Keynesian theory of fiscal policy, formulated by the British economist John Maynard Keynes, emphasizes the importance of government intervention in the economy, especially during times of recession or economic stagnation. Keynes argued that during economic downturns, private sector investments tend to decline, leading to a fall in aggregate demand, unemployment, and reduced economic growth. In such scenarios, government intervention through increased public expenditure becomes necessary to boost demand and stimulate economic activity. By injecting money into the economy, the government can compensate for the shortfall in private investment, thereby stabilizing the economy and promoting growth.

A central aspect of Keynesian theory is the role of government spending in increasing aggregate demand. Keynes believed that when the government spends on infrastructure, public services, or welfare programs, it directly injects money into the economy, creating jobs and increasing the purchasing power of individuals. This increase in demand leads to higher production and further investments by businesses, creating a multiplier effect that amplifies the initial government expenditure's impact. The theory suggests that such fiscal interventions are crucial in periods of low economic activity to help reignite growth and reduce unemployment.

In the context of developing economies, like Nigeria, Keynesian theory holds relevance. Many developing countries face structural challenges, including underdeveloped infrastructure, low levels of private sector investment, and high unemployment. In such environments, the government often plays a pivotal role in driving economic growth through public spending on critical sectors such as education, healthcare, and transportation. By investing in these areas, the government can stimulate demand and promote long-term economic development. This is especially important in countries where the private sector may be unable to generate sufficient investment on its own.

Keynesian fiscal policy also highlights the importance of government spending in managing economic cycles. During periods of economic downturn, such as recessions or global financial crises, Keynes argued that governments should increase spending to counteract declining private sector activity. Conversely, during periods of economic boom, government spending should be reduced to prevent overheating of the economy and control inflation. This countercyclical approach ensures that economic stability is maintained, with government intervention serving as a buffer against economic shocks. In developing countries like Nigeria, where economic cycles are often volatile due to global market fluctuations and domestic challenges, the Keynesian model provides a framework for stabilizing growth through targeted fiscal policies.

2.3.2 Wagner's Law

Wagner's Law, formulated by German economist Adolph Wagner in the late 19th century, posits that as economies expand, there is a corresponding increase in government activity and public expenditure. Wagner observed that as societies become more industrialized and complex, the demand for government-provided goods and services, such as infrastructure, education, healthcare, and social welfare, naturally increases. As economic prosperity grows, citizens expect higher levels of public services, which necessitates an expansion in government spending to meet these demands.

One of the core principles of Wagner's Law is that economic development triggers greater involvement of the state in economic and social affairs. As societies progress, new challenges emerge, such as the need for advanced transportation systems, enhanced legal frameworks, and improved social services, all of which require public financing. Furthermore, with rising incomes and standards of living, citizens increasingly demand quality services like better healthcare and education, compelling governments to allocate more resources to these areas. This results in an upward trajectory of government expenditure as economic growth progresses.

In developing countries like Nigeria, Wagner's Law holds significant relevance. Nigeria's economic growth, driven by sectors like oil, agriculture, and telecommunications, has led to rising public expectations for improved infrastructure and social services. The demand for modern roads, better educational institutions, and enhanced healthcare systems has put pressure on the government to increase its spending to cater to these needs. Wagner's Law suggests that this growth in public expenditure is a natural consequence of the country's economic development, as the government takes on a larger role in managing the complexities of a growing economy.

Wagner’s Law also highlights the relationship between economic growth and public sector expansion. In Nigeria, the government's increased spending on infrastructure, social welfare programs, and public services aligns with the theory that economic development leads to greater state involvement. However, the challenge for policymakers is ensuring that this increased expenditure is efficiently managed and directed toward areas that will yield the most substantial benefits for the population. In the context of Nigeria’s development, Wagner’s Law suggests that while rising government spending is inevitable, sound fiscal policies and efficient management must accompany it to ensure sustainable growth and equitable service delivery.

2.3.3 Peacock-Wiseman Hypothesis

The Peacock-Wiseman hypothesis, developed by economists Alan Peacock and Jack Wiseman, offers a framework for understanding how public expenditure increases in response to economic crises or external shocks. The hypothesis is based on the observation that during periods of crisis, such as wars, natural disasters, or significant economic disruptions, governments typically increase their spending to manage the challenges posed by these events. This increase is seen as necessary to address immediate needs like military expenditures, disaster relief, or economic stability. The central idea is that during such times, public resistance to higher taxes or government spending tends to diminish, allowing governments to expand their fiscal operations.

A key feature of the Peacock-Wiseman hypothesis is the idea that once the government increases public spending during a crisis, this elevated level of expenditure often becomes permanent, even after the crisis has passed. As governments take on more responsibilities and deliver more public goods during crises, public expectations for these services increase. Over time, the public becomes accustomed to a higher level of government intervention and services, which results in sustained higher levels of public expenditure. Thus, even when the initial crisis subsides, the government's expanded role remains, contributing to a long-term increase in public spending.

In the context of Nigeria, the Peacock-Wiseman hypothesis is highly relevant, especially when considering the country's response to external shocks, such as fluctuations in global oil prices. As a major oil producer, Nigeria's economy is heavily dependent on oil revenues, making it vulnerable to price shocks in the global market. During periods of low oil prices, the Nigerian government often increases public spending to stimulate the economy, provide subsidies, and stabilize the country's economic and social systems. This pattern of increased expenditure in response to economic crises aligns with the Peacock-Wiseman hypothesis.

Moreover, the hypothesis helps explain why Nigeria's government spending has remained high even after external shocks, such as oil price fluctuations, have passed. The expanded government role during times of economic difficulty often sets a precedent for higher public expenditure in the long run. This tendency to maintain elevated levels of spending after crises poses challenges for fiscal sustainability, as the government must balance the need to provide public services with the need to manage its budget responsibly. In the case of Nigeria, this has led to persistent challenges in public expenditure management, reflecting the core ideas of the Peacock-Wiseman hypothesis.

2.4 Summary

This chapter has provided a comprehensive review of the literature on the effect of public expenditure management on economic growth in Nigeria. The conceptual framework examined the key concepts of public expenditure and economic growth, highlighting the role of government spending in promoting development. The empirical review discussed findings from previous studies, which suggest that the relationship between public expenditure and economic growth depends on how resources are managed and allocated. The theoretical framework outlined three relevant theories Keynesian theory, Wagner’s Law, and the Peacock-Wiseman hypothesis that explain the relationship between public expenditure and economic growth. The next chapter will present the research methodology for this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research design selected for this study is a quantitative approach utilizing an ex-post facto research design. This design is appropriate because it allows the researcher to use existing data to examine the relationship between public expenditure management and economic growth in Nigeria. According to Creswell (2014), ex-post facto research is suitable when the researcher does not have control over the variables and is seeking to explore causal relationships based on historical data. This design is ideal for this study, which investigates historical public expenditure data and its effects on economic growth without manipulating the variables.

3.2 Population, Sample and Sampling Technique

The population for this study comprises all the relevant public expenditure and economic growth data for Nigeria from 1993 to 2024. The study focuses on key variables such as capital expenditure, recurrent expenditure, and GDP growth rates. Data for these variables are drawn from sources such as the Central Bank of Nigeria (CBN) Statistical Bulletin, National Bureau of Statistics (NBS), and the World Bank.

The study adopts purposive sampling to focus on data that specifically reflect Nigeria's economic performance and public expenditure over the given period. This approach ensures that the sample is representative of the country's public monetary management practices during the study period, thus allowing for meaningful analysis of trends and relationships (Saunders et al., 2016).

3.3 Source and Method of Data Collection

The data for this study is secondary in nature, sourced from established and credible institutions such as the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), and World Bank databases. The data collection process involves gathering time series data on public expenditure and economic growth indicators such as GDP growth rate, capital and recurrent expenditures, inflation rates, and public debt levels.

The use of secondary data is appropriate for this study as it provides access to comprehensive, longitudinal data, allowing for an in-depth analysis of public expenditure trends over an extended period. Additionally, secondary data is cost-effective and readily available for the scope of this research.

3.4 Procedure for Data Analysis and Model Specification

The data analysis technique employed in this study is the Autoregressive Distributed Lag (ARDL) model. The ARDL model is chosen due to its suitability in analyzing the relationship between variables in time series data, particularly when the variables are integrated at different orders (Pesaranet al., 2001). The ARDL model helps to determine both the short-run and long-run relationships between public expenditure and economic growth, making it ideal for understanding how changes in public spending affect economic growth over time.

In addition to the ARDL model, diagnostic tests such as the Augmented Dickey-Fuller (ADF) test are used to check for the stationarity of the data. The ADF test ensures that the time series data used in the study does not contain unit roots, which could lead to spurious regression results. After estimating the ARDL model, Granger causality tests are performed to determine the direction of causality between public expenditure and economic growth (Granger, 1969).

3.5 Justification of the Method

The choice of the ARDL model is justified based on its ability to handle time series data with different integration orders (I(0) or I(1)) without losing long-run information (Pesaran et al., 2001). This is particularly important for this study, as public expenditure and economic growth variables may not be integrated at the same order. The ARDL model allows for the estimation of both short-run and long-run relationships, providing a comprehensive understanding of how public expenditure affects economic growth over time.

Furthermore, the ADF test is used to address the issue of non-stationarity in time series data, which is common in macroeconomic studies. The inclusion of Granger causality testing is crucial as it helps determine whether changes in public expenditure led to changes in economic growth or vice versa. This is particularly relevant for policy recommendations, as understanding the direction of causality informs better fiscal policy decisions (Granger, 1969).

3.6 Limitation of the Study

Constrained time limit may have limited the thoroughness of the study as the researcher had to work under pressure to complete the work. The researcher was able to overcome the limitations with perseverance and consistency.