

Original Article

Government Expenditure and Private Consumption in Nigeria: An Empirical Investigation

Pius Effiong Akpan¹, Johnson A. Atan²

Department of Economics, University of Uyo, Uyo, AkwaIbom State, Nigeria.

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Abstract - This study empirically examined the effect of government expenditure on private consumption in Nigeria using the Auto Regressive Distributed Lag (ARDL) approach from 1981 to 2018. To establish the model's short and long relationship, the study employed time-series data of government expenditure components (recurrent and capital) and private consumption. The unit root and cointegration tests were conducted on all the variables, and the results revealed the existence of stationarity and long-run equilibrium relationship, respectively. The empirical results of the long-run model showed recurrent expenditure as having a significant relationship with private consumption in Nigeria, while capital expenditure revealed an insignificant relationship. The results further indicated a positive and significant relationship between private consumption and Gross Domestic Product in Nigeria both in the short and long run. The results of the short-run analysis revealed a positive but insignificant relationship between private consumption and government expenditure (recurrent and capital expenditure) in Nigeria. This positive relationship between the government's recurrent expenditure and private consumption confirms the government's current position that is aimed at increasing recurrent spending to boost the economy out of the current recession. Therefore, this study recommended, among others, that the Nigerian government should encourage more recurrent spending in order to increase private consumption and reduce the recessionary effect on aggregate demand.

Keywords - Gross Domestic Product, Private Consumption, Recurrent Expenditure, Capital Expenditure, ARDL

I. BACKGROUND TO THE STUDY

Total expenditures on goods and services include private consumption, gross private domestic investment, government purchases of goods and services, exports, and imports. Consumption expenditure is expenses incurred for sustenance and protection instead of providing for future production. Consumption expenditure is made up of private and government consumption expenditures. Private consumption consists of all goods and services purchased by households to satisfy their needs and wants. It includes all durable and nondurable goods such as cars, household washing machines, television, etc. It excludes residences for businesses but includes owner-occupied residences imputed rent. Household final consumption expenditure is typically the largest component of GDP, representing

around sixty percent of GDP and an essential variable for economic analysis of aggregate demand (OECD, 2009). Private consumption expenditure is considered a primary indicator of economic-wellbeing and a significant financial planning tool (Gulcin and Aycan, 2014).

According to John (2003), private consumption expenditure implies expenditure in the consumption of durable and nondurable goods, maintenance and protection, payment of factor services, and goods and services. The consumption pattern combines qualities, quantities acts, and tendencies characterizing a community or a human group's use of resources for survival, comfort, and enjoyment. According to NBS (2010), in a less developed economy like Nigeria, food consumption is skewed towards food. Food accounts for a higher proportion of the total expenditure, while the opposite is the case in developed economies. The more developed a society becomes, the less it spends on food and the more it spends on non-food items (National Bureau of Statistics, 2010).

Household consumption expenditures, investment, public expenditures, and net export are the components of Gross Domestic Product (GDP). Due to its high share in GDP, consumption expenditure is considered in macroeconomic policies for fiscal planning. Policymakers try to predict how the consumers will behave in the face of income fluctuations. Specifically, the consumption pattern of a consumer requires a decision-making process, and for this reason, the consumption function reveals a behavioral relationship in macroeconomics.

Over the years, the Nigerian government has implemented various policies to stabilize the economy and achieve macroeconomic objectives. One of such policies is fiscal policy. This involves using government spending, taxation, and borrowing to influence the pattern of economic activities and the level and growth of aggregate demand, output, and employment (Medee and Nembee, 2011). While government spending is an injection into the economy, taxation represents leakage from the income stream (Iyoha, 2007). The fiscal policy entails the government's management of the economy by manipulating its income and spending power to achieve certain desired macroeconomic objectives (goals), economic growth (Medee and Nembee, 2011). Olawunmi and Tajudeen (2007) opined that fiscal policy



has conventionally been associated with the use of taxation and public expenditure to influence economic activities and that the implementation of fiscal policy is essentially routed through the government's budget. As noted by Anyanwu (1993), the objective of fiscal policy is to promote economic conditions conducive to business growth while ensuring that such government actions are consistent with economic stability. Therefore, one of the fiscal policy tools is government expenditure, referred to as government spending on purchases of goods and services classified as recurrent and capital expenditures (Ukpong and Akpakpan, 1998). Capital expenditures are the expenditures that lead to the creation or acquisition of assets by which the country's productive capacity may be increased. It is the amount spent in the acquisition of fixed assets whose useful life extends beyond the accounting or fiscal year, as well as expenditure incurred in the upgrade or improvement of existing fixed assets such as lands, building, roads, machines, and equipment, among others (Aigheyisi, 2013). Capital expenditure is usually seen as an expenditure meant to create future benefits.

On the other hand, Recurrent expenditure is expenditure on the purchase of goods and services, wages and salaries, operations, current grants, and subsidies (which are usually classified as transfer payments). Government recurrent expenditure becomes government final consumption expenditure when transfer payments are removed or excluded. The annual budget, which contains details of the proposed expenditure for the fiscal year, spells out the direction of the expected expenditure. Although, the actual expenditures may differ from the budget figures due to extra-budgetary expenditures or allocations during the fiscal year. The importance of government expenditure for an economy like Nigeria cannot be over-emphasized as it is a veritable tool for economic growth and development. However, economic theory and works of literature do not generally agree on the effect of government expenditure on private consumption and economic growth. While some believe that government expenditure reduces private consumption and economic activities, others support crowding - in effect (Gisore et al., 2014 and Akpan, 2005).

According to Uchenna and Evans (2012), over the years, the Nigerian government has relied on this tool of fiscal policy to manage fiscal imbalances and stimulate the economy. It becomes more pungent when development challenges such as poor infrastructure, high level of unemployment, insecurity of life and property, poverty, among others, persist despite the huge government expenditure that is budgeted annually to solve these problems. Based on this, the Nigerian government has adopted diverse fiscal policies to manage public expenditure effectively, but these policies have resulted in marginal development outcomes. Thus, the vision of ensuring sustainable economic development and poverty reduction as enshrined in the government's development strategy document has not been achieved.

Therefore, this study aims to carry out an empirical analysis of the short run and long run impact of government expenditures (recurrent and capital) on private consumption and examine the relationship between Gross Domestic Product and private consumption in Nigeria from 1981 to 2018. This study will provide the government and policymakers with the necessary tool for policy design and implementation, especially as it has to do with Nigeria's government expenditures and private consumption.

Following this introduction, this paper is structured as follows: Section 2 is the empirical and theoretical literature review, section 3 presents the methodology of the work, section 4 shows the stylized facts and discussion of results, and the conclusion and recommendation form the main thrust of section 5.

II. LITERATURE REVIEW

A. Theories Literature

Theoretically, we have four widely accepted theories of consumption, which include: Absolute Income Hypothesis (AIH) by J.M. Keynes (1936); Relative Income Hypothesis (RIH) by J.S. Duesenberry (1949); Permanent Income Hypothesis (PIH) by Milton Friedman (1957); and Life Cycle Hypothesis (LCH) by F. Modigliani (1963). All these theories seek to explain the nature of the income consumption relationship, both short and long (Onyema and Ohale, 2002).

a) *The Absolute Income Hypothesis (AIH):*

In the Keynesian model, current real income is the primary determinant of consumption, and the Absolute Income Hypothesis determines the relationship between income and consumption. According to Keynes, interest rate as one of the explanatory variables of consumption does not affect consumption decisions because income and substitution effect of interest rate eliminate each other. In AIH, consumers decide by considering the current disposable income, and consumption is an increasing function of the real disposable income. As disposable income increases, so will the consumption expenditures, but it will lead to a decreasing proportion of income. (Tapsin and Hepsag, 2014). The first objection to Keynesian theory came from Kuznets in 1952, who analyzed the long-run relationship between consumption and income in the U.S. and found contradictory results with Keynes. According to the results of his study, consumption does not decline as income increases. These findings revealed the existence of short-run and long-run consumption functions. The Keynesian consumption function gives accurate results in the short run, but the consumption function has a constant average propensity to consume (Mankiw, 2010). During the business cycle period or in the short run, because of the fluctuations in income, marginal propensity to consume is smaller than average propensity to consume, as Keynes indicated. Nevertheless, the long-run average propensity to consume is constant and equals marginal propensity to consume.

b) Relative Income Hypothesis(RIH)

The Relative Income Hypothesis developed by James Duesenberry in 1949 states that consumption depends on absolute income and relative consumption patterns determined by income distribution. The theory was based on ideas not considered in earlier economic analyses. These are (i) that consumption behavior of individuals was influenced by consumption behavior of other individuals and (ii) that the consumption behavior of individuals exhibits a ratchet effect(Anyanwu and Oaikhenan, 1995). This means that consumption tends to be habitual, implying that people try to maintain the standard of living they have become used to irrespective of a decline in income. The theory maintains that his social environment influences an individual's consumption and saving decisions. Thus, given a level of income, an individual is likely to consume more of that income if he lives in an environment dominated by the well-to-do in society than if he lives in a less affluent neighborhood. Therefore, rather than being related to his absolute level of income, his consumption would be related to his relative income in his neighborhood.

c) The Permanent Income Hypothesis(PIH)

According to the Permanent Income Hypothesis developed by Milton Friedman in 1957, the main determinant of consumption expenditure is not current income but permanent income, and individuals are faced with both temporary and permanent fluctuations in income. According to Milton Friedman, permanent income refers to the average income that a household expects to earn over its planning horizon, which could be 3 to 5 years (Iyoha, 2007). In addition, the theory stressed that consumption does not react to changes in temporary income because individuals seek to smooth consumption and that consumption in any period depends on wealth in the period and the rate of interest.

d) Life-Cycle Hypothesis(LCH)

In the Life Cycle Hypothesis developed by F. Modigliani, A. Ando, and R. Brumbergin in 1963, consumer decisions depend not only on the current real income but also on the weighted average of expected future income and wealth. In the model, saving and borrowing are used to smooth consumption over the life cycle (Dornbush et al., 2010). Different results arose when the consumption decisions were examined within rational expectations. In the Rational Expectations Theory, consumers want to smooth consumption over time and use all available information about future income. Since the consumers receive the consumption decisions by using all the information, only unpredictable things would change their consumption. For this reason, consumption follows a random walk depending on the rational expectations error term (Foote, 2010).

B. Theories of Government Expenditure

1) Wagner's Theory

This theory was developed by a German economist known as Adolph Wagner in 1886 and is popularly known as Wagner's law. According to this theory, government

expenditure increases due to industrial and economic growth in a country. This is rooted in the assumption that as the real income per capita increases during an industrialization process, the share of public expenditure is also expected to increase. This suggests that the development in the industrial sector will be accompanied by increased government expenditure through the provisions of key facilities such as infrastructures, health services, and security. Therefore, increased government expenditure (recurrent and capital) occurs to maintain the industrial and growth process (Rodden, 2003; Uchenna and Evans, 2012).

2) Peacock-Wiseman Displacement Theory

Another theory that explains the behavior of government expenditure is the Peacock-Wiseman Displacement Theory of 1961. This theory argued that a country's government spending does not follow a smooth trend, but some jumps at discrete intervals due to political instability. The theory proposed that government expenditure increases during social, political, and economic upheavals. The theory has three underlying assumptions: government can always find profitable ways in terms of its votes to expand available funds; citizens, in general, are susceptible to higher taxes; and government must be responsive to the wishes of their citizens.

3) The Leviathan Theory

Thomas Hobbes introduced the Leviathan theory in 1651. The theory proposed that the aggregate government's intervention in the economy will be reduced as the taxes and expenditures are reduced, other things being equal. According to Rodden (2003), the Leviathan theory emanates from the fact that the central government is viewed as a revenue-maximizing leviathan that seeks to maximize her revenue by fiscal decentralization of the central government monopoly on taxation. This theory maintains that the more decentralized the central government, the lower the government spending in the economy because the decentralized unit will be responsible for revenue generation and expenditure disbursement.

4) The Keynesian Theory

The Keynesian theory placed more emphasis on government expenditure but was skeptical about the efficacy of monetary policy under certain conditions. The well-known Keynesian IS-LM model asserts that consumption rises in response to increased government spending (Ozerkek and Celik, 2010). Consumers exhibit non-Ricardian behavior in the IS-LM model, and consumption is a function of current disposable income. The theory further argued that expansionary monetary policy that increases the banking system's reserves need not lead to a multiple expansion of money supply because banks can refuse to lend out their excess reserves. Furthermore, the lower interest rates resulting from an expansionary monetary policy need not increase aggregate investment and consumption expenditures because firms' and households' demands for investment and consumption goods may not be sensitive to the lower interest rates. The Keynesians believed in the concept of liquidity trap which

is a situation in which any action of the monetary authorities cannot reduce real interest rates. Hence, at the liquidity trap, an increase in the money supply would not stimulate economic growth because of the downward pressure of investment owing to the insensitivity of interest rate to the money supply, and the only way out is fiscal policy. For these reasons, the Keynesians placed less emphasis on the effectiveness of monetary policy and more emphasis on fiscal policy, which they regarded as having a more direct effect on real GDP and consumption (Adefeso and Mobolaji, 2010; Jhingan 2010).

C. Empirical Literature

The literature on the relationship between government expenditure and private consumption presents mixed results. On one side stands the standard Real Business Cycle (RBC) model and on the other the corresponding Keynesian IS-LM model (Ozerkek and Celik, 2010). The impacts of government spending on private consumption for these two strands of literature differ remarkably. However, the debate on the effectiveness of government expenditure is based on the size of the multiplier, and the size of the multiplier is based on the response of aggregate private consumption to government spending (Khan, Chen, Kamal, and Ashral, 2015).

While some studies found a degree of substitutability between government spending and private consumption (a crowding-out effect), others showed a complementary relationship (or crowding-in effect). Martin J. Bailey, in 1971 first proposed the potential substitutability between government spending and private consumption and suggested that government spending leads to a crowding-out effect. Similarly, the studies of Baxter and King (1993), Kormendi (1983), and Ho (2001) supported the substitutability between government spending and private consumption.

The findings of Baxter and King (1993) identified the reason for the failure of the New Keynesian Standard Dynamic Stochastic General Equilibrium Model (DSGE) to predict a positive consumption response to government spending shocks and showed that government spending shocks (financed by lump-sum taxes) generate a negative wealth effect which induces households to work more but to consume less. On the contrary, studies associating government spending with increased private consumption were Blanchard and Perotti (2002) and Fatas and Mihov (2001). Similarly, other studies, such as Khan et al. (2015), using Auto-Regressive Distributed Lag (ARDL) approach, revealed that government spending positively affects private consumption in China. The results further showed that government spending has almost the same impact on private consumption in the long and short run, but the coefficient of government spending is statistically insignificant in the short run. However, Linnermann and Schabert (2003) showed that a positive consumption response could only arise if monetary policy sufficiently accommodates the standard New-Keynesian model. However, Barro (1981) assumed the utility function of a typical household in the form of $(U=C+\alpha G, I)$ and

suggested that government spending on private consumption depends upon the coefficient of government spending. Tagkalakis (2008) used the data of 10 OECD countries and established that fiscal policy is much better in recession to stimulate private consumption. Fernandez and Hernandez (2006) investigated the short and long-run effects of government expenditure in Spain and found that in the short run, the expansionary fiscal policy leads to low output and high inflation while in the long run, it boost output.

The empirical study of Kwan (2006) investigated the relationship between government spending and private consumption for East Asia countries using panel cointegrating regression. The panel regression results revealed that, on average, government spending and private consumption are substitutes in East Asia. However, the cross-section analysis showed that the value of substitute elasticity is moderate for China, Hong Kong, Japan, and Korea, while high for Malaysia and Thailand and zero for the Philippines.

Using the Bayesian inference methods to estimate the New-Keynesian dynamic stochastic general equilibrium model, Günter and Straub (2005) showed that the presence of non-Ricardian households is generally conducive to raising the level of consumption in response to government spending shocks when compared with a benchmark specification of the model without non-Ricardian households in the euro area from 1980 to 1999. However, their results suggested that there is only a small chance for government spending shocks to crowd in consumption because the estimated share of the non-Ricardian households is relatively low and cannot mitigate the negative wealth effect induced by government spending shocks.

The effects of changes in government spending on aggregate economic activity and the transmission of these effects into household behavior are important in conducting macroeconomic policy. Several studies have linked private consumption expenditures to government spending in this context and have searched for this relationship's direction and magnitude. Studies in the neoclassical tradition usually predict a negative effect on private consumption, while studies employing Keynesian models usually favor a positive response (Blanchard and Perotti, 2002).

Ozerkek and Celik (2010) opined that Keynesian fiscal policies stimulate economic growth. However, a growing body of empirical literature has tried to question the efficacy of Keynesian fiscal policies in stimulating economic activities. The literature tries to answer whether fiscal policies have Keynesian or non-Keynesian effects. In general, it contends that such factors determine the response of economic aggregates to fiscal policy as to whether there is a budget contraction or expansion, the previous pattern of growth of the public debt, prior exchange rate and domestic credit fluctuations, the size, and duration of the fiscal impulse, and changes in transfers

and taxes concerning changes in public investments, public sector consumption expenditure and social security(Onodje,2009).

The majority of the studies surveyed indicated that fiscal policies precipitate a Keynesian type of response. Specifically, the study by Giavazzi and Pagano (1996) found that government spending, taxes, and transfers have a clear impact on private consumption expenditure and that a dollar rise in taxes decreases private consumption by fifteen to twenty cents. Their methodology consists of an error correction consumption model and panel regression for 19 OECD countries over 1970 – 1992. Also, Hjelm (2002), using panel regressions of structural consumption functions for 19 OECD countries, found that fiscal contractions preceded by real depreciations improve private consumption growth compared to contractions preceded by real appreciations.

The study by Kweka and Morrissey (1998) on the impact of economic growth on consumption expenditure using the Granger causality test with time-series data in Tanzania revealed no evidence or impact of GDP on consumption expenditure in Tanzania. However, Folster and Henrekson (1999) argued that there is no correlation regarding the direction of causality between economic growth and consumption expenditure.

Similarly, the relationship between government expenditure and economic growth has generated many controversies. While some studies conclude that government expenditure on economic growth is negative and insignificant (Akpan, 2005; Romer, 1990), others indicate that the effect is positive and significant(Gregorious and Ghosh, 2007). According to Gisoreet *al*, (2014), productive government expenditures such as government expenditure on health and education could raise labor productivity and increase the growth of national output because human capital is essential to growth. On the contrary, Korman and Bratimasrene's (2007) findings showed that spending on education had a negative and insignificant relationship with economic growth(attributed to brain drain). Similarly, Barro (1990) posited that government expenditure financed through taxation reduces the benefit associated with economic growth.

In Nigeria, Akpan (2005) employed a disaggregated approach to determine the components of government expenditure that stimulate Gross Domestic Product(GDP) growth. The study concluded that there was no significant relationship between most components of government expenditure and economic growth in Nigeria. Similarly, Tomori and Adebisi (2002) argued that government expenditure on defense negatively affects economic growth in Nigeria. As noted by Ajisafe and Folorunso (2002), the money rather than fiscal policy exerts a great impact on economic activity in Nigeria, and that the emphasis on fiscal action of the government has led to greater distortion in the economy.

Nwabueze (2009) investigated the causal relationship between gross domestic product and personal consumption expenditure in Nigeria, using 1994 to 2007. The result showed an insignificant value, indicating that an increase in GDP has no significant effect on personal consumption expenditure in Nigeria. However, an empirical analysis of the impact of changes in income on private consumption expenditure in Nigeria, which characterized the work of Akerele and Yousuo(2012), revealed that gross domestic product (income) has a significant effect on private consumption expenditure in Nigeria.

D. Summary of Literature and Justification of Study:

In Nigeria, a very limited attempt has been made to analyze the impact of government expenditure on private consumption. Most studies reviewed focused on the relationship between government expenditure and Gross Domestic Product(GDP) and private consumption and Gross Domestic Product. Akpan(2005), for instance, employed a disaggregated approach using the Ordinary Least Squares method of estimation and concluded that most components of government expenditure do not significantly impact economic growth in Nigeria. Tomori and Adebisi (2002) reviewed work pointed out that government expenditure on defense hurts economic growth in Nigeria. The reviewed literature on the impact of Gross Domestic Product(GDP) on Personal Consumption in Nigeria showed mixed results. While some studies revealed a significant relationship between Gross Domestic Product(GDP) and Personal Consumption, others indicated an insignificant relationship(See; Nwabueze, 2009; and Akerele and Yousuf,2012). Therefore, this study seeks to fill this identified gap and add to the literature in this area.

In other literature reviewed, some studies supported the existence of some degree of substitutability between government spending and private consumption(crowding-out effect), while others showed complementary relationship(see; Baxter and King, 1993; Kormendi, 1993; Ho, 2001; Blanchard and Perotti, 2002; and Khan *et al.*, 2015). The reviewed work of Khan *et al.*,2015, for instance, revealed that government spending has a positive effect on private consumption in China both in the long run and the short run, but the study employed aggregated expenditure of government instead of a disaggregated government expenditure in the analysis.

The reviewed panel studies of Tagkalakis (2008), conducted on 10 OECD countries, supported the fiscal policy to stimulate private consumption, especially during a recession. However, the reviewed work of Kwan(2006) revealed that government spending and private consumption are substitutes in East Asia, while other studies (Barro,1981) concluded that the impact of government spending on private consumption depends on the coefficient of government spending. The reviewed study of Kweka and Morrissey (1998) employed the Granger causality test and revealed that economic growth has no impact on consumption expenditure in Tanzania, but the Granger causality test alone cannot capture the impact effectively. To this end, the analysis of the short

and long-run effect of government expenditure (capital and recurrent) on private consumption in Nigeria using the Auto Regressive Distributed Lag(ARDL) method would fill the observed gap in the extant literature and would contribute to the existing body of knowledge.

III. METHODOLOGY

This study looks at the effect of government expenditure on private consumption and examines the relationship between private consumption and Gross Domestic Product in Nigeria from 1981 to 2018. The data for the study was collected from the Statistical Bulletin of the Central Bank of Nigeria(various issues). In order to establish the short run and the long relationship between government expenditure and private consumption, the study employs the Auto-Regressive DistributedLag(ARDL) method of estimation, which is a more efficient and less restrictive approach cointegration. According to Pesaran and Shin(1999),the Auto Regressive Distributed Lag(ARDL) models are least squares regressions that include lags of both the dependent variables and the explanatory variables as regressors and are used to examine the long run and cointegration relationship among variables.

The ARDL estimation method is chosen over other approaches due to the following:

- The ARDL bounds testing procedure does not require that the variables under study be integrated of the same order, unlike other techniques such as the Johansen cointegration approach.
- It is applicable irrespective of whether the regressors in the model are purely $I(0)$, purely $I(1)$, or mutually cointegrated.
- The bounds test is a simple technique because it allows the cointegration relationship to be estimated by OLS once the lag order of the model is identified, unlike other multivariate cointegration methods.
- Themodel's long and short run parameters can be estimated simultaneously.

A) Model Specification

a) ARDL Model

Therefore, based on the works of Khan *et al*(2015), and Glauco and Abbott(2004), the mathematical and econometrics forms of our model in line with the objective of this study are specified as follows;

$$PC_t = \theta_o + \theta_y y_t + \theta_{ca} ca_t + \theta_{re} re_t \dots \dots \dots (14)$$

$$PC_t = \theta_o + \theta_y y_t + \theta_{ca} ca_t + \theta_{re} re_t + \epsilon_t \dots \dots \dots (15)$$

Where PC_t =private consumption
 y_t = Nominal GDP
 ca_t = capital expenditure
 re_t = recurrent expenditure
 ϵ_t = error term

$\theta_y, \theta_{ca},$ and θ_{re} =long run parameters to be estimated
 A priori $(\theta_o, \theta_y, \theta_{ca}, \theta_{re}) > 0$

However, the ARDL structure of equation (15) is as follows;

$$\Delta PC_t = \theta_o + \theta_t t + \theta_{pc} pc_{t-1} + \theta_y y_{t-1} + \theta_{ca} ca_{t-1} + \theta_{re} re_{t-1} + \sum_{i=1}^m \alpha_i \Delta pc_{t-i} + \sum_{j=0}^n \alpha_j \Delta y_{t-j} + \sum_{k=0}^p \alpha_k \Delta ca_{t-k} + \sum_{m=0}^q \alpha_m \Delta re_{t-m} + \epsilon_t \dots \dots \dots (16)$$

Where θ_o and t are drift and trend components and θ_y, θ_{ca} and θ_{re} are long-run coefficients for $y_{t-1}, ca_{t-1},$ and re_{t-1} , respectively while ΔPC_t is modeled as conditional ECM. The short-run dynamic structures of $\Delta y_{t-1}, \Delta ca_{t-1}$ and Δre_{t-1} are set to ensure that ϵ_t is a white noise term (Glauco and Abbott, 2004). Therefore, equation (16) contains both short and long-run information for estimation, and the null hypothesis is tested thus; $H_0: \theta_{pc} = \theta_y = \theta_{ca} = \theta_{re} = 0$ While the alternative hypothesis is $H_0: \theta_{pc} \neq \theta_y \neq \theta_{ca} \neq \theta_{re} \neq 0$

b) Unit Root Test

The Augmented Dickey Fuller (ADF) unit root tests are employed to test for the variables in this study.

c) Cointegration Test

In order to establish the cointegration relationship among variables used for this study, the bound test approach is adopted instead of the Johansen cointegration method that uses a system of the equation to estimate long-run connections.

d) Diagnostic Test

The following standard diagnostic test and stability test for the model's goodness of fit are applied in this work: L.M. test for Serial Correlation, Heteroscedasticity test of Residuals, J.B. Normality test, and Ramsey RESET test.

IV. STYLIZED FACTS

a) Trend Analysis of the Variables

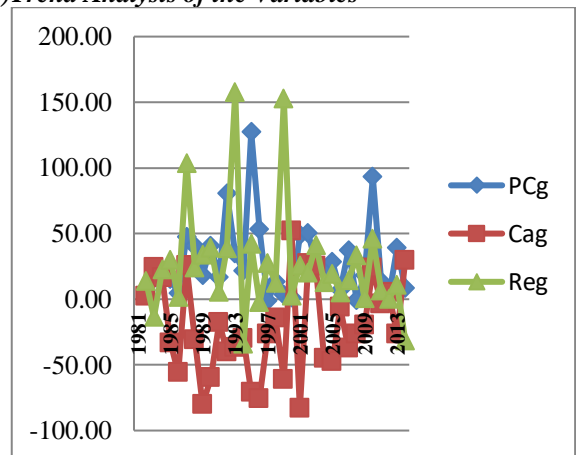


Fig. 1 The Growth of Private Consumption, Capital Expenditure, and Recurrent Expenditure
 Source: Author's computation using data from CBN Statistical Bulletin

Fig. 1 shows private consumption growth, capital expenditure, and recurrent expenditure. The graph indicates a negative growth of capital expenditure for most of the years. For instance, from 1985 to 2013, capital expenditure growth has been negative. This shows that capital expenditure critical to Nigeria's economic growth has been on the decline for most of the years under review. The

graph further shows that recurrent expenditure growth for the period under review was very high in 1987, 1993, and 1999, while private consumption growth was high in 1992, 1995, and 2010. The trend further shows that private consumption growth responds positively to recurrent expenditure growth.

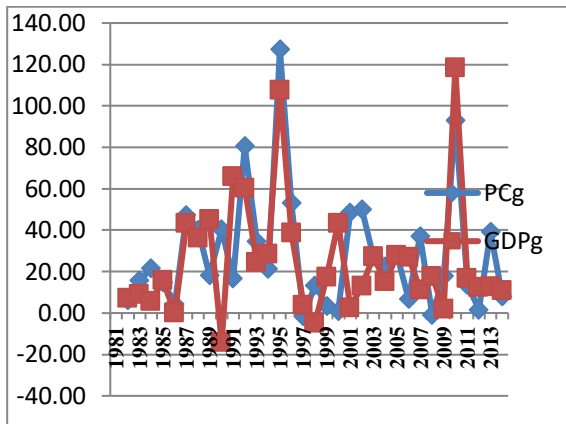


Fig. 2 The Growth of Private Consumption and Gross Domestic Product

Source: Authors computation from CBN Statistical Bulletin

Fig. 2 presents the growth of private consumption and Gross Domestic Product. The graph shows the trend of private consumption growth and GDP growth to almost moving in the same direction with nominal GDP growth showing a positive trend throughout the period except in 1990 and 1998 when the GDP growth was negative. Similarly, private consumption had its highest growth in 1995. The graph shows a positive trend between private consumption growth and GDP growth for 1981 to 2014.

V. PRESENTATION AND DISCUSSION OF RESULT

In line with the study's objectives, this section shows the result's presentation, analysis, and discussion.

a) Diagnostic Test

The standard diagnostic test and stability test for the model's goodness of fit are applied in this work. The diagnostic test used in this study is the L.M. test for Serial Correlation, Heteroscedasticity test of Residuals, J.B. Normality test, and Ramsey RESET stability test. The results in Table 4.4 indicate the diagnostic test of the model of this study. The diagnostic test result shows that our model is free from serial correlation and heteroscedasticity. The Ramsey RESET stability test result also confirms the stability of the model. The Jacque- Bera (J.B.) test employed to test for the normality of the variables used in this study indicates that the variables are normally distributed with skewness close to zero and kurtosis close to three. The diagnostic test result shows that all the diagnostic statistics' probability value is greater than 0.05. This means that the null hypothesis of all the diagnostic statistics is rejected.

Table 4.4. Diagnostic Test Result

| | |
|--------------------------------|--------------|
| LM Test for Serial Correlation | 0.1261(0.88) |
| Heteroscedasticity Test | 1.934(0.11) |
| JB Normality Test(S=0.06 and | 0.5940(0.74) |

| | |
|-------------------|--------------|
| K=2.32) | |
| Ramsey RESET Test | 0.2176(0.83) |

Source: Author's Computation using E-views 9.0

b) Granger Causality Tests

Table 4.5. Pairwise Granger Causality Tests

| | | Results | |
|----------------------------------|-----|-------------|--------|
| Null Hypothesis: | Obs | F-Statistic | Prob. |
| C.A. does not Granger Cause P.C. | 31 | 1.73964 | 0.1954 |
| PC does not Granger Cause CA | | 2.08054 | 0.1452 |
| GDP does not Granger Cause P.C. | 31 | 27.9108 | 3.E-07 |
| PC does not Granger Cause GDP | | 5.31802 | 0.0116 |
| RE does not Granger Cause P.C. | 31 | 4.64153 | 0.0189 |
| PC does not Granger Cause RE | | 13.2093 | 0.0001 |
| GDP does not Granger Cause CA | 32 | 0.29753 | 0.7451 |
| CA does not Granger Cause GDP | | 7.46309 | 0.0026 |
| RE does not Granger Cause GDP | 32 | 10.2115 | 0.0005 |
| GDP does not Granger Cause RE | | 28.6471 | 2.E-07 |

Source: Researcher's computation using E-views 9.0

From the Granger causality test results, it is observed that there are causal relationships among the variables under consideration. The result reveals bi-directional causality between private consumption and Gross Domestic Product (GDP) as the F-Statistic is significant at one percent level in both directions. The Granger causality test further indicates a bi-directional causality between recurrent expenditure and private consumption and recurrent expenditure and Gross Domestic Product at a one percent significant level. However, there is a uni-directional causality between capital expenditure and Gross Domestic Product, which shows that capital expenditure granger causes Gross Domestic Product a one percent level of significance, while the relationship between capital expenditure and private consumption shows no granger causality.

c) The Unit Root Test

A time series is said to be stationary if its mean and covariance value between the two time periods depends only on the distance or gap or lag between the two time periods and not the actual time at which the covariance is computed (Gujarati, 2009). The Augmented Dickey-Fuller (ADF) Unit Root Test and the Philip Perron test are applied in this study. The general specification of the unit root model is given as follows;

$$\Delta Y_t = B_1 + B_2 + \delta Y_{t-1} + \sum \alpha_t \Delta Y_{t-1} + U_t \dots \dots \dots 17$$

Y_t is the variable under investigation, and U_t is a random error term.

d) The Augmented Dickey-Fuller (ADF) Unit Root Test Results:

The results of the ADF test are presented in Table 4.6. The ADF test result shows that Capital Expenditure (C.A.), Gross Domestic Product (GDP), Private Consumption (P.C.), and Recurrent Expenditure (RE) are stationary at first difference. Thus, at 0.05 significant level, the variables are stationary and are suitable for estimation.

Table 4.6. The Augmented Dickey-Fuller (ADF) Unit Root Test Results

| Variables | Degree of Freedom | ADF Critical values | ADF t-statistic | p-values | Order of Integration |
|-----------|-------------------|---------------------|-----------------|----------|----------------------|
| CA | 1% | -4.27 | -6.99 | 0.0000 | 1(1) |
| | 5% | -3.56 | | | |
| | 10% | -3.21 | | | |
| GDP | 1% | -4.27 | -5.25 | 0.0009 | 1(1) |
| | 5% | -3.56 | | | |
| | 10% | -3.21 | | | |
| PC | 1% | -4.28 | -4.52 | 0.005 | 1(1) |
| | 5% | -3.56 | | | |
| | 10% | -3.21 | | | |
| RE | 1% | -4.27 | -4.48 | 0.006 | 1(1) |
| | 5% | -3.56 | | | |
| | 10% | -3.21 | | | |

Source: Computed by the researcher using E-views 9.0

e) Test for Cointegration

The results of the ADF unit root tests in Table 4.6 indicate that all the variables used in the study are stationary at first difference. Therefore, having established the stationarity of the variables, we proceed to test for the cointegration among the variables. When cointegration is present, the variables share a common trend and long-run equilibrium (Onyeiwu, 2012). According to Ditimi et al. (2011), ensuring stationarity test examines the long run (cointegration) relationship among the variables. However, variables are cointegrated if they have a long-term or equilibrium relationship (Gujarati, 2009).

f) The F-Bound Test to Cointegration:

In testing for cointegration among the variables of this study, the F-Bound test to cointegration as presented by Pesaran and Shin (1999) and extended by Pesaran, Shin, and Smith (2001) is employed. The long-run relationship between private consumption and government expenditure is investigated by testing a joint significance of F-Statistic. The F-bound test provides two adjusted critical values that establish lower and upper significance bounds. If the F-statistics exceeds the upper critical value, we can conclude that a long-run relationship exists. However, if the F-statistics fall below the lower critical values, we accept the null hypothesis of no cointegration. The result of the ARDL bound approach to cointegration is shown in Table 4.8. The result reveals that the F-statistic tabulated value of 9.68 is greater than the critical upper bounds at 5% and 1% respectively. This shows the long-run relationship among the variables in the model.

Table 4.8. ARDL Bound Test to Cointegration

| F-Statistic tabulated | Lower Bounds critical values | Upper Bounds critical values | Level of Significance |
|-----------------------|------------------------------|------------------------------|-----------------------|
| 9.68 | 4.29 | 5.61 | 1% |
| 9.68 | 3.23 | 4.35 | 5% |

Source: Author's computation using E-Views 9.0

g) The ARDL Long Run Result

Having established a long-run relationship among the variables, we proceed to estimate this relationship using the ARDL approach. The ARDL long-run

cointegration regression result, as presented in Table 4.9 indicates that all the coefficients of the variables in the model are in line with our a priori expectations. The result indicates that Gross Domestic Product and recurrent expenditure are statistically significant at 1% and 5%, respectively. This shows that Gross Domestic Product and recurrent expenditure have positive and significant relationships with private consumption in Nigeria. This confirms the works of Akerele and Yousuo (2012), which revealed that gross domestic product has a significant effect on private consumption expenditure in Nigeria. The result further shows that the coefficient of capital expenditure is statistically insignificant at a 5% level. This means that capital expenditure does not significantly impact private consumption in Nigeria. This shows that less attention was paid to social and community services expenditures that would boost private consumption during the period under consideration.

Table 4.9. ARDL Long Run Analysis

| Dependent Variable: LOG(PC) | | | | |
|-----------------------------|-------------|------------|-------------|--------|
| Long Run Coefficients | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| LOG(CA) | 0.006330 | 0.037697 | 0.167909 | 0.8688 |
| LOG(GDP) | 0.712360 | 0.081034 | 8.790828 | 0.0000 |
| LOG(RE) | 0.380456 | 0.072798 | 5.226182 | 0.0001 |
| C | 20.476651 | 0.284466 | 71.982859 | 0.0000 |

Source: Author's computation using E-views 9.0

h) The ARDL Short Run Result:

The short-run ARDL cointegration regression, which shows the ECM result, is presented in Table 4.10. The result indicates that even in the short run, Gross Domestic Product shows a positive and significant relationship with private consumption in Nigeria at 1% and 5%, respectively. However, the recurrent expenditure and capital expenditure indicate a positive but insignificant relationship with private consumption at a 5% significance level. The result further reveals that the Error Correction Model (ECM) coefficient is negative and significant at 1% and 5%, respectively. It is to be noted that the ECM shows the speed of adjustment back to long-run equilibrium after short-run shocks. As shown in Table 4.10, the coefficient of CountEq(-1) is -1.2017 at a 1% level of significance. This implies that 12 percent of the disequilibrium in the preceding year's shock adjusts to the current year's long-run equilibrium. Also, the R-Squared, which measures the model's goodness of fit, indicates 99 percent, while Durbin Watson shows no autocorrelation in the model. The joint significance of the model (the F-Statistic) indicates statistical significance at a one percent level.

Table 4.10. ARDL Short Run Cointegration Result

| Cointegrating Form | | | | |
|--------------------|-------------|------------|-------------|--------|
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| DLOG(PC(-1)) | 0.281620 | 0.193670 | 1.454121 | 0.1652 |
| DLOG(PC(-2)) | 0.216379 | 0.154923 | 1.396688 | 0.1816 |

| | | | | |
|--|----------|-----------------------|-----------|-----------|
| DLOG(PC(-3)) | 0.242555 | 0.109592 | 2.213244 | 0.0418 |
| DLOG(CA) | 0.007607 | 0.045358 | 0.167704 | 0.8689 |
| DLOG(GDP) | 0.541821 | 0.111094 | 4.877119 | 0.0002 |
| DLOG(GDP(-1)) | 0.096961 | 0.145814 | 0.664963 | 0.5155 |
| DLOG(GDP(-2)) | 0.222104 | 0.149193 | -1.488704 | 0.1560 |
| DLOG(RE) | 0.071093 | 0.081094 | 0.876674 | 0.3936 |
| DLOG(RE(-1)) | 0.202669 | 0.102830 | -1.970919 | 0.0663 |
| DLOG(RE(-2)) | 0.305232 | 0.109685 | -2.782815 | 0.0133 |
| CointEq(-1) | 1.201751 | 0.232461 | -5.169696 | 0.0001 |
| Cointeq = LOG(PC) - (0.0063*LOG(CA) + 0.7124*LOG(GDP) + 0.3805*LOG(RE) + 20.4767) | | | | |
| R-squared | 0.969039 | Mean dependent var | | 28.49706 |
| Adjusted R-squared | 0.948258 | S.D. dependent var | | 2.244024 |
| S.E. of regression | 0.093661 | Akaike info criterion | | -1.593541 |
| Sum squared resid | 0.140359 | Schwarz criterion | | -0.939649 |
| Log-likelihood | 37.90312 | Hannan-Quinn criter. | | -1.384355 |
| F-statistic | 1279.301 | Durbin-Watson stat | | 2.095672 |
| Prob(F-statistic) | 0.000000 | | | |

VI. CONCLUSION AND RECOMMENDATION

This study empirically analyzed the short and the long-run effect of government expenditure on private consumption in Nigeria from 1981 to 2018 using the ARDL approach. In doing this, the study also established the relationship between private consumption expenditure and Gross Domestic Product. Government expenditure was disaggregated into recurrent expenditure and capital expenditure. Evidence from the analysis revealed that capital expenditure induced an insignificant relationship with private consumption. The 12 percent short-run disequilibrium adjustment to long-run equilibrium each year and the error correction model's significance shows the speed of convergence to equilibrium. The implication is of these findings is that government expenditure (recurrent) may likely accentuate an increase in private consumption in the long run as there is the possibility of long-run equilibrium convergence, while the long-run convergence between private consumption and capital expenditure may not be attainable. This is confirmed by the long-run model, which shows an insignificant relationship between private consumption and capital expenditure. This reveals that the achievement of economic wellbeing through recurrent government expenditure could be possible in Nigeria if the government can ensure fiscal discipline, transparency and accountability, effective

policy implementation, and eradication of corrupt practices in governance as indicated by the positive and significant relationship between private consumption and government expenditure.

Similarly, stimulating private consumption expenditure through capital expenditure has not provided a positive result despite the huge capital expenditures of the government over the years. The insignificant effect of capital expenditure could be ostensibly linked to the problems of policy inconsistencies, high level of corruption, wasteful spending, poor policy implementation, and lack of feedback mechanism for implemented policies.

Therefore, this study recommends the following:

- The government of Nigeria should ensure proper management of capital and recurrent expenditure to enhance the people's private consumption and wellbeing.
- That government should give more attention to capital spending to provide more infrastructural facilities to promote economic growth and welfare.
- For a low-income economy like Nigeria, a well-planned tax cut and targeted government expenditure are crucial to stimulating private consumption expenditure to reduce poverty in the country.
- Government expenditures should be directed at providing enabling environment and critical economic sectors like roads, power, education, health, housing, urban and rural development to generate that required catalyst to economic growth, wealth, and employment creation as envisaged in the government's Vision 20:20:20: strategy. It is wealth creation and employment creation that will reduce the pervasive poverty in the land and enhance private consumption expenditure.
- The Nigerian government should increase government expenditure with greater skewness towards recurrent expenditure to increase private consumption and the wellbeing of Nigerians.

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