

Public Expenditure and Economic Growth: Test of Keynesians' Prepositions in Nigeria

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Abstract

The study examines the effect of public expenditure on Nigeria's economic growth from 1987-2020. The coefficient of determination (R^2) shows that 53.3 percent of variation in Nigeria real gross domestic products is caused by variations in public expenditure. The variables indicate that public capital expenditures have positive and significant effect on Nigeria economic growth. From the findings, the study concludes that Keynesians preposition on the effect of government expenditure holds in Nigeria. The study recommends that better implementation of the annual budget and government expenditures should be directed to productive ventures of the economy to enhance the economic growth. Also, government should expand the portion of the capital use particularly on significant ventures that have direct bearing on the residents. Capital consumptions on financial administrations ought to be coordinated chiefly at the rural area to invigorate exercises in the monetary areas and, maybe, invert the adverse consequence on financial turn of events.

Keywords: Public Expenditure, Economic Growth, Test, Keynesians' Prepositions, Nigeria

Introduction

Economic growth is the expansion of the total amount of national output through the use of limited resources. It is the value of the goods and services produced in the country within the specified time frame. It also represents the entire amount of money spent by the government, investments, and consumers in the nation. Economic growth is the gradual expansion of an economy's ability to generate the commodities and services required to enhance the well-being of its growing population and diversity, it is a slow process that gradually increases the economy's productive potential, which enhances national income levels.

Sustainable growth has been the goal of Nigeria's economic policy for the last thirty years. Nigeria's economy grew by an average of more than 7% per year between 2000 and 2014, thanks to macroeconomic and first structural changes as well as favorable international conditions. But between 2015 and 2022, growth rates slowed and GDP per capita stagnated due to a combination of external shocks like the COVID-19 pandemic, monetary and exchange rate policy distortions, growing trade protectionism, declining oil output, and growing fiscal deficits caused by an expensive fuel subsidy scheme. Millions of Nigerians fell into poverty in February 2024 because of the nation's weak economic foundation and lacklustre progress, which caused inflation to hit a 24-year high of 31.7%.

In a number of ways, public spending is significant to the overall economy. It is employed to create a range of public goods and services, including infrastructure development, that the market economy is unable to supply because of their high cost. The government also uses it to implement different fiscal policies, including capital investment, to boost economic activity, especially in emerging nations with plenty of idle resources and during recessions. According to Keynesian economists, public spending is a form of government intervention in economic activity that helps to address market imperfections.

However, Nigeria's public spending has increased from millions to billions and now to trillions. The question is whether this has had an impact on the economy's growth as suggested by fiscal theories. There are various examinations on the impact of public expenditure. Udo, Ekpo, Ekere and Inibeghe (2022) utilized altered and stretched out total creation model to analyze the impacts of government consumption at its total level on monetary development in Nigeria for the period (1981-2018) utilizing bound test (ARDL) approach, Ogbuagu and Ekpenyong (2015) explored the effect of the parts of public use on financial development in Nigeria from 1970 to 2014, Ojonugwa, Esther, and Hindatu (2016) analyzed the connection between government use and financial development in Nigeria for the period 1970 to 2010, Bashir, Hamza and Rafiat (2017) concentrated on the effect of government use on financial development in Nigeria. While the discoveries of the above examinations are deeply grounded, the factors neglected to catch public use as grouped by the Central Bank of Nigeria. This study inspected the impact of public spending and economic growth using public expenditure classification by Central Bank of Nigeria.

Literature Review

Harrod – Domar Growth Model

This theory was formulated by Roy Harrod and Evsey Domar in the 1930s and 1940s. Harrod-Domar believed that monetary development is accomplished when greater speculation prompts more development. The hypothesis depends on direct creation work with yield given by capital stock (K) prongs a steady. Venture as per the hypothesis creates pay and furthermore expands the useful limit of the economy by expanding the capital stock. However much there is net venture, genuine pay and result keep on consuming. What's more, for full business balance level of pay and result to be kept up with, both genuine pay and result ought to extend at a similar rate with the useful limit of the capital stock.

The hypothesis maintained that for the economy to keep a full work, over the long haul, net speculation should increment ceaselessly as well as development in the genuine pay at a rate sufficiently adequate to keep up with full limit utilization of a developing supply of capital. This infers that a net expansion to the capital stock as new venture will go far to expand the progression of public pay. From the hypothesis, the public reserve funds proportion is thought to be a decent extent of public results and that all out not entirely settled by the degree of absolute reserve funds that is $S = SY$ which should be equivalent to net speculation I . The net venture which is $I = \Delta K = K\Delta Y$ in light of the fact that K has an immediate relationship to add up to public pay. Also, in this way $SY = K\Delta Y$ which basically implies $\Delta Y/Y$ is development pace of GDP not set in tone by the net public reserve funds proportion, s and the public capital result, K without a trace of government, the development pace of public pay will be decidedly connected with the saving proportion i.e. the more an economy can save and contribute out of a given GDP, the more noteworthy the development of GDP and which will be contrarily connected with capital result proportion.

Theory of Increasing Public Expenditure

This theory was formulated by Adolf Wagner in 1893. There are two significant and notable speculations of expanding public use. The first is associated with Wagner and the other with Wiseman and Peacock. From one perspective, Wagner uncovered that there are inborn propensities for the exercises of various layers of an administration (like local, state and nearby legislatures) to increment both seriously and widely. He maintained that a utilitarian relationship between government and economic development leads to the legislative branch growing faster than the economy. In any case, Nitti (1903) supported Wagner's argument and concluded with observational evidence that it applied equally to a few distinct legislatures that differed significantly from one other (Nitti, 1903). Regardless of their size, expectations (warlike or peaceful), or levels (e.g., state or central government), a wide range of legislatures had

demonstrated a similar tendency to increase public consumption. On the other hand, Wiseman and Peacock's study of public consumption in the UK between 1890 and 1955 revealed that it increases in jerks or steps rather than smoothly and steadily.

Public Expenditure

The costs that the government incurs to maintain itself, society, and the economy as a whole are referred to as capital expenditures. A portion of all capital expenditures is allocated to aiding nations. The inability of the market mechanism to adequately address the actual demands of society serves as the foundation for the notion of public expenditure. Stated differently, market mechanisms cannot reconcile the disparity between private and societal goods. Additionally, according to the public sector, it is critical to protect the economy from the detrimental consequences of market processes, including worker exploitation, social and economic injustice, and similar issues. The increased interest of economists in topics such as distributive fairness, planning regional inequities, and economic growth has further strengthened this tendency. Members of society are being forced to consume merit products as the public sector increases their availability. With the introduction of welfare economics, which openly acknowledged the importance of the state and gave budgetary operations a major role, the theory of capital expenditure therefore started to get more attention.

The term "capital expenditure" describes the sum of money expended on updating and enhancing includes existing fixed assets like buildings, roads, machinery, equipment, and intangible assets, as well as the acquisition of fixed productive assets with a useful life extending beyond the current fiscal or accounting year. This area of government spending also includes research expenses. Because it might take a long time for capital expenditures to affect the economy once they are committed, they are typically viewed as investments that will yield returns in the future (Balas, 2020). Conversely, recurrent expenditures include activities, pay and benefits, buying products and services, and existing grants and subsidies (sometimes categorized as transfer payments). Government final consumption expenditure is another name for recurring expenditure, which does not include transfer payments. Recurrent expenses include administrative costs, internal security expenditures, and public employee pay and salaries. They might be incurred on a daily, weekly, monthly, or even annual basis (Lypu et al, 2018).

Economic Growth

Economic growth alludes to the expansion in how much the products and labour that an economy produces throughout time. It is often measured as the percentage rate of growth in real GDP, or all-out public results. In order to offset the impact of the expansion on the cost of the work and the goods delivered, development modified the conditions of improvement, which was not fixed in stone. In monetary issues, money related improvement or monetary advancement speculation normally suggests advancement of likely outcome creation at full work, which is achieved by advancement in absolute premium or seen yield. Arthur (1963) in his idea of financial development joins the human component and sees the objective of financial development as the development of the result per head of populace. Wang et al. (2010) characterized monetary development as an expansion in the capacity of the economy to deliver products administration. Muthus et al. (2013) characterizes financial development as the expansion extra time of an economy's ability to deliver those labor and products expected to work on the prosperity of the residents in expanding numbers and variety. Economic growth is the continuous process by which an economy's productive capacity expands over time, leading to higher levels of national income.

Empirical Review

Using the bound test (ARDL) approach, Udo, Ekpo, Ekere, and Inibeghe (2022) analyzing the effects of total government expenditure on Nigeria's economic performance from 1981 to 2018, this study used an expanded, updated aggregate production model. Based on Keynesian theory, the ARDL results indicate that total government spending (LTGE) positively influenced Nigeria's economic growth, and the co-integration findings reveal a long-term relationship between LTGE and economic growth in Nigeria. According to Wagner's theory, the Granger causality test result shows that there was a unidirectional causal relationship between LGDP and LTGE throughout the observed period. It is advised that public funds be used appropriately to provide security and essential infrastructure, particularly the roads and electricity supplies, which are prerequisites for successful economic performance. Proper management of public funds is necessary to guarantee fiscal responsibility, accountability, and openness when performing public duties. The fight against corruption in the nation should be taken head-on since it is thought that if it is addressed, more public funds will be available for development and public spending will have a greater impact on economic performance. To guarantee prompt and appropriate processing of corruption concerns, public institutions tasked with handling them in the nation should be redesigned and reinforced.

Ogbuagu and Ekpenyong (2015) examined how Nigeria's economic growth was affected by the various components of governmental spending between 1970 and 2014. The dependent variable was gross domestic product, and the independent variables were net exports, capital expenditures, recurrent expenditures, inflation rate, and gross national savings. Analytical methods included the autoregression distributive lag (ARDL) methodology, the Toda-Yamamoto causality test, and the unit root test. The results demonstrated that recurring spending significantly and favorably influenced economic growth over the long and short terms. However, the analysis demonstrated that capital expenditures only had a negative, significant impact on economic growth over the long term, with no short-term effects. Short-term economic growth was significantly impacted negatively by national savings, whereas long-term economic growth was significantly impacted positively. Lastly, the study found that Nigeria's economic growth was negatively impacted by net exports.

Ojonugwa, Esther, and Hindatu (2016) investigated the connection between Nigeria's economic growth and government spending from 1970 to 2010. Real gross domestic product was used as a stand-in for economic growth, and capital and recurring expenditures were chosen as proxies for government spending. Empirical tools included the Granger causality test, unit root test, cointegration test, and pairwise cointegration test. The study demonstrated a favorable and strong short-term connection between economic growth, recurring spending, and capital investment.

Nwoha, Onwuka, and Ejem (2017) investigated how Nigeria's economic growth was impacted by both total and disaggregated government spending between 1980 and 2015. Aggregated government spending, as measured by total federal government spending, was used in the study. Recurrent and capital expenditures were used as stand-ins for disaggregated expenditure, and real gross domestic product was used as a stand-in for economic growth. Real GDP was the dependent variable, whereas all government spending, capital spending, and recurring spending were the independent variables. The empirical instrument used in the study's tests and analysis was the error correction mechanism (ECM). The findings showed that Nigeria's economic development was positively and significantly impacted by capital expenditures and overall federal government spending. Recurring expenditure did, however, have a minor but positive effect on Nigeria's economic development, according to the report.

Ditimi, Nwosa, and Ajisafe (2019) investigated the relationship between government expenditure components and economic development in Nigeria between 1970 and 2018, with special focus to factors related to agriculture, health, education, and transportation and telecommunications. According to the findings of both the short- and long-term regression estimates, government investment on agriculture had the most impact on economic growth.

Using criteria deemed pertinent indicators of economic growth and government spending from 1970 to 2017, Nworji (2018) investigated the link between public government spending and economic growth in Nigeria. The perceived causal link between government expenditure and economic development was examined using Ordinary Least Square (OLS) multiple regression models. The findings showed that capital and ongoing investments in economic services had no adverse effects on economic growth. There was very little positive effect of capital spending on transfers on growth. Capital and continuous investments in social and community services, together with continuous transfers, greatly accelerated economic growth.

The relative effects of federal capital and ongoing expenditures on Nigeria's economy between 1980 and 2015 were examined by Oziengbe (2016). Using multiple linear regression analysis, the study examined the relationship between GDP and total government expenditure (GOVEXP). The findings provided compelling evidence in favor of Ram's growth accounting model. According to the Error Correction Model (ECM) model, each explanatory variable's short-term impact on GDP was statistically insignificant at the time of the model's release but significant after a lag. RECEXP had a larger impact than CAPEXP, although the former had a negative impact and the latter a positive one.

Aremu et al. (2020) investigated how government spending in certain sectors affected Nigeria's economic growth between 1984 and 2019. The study evaluated the short- and long-term effects of government spending on economic growth using the Autoregressive Distributed Lag model (Bound Test Co-integration Approach). The findings showed that although government investment in agriculture boosted economic growth, government spending on military had the opposite effect. Government spending on communication, transportation, and education has minimal long-term effects on economic growth.

examined the connection between economic growth and government spending. The government's total revenue, nominal exchange rate, real per capita GDP, transfers, economic services, social services, and administrative costs were all included in the time series data from 1981 to 2015. The study employed ECM calculated using Dynamic OLS and discovered that nominal exchange rates and long-term government spending on administration were important, which had a major impact on Nigeria's economic growth.

Methodology

The study used an ex post facto research design to investigate how public spending affects Nigeria's economic growth. The Central Bank of Nigeria Statistical Bulletin and the World bank information base provided the data used in this investigation. The main method of analysis is Ordinary Least Squares (OLS), which uses a variety of relapse techniques throughout 34 years with annual data from 1987 to 2020. In order to assess the reliability of the results, a statistical evaluation of the analytical model's worldwide usefulness was conducted using the student T-test, F-test, regression's coefficient of correlation (r), and the coefficient of determination (r^2), the model specification is as follows:

$$RGDP = f(ECSS, CETR, CEES, CEA) \quad (1)$$

It is empirically stated as

$$RGDP = \beta_0 + \beta_1 ECSS + \beta_2 CETR + \beta_3 CEES + \beta_4 CEA + \mu \quad (2)$$

Where:

RGDP = real gross domestic product

CEA = capital expenditure on administration

ECSS = capital expenditure on economic services

CESS = capital expenditure on social services

CETR = capital expenditure on transfers

β_0 = regression intercept

$\beta_1 - \beta_4$ = coefficient of the independent variables to the dependent variable

μ = error term

A-Priori expectation: The factors should have a positive impact on the dependent variables, according to theories like economic growth theories and the empirical findings analysed in this study. The study used Dickey-Fuller test; it is used to determine the general fit when the t-circulation isn't often communicated (Khamisi, 2016). The Johnson cointegration and Engle-Granger method, were used.

Data Analysis and Results

The unit root test, all of the variables were initially fixed at level 1(0). The Johansen co-integration test was used to ascertain whether or not there was a long-term connection between the components. The Johansen technique was ideal for the evaluation.

Table 1. Cointegration Analysis

Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigen value	Statistic	Critical Value	Prob.**
None *	0.852945	59.42535	40.07757	0.0001
At most 1 *	0.712569	38.64999	33.87687	0.0125
At most 2	0.556258	25.18786	27.58434	0.0983
At most 3	0.302071	11.14876	21.13162	0.6324
At most 4	0.158724	5.357910	14.26460	0.6961

Source: Researcher's Computation Using Eview 12

Table 1 shows the co integration test; the trace statistics from the model indicate one co-integrating equation. All in all, there is for quite some time run connection between public expenditure and economic growth within the time scope of the study.

Table 2 Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
ECSS does not Granger Cause RGDP	32	3.06264	0.0433
RGDP does not Granger Cause ECSS		2.94887	0.0494
CETR does not Granger Cause RGDP	32	1.74493	0.1938
RGDP does not Granger Cause CETR		2.84893	0.0454
CEES does not Granger Cause RGDP	32	0.92187	0.4099
RGDP does not Granger Cause CEES		2.36119	0.1135
CEA does not Granger Cause RGDP	32	0.67953	0.5153
RGDP does not Granger Cause CEA		0.74178	0.4857

Source: Researcher's Computation Using Eview 12

Table 2 presents the granger causality test. The co integration results alone are not adequately sufficient to clarify the connection between bank intermediation and Nigeria monetary development. We want to lay out the bearing of this relationship, consequently the causality test. Considering that a long run relationship exists between financial strategy and Nigeria monetary development as displayed from the Johansen co incorporation test from the follow insights, we should inspect the causation of this relationship. If fiscal policy can predict Nigeria economic growth more than economic growth can anticipate itself, the gamble factors are shared with granger-cause Nigeria economic growth the reverse is true. The variable of economic growth is said to granger cause. The study found a bidirectional causality in public expenditure economic services

Table 3 VAR Lag Selection Criterion

Lag	LogL	LR	FPE	AIC	SC
0	-292.2072	NA	80.33185	18.57545	18.80447
1	-242.8756	80.16381*	17.95357*	17.05473*	18.42885*
2	-222.2735	27.04032	26.73825	17.32959	19.84883

Source: Researcher's Computation Using Eview 12

The VAR lag selection criteria are displayed in Table 3; according to Stock and Watson (2012), "the most popular of the information criteria are the Akaike information criteria (AIC) and Bayesian information criteria (BIC)." The ideal lag length in this investigation is 1 since the value suggested by both AIC and HQIC is lag 1.

Table 4: Error Correction Estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.014616	0.616387	-3.023713	0.0000
D(ECSS(-1))	2.738807	0.100564	2.930737	0.0007
D(CETR(-1))	2.760213	0.056177	3.030996	0.0000
D(CEES(-1))	2.740555	0.069673	2.730770	0.0057
D(CEA(-1))	2.764675	0.050950	2.631046	0.0055
ECM(-1)	-0.573392	0.192055	-2.985555	0.0061
R-squared	0.673536	Mean dependent var		0.000937
Adjusted R-squared	0.533831	S.D. dependent var		3.704831
S.E. of regression	3.448019	Akaike info criterion		5.480837
Sum squared resid	309.1097	Schwarz criterion		5.755663
Log likelihood	-81.69340	Hannan-Quinn criter.		5.571934
F-statistic	6.957957	Durbin-Watson stat		1.977593
Prob(F-statistic)	0.000006			

Source: Researcher's Computation Using Eview 12

The estimated error correction results, which are shown in Table 5, indicate that public spending in Nigeria accounts for 53.3% of the variation in real gross domestic product during the study's timeframe. This implies that 46.7 percent of the variation could be attributed to factors that were missed by the relapse model. While the Durbin Watson measures validate the lack of sequential autocorrelations, F-insights and likelihood validate that the model is indeed critical. According to the study's negative intercept, Nigeria's real gross domestic product would decline by 0.1 percent if the variables affecting public spending remained constant. Nonetheless, every explanation has a favorable and noteworthy impact for Nigeria's economic expansion. The study's a-priori expectations are confirmed by the positive effects of the variables, which also align with Keynesians' views on the appropriateness of government intervention and support

welfare economists' views on government spending to address market economy shortcomings. The variables' positive effects support Udo, Ekpo, Ekere, and Inibeghe's (2022) results that total government spending (LTGE) had a Keynesian-theoretical beneficial impact on Nigeria's economic growth. According to Wagner's theory, the Granger causality test result shows that there was a unidirectional causal relationship between LGDP and LTGE for the observed period. It is suggested that there ought to be legitimate usage of public asset in the arrangement of safety and basic framework particularly power supply and street foundation which are forerunners to successful financial execution, the discoveries of Ogbuagu and Ekpenyong (2015) that repetitive use essentially affected monetary development both in the short run and long run, the discoveries of Ojonugwa, Esther and Hindatu (2016) that both capital consumption and intermittent use had positive and critical relationship with financial development in the short run, approve the discoveries of Nwoha, Onwuka and Ejem (2017) that all out national government use and capital use meaningfully affected monetary development in Nigeria, in accordance with the discoveries of Ditimi, Nwosa, and Ajisafe (2019) that use on horticulture was the most huge of the parts of government use that influenced on monetary development, affirm the discoveries of Nworji, Okwu, Obiwuru and Nworji (2018) that capital and repetitive use on financial administrations affected monetary development, Oziengbe (2016) that emphatically upheld Slam's development bookkeeping model however go against the discoveries of Aremu, Babalola, Aninkan, and Salako (2020) that administration use on guard influences adversely on financial development while government use on agribusiness upgrades financial development. Government use on training, transport and correspondence didn't affect financial development over the long-run.

Conclusion

This research looks into how government expenditure affects Nigeria's economic expansion. The ADF unit root test revealed a long-term relationship between public expenditure and economic development, with all the variables being stationary at first difference. The research found a bidirectional causal association between public spending on economic services and economic development, as well as a unidirectional causal relationship between transfer expenditure and economic growth. According to the estimated error correction results, Nigerian public spending accounts for 53.3% of the variation in real gross domestic during the study's timeframes; this suggests that 46.7 percent of the variation may be attributed to variables not included in the regression model. Based on the results, the study comes to the conclusion that Nigeria accepts Keynesians' views on government spending.

Recommendations

- i. It is normal with Nigerian monetary framework not to execute immense piece of the yearly spending plan principally capital spending plan. The concentrate in this manner suggest for better execution of the yearly spending plan and government uses ought to be coordinated to useful endeavors of the economy to upgrade the financial development.
- ii. The review suggests that administration should build the portion of the capital use particularly on significant ventures that have direct bearing on the resident's government assistance. Capital uses on financial administrations ought to be coordinated for the most part at the horticultural area to invigorate exercises in the monetary areas and, maybe, invert the adverse consequence on monetary turn of events.
- iii. According to the review, administration should pay closer attention to how government funds are allocated. Enforce oversight and assessment of public spending to prevent misappropriation of released cash, which will lead to inefficiency.

- iv. A consistent rise in capital expenditure is required, and its full implementation will improve the beneficial effects of public spending on the expansion of the Nigerian economy. Capital expenditure should be fully executed to prevent the economy from experiencing a shortage of financial resources.

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