

POLITICAL SYSTEM, BUDGET PERFORMANCE AND ECONOMIC GROWTH IN NIGERIA, 1970-2004

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ABSTRACT

The effect of political systems, national budgets and how the resulting budget performance affects economic growth in Nigeria between 1970 and 2004 were assessed. The role of a budget in an economy is enormous. This is because the budget is an important instrument of national resource mobilization, allocation and economic management. It is also an economic instrument for facilitating and realizing the vision of government in a given fiscal year. Expenditures that may or may not contribute to economic growth were classified either as inimical to growth so that they are eliminated or they are reduced to the barest minimum, and those that productive and lead to economic growth. Descriptive and econometric methods were used to establish evidence of the performance of national budgets and its impact on economic growth in Nigeria.

The findings of the study show that the economy performed better under democratic dispensation. The economy performed least during the military period (1984-1998). The results of the parsimonious error correction model show that economic growth is invariant with political systems in the country. This finding however, shows that democracy in Nigeria is yet to transform into growth in the Nigerian economy. This may be due to the crowding out effect of the military regime on economy. The result is a reflection of the fact that the Nigerian economy is yet to fully harness its potentials due to continued low budgetary allocation to the real sectors coupled with high level of corruption and rampant poverty in Nigeria. It could therefore be concluded that the advent of democratic governance has not translated to sustained economic growth in Nigeria.

Keywords: Political System; Budgets; Economic Growth; Nigeria

INTRODUCTION

The Nigerian economy has experienced fluctuating economic growth since her independence in 1960. National development agendas are premised on economic growth which is a necessary condition for development. However, the state of the economy of the country is rendered more unstable because of the political systems that have prevailed in the country for over three decades. Nigeria, like other developing countries in sub-Saharan Africa, has been facing increasing size of government operations, and their effect on economic growth has become an emerging major public debate. However, the growth in the

public sector appears to apply to most countries regardless of their level of economic and political development (Essien & Bawa, 2005). The aim of government is to attain better allocative and distributional equality through improved disbursement of public and quasi-public goods.

Similarly, past studies have utilized aggregate measures of government size in the form of either growth in government consumption or government consumption as a ratio of gross domestic product (GDP). The purpose of this paper is to identify those expenditures that may or may not contribute to economic growth with a view to determining how such expenditures should be classified, either as inimical to growth or productive. The analytical section of the paper determines which categories of government expenditure are growth-inducing, particularly for purposes of fiscal adjustment. Therefore, the effect of governance or political system on economic growth in Nigeria was determined.

CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

Importance of National Budgets

The role of a budget in an economy is enormous. This is because the budget is an important instrument of national resource mobilization, allocation and economic management. It is an economic instrument for facilitating and realizing the vision of government in a given fiscal year or period. A budget has to be well-designed, effectively and efficiently implemented, adequately monitored, and its performance well evaluated. With regard to Nigeria's budgets over the years, there is a sharp contrast between budgeting under military regimes and budgeting under civilian administration. Whereas the former was ad hoc and fraught with arbitrariness, the latter is often subjected to scrutiny at various stages by the executive and legislative arms of government before it is finally approved. Budgetary processes take place inevitably within the context of complex organizations, and thus vary from one political system to another (Mbanefoh, 1999). It has also been observed that the pragmatism inherent in military regimes tend to obscure and underrate democratic principles of open and free methods of resource allocation and utilization (Onimode, 1999).

Some Indicators of National Budget Performance

Key indicators of the performance of the national budget identified in literature include: (i) ratio of total expenditure to gross domestic product (GDP); (ii) share of expenditure on functional component of government expenditure (administration, economic services, social and community services and transfers), which make clear distinction between productive and unproductive spending; (iii) overall budget balance (overall surplus/deficit as a percentage of the GDP); and (iv) sectoral allocation vis-a-vis the utilization (actual releases) of the budget funds.

Literature Review

Like Akpan (2005), literature review in this paper centers around the importance of each of the disaggregated components of government expenditure on economic growth. The present study, however, goes beyond the study by Akpan in terms of extending the periods and as well as incorporating the effect of political system into the dynamism of Nigeria's budgets. Like in other developing countries, less attention is given to examining the productiveness of the various components of public spending in Nigeria. This is borne out of the observation that the primary objective of fiscal policy is aggregate demand

management (Diamond, 1990). By and large, this view places prominence on aggregate government expenditure and overlooks the difference between or among the various components of public expenditures.

Analytically, this study is motivated by past studies by Idowu (2005); Akpan (2005); and Amin and Audu (2006) which employed the econometric tool of cointegration tests, the error correction model and the Granger causality in modeling economic decision in agriculture and the economy in general. However, there exist a gap in knowledge on the effect of political system or governance on the economic growth and the national budgets in Nigeria.

Findings by Ekpo (1995) reveal that capital expenditures on transport, communication, agriculture, health, and education positively influence private investments in Nigeria. The expenditure types invariably enhance the growth of the overall economy. The results were obtained from regressing the disaggregated components of government capital expenditures on private investments using ordinary least squares approach with annual data from 1960 to 1990. But it is known that running time series data with ordinary least squares approach leads to spurious regression results (Yusuf & Falusi, 1999). Therefore, tests of stationarity in and cointegration among the variables were undertaken. Co-integration between variables implies a long-run equilibrium relationship between the variables after which the parsimonious error correction model is specified. Engel and Granger (1987), stated that a homogenous non-stationary series, which can be transformed to a stationary series by differencing d times, is said to be integrated of order d . Thus, Y_t , a time series is integrated of order d [$Y_t \sim I(d)$] if differencing d times induces stationarity in Y_t . If $Y_t \sim I(0)$, then no differencing is required as Y is stationary. The test proposed by Dickey-Fuller to test for the stationarity properties of a time series is called the Unit Root test denoted by DF. This study utilized the econometric method of parsimonious error correction model.

METHODOLOGY

Data and Sources

Annual data from 1970 to 2004 were obtained from the Annual Report and Statement of Accounts of the Central Bank of Nigeria (various issues).

Analytical Techniques

This study is premised on inconsistency in the results obtained by past studies resulting from the spurious correlation associated with non-stationary series due to the fact that the underlying process generating the data was not considered. The test of the extent to which political system and the size or share of government expenditure would impact on economic growth, using time series data and taking into consideration the data generating process is therefore taken into consideration in this study. This is done by: (i) examining the nature of the relevant variables in the study for stationarity; and (ii) examining whether or not there exist a long-run relationship between economic growth and government expenditure.

On the basis of the above, it would then be possible to deduce from the result which components of government expenditure promotes economic growth. This study adopts a simple log-linear model, a form similar to that used by Landau (1986) to examine the effect of governance and government expenditure on economic growth.

For the purpose of this study we specify the equation in log form;

$$\ln Y_t = a_0 + a_1 \ln R1_t + a_2 \ln R2_t + a_3 \ln R3_t + a_4 \ln R4_t + a_5 \ln K1_t + a_6 \ln K2_t + a_7 \ln K3_t + a_8 \ln K4_t + G_t + \varepsilon_t$$

Where a_0 = intercept, a_i = elasticities of independent variables ($i = 1, 2, 3, \dots, 9$), and

A priori, $a_i > 0$.

While $\ln Y$ = Log of gross domestic product (GDP)

R1, R2, R3, R4 = functional components of recurrent expenditures

K1, K2, K3, K4 = functional components of capital expenditures

G = Dummy to capture the effect of governance (1 = democratic, 0 = otherwise)

R1 & K1 = Administrative components recurrent and capital expenditures

R2 & K2 = Economic service component of recurrent and capital expenditures

R3 & K3 = Social and community service component of recurrent and capital expenditures

R4 & K4 = Transfer component of recurrent and capital expenditures

RESULTS AND DISCUSSION

Structure and Trend of Government Expenditure in Nigeria, 1970-2004

The structure of government expenditure was considered by examining the total expenditures and the functional components of expenditures separately. Recurrent expenditure is made up of all “consumption” items such as goods and services, personnel cost, etc., while capital expenditure include all expenses which contribute to long term development such as spending on national priority projects, social and economic infrastructure (Fajingbesi & Odusola, 1999; Akpan, 2005).

Total Expenditure

The ratio of total expenditure to GDP is an important indicator of the performance of the national budgets. Between 1979 and 1983, the ratio of total expenditure to GDP averaged 22 percent (Table 1). The capital expenditure share accounts for the larger share of the GDP for the same period, which was a democratic regime. The military regimes (1970-1978 and 1984-1998) account for more capital expenditure as a proportion of the GDP. However, the democratic dispensation (1999-2004) accounts for more recurrent expenditure as a proportion of the GDP. This situation may be due to the fact that the civilian regime spent more as a result of over blotted civil service, and this situation might have informed the current civil service reforms (right-sizing and down-sizing) and monetization whose effects are reflected in the later years and government spending profile. It could also be observed that Nigeria has had only 11 years (out of the 35-year period under review) of democratic rule. This has implications for sustainable growth of the economy, especially because military incursions are perceived to truncate democratic norms and structures which are necessary conditions for sustainable economic growth and development.

Table 1: Mean Recurrent, Capital and Total Expenditure as Percentage of GDP by Governance/Political System.

Period	Political system	Average (% of share to GDP)		
		Recurrent	Capital	Total
1970-1978	Military	11.66	9.53	21.19
1979-1983	Democratic	9.20	12.93	22.13
1984-1998	Military	10.61	8.05	18.66
1999-2004	Democratic	12.99	7.05	20.05

Functional Government Expenditure

Government expenditure items, whether recurrent or capital, are usually classified into four major groups, namely: administration, economic services, social and community services, and transfers. This is to make clear distinction between “productive” and “unproductive” spending, as second and third categories are considered as more “productive” than the others (Akpan, 2005).

Recurrent Expenditure

Government spending on economic services has been rather low, usually less than 20 percent for the study period. Expenditure on social and community services plummeted for the period 1970-1985. This might have been accounted for by the arbitrary allocations of the military that were less sensitive to the yearnings of the citizens or policy shifts. This situation, however, improved immediately after the introduction of structural adjustment program (SAP) from 1986 to 1992.

Comparatively, it could be said that the democratic regimes (1979-1983 and 1999-2004) performed better in their expenditure profile, given the expenditure on productive sectors Table 2). The democratic regimes had less expenditure on government transfers and proportionally increasing expenditure on economic as well as social and community services.

Table 2: Means of Functional Classification of Recurrent Expenditure as Percentage of Total Expenditure by Regimes.

Period/Political system	Average (% of share to Total Expenditure)			
	Administration	Economic Services	Social and Community Services	Transfers
1970-1978 (Military)	33.11	4.97	7.19	54.72
1979-1983 (Democratic)	41.48	7.57	16.49	34.45
1984-1998 (Military)	29.06	5.32	10.78	54.84
1999-2004 (Democracy)	29.83	7.17	13.30	49.69

Capital Expenditure

This is the cost of bringing to existence new institutions, infrastructures, services and projects (Akpan, 2005). The expenditure profile on economic services used to take greater share of the capital expenditure before being taken over by 1984; while social and community services remained low for the study period (Figure 1).

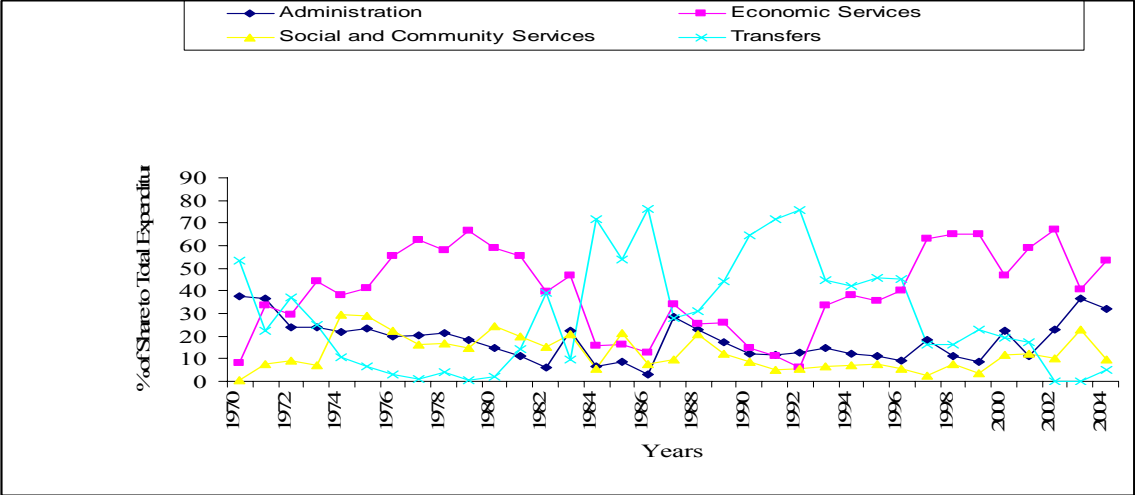


Figure 1: Functional Classification of Capital Expenditure as Percentage of Total Expenditure.

On the average, both the military and democratic regimes showed commitment in their capital on economic services as a proportion of the total expenditure. But again the results show that the economy performed better under the democratic dispensations. The economy performed least during the military period (1984-1998) by recording the largest (49 percent) government transfers and least investments in economic as well as social and community services (Table 3).

Table 3: Means of Functional Classification of Capital Expenditure as Percentage of Total Expenditure by Regimes.

Period/Political system	Average (% of share to Total Expenditure)			
	Administration	Economic Services	Social and Community Services	Transfers
1970-1978 (Military)	25.35	41.12	15.38	18.16
1979-1983 (Democratic)	14.49	53.45	18.92	13.14
1984-1998 (Military)	13.39	29.18	8.89	48.54
1999-2004 (Democracy)	22.25	55.27	11.67	10.82

Budget Balance

The overall budget balance also gives an important indication of the performance of the national budget. Surplus budgeting is usually preferred to deficit budgeting. The results shown in Table 4 present a situation whereby Nigeria has consistently recorded deficit budget balance (worst scenario occurred during the military junta, 1984-1998), with the only exception in the democratic period (1999-2004). Furthermore, the share of non-oil has been on the downward trend. The situation underscores the importance of oil in the Nigerian economy but also shows the vulnerability of the Nigerian economy to external shocks and fluctuation in international oil prices.

Table 4: Mean of Revenue by Sources and Budget Balance, 1970-2004.

Period/Political system	Oil (% of Revenue)	Non-oil (% of Revenue)	Overall Surplus/Deficit (% GDP)
1970-1978 (Military)	62.28	37.72	-1.31
1979-1983 (Democratic)	72.86	27.14	-3.62
1984-1998 (Military)	75.01	24.99	-6.22
1999-2004 (Democracy)	77.14	22.86	0.60

Economic Growth, Political System, and Performance of the National Budgets (econometric model estimation)

The results of the parsimonious error correction model (Table 5) satisfied the expectation of the signs on economic services, social and community services, and transfer components of recurrent expenditure, and administration and transfer component of capital expenditure. Also, the current value of administration component of recurrent expenditure and the current values of

administration, social and community services components of capital expenditure met the expectation of the signs. Only the current values of administration and economic services component of recurrent expenditure, and a two-year lag period of transfer component of capital expenditure are significant. It was revealed that that economic was invariant to political system in Nigeria. The coefficient of political system was non-significant, but negatively signed. This result shows that democracy in Nigeria had not translated into economic growth in Nigeria. This might be due to the crowding out effect of the military dominance of the political economy in Nigeria in the study period.

Table 5: Parsimonous Error Correction Model (PECM) Results.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	0.117728	0.113952	1.033133	0.3489
D(G)	-0.060383	0.250279	-0.241262	0.8189
D(LNR1)	0.710998*	0.333218	2.133730	0.0860
DLNR1(-1)	-0.053297	0.233797	-0.227964	0.8287
DLNR1(-2)	0.011961	0.138090	0.086616	0.9343
D(LNR2)	-0.430317*	0.188029	-2.288568	0.0708
DLNR2(-1)	0.011923	0.210947	0.056520	0.9571
DLNR2(-2)	-0.240581	0.159799	-1.505526	0.1925
D(LNR3)	-0.010221	0.124774	-0.081918	0.9379
DLNR3(-1)	0.180956	0.164016	1.103284	0.3202
DLNR3(-2)	0.041861	0.129278	0.323805	0.7592
DLNR4	-0.083363	0.112813	-0.738947	0.4931
DLNR4(-1)	0.014593	0.132735	0.109943	0.9167
DLNR4(-2)	0.095756	0.171878	0.557118	0.6015
DLNK1	0.183978	0.141718	1.298195	0.2509
DLNK1(-1)	0.298083	0.169669	1.756855	0.1393
DLNK1(-2)	0.131248	0.158281	0.829206	0.4448
DLNK2	-0.069155	0.112007	-0.617415	0.5640
DLNK2(-1)	-0.100860	0.130284	-0.774150	0.4738
DLNK2(-2)	0.020827	0.142180	0.146483	0.8893
DLNK3	0.105188	0.118904	0.884646	0.4169
DLNK3(-1)	-0.090161	0.136312	-0.661434	0.5376
DLNK3(-2)	-0.145618	0.122098	-1.192634	0.2865
DLNK4	-0.003995	0.026159	-0.152730	0.8846
DLNK4(-1)	0.289152	0.154520	1.871291	0.1202
DLNK4(-2)	0.112459*	0.046622	2.412147	0.0607
RESIDUAL(-1)	-0.274952	0.149316	-1.841405	0.1249

R-squared	0.842765	Mean dependent var	0.213438
Adjusted R-squared	0.025141	S.D. dependent var	0.181314
S.E. of regression	0.179021	Akaike info criterion	-0.771430
Sum squared residual	0.160242	Schwarz criterion	0.465285
Log likelihood	39.34287	F-statistic	1.030749
Durbin-Watson stat	2.016544	Prob(F-statistic)	0.545808

* indicates significance at 10 percent levels.

CONCLUSION

Summary of Major Findings

This paper examined the national budgets and budget performance in Nigeria from 1970 to 2004. It provides descriptive and econometric evidence of the performance of the national budgets. First, government expenditure items, (recurrent or capital), were classified into four major categories: administration, economic services, social and community services, and transfers. This made a clear distinction between “productive” and “unproductive” spending. On the average, both the military and democratic regimes showed commitment in their capital expenditures on economic services as a proportion of the total expenditure. Overall, the economy performed better under the democratic dispensations. The economy performed least during the military period (1984-1998), by recording the largest (49 percent) government transfers and least investments in economic as well as social and community services. The results of the parsimonious error correction model showed that the current value of administration component of recurrent expenditure and the current values of administration, social and community services components of capital expenditure met the expectations of the sign. Only the current values of administration and economic services component of recurrent expenditure, and a two-year lag period of transfer component of capital expenditure were significant. The coefficient of governance was found to be insignificant, but negatively signed. The result indicated that that democratic governance in Nigeria was yet to translate into economic growth. This might be due to the crowding out effect of the military dominance of the political economy landscape; and has implications for fiscal management systems in Nigeria. Overall, it was found that recurrent expenditures on administration and economic services as well as capital expenditures on transfers hold the promise for sustainable economic growth and development in Nigeria.

Policy Recommendations

The following policy implications could be inferred from the study: Government expenditure items should target productive sectors (real sectors) of the economy), and should reduce spending on unproductive sectors; and the invariant nature of political system (military or democracy) on the performance of the economy is perhaps a reflection of fact that the economy was yet to fully harness the potentials of the emerging best practice of democracy, given the fact that corruption and poverty are still major problems in Nigeria. Hence, Nigeria should embrace and sustain the best practice of democracy in order to derive the long-term benefits of sustainable economic growth in Nigeria through fiscal appropriation on recurrent expenditures on administration and economic services as well as capital expenditure on transfers.

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