

**THE PUBLIC SECTOR AND REVITALIZATION OF THE NIGERIA ECONOMY****OMITOGUN, Olawunmi***Department of Economics  
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Ago-iwoye, Nigeria.***ABSTRACT**

*This study attempts to empirically examine the role of public sector in revitalizing the Nigeria economy over the last three decades (1981-2011). This is justified on the basis that over the years there has been a persistent rise in government expenditure in Nigeria and, the huge government expenditure has not translated into any reasonable growth and development as the country is still ranked as one of the poorest in the world. The study used econometrics model with Ordinary Least Square (OLS) technique to capture the relationship between government expenditure and the standard of living of Nigerians by using per capita income (PCI) to proxy standard of living, and both total capital expenditure (TCAP) and total recurrent expenditure (TRE) to proxy government expenditure. Other variables are inflation rate and exchange rate. The result of the study shows that total recurrent expenditure and exchange rate are the only variables that significantly influence standard of living in Nigeria. While total recurrent expenditure exerts positive influence on standard of living, the influence of exchange rate is negative. The study reveals that public spending in Nigeria to a larger extent has not been productive and sustainable. The fiscal policy has not satisfactorily fulfilled its target and goals over the period of the study. One of the major recommendations is that allocation of government spending needs to be based on the level of need and the versatility of individual sectors.*

**Key words:** Government Expenditure, Standard of Living, Recurrent Expenditure, Exchange rate.

**INTRODUCTION**

Sustainable development and economic self-reliance is possible only when infrastructural facilities are adequate to boost both the foreign and domestic investment (Maku, 2009). The terms public sector, consists of governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver public programs, goods, or services. Therefore, it is necessary to identify specific criteria to help define the boundaries. The concept of public sector is broader than simply that of core government and may overlap with the not-for-profit or private sectors. For the purposes of this guidance, the public sector consists of an expanding ring of organizations, with core government at the center, followed by agencies and public enterprises. Around this ring is a gray zone consisting of publicly funded contractors and publicly owned businesses, which may be, but for the most part are not, part of the public sector (Institute of Internal Auditors, 2011).

Public sector can also be describe as that fraction of an economic system that is controlled by national, state or provincial, and local governments. The public sector encompasses universal, critical services such as national defense, police protection, firefighting, urban planning, taxation, and various social programs. Therefore, public sector overlaps with the private sector in producing or providing certain goods and services. The extent of this overlap varies from country to country, state to state, province to province, and city to city. This overlap is most often seen in waste management, water management, health care, security services, and shelters for homeless and abused people, (Margaret Rouse).

Consequently the need to provide and improve service delivery typically place emphasis on the central role of the state in financing and providing the basic infrastructural facilities (service delivery). The state however bears the legal responsibility to ensure that the fundamental human rights to security, education, basic amenities and healthcare are realized. The state is also well placed to respond to the challenges of poor investment climate which hamper domestic investment and economic growth. For these reasons, many development analysts have emphasized the central role that governments should play in funding, regulating, overseeing and monitoring the delivery of services. But the big challenge is how to make administrators of public



funds accountable to the people through providing basic infrastructural facilities (service delivery) and thus laying solid foundation for sustainable development (Iyoha, 2002).

Over time, scholars have argued that increase in government expenditure on socio-economic and physical infrastructure fosters economic growth. For example, expenditure on education and health raises the level of national output through improved quality of labour and productivity. Similarly, spending on infrastructure such as roads, communications, power and so on reduce production costs and increase profitability of firms, thus fostering economic growth. Series of arguments and studies have emerged on the platform that increase in government spending do not actually promote growth and development, rather reduce overall performance of the economy. Buttressing this is the fact that an increase in government spending may result from increase in taxes or borrowing. Particularly, when higher taxes are imposed, individuals get discouraged because income is reduced and number of hours worked also reduces. On the side of the firm, higher profit tax increases production cost and reduces investment expenditure as well as profitability. If the government in a different dimension results to borrowing to finance projects rather than taxes, then private sector investment will definitely reduce and growth will also be deterred (Ighodaro and Okiakhi, 2010).

In Nigeria, government expenditure has always been at the increase due to the flow of revenue from production and sales of crude oil. This is however accompanied by huge demand for public goods such as roads, electricity, education, health, external and internal security and so on. Within this context, statistics has it that government expenditure (capital and recurrent) have continued to rise in the last forty (40) years. For instance, total capital and recurrent expenditure increased from N10, 163.3m, N4, 805.2m in 1980 to N24, 048.6m, N36, 219.6m in 1990 and further increased to N23, 9450.9m, N46, 1600m in 2000. Between 2001 to 2009, they had increased from N438, 696.5m, N579, 300m to N1, 152,796.6b, N2, 131,906b respectively. Similarly, the increase in expenditure feature more on education, internal and external security, health, agriculture, construction, and transport and communication considering the period under review. Following this scenario, the huge government expenditure has not translated into reasonable growth and development because the country is still ranked as one of the poorest in the world. In the last few years, her balance of payment, inflation and exchange rates, national savings and other macroeconomic indicators have not been behaving well. Also, there has been serious collapse of many industries partly because of breakdown in infrastructure and the result in high rate of unemployment.

In consequent of the foregoing; the development analyst's opinion and focus has been largely on aggregate fiscal discipline and efficient resource allocation. The efficiency and effectiveness of public spending in achieving sustainable development has also become the core of millennium development goals, highlighting the importance of the role of government in determining the growth paths. Similarly, the UN Millennium Project (2005) has emphasized the need for a 'big push' strategy in public spending to help poor countries break out of their poverty trap and meet the MDGs challenge. The report argues that, to enable all countries to achieve the MDGs, there should be identification of priority public investments to empower poor people, and these should be built into MDG-based strategies that anchor the scaling-up of public investments, capacity-building, resource mobilization, and official development assistance. This 'big push' strategy is designed to set low-income economies on a growth path that will become self-sustainable, as core investments in infrastructure and human capital will enable poor people to join the global economy and establish the basis for private-sector-led diversified investment and economic growth, (Edward et al 2006). Also, it was discovered from literature that most government administrations in Nigeria embarked on unproductive expenditures which did not aid economic growth and development. This gives the present study credence. Other sections of the study include conceptual and literature review, methodology, results as well as conclusion and recommendation.



## **The Components of Public Sector in Promoting Nigeria Economy**

The execution of sustainable economy development is heavily controlled and impacted by the initiatives of the public sector. Federal, State and Local governments through legal institution have been given a police power to protect the health, safety, and general welfare of both present and future generations of nation. Meeting the needs of the present without compromising the ability of future generations to meet their needs by leaving sufficient resources to have a quality of life similar to ours.” The major physical resources that state and local governments are responsible for preserving are land and the environment.

This study will present an overview of the various components in promoting public sector and how public expenditure may likely drive growth through public spending. Comprehensive Plans and Growth Management Plan, Sub-division Regulations, and Community Redevelopment Plans among others are all major components of public sector involvement. In addition, consideration will be given to the future potential and promises that the public sector offers.

### **Comprehensive and Growth Management Plan**

The first component to be discussed is the comprehensive growth management plan, which is fashioned through the passing of a growth management act at the state level. Each province within the state is required to have its own region comprehensive growth management plan that is integrated with the goals and policies of the state plan. A major element of a comprehensive plan describes the desirable ways in which a community should develop over years' time frame, usually 10-20 years. Written development goals and policies in the plan determined by citizen input provide guidelines for local officials to base decisions regarding the quality, location, and amount of development. Land conservation, transportation, water treatment, solid waste, and economic policies are defined. According to Miles, Berens, and Weiss, the protection of human, environmental, social and economic resources is a major goal of any CGMP (2000). To encourage sustainability energy and water conservation can be promoted, ecologically sensitive lands can be preserved, public transit can be expanded, and economic opportunities can be instigated. Amendments to the plan are entertained periodically through state and local officials.

### **Subdivision Regulations**

This provides public control over subdivisions of land into lots for sale and development. They contain requirements and standards regarding the size and shape of lots; the design and construction of streets, water and sewer lines, and other public facilities; and other concerns such as environmental protection features (Schmitz, 2004). Once the density of land is determined by a comprehensive growth management plan areas within the urban service boundary can be subdivided through conscientious regulations administered by a development review board that could demand sustainable land development and construction practices to conserve land, materials, energy, and the environment.

### **Community Redevelopment**

The community redevelopment act is implemented at the state level which then allows province to form community redevelopment plans. These plans help redirect growth to areas within the urban service boundary that were once viable neighborhoods and business districts, which have suffered decline as a result of urban slump and encourages the provision of affordable, quality housing within centers of urban concentration. The plan is therefore guide for the physical and economic revitalization and enhancement of the designated redevelopment areas

“Community redevelopment plans provide an opportunity for a diversification and integration of residential, retail, professional and business office uses and coordinated systems of recreation



and conservation open spaces to be located in close proximity to each other in mixed arrangements to meet the needs of the population, provide residents with a variety of choices in life-style arrangements and experiences, and reduce infrastructure impacts” (MCCCRP, 2001).

### **CONCEPTUAL AND LITERATURE REVIEW**

There is no unanimity amongst the economists with regard to the classification of public expenditure. Different economists have classified public expenditure on different bases. Some of the important classifications of public expenditure are: Adam Smith classified public expenditure on the basis of functions performed by the government. In the first category, he includes that expenditure which is incurred on the administration and defense of the country. He calls this type of expenditure defense expenditure. In the second category, he has included that expenditure which is incurred to promote the industrial and commercial development of the country. Such expenditure is referred to as commercial expenditure. In the third category, he included that expenditure which is incurred on development projects, for example; government expenditure incurred on education, medical and health services etc, belongs to this category. Such expenditure is referred to as development expenditure.

Dalton classified public expenditure under two heads: Grants – Direct and indirect and purchase price. When the government transfers its resources to the public, in such a manner that it receives no quid pro quo in exchange, expenditure incurred by the government on disbursement of old age pensions, unemployment allowances and the provision of free education will be considered as grant. According to Dalton, grant is also of two types - Direct as well as indirect. When the benefit of the grant remains restricted to those individuals and groups for whom it is intended, then it is known as a direct grant. On the contrary, when the benefit of governmental grant does not remain confined to those individuals and groups for whom it is intended but gets transferred to other individuals and groups then such a grant is known as indirect grant. When the governments transfer its resources to individuals or groups in society in exchange for their services, it is referred to as purchase price. For example, when the government pays to the public the remuneration at the market-price in exchange for their goods and services, it is known as purchase price.

Pigou classified public expenditure under two heads: Transfer expenditure and Non-transfer expenditure. Transfer expenditure refers to that expenditure which is incurred by government for the benefit of the citizens. For example; old age pensions, unemployment allowances, free medical aid belonging to the category of transfer expenditure. On the contrary, non-transfer expenditure refers to that expenditure which is incurred by the government for its own benefit. For example: the expenditure incurred on administration is known as non-transfer expenditure. But the main difficulty with Pigou’s classification is that there is no clear line of demarcation between the transfer and non-transfer expenditure.

Expenditure is also classified into private and public expenditures. The major differences between public and private expenditure are: The individual expenditure depends on the income of the individual, but public expenditure does not directly depend upon the income of the government. The private individual arranges his expenditure keeping in view his income from various sources. But the governments first plan its expenditure and then take steps to arrange the necessary income to meet that expenditure; the individual expenditure is not influenced by any other person. Whereas public expenditure is influenced by individuals, groups and political parties operating in the country; greater attention is paid to the economy in individual expenditure than in public expenditure. In other words, the private individual incurs expenditure in a more economical manner than the government; and a private individual spends his income on such



items which brings him direct benefit, but the governments sometimes spend their revenues on items which do not bring them immediate benefit.

The revenue for government expenditure according to Anyafo (1996) are generated from broadly twelve assorted means which are: Customs and Excise Tariffs; Licenses and Internal Revenue; Direct Taxes; Fees; Mining Royalties; Earnings and Sales; Armed Forces Revenue; General Interest and Repayment; States Interest Repayment; Reimbursements; Rent on Government Property; Statutory and Non-Statutory Financial Transfers and Miscellaneous.

According to the classist's model, government fiscal policy does not have any effect on the growth of the national output. Converse to this view, the Keynesian model argued that increase in government expenditure will lead to higher economic growth. According to Easterly et al (1993), government activities influence the direction of economic growth. In Nigeria, several studies have been carried out in this area of research. For instance Oyinlola (1993) reported that there is a positive impact of government expenditure on defense and economic growth. While some authors believed that the impact of government expenditure on economic growth is negative or non-significant (Akpan, 2005, Laudau, 1983), others believed that the impact is positive and significant (Korman & Brahmasrene, 2007; Donald & Shuaglin, 1993). Mallik et al (2002) worked on Inflation, Government Expenditure and Real Income in the Long-run and specifically examined the relationship between inflation and real income in Australia, Canada, Finland, New Zealand, Spain, Sweden and the UK. It was found that the long-run relationship between inflation and real income was positive for most of the countries studied. The data for the estimation related to World Bank Statistics for the respective countries under study.

Many authors have also carried out empirical studies to address some of the arising or related issues of public expenditure. Some of these authors include Aigbokhan (1997), Allison (1999), Ezirim & Muoghalu (2006), Ezirim & Ofurum (2003), Gandi (1970), Oates (1985), Okoh (1994), Onuchukwu & Agiobenebo (2000), Peacock & Wiseman (1961). The works of these authors have been reviewed in Ezirim, Ofurum & Muoghalu (2007). There are two empirical studies based on the Turkish case that examined long-run relationship between public expenditure and economic growth. Yamak et al (1997) paper examined the period of 1950-1994. By taking five versions of Wagner's law, they found that there is an empirical support on the Wagner's law of causal relationship from economic growth to public expenditure. Contrary to Yamak & Küçükkale's (1997) findings. Demirbas' (1999) study examined the period of 1950-1990 by taking six versions of Wagner's law into account. He found no support on Wagner's law of causal relationship from economic growth to public expenditure and, partly, nor Keynesian hypothesis of causal relationship from public expenditure to economic growth.

Thornton (1999) examined 6 countries using data from around mid - 19th century to 1913 and found unidirectional causality from income to public expenditure, i.e. considerable support for Wagner's law in 19<sup>th</sup> century. Ram's (1986) cross-country study analyzed 63 countries and found some support on the proposition.

According to Easterly et al (1993), government activities influence the direction of economic growth. This same view was however shared by Baro & Sala (1992), Brons et al (1999) and Baro (1990). In the same vein, Dar Atul et al (2002) emphasized in the endogenous growth model that fiscal policy is an important determinant of economic growth. Several scholars have examined the implications of government expenditure on economic growth. For instance, Komain et al (2007) examined the association between government expenditures and economic growth in Thailand, by employing the Granger causality test. The results showed that government expenditures and economic growth are not Co – integrate. Hence, it further exposed the unidirectional relationship as causality runs from government expenditures to growth. Finally, the results expressed a positive effect of government spending on economic growth.

Cooray (2009) had a cross sectional study of 71 countries with respect to government expenditure and quality of governance using an econometric model. The results revealed that



both size and quality of government are associated with economic growth. Liu et al (2008) examined the causal relationship between GDP and public expenditure for US data between 1947 – 2002. The result revealed that total government expenditure causes growth of GDP while growth of GDP does not cause expansion of government expenditure. Thus, they concluded that judging from causality test; Keynesian hypothesis has more influence compared to Wagner's law.

Closely related to this is the work of Gregoriou et al (2007) on the impact of government expenditure on growth; Empirical evidence from heterogeneous panel. The authors used GMM technique and found out that countries with large government expenditure tend to experience higher growth but the effect varies from one country to another. According to Mitchell (2005), US government expenditure has grown too much in the last couple of years and has contributed negatively to her growth. It was then suggested that government should cut its spending, especially on projects that generate least benefits or impose highest costs. Abdullah (2000) in his paper titled "The relationship between government expenditure and economic growth in Saudi Arabia", discovered that the size of government is an important determinant of the performance of the economy. Therefore, he concluded that government should increase its spending on infrastructure, social and economic activities as well as encourage and support the private sector to accelerate economic growth.

In Nigeria, several studies have been carried out to investigate the impact of government expenditure on economic growth and standard of living. Study by Ogiogio (1995) showed a long term effect of government expenditure on economic growth. He also found out that recurrent expenditure has more influence than capital expenditure. Fajingbesi et al (1999) investigated the relationship between public expenditure and growth. The results showed that real government capital expenditure has more significant positive influence on growth than real government recurrent expenditure. Also, Akpan (2005) in his disaggregated approach to determine the effect of government expenditure on economic growth concluded that there is no reasonable relationship between the components of government expenditure and growth.

Babatunde (2007) tests Wagner's Law for Nigeria using annual time series data between 1970 and 2006. It adopts the Bounds Test approach based on Unrestricted Error Correction Model and Granger causality tests. Empirical results from the Bounds Test indicate that there exists no long run relationship between government expenditure and output in Nigeria but found a weak empirical support in the proposition by Keynes. Olopade et al (2010) assessed how fiscal and monetary policies influence economic growth and development in Nigeria. The study found no significant relationship between most of the components of expenditure, economic growth and development. The estimated result were mixed in particular, some of the variables were weakly significant as a result of non-inclusion of effect of environmental impacts. However it provided important clues to the future direction of research. Adetomobi et al (2006) examined education expenditure trend, higher education student enrolment and linkages with unemployment and economic growth in Nigeria. The results show that government funding is unstable and unpredictable, capital and recurrent funding since 1970 are only a very small fraction of the nation's budget, total enrolment contrasts sharply with level of employment because government could adequately cater for and the proportion of GDP that goes to education is still low.

Suleiman (2010) investigated the causal relationship between aggregate public expenditure and its compositions on economic growth for the Nigeria case over the period of 1979-2008. the study developed nine models hypothesizing nine versions of Wagner's law. Empirical methodology employed includes Augmented Dickey-Fuller stationary test, the Johansen multivariate cointegration method and VAR-based Vector Error Correction modeling techniques for causality test. The effects of stochastic shocks of public expenditure and economic growth are explored. The causal relationship between public expenditure on economic growth was found to be Wagnerian, including public expenditure compositions except transfer expenditure that was found to have a bidirectional relationship with economic growth. Both



productive and protective expenditures support Wagner’s law for Nigeria case for the sample period.

The public expenditure growth pattern is more protective than productive and is relegated to a passive role as a fiscal policy instrument. For fiscal policies to impact on longer-term economic performance, it would depend on the extent to which public expenditure is directed toward increasing the stock of productive physical and human capital. Public expenditures’ contribution to an efficient allocation of resources within the economy and their potential to finance growth enhancing spending categories such as infrastructure, research and development, education, and health should be the focus of government’s public expenditure management strategy. The introduction of a medium term planning and public expenditure framework based on productive than protective expenditures are necessary fiscal and public financial management reforms.

Abdullah (2010) showed that total capital expenditure, total recurrent expenditure and government expenditure on education have negative effects on economic growth. Also, on the contrary, expenditure on transport & communication and health result to an increase in economic growth in Nigeria.

***How public sector can improve per capita income.***

Public sector and their conditions of employment can influence the entire pattern of employer/employee relationships within the economy, including pay scales, tenure, indexation and persons. The size of public sector employment and the amount paid in wages and salaries is thus potentially a lever on employment, skill differentials, staffing levels in the private sector and hence, on overall macroeconomic stabilization policy. For instance, if the government grants substantial wages increases to low-paid government employees, this may affect the wage police for the country as a whole. The way in which such wages and salaries are finance may in turn affect all prices and eventually the balance of payments.

This study represents a beginning in the effort to assemble the statistics for an international comparison of public sector employment and per capital income of a nation. The effort of the latter relationship is to ensure that the share of public sector employment among the nonagricultural employed decline with per capita income, with the rate of decline greater among countries at per capita levels.

**METHODOLOGY**

This study makes use of secondary data in the analysis. The different data sets were collected from the following sources: Central Bank of Nigeria Statistical Bulletin, and Federal Ministry of Finance. The data covers a period of 31years (1981 - 2011). This period is believed to be long enough to capture the long-run relationship between public expenditure and standard of living.

From the foregoing review, this study follows the approach used in the work of Nijkamp (2004) on the Meta - analysis of the effect of fiscal policy on development. Other studies closely related include Shenggen & Neetha (2003), Odedokun (2001), Kneller (1999), Easterly (1993), Barro (1992) and Aschauer (1989). The choice of Nijkamp (2004) is not unconnected with the fact that the study tries to link government spending with economic growth as well its impact on average citizen. The model is given below:

$$PCI = a_0 + a_1TEAGR + a_2TEED + a_3TEH + a_3TEDF + a_4TETC + \mu \text{ ----- (1)}$$

To further simplify the composition of spending, this study disaggregated government spending into: Total capital expenditure (TCAP) and Total recurrent expenditure (TRE). The study will also include other macroeconomic variables like exchange rate (EXR), inflation rate (INF) as well as the degree of openness represented by exports and imports (OPEN) to withstand the effect of long run growth. Thus, the model is structurally specified as:



PCI = f (TCAP, TRE, EXR, INF, OPEN) ----- (2)

PCI = a<sub>0</sub> + a<sub>1</sub>TCAP + a<sub>2</sub>TRE + a<sub>3</sub>EXR + a<sub>4</sub>INF + a<sub>5</sub>OPEN + μ ----- (3)

Where;

PCI = Per capita income which is Gross domestic product divided by the population (GDP/P)

TCAP = Total capital expenditure

TRE = Total recurrent expenditure

EXR = Exchange rate

INF = Inflation rate

OPEN = Degree of openness

μ =Stochastic error term

Evident from economic theory, a positive relationship is expected per capital income (PCI) proxy for standard of living, total capital expenditure (TCAP), Total recurrent expenditure (TRE), Exchange rate (EXR), degree of openness (OPEN) and negatively related to Inflation (INF).

RESULT

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TCAP	0.000305	0.000306	0.995833	0.3293
TRE	0.000740	0.000298	2.479371	0.0206
EXR	-3.526980	1.508497	-2.338075	0.0280
INFL	-2.595852	1.473071	-1.762203	0.0908
OPEN	10.25415	8.274602	1.239232	0.2272
C	421.1682	53.93472	7.808851	0.0000
<b>F-statistic</b>	37.38576			
<b>R-squared</b>	0.886218			

Source: Output of E-view

The result shows that the independent variables total capital expenditure TCAP, total recurrent expenditure TRE, index of trade openness OPEN, and inflation INFL conform to the economic acceptability and theoretical postulates of the estimates. Exchange rate EXR is the only independent variable in this study that do not conform with a priory expectation.

The coefficient of TCAP (0.000305) implies that a 1-unit increase/decrease in total capital expenditure would bring about approximately 0.03% increase/decrease in the standard of living of the people proxy by PCI in Nigeria. The coefficient of TRE (0.000740) implies that a 1-unit increase/decrease in total recurrent expenditure would bring about approximately 0.07% increase/decrease in the standard of living of the people proxy by PCI in Nigeria. The coefficient of EXR (-3.526980) implies that a 1-unit increase/decrease in exchange rate would bring about approximately 353% decrease/increase in the standard of living of the people proxy by PCI in Nigeria. The coefficient of OPEN (10.25415) implies that a 1-unit increase/decrease in trade openness would bring about approximately 1025% increase/decrease in the standard of living of the people proxy by PCI in Nigeria. The coefficient of INFL (2.595852) implies that a 1-unit increase/decrease in inflation rate would bring about approximately 260% increase/decrease in the standard of living of the people proxy by PCI in Nigeria.

The standard error of total capital expenditure TCAP is greater than half of the numerical value of the parameters estimates that is s(bi)> bi/2, the estimate is not statistically significant. The null hypothesis that a<sub>1</sub>=0 is accepted. The standard error of total recurrent expenditure TRE is less than half of the numerical value of the parameters estimates that is s(bi)< bi/2, the estimate of REXR in the model is statistically significant. The null hypothesis that a<sub>2</sub>=0 is rejected. The





standard error exchange rate EXR is less than half of the numerical value of the parameters estimates that is  $s(b_i) < b_i/2$ , the estimate is statistically significant. The null hypothesis that  $a_3=0$  is rejected. The standard error of trade openness TOP is greater than half of the numerical value of the parameters estimates that is  $s(b_i) > b_i/2$ , the estimate is not statistically significant. The null hypothesis that  $a_4=0$  is accepted. The standard error INFL is greater than half of the numerical value of the parameters estimates that is  $s(b_i) > b_i/2$ , the estimate is not statistically significant. The null hypothesis that  $a_5=0$  is accepted. In conclusion among the explanatory variables in this study total recurrent expenditure and exchange rate are the only variables that significantly influence standard of living in Nigeria. While total recurrent expenditure exerts positive influence on standard of living, the influence of exchange rate is negative. Also the above results approved the hypothesis that total capital expenditure has significant influence on standard of living of the people in Nigeria. The hypothesis that trade openness have a significant influence on standard of living of the people in Nigeria was also confirmed and that of inflation.

Consequently, Since  $F^* = F = 37.38576 > F_{0.05} = 2.93$ . We reject  $H_0$  and conclude that with 5% level of significance; the overall regression is statistically significant.

The standard variable explains the variation of the behavior of the dependent variables adequately. This is evident in the high value of  $R^2$  which is 0.886218 which Shows that explanatory variables jointly accounted for at least 89% of the variation in standard of living of the people in Nigeria.

#### **TEST FOR AUTO-CORRELATION.**

One of the assumptions of OLS regression model is that errors are independent. In the context of time series analysis, this means that an error  $\mu_t$  is not correlated with one or more of previous errors  $\mu_{t-i}$ . The Durbin Watson d test compares the empirical  $d^*$  value calculate from regression residuals with  $d_i$  and  $d_u$  is D-W tables with their transforms. Hence, if  $d^* \leq 2$  there is autocorrelation and if  $d^* \geq 2$  there no autocorrelation.

#### **CONCLUSION AND RECOMMENDATIONS**

In this study total recurrent expenditure and exchange rate are the only variables that significantly influence standard of living in Nigeria. While total recurrent expenditure exerts positive influence on standard of living, the influence of exchange rate is negative. The inference that can be deduced from the whole result of the study is that public spending in Nigeria has been productive and sustainable. The fiscal policy has not fulfilled its target and goals over the period of the study. This may be attributed primarily to the spending of the Nigeria government on unproductive sectors and wrong prioritization of developmental projects as well as corruption of the public office holders.

It is however important to keep in mind that the assessment of the role of public investment for sustainable growth will not be of much use if the information and research results are not integrated within decision-making processes. Hence the findings and conclusion support the need for the government to review its fiscal policy and public spending strategies. In complement of the above, it is important for the government to adopt the Edward et al (2006) and UN Millennium Project (2005) recommendation of a 'big push' strategy in public spending which is capable of helping the poor countries to break out of their poverty trap and meet the MDGs challenge. The findings of the study support the need for identification of priority public investments to empower poor people, and these should be built into MDG-based strategies that anchor the scaling-up of public spending, capacity-building, resource mobilization, and official development assistance.

This 'big push' strategy which is designed to set low-income economies on a self-sustainable growth path as core investments in infrastructure and human capital will enable poor people to join the global economy and establish the basis for private-sector-led diversified



investment and economic growth. The assumption is that these sectors can bring about economic growth in the long-run. On the basis of the results obtained, the following recommendation will be also necessary:

1. Allocation of government spending needs to be based on the level of need and the versatility of individual sectors.
2. In as much as government is trying her best to see that education is better funded to promote economic growth in Nigeria, the impact of this funding is not felt. One of the reasons could be due to the fact that the money spent on education is not translated to economic gains in the domestic economy. The gains are being transferred to other economies in the form of brain drain, which is a reduction in the level of GDP. GDP is a measure of economic growth.

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