THE GROWTH OF FEDERAL GOVERNMENT EXPENDITURE IN NIGERIA, 1962 - 1995: A STRUCTURAL AND INSTITUTIONAL ANALYSIS

BY

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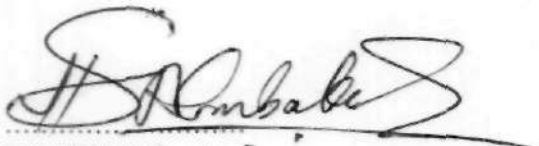
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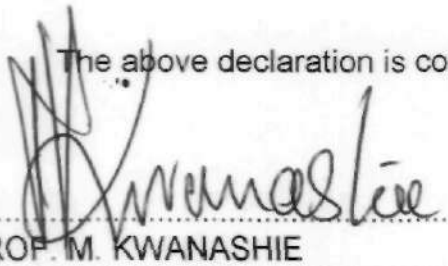
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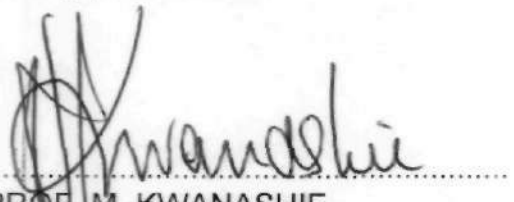


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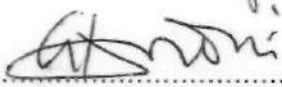
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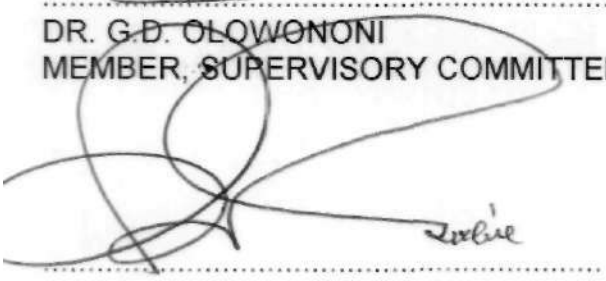
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DEDICATION

This thesis is dedicated to the memory of my late parents, Alhaji Abubakar Bio Othman, and Hajiya Maryam Samanse Abubakar. May the Almighty Allah grant them eternal peace. Amin.

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H. I. Abubakar

ABSTRACT

Federal Government spending in Nigeria has grown in both absolute and relative terms over the years but more especially since the mid-1970s. In absolute terms, total spending increased manifold: from about N168.3 million in 1962 to nearly N249 billion in 1995, while in relative terms it represented just about 8.0 percent of the country's GDP in 1962, but by the late 1970s, it had reached over 40.0 percent (of the GDP) The study, thus, sought among other things to locate or determine the major sources of this phenomenal growth as well as highlight the distinguishing features which combine to define the structure and growth profile of public spending at the level of the Federal Government in Nigeria.

A characteristic feature which has dominated government spending over the years is the disproportionate share of consumption or recurrent expenditure in the overall expenditure profile. Likewise, the administrative sector, which includes general administration, defence and internal security has over the years accounted for the bulk of government non-debt related spending. Expenditures on key functional sectors of economic and social services respectively, have remained quite low and unimpressive, especially when viewed within the context of their relationship with the GDP. Here also, another prominent feature is the rapid growth in debt-related (transfers) spending both in absolute and relative terms.

On the basis of the results of regression analysis based on time-series data covering a 34 year period, (1962-1995), we established a strong and positive relationship between the growth of total spending and the growth of the GDP, and thus in the process confirming the relevance of Wagner's postulations on the growth of public expenditure to the Nigerian situation. Likewise, results for sectoral

spending reveal a positive and direct relationship between sectoral spending and the GDP. The correlation coefficient of the relationship between sectoral spending and the GDP ranged between 0.83 and 0.94, while the income elasticity coefficients ranged between 0.89 and 1.24. In addition, OLS procedures in conjunction with Granger Causality test were used to test the central hypotheses of the study, that is, the influence of both relative price effects or "Baumol" Effects, as well as recurrent revenues on the growth of Federal Government spending. The results revealed that relative price effects impacted positively and significantly on the growth profile of govemment expenditure, while recurrent revenues also had on their own influenced spending. The relationship between government revenue and its expenditures was, however, not as strong as was expected, and it was observed that the relationship was actually bi-directional.

Institutional factors equally had their own effect on the growth of government spending. The general results of a simple statistical procedure adopted to determine the extent of institutional influences confirmed that bureaucrats have played an influential role in the growth of government spending. In particular, the fragmented and incremental nature of budgeting in the country allowed bureaucrats an agenda-setting role. The study also found that a combination of other institutional factors including the over centralization of functions and responsibilities facilitated, in large part, by the intervention of the military in the country's political economy contributed significantly to the growth of Federal Government spending over the years.

In concluding the study, it was observed that in order to facilitate the efficient use of the nation's fiscal resources, there was need to pursue a conscious and

sustained public expenditure reduction programme. It was equally recommended that a comprehensive review of the budgeting system need be conducted. Finally, the study was of the view that government should be made smaller, more compact and more efficient.

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CHAPTER ONE

INTRODUCTION

1.1 Background

Public expenditures in the majority of developing nations worldwide have grown quite considerably in both absolute and relative terms, over the last three decades or so. The remarkable growth in government spending and consequently in the "size of government", which is commonly defined as the ratio of total government spending (E) to a country's GDP/GNP[1], is not a phenomenon unique to developing countries alone. Indeed, available evidence indicates that as a group, "developing countries devote a smaller share of national income to government spending than do the industrial market economies". (Landauer and Valenchick, 1992:64).

This view is corroborated by data (Table 1.1) compiled from the Government Finance Statistics Year Book (1978-1987) published by the IMF. From this publication, data relating to government spending are presented in respect of ten countries: five (Nigeria, Kenya, Mexico, Brazil and India) which could be classified as middle income developing nations, and another five, (USA, West Germany, Sweden, France and the UK) representing countries from the advanced industrial economies. For the first group of countries, the expenditure/GNP ratio over the period under examination, ranged between 13.07 and 29.14 with a median (E/GNP ratio) of 20.50. For the latter group of countries, the range for the same period was 20.99 and 48.12 with a median (E/GNP ratio) of 40.00. The contrast between these two groups of countries, developing and the industrially advanced, is indeed quite clear and significant.

TABLE 1.1

TOTAL GOVERNMENT EXPENDITURE AS A PERCENTAGE OF GDP IN SELECTED COUNTRIES 1978 - 1987

S/NO	Country	1978	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1.	Nigeria	-	-	-	-	-	-	-	14.54	12.93	18.15	23.59
2.	Kenya	25.29	27.56	26.76	29.58	29.56	26.11	26.52	27.42	25.89	29.14	29.14
3.	Mexico	15.74	16.46	16.78	19.29	28.87	24.99	22.89	24.87	28.70	22.59	22.59
4.	Brazil	18.60	17.43	18.99	19.51	20.78	20194	20.24	24,85	26.52	24.19	24.19
5.	India	13.65	14.79	13.27	13.07	13.75	13.90	15.24	16.41	16.66	18.25	18.25
6.	U.S.A.	21.33	20.99	22.78	23.41	24.77	25.74	24.18	25.00	24.86	23.91	23.91
7.	W.Germany	29.24	28.76	30.26	31.26	31.67	31.06	31.27	30.84	30.26	30.32	30.32
8.	Sweden	39.97	41.79	42.29	44.69	45.55	48.12	46.66	46.06	45.40	43.94	43.94
9.	France	37.51	38.10	39.53	41.97	43.31	44.28	44.55	44.67	43.96	43.78	43.78
10.	U.K.	37.19	37.06	38.74	40.85	41.42	40.92	41.07	40.07	40.23	39.42	39.42

SOURCE: Compiled from IMF (1989):Government Statistics Year Book, Vol. XIII, pp. 90-91.

The foregoing statistics no doubt suggest a relationship between government spending and the level of a country's economic development. This indeed has been a central research question that has dominated academic discourse in the field since this relationship was first alluded to by a German economist, Adolf Wagner in the 19th century[2]. In line with this research baseline, the recent research findings by Landauer and Valenchick (1992:66) become quite instructive and contribute in no small measure in defining the structural characteristics of government spending within the context of the development divide worldwide. Significantly, the research revealed that:

i) compared with the historical experience of industrial nations, governments in low and medium income countries are consuming much higher fractions of GDP at their relative stage of development; and,

ii) although the rate of growth of government spending in these economies, low and medium income, varies, and has even declined, in a few cases, continued expansion appears to be the norm".

The phenomenal growth in the share of the GDP going to public expenditure in most countries, irrespective of developmental status, has over the years become a major subject of academic inquiry and discourse. While some scholars argue that there does not, and indeed, cannot, exist an optimum budget (expenditure) level against which to gauge the "excessive" nature of government spending, others especially, Musgrave (1985) have argued that public spending over time will inevitably expand because of the existence of an "excess bias", occasioned by the interplay of countervailing forces within the bureaucracy and the political arena,

governing such spending. Viewpoints like these which tend to suggest the inevitability of government expenditure growth do not appear to in any significant respect, diminish the general interest in the subject. Government spending worldwide will continue to elicit overwhelming interest for at least four major reasons.

The first reason, is the fact that increases in government spending, particularly in the industrialized world, is often accompanied by some shift in taxes, the incidence of which invariably falls on categories of taxpayers. Thus, except where the government is able to create some measure of "fiscal illusion" in which tax payers are given the impression (illusion) that increases in the level of government spending will not be accompanied by increased taxation, the concern over increased government spending is bound to be pervasive. The second reason is conversely related to the first - every public expenditure is believed to have redistributive effects, (Aranson & Ordeshook, 1981; Lindbeck, 1985, etc). Thus, the question of who benefits, i.e. the expenditure incidence, from a rise in public expenditure is a factor that continues to stimulate interest in the subject.

The third reason is located in the now traditional debate on the inefficiency or lag in productivity, of the public sector in relation to the private sector. Based on this contention, it is argued that an increase in government spending suggests the movement of resources from a more productive or progressive sector, to a less productive one. (See Baumol, 1967). This contention appears, in large measure to influence the global spread of privatization policies. Once again, Musgrave (1981) puts this concern in its proper perspective when he observed that: "where the traditional theme since Pigou and then Keynes had been to show how government action must correct for market failure, the new thrust is to stress government failure

and to view the public sector as an impediment to the market". (Musgrave, 1981:77). This view has had a profound effect on advocates of less government spending. The fourth and final reason that explains the interest in government spending is the relationship between it (government spending) and economic growth. Even though evidence is still rather weak and fairly often premised on contentious research formulations, a number of researchers have in recent years reported a positive relationship between government spending and economic growth. (See for instance, Robinson, 1977; Ram, 1986; and Carr 1989).

The four factors outlined in the foregoing, by and large, constitute the "research agenda" in the growth of government spending, and, they remain, in essence, the major reasons for the continuing research interest in the field.

1.2 Statement of Problem

Government spending in Nigeria, taken both in absolute and relative terms (as a percentage of the country's GDP) has grown quite considerably over time. Taking for instance, the component of central (Federal) government spending, which is the subject of this study, both on the recurrent and capital accounts, over a thirty-four (34) year period, 1962-1995, we find that government expenditure rose from a modest ₦168.3 million in 1962 to over ₦248.7 billion in 1995. In relation to the GDP, total government spending represented about 8.0 percent of the GDP in 1962, which rose over the years to an annual average of 36.0 percent in 1980s, and dropping to about 20.0 percent in 1990.

This growth and its pattern has been quite significant particularly when we take into consideration the fact that expenditure statistics used in the foregoing

exclude expenditures of the States and local governments. The figures also exclude, at least for most of the period, extra-budgetary expenditures which in themselves account for a far less than significant share under the Military Government. In fact, the 1996 World Bank Review on Nigeria's Federal Public Expenditure reported that in 1991 and 1992, extra budgetary expenditures stood at 61.0, and 67.0 percent, of total budgeted expenditures for the two respective years. (World Bank, 1996:5). Indeed, if we were to obtain a more detailed picture by way of a more broad-based data to include the three tiers of government in the country, Federal, States and local, in addition to the substantial extra-budgetary expenditures, the significance of the governments share over the thirty-four (34) year period would have been brought into a sharper focus. But then, even the statistics on Federal Government's spending alone provide a sufficient basis for us to conclude that the Nigerian public sector has played a dominant role in the appropriation of the country's total community resources. As the World Bank report noted, "Federal spending reached unsustainable and highly inflationary levels particularly in recent years". (World Bank 1996:5).

Government spending in Nigeria, as indeed its direct intervention in the economy, has been predicated on the pursuit of a number of macro-economic as well as socio-political objectives. Even though these goals and objectives have varied over time, a number of them have remained fairly constant, these include, among others;

i) the attainment of high levels of sustained growth;

ii) increased agricultural and industrial production through technological transformation;

iii) a more egalitarian incomes (distribution) profile; and,

iv) provision and maintenance of basic social infrastructure and services across the nation.

Taking stock of the performance of government through the medium of its spending in relation to these stated goals and objectives, it would appear, almost incontrovertibly, that government has performed very poorly. In other words, government expenditure over the years has not made the desired impact in any of the areas which government sought to positively address: the annual growth rate is still very modest and overall growth of the economy has been rather sluggish; agriculture remains largely under small scale peasant holdings dominated by the low level technology which has remained the traditional bane of the sector. The industrial sector is still equally dominated by light manufacturing industries whose aggregate contribution to the GDP is still negligible. Capacity utilization has declined quite appreciably in recent years; and, the position of both rural and urban social infrastructure is still very poor. Incomes distribution, at both inter-personal and inter-regional levels, appears to be at its skewest in several years. The inability of Federal Government spending, though quite substantial, to record the desired impact on designated policy goals over the years appears to lend credence to the assertion by Gupta (1981) and Saunders and Khan (1985) among others, to the effect that an expansion in government spending could as well be a reflection of changes in cost of government production than an expansion in government output of goods and services. The determination of the veracity of this assertion with particular reference to the Nigerian circumstance is indeed one of the research questions which our study investigates.

1.3 Objective of the Study

The study seeks to achieve the following primary objectives:

i) to examine the growth of Federal Government expenditure, identify the main features of the component sectoral expenditures, and compute their respective elasticities;

ii) determine the extent to which Federal Government recurrent revenues influenced its spending;

iii) determine the impact of "relative price effects" or "Baumol Effects" on the growth of Federal Government expenditure;

iv) determine the nature and extent to which bureaucrats influenced the Federal Government spending through the budgetary process; and,

v) identify other major factors, which individually or jointly influenced the pattern and growth of Federal Government spending between 1962 and 1995.

Overall, the major objective and expected research output (contributions) from the present study is in more clearly identifying both structural and institutional factors that have been the major source(s) of public expenditure growth in Nigeria, as well as provide a comprehensive survey of the field with the ultimate aim of providing a more credible framework for the articulation and design of public policy.

1.4 Justification for the Study

We can identify a number of reasons to justify this study and the analytical approach/conceptual framework we have employed. The more compelling justification, however, stems from the fact that the few studies that have so far been

undertaken in the area of government spending and expenditure growth in Nigeria, fail to adequately provide suitable explanation for the inability of government spending to achieve desired policy objectives. These studies are at best only able to establish the fact that defined policy objectives were not met through government spending but fail to present, using any definite conceptual framework, why this is so. In general, these studies fall into two broad categories; the first address the question of expenditure incidence or the distributional effects of government expenditures over given time periods, e.g. Longe (1986), while the second focus attention on the implications of such (government) expenditures on the country's economic growth, e.g. Bello (1995).

In his study, Longe (1986) examined the impact of Federal Government spending between 1971/72 and 1976/77 fiscal years on the following distributional considerations: (a) regional distribution of government expenditures, and (b) distribution of government expenditures among income groups. Longe's findings, (1986: 173-179), revealed among other things that government expenditures within the stated period, did not have any significant impact on regional distribution. It instead, "... perpetuates regional inequality". As regards its impact on interpersonal incomes, the study was of the view that government spending was regressive. In the words of the researcher, "it was pro-rich". Longe thus drew the conclusion that among other things, "government expenditures in Nigeria are responsible for perpetuating incomes inequality" (Longe, 1986:175).

Bello (1995) in his own study attempted to determine "the extent to which public expenditures of the Federal Government have contributed to economic development". The study also set out to "critically examine the efficacy of Wagner's

Law of Increasing Public Expenditures with respect to Federal Government expenditures since independence". (Bello 1995:14-15). The study found that "despite the large sums of money invested by government over the period... the economy did not grow and developed as expected by government which sort (sic) to ensure economic growth through government spending". (Bello 1995:200). Also, based on an analysis using a simple Harrod-Domar Two-Gap model, Bello's study observed "a weak correlation between public expenditure and economic growth in the country over the period". (Bello, 1995:201).

The conclusions one can immediately draw from the two sample studies examined in the foregoing is that government spending in Nigeria while growing in significance over the period, has not effectively served desired public policy objectives either of correcting distributional distortions or of contributing to stimulate economic growth. The clue to the seeming inability of government to significantly contribute to economic growth nor to engender an efficient and equitable incomes distribution (profiles) at both inter-personal and inter-regional levels, can be found in the motivation (or sources) for government spending. In other words, for us to fully appreciate the outcome or effects of government spending, we must first of all identify the major factors that have influenced the growing profile and size of government spending over the years.

Indeed, until we can clearly isolate and understand the dynamics underlying the interplay of these factors, we may never be able to draw any reasonable conclusions on the impact of public spending particularly in those areas which have so far dominated academic inquiry. For instance, if we take Longe's research finding that government spending has tended to benefit the rich, wouldn't a critical study of

the factors that have influenced such spending over the years reveal that in Nigeria, as in many other countries, interest groups like bureaucrats, have had an overwhelming influence on agenda setting with regards to government budgetary policies and expenditures outlays, and as a result, how could anybody have contemplated a distributional outcome different from what the researcher "found" in his study? The point is that top bureaucrats in Nigeria constitute a strong interest group who have an appreciable influence on the pattern and distribution of government spending. Former President Babangida acknowledged this when in his 1986 mid-year state of the nation address said that "government is painfully aware that a system of bureaucratic control... tends to engender all unintended distortions in resource allocation and enrich unintended beneficiaries"[3].

The justification for the present study can be said to derive naturally from the shortcomings of the studies that have so far been attempted in the area of public expenditure in Nigeria. Importantly, the present study is premised on the strong belief that in order to fully appreciate the dynamics of government spending in Nigeria, it is necessary to first and foremost be clear as to what factors have accounted for the growing profiles of such spending. We believe that a clear familiarity with these factors will indeed, with minimum analytic efforts, provide useful insights into questions like the distributional impact of such expenditures, their contribution to economic growth, etc. It is thus our strong conviction that a study like the present one is necessary in order to place any further studies in the area within their proper contexts.

As to our adoption of the conceptual framework of public choice analysis, this is predicated on our conviction that an institutional approach will best provide us with

a more potent framework for understanding the forces that dictate the size and define the growth profile of public expenditures in Nigeria. Public Choice as a body of knowledge and a framework of analysis has in recent years gained prominence and commendation as possibly the best suited to providing researchers with a framework for undertaking inquiry into economic phenomena from a largely institutional perspective. This is the popular view among researches of recent including Peacock and Wiseman (1979) two respected pioneers in the study of public expenditure growth, who contended that:

> "... Public Choice and associated theoretical constructs have improved our understanding by insisting that public expenditure growth must be explained by the utility maximizing behaviour of the demanders and suppliers of public services in defined technical conditions, through "political" as well as "economic" behaviour". (Peacock-Wiseman, 1979:3).

Thus, again when we situate Longe's findings within the context of public choice analysis, we can easily understand why resulting incomes distribution from government spending tended to be "pro-rich". The top bureaucrats are not the benevolent technocrats we have always assumed them to be, at least in theory. They also have their own utility function which they strive to maximize and this function is, more often than not, no where near that of enriching the poor.

We are of course not unaware of the problems inherent in using public choice as a framework for analysing phenomena like growth of public expenditures. The major, and most frequently mentioned drawback of public choice analysis is lack of tested quantitative models and in consequence the difficulty of empirical validation through quantitative procedures. We concede to the fact that quantification in public choice analysis is still at its rudimentary stages, but that does not diminish the fact

that the approach (public choice) offers the researcher very powerful theoretical constructs to better appreciate the forces at work in decision-making in the public arena, be it in spending, taxation as well as economic policy making in general. Essentially, public choice offers a powerful explanatory tool, and this has attracted us to adopt it (public choice) as a framework of analysis to explain the institutional factors that have influenced government spending in Nigeria. We need to point out at the onset that the study is largely an exploratory one.

1.5 Significance of Study

This study is significant in at least two respects: First, it offers us a more perspective view of public spending explaining in the process why public spending has neither been able to engender economic growth nor produce equitable incomes distribution profile for the country. Second, the study provides researchers in the field an alternative view, i.e. the public choice view of analysing government's economic behaviour.

1.6 Scope and Limitation of the Study

The scope of the study can be viewed from two dimensions; the first is the time-frame within which it is situated, while the second is its coverage. The study covers a thirty-four year time-frame, 1962-1995. This period conveniently covers the major landmark phases in the economic and political development of the country: from the pre-oil boom years of the 1960s and early 1970s through the oil boom years of the mid-1970s and early 1980s, and the Structural Adjustment Programme (SAP) years, 1986-1990. The period also spans over four major Development Plan

periods: 1962_1968; 1970-1974; 1975-1980, and 1980-1985. In effect, the selected time-frame (1962-1995) is sufficiently long enough to quite clearly highlight all the changing structural and institutional characteristics in government spending as well as to capture the major environmental (economic, political and bureaucratic) conditions which have had influences on the structure and growth of such spending.

The second dimension of the scope, we have mentioned, is the coverage. The study is restricted to Federal Government budgetary expenditures within the period. In effect, it excludes expenditures by the States, and local governments. At this point it may be pertinent to mention that the study of public expenditure or government spending is often associated with two problems: first, the level of government expenditure to include, and second, types and categories of expenditures to include. For our purpose, we have decided to use only budgeted expenditures of the Federal Government. As to the composition of expenditures to be included in our analyses, we intend to include both recurrent and capital expenditures, including transfers on both accounts but excluding statutory transfers to States and local governments.

One major limitation of the study relates to the difficulty in obtaining accurate data. Indeed, it is no exaggeration to say that obtaining accurate and reliable data on government spending in Nigeria as well as data on related macro-economic indicators is a traumatic experience. Where the data is even available, the researcher is often confronted with an array of conflicting figures relating to the same phenomena, and in many cases in different issues of the same publications. A second limitation, which indeed derives from the first, is the rather limited coverage of the data which is restricted to Federal Government spending alone. Ideally,

government, for purpose of studies like the present one, should be defined to include both States and local governments, two other levels of governments whose spending has expanded considerably over the years. The severe restriction placed on sourcing relevant data even for the Federal Government alone has made it necessary, rather unfortunately, to restrict our studies to just Federal Government spending alone, leaving out in the process a significant portion of public expenditures in the country not captured in most research efforts.

1.7 Hypotheses

The major assumption of this thesis is that there exists strong causal linkage between the level of economic activities (proxied by GDP) and Federal Government total expenditure, and that the sources of growth of government spending to a large extent determine its effects on economic growth, income distribution, etc.

In order to validate our explanations regarding the structural and institutional influences in the growth of Federal Government spending, the following three hypotheses have been tested.

i) the phenomenal growth in Federal Government expenditure is explained by relative price effects, or "Baumol Effects";

   H_o, $\propto = 0$ ... null hypothesis, that the parameter of relative price effects or "Baumol Effects" is not significant in the growth of Federal Government expenditure;

   H_1, $\propto = 0$ ... alternative hypothesis, that the parameter of "Baumol Effects" is significant;

ii) Federal Government's recurrent revenues significantly determine the profile of its spending;

H_0, $\propto = 0$ ... null hypothesis, that the parameter of revenue is not significant in determining the growth profile of Federal Government expenditure;

H_1 $\propto = 0$ ... alternative hypothesis, that the parameter of recurrent revenue is significant.

iii) Bureaucratic discretion working within a self-serving utility function has contributed significantly to the growth of government spending in Nigeria.

1.8 Research Methodology

Three related methodological issues are addressed here: first is the data content of the study including major sources of data used; second, is the determination of appropriate macro-economic ratios, and measures of public expenditure applicable to the study; and, third, is the model specification and procedures (mode of analysis) adopted in testing our hypotheses.

1.8.1 Types and Sources of Data

The first objective (of the study), we have earlier stated is the critical examination of the growth and structure of government spending in Nigeria between 1962 and 1995. This will involve the compilation of Federal Government (budgetary) expenditures within the context of time series data. Our data which consist primarily of data on government expenditure, capital and recurrent, as well as its distribution by sectors; GDP figures, recurrent revenues of the Federal Government, CPI

deflators, etc., have been obtained largely from secondary sources which include the following among others: Annual Reports and Statement of Accounts (CBN); Economic and Financial Review (CBN); Nigerian GDP and Allied Macro-economic Aggregates (FOS); Annual Abstract of Statistics (FOS); Federal Government Annual Budgets (FGN); and National Development/Rolling Plans, (FGN). The study thus relied quite heavily on data sourced from official publications of government and its statutory agencies. This is to ensure the varacity of data used notwithstanding the fact that there are a number of observable discrepancies even in these publications. Our study also uses data generated largely through a structured questionnaire designed to elicit information on the institutional context of the budget. The questionnaire was administered on a sample population (respondents) of thirty (30) senior government functionaries, including Directors Generals (5), Directors (15), Deputy Directors (5), and Assistant Directors (5), in the Federal Ministry of Finance, the National Planning Commission, Office of the Accountant General of the Federation; and a few other agencies of government.

1.8.2 Measures of Public Expenditure and Macro-Economic Ratios

Both absolute (nominal) and real measures of public expenditure are used in the study as appropriate. Absolute measures are given in current naira value, while for the real values, public expenditure including its constituent components is indexed as a ratio of the Gross Domestic Product (GDP), at constant factor cost. GDP values are not specifically deflated because as argued in our literature review, there is no significant difference in the result of studies which used nominal GDP values, and those which employed deflated values.

1.8.3 Mode of Data Presentation and Analysis

In presenting and analysing our data, descriptive statistics is employed where appropriate. So too are statistical and econometric models and techniques. Granger (1969; 1980), causality test as well as stationarity test will be used. Adopting procedures used in related studies by Emeze (1973); Phillips (1972) among others, we highlight the growth profile of government expenditure and compute the income elasticities of government total expenditure, over time, as well as of major expenditure categories.

1.9 Definition of Key Concepts

It is necessary for us to define the key concepts which underly our study and which in essence provide the conceptual framework within which the study is situated. These are: "structural analysis and institutional analysis".

1.9.1 Structural Analysis:

Within the context of this study, structural analysis refers to the resultant statistical relationships between the different variables identified in the study. In particular, it refers to the nature of the statistical relationships between government expenditure and the GDP; between the GDP and the different functional categories of expenditure, etc. it also refers to the relationship between the consumer price index and public sector wages as well as the relationship between government revenue and its spending. This segment of the analysis is structural merely to the extent that we can statistically measure the pattern of relationship between the different variables.

1.9.2 Institutional Analysis:

In this study, institutional analysis refers to the interplay of social and political forces and processes that combine to influence government spending. We use the framework provided by the public choice school as the basis of our analysis. Within the public choice approach, we identify the bureaucracy as the major institutional framework for our analysis. Bureaucracy has today become a pervasive institution in the conduct of government business, particularly with the increasing "Leviathan" tendency of modern day government. The need thus for economists not only to understand the distinctive nature of bureaucracy but also to attempt an interpretation of bureaucratic behaviour within the context of mainstream economic theory and models has given rise to the development of public choice or economic models of bureaucracy.

Traditionally, the study of bureaucracy has been dominated by sociologists and organisational theorists who have followed largely along the analytical lines of the "Weberian tradition". "Weberians" view bureaucracy as the expression of rational and efficient administration. This is clear from Max Weber's Wirtschaft and Gesellschaft in which he states:

> Experience tends universally to show that the purely bureaucratic type of administrative organisation - that is the monocratic view of bureaucracy - is from a purely technical point of view, capable of attaining the highest degree of efficiency and is in this sense formally the most rational, known means of exercising authority over human beings. (Cited in Lane, 1987:3).

Because of the belief that bureaucrats are competent and bureaus consequently efficient, Weberian analysis emphasize the inevitability of bureaucracy. For these analysts, the principal social problem of bureaucracy is prevention of "monolithically efficient bureaucracies from occupying positions of

virtual powers in the society" (Brenton and Wintrope, 1982:33). It should be noted that in the Weberian tradition, the monolithic efficiency of bureaucrats never alter policies (public or private) according to their own preferences. Bureaucrats have, as it were, no effect on policies produced by governments or private firms but would always act as neutral officials or agents carrying out the orders of their superiors with unwavering efficiency. They therefore have no powers and seek none in a situation in which it will be possible to acquire power by behaving differently.

1.9.3 Public Choice Perspective of Bureaucracy

Public choice rejects the traditional notion of bureaucracy sketched in the foregoing. The underlying essence of the public choice perspective is well summarized in Niskanen's critique of the traditional view. According to him:

> The currently dominant approach to public administration is to provide the organisational structure, information system and analysis to bureaucrats who, for whatever reason want to be efficient. This approach however does not develop or explicitly recognise as relevant, the conditions for which the personal objectives of the bureaucrat are consistent with the efficiency of bureaucracy (Niskanen, 1974:293).

The public choice perspective to the study of bureaucracy can be associated with a number of economists, including Berle and Mean (1932); Von Mises (1944); and Buchanan anc Tullock (1962). Niskanen's contributions however, effectively set the research agenda in the field. Much of the recent work done in the area notably by Mique and Bellinger (1974) and Breton and Wintrobe (1975) build to a large extent on Niskanen's original formulation of the "utility maximizing bureaucrat".

Niskanen's contribution can be seen as an attempt to bridge a wide and important research gap. In his own words, Niskanen noted that:

> Economics has not to-date provided a positive theory of supply by bureaus. This represents a significant gap in the body of positive economics. More importantly, the lack of a theory of supply by bureaus seriously reduces the relevance of the normative proposition about what services the government ought to finance, at least to the general extent that public services (goods) are supplied by bureaus. (Niskanen, 1971:7).

Niskanen felt concerned that with the large and increasing proportion of economic activity being conducted in bureaus, economists have made no substantial attempt to addressing the following vital questions:

> What are the distinguishing characteristics of bureaucracies? What are the critical elements of a theory of bureaucracy? Specifically what do bureaucrats maximize and under what external conditions? What are the consequences of maximizing behaviours under these conditions? ... What is the equilibrium output and budget of a bureau for given demand and cost conditions... etc. (Niskanen, 1974:293).

The public choice model of bureaucracy popularized by Niskanen is based on the implicit assumption that bureaucrats are utility maximizers. In this model, all dimensions of a bureaucrats' utility are assumed to be "a monotonic function" of the total budget of the bureau. Implicitly therefore, the bureaucrat would prefer larger and larger budgets as these would assure maximization of his utility function. Among the several variables that may enter the bureaucrat's utility function are the following: salary, perquisites of office, public reputation, power, patronage, ease of making changes, and ease of managing the bureau. All of these variables, the output of a monopoly bureau in one large package, i.e. he is constrained to buy at all - or nothing prices. According to Niskanen, "the primary difference between the exchange relation of a bureau and that of a market organisation is that a bureau offers a total output in exchange for a budget, whereas a market organisation offers

units of output at a price" (1974:49). The main results of Niskanen's proposition is that bureaucrats will produce an output level far beyond the social optimum.

1.10 Outline of Chapters

The study is presented in six chapters. Chapter one is the introduction. In this chapter, the conceptual and operational issues underlying the study of government spending in general, and in Nigeria in particular are examined. The objectives of the study, its justification and significance as well as the relevant hypotheses to be tested are presented and discussed. The methodology adopted in respect of data source; the determination of major macro-economic ratios, and measures (definitions) of public expenditure are contained in this chapter.

In chapter two, literature on the growth of public expenditure from the dominant traditional perspective, i.e. Wagner's law of Increasing State Activity including the different interpretations of the 'Law' and extensions, on it, arising thereof, e.g. the Peacock-Wiseman Hypothesis are discussed. Some of the major empirical studies undertaken this field of analysis are also discussed.

Chapter three continues the literature review this time looking at the public expenditure growth phenomena from the perspective of public choice analysis. The contending, and complementing, explanations for government (expenditure) growth within this framework are highlighted and critically discussed.

In chapter four we attempt to do two major things: first, is to present the expenditure profile on both recurrent and capital accounts, including the percentage shares of major expenditure components/categories over the years. Likewise, we attempt to also trace the growth profile and to highlight the share of the major expenditure categories to the GDP over the study period. Our main objective in this first part of the chapter is to clearly present the structural characteristics of public

spending in Nigeria. The second part of the chapter examines the framework for budget decision-making at the Federal level. The major aim is to highlight those practices in the system which can be used to demonstrate, in the absence of a formal quantitative model, our hypothesis that accords the bureaucracy a significant role in the growth of government spending.

Chapter five contains the data presentation and the procedures adopted for their analysis. Relevant data set are generated and presented to test our specified model on the productivity lag hypothesis. The major dependent and independent variables are identified. The models tested are specified and the relevant statistical and econometric procedures used are described in this chapter.

Chapter six is the concluding chapter and it contains among other things, a summary of our research findings. Conclusions were drawn from the study, and recommendations were made for policy attention and for further research.

NOTES

1. It should be pointed out that this is a rather narrow definition of the size of government and it is used only in the context of discussing public expenditures.

2. See among others, Herbert T. (1961); "Das Gesetz der wachsenden Staatsaugaben" Finananzarchiv, N.F. Band 21, (Jan.), pp. 201-47, for a detailed account of Wagner's writing in this 'Law'.

3. Cited in Watoseninyi A.B.D. (1995); "Financial Control in the Nigerian Public Sector", being a Seminar Paper presented at the Faculty of Administration Seminar, (June), p. 1.

4. We are using GDP at Factor Cost as this measure appears to be more comprehensive.

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CHAPTER TWO

THE SIZE AND GROWTH OF PUBLIC EXPENDITURE: A LITERATURE REVIEW

2.1 Introduction

In less than three decades since Hariss (1958), Peacock and Wiseman (1962) among a few others lamented the rather scant attention economists and students of public finance (had uptil then) paid to the question of government spending, a fairly extensive body of literature has emerged on the subject. The bulk of this literature, which seek to explain the sources and effects of the secular growth of government particularly as indexed by the share of public expenditure to macro-economic aggregates like GNP and GDP, have been built around the pioneering works of Adolf Wagner's 'Law' of Increasing State Activity and the Displacement - Effect hypothesis first propounded by Peacock and Wiseman (1962). In recent years, however, the field has witnessed the emergence of a body of literature which seeks to explain the same phenomena using a largely 'public choice' or institutional perspective. In this chapter we examine the (now) traditional (Wagner-Peacock and Wiseman) perspective, while in chapter three we discuss the emerging institutional perspective. The chapter is divided into two sections: the first section examines the measures of public expenditure and related ratios; the second examines the causes of expenditure growth from the traditional perspective.

2.2 Measures of Public Expenditure and Macro Economic Ratios

In measuring public expenditures and determining appropriate operational and statistical definitions, a number of approaches are adopted. Lybeck (1986: 34-

35) summarizes these into five groups (i) relates total public expenditure to the GDP; (ii) relates the "public use" of resources to the GDP; (iii) measures public production as a share of the GDP; (iv) measures the relationship between various taxes and fees to the GDP; and, (v) measures "the degree of socialization of individual decisions on society".

A point worthy of note is that all but one of the groups of measurement provided by Lybeck use a common denominator - the GDP. A general survey of the literature confirms the popularity of the GDP as a denominator in measuring the size and growth of the public sector. For instance in a review of measures of public expenditure growth, Abizadeh & Yousefi (1988:81) revealed that: "almost all versions use either absolute government expenditure or the ratio of total government expenditure to GNP as the dependent variable". Studies by other researchers, e.g. Gandhi (1971) and Mann (1980) amongst others, all confirm this observation. There is thus a high degree of unanimity amongst writers and researchers on the subject that the use of macro-economic aggregates like the GDP or GNP as a denominator best expresses the relationship between the growth in government spending and the overall growth in the economy. Peacock and Wiseman (1967) buttress this point when they argued that:

> No economist would deny that the relation between the size of total government expenditure and the size of an aggregate such as national product may tell us a great deal about the nature and consequences of government intervention or participation in the economic system. An increasing volume of government expenditure arising from such causes as a growing demand for the employment of resources to satisfy collective needs, indicates important changes in the structure of an economy (1967:5).

We have chosen in this study to use the first approach identified above, i.e. total public expenditure defined to include general government expenditure less states and local governments (expenditures), as a percentage of the GDP. Even though this appears to be the most widely applied ratio in the literature, its application requires a measure of caution. As Heald points out, "although useful as a crude indicator of the relative size of public expenditure (and hence a quick guide for both inter-temporal and inter-country comparisons), the ratio is potentially misleading: the nominator includes transfer payments which are excluded from the denominator (Heald 1987:13).

Transfers and subsidies are not components of the national product, so to express total government expenditure (including such transfers) as a proportion of the national product will result in an exaggeration of the share of the total community output. This is the position of researchers like Abizadeh and Yousefi (1988); and Musgrave and Musgrave (1984), among others. In Abizadeh & Yousefi's view, even though the distinction between exhaustive and non-exhaustive expenditures is largely an accounting one, "... it may be argued that the inclusion of transfer payments in total government expenditures will overstate the size of government expenditure ratio" (Abozadej & Yousefi,1988:82).

Similarly, Musgrave and Musgrave (1984) believe that, "if government expenditures are to be related to GNP it would be more meaningful therefore, to exclude transfer payments from government expenditure", (1984:134). An opposing view is however put forth by researchers who argue that transfer payments are as important as other categories of government expenditures and as such they should be accounted for in measures of the size and growth of government. In this category

is included Buchanan and Flowers (1980) who contend that, "this (transfer) is as much a great cost as direct outlay for tanks, planes and paper clips. For the purpose of estimating the real cost of government, the distinction between productive and transfer payments, is not a useful one", (Buchanan & Flowers, 1980:44).

This study is in agreement with the later viewpoint which advocates the inclusion of transfer payments in total government expenditures. For one, most empirical studies have tended to adopt this approach and for the other, the peculiarity of transfer payments in Nigeria which we have defined to include such payments in both the recurrent and capital expenditure accounts of government is too significant to be excluded from a study of this scale and scope. Of interest in particular, is the dominance of interest on debt repayment, accounting for over 90 percent of this expenditure category in recent years, as a component of transfer payments in the current account. This contrasts sharply with components of transfer payments in advanced industrialized countries like USA and U.K. where payments with distinct distributional effects like pensions, gratuities, social securities, etc., dominate the account. Essentially, thus, this study adopts the ratio that measures total government expenditure including transfer payments as a proportion of the GDP.

The final methodological issue of contention in measuring the growth of public expenditures is that of values to use. Here again we find two opposing views. On the one hand, some researchers argue for the use of real rather than nominal values. The reason for this they argue, is that the rate of inflation in the public sector is usually higher than the economy wide inflation. Because of this, unless government expenditure as well as GNP are adjusted with their respective deflators,

we may end up unnecessarily overstating the relative size of government. (See Abidazeh's and Youseffi 1988:83). On the other hand researchers, like Lewis-Beck and Rice (1985) believe that the unadjusted measure is preferable "because it gives a better indication of government scope and power vis-a-vis the national economy" (Lewis-Beck and Rice, 1985:6).

The distinction between real (adjusted) and nominal (unadjusted) values is an important one. However, scholars like Musgrave and Musgrave (1984) are of the view that the use of either of them will depend largely on the problem at hand. If one is primarily interested in a measure of the changing public sector claim on the economy's real resources, then adjusted values should be used. If on the other hand, however, the researcher's interest is to explain the trend in the public sector's share in the value of total output, then the use of "the unadjusted ratio is a more appropriate dependent variable". (Musgrave and Musgrave, 1984:140).

Abizadeh and Yousefi (1988) undertook a study on the growth of government expenditure in Canada for the period 1945 to 1984 using both real and nominal values and came to the interesting conclusion that: "... the use of either nominal or real government share does not make a perceptible difference in the analysis of government growth". The researchers believe that if the model is properly specified and the explanatory variables are appropriately chosen, "the results remain invariant to the choice of adjusted or unadjusted dependent variable". (Abizadeh and Yousefi, 1988:90).

2.3 Wagner's 'Law' of Expanding State Activity

The 'law' of expanding State activity is associated with the work of Adolf

Wagner, a leading German economist in the late eighteenth century. Wagner, in obvious reference to the growing significance of public expenditures in many countries of Western Europe at the height of the industrial revolution concluded that

> The law of increasing expansion of public and particularly State activities becomes for the fiscal economy the law of fiscal requirement. both the States requirements grow and, often even more so than those of local authorities... That law is the result of empirical observatives in progressive countries at least in our Western European civilizations; its explanation, justification and cause is the pressure for social progress and resulting change in the relative spheres of private and public economy (especially compulsory public economy). (Brown & Jackson, 1990:122).

The essence of Wagner's law viewed within the perspective of a "modern" day formulation roughly translates as meaning that "as per capita income rises in industrializing nations, their public sectors will grow in relative importance", Bird (1971:2). Wagner gave three reasons to support his thesis. The first is that an expansion (of State activity) would emerge with respect to the administrative and protective functions. This, in Wagner's view, will arise largely as a result of the substitution of a significant number of public for private activity. In the same vein, new needs for public regulative and protective activity would manifest as a result of the increased complexity of legal relationships and communications that inevitably accompanied the greater division of labour which has inevitably characterized the industrialization process all through history.

Secondly, Wagner explicitly predicted a considerable expansion of "cultural and welfare expenditures" especially with respect to education and the redistribution of income. The reasons why these activities would expand were less explicitly stated. Wagner however appeared to have assumed that these are essentially 'superior goods' or luxuries which have an income - elasticity greater than unity. Bird

(1971), suggests a 'modern' reformulation "... without undue violence to Wagner's arguments". In his view, a modern formulation of this argument will have two strands: first, that a substantial number of public goods are luxuries so that public spending in total is income inelastic and second, an increasing amount of market failure is to be expected as development proceeds. (Bird, 1974:4).

Thirdly, Wagner believed that the inevitable changes in technology and the increasing scale of investment in many of the activities that are bound to accompany industrial progress would create an increasing number of monopolies whose effect would have to be offset, or the monopolies taken over by the State in the interest of economic efficiency. In some instances, the required scale of capital was such that the investment capital could only adequately be financed by the State. Railroad (steam) was the most frequent example cited by Wagner to buttress this point.

As a corollary to the above reasons, Wagner identified three activities which in his view should constitute the major activities of the State. These are: (i) the maintenance and enforcement of law and order internally and externally, (ii) the provision of the necessary social precondition for markets to function and (iii) participation in material production and the provision of such economic or social services, as postal and telegraphs, education and banking. (Peacock and Wiseman 1967:18).

Given both the technical and environmental specifications of Wagner's law, the necessary conditions under which the 'law' would hold appear to be: (i) rising per capita incomes, (ii) technological and institutional change of a particular sort and (iii) democratization of the polity in the sense of wider political participation.

2.3.1 Operational Interpretations of Wagner's Law

Several interpretations of Wagner's law exist today in the literature. Gandhi (1971) identifies as many as five. A point of interest is however the fact that most of these versions use either absolute government expenditure or the ratio of total government expenditure to the GNP as the dependent variable.

In the first version, some researchers, notably Buchanan (1965), and Peacock and Wiseman (1967), believe that a correct interpretation of Wagner's law should be taken to mean that "government expenditure must increase at an even faster rate than output", Peacock and Wiseman (1967:17). Gandhi (1971:43) represents the position of this group in symbolic terms as E = f (GNP), where E represents the level of government expenditure and GNP for gross national product. Gandhi also gives the elasticity of public expenditures with respect to GNP, i.e. (^{e}E . GNP) as being greater than unity.

The second version more commonly associated with Pryor (1968) states that "... in growing economies, the share of public consumption expenditures in the national incomes increases". (Pryor, 1968:451). Again, the symbolic representation of this statement is given as C = f(Y), where C represents the level of government consumption expenditure and Y for national income and the elasticity of government consumption expenditure with respect to national income (^{e}c . Y) is greater than unity.

In the third version, Goffman (1968), contends that Wagner's law should be interpreted as meaning that "as a nation experiences economic development and growth, an increase must occur in the activities of the public sector and that the ratio of increase when converted into expenditure terms, would exceed the rate of

increase in output per capita". (Goffman, 1968:359). This position is represented in symbolic terms as $E = f(\frac{GNP}{P})$ where E stands for the level of government expenditure and GNP for per capita gross national product. The elasticity condition is given as ($^{e}E.GNP$ is greater than unity, (Gandhi. 1971:45).

The fourth version popularized by Musgrave (1969) states that "... (Wagner's) propositions must be interpreted as postulating a rising share of the public sector... or ratio of public expenditure to GNP... (in the context) of the development of a country from low to high per capita income", (Musgrave, 1969: 73-74). Wagner's law under this proposition can be represented essentially as $\frac{E}{GDP} = f(\frac{GNP}{P})$, "which will establish the validity of the 'law' when the elasticity of public expenditure as a share of gross national product with respect to per capita income, i.e. $(\frac{eE}{GNP} \cdot \frac{GNP}{P})$ is greater than unity". (Gandhi, 1971: 45).

The fifth and final version under discussion is the one adopted by Gupta (1967) in his time-series analysis of the growth of public expenditures in a number of Western industrial countries. Gupta whose major concern was to test for the validity of the generally held view that under Wagner's law, the elasticity of public expenditure with respect to GNP was greater than unity, interpreted the 'law' symbolically as $\frac{E}{P} - f(\frac{GNP}{P})$, (Gupta 1967:461)

The symbolic representations of these five popular versions is summarized in Table 2.1 as follows:

TABLE 2.1

A SUMMARY OF THE SYMBOLIC REPRESENTATIONS OF VERSIONS OF WAGNER'S HYPOTHESIS

S/NO	STRUCTURAL RELATIONSHIP	INCOME ELASTICITY	AUTHOR(S)
1.	$E = f(GNP)$	$(^{e}E \cdot GNP > 1$	Buchanan (1965) Peacock & Wiseman (1967)
2.	$C = f(Y)$	$(^{e}C \cdot Y) > 1$	Pryor (1968)
3.	$E_P = f(GNP)$	$^{E}e \cdot GNP > 1$	Goffman (1968)
4.	$\frac{E}{GNP} = f(\frac{GNP}{P})$	$\frac{eE}{GNP} \cdot (\frac{GNP}{P}) > 1$	Musgrave (1969)
5.	$\frac{E}{P} = F(\frac{GNP}{P})$	$(^{e}\frac{E}{P} \cdot \frac{GNP}{P}) > 1$	Gupta (1967)

A number of reasons have been put forward for this diversity in interpreting Wagner's law. Among the most frequently mentioned include the author's (Wagner's) own imprecisiveness; "the fact that Wagner's style is so murky that any interpretation is likely to be open to some doubts". (Pryor, 1968:50). Following closely is, of course, the contention by some researchers that Wagner's formulation (of his 'law') is not explicitly based on the notion of a rising per capita income as a necessary corollary of economic development. Some scholars however disagree with this latter argument. Musgrave (1969) for instance argues that "while there is no explicit statement in Wagner that the law of expanding scale relates to the share than the absolute level of public expenditure, occasional references to 'quotas' suggest the former", (Musgrave 1969:50).

By and large, scholars believe that there is indeed a general consensus among researchers as to the essence of Wagner's 'law' but that the empirical formulation employed by these same people do not correspond with their stated interpretations of the writer's (Wagner's) views. One strong supporter of this position is Michas (1975), who argues that: 'researchers seem to be in agreement in their 'verbal interpretation' of Wagner's argument... the problem however lies with their interpretation of this view in quantitative terms", Michas (1975:78). The author explains that while these researchers have in quantitative terms postulated that $Ei/GNP = f\left(\frac{GNP}{P}\right)$, with elasticity values for such a relationship greater than zero, in their empirical tests, they utilise the relationship $E_i = f(GNP)$, from which estimates of income elasticities are obtained, "evidently not realising that although these two relations are related they are still quite different formulations". (Michas 1975:79).

The diversity in interpretation notwithstanding, a survey of extant literature reveals that Musgrave's version which correlates the public expenditure share (E_i/GNP) with the level of economic development (primarily GNP/P), remains the most frequently tested in empirical studies. (Gandhi, 1971:46; Michas, 1975:79).

A number of writers have attested to the popularity of Musgrave's version. Bird (1970:30) for instance, argues that "this version (Musgrave's) best indicates the relative importance of government activity in the economy". Others who have also accepted this position include Gandhi & Kolluri (1987), and Ram (1987). The latter's contribution aptly summarizes the position of those who contend that

Musgrave's version best interprets Wagner's law. According to him:

> ... several different proxies can be used for government expenditure and level of income (or economic development) and the relationship can be hypothesized in different forms. However, as Musgrave (1969:74), like many researchers, notes, the most plausible formulation appears to be in terms of a positive correlation between the share of government expenditure in GDP and income per capita. (Ram, 1987:94).

It is of course worth mentioning that while writers like Michas (1975) share the view that Musgrave best interprets the relationships of the variables in Wagner's hypothesis, they believe that a reformulation of the associated income elasticity estimates will further improve explanatory value of the Musgrave version. Michas believes that the appropriate formulation of the elasticity value is Ei/N = f (GNP/N) which is similar to the popularly used version Ei = f (GNP) except that it (the former) employs per capita values. (See Michas, 1975:77).

2.3.2 Empirical Validation of Wagner's Law

Even though writers like Larkey, Stolp & Winer (1981:177)argue that a persistent problem with Wagner's law is that "... it is not clear at all what is to be tested", the bulk of empirical research in this area has consistently addressed two related questions: first, is the question of whether the 'law' appears to hold, i.e. whether countries in which per capita incomes are rising spend proportionately more through the government budget over time, and second, whether the assumptions underlying the 'law' are valid; i.e. whether E/GNP = f(GNP/P), and (°E/GNP GNP/P).

Among the numerous attempts to test Wagner's hypothesis, by and large, using the aforementioned questions as baseline, include, Lall (1969), Bird (1971), Abizadeh & Yousefi (1986)and Ram (1987).

Lall (1969:413-417) in a study of 46 developing countries from across the world concluded that there was no relationship between E/GNP and GNP/P. He also found no relationship between the shares of various individual functional categories of government expenditures in the gross national product and gross national product per capita.

In a similar attempt, Bird (1971 8-9) in a study of some industrialized countries including; Canada, Germany and the United Kingdom came to the following conclusions:

i) that Wagner's law holds in aggregate terms for most periods for all countries mentioned,

ii) that the most rapid expenditure increases have generally been in the social services, a result not inconsistent with Wagner's original ideas, and,

iii) that although it has not been proved possible to adduce any evidence of the prevalence of "market failure", it does not appear that this factor has played anything like the role Wagner originally envisioned for it, nor have expenditure on administration risen as Wagner apparently expected.

Bird concluded however that on the whole, "the evidence such as it is, must be considered wildly favourable to Wagner's 'Law', (Bird, 1971:9).

Ram (1987)in his own attempt at validating Wagner's Law undertook an indepth study of government expenditures of a number of developing and developed countries. His results from the time-series data used indicated that the strength of the co-variance between income and government expenditure varied greatly across

different countries of the world for each of the two variable pairs. On the basis of time-series data, Ram concluded that "the hypothesis (Wagner's) seems to be supported in about 60 per cent of the countries and refuted in the remaining 40 per cent". Ram (1971:203) however discovered that cross-section results of the same study seem to refute the hypothesis. Elasticities of government share with respect to GDP per capita are negative in most cases, and the negative sign is statistically significant in the full sample as well as the LDC sub-sample. Also, the elasticity of government expenditure with respect to GDP is below unity in most cases (Ram 1971:203). Overall, the researcher came to the conclusion that:

> In short, at least in terms of the public sector's share in the (quantity of) real resources used, the study casts doubt on the implied Wagnerian proposition about the universality or the inevitability of the eventual domination of growing economies by the government sector. (Ram, 1971:204).

In their own attempt Abizadeh and Yousefi (1986) started by challenging the procedure adopted by other researchers, arguing that previous empirical studies have ignored both the political and economic dimensions of the problem. To close the 'gap' in these studies, the authors adopted a 'modified approach' which seeks to internalize the "missing variables" in the analysis. Importantly, they came to the conclusion, among a number of others, that "... the growth in real income is accompanied by higher government expenditures (which is) an indication of positive income elasticity of demand for public goods and services". (Abizadeh & Yousefi, 1988:94).

The rather diverse results obtained from all the studies mentioned despite the adoption of, by and large, a common operational definition of Wagner's law can be attributed to a number of factors but the most compelling one is advanced by Ram

(1987):

> The main conclusion is that there is much diversity in the character of the covariance between income and government expenditure in different countries. Therefore, it is difficult to make a universally valid statement and one can get a result of almost any kind by focussing on limited time-series or cross-section evidence. (Ram, 1987:196).

Whichever way one looks at the problem, it is obvious that attempts to interpret Wagner's hypothesis have been affected by the author's own "inexplicit formulation of his hypothesis plus the fact that various English translation of his works and translations of other writers' arguments concerning his law are inconsistent. These inconsistencies have resulted in various formulations, the tests and results of which are not fully comparable". Michas, (1975:77). On the other hand, Meltzer and Richard (1983) contend that the mixed and often conflicting results obtainec in testing Wagner's hypothesis could be attributed to two major shortcomings: first, researchers, testing the hypothesis, "... omit a key explanatory variable, some measure of the relative income distribution", and second, "they use aggregate income or average income as an explanatory variable instead of the reciprocal of median income". (Meltzer and Richard, 1983:410).

We conclude this section by acknowledging the fact that Wagner's hypothesis is replete with a number of shortcomings, both theoretical and operational. One fact, however, remains incontrovertible: that Wagner's contribution has provided researchers with the first, and so for the most durable basis for a systematic study of the nature and causes of the secular growth of government expenditure. This is easily confirmed by the fact that the bulk of research efforts in this area take-off from Wagner's contribution or some variants of it.

2.3.3 The Peacock-Wiseman Hypothesis

Building largely on Wagner's seminal work on the growth of public expenditure, Alan Peacock and Jack Wiseman undertook a time-series study of the growth of public expenditure in Britain between 1890 and 1955. The study was designed with three broad objectives; first, to make available statistical information about the British economy within the period under study; second, to relate these statistics in a general way to the economic history of the period, and third, to evolve on the basis of data generated, hypotheses that may help to explain the evolution of government expenditure in other countries and at other times. On this third objective, Peacock and Wiseman were quick to point out that unlike Wagner, they were not attempting to formulate some universal 'laws' of government expenditure, adding that (in any case) they were not "particularly impressed with the (laws) of this kind..." Peacock and Wiseman (1967:3). The study concentrated particularly upon an explanation of the time-pattern of expenditure growth rather than on the absolute magnitude of public expenditure.

The major finding of the Peacok-Wiseman study on which all subsequent discussions and analyses derive was that: "although British government expenditure declines after the wars, it does not return to the pre-war level and the share of government expenditure in national product remains much greater after the wars than it was immediately before then". (Gupta, 1967:426). Essentially, Peacock and Wiseman found that government expenditure grows in a discrete or step-wise fashion as opposed to a continuous growth profile. Three major concepts which eventually formed the baseline for debate and indeed even for labelling their 'hypothesis' emerged from this study. The concepts are: the Displacement Effect,

the Inspection Effect, and the Concentration Effect. Since these three 'effects' combine to provide the essence of Peacock and Wiseman study and subsequent conclusions (hypotheses), it will be necessary to take a more closer look at them.

2.3.4 Displacement Effect

The 'displacement effect' refers to the plateau(s) created by the economy's movement from one 'permanent' level of expenditure to another after the occurrence of one of the disturbances (wars and social upheavals) mentioned by Peacock & Wiseman. In their own words:

> In 'normal' times, the existence of a customary notion of 'tolerable burden' is likely to constrain the rate of implementation of government expenditure plans. But this constraint will be weakened or destroyed during periods of social upheaval, when such notions of taxation are more easily broken down, and the gap between a 'desirable' growth of public expenditure and a 'tolerable' tax burden may be narrowed. (Peacock & Wiseman, 1967:vii).

On of the bases of the British evidence, the authors observed that; ".. the process (of establishing a demonstration effect) involved is a complex one, although it does appear to have some enduring characteristics". (Peacock & Wiseman, 1967:vii).

The displacement effect concept is one that essentially attempts to relate the 'acceptable' level of burden of taxation to the desirable level of public expenditure within a specific period in time. As Gupta explains:

> ... people's ideas about the tolerable burden can be separated from their notions of desirable level of public expenditure, and there is likely to be a gap between the two sorts of ideas because the choices made through the political process are inherently different from those made through markets. (Gupta,

1967:427).

In essence, Peacock & Wiseman viewed taxation as setting a constraint on government expenditures. As the economy grew, tax revenue, at constant tax rates, would rise, thereby enabling public expenditure to grow in consonance with the national product. In normal times, (non-war, and non-social upheaval) therefore, public expenditure would show a gradual upward trend, even though within the economy there might be a divergence between what people regarded as being a desirable level of public expenditure and a desirable, or tolerable, level of taxation. The picture however changes during periods of disturbances during which the gradual upward trend in public expenditure would be disturbed.

> These periods would coincide with war, famine or some large scale social disaster which would require a rapid increase in public expenditures. In order to finance the increase in public expenditures, the government would be forced to raise taxation levels. This ... would however, be regarded as acceptable to the electorate during periods of crisis. (Brown & Jackson, 1990:124).

The crux of the analysis is the assumption that once public expenditures and the tolerable level of taxable burden rises as a result of a social disturbance, it is unlikely that they would fall back to the pre-disturbance level.

Most later contributors to the literature tend to accept the argument connecting the tolerable burden of taxation and the movements in the levels of public expenditures provided these movements are associated with disturbances like wars and social upheavals. Some of them e.g. (Gupta 1967; Buchanan & Wagner, 1977 & Nagarajan, 1979) however wonder what would be the resultant outcome of the tolerable burden of taxation when these shifts in expenditure are occasioned by some phenomena other than wars or major social upheaval. Gupta (1967:427)

asked this in the case of a severe depression for instance; Buchanan and Wagner (1977) in the case of deficit spending; and Nagarajan (1979:100) in the case of a social disturbance of "a non-global nature". All these instances, the scholars argue are capable of generating the same effect on the levels of public expenditures and the tolerable burden of taxation. Recent contributions to the literature have attempted to close this significant gap in Peacock and Wiseman's original analysis. (See for instance, "Buchanan-Wagner hypothesis..." Craigwell, 1991:373-379).

2.3.5 The Inspection Effect

The displacement process discussed in the foregoing is seen by some scholars as the 'original or orthodox version' of the Peacock-Wiseman hypothesis. (Nagarajan, 1979:101). A more modern version incorporates a related phenomenon in the analysis that has been described as "the inspection effect". The observation giving rise to this 'effect' is based on the fact that it is possible for a process other than the orthodox displacement hypothesis to generate 'a different kind of displacement - an inter-functional shift without shifting the levels of aggregate spending and taxes. Such inter-functional shifts are not really related to the 'displacement effect' in the orthodox sense. Nagarajan, (1979:101). Peacock and Wiseman's illustration aptly demonstrates the genesis of the concept (inspection effect):

> In war-time, the tally taken of human resources for special purposes may incidentally reveal information about social, etc, conditions which was not previously available, and this new knowledge may produce a consensus of opinion in favour of new and large public expenditures. At the same point in time, governments find themselves able to implement the new policies relatively painlessly, since the disturbance itself will have made it the "tolerable burden" constraint for the moment,

> by acclimatizing citizens to a new (higher) level of tax incidence. (Peacock & Wiseman, 1967:viii).

An easily observable problem with the 'theoretical' justification on which the concept (of inspection effect) is built, is of course, the implicit assumption that tends to ignore the fact that the sense of nationalism that usually accompanies major social disturbances is itself 'inspected' after the occurrence of such disturbances. And, the case may be that the citizens or tax payers may actually demand some form of appreciation or compensation for bearing an unduly heavy tax burden and the related sacrifices they were required to make in the face of the crises. In effect then, it may be the case that a call to reduce taxes, to pre-crisis levels, or the introduction of certain fiscal incentives for tax payers. However, Peacock & Wiseman were quick to concede that; they are in no doubt that their formulation of the problem "... does not amount to a neat and carefully-contrived theory expressed in a set of equations forming a determinate system capable of being used for prediction and empirical test". (Peacock & Wiseman, 1967).

2.3.6 The Concentration (Effect) Process

The concentration process is essentially an attempt to relate the expenditure behaviour of central or national governments to economic growth. It refers to the apparent tendency for central government to expand through a process of taking up new responsibilities as society experiences economic growth. It posits that "sub-national government necessarily will decline in relative importance in the public sector". (Herber, 1979:301).

In their attempt to provide some causality for the inability (or unwillingness?) of governments to return to pre-disturbance levels of public expenditure, Peacock and Wiseman argued that governments will invariably inherit some expenditure obligations during the disturbance period and after which it will find difficult to transfer unto other bodies, (sub-government and other agencies). They gave the examples of the provisions of war pensions, and the war-time provision by government of services formerly financed by private charity. The authors equally recognized the possible influences of lasting changes in ideas and institutions, indeed about the role of government itself that may be occasioned by the experiences of the disturbance. All these, they contend, cannot be explained alone by the displacement hypothesis. Peacock & Wiseman therefore argued that the process of growth carries with it certain influences tending to change the size of the government unit upon which responsibility for public economic activities rests, which is usually the central government. It was the view of the authors that the economic factors making for the change in the effective responsibility for particular public sector activities can be easily stated, although their consequences may be less easy to trace. (Peacock & Wiseman, 1979:29).

The authors contended that it is characteristic of economic development that it carries with it, and indeed depends upon, improvements in the ease of transport and communication, and it is very likely to be associated also with a growth, in the technically efficient size of economic and administrative units. In pinning down their argument for the concentration of economic responsibilities with the central government overtime, Peacock & Wiseman contended that "the process of growth may generate two kinds of pressures for the movement of responsibility for public

expenditures towards higher (larger) organs of government". (Peacock & Wiseman, 1967:29).

The first strand of this argument is built on the contention that improved social infrastructure particularly where the distribution is lopsided will generate pressures on government by those communities not adequately covered, both in qualitative and quantitative terms, by such services. These pressures will of course be best addressed by greater centralization, or concentration, of control over the size and character of public expenditure. Second, the improvement in social infrastructure may not only generate concentration but it will make them more efficient and of course the economies of scale to be enjoyed may further justify concentration. Additionally, the resultant effect of the whole process may call for the central government to take over certain responsibilities from lower levels on the grounds of enforcing uniformity in standards. Peacock & Wiseman thus conclude that "the concentration process can occur independently of any displacement effect, but we should expect to find some relation (though not a precise or straightforward one) between the two". (Peacock & Wiseman 1967:50).

In an institutional context, the concentration effect affects the functional relationship of the different levels of government in the following four ways: first, it gives the central government a larger share of responsibility for expanding government expenditure. Second, it reduces the responsibility of the lower levels of government in the provision of certain categories of services. Third, it increased the dependence of the lower layers of government on the central government for revenue and thereby reducing their fiscal autonomy. And fourth, it enables the central government to create new authorities responsible primarily to the centre in

the execution of specialized tasks. (Mbanefoh, 1986:8).

2.3.7 Empirical Testing of the Peacock-Wiseman Hypothesis

The Peacock-Wiseman hypothesis has generated a considerable amount of controversy, but unlike in the case of Wagner's 'law', the bulk of this controversy has less to do with disagreements in (the) appropriate interpretation to adopt, but more on the appropriate testing-techniques to use. As Watt (1988) puts it: "in many ways these statistical debates amount to a discussion over which particular econometric sledgehammer is appropriate to crack the nut" Watt, (1988:32). The bulk of statistical studies conducted to date attempt to test for the 'displacement effect' using forecasting techniques based mainly on time-series and cross-section data. It is worth mentioning that the original study (by Peacock & Wiseman) was based largely on time-series data and "the visual inspection of charts". Among the numerous statistical and econometric tests conducted for the demonstration effect include: Gupta (1967); Bonin, et al; (1969): Diamond, (1977), and Tussing & Henning (1979).

Gupta (1967) was the first researcher to devise rigorous statistical tests for the Displacement Hypothesis. Interestingly, almost all other researchers after him even those who outrightly criticize his methodology have based their own tests substantially on his (Gupta's) work. This justifies a brief review of the background to the study which we shall attempt here. A major motivation for Gupta's study appear to be based on his dissatisfaction with shortcomings of the Peacock-Wiseman study particularly as its results appeared to provide a widely used basis for generalization. Gupta therefore argued as follows:

a) The displacement effect hypothesis was deduced from

their (Peacock & Wiseman's) statistical observations of the time-pattern of growth of public expenditure in the United Kingdom only, (and) before one can make any generalization, this needs to be tested for a number of countries;

b) Even in the case of the United Kingdom, no quantitative measurement and test of significance of that effect was attempted; and

c) The displacement effect refers only to the shift in the level of government expenditure with relation to national output, no attempt was made to investigate the effect if any, of a social upheaval on the rate of growth of government expenditure. (Gupta, 1967:429).

On the basis of these observations, Gupta tested the displacement effect for different countries not only with regard to the World Wars, but also to the Great Depression which he considered as major social upheaval for some countries. Specifically, his study set out to elicit answers to the following four questions:

a) Is a major social upheaval (such as a World War, and also the Great Depression in the case of some countries) associated with a shift in the level of government expenditure with relation to economic growth?

b) If such a shift is observed, is that shift statistically significant so as to associate it with the respective social upheaval?

c) is a social upheaval associated with a change in the "income elasticity" of government expenditure (using the term loosely to mean the rate of growth of per capita government expenditure with relation to that of per capita income?

d) If a change in such a rate of growth of public expenditure is observed, is that change statistically significant so as to associate it too with the respective social upheaval? (Gupta, 1967:425).

Gupta (1967) tested separately for a shift in the level and changes in income elasticity associated with major social upheavals.

Gupta found evidence for the occurrence of the displacement or a 'shift' in the level of government spending after both the first and second world wars in four out of the five countries included in his study; United Kingdom, (17.0 & 72.8 per cents for the first and second World Wars, respectively), Germany, (54.7 and 24.3 per cents), USA, (31.6 per cent for the second World War only), and Canada, (33.9 per cent, Second World War only). He however, found an insignificant 'shift' in the case of the fifth country, Sweden (7.6 percent, after the Second World War). The reason suggested by Gupta for this was that the country did not participate, at least not directly, in the War. This conclusion was however challenged by another researcher, Nagajaran (1983) who adopting the same test techniques and using the same data set as Gupta's contended that a significant shift (17.8 per cent) actually occurred in the case of Sweden (see Nagarajan, 1983:158).

Gupta also found evidence that displacement occurred in those countries he tested for a shift after the Great Depression, namely; Germany, USA, and Canada. In the case of the USA in particular, he found that the shift associated with the Depression was far higher than that associated with the War. Finally, while "income elasticity" diminished for all countries after the two world wars, and the Great Depression, except Sweden, it was found that it (income elasticity) actually increased between the inter-war years for both the USA and Canada. In effect, it can be concluded that Gupta found substantial evidence to support the Peacock-Wiseman Displacement Hypothesis.

2.3.8 Other Empirical Tests of the Hypothesis

Besides Gupta's approach discussed in the foregoing, we can classify most of the other techniques used in testing the Displacement hypothesis into two categories; the first is the dummy variable technique first used by Pryor (1968), and the Chow test technique introduced by Diamond, (1977).

Pryor interprets the displacement effect as implying an upward intercept shift which he tests by fitting two equations in which public expenditures are determined in the first version by time and dummy variables set equal to 1 for post-war periods and in the second by income and the same post-war dummy variables:

$$\ln G = V + x T t yA + zB, \text{ and}$$

$$\ln G = V + WLN\, y + yA + zB$$

where; G is public expenditure per capita' T is time; Y is per capita national income; A is a dummy set equal to O before World War I, an 1 thereafter; and B is a similar dummy for World War II. Bonin, et al, (1969:441-452) improved upon Pryor's dummy variable technique by testing for co-efficient as well as intercept shift.

Diamond in his own study started with a critique of the assumptions and methodologies adopted by other researchers. His two basic or fundamental criticisms are, first, the "distinct demand orientation" adopted to the exclusion of "supply influences", and, second, the "ceteris paribus" nature of the hypotheses tested by the other researchers. (Tussing & Henning, 1977:478-479).

Diamond attributed what in his view were the shortcomings of other research efforts to the fact that "none of the studies has adequately grasped the essential nature of the displacement effect..." (Diamond, 1977:396). The researcher went on to explain:

> All have failed to recognize that the (Peacock-Wiseman) analysis is directed to a question which is distinct from that usually characterizing the positive approach to public spending. Broadly, the conventional empirical approach is to frame the research question in the following terms;if all institutional arrangements are constant, tastes and preferences being constant, how will changes in public expenditure respond to changes in some other environmental factors, such as per capita GNP? ... In contrast, the Peacock-Wiseman analysis of displacement can be interpreted as a theory of the 'structural break'. Thus the ceteris paribus assumptions that tastes, preferences, and institutions remain constant is denied. (Diamond, 1977:396).

In arguing for a modification of the research instruments, Diamond contends that "since a structural break posits two distinct regimes before and after the social upheaval, instead of separately testing for the stability of the constant term on the slope co-efficient, a total test of structural stability should be applied". (Diamond, 1977:397). This view essentially informed the researcher's application of the 'Chow Test' to investigate the validity of the displacement hypothesis.

As should be expected, Diamond's test technique did not go without comments from other researchers, the general view of whom Tussing & Henning (1979) quite ably expressed. The two researchers pointed out that the problem with the Chow test as used by Diamond is that it did not distinguish between upwards and downwards displacements. They argue that in order to know whether, in a net sense, upward displacement occurred, it would be necessary to know the relevant absolute values in order to know whether intercept or slope change dominates the predicted values of G. And they concluded: "In short, Diamond's Chow tests are virtually worthless as tests of the Peacock-Wiseman displacement hypothesis". (Tussing & Henning, 1979:480-481).

Interestingly, even though different techniques have been used by different

researchers to test for the displacement effect, there appears, to a large extent, some unanimity in their findings - they confirm the validity of the Peacock-Wiseman Hypothesis. This tends to lend credence to Watt's observation cited earlier in this section, that: "... these statistical debates amount to discussion over which econometric sledgehammer is appropriate..." (Watt, 1988:32).

CHAPTER THREE

FRAMEWORK FOR THE INSTITUTIONAL ANALYSIS OF THE SIZE AND GROWTH OF PUBLIC EXPENDITURE

3.1 Introduction

In this chapter, we examine the nature and character of those institutional factors, the combination of which has had a profound impact on government expenditure growth, but the study of which has not been given adequate attention. A wide range of factors and interests including politicians, bureaucrats, labour unions, voters, etc. have come to be discussed within the framework of institutional analysis in the study of public expenditure growth. The current trend in looking at the largely institutional factors governing the growth of government spending is to put these factors into the analytic framework of public choice. This is essentially what we have done in this study. To put the discussion in perspective therefore, we start with a brief review of the subject matter of public choice.

3.2 The Essence of Public Choice

Public Choice according to Mueller (1976:385) can be defined "as the economic study of non-market decision making or simply the application of economics to political science". Public Choice theory essentially takes the tools and methods that have been developed to quite sophisticated analytical levels in economic theory and applies these to the political or government sector. A basic behavioural postulate in public choice theory, like in mainstraim economic theory, is that man is a egoistic, rational utility maximizer. Brown & Jackson (1990) put it quite succinctly: The public choice school focuses upon government behavioural

postulates of economic paradigm; i.e individuals are self interested and rational utility maximizers (1990: 12).

In its methodology, public choice attempts to refute the traditional notion of government as benevolent, and of a coalition of politicians and bureaucrats working in a public interest that is often not explicitly defined and in any case, naive against the reality of the dynamics of the modern day government. Buchanan (1984) again quite pungently states the public choice dimension to the issue.

> Public choice theory has been the avenue through which a romantic and illusory set of notions about the workings of government and the behaviour of persons, who govern has been replaced by a set of notions that embody more skepticism about what governments can do and what governors will do, notions that are surely more consistent with the political reality that we may all observe about us. (Buchanan, 1984:11).

Public choice owes its growth largely to the works of a number of economists (most of whose primary interest was initially in the area of public finance) and social scientists prominent among whom include: Black (1948); Downs (1957); Arrow (1962); Musgrave (1959); Buchanan and Tullock (1962); and Peacock and Wiseman (1961). These scholars in the 1950s and early 1960s began to express reservations over what they saw as a deficiency in the treatment of factors not (traditionally) considered "economic" in nature but which nonetheless play deterministic roles in the functioning of government not only as a producer and supplier of goods and services, but also as a redistributor of wealth. It needs to be noted, however , that even long before this period some economists have made contributions that essentially set the agenda for the development of modern public choice theory. One of such early contributors was Wicksell (1896) who admonished economists for their failure "to recognize the elementary fact that collective or public sector decisions

emerge from a political process rather than the minds of some benevolent despot". (Cited in Buchanan, 1975:385). In the same vein, Niskanen writing more recently (1971), noted that:

> Economists have until recently in their discussions of public goods, disregarded both the political institutions which express the preferences for public goods and the bureaucratic organizations which supply them. (1971:27).

This in his view has constituted a major gap in economic analysis, particularly in the theory of public goods.

Economists have traditionally been inclined to hold constant those factors they consider "non-economic" in nature. Peacock and Wiseman (1967) quite aptly articulate the problem when they noted that:

> Economists have tried to contract out this problem by assuming that the selection of the appropriate economic variables and the weighting of the relevant parameters is the concern of other social scientists... rather than their own business. So comforted economists can restrict their role to the study of economic effects of budgetary decisions, the environment taken as given... (1967:vii).

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The authors decried this practice and went on to contend that:

> Whatever its justification in other contexts, to contract out in this fashion is quite unrealistic if we are to provide plausible explanations of the time patterns of growth (of) public expenditures. (Peacock and Wiseman, 1967:vii).

Peacock and Wiseman were no doubt providing a justification for their use of "non-economic" variables like wars, tolerable burden, administrative decentralization and deconcentration, etc., to explain the causes and character of public expenditure growth in the United Kingdom. But even before Peacock and Wiseman's expression

of discontent with the "state of the art", Musgrave (1959) had within a more general context drawn attention to the need for an approach that will more effectively enable economists conduct studies into issues that should primarily be of interest to them but which the restrictions of their tools of analysis could not allow them explore in any meaningful way. He thus proposed that:

> A technique must be found by which individuals are induced to reveal their preferences for social events (even though the exclusion principle cannot be applied) and by which choice can be made among all solutions that are optimal in the Pareto sense... moreover, a technique must be found to determine what merit wants are to be satisfied and what distributional adjustments are made. Since these problems cannot be solved by the mechanism of the market, we must turn to a process of political decision-making (Musgrave, 1959:116).

Like other economists with a similar viewpoint, Musgrave was quick to acknowledge that, "this may not be a problem in economics as usually conceived, it is nonetheless an inherent part of the theory of (the) public economy" (1959:116).

Borcherding (1977) offers a final view to justify a shift in research focus in favour of analysis which takes cognisance of factors hitherto ignored by economists. According to him:

> Economists have too long ignored these latter issues on the grounds that they were "non-economic" or difficult to measure. Neither excuse is acceptable since a major fraction of national income is at issue. Besides, economists, because of their special familiarity with the world of self-interested choosing individuals, have a comparative advantage in exploring the economics and politics of budgetary decision. It is hoped that many will take up this challenge and dispassionately dissect public budgetary choices as they have so admirably analyzed the private sector over the last two hundred years. (Borcherding, 1977:64).

explain or justify government intervention and others that are central to government operations, we can proceed to quite comfortably use these variables in explaining government growth.

A further justification for using these variables in explaining the growth of government is the frequency with which they have also been used, in one form or another, by researchers. In a survey of extant literature on the subject, attempted by Larkey, Stolp, and Winer (1981), the most comprehensive to date, it was revealed that over 75 per cent of explanations offered for the expansion of government, by a wide variety of scholars, refer to at least three of the five variables mentioned above as representing an explanation for the growth of government.

In general, these variables are categorised into demand and supply explanations for the growth of government. The public goods, incomes redistribution, and interest groups hypotheses represent the demand-side explanations, while bureaucracy and fiscal illusion fall under the supply-side category. (See for instance, Aranson and Ordershook, 1981).

3.3.1 Demand for Public Goods as an Explanation for the Growth of Government

One of the modern-day justification for government intervention in the economy is the correction of 'market failure' which is pursued principally through the performance of three fiscal functions which Musgrave, (1959) identified as: allocation, distribution and stabilization. Public choice theorists, on the growth of government who identify the demand for public goods as constituting the major source of government growth premise their analyses on the assumption that

government exists principally to perform the allocation function, i.e. provide public goods and services through a 'non-market' allocative mechanism in this case, the government budget. Since public goods are 'collectively consumed', it is assumed that everyone has an implicit demand for such goods. Of course the demand for public goods are revealed through a variety of voting procedures.

In the public-goods model, the demand (for public goods) is a function of a number of variables which include: income, the relative price of public to private goods and other taste variables. It is assumed that voting takes place using majority rule where citizens vote directly on the government expenditure issue, and that, in particular, the only issue to be decided is the level of government expenditure. Based on these, the median voter theorem is applied whereby government expenditure is expressed as a function of the characteristics of the median voter. (Barr and Davis, 1966; Borcherding and Deacon, 1972; Bergstrom and Goodman, 1977, etc).

Employing this framework; we can derive a government expenditure equation in logarithmic form thus:

$$\therefore \ln G = a + \alpha \ln P_g + B \ln Y_m + Y \ln Z + u \quad \ldots (1)$$

Where:

G = a composite of public goods;

X = a composite of private goods;

Pg = price of public goods

Px = price of private goods

Ym = income of the median voter;

Z = a vector of taste parameter; and

B & & = respective elasticity co-efficients of X, Ym and, Z.

An explanation for the growth in government (expenditure) can be obtained from the equation (1), if any of the following four conditions are met: (Mueller, 1989:324).

i) the demand for public goods is inelastic, (-1 < a < o), and Pg has risen relative to Px;

ii) the demand for public goods is elastic, (-1 > a), and Pg has fallen relative to Px;

iii) because Ym has been increasing over time, if changes in Ym are to explain growing G relative to X, B must be greater than unity, (B > 1); and

iv) some taste variables could change in the appropriate way, given the sign of r^2.

Most estimates of X (from the first two conditions suggests that it is elastic, i.e. it is greater significantly than (-1) and thus imply a relative growth of government if there has been a relative increase in the price of public goods. Changes in Pg and Px and their effects on the growth of public expenditures, are explained by "Baumol Effects".

"Baumol Effects"

Baumol (1967) and Baumol and Oats (1975), in a seminal contribution that is today variously labelled, "Baumol Disease", "Baumol Effects", etc., attempted an explanation for the symbiotic relationship between the prices of public goods and those of private goods (or wages in the public sector and those in the private sector) and their cumulative effect on government growth.

Baumol's explanation is based on a formal two-sector model of unbalanced growth. In this model productivity in the service intensive public sector ("the non-progressive sector") is asserted to be lower than in the private sector, ("the progressive sector"). Yet the wage rate common to both sectors grows with the productivity in the private sector. Within this framework of what has been

conceptualized as "productivity-lag", Baumol demonstrates that technological progress in the private sector simply adds to the costs of the public sector. The core of the argument, simply stated, is that with a common wage rate rising in accordance with efficiency gains in the private sector, costs will rise in the public (service) sector which will be unmatched by improvements in productivity in the sector.

In Baumol's basic model, only production conditions are explicitly analyzed. In particular the model is based on the following assumptions: (i) both sectors (public and private) have linear homogeneous production functions with a single input - labour, which is stationary over time; and (ii) wages are equalized, over time, in the two sectors.

Baumol's hypothesis of unbalanced productivity growth as an explanation of the relative expansion of the public sector is presented more formally by Brown and Jackson (1990) in the following terms: the output, X_1, of the public, "non-progressive", sector is produced only by labour inputs L_1, which have a constant productivity level. In the private, "progressive", sector, labour productivity grows at an exponential rate, r, which produces an exponential growth in the output, X_2, of that sector. These production functions are written as:

$$X_{1t} = a_1 L_1 t \quad \ldots\ldots (1)$$

$$X_{2t} = (a_2 et), L_2 t \ldots\ldots (2)$$

where L_2 is the labour force in the private sector, t is the time index, while a_1 and a_2 are constants. From equations (1) and (2) we derive:

$$\frac{X_{1t}}{X_{1t} + X_{2t}} = \frac{a_1 L_{1t}}{a_1 L_{1t} + (a_2 ert)\, L_{2t}} \quad \ldots\ldots\ldots (3)$$

Equation (3) gives the ratio of government output to total output. Assume that wage

rates are equal between the sectors and that they increase in line with productivity in the private sector, then,

$$W_t = W_{oe}rt \quad \ldots\ldots\ldots (4)$$

Where W_t is the wage rate in period t, and Wo is a constant. The unit costs, C_{1t}, in the public sector can now be derived thus:

$$C_{1t} = \frac{W_o e^{rt})L_{1t}}{a_1 L_{2t}} = \frac{W_o^{rt}}{a_2} \quad \ldots\ldots\ldots (5)$$

The unit costs C_{2t} in the private sector are:

$$C_{2t} = \frac{(W_o e^{rt})L_{2t}}{(a_2 e^{rt})L_{2t}} = \frac{W_o}{a_2} \quad \ldots\ldots\ldots (6)$$

Arising from the above, Brown and Jackson (1990:142-3) contend that unit costs, i.e. $C_1t = \frac{W_o^{rt}}{a_2}$, in the public sector will steadily increase with the rate of productivity increase in the private sector, whereas private sector unit costs, i.e. $C_2t = \frac{W_o}{a_2}$, will remain constant. From the presentation, two things become quite obvious: first, if the ratio of public sector output to private sector output is to remain constant, then labour resources must be transferred from the private to the public sector, and, second, if follows that public sector exhaustive expenditure of which a substantial percentage is spent on wages and salaries will rise faster than private sector investment.

Peacock and Wiseman (1979) using largely an identical formulation as Brown and Jackson, provide a more distinctive demonstration of how Baumol's unbalanced growth theory can lead to an expansion in government expenditure. In their formulation, Peacock and Wiseman (1979:10-11) provide the following:

Let the output of government (GPt) be produced at a constant level of labour productivity (LPt), whereas productivity in the private sector rises exponentially, where r = growth rate) producing also exponential growth in output in the private sector (P_{ot}) then,

$G_ot = aL_{gt}$ ..... (1)

$P_ot = bL_{pt}(1+r)^t$ ..... (2)

It follows that the ratio of government output to total output (N_ot) is represented by the formula derived from equations 1 and 2.

$$\frac{G_ot}{N_ot} = \frac{aL_{gt}}{aL_{gt}+bL_{pt}(1+r)^t} \quad \text{..... (3)}$$

where $N_ot = P_ot + G_ot$.

Now assume that government expenditure on goods and services (G_ot) is equal to the labour costs of producing government output and that the wage rate (w) is the same in both the public and private sector. Consequently, private expenditure on goods and services (P_et) is equal to the labour costs of producing output. Then;

$G_et = W.L_{gt}$ ..... (4)

$P_et = W.L_{pt}$ ..... (5).

It then follows that the ratio of government expenditure to total expenditure (N_et) can be expressed as follows:

$$\frac{G_et}{N_et} = \frac{W\ L_{gt}}{W\ (L_{gt}+L_{pt})} = \frac{L_{gt}}{(L_{gt}+L_{pt})} \quad \text{..... (6)}$$

Assume for further simplicity that labour supply is constant, sot that $L = L_{gt} + L_{pt}$.

From equation (3) it follows that as t --> ∞ then, with a constant labour supply, the only way in which the ratio of government output to total output can be

maintained constant is by transferring labour from the private to the public sector. However, in the process of doing so, given the assumption of the model, as labour is being transferred to relatively less productive uses, then with a constant wage rate (W), the ratio of government expenditure to total expenditure must rise. This process is clear from equation (6), for a t --> ∞, then L_{gt} rises while $L_{gt} + L_{pt}$ is constant. Peacock and Wiseman thus contend that, "... if government goods and services in real terms are to remain at even a fixed proportion of total goods and services in real terms, government expenditure as a proportion of total expenditure must rise through time" (Peacock and Wiseman, 1979:11). This important relationship between productivity in the public sector and output of goods and services led Peacock and Wiseman to conclude that the Baumol proposition is "the modern counterpart of Wagner's famous law..." (1979:71).

Baumol's model has been subjected to several empirical tests and the results appear generally consistent with the hypotheses. Tests undertaken for instance by Tussing and Henning, 1974; Berry and Lowery, 1984; Pommerchiene and Schneider, 1982; Henrekson, 1988), among others, reveal significant "Baumol Effects" in the United States, Switzerland and Sweden. Lybeck (1986) also found support for Baumol's hypothesis in his pooled cross-sectional time-series analysis of 12 OECD countries as well as in 9 of the 12 individual countries he examined. It is worthy of note however that there is no evidence to suggest that Baumol's hypothesis has been subjected to similar empirical tests in the developing world.

A major weakness of Baumol's hypothesis is however, its inability to explain the growth of government transfers which have been observed to account for a significant portion of the growth of government expenditures in the industrialized

world in recent years. Musgrave (1981) also points to the exclusion of government purchases of private goods as an additional weakness of Baumol's thesis arguing that these purchases plus transfers are "the parts of the budget which have expanded most rapidly" (Musgrave, 1981:86).

A number of explanations have been offered for the central thesis of Baumol's position, lagged productivity in the public sector. Peacock and Wiseman for instance were of the view that productivity growth in the public sector is low because of institutional barriers to innovation rather than because of technical barriers, and pointed to economic theory of bureaucracy as explanations.

> The theory (of bureaucracy) tells us that bureaucrats are in charge of productive operations in which they have a monopoly of supply and a monopoly of the information about the way in which supply is produced. Further, their "products" are not priced. They are therefore not under the same pressure to innovate as private producers subjected to competitive conditions... (Peacock and Wiseman, 1979:12).

Much of the explanations offered by other writers is consistent with the above view. A number of researchers have also pointed to the peculiar nature of most government services which tend to be labour intensive contending that this in itself makes innovation slow and difficult to the extent that productivity in the public sector has to persistently lag behind private sector productivity. Whatever may be the theoretical and operational weaknesses of Baumol's proposition, the fact remains that it offers the researcher a very potent explanatory tool in the search for causal factors that could effectively and efficiently explain a significant portion of the sources of the growth of government spending.

3.3.2 Income Redistribution

A number of writers, including Aranson and Ordeshook (1981), Peltzman (1980); Meltzer and Richard (1978, 1981, 1983), and Lindbeck (1985), advanced rather strident criticisms of the view that government exists to provide public goods and alleviate externalities. They argue that this is a normative theory of government which cannot, to any reasonable extent, be used to explain its growth. In the scholars view, only a "positive theory" can be used to fully understand the nature and character of the forces that compel and define the secular growth of government. Any such (positive) theory, they further argue, must be one that accords due cognisance to the redistributive role of government expenditures.

Indeed, all the scholars in this fold, Aranson and Ordershook; Meltzer and Richard, etc., contend that all government expenditures have a redistributive component and effect. By extension, therefore, to fully understand the causes of government (expenditure) growth, attention must be focused on the redistributive component of government spending. It is in this regard that Lindbeck (1985) viewed all attempts to identify the sources of government growth essentially as attempts to study and explain for "...the emergence and expansion of a redistribution State:. (Lindbeck, 1985:309).

Among the many contributors to this research area, Meltzer and Richard (1983) have provided, possibly, the most elaborate model. Their model is based, expectedly, on the important assumption that all government activity consists of redistribution which occurs by means of per capita lump sum grants, which are financed from a proportional tax levied on all earned

income. The model further makes the following assumptions:

a) a country with a large number of persons who differ in productivity, and therefore, in earned income. In other respects, people are alike;

b) all have identical tastes, and all treat prices, wages and tax rates as given, determined by market forces and the political process, and finally,

c) there are no monopolies and there is no collusion, log-rolling, or coalition formation. (Meltzer and Richard, 1983:405).

In effect, Meltzer and Richard developed a general equilibrium model in which the share of income taken in taxes rises with the difference between mean income and the income of the decisive or median voter. They (the authors) contend that franchise extensions and changes in relative productivity alter mean income relative to the income of the decisive voter and change the tax share. Changes in the proportion of the population receiving social security benefits, not subject to tax, increase votes for higher taxes and redistribution. Higher taxes, however, reduce incentives to work, lower aggregate income, and, thus, reduce tax collections. All voters recognise both the costs and benefits of the changes in the size of government; the median voter chooses the optimum size and thus the tendency for government expenditure to grow. Essentially, Meltzer and Richard gave increased inequality of income as well as increased suffrage as the primary causes for the growth of public expenditure.

Meltzer and Richard (1983) using data from the United States tested

the validity of their model and came up with the following results:

i) the share of income redistribution increased with income, but the size of the response depends on the level of (median) income;

ii) as income rises, people choose relatively more redistribution in cash, which permits maintenance of consumption with less work; and,

iii) a substantial part of the growth of public expenditures in the United States is a response to voter demand. (Meltzer and Richard, 1983:411-412).

As a conclusion to their findings, the authors contended that:

> Although we have not tested and cannot exclude other plausible explanations - including the much discussed groups, bureaucrats and politicians, our findings support an explanation based on rational choice, and assign a non-negligible weight to voters' choice of the size of government as an explanation of observed changes in the relative size of government. (Meltzer and Richard, 1983:412).

Peltzman (1980) in his own contribution posits that "... incentives to redistribute wealth politically are more important determinants of the relative size and growth of the public and private sectors". (Peltzman, 1980:221). The autor depicts his contribution on the following assumptions: first, that government spending and taxes are pure transfers and second, that the amount of spending is determined entirely by majority-voting considerations, and third, voters are not constrained in their choice of candidates by any gaps in information.

Peltzman, like other analysts in the public choice school, positions his analysis on a democratic system of government in which politicians (vote seekers)

"search for a politically 'dominant' redistribution programme, which yields the greatest benefit for the greatest number". And, "once that policy is described, competition among (politicians) will lead them to converge on that policy in their platforms and implement it upon election". (Peltzman, 1980:222). In effect, the author envisaged a form of representative government in which candidates compete for those voters or groups of voters that agree to join their coalition of supporters.

Peltzman, unlike Meltzer and Richard did not provide a holistic model to demonstrate his hypothesis. He however, identified 'ability' and 'equality' as the two central variables in his model. He (Peltzman), contends that governments grow, or at least have a tendency to, where groups which share a common interest in that growth in themselves grow numerically in number, and can perceive and articulate that growth (that is, possess the ability). Peltzman's analysis detect a stimulative role for inequality but then argues that increased equality rather than inequality accounts for a substantial part of the growth witnessed in many developed countries over the past half century. He reinforces this viewpoint by contending that greater equality among different classes is a levelling process", in any society and that:

> ... this (levelling process) which has characterised almost every economically developed society in latter stages of industrialization, created the necessary conditions for growth of government: a broadening of the political base that stood to gain from redistribution generally and thus provided a fertile source of political support for expansion of specific programs.

Peltzman provides the causal link between the growth of these "groups" and the growth of government when he pointed out that:

> ... these groups become more able to perceive and articulate that interest (as measured by, for example, educational attainment)... this stimultaneous growth of 'ability' served to catalyze, politically, the spreading economic interest in

redistribution (Peltzman, 1980:285).

In essence while both Meltzer and Richard, and Peltzman identify the 'demand' for redistribution as the major source of government growth in the developed countries, they are not quite agreed on the specificity of the source of this demand. Meltzer and Richard hinge their model on the increase in inequality while Peltzman identifies increasing equality as the primary source motivating the expansion of redistribution and consequently the growth of government.

Even though most of the contributors to the redistribution hypothesis have attempted some empirical validation of the hypothesis with results that generally lend some credence to (the hypotheis), the explanation, (redistributior as a source of government growth) has been subjected to a number of criticisms. These criticisms range from the conceptualization of the problems to the basic assumptions which underly the hypotheses. We discuss the four major ones here:

i) A conceptual problem often raised in discussing the hypotheses, particularly as presented by Meltzer and Richard is the fact that if all redistributional outcomes go to maximize the median voter's utility, why then would he (the median voter) accept an extension of the franchise since this effectively displaces him from the status quo as the median voter? The addition of individuals with productivity and income below the median changes the identity of the median voter, making the former median voter no longer decisive and worse off than before the extension of franchise. Thus it could be argued that under majority rule, it would not be likely that an extension of franchise that would change the equilibriating plateau of the median-voter would be

approved. As Mueller (1989) argues, "... if the size of government is endogenous to a political process that uses majority rule and the median voter theorem is applicable, then the extension of suffrage cannot be endogenous to the same political system". (Mueller, 1989:331).

ii) Another issue often raised has to do with the assumption that all redistribution is from the rich to the poor. Again the Meltzer-Richard model is explicitly based on this assumption. It has however been argued that this characterization does not fit into reality. For instance, Fratianni and Spinelli (1982) have shown that some distribution is increasingly moving from the poor to the rich while much redistribution is difficult to be characterized in terms of rich or poor. However, an important empirical generalization about redistribution popularly known as 'Director's Law' enunciated by Stigler (1970), predicts redistribution from upper and lower income persons toward middle-income voters. In Stigler's words: "public expenditures are made for the primary benefit of the middle classes, and financed with the taxes which are borne in considerable part by the rich and poor". (Stigler 1976:290). Even though this 'Law' is consistent with the redistribution hypothesis, for example, the contention by Peltzman that "... the growth of the middle-class accounts in large part for the growth of government". (1980:285), evidence tends to strongly suggest that redistribution policies lack a single directional character. This is eloquently confirmed by Aranson and Ordershook (1981) who argue, in the main,

that if all government activity can be characterized as some form of redistribution, the most salient feature of this process is probably its lack of "a single-directional flow".

iii) A third major criticism of the redistribution hypothesis as with other demand-side explanations for government growth is that the model(s) fail to specify the parameters of growth. In particular, they fail to explain why (and whether) the public sector fails to reach some equilibrium size. Some scholars have argued that by this omission, the models only succeed in explaining public sector size but not its growth. (See for instance, Aranson and Ordershook, 1977). Of course we might rely on such adhoc notions as "political innovations" to explain growth. Alternatively, perhaps no equilibrium exists, and government will eventually account for a much larger share, perhaps all, of GNP.

> The growth of redistributive programs... has been a major factor in budget expansion. But it is by no means evident to what extent this growth has been the outcome of a 'legitimate process' reflecting changing voter preferences in distributive matters or the product of a malfunctioning political system by which budgetary decisions are reached. (Musgrave, 1985:306).

3.3.3 Interest Groups

Interest groups have been identified as a veritable source of government growth by a number of scholars including: Becker, (1983, 1985); North and Wallis, (1982); Mueller and Murrell, (1985, 1986); among others. The theoretical basis for the "interest groups model" appear to be the following two general contentions:

i) Government provides both private and public goods. This can be

viewed in two ways: In the traditional sense, government can provide private goods and distribute the costs of the goods to the population as a whole. In addition, every public good entails the provision of some private goods. The classic example of a public good, defence, also provides a private good to defence contractors. Thus, some of the pressures government is responding to are the public provision of private goods.

ii) Interest groups constitute the vehicle for putting pressure on government. These organized lobbying agents include public employees, bureaus and agencies within government as well as organizations more conventionally perceived as interest groups. They behave just like corporate, union, environmental or consumer lobbying groups. They press their claims for the provision of desired goods. (Aranson and Ordershook, 1977).

Within the framework of these general assumptions, it is posited that interest groups play an important role in explaining government growth. They do this either through the expansion of the redistributive or public goods expenditure components of the budget, or both.

Becker, (1983, 1985), developed a model of the influence of interest groups in expanding public expenditure. In this model, interest groups, or pressure groups, as Becker specifically referred to them, compete with each other to maximize their share of government expenditure (transfers). Becker posited that "... taxes subsidies, regulations and other political instruments are used to raise the welfare of more influential groups". (Becker, 1983, 373-4).

The analysis assumes a single good-income, to be distributed among the interest groups with some groups getting a subsidy(s) and others paying a tax (T). The "representative" member of a group maximizes his utility by spending resources on political activities to create pressure that affects his subsidies or taxes. These expenditures compete with expenditures by other pressure groups because of the budget constraints that the total amount collected in taxes must equal total government expenditures. The optional pressure by a group is determined by the effect of its political expenditure on utility of members.

Becker argues that political effectiveness (of interest groups) is also determined by the dead weight (or social) costs and benefits of taxes and subsidies. An increase in the dead weight cost of taxation encourages pressure by tax payers because they are then disadvantaged by tax payments. Similarly, an increase in the dead weight cost of subsidies discourages pressure by recipients because they then benefit less from subsidies received. (See Becker, 1985:330).

One interesting "revealation" in Becker's model which incidentally is supported by a number of other contributors to the interest-group fold of analysts is that competition among interest groups for favoured allocations in the budget results not only in an efficient allocation of public resources, but also in the types of taxes chosen. Becker's explanation for this outcome is that each group applies pressure to increase (reduce) its subsidies (taxes), with diminishing returns, to applying pressure assuming, an equilibrium is obtained in which the pressure to increase subsidies just equals the opposing pressure to reduce taxes. For each group, the marginal cost of applying additional pressure just equals the marginal gain from reduced taxes or increased subsidies. Becker thus draws the conclusion that "...

political policies that raise efficiency are more likely to be adopted than policies that lower efficiency". (Becker, 1983:384).

From this conclusion, it can be inferred that even though Becker's analysis is premised largely on taxes, subsidies and regulations giving rise to the impression that all government expenditure translates into redistribution (as did Meltzer and Richard, Peltzman, etc), it (the model) takes cognisance of government's role as a provider of public goods. In particular, government will provide such goods when the collective gains from providing them exceeds the transactions costs of doing so.

North and Wallis (1982) have also associated the growth of government to pressures exerted on government by interest groups. Central to their own contribution though is the role which "transaction costs" play in this process. The authors drew a parallel between the growth of government and the growth of white-collar and managerial employment in the private sector asserting that both are a response to the greater transaction costs from organizing a market economy with increasing organization. North and Wallis then conclude that "... growing specialization also created a host of interest groups (North and Wallis, 1982:340).

The authors, (North and Wallis), argue that the demands these groups press on government are not simply for "a distributive handout" but to alleviate the transaction costs they (the groups) bear within an increasing specialized society. The influence of interest groups on government activity is thus seen as having both an efficiency enhancing dimension as well as a redistributive one.

The transaction costs explanation for the growth of government has been criticized as being too general and stating the obvious. In public choice literature, it has already been demonstrated that the state emerged as the lowest transaction

costs institution for providing public goods and eliminating externalities. Logically therefore, falling transaction costs should consitute one of the best explanations for the growth of the state (government). But as Mueller points out, "the very generality of the transaction costs notions makes it difficult to pinpoint more accurately the particular transaction costs that have fallen and the budget items that will grow". (Mueller, 1989:337).

In their own contribution, Mueller and Murrell, (1985) in analyzing the budget expansion role of interest groups, contended that interest groups attempt to win favours for their membership by offering to supply a party with votes. An interest group may endorse a party, supply campaign volunteers, or contribute funds to the party's campaign. Each of these, the authors argue, translates into votes, which the interest group attempts to "trade" with a given party in exchange for a promised tax reduction or redirection of public output, should the party succeed in forming government, or a party thereof.

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Mueller and Murrell's work was largely empirical, and the results they obtained from studies of several OECD countries showed that the number of interest groups in a country have positive and significant effect on the relative size of that country's public expenditures. The authors however caution that "... given the level of aggregation (in their analysis), our results must be regarded as tentative". They however, believe that "... these results do indicate promising approaches to future research". (Mueller and Murrell, 1985:31).

Even though the interest group explanation has substantial intuitive appeal it appears to ignore a basic reality of political life that large segments of the electorate have "fixed party tastes". That is to say that within a stable political

system, interest groups are unlikely to 'float' in the direction of that party which promises to satisfy their needs, be they tax cuts or the provision of some public good, but are governed largely by considerations like ideology and historical ties. Moreover, it has been argued that the models discussed in the foregoing particularly those of Becker and Mueller and Murrell are essentially static - they do not convincingly describe a process in which interest group influence leads to growing government size. (See Mueller, 1989:337).

3.3.4 Bureaucracy

The explanatory role of bureaucracy as a source of government growth has gained substantial appeal in recent times, particularly with the growth of interest in explaining the phenomena (government growth) through public choice analyses. Proponents of the influence of bureaucreacy argue that government may grow not just because increasing expenditures are demanded by citizens, interest groups legislators, etc., but also because they are demanded by the bureaucrats who ultimately constitute agents (in this case, principal agents) for the provision, or supply, of public goods and programmes.

The relationship between a bureau and its sponsor is characterized as one of "bilateral monopoly" - a public bureau is a monopolistic supplier of a good or service, facing a single buyer - the governing political party. Although the nominal relationship between a bureau and its sponsor is that of a bilateral monopoly the relative incentives and available information, under most cost conditions, give the bureau the overwhelming dominant monopoly power. (See Niskanen, 1971:30).

The bureaucrat is characterized as a utility maximizing individual with a utility

function which includes, among other things, perquisites of office, salary, public reputation, patronage, etc., all of which Niskanen, (1971) postulated as "... positively related to the size of the bureau". Niskanen and others, (e.g. Bentron, Wintrobe, 1975; Romer and Rosenthal, 1978, 1979; Borcherding, 1977; etc), use essentially this hypothesis to analyse the consequences of assuming that bureaucrats maximize the size of their budgets. For instance, Borcherding working largely on this hypothsis, postulated his, "Bureaucratic Rule of Two" which states that "... the removal of an activity from the private to the public sector will double its unit cost". (1977: 62).

The bureaucracy's ability to expand the budget beyond the amount the legislature or citizens demand depends in part on its ability to misrepresent the "true prices" and quantities of publicly provided goods. The ability to misrepresent is likely to depend in turn on the size and complexity of the budget itself. In consequence, the growth of the bureaucracy is likely to depend on its absolute size. Mueller (1989) demonstrates this relationship as follows:

> Let us define G_t as the amount of the publicly provided goods that the citizens or legislators truly demand. Let B_t be the total size of the budget, at the time t. B_t is greater than G_t to the extent to which the bureaucracy is capable of forcing a greater expenditure of resources towards the bureaucracy than is demanded, that is:
>
> $B_t = t^G t$ ..... (1)

now let

> $t = e^{aB}t$ ..... (2)
>
> and let the amount of publicly provided goods demanded grow at a constant rate n equal to say the growth in national income.

$$G_t = ce^{nt} \quad \text{..... (3)}$$

Then,

$$B_t = ce^{aB}t_e nt \quad \text{..... (4)}$$

The growth in the budget, g, is then

$$g = \ln B_t - \ln B_{t-1} = a(B_t - B_{t-1}) + n.$$

The growth rate of the budget both exceeds the growth in national income, n, and increases with the absolute difference between this period, B_t, and last period's, B_t-1, budget. Other functional forms for x_t will yield other relationships between g and B_t; as long as x_t increases with budget size, however, the growth in the size of the budget can be expected to increase with the absolute size. (See Mueller, 1989:340-341).

Results of the empirical tests of the budget - maximizing bureaucrat hypothesis are mixed. While studies by researchers like Borcherding, Bush and Spann (1977); Romers and Rosenthal, (1978); Thompson, (1981), etc., support the hypothesis, others researchers like Lowery and Berry (1983); Neck and Schneider, (1988), reject it, or at least did not find convincing evidence to support it. There however appears to be a reasonable amount of consensus on the plausibility of the hypothesis as well as in the need to pursue further empirical studies to more rigorously test its validity particularly within a more global context.

3.3.5 Fiscal Illusion

The fifth and final variable mentioned as a potential source of government expenditure growth is fiscal illusion. The explanation of this concept is based on the public choice conception of taxes as prices for public goods and of taxpayer's as

consumers who register their demands for these goods through the political process. Thus, as rational consumers, taxpayers will tend to measure the size of government by the size of their tax bills.

To effect an increase in government expenditure for which tax payers are not willing to pay voluntarily, the relative - executive entities must increase the tax payers tax burden in such a way that they (the tax payers) are unaware that they are paying more in taxes. If tax burdens can be disguised in this way, tax payers will have a tendency to have the illusion, that government is smaller than it actually is, and thus the possibility of government expenditures growing beyond the levels of tax payers would normally have preferred if they had full information. Indeed, this illusion will be responsible for higher demands on government and consequently an expansion in its expenditures. Of course, government can use the existence of large segments of "uniformed tax payers" to expand the budget. An Italian scholar, Amitcare Puviani, writing at the turn of the century (20th) saw the need for government to deliberately encourage "... optimistic illusion wherein citizens underestimate their tax burdens", (in Goetz, 1977:177). Puviani is regarded today as one of the first writers to demonstrate the existence of fiscal illusion and the possibility of using it to expand government expenditure with minimum resistance from tax payers.

Despite its intuitive appeal, fiscal illusion can only be employed as a model for explaining government expenditure growth when some specific assumptions are made about the kinds of tax burdens that can be disguised. In this regard, Mill (1972) suggested that indirect taxes are best suited because they are less visible than direct taxes. Some writers even believe that the potency of indirect taxes is

such that even if those who demand public goods and services, attempt to calculate the "tax price", they are likely to under-estimate the true tax burden. Of course, nothing is said about the possibility of over-estimating the tax burden.

Downs (1957), was among the first to provide a simple but compelling economic rationale for the poor quality of information which characterize the average citizen's assessments of the costs and benefits from government activity. He posited that although the individual citizen has influence on his private purchases, he has negligible influence on the size and composition of the public goods bundle that his taxes purchase. (See, Goetz, 1977:176).

Musgrave (1981) however highlights two important sources which could affect the degree of tax perception. The author argues that factors such as "frequency" and "lumpiness" of payment would no doubt affect perceptions of tax burden. In his words: "just as consumers are more aware of the prices of items which are purchased in small units, so tax payers feel more burdened by taxes which come in lumpy instalments as is frequently the case with the property tax". (Musgrave 1981:99). Another important contribution to the debate on fiscal illusion made by Musgrave is drawing attention to a very potent source of fiscal illusion which has been ignored in most of the literature, this is the illusion induced by deficit financing. Musgrave points out that, "deficit financing of public services, by not calling for taxes, gives the impression that services may be obtained at zero cost and thus encourages over-expansion". (Musgrave). 1981:100).

A number of attempts have so far been made to test the empirical validity of the fiscal illusion hypothesis. One of the most comprehensive was conducted by Oats, (1988), who breaks the fiscal illusion argument into five sub-hypothesis - each

of which implies a relationship between the size or growth of government and the relevant fiscal illusion variables:

i) the more complex the tax structure, the more difficult it is to judge its burden;

ii) renters are less able to judge their share of property taxes in the community than home owners;

iii) built-in tax increases because of the progressivity of the tax structure are less clearly perceived than legislated changes, making elastic tax structure more conducive to government growth than are inelastic structures;

iv) the implicit future tax burdens inherent in the issuance of debt are more difficult to evaluate than are equivalent current taxes, and

v) citizens do not treat lump-sum cash subsidies to their government as being as much as theirs as they would a cash subsidity to themselves. (Oats, 1988:85-82).

Oats methodologically examined the evidence in support of each of these "sub-hypotheses" and concluded that: although all five cases entail plausible illusion hypotheses, none of them have very empirical support", (Oats, 1988:82). In an earlier study, Lowerry and Berry (1983), also found no evidence to support the hypothesis. The results of Goetz's much earlier work conducted within a similar framework as Oats was however more supportive of the hypothesis. Goetz (1977) contended that, "empirical evidence exists for some of the forms of illusion... but others are merely conjectural even if they frequently seem to have a sound basis in

casual experience, commonsense, and introspection" (1977:186). But even he (Goetz) agreed that, "much work could and should be done to subject the various illusion hypotheses to statistical testing and quantification". (Goetz, 1977:186).

It has been argued that the lack of strong empirical support for the fiscal illusion hypothesis, despite its intuitive appeal, may be due to the rather vague manner in which it (fiscal illusion), has been defined in the literature. One frequently mentioned example of this is the fact that it is not clear (from the literature) whether fiscal illusion is a kind of short-run myopia on the part of voters that allows for temporary increases in expenditures, "or a permanent asliginalism indefintely obscuring the true size of government" (Mueller, 1989:343). Another weakness of the hypothesis, particularly from the viewpoint of public choice analysis is the identification of the ultimate beneficiaries of the additional revenue derivable from the tax payer's myopia: is it the bureaucrats or the politicians who benefits?

3.4 Conclusion

In this section we have attempted a review of the five dominant public choice explanations for the size and growth of government. These explanatory variables offer "demand" and "supply" side explanations for the growth phenomena. It is important at this stage to point out that these variables and the phenomena which they attempt to explain, are based on two contending conceptualizations of the State. The first three, i.e. public goods, income redistribution and interest groups, are based on the classical theory that the State exists to serve the interests of the people. Under this conceptual framework, State policies are viewed as reflection of the preferences of individual voters; the State often appears as "simply a voting rule

that transforms individual preferences into political outcomes". (See Arrow, 1951; Downs, 1957; Black, 1958; Buckanan and Tullock, 1962, etc).

The remaining two variables - bureaucratic power and fiscal illusion, on the other hand are based on the opposing conceptual framework that places the State over the citizens. That is to say that, it is essentially the preferences of the State or of individual in government, that are decisive. Citizens and political institutions only constitute, at most, loose constraints against political leaders. Scholars in the public choice field whose works have been influenced by this position include (Puviani, 1903); Niskanen, (1971); Brennan and Buchanan, 1980), etc.

It will be difficult to accept any of these two views as reflecting the reality of State existence and operation, just like it will be difficult to accept any assertion that arrogates the growth of government solely to any one of the variables discussed. Indeed there is an overlap between the two conceptualization of the State, and the consequence, of the variables that attempt to explain the causes of government growth. A number of scholars are beginning to see the way out of this dilemna in studies that attempt to integrate both demand and supply variables. All of the studies so far attempted in this direction, notably, Pommerehine and Schneider, (1982); Lybeck, (1986); and Henrekson, (1988) have shown appreciable promise enough to warrant a more integrative approach in applying and testing choice-theoretic models in the explaining for the excess bias of present day government.

Finally, a point that need to be noted and one which applies in some degree, to models discussed is the difficulty of quantification which in consequence makes any statistical testing of these models very difficult if not, in some cases, impossible. In our view, these difficulties do not in any significant way affect the explanatory

powers of the models. The models may thus be difficult to use for statistically predictive purposes, but they all the same have their own strong perceptive powers in explaining the causes and forces compelling the growth of government.

CHAPTER FOUR

GROWTH AND PATTERN OF FEDERAL GOVERNMENT EXPENDITURE IN NIGERIA, 1962-1995

4.1 Introduction

In this chapter we examine the growth profiles and composition of federal government spending between 1962 and 1995. The growth of expenditure is examined from both nominal and real terms over the period. The pattern is essentially discussed with a view to highlighting the basic features of federal government spending, including; their distribution between consumption (recurrent) and investment (capital) expenditures. We also examine changes that have occured not only in aggregate government annual spending but in the functional classificitions (expenditure categories) over the period. In particular, we examine the growth patterns and profiles of both recurrent and capital expenditures as well as their breakdown, into functional categories, as they relate to the GDP over time. The chapter is concluded with an examination of the budget decision-making framework as well as its underlying dynamics, because it is our belief that both structure and growth patterns that characterised government spending over the period covered by our study, were not only determined by historical or circumstantial antecedents but to an extent by the interplay of both political and economic forces inherent in the budgetary process.

4.2 General Growth Trends

Federal government expenditures have grown substantially over the period covered in our study, 1962-1995. In nominal terms, for instance, total government

annual spending, both recurrent and capital, increased from N168.3 million in 1962 to over N248.7 billion in 1995. In real terms, that is when measured as a ratio of the GDP, total government spending represented just 8.0 per cent of the GDP in 1962, rising to over 40 per cent in the late 1970s and declining to about 17 per cent in 1995 (Table 4.1). Put within the framework of a historical trend analysis, the growth in federal government spending reveals an interesting pattern. Within this framework, and based on the real index of growth, that is total government spending as a ratio of the GDP, we can identify at least four different, or distinguishing, phases in the growth of federal expenditures. The first (phase) falls between 1962 and 1967, a period that recorded modest and fairly consistent expenditure levels ranging between 7.7 and 8.7 per cent of GDP with a median E/GDP ratio of 8.0 per cent. The second phase falls between 1968 and 1973. This period witnessed a gradual escalation of government spending, rising from about 10.5 per cent of GDP in 1968, and peaking at 24.3 per cent in 1970 before falling to an average of 17.0 per cent for the rest of the period, except for 1971 which recorded a low ratio of 9.0 per cent. The median E/GDP ratio for this period was 13.5 per cent. The third phase covers the period between 1974 and 1980. This period witnessed the sharpest rise in government spending as amply demonstrated by the high ratio of government expenditure to GDP. The E/GDP ratio ranged between 20.8 and 41.0 per cent with a median (E/GDP) ratio of 32.4 per cent. The fourth and final phase identified in our study covers the period between 1981 and 1995. Within this phase, the E/GDP ratio had a range of 17.1 to 27.7, per cent, with a median ratio of 21.3 per cent. Even with this relative decline in more recent years, the fact still remains that government expenditures in Nigeria are characterised by a strong tendency to grow, indeed at a faster rate than the growth in the GDP.

Table 4.1 FGN EXPENDITURE 1962-1995 PATTERN AND GROWTH PROFILE
(N million)

Year	Recurrent expenditure (RE)	Capital expenditure (CE)	Total expenditure (TE)	GDP at current factor cost	TOTAL EXP/GDP Ratio(%)
1962	104.2	64.1	168.3	2,098.0	8.0
1963	119.5	63.8	183.3	2,295.0	8.0
1964	142.6	75.5	218.1	2,755.8	7.9
1965	159.9	79.5	239.4	2,894.4	8.3
1966	177.2	77.9	255.1	3,110.0	8.2
1967	169.3	92.2	261.5	3,374.8	7.7
1968	219.9	70.0	289.9	2,752.6	10.5
1969	286.5	71.0	357.5	2,656.2	13.5
1970	759.6	102.8	862.4	3,549.3	24.3
1971	299.4	173.8	473.2	5,281.1	9.0
1972	681.4	451.3	1,132.7	6,650.9	17.0
1973	656.2	565.7	1,221.9	7,187.5	17.0
1974	874.2	1,594.4	2,423.6	11,670.5	20.8
1975	1,695.0	3,518.2	5,213.2	18,553.7	28.1
1976	2,672.6	4,241.9	6,914.5	21,326.8	32.4
1977	1,822.2	5,442.3	7,264.5	26,959.2	27.0
1978	2,649.7	5,637.2	8,286.9	31,992.0	25.9
1979	4,107.4	9,723.0	13,830.4	33,660.4	41.1
1980	5,440.7	8,395.6	13,836.3	39,938.6	34.6
1981	4,846.7	6,564.2	11,410.9	56,446.0	20.2
1982	5,506.0	7,998.0	13,504.0	51,510.0	26.2
1983	5,278.8	6,807.3	12,086.1	56,709.8	21.3
1984	6,275.7	5,411.0	11,686.7	63,006.2	18.6
1985	7,215.3	8,153.8	15,369.1	71,368.1	21.5
1986	7,696.9	9,076.8	16,773.7	72,128.2	23.3
1987	15,646.2	6,372.5	22,018.7	106,883.2	20.6
1988	19,409.8	8,340.1	27,749.9	142,678.3	19.4
1989	25,994.2	15,034.1	41,028.3	223,457.6	18.4
1990	36,219.6	24,929.5	61,149.1	257,873.0	23.7
1991	38,243.5	29,286.2	67,529.7	320,247.3	21.1
1992	53,126.9	39,763.3	92,890.2	544,330.7	17.1
1993	136,727.1	54,501.8	191,228.9	695,985.1	27.5
1994	89,974.9	70,918.3	160,892.9	908,494.4	17.7
1995	127,629.8	121,138.3	248,770.1	1,430,578.5	17.4

Recurrent Expenditure from 1993 include Extra-Budgetary spending.
Source:- FOS, Annual Abstract of Statistics, 1963/64 –1973/74; 1974/75 –1978/79.
The National Accounts of Nigeria, 1981 –1990 CBN; Annual Reports and Statements of Accounts, (various issues)

4.3 Structure and Growth of Expenditures

In order to fully highlight the pattern of growth and bring to fore the essential features of federal government spending within the period under study, we need to go a step further and examine their composition and determine the extent to which each of the functional expenditure categories can be said to have contributed to this growth. Government expenditure in Nigeria, as is generally the case, is classified at two main levels: first whether it is a recurrent (current) expenditure or capital. Secondly, these are further classified into general functional categories. The major expenditure categories on which basis sectoral allocations (both recurrent and capital) are made are as follows:

	SECTORAL	COMPONENTS
(i)	ADMINISTRATION	General Administration, Defence and Internal Security.
(ii)	ECONOMIC SERVICES	Agriculture and Natural Resources, Manufacturing, Mining, Quarrying, Water Resources, etc.
iii)	SOCIAL & COMMUNITY SERVICES	Education, Health, Housing, etc.
(iv)	TRANSFERS	Public Debt Charges (domestic and external) Capital Repayments (domestic and foreign), Pensions, Gratuities, etc.

Specific budget allocations and statutory approriations, are made on organisational (ministries, parastatals, units, etc) and object-of-expenditure (primary education, tertiary, salaries and wages, personnel emoluments, goods and services, etc) basis.

4.3.1 Distribution of Expenditure Between Recurrent & Capital Accounts

A readily noticeable feature of government spending in Nigeria is the sizeable share that goes to servicing recurrent activities. Table 4.2 reveal, that except for the years 1974-1983, recurrent expenditures have traditionally accounted for an average of 60.0 per cent of total government expenditure. Between 1962 and 1973 (both years inclusive), recurrent expenditures accounted for an average of 68.5 per cent of total budgetary expenditures. While between 1984 and 1995 except, of course, for two years, 1985 and 1986, recurrent expenditures continued to dominate total expenditure, although with an appropriate lower average share of about 67.6 percent. In real terms, when taken as a share of the GDP over the period, it was found that the behaviour of recurrent expenditure followed closely the pattern discussed in 4.2. It follows, that if government spending is dominated by consumption expenditures, they will do so at the expense of investment or capital expenditures. This has indeed been the case.

From the foregoing discussion, it of course becomes a foregone conclusion that capital expenditures have traditionally accounted for a lower share of total government spending in Nigeria. Apart from the nine year period (1974-1983) mentioned earlier, capital expenditures have taken second position to recurrent spending. Some examples from available data will help further illustrate the situation.

Table 4.2 shows that in 1962, capital expenditure constituted 38.0 per cent of total government spending. This situation remained fairly unchanged uptil 1968 when capital expenditures, as a percentage of total expenditures, dropped significantly to 17.1 per cent. This trend was to continue in the two subsequent

years, 1969 and 1970, when the share of capital expenditure to total government rose slightly to 19.9 before dropping to 11.7 percent in 1970. From 1971, however, the share of capital expenditure started rising rapidly: From 36.7 per cent in 1971, it rose to 64.0 per cent in 1974; 67.5 per cent in 1975, 74.9 per cent in 1977 and 70.3 per cent in 1979. The dominance of capital expenditure in overall government spending continued upto 1983 with such expenditures (capital) accounting for 56.3 per cent of total government spending. Even though the share of capital expenditure to total expenditure dropped in 1984 to 46.3 per cent, it rose significantly in 1985 and 1986, to 53.0 and 54.1 per cent respectively from then however, capital spending reverted to its traditional position in terms of its share of total spending. Between 1987 and 1995 for instance, capital spending accounted for an average of only 38.2 percent of total annual expenditures.

The continued dominance of recurrent over capital expenditures over the years has remained a source of concern to government. (See for instance, World Bank, 1995 This concern is premised largely on the arguement that the opportunity cost of continued dominance of consumption over investment expenditures is low capital formation. And, since for at least much of the period covered by our study, government or more generally the public sector has been seen as the major source of capital formation and economic growth in the country, the obvious implication of such a situation is that scare resources are being put largely into non productive uses.

Table 4.2 FGN EXPENDITURES: 1962 –1995
PERCENTAGE DISTRIBUTION OF RECURRENT AND CAPITAL EXPENDITURES.

Year	RECURRENT EXPENDITURE		CAPITAL EXPENDITURE	
	AS % of TOTAL EXP	AS % of GDP	AS % of TOTAL EXP	AS % of GDP
1962	62.0	5.0	38.0	3.0
1963	65.2	5.2	34.8	2.8
1964	65.4	5.2	34.6	2.8
1965	66.8	5.5	33.2	2.8
1966	69.5	5.7	30.5	2.5
1967	64.8	5.1	35.2	2.7
1968	83.0	12.3	17.1	2.6
1969	80.1	10.8	19.9	2.7
1970	88.3	21.4	11.7	2.8
1971	63.3	5.7	36.7	3.3
1972	60.1	10.2	39.9	6.8
1973	53.7	9.1	46.3	7.9
1974	36.0	7.5	64.0	13.3
1975	32.5	9.1	67.5	19.0
1976	38.6	12.5	61.4	19.9
1977	25.1	6.8	74.9	20.2
1978	54.7	21.3	45.3	17.7
1979	29.7	12.2	70.3	28.9
1980	41.8	15.1	58.2	21.0
1981	42.5	8.6	57.5	11.6
1982	40.8	10.7	59.2	15.5
1983	43.7	9.3	56.3	12.0
1984	53.7	10.0	46.3	8.6
1985	47.0	10.1	53.0	11.4
1986	45.9	10.7	54.1	12.6
1987	71.1	14.6	28.9	6.0
1988	70.0	13.6	30.0	5.8
1989	63.4	11.6	36.6	6.7
1990	59.2	14.0	40.8	9.7
1991	56.6	12.0	43.4	9.1
1992	57.2	9.8	42.8	7.3
1993	71.5	19.6	28.5	7.8
1994	55.9	9.9	44.1	7.8
1995	51.3	8.9	48.7	8.5

Source: Computed from Table 4.1

4.3.2 Sectoral Distribution of Government Expenditure

We have highlighted the character of the distribution of government expenditure between recurrent and capital accounts, and we also showed the growth profile of both expenditure heads over the period covered by our study, 1962-1995. In order for us to attempt an explanation for the observed trends, we need to further examine the structure of the sectoral distributions of expenditure. Table 4.3 shows the distribution of government (nominal) expenditure within the sectors (Administration, Economic Services, and social Services and Transfers), while Table 4.4 shows the percentage distribution of such sectoral expenditures as they relate to total Federal Government expenditures over the period. Taking the analysis first from the view point of total expenditures, both recurrent and capital, the following main features can be observed. The administration sector has traditionally accounted for the bulk of all government non-debt expenditure. Thus, between 1962 and 1984, when transfers (largely on debt repayments) began to account for a dominant share of total government expenditures, the administration sector accounted for more than a third of total government spending annually. We can indeed contend that a dominant characteristic feature of federal governments non-debt expenditure in Nigeria is the dominance of the share that goes into the general administration sector. Following the administration sector in terms of allocation, is the economic sector, which until the years from 1984, has attracted shares of total expenditure only slightly lower than those of the administration sector. The social and community services sector has characteristically been allocated the lowest share of government expenditures. Indeed, from our data (Table 4.4), it would appear that the sector has never attracted any significant share of total expenditure,

except between 974 and 1976 when it was 18.7; 23.3 and 22.2 per cent, respectively. For most of the thirty-four years covered by our study, the social services sector's share of total expenditures has been under 15.0 per cent. The transfers sector has on the other hand, beginning from around 1985, accounted for a substantial portion of total government expenditures. For instance, in 1985, transfers accounted for 57.1 per cent of total expenditures; 63.8 per cent in 1987, and as high as 72.4 per cent in 1991, and 75.3 per cent in 1992. It should be noted however, that the bulk, at least 97.0 per cent, of expenditures under this sector went into external debt servicing. Because of the rising profile of government expenditures going into debt servicing, we would need an analysis like the present one to draw a distinction between debt related transfer expenditures and those not related to debt servicing, as this distinction will help focus attention on expenditures that are directly identifiable with specific areas of government's functional activities and those to transfers.

Table: 4.3 FGN EXPENDITURES, 1962 –1995; TOTAL ANNUAL EXPENDITURES BY SECTORS
(N millions)

YEAR	ADMINISTRATION	ECONOMIC SERVICES	SOCIAL & COMM SERVICES	TRANSFER	TOTAL
1962	56.9	48.1	31.8	31.5	168.3
1963	66.1	4. 8	29.2	42.2	183.3
1964	88.6	68.0	28.9	32.6	218.1
1965	88.8	80.6	29.6	41.2	240.2
1966	99.6	70.5	28.0	64.0	260.1
1967	111.7	68.9	27.1	53.8	261.5
1968	133.5	65.6	15.6	75.2	289.9
1969	181.5	49.4	13.8	112.6	357.3
1970	603.8	67.4	21.6	171.4	864.2
1971	248.4	80.8	28.6	115.4	473.2
1972	607.1	179.1	71.4	274.9	1,132.5
1973	588.1	301.9	71.5	817.3	1,778.8
1974	823.7	540.5	453.0	605.8	2,423.0
1975	1,803.2	1,446.5	1,214.9	748.6	5,213.2
1976	1,805.6	2,373.2	1,534.0	1,201.4	6,914.2
1977	2,053.8	3,316.4	1,193.2	701.1	7,264.5
1978	2,249.4	3,156.4	1,620.4	5,281.1	12,307.1
1979	3,419.7	5,772.5	1,609.8	3,028.4	13,830.4
1980	3,205.9	5,935.3	2,131.7	2,563.4	13,836.3
1981	2,857.4	4,610.7	2,003.2	1,939.6	11,410.9
1982	3,012.8	5,562.9	2,009.0	2,919.4	13,504.1
1983	3,666.1	4,592.3	1,930.9	1,896.8	12,086.1
1984	2,940.0	983.2	1,005.6	6,757.6	11,686.4
1985	3,097.6	1,272.0	2,222.4	8,777.0	15,369.0
1986	2,944.5	1,613.6	1,517.4	10,702.2	16,777.7
1987	7,862.5	3,252.1	1,088.1	9,815.5	22,018.2
1988	7,676.4	3,349.9	3,840.2	12,883.4	27,749.9
1989	8,888.0	5,345.3	6,074.9	20,720.1	41,028.3
1990	9,460.1	5,099.4	5,492.0	41,097.6	61,149.1
1991	10,298.8	4,448.4	4,168.6	48,613.9	67,149.1
1992	13,973.0	5,477.1	3,494.9	69,945.2	92,890.2
1993	26,447.8	23,000.7	12,382.7	129,397.7	191,228.9
1994	29,319.9	31,012.7	15,079.9	85,480.7	160,893.2
1995	42,097.7	49,067.1	23,036.4	134,568.9	248,770.1

SOURCE: FOS, (1974) Annual Abstract of Statistics
CBN; Annual Report & Statement of Accounts (various Issues)

TABLE: 4.4 FGN EXPENDITURES, 1962 –1995: PERCENTAGE DISTRIBUTION OF TOTAL EXPENDITURES BY SECTOR

(%)

YEAR	ADMIN	ECONOMIC SERVICES	SOCIAL SERVICES	TRANSFERS
1962	33.80	28.57	18.89	18.72
1963	36.06	24.99	15.93	23.02
1964	40.62	31.18	13.25	14.91
1965	36.97	33.56	12.32	17.15
1966	38.29	27.10	10.77	24.61
1967	42.72	26.35	10.36	20.57
1968	55.30	18.75	4.46	21.49
1969	50.80	13.83	3.86	31.51
1970	53.44	5.98	1.73	38.84
1971	52.49	17.08	6.04	24.39
1972	53.61	15.81	6.30	24.27
1973	33.06	16.97	4.02	45.95
1974	33.99	22.31	18.70	25.00
1975	34.59	27.75	23.30	14.36
1976	26.11	34.32	22.19	17.38
1977	28.27	45.65	16.43	9.65
1978	18.28	25.65	13.17	42.91
1979	24.73	41.74	11.64	21.89
1980	23.17	42.89	15.41	18.53
1981	25.04	40.41	17.56	16.99
1982	22.31	41.19	14.88	21.62
1983	30.33	37.99	15.98	15.69
1984	25.16	8.41	8.60	57.82
1985	20.15	8.28	14.46	57.11
1986	17.55	9.62	9.04	63.79
1987	35.71	14.77	4.94	44.58
1988	27.66	12.07	13.84	46.43
1989	21.66	13.03	14.81	50.50
1990	15.47	8.34	8.98	67.21
1991	15.34	6.62	6.21	72.39
1992	15.04	5.89	3.76	75.29
1993	13.83	12.03	6.48	67.67
1994	18.22	19.28	9.37	53.13
1995	16.92	19.72	9.26	54.09

SOURCE: Computed from Table 4.3

4.4 Profile of Federal Government Expenditure as a Share of the GDP

In the first part of this chapter (4.2), we examined the general growth profile of federal government spending within the period covered by our study. To put the subject in more functional perspective, we traced the general relationship between government expenditure and the GDP over the period. In this part of the chapter, we take a more detailed look at this relationship (expenditure/GDP) because, as should be evident from our discussions, the secular growth in public expenditures is more meaningfully measured in relation to the GDP. We shall therefore specifically examine the following: recurrent and capital expenditures as they relate to the GDP, and the component expenditure sectors: administration (GAD); Economic Services (ECON); Social Services (SOC); and Transfers (TRS).

4.4.1. Recurrent Expenditures and the GDP

The growth of recurrent expenditures in relation to the GDP follows, by and large a pattern similar to the relationship between total expenditure and the GDP, as discussed in 4.2. Specifically however, our data reveals that between 1962 and 1967, recurrent expenditure represented an average of 5.0 per cent of the GDP per annum. In 1968, this ratio increased quite significantly to 12.3 per cent, then dropped to 10.8 percent in 1969, rose sharply again to 21.4 percent in 1970. From 1971 however, recurrent expenditures have hovered between the range of 8.0 and 5.7 (in 1971) and 21.3 per cent (in 1978) while the average annual ratio for the period was 11.3 percent (of the GDP). See Table 4.2.

4.4.2 Capital Expenditures and the GDP

On the capital account, federal government capital expenditure represented an average of 3.0 per cent (of GDP) between 1962 and 1971. It however made a significant rise, particularly from 1972. The expenditure/GDP ratio between 1972 and 1995 ranged generally between 6.0 per cent (in 1988), and 29.0 per cent in 1979. The years 1974 to 1980 represent a period of generally high expenditure (capital)/GDP ratio: 13.3 per cent (1974); 19.0 per cent (1975); 20.0 per cent (1976); 20.2 per cent (1977); 18.0 per cent (1978); 29.0 per cent (1977), and 21.0 per cent (1980). From 1981, the ratio has remained within the range of 6.0 per cent and 15.0 per cent. (See Table 4.2). In comparison with recurrent expenditures, the ratio of capital expenditure to the GDP is consistent with our earlier observation that in general, recurrent expenditures dominate federal government expenditures.

4.4.3 Sectoral Expenditures as Shares of the GDP

We have earlier identified the following sectors as the main components of federal government budgetary expenditures: Administration (GAD); Economic Services (ECON); Social Services (SOC); and Transfers (TRS). We shall in this part of the chapter examine the relative significance (as indexed by the GDP) of each of these four sectors. We shall look at their profile, first as they relate to total expenditures, and second, as they relate to recurrent and capital spending respectively.

4.4.4 Administration:

This sector appeared to have dominated total government expenditures for

much of the period covered by our analysis. For instance, total expenditures on this sector ranged between 2.7 per cent (of GDP) in 1962, to 6.8 per cent in 1969; 17.0 per cent in 1970, and an average of 5.0 per cent over the years. (See Table 4.5). Taken within the context of consumption (recurrent), and investment (capital) accounts, expenditures on this sector (administration) are clearly more dominant in the recurrent account. While for instance recurrent expenditures on the administration sector between 1962 and 1972 ranged between 2.0 per cent, and 16.3 per cent of the GDP, capital expenditures on the sector within the same period only ranged between 0.8 per cent, and 1.6 per cent of the GDP. (See Tables 4.6 and 4.7). This situation is not entirely unexpected, since the sector made up of general administration, defence and security by nature tends to be labour intensive. Indeed, except for defence, which involves heavy capitalization, the bulk of expenditures on general administration and security go on to personnel emoluments and other recurrent overheads.

4.4.5 The Economic Sector:

Total expenditure on this sector represented about 2.3 per cent (of the GDP) in 1962, and it remained generally around this figure upto 1973, when the ratio (expenditure/GDP) rose to 4.6 per cent and rising upto around 8.0 per cent in 1975. This rise was sustained upto 1983. In fact, the ratio of expenditure on the economic sector in relation to the GDP was highest within this period; 11.3 percent in 1976; 12.3 percent in 1976 and rising upto 17.1 percent in 1979. Starting from 1984 however, the ratio fell significantly and ranged just between 1.0 and 3.4 percent (See Table 4.3). A feature of expenditure on the economic sector woth highlighting is the

fact that capital expenditures on this sector have a higher expenditure/GDP ratio when compared with recurrent expenditures on the sector. For instance, while the ratio of recurrent expenditure in the economic sector ranged between 0.41 and 2.0 per cent (Table 4.6), capital expenditures on the other hand had a ratio ranging between 1.0 and 16.0 per cent, (Table 4.7). The reason for this should, of course, be obvious: expenditures in the economic sector are generally capital (investment) oriented, and thus the relatively high expenditure/GDP ratio on capital expenditures in the sector.

4.4.6 Social Services Sector:

Traditionally, and rather paradoxically this sector which is made up mainly of health, education, and other social and community services has attracted the lowest allocation of resources in Nigeria's annual government expenditure profiles. Consequently, the sector's share of the GDP has over the years been quite modest. Total expenditure (capital and recurrent) on the social sector in 1962 represented just about 1.5 per cent of the GDP (contrast this with an average of 3.0 and over 2.0 per cent for the Administration and Economic Sectors, respectively). The share declined to less than the 1962 level (1.5 per cent) between 1964 and 1973, and from 1974 when it peaked at an average of 2.0 to 3.0 per cent over the years. (See Table 4.5). When we further breakdown expenditures in this sector between the capital and recurrent accounts, as to be expected like for the Administration sector, the bulk of expenditures in the Social Services sector went into servicing recurrent expenditures. Tables 4.6 and 4.7 reveal that the share of capital expenditure on the Social Sector to the GDP was quite insignificant, less than 1.0 per cent, for the period from 1962 upto 1974 when capital spending in the sector rose rather

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dramatically to about 3.0 per cent. For the next nine (9) years, ie. upto 1983, it (capital expenditure on the social sector) accounted for a fairly significant share of total spending, ranging between 1.8 and 5.0 per cent, and of course by implication of the GDP (Table 4.6) . Given this scenario, it should go without any further analysis that spending on recurrent activities, including personnel costs, and, like in the case of the administration sector over the years, dominated the expenditure profile of the Social Services Sector in Nigeria.

4.4.7 The Transfers Sector:

The growth profile of expenditures on transfer related payments, particularly the significant changes that have occurred in the share of the GDP that goes into the sector, remains one of the most interesting developments in the growth of public expenditure in Nigeria. The factors that have combined to bring about this development have equally remained a source of national concern. In 1962, (Table 4.5) total transfer expenditures as a share of the GDP was just 1.5 per cent, and upto 1967, it remained at an average of 1.6 per cent. From 1968 however, the ratio rose to 2.7 per cent, rising gradually though not consistent over the years: 4.2 percent in 1969; 4.8 percent in 1970 etc., and oscillated within the range of 2.2 (in 1972) and 9.0 percent (in 1979). From 1984 however, the dominance of transfers spending was brought into sharper focus as the sector consistently for the highest expenditure/GDP ratio over the period upto 1995. Within this period, the minimum GDP share of transfer spending was 9.03 percent (in 1988), while the ratio rose to as high as 15.94 percent in 1990. (See Table 4.5).

This period, no doubt, signalled the beginning of the high profile which transfers, the bulk of which are on debt servicing, come to assume in Nigeria's public expenditure profile.

TABLE 4.5 : FGN EXPENDITURES 1962 –1995: SECTORAL EXPENDITURE AS PERCENTAGE OF GROSS DOMESTIC PRODUCT.

YEAR	GENERAL ADMINIST-RATION	ECONOMIC	SOCIAL & COMMUNITY SERVICES	TRANSFERS	TOTAL
1962	2.71	2.29	1.52	1.50	8.02
1963	2.88	1.99	1.27	1.84	7.98
1964	3.22	2.47	1.05	1.18	7.92
1965	. 04	2.78	1.02	1.42	6.26
1966	3.08	2.23	0.88	1.86	8.05
1967	3.31	2.04	0.80	1.59	7.74
1968	4.85	2.38	0.57	2.73	10.5
1969	6.83	1.86	0.52	4.24	13.46
1970	17.01	1.90	0.61	4.83	24.30
1971	4.70	1.53	0.54	2.19	8.96
1972	9.13	2.69	1.07	4.13	17.02
1973	5.62	2.89	0.68	2.37	11.56
1974	7.06	4.63	3.88	5.19	20.76
1975	9.72	7.80	6.55	4.03	28.10
1976	8.47	11.13	7.19	5.63	32.42
1977	7.62	12.30	4.43	2.60	26.95
1978	6.39	10.00	3.85	5.66	25.90
1979	10.16	17.15	4.78	8.99	41.08
1980	8.03	14.86	5.34	6.42	34.65
1981	5.06	8.17	3.55	3.43	20.21
1982	5.85	10.80	3.90	5.67	26.22
1983	6.46	8.10	3.40	3.34	21.30
1984	4.67	1.56	1.60	10.73	18.56
1985	4.34	1.78	3.11	12.30	21.53
1986	4.08	2.24	2.10	14.84	23.26
1987	7.36	3.04	1.02	9.18	20.60
1988	5.38	2.35	2.69	9.03	19.45
1989	3.98	2.17	2.72	9.27	18.14
1990	3.67	1.98	2.13	15.94	23.72
1991	3.22	1.39	1.30	15.18	21.09
1992	2.57	1.01	0.64	12.85	17.07
1993	11.64	3.30	1.78	10.75	27.47
1994	3.67	3.41	1.66	8.96	17.70
1995	2.94	3.43	1.61	9.41	17.39

SOURCE: Computed from Table 4.3

TABLE 4.6 : FGN EXPENDITURES, 1962 –1995; ANNUAL RECURRENT EXPENDITURE(SECTORAL) AS PERCENTAGES OF GROSS DOMESTIC PRODUCT

YEAR	GENERAL ADMINIST-RATION	ECONOMIC	SOCIAL & COMMUNITY SERVICES	TRANSFERS	TOTAL
1962	1.94	0.65	1.04	1.33	4.96
1963	1.99	0.53	0.92	1.77	5.21
1964	2.32	1.02	0.69	1.15	5.18
1965	2.24	1.28	0.69	1.30	5.51
1966	2.42	0.80	0.56	1.71	5.49
1967	2.18	1.59	0.67	1.57	5.01
1968	4.57	0.68	0.47	2.17	7.89
1969	15.64	2.01	1.08	7.16	25.89
1970	16.31	0.68	0.46	3.91	21.36
1971	3.51	0.43	0.29	1.44	5.67
1972	7.49	0.69	0.44	1.61	10.23
1973	6.32	0.73	0.43	1.62	9.1
1974	4.76	0.64	0.81	1.28	7.49
1975	5.69	0.71	1.37	0.82	6.76
1976	4.74	0.66	2.98	4.15	12.53
1977	3.86	0.71	1.37	0.82	6.76
1978	2.91	0.56	1.15	3.6	8.22
1979	3.50	0.69	1.43	6.57	12.19
1980	4.61	1.17	1.94	5.36	13.08
1981	3.85	0.88	1.52	2.33	8.58
1982	4.04	0.67	1.41	4.57	10.69
1983	4.53	0.67	1.59	4.38	10.11
1984	4.25	0.52	1.22	3.98	9.97
1985	3.70	0.44	1.59	4.38	10.11
1986	3.71	0.71	1.20	5.05	10.67
1987	5.66	1.02	0.44	7.52	14.64
1988	4.05	0.86	1.48	7.22	13.61
1989	2.77	0.63	1.87	6.22	11.49
1990	2.54	0.63	1.32	9.57	14.06
1991	2.17	0.41	0.84	8.53	11.95
1992	1.63	0.58	0.25	7.31	9.77
1993	2.64	0.67	1.27	15.07	19.65
1994	2.26	0.43	1.11	6.10	9.90
1995	2.01	0.41	0.97	5.53	8.92

SOURCE: Computed from CBN Annual Reports. (Various Issues)

TABLE 4.7 : FGN EXPENDITURES, 1962 –1995; ANNUAL CAPITAL EXPENDITURE (SECTORAL)AS PERCENTAGES OF GROSS DOMESTIC PRODUCTS

YEAR	GENERAL ADMINIST-RATION	ECONOMIC	SOCIAL & COMMUNITY SERVICES	TRANSFERS	TOTAL
1962	0.77	1.64	0.48	0.17	3.06
1963	0.89	1.47	0.35	0.07	2.78
1964	0.90	1.45	0.36	0.03	2.74
1965	0.79	1.50	0.33	0.18	2.80
1966	0.60	1.39	0.30	0.12	2.41
1967	1.13	1.45	0.13	0.03	2.74
1968	0.28	1.63	0.08	0.49	2.48
1969	0.76	2.46	0.16	3.02	6.40
1970	0.70	1.22	0.14	0.83	2.89
1971	1.20	1.10	0.25	0.74	3.29
1972	1.64	2.00	0.63	2.52	6.79
1973	0.87	1.62	0.26	0.92	3.67
1974	2.30	3.99	3.07	3.91	13.27
1975	4.03	7.09	5.00	2.85	18.97
1976	3.73	10.46	4.22	1.48	19.89
1977	3.76	11.59	3.06	1.78	20.19
1978	3.48	9.43	2.71	2.00	17.62
1979	6.66	16.45	3.35	2.42	28.88
1980	3.10	13.10	3.18	0.80	20.17
1981	1.21	7.28	2.03	1.10	11.62
1982	1.81	10.13	2.50	1.10	15.54
1983	1.94	7.42	1.81	0.83	12.00
1984	0.42	1.04	0.38	6.76	8.60
1985	0.64	1.34	1.53	7.91	11.42
1986	0.37	1.52	0.91	9.78	12.58
1987	1.70	2.02	0.58	1.66	5.96
1988	1.33	1.49	1.21	1.81	5.84
1989	1.16	1.74	0.82	2.94	6.66
1990	1.13	1.35	0.81	6.37	9.66
1991	1.04	0.98	.047	6.65	9.14
1992	0.94	0.43	0.39	5.55	7.31
1993	1.16	2.64	0.51	3.52	7.83
1994	0.97	2.98	0.55	3.31	7.81
1995	0.93	3.02	0.64	3.88	8.47

SOURCE: Computed from CBN Annual Reports. (Various Issues)

4.5 Comments on the Growth and Pattern of Federal Government Spending, 1962-1995.

A number of important features have been highlighted in our examination of the size, growth and pattern of spending at the federal level, between 1962 and 1995. The more prominent of these include the following:

(i) the size of public expenditure has increased significantly in both absolute and real terms, and the growth can be categorised into four distinguishing phases;

(ii) on the average public expenditures have grown at a faster rate than the GDP for much of the period covered in our analysis;

iii) there appears, for most of the time, to be a strong correlation between government's expenditure and the level of recurrent revenue receipts;

(iv) expenditure on the recurrent account dominate government overall spending;

(v) the administrative sector has traditionally attracted a larger share of public expenditure, while the social services sector has attracted the least;

(vi) expenditures on transfers mainly on debt related transactions have grown significantly in recent years, and;

vii) the general structure and pattern of expenditure in terms of its composition, distribution between recurrent and capital accounts, etc, has changed only marginally over the years.

While appropriate causality tests will be conducted in the next chapter to determine the nature of the structural relationships among the variables identified in the foregoing analysis, we need, at least at a general level, to examine the factors that have contributed significantly to the growth profile of government spending. This analysis will be necessary to at least put a number of issues raised in the

course of our discussion in their proper context, of both time and events. Even though a number of explanatory variables, both structural and institutional, have combined to give government spending in Nigeria its distinctive profile and structure, we can identify the following as being more prominent at different stages of the time profile of government expenditures: the military incursion into the Nigerian political economy; the Nigerian Civil War; over centralisation of constitutional functions and responsibilities by the Federal Government; the rather pro-active role which bureaucrats assumed from the period (especially) after the Civil War, through the late 1970s. and of course the combination of the structural changes in governments revenue circumstances, (revenue or income-effect) and the various economic and fiscal policies that have been pursued by government. For a proper focus, our analysis, though brief, will be presented within the context of the four phases which we have earlier identified.

During the First phase, 1962-67, government spending grew fairly modestly and consistently low. Even the implementation of the First National Development Plan (1962-68), did not appear to have significantly affected the growth and structure of public spending during the period. The median expenditure, GDP ratio was 8.0 per cent, while expenditure on the Administration Sector dominated overall government spending.

The situation however changed appreciably during the second phase, (1968-73). Government spending witnessed a dramatic increase, with a growth rate averaging 17.0 per cent during the period. Among the factors we have identified, three appeared to have contributed more significantly to the high growth of public spending within this period. The first of these was the Civil War, 1967-70. Defence

related expenditures in the Administration Sector rose rather sharply from =N=38.6 million (on the current account) in 1967 to about =N=90 million in 1968; =N=134 million in 1969 and close to =N=600 million in 1970. Here, the cost of prosecuting the war and the accompanying cost, after the war, of a massive national programme of reconciliation, rehabilitation and reconstruction put substantial pressure on government spendng within the period. A second and related explanatory variable here is the concentration (centralisation) process embarked upon by the Federal Government after the War. There was a substantial transfer of constitutional responsibilities from the States and Local governments to the Federal Government. Included among these were the police and prisons services. The third factor was the revenue-effect. The Federal Government's recurrent revenue profile improved significantly largely as a result of the huge inflow of foreign exchange which the country started to enjoy from the sale of crude oil. The influence of the bureaucrats in expanding government spending began to manifest rather strongly during this period.

The Third phase, 1974 to 1980, witnessed a period of very high levels of government spending on both recurrent and capital accounts. Government spending reached its peak during this phase with federal government expenditures accounting for over 41.0 per cent of the GDP in 1979, and median (expenditure/GDP) ratio of 32.4 per cent. While we can identify a number of factors responsible for the unprecendented rise in government spending, one factor which stands out quite prominently was the "revenue or income-effect." As Phillip (1971:356) noted, "in explaining the growth of expenditure (in Nigeria), it is important also to mention the role of revenue as a vital permissive factor". Government's recurrent revenue

position took a "quantum leap" as it increased by 226.5 per cent between 1973 and 1974, the highest percentage increase recorded between any two fiscal years all through the period covered by our analysis. (See Table 4.8). A number of related events go to confirm the impact of such increased recurrent revenues on government spending. For instance, the Third National Development Plan, 1975-1980 was initially designed to involve a public sector investment of =N=20 billion, but in the face of the oil revenues that began to accrue to government in substantial and sustained amounts from around 1974, the Plan figures were revised upwards by over 200.0 per cent, to =N=43.3 billion[1]. This in itself spurred the expansion of the Federal bureaucracy by transferring some state responsibilities to the Federal Government, like in the case of educational institutions (universities and polytechnics), the introduction of major programmes, like the Universal Primary Education (UPE) in 1976 and the hosting of grandiose events, like FESTAC in 1977.

Within the overall context of seeming "limitless resources", bureaucrats, whose agenda-setting role had over the years become entrenched, played a prominent role, the nature of which we shall discuss in the next section, in the appropriation of the oil windfalls, and consequently on the disproportionate increase in government spending. One of such instances where the bureaucrats in pursuit of self-interest during this period contributed to significant expansion in government spending was the "Udoji Awards". The Federal Military Government had in late 1973 set up a Public Service Review Committee with the overall objective of reorgnising the nation's public service for greater efficiency. The Committee submitted a report with a wide-range of recommendations on making the service "more efficient and

more results-oriented". The report also recommended a new salary structure. The bureaucrats who had the major responsibility for implementing the report went ahead to give priority to the pecuniary aspects of the report, which led to the payment of huge arrears of a significantly enhanced salary structure and inconsequence, significantly expanding public spending. The other equally important aspects of the report which had to do with the adoption of modern techniques of management to enhance efficiency of the service were largely left unimplemented. It is worth noting also that the ratio of spending that went to the capital account was on the average highest in this period (1974-1980) when compared to any other period covered by our study. The ratio of capital expenditure to total expenditure within this period ranged between 64.0 per cent in 1974 to 75.0 per cent in 1977. On the average, the ratio of capital expenditures to total expenditure was over 60.0 per cent, while the ratio of capital expenditure to the GDP within the same period averaged, 20.0 per cent. The period, 1974 to 1980, indeed marked a distinctive phase in both the growth profile and pattern of Federal government spending over the entire period covered by our study, 1962-1995.

The Fourth and final phase identified in our study covers the period, 1981 to 1995. Government spending slowed down in relation to the growth of the GDP. While in the previous period the median ratio of government spending to the GDP was 32.4 per cent, it dropped to 21.3 per cent during this last phase. The main feature of expenditure growth during this phase is that while it (expenditure) experienced appreciable levels of growth, the rate of such growth was lower than that of the earlier period. We should however note that in absolute terms the rate of growth was of course substantial. A number of factors combined to shape the

profile of government spending during this period. Prominent among them were the deliberate policies to among other things trim government spending as sought by the Economic Stabilization Act (1982); the National Emergency Decree (1985), and the Structural Adjustment Programme (1986)[2]. These policies and programmes slowed down the growth of government spending only in the short-run though, and thus the noticeable decline in the ratio of government spending to the GDP.

4.6 Income (Revenue)-Effect on the Growth of Public Spending

The influence of the income or revenue-effect in the growth of government spending became visible in the second and third phases of our analysis, i.e. 1968 -73; and 1974-80. Revenue effect has however a different effect of its own in many ways different from the pressure it exerted on the growth of government spending in earlier years. During the fourth phase, a phenomena though not captured by our data but which had significant effects on government spending began to emerge. Through use of content analysis, there is strong evidence to suggest that there was a much higher incidence of extra-budgetary spending within this period. In effect, government revenue over the years did not just have the effect of inducing increased spending, it also facilitated high levels of fiscal indiscipline. A World Bank report on Nigeria's Federal Government Expenditure for instance, revealed among other things that, "... the most striking pattern observed in the analysis of expenditures is the rapid expansion of over-spending and extra-budgetary spending between 1986 and 1993". The report estimated that both manifestations of fiscal indiscipline when combined increased from nearly zero in 1986-89 to 17.0 per cent of the GDP in 1993. The report lamented that "... the situation deteriorated to the point where approved budget governed less than half of the total expenditures in 1991-93".

(World Bank; 1996:vi). Table 4.9 shows the trend of extra-budgetary spending between 1989 and 1995.

In effect, then substantially increased revenues did not just induce increased spending, they also facilitated fiscal and budgetary indiscipline. At this point it is important to note that much of the extra-budgetary spending was financed from extra-legal sources, including the controversial "Dedicated Accounts" under the Babangida administration. Even though the operation of these accounts were shrouded in mystery it is reported that at least six different accounts were maitained in this category[3]. The phenomena of extra-budgetary spending we have described may therefore not be easily captured by the official revenue figures. That notwithstanding, the official recurrent revenue figures recorded during the 1986-1995 period showed a significantly improved revenue profile, with recurrent revenue receipts over the ten year period recording decreases in only three years, 1986, 1988 and 1991. For the rest of the period recurrent revenues recorded healthy increases from one year to the other, indeed with the second highest increases between any years occurring in this period; 1987 (90.0 per cent); 1992 (67.6 per cent); 1993 (136.7 per cent), and 1995 (89.0 per cent). Again, see Table 4.8.

TABLE 4.8 FGN; RECURRENT REVENUE PROFILE, 1962-1995

FEDERAL GOVERNMENT RECURRENT REVENUE RETAINED

YEAR	REVENUE N	% CHANGE (Growth Rate) %
1962	229.0	-
1963	231.6	1.2
1964	249.1	7.0
1965	299.1	20.1
1966	321.9	7.6
1967	339.2	5.4
1968	300.2	(11.5)
1969	300.0	(0.1)
1970	435.2	45.3
1971	758.1	74.0
1972	1,305.7	72.2
1973	1,389.9	6.5
1974	4,537.0	226.5
1975	5,514.7	21.5
1976	6,765.9	22.7
1977	8,042.4	19.0
1978	7,469.3	(7.1)
1979	10,913.5	46.1
1980	15,234.0	39.6
1981	12,180.2	(20.0)
1982	7,500.0	(38.4)
1983	6,234.1	(17.0)
1984	7,571.6	21.4
1985	9,715.0	28.3
1986	8,505.0	(12.4)
1987	15,129.0	90.0
1988	25,488.6	(3.5)
1989	25,762.2	65.3
1990	39,033.0	51.5
1991	31,744.5	18.6
1992	53,264.9	67.6
1993	126,071.2	136.7
1994	132,242.4	5.8
1995	249,768.1	89.0

SOURCE: Revenue figures for

i) 1962-1973 FOS Annual Abstract of Statistics, 1975
ii) 1974-1979 (CBN, Economic & Financial Review, Vol. 18, No. 1 June 1980)
iii) 1980-1989, Economic and Financial Review, various issues
iv) 1990-1995, (CBN, Annual Report and Statement of Accounts, Various issues

*Figures computed from data.

TABLE: 4.9 FGN; EXPENDITURES: APPROVED AND EXTRA-BUDGETARY SPENDING, 1989 – 1995.

	1989	1990	1991	1992	1993
			(N billions)		
Total Expenditures	33.9	64.3	91.8	143.5	242.0
Budget Allocation	28.9	38.1	35.3	48.0	114.6
Over-expenditure & Extra-Budgetary	4.9	26.2	56.6	67.0	53.0

SOURCE: World Bank (1996); Nigeria Federal Public Expenditure Review (Report No. 14447 – UNI), p. 5.

4.7 Government Budgeting and the Growth of Public Expenditure in Nigeria

The process of budget decision-making is very important in our understanding of the combination of factors that ultimately shape the structure and determine growth patterns of public expenditures. It is through the budgetary process or the "budget cycle" that vital decisions are taken regarding such issues as what the size and composition of annual expenditures should be: their distribution between recurrent and capital heads; distribution between the different sectors and of course appropriation to the various statutory spending units. Moreover, the pattern and process of budget decision-making is very important to our study since one of the major hypotheses of the study is that much of the "excessive" growth in public spending which we observe from our data can be explained by the "utility maximizing behaviour" of senior bureaucrats who shape and administer the federal government's annual budgets. Although we must concede that an examination of the budget process will not necessarily in itself provide a strong support for our position, there cannot be doubt in the fact that a critical examination of budget decision-making in the country will provide sufficient evidence to at least validate our hypothesis. This, in our view is the substance of the content analysis which we have earlier indicated will be employed in our attempt to explain some of the factors influencing the growth of government spending in Nigeria.

4.7.1. Budget Decision-Making in the Nigerian Federal Service

At independence in 1960, Nigeria inherited a bureaucratic structure and tradition that were designed basically to serve the "housekeeping function" of law and order. In the same vein, financial management and administration in general

and budgetary practices in particular, were centred around the objective of enforcing expenditure control and financial accountability. As Onitiri (1977) aptly noted;

> The budgeting system has followed a line-item approach which is a vestige of colonial administration. It's objective were the maintenance of law and order, accountability to justify expenditure, and the provision of the barest minimum infrastructure that would sustain imperial exploitation rather than the more desirable objectives of achieving rapid economic development (Onitiri, 1977:1)

The line-item or incremental budget system is essentially a historical approach to decision making whereby the budget is viewed in the context of what Wildavsky (1979) calls the "base" and "fair share" elements. The base is basically the understanding that once an expenditure programme is included in the budget, it will continue to be funded from one year to the other. In determining budget allocations, the issue is no longer about the continued relevance of the expenditure, but what should be its "fair share" of the total anticipated revenues. The process is incremental in this respect and of course in the fact that a current year's budget allocation is determined to a large extent by the previous year's allocation. In effect, $B_t = f(b_{t-1} + d)$; where Bt is current budget; B_{t-1}, the previous year's budget, i.e. the base, and d is the incremental factor, i.e. the fair-share. One of the features of incremental budgeting which appears to continue to sustain its appeal among budget authorities, particularly bureaucrats, is the relative low level skills and expertise needed in its preparation. Moreover, incremental budgeting provides an institutional basis for consensus building in the budgetary process since the area of focus is on the "fair share" element, that is to say, how much increase (or decrease) should be made over the previous year's level of allocation. Among the weaknesses often associated with this budgeting system (line-item), include the following;

i) it focuses on organizational needs rather than broad based programmes;

ii) it tends to emphasise inputs (expenditure) rather than performance, outputs of goods and services;

iii) following from (ii), the impression is often created among bureaucrats that performance is best measured by the ability to spend;

vii) it does not allow for a critical, comprehensive, and systematic analysis of expenditure proposals to be included in the budget; and

vi) targets and goals are hardly set, and alternatives for the attainment of set-goals are often not provided.

These weaknesses, and indeed a number of others, re-echoed in the findings of a study conducted by the Nigerian Institute of Social and Economic Research (NISER) which was commissioned by the Federal Government in 1977 to critically examine, its Financial and Budgeting Systems. Among other findings, the NISER Team observed that:

> The present incremental approach to budgeting ... emphasizes expenditures (input) rather than performance (output). It intensifies conflicts between sponsoring Ministries and evaluating Ministries, the former seeing the latter as adversaries interested only in reducing the size of the proposals. This gives rise to the deliberate inflation of estimated expenditure such that even after the cuts, the resulting budget becomes even more unrealistic. it involves an historical approach that permeates, and even protects items already admitted into the budget, and by looking at new items with strong suspicion, tends to suppress urgent new items. in the process, it retards change and prevents a thorough examination of expenditure. (Adebayo and Effiong, 1977:3).

We have quoted fairly extensively from the report of the Study Team in order to more effectively put the inherent and operational weaknesses of the incremental

system of budgeting in a more empirical context. Our following examination of the budgetary process in Nigeria will, no doubt, further bring to the fore, both structural and institutional practices which contribute to severely impinge on the efficacy of the current budgetary framework in the country.

4.7.2 The Budgetary Processs

The budgetary process or cycle, like the budgeting system has remained largely unchanged over the years despite its glaring operational inadequacies. Like in most other countries, the process involves the input of both executive and legislative arms of government. Although for most of the period covered by our study, budgeting was conducted within the socio-political background of different military regimes, annual budgets or estimates had to be approved by the Executive Council and formally gazetted in order to confer on them legitimacy, and to the executors (i.e bureacurats), the respective authorities to incur expenditures (AIEs). In general the practice, has been for the Head of Government (under the 1960 and 1963 Constitutions) or the Head of State or President (from 1966) to initiate the annual budget process, the result of which is presented to the National Assembly as draft estimates. In pursuit of this, both the 1960 Independence Constitution, and the 1963 Republican Constitution, provided that:

> "The Minister of the Government of the Federation responsible for finance shall cause to be prepared and laid before both Houses of Parliament in each financial year, estimates of the revenues and expenditures of the Federation for the next following financial year. (FRN, 1983:9)

Section 75(1) of the 1979 Constitution made a similar provision except that instead of the Minister of Finance, the President of the Federal Republic himself is expected

to present the draft estimates to the National Assembly.

In procedural administrative terms, the annual budget process begins with the determination or formulation of a policy framework and detailed guidelines on which the structure of planned expenditures and revenue targets shall be based in course of the financial year. These are traditionally communicated to the bureaucrats whose respondibility it is to prepare the draft estimates, through a Call-Circular. Draft estimates (of revenues and expenditures) are prepared at the Departmental level and subsequently harmonized at the Ministerial level. Draft estimates of all ministries, including those parastatals under them, as well as estimates of extra-ministerial agencies are compiled at the level of the Federal Ministry of Finance in collaboration with the National Planning Commission. The estimates are further discussed at the Central Estimates Committee. At this level, the final checks are made to ensure consistency with national macro-economic policies and priorities as contained in the budget guidelines.

The draft estimates are subsequently presented to the Executive Council, which in turn deliberates extensively on them. During the periods of military rule, the draft estimates when finally approved by the Executive Council are announced as the approved annual budget. During the periods the country enjoyed parliamentary democracy however, the estimates are approved by the Executive Council and presented before the National Assembly, as required by the Constitution. Both Houses, the Senate and House of Representatives (beginning with the 1979 Constitution), exhaustively deliberate the draft estimates with a view to passing them into law which is codified in the Appropriation Bill. Once passed by the National Assembly, and duly assented to by the President, the Budget becomes law,

authorising government to raise revenues from designated sources and incure expenditures. The process of budget execution commences at this stage.

The budget process or cycle, from formulation and preparation through legislative authorisation and approval and subsequently execution or implementation as outlined in the foregoing, though involving fairly complex activities, appears nonetheless, a fairly straightforward institutionalised practice. The problems of budgeting particularly within the context of the present study can however be found within this process. Again, the NISER study revealed among other things that:

> The preparation of the budget at the Ministry level was more of a routine than an objective reasoned process of allocating resources among different functions in the Ministry. (Adebayo and Effiong, 1977:1).

The Team further went on to report that they did not find any attempt to coordinate the different functions of a Ministry, or to set priorities for each function. In the same vein, the study did not find any Ministry that analysed proposals and examined different alternatives for the achievement of given objectives, "... since these objectives were rarely set". The study therefore concluded that "... it is not surprising that Ministries budgets were prepared in a vacuum". (Adebayo and Effiong, 1977:1).

The combination of structural defects in the incremental approach to budget decision making and an institutionally weak budget process, have over the years severely affected the efficacy of the budget as an instrument of economic management. In particular, it has facilitated the unregulated growth of government expenditures. This has been made possible, in large part, by the "Agenda-setting" role which the observed defects in the incremental approach to budget decision making and the budgetary process, have bestowed on bureaucrats. This role has

been manifested principally at two levels, the combination of which in our view, has in a significant measure contributed to the rapid rise in Federal Government spending.

The first agenda-setting role which the budgeting system inadvertently assigned senior bureaucrats is manifested at the levels of budget preparation and approval, while the second is at the level of budget execution. At both levels, the inherent traits of the utility maximizing bureaucrat are strongly manifested. At the level of budget preparation and approval, federal bureaucrats, particularly starting from the early 1970s, a period associated with the era of the "Super Permanent Secretaries", saw the process as more or less a veritable avenue among themselves for the highest budgetary allocations. Because of the rather dramatic increases in oil revenues accrueing to government, bureaucrats began to see the budget process as a medium for appropriating huge surpluses or windfalls, from oil revenues rather than for allocating resources to competing national needs and priorities. As a result, even the traditional role for which the inherited budgeting and financial system attracted some recognition, ie. financial control and accountability could no longer be performed. The tragedy of the budget system during this period (1970s) was succintly brought to the fore in the report of a Workshop on the Federal Government Budgeting System. The report, among other things, noted that as a result of windfalls from oil and related developments in the economy;

> The emphasis of budgeting shifted from seeking to allocate scarce resources among many needs towards competitive budgeting with over-ambitious plans and programmes all of which were being hurried through the approval process with the aim of sharing the pie... meanwhile, the budgetary process has remained constant, the procedures have become more cumbersome since the programmes, projects, and activities have grown several times in about ten years.

The report went on to point out that (even),

> ... the traditional concern for financial control and accountability could no longer be enforced in the face of the high volume of activity. (Adeboye & Effiong, 1977:2).

Phillips (1980) in apparent reference to the kind of situation presented in the foregoing asserted that considerations of budget proposals over the years in Nigeria, tended to reflect two major decision criteria or approaches. The first he calls "absolute-need," and the second, "money-first." According to the author, under the "absolute-need" approach, considerations of finance, cost-benefit, project relevance, etc, are regarded as secondary to the overriding desires of the powers that be (largely bureaucrats) to get a particular programme or project going, "at all cost". Phillips contends that the approach implicitly assumes limitless resources, which of course in his view is "a most unrealistic assumption." The "money-first" criteria, on the other hand is essentially a corrollary to the "absolute-need" criteria. It refers to the situation whereby the release of funds for duly approved expenditures (in budget estimates) are subjected to stringent approval procedures and are often dependent on the cash-flow circumstances of government. According to the author, this approach to budgeting was "forced on an overambitious government which has over-committed itself to grandiose programmes and projects with scant regard to resource availability." Phillips, (1980:260). The "money-first" criteria as advanced by Phillips, coincides with the substance of the second area of "agenda-setting" role of bureaucrats.

The second area of agenda-setting which the inherent lapses in the budgeting system allowed bureaucrats is the wide scale practice of what Caiden & Wildavsky (1974) identify as "Repetitive Budgeting." The core of the so called repetitive

budgeting is the situation occassioned by the tedious procedures that are usually followed by spending agencies in getting approved funds released by the Treasury. The practice has been institutionalised, in Nigeria, whereby agencies after having successfully gone through the budget preparation and approval stages have to contend with the tedious procedures for the release of duly approved and authorised budgetary allocations. Because the execution of the budget is tied largely to the cash-flow position of the Treasury, agencies are often required not only to wait for long periods before they get portions of their allocations usually many months behind schedule, they also have to follow procedures that often require detailed explanations of what already approved and released funds have been used for, what funds being requested will be used for, etc. Caiden & Wildavsky (1974:71) observed that the budget approving authorities give "... pro forma approval to budgetary estimates but then, when the time comes to dispense funds, insist on detailed scrutiny of the actual right to spend". The process for release of funds under this circumstance is considered not just a repetition of the entire budget process, but even a super-imposition of the new process (fund release) over the statutorily approved budget allocations. This process not only increases "transaction costs" for the agencies concerned but also introduces high levels of arbitrariness in the release of funds and consequently in government spending, as the process in itself encourages over spending in some accounts and under-spending in others. Importantly, the system works more to the advantage of more powerful and well connected bureaucrats and politicians and to the disadvantage of relatively weaker ones even where the fund requirements of their agencies is not only pressing but of significant national priority. Thus, the inability of government, over the years, to

streamline the process of budget approval and the administrative and accounting requirements for fund release or disbursement has remained one of the major institutional problems affecting not just public spending, but also national development.

Over the years, particularly since 1974 when the Udoji led Public Service Review Commission first drew national attention to the weaknesses of government's budgeting system among other aspects of the public service, there have been attempts by successive (government) administrations to review especially the budgeting system with a view to removing the major structural and Institutional barriers which appeared to have constrained the efficacy of the system. One of the best articulated and coordinated of these attempts was by the President Shehu Shagari administration in 1981. In introducing the reforms, President Shagari noted as follows:

> I consider it appropriate at this point to indicate that this administration... upon taking office immediately recognised the need to have a co-ordinated and comprehensive budgeting system... we set out to adapt and introduce a new system of budgeting called Programme Performance Budgeting System, (PPBS)... The new system aims at defining the objectives of the mentioned areas of government, and articulating their programmes of activities... It is also expected to strenghten the linkages between planning, programming, budgeting and performance evaluation through a feedback arrangement.[3]

It is not quite clear what impact the 1981 budget reforms had on the content (structure) of the budget, but it is fairly clear that the reforms and all those after it only marginally affected the institutional context of budgeting in Nigeria. It is however pertinent to point out that the implementation of these reforms were adversely affected by the overthrow of the Shagari Administration in late 1983. It is

very doubtful if the military government that took over shared similar concerns over the defects of the budget process and the underlying budgetary system. Indeed, it would appear that the problems of budgeting and their impact on uncontrolled public spending are as present today as they have ever been. A recent (1995) report of the World Bank on Federal Government's expenditure quite clearly confirms this situation when it noted that:

> The budget process effectively collapsed during 1991-94. ... FGN policies addressing the desired level of spending in total, in a specific ministry, or in a specific sector have been totally ineffective given the lack of adequate controls, checks and balances and accountability. (World Bank, 1995:xiii).

Among a number of factors, the report considered "lack of commitment to good governance" as one that most significantly accounts for the large scale budget and fiscal indiscipline which have over the years combined to severely weaken the efficacy of the government annual budgets, as indeed the entire budgeting and financial system. Added of course to the incidence of budget indiscipline is the more techno-bureaucratic problem of a lack of commitment to strengthen the budget-making process by adopting policies and techniques that will give due cognisance to the special nature of the different elements of the budget process. The procedure for preparing capital expenditures proposals for instance still lacks the seriousness which should accompany such an exercise. Indeed, available evidence strongly suggests that both recurrent and capital expenditure estimates are included in the budget without detailed and systematic analysis to determine among other things relevance of expenditure and linkages between the different expenditure heads.

4.8 Conclusion

In this chapter we examined the growth and patterns of Federal Government expenditure in Nigeria. The defining features of both the time trend of growth and the distinguishing patterns of the component categories of Federal Government expenditures between 1962 and 1995 are highlighted. We also attempted to identify the factors which contribute to explaining some of the behavioural features of Federal Government expenditure in Nigeria. The conclusion was that at a general level, we can associate the observed growth in government spending to the "revenue-effect" as well as the combination of political and economic factors. In concluding the chapter, we examined the budgetary process and the nature of the institutional conditions which tend to undermine the efficacy of the system.

NOTES

1. See Federal Republic of Nigeria (1975); Third National Development Plan, 1975-1980, Lagos, p. 9.

2. See, Federal Republic of Nigeria (1973); Public Servicew Review Commission, Main Report, p. 13.

3. See: "Presidential Budget Speech", New Nigeria, 27th November, 1980, p. 3.

CHAPTER FIVE

MODEL SPECIFICATION AND DATA ANALYSIS

5.1 Introduction

The statistical techniques which were used in the analysis of our data are essentially the Ordinary Least Squares (OLS) and the Granger Causality test. Only the former techniques, (simple regression) was used to achieve the first objective of our study which is to examine the structural characteristics of government expenditures, including the computation of their respective income elasticities. In this particular portion of our empirical data analysis, no attempt was made to test for causality beyond that exhibited by the values of the estimation parameters. In the two other areas of our analysis, that is; the impact of relative price effects on consumption expenditure, and effect of recurrent revenues on government spending, the 'Granger Causality and stationarity tests were used as appropriate. The last set of data analysed relate to the budget process, which we see essentially as an institutional process in which we are constrained by the practical difficulty in applying any vigorous quantitative model or analysis, we are thus forced to resort to inferences drawn from data which we obtained through a questionnaire survey.

5.2 Model Specification

In estimating our first basic model, we used the simple regression (logarithmic) equation:

$$\text{Log } E/P = a + b \log Y + U \quad \ldots\ldots\ldots\ldots (1)$$

where, E_i = the relevant expenditure category,

Y = Gross Domestic Product at Current Factor cost,

'a' and 'b' are regression coefficients.

u = error term.

Time series data covering a 34 year period, 1962 - 1995, was used (see Appendix) and because of the span of the data, we tested for serial correlation in each case using the Durbin-Watson test procedures. As to our use of the simple regression equation (1), let us state, of course, that we are not unaware of the alternative and apparently more "popular" model that has been used in similar studies, i.e. the one that relates per capita growth in expenditure to per capita growth in the GDP, i.e.

$$\log \frac{E}{P} = a + b \log \frac{GDP}{P} + u \quad \ldots\ldots\ldots\ldots (2)$$

where, E/P = per capita growth in expenditure

GDP/P = per capita growth in GDP.

This equation attempts to embody the population element with a view to determining the influences population exert on the growth of government spending. This model also specifically represents Musgrave's (1969), interpretation of Wagner's Law which in his (Musgrave's) view should be postulated to mean a rising share in output as per capita income grows. While we recognise that this is probably a more functional approach, we feel rather strongly that it does not suit our purpose in the present study. In particular, the approach will be more appropriate when we examine total national expenditures which would properly include the aggregate expenditures of the three tiers of government that make up the Nigerian federation; Federal, States and Local Governments. Given the constitutional assignment of responsibilities in Nigeria, the states and Local Governments have greater responsibilities in these

functional areas of government responsibilities which have a more direct relationship with the the population. In estimating the behaviour of relevant parameters relating to Federal Government spending alone therefore, the model represented in the first equation (1) best captures the features which we seek in the overall profile of government expenditures. It is to be expected therefore that studies which do not take cognisance of the aforementioned reality often report either no correlation between per capita GDP and total government spending, or at best a very weak correlation. A good case in point is Lall (1969). Moreover, the model, in equation 2, is best suited to studies that focus on cross country comparisons.

5.2.1 Testing for Causality

In the models that follow, we specifically test for causality among the determining variables (in the models) using the widely used Granger test procedures. The concept of causality is important in a study like the present one. It is true that a regression relationship may not involve a causal hypothesis, but as Wold (1954) points out, "the introduction of a causal hypothesis makes the analysis more determinate and resulting conclusions, more specific". (Cited in Olusola and Akinlo, 1995; 98).

The standard Granger, (1969; 1989) causality test, which we have adopted for this study, basically examines whether past changes in the value of one variable, x, help to explain current changes in another vairable, y, over and above the explanation provided by past changes in y. If otherwise, then we can conclude that x does not Granger cause y. To determine whether causality runs in the other direction, from y to x, the experiment is simply repeated, but witht the x and y

variables interchanged. The general form of Granger causality test is specified in equ-ations (3) to (6).

$$Y_t = \sum a_i C_{t-1} + {}_s\sum a_2 + Y_{t-1} + u_t \ldots\ldots \quad (3)$$

$$Y_t = a_o + \sum a_3 Y_{t-1} + V_t \ldots\ldots\ldots\ldots\ldots\ldots (4)$$

$$X_t = \sum \beta_1 Y_{t-1} + \sum \beta_2 X_{t-1} + V_t \ldots\ldots\ldots (5)$$

$$X_t = a_o + \sum \beta_3 X_{t-1} + V_t \ldots\ldots\ldots\ldots\ldots\ldots \textbf{(6)}$$

Equations (3 and 4) specify a causality test from X_t to Y_t. If $a_1 = a_2 = a_3 = 0$, then x_t does not Granger cause Y_t. But if any of the parameters is not significantly equal to zero, then x_t Granger cause Y_t. The equations (5 and 6) specify Granger causality test on the reverse side. That is from Y_t to X_t. If that $\beta i = \beta_2 = \beta_3 = 0$, then Y_t does not Granger cause X_t. Otherwise, Y_t Granger cause X_t. The statistic use to test the hypothesis is the F-statistic. If the results in equation (3) is statistically significant but equation (4) is not, then there is a uni-directional relationship between Y_t and X_t and the line of causation is from X_t to Y_t. On the other hand, if equation (4) is statistically significant but not equation (3) there is still an uni-directional causality between Y_t and X_t but the line of causation is from Y to X. Finally, there exist a feedback or bi-directional relationship between X_t and Y_t if the parameters in both equations are statistically significant. The line of causation in this case runs in both directions.

5.2.2 Model Specification for Impact of Public Sector Wages and Consumer Price Index (Relative Price Effects or Baumol Effects) on Total Consumption (Recurrent) Expenditure

The basic explanatory model for this relationship is as follows:

$$TCE_t = F(W_t, P_t) \ldots\ldots\ldots\ldots\ldots\ldots (7).$$

where : TCE = total consumption or recurrent expenditure,

Wt = Public Sector Wage

Pt = Consumer Price Index

t = time lag

F = functional relationship

Following the Granger Causality proecedure as discussed in 5.2.1; the general model of the unrestricted equation in stochatistic form will be as follows:

$$TCE_t = \beta_o + \sum \beta_i TCE_{t-1} + \sum W_{t-1} + u_t \ldots\ldots\ldots (8)$$

$$TCE_t = a_o + \sum a_i TCE_t \sum a_i^2 P_{t-1} + U_t \ldots\ldots\ldots (9)$$

Equation (8) measures Granger causality test between total consumption expenditure and public sector wages; while equation (9) measures Granger causality between total consumption expenditure and consumer price index. $\beta_o = \beta_i = \beta_2 = 0$ implies that public sector wages do not Granger cause total consumption expenditure, otherwise, it does. The reverse equation will measure the granger causality from Total consumption expenditure to public sector wages. Equation (9) was used to test Granger causality between total consumption expenditure and the consumer price index and vice versa. The F-statistic is also used here to determine the level of significance of the parameters.

5.2.3 Revenue and Expenditure Model

The functional relationship between government spending and its recurrent revenue, which is the main source of government's revenue, is given by the basic model:

$$TE_t = F(TRR_t) \ldots\ldots\ldots (10)$$

where, TE = total expenditure

TRR = Federal Government's share of total recurrent revenue

F = mathematical notation for function, and

t = time variable.

Following the Granger procedure, the general causal model of the unrestricted equation in stochastic form will be as follows:

$$TE_t = \beta_o \sum \beta 1\ TE_{t-i} + \sum \beta_2 TE_{t-1} + \sum \beta_3 TRR_{t-1} + \sum \beta_4 TRR_{t-1} + U_t \quad \ldots\ldots\ldots (11)$$

$$TE_t = a_o \sum a_1 TE_{t-i} + \sum a_2 TE_{t-1} \quad \ldots\ldots\ldots (12)$$

$$TRR_t = a_o + \sum a_1 TRR_{t-i} \sum a_2 TRR_{i-2} + \sum a_3 TRR_{i-3} + \sum a_4 TRR_{t-4} \quad TE_{t-2} \quad \ldots\ldots\ldots (13)$$

$$TRR_t = a_o \sum a_1 TRR_{t-i} + \sum a_2 TRR_{t-1} \quad \ldots\ldots\ldots (14)$$

where:

TE_t and TRR_t are two stationery series;

i and j are lag lenghts, which is taken to be 2 years;

U_t and W_t are well behaved, normally distributed error terms; and.

β_o, β_j^1 and β_i^{11} as well as a, a^o and a_j are all parameters to be estimated.

5.3 Regression Estimation Results

5.3.1 Regression of Total Expenditure (TE) on GDP

Log TE = 0.9904 + 1.05219 Log GDP ..... (15)

Statistics

$R^2 = 0.9232$

$R^2 = 0.9208$

$DW_2 = 1.2458$

SE = 0.2739

n = 34, t-values in parenthesis.

5.3.2 Regression of Capital Expenditures (CE) on GDP

Log CE = 1.76747 + 1.137918 Log GDP ..... (16)

(-5.38082) (15.88347)

$R^2 = 0.8874$

$R^2 = 0.8839$

DW = 1.7891

SE = 0.3659

n = 34, t-values in parenthesis.

5.3.3 Regression of Recurrent Expenditure (RE) on GDP

Log RE = -1.0945 + 1.01490 Log GDP ..... (17)

(-4.95935) (21.08463)

Statistics

$R^2 = 0.9328$

$R^2 = 0.9307$

DW = 1.7658

SE = 0.2458

n = 34, t-values in parenthesis.

5.3.4 Regression of Administration Sector's (ADM) Total Expenditure on GDP

Log TE_{ADM} = -0.84106 + 0.892766 Log GDP ..... (18)

(-3.7779) (3.60)

Statistics

$R^2 = 0.9136$

$R^2 = 0.9108$

DW = 2.2744

SE = 0.2480

n = 34, t-values in parenthesis.

5.3.5 Regression of Economic Sector's (TE_{ECON}) Total Expenditure on GDP

$$\text{Log } TE_{ECON} = -1.41292 + 0.987973 \text{ Log GDP} \quad \text{..... (19)}$$

(-3.86711) (3.60)

Statistics

$R^2 = 0.8377$

$R^2 = 0.8223$

DW = 1.7888

SE = 0.4609

n = 34, t-values in parenthesis.

5.3.6 Social Sector's Total Expenditure (TE_{SOC}) on GDP

$$\text{Log } TE_{SOC} = -2.04409 + 1.059364 \text{ Log GDP} \quad \text{..... (20)}$$

(-6.30075) (14.97186)

$R^2 = 0.8750$

$R^2 = 0.8711$

DW = 1.6753

SE = 0.3613

n = 34, t-values in parenthesis.

5.3.7 Regression of Transfers Sector (TRS) Total Expenditure on GDP

$$\text{Log } TE_{TRS} = -2.42103 + 1.242912 \text{ Log GDP} \quad \ldots\ldots\ldots\ldots (21)$$

(-9.50223) (22.3668)

Statistics

$R^2 = 0.9398$

$R^2 = 0.9380$

DW = 1.7268

SE = 0.2838

n = 34, t-values in parenthesis.

5.3.8 Elasticities of Total, Functional and Sectoral Federal Government Expendiures

From 5.2.1 to 5.2.7 above, we derive the following elasticities, on Table 5.1:

The salient structural features of government spending in Nigeria are summarised in Table 5.1 while the details are discussed in the analysis that follows.

TABLE 5.1

STRUCTURAL CHARACTERISTICS OF TOTAL AND SECTORAL FEDERAL GOVERNMENT EXPENDITURE 1962-1995

Variables	Elasticity Coefficient	R2	DW
1. Total Expenditure	1.05219	0.9232	1.2458
2. Capital Expenditure	1.137918	0.8874	1.7891
3. Recurrent Expenditure	1.01490	0.9328	1.7658
4. Administrative Sector	0.892866	0.9136	2.2744
5. Economic Sector	0.98797	0.8377	1.7888
6. Social Services Sector	1.059364	0.8750	1.6753]
7. Transfer Sector	1.242912	0.9398	1.7268

5.4 Analysis of Estimation Results

The results of the regression of total expenditure on GDP (equation 15) are quite remarkable because among other considerations, the t-ratios are high and statistically significant while the coefficient of determination (R^2) is equally high. This indicates that at least 92 per cent of variations in expenditure can be explained by variations in the GDP. Likewise, auto-correlation does not appear to be a problem because the Durbin-Watson (d statistic) value falls within the acceptance region of null hypothesis of no auto-correlation i.e (du-4-dlu = 1.59-2.41). The total explanatory power of the equation is thus quite robust. The results provide a rather overwhelming evidence on whose basis we can conclude that there is a strong positive relationship between government spending and the GDP. The fairly high elasticity coefficient of 1.05 not only reaffirms the strength of this relationship, it also confirms "Wagner's Law", which implies that as an economy grows, government expenditure will also grow at even a faster rate. An important property of this "Law"

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is that income elasticity should be greater than unity. From our results, it can be seen that period covered by our study (1962-1995), it indeed grew at a faster rate than the GDP. This result also lends further credence to the findings of other researchers, including Phillips (1972); Enweze (1973), and Bello (1995).

The results of the regression of capital and recurrent expenditures, (equations 16 & 17) respectively, on the GDP are consistent with our findings on the growth profile and pattern of growth discussed in chapter four. The results in respect of both show remarkable significant relationships between them, capital and recurrent expenditures, and the GDP. For capital expenditure, the statistics show a fairly robust goodness of fit (0.88) between it and the GDP. So too is the elasticity coefficient remarkably high (1.13), which means that capital expenditure is not only dependent on the GDP, its growth rate is higher than that of the GDP. The result also showed that there is no problem of auto-correlation between the two variables, and the error coefficient is fairly low. Similar observations can also be made for recurrent expenditure whose correlation with the GDP is significantly high, (0.93) and in comparison to the correlation between capital expenditure and the GDP, that between recurrent expenditure and the GDP is more robust, indicating a closer relationship between the two, recurrent expenditure and the GDP. In terms of their elasticities, capital expenditure has a higher income elasticity (1.14) as against (1.01) for recurrent expenditure. These results are consistent not only with the relationship between Federal Government's total spending and the GDP, but also with many of the theories of expenditure growth, and the empirical findings of a number of researchers in the field.

The results of our regression estimates in respect of the sectoral or functional categories of government expenditure, i.e. administration, economic, social services, and transfers, (equations 18 - 21) reveal very interesting characteristic features about sectoral expenditures. Taken, collectively, the results reveal that in general, the variations in the sizes of sectoral expenditures, over time, depend largely on the size of the GDP. The coefficient of this relationship is significant across the respective sectors: administration , 91 percent; economic, 83 percent: social services, 87 percent; and transfers 94 percent. Again these results convincingly give credence to our analysis of the trend and pattern of Federal Government spending over the period covered by our study. Furthermore, even though R^2 varied between the sectors, the two sectors which have dominated government spending; administration and transfers exhibit very significant dependency relationship with the GDP. There is no question about the plausibility and reliability of the results as in all four cases, the Durbin-Watson test reveal no cases of serial correlation, the constants have the expected directional signs, and the t-values are quite significant.

When we examine the income elasticities of the respective sectors (Table 5.1) again, we find quite interesting but not all together unexpected results. The results reveal among other things that although the administrative and transfers sectors have the highest correlation coefficients, they exhibit different behaviours with respect to their income elasticities. Importantly, the results show that the transfers sector has the highest elasticity coefficient (1.24), meaning that this sector grows at a faster rate in relation to the GDP, than the others. This is, of course, consistent with other empirical evidences. Significantly too, we find that even though the social services sector has a comparatively low correlation coefficient, it has the second

highest elasticity coefficient. The results as they relate to the income elasticities, taken together, show that the transfers and social services sector grow at a faster rate than the GDP, while the administrative and economic sectors barely manage to keep pace with the growth of the GDP. Interestingly, our estimation results reveal that contrary to the general impression, the administrative sector though strongly correlated with the GDP has the tendency to grow at a relatively slower rate than the GDP. This is understandable since expenditure on a major component of the administrative sector, i.e. general administration tends to have a relatively lower coefficient of variation over time. This has been empirically established by Omoruyi (1988), who in his study on the fluctuations of Federal Government spending found that expenditure on general administration has comparatively a lower coefficient of variation, an average of 25 percent, as against defence and internal security average of 40 percent. This same study showed the social services sector having the highest coefficient of variation, about 50 percent which is not inconsistent with our own findings.

Overall, the results of our regression estimates on total government spending and its sectoral (functional) components reveal very notable characteristics. Taken together, they have a strong correlation with the GDP, and their growth pattern is quite consistent with the expenditure patterns generally associated with countries at the development stage as Nigeria.

5.5.0 Estimation Results: Total Consumption Expenditure (TCE) on Public Sector Wages (W) and Consumer Price Index (P) - Relative Price Effects

From the general model in equation (7), we obtained the following regression results:

$$TCE_t = 2.46210 + 1.21432\ W_t + 1.0061\ P_t \quad \ldots\ldots\ldots\ldots (22)$$

(2.9512) (3.8211) (1.3600)

$R^2 = 0.9343$

DW = 2.3104

n = 33

SE = 0.7400

t = values (ratios) are in parenthesis.

The results of regression estimates of the impact of relative price effects on total consumption expenditure are quite plausible because among other things, the ratios (in parenthesis), and the corresponding coefficients are statistically significant. The coefficient of determination R^2, is equally high, and the estimated parameters have the expected (a priori) signs. These imply that the explanatory strength of the regression equation is quite credible. Again, given that the Durbin-Watson (DW) statistics falls within the acceptance region, i.e. between 1.59 and 2.41, auto-correlation is not a problem in the results. Overall, the results appear to provide us with quite strong evidence that both public sector wages and the consumer price index, i.e. relative price effects, have an impact on the growth of consumption expenditure. From the results, wages have a greater influence, while the price element exerts a residual pressure. Both, taken together, support the existence of "Baumol Effects" in the growth of consumption expenditure and in consequence, total government spending in Nigeria within the period under study. We can now proceed to check for stationarity and conduct the Granger Causality test in order to

fully appreciate the direction of the relationship which we notice from the results of the OLS regression estimates, and to formally test our hypotheses.

5.5.1 Causality Analysis of Total Consumption Expenditure, Public Sector Wages and Consumer Price Index

Engel and Granger (1989), observed that non-stationarity in time series data can lead to spurious correlation and consequently, non-plausible regression results. Besides, ordinary regression results on its own cannot provide the necessary insights on the direction (of relationship or causality) and strength of causalities. It therefore becomes necessary to check whether or not the variables are stationary before we can meaningfully apply the Granger test.

For this study, a unit root test was applied to total consumption expenditure, public sector wages and the consumer price index to check for stationarity. Table 5.2 shows the results for the Augemnted Dickey Fuller Unit root test. These tests conducted at the levels of the variables show that all variables were not stationary. The findings suggests that they are integrated series of order one (1) variables as confirmed by a test on the first difference of the variables.

Table 5.2Unit Root Test on TCE, WT AND CPI

Variable	ADF	ORDER	MAC-KINNON Critical Values
Log $LTCE_t$	-5.427537	1	1% -4.4167 5% -3.6219 10% - 3.5700
Log W_t	-4.88703	1	1% -4.5321 5% -3.2611 10% -3.8118
Log P_t	-5.34642	1	1% -4.7315 5% -3.7011 10% -3.8118

Integrated observations = 31 after adjusting endpoints.

The results in Table 5.2 above shows that the first log difference of all the variables continued stationarity. This is true since the ADF values are greater than the critical values at all confidence levels. The Granger causality test is then performed on these stationary series.

5.5.2 Granger Causality Test for Total Consumption Expenditure, Wages and Consumer Price Index

The effects of "filtering" the data through Log differencing enables us to conduct the bivariate Granger Causality Tests. The results are in Table 5.3.

TABLE 5.3: GRANGER CAUSALITY TEST FOR TOTAL CONSUMPTION EXPENDITURE, WAGES AND CONSUMER PRICE INDEX

NULL HYPOTHESIS	ALTERNATIVE HYPOTHESIS
A change in TCE does not	TCE is not
Granger cause;	Granger - caused by;
ΔW_t = 6.84	ΔW_t = 0.23
ΔP_t = 4.63	ΔP_t = o.12

Based on the tests of our hypothesis on Table 5.3, we can conclude that the relationship between total consumption expenditure on the one hand, and public sector wages and consumer price index (relative price effects) is uni-directional. Total consumption expenditure contains significant elements of "Baumol Effects" which is consistent with our alternative hypothesis. So we reject the null hypothesis, and accept the alternative hypothesis that total consumption expenditure is affected by "relative price effects. Thus, a significant portion of observed growth in total government spending in Nigeria within the period covered by one study can be explained off by variations in public sector wages and the consumer price index.

In other words, the results show that there exist a unidirectional relationship between consumption expenditure, public sector wages and relative price index. The line of causation is through public sector wages to Total consumption expenditure and from Relative price index to total consumption expenditure. Put differently, the results indicate that public sector wages Granger wise total consumption expenditure and also consumer price index Granger cause total consumption expenditure and not the other way round. These results are confirmed at Fc.05 = 4.17 < FDW_t = 6.84 and FDP_t= 4.63. On the other hand FDW_t = 0.23 < Fc.05 = 0.03 and FDP_t 0.12 < Fc.05 = 0.05 shows no causality between the variables.

5.6.0 Estimation Results - Expenditure on Revenue

In our second model (equation 9), the following results were obtained for the unrestricted regression of total expenditure (TE) on Total Recurrent Revenue (TRR):

t - values are in parenthesis.

$$TE_t = 1.30837 - 0.07691 TE_{t-1} + 0.3141 TE_{t-2}\ tw +$$

(o.41003) (1.42922)

$$+ 0.1072\ TRR_{t-1} + 0.2556\ TRR_{t-2}$$

(0.60019) (1.0514) ..... (21)

R^2 = 0.6831

R^2 = 0.6942

DW = 2.17

SE = 0.2431

n = 31

The result of the restricted regression of total expenditure from equation 6 is:

$$TE_t = 1.412129 - 0.2495\ TE_{t-1} + 0.3307\ TE_{t-2}$$ ..... (24)

(-31151) (1.61814) (2.1445)

$R^2 = 0.6512$

$R^2 = 0.5541$

DW = 2.32

SE = 2.6358

n = 31

The results of equation (10) and (12) that the unrestricted and restricted equation regressing total recurrent revenue on total expenditure with the t-valuein parenthesis is presented.

$$TRR_t = 1.21046 = 0.063484\ TRR_{t-1} + 0.45612\ TRR_{t-2} + \underset{(0.3125)}{} \quad \underset{(2.2458)}{}$$

$$0.2041\ TEt\text{-}1 + 0.3654\ TEt\text{-}2 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ (25)$$
$$(1.0049) \qquad (1.79911)$$

$R^2 = 0.6533$

$R^2 = 0.4831$

DW = 2.31

SE = 0.2031

n = 31

The result for the restricted equation of total recurrent revenue (TRR_t) from equation (12) is:

$$TRR_t = 2.3892 - 0.25722\ TRR_{t-1} + 0.3137\ TRR_{t-2} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ (26)$$
$$(13.5136) \qquad (1.91048)$$

$R^2 = 0.6623$

$R_2 = 0.5546$

D.W = 2.21

SE = 0.1738

n = 31.

5.6.1 Analysis of Estimation Results

The results of the estimation of the impact of recurrent revenue on government expenditure growth present an interesting picture. Even though the signs (directions) of the parameters are as expected, a priori, the strength of the relationship is less than expected. This is evidenced by both the relatively low values of the estimation parameters, low t-values (in parenthesis) and a correspondingly low R^2. The regression equation nontheless provides a plausible basis for us to conclude that its explanatory content is fairly high moreso when the Durbin-Watson statistic shows that there is no problem of auto-correlation. Essentially, the results have established a relationship between Federal Government total spending and its share of the total recurrent revenue earned during the period covered by our study.

5.6.2 Causality Test: Federal Government's Total Recurrent Revenues (TRR) and Total Expenditure; (TE_t)

As earlier observed in order to avoid a spurious result between growth in Federal Government expenditure and total recurrent revenue, it becomes important to check whether or not the variables are stationary before we can apply the Granger test.

By using Augmented Diker Fuller (ADR) unit root test at the levels, it was discovered that the logarithmetic functions of the series for total recurrent revenue (TRR_t) and total government expenditure (TEt) were non-stationary. The variables

were therefore transformed by taking the first log difference to induce stationarity. The ADF unit root tests for the first difference was discovered to be significant at all critical values i.e. at 1%, 5% and 10% critical values. the results is presented in table 5.4.

Table 5.4 Augmented Dickey Fuller Unit Root Test on TRR_t and TE_t

Variable	ADF	ORDER	MAC-KINNON Critical Values
Log TRR_t	-4.837214	1	1% -3.2456 5% -3.1746 10% - 2.8447
Log TE_t	-5.245694	1	1% -4.31467 5% -3.6456 10% -3.4279

Included observations = 31 after adjusting endpoints.

The results in table 5.4 shows that the series in stationary at the first log-difference. Based on the generated stationary series, the granger causality test was applied to the variables.

5.6.3 Granger Causality Test: Federal Government Recurrent Revenue and Total expenditure

Null Hypothesis	Alternative Hypothesis
TRR does not	TRR is not
Granger cause	Granger caused by
TE = 1.33	TE = 1.67

There is bivariate causal relationship between total expenditure and total recurrent revenue. From the above presentation we observe that there exist a bi-directional relationship between the two variables. This implies that the growth in Federal Government recurrent revenues positively affects total expenditure, while

the changes in total expenditure appear to have a similar effect on recurrent revenue.

5.6.4 GRANGER CAUSALITY TEST: FEDERAL GOVERNMENT RECURRENT REVENUE AND TOTAL EXPENDITURE

Null Hypothesis	Alternative Hypothesis
TRR does not	TRR is not
Granger Cause	Granger Caused by
ΔTE = 4.33	ΔTE = 4.67

There is bivariate causal relationship between total expenditure and total recurrent revenue. From the above presentation we observe that there exist a bi-directional relationship between the two variables. This implies that the growth in Federal Government recurrent revenues positively affects total expenditure, while the changes in total expenditure appear to have a similar effect on recurrent revenue.

5.7 RESULTS OF QUESTIONNAIRE SURVEY ON THE FACTORS THAT INFLUENCE THE GROWTH OF PUBLIC SPENDING IN NIGERIA.

5.7.1 Introduction

The questionnaire (copy attached in Appendix) was designed to elicit information on three broad issues. These are (i) the relevance of the budget in making spending decisions, (ii) the influence of top bureaucrats in the budget process, and (iii) general problems associated with budgeting and budget implementation in Nigeria.

TABLE 5.5: SIGNIFICANCE OF THE BUDGET IN SPENDING DECISIONS

QUESTIONS	RESPONSES FREQUENCY N = 50					
1. How do you regard the budget as a determinant of spending decisions in the Federal Civil Service?	V.H.	H	FH	L	NA	TOTAL
	20 (40)	15 (30)	10 (20)	5 (10)	0 (0)	50 (100%
2. How high has been the general relationship between approved budgetary allocation and actual spending in your Department/Ministry?	18 (36)	12 (24)	10 (20)	9 (18)	1 (2)	50 100%)
3. What is the extent of object analysis of proposed expenditure requests at the Departmental/ Ministerial levels?	13 (26)	10 (20)	15 (30)	10 (20)	2 (4)	50 100%)

KEY: V.H = Very High
H = High
FH = Fairly High
L = Low
NA = Not at all

Percentages of responses to total sample population are in parenthesis below the respective frequency scores.

TABLE 5.6 INFLUENCE OF BUREAUCRATS IN BUDGET/SPENDING DECISIONS (AGENDA-SETTING ROLE)

QUESTIONS	RESPONSES FREQUENCY N = 50					
4. To what extent would you say that top bureaucrats (Permanent Secretaries/Directors General) were able to influence budget/spending allocations to their Departments/Ministries in the following periods:	V.H.	H	FH	L	NA	TOTAL
(i) 1970s	30 (60)	15 (30)	5 (10)	0 (0)	0 (0)	50 (100%
ii) 1980s	17 (34)	13 (26)	10 (20)	8 (16)	2 (4)	50 (100)
iii) 1990s	10 (20)	9 (18)	13 (26)	12 (24)	6 (12)	50 (100)

QUESTIONS	RESPONSES FREQUENCY N = 50					
5. How do you rank the following factors as accounting for the role of bureacrats in determining spending decisions:						
(i) Superior Knowledge of the system	18 (36)					
(ii) Low knowledge of policy makers	5 (10)					
iii) Complexity of Budgetary process	15 (30)					
(iv) Corruption	12 (24)					

TABLE 5.7 SOURCES OF EXCESSIVE GOVERNMENT SPENDING

Q.6 Which of the following factors have in your view contributed the most to the Excessive Growth of Government Spending.	
FACTOR	RESPONSES FREQUENTY N = 50
(i) Oil Revenue	20 (40)
(ii) Bureaucrats	12 (24)
iii) Development Objectives	5 (10)
iv) Welfare Services	4 (8)
v) Expansion of (concentration) of the size of Government	8 (16)
vi) Others (specify)	1 (2)
TOTAL	50 (100%)

Percentage of response (frequency) are in parenthesis.

TABLE 5.8 PROBLEMS OF BUDGETING IN NIGERIA

Q.7 Which of the following do you consider as the major factors affecting Budgeting, Budget Implementation, and Control in the Federal Civil Service.	
FACTOR	RESPONSES FREQUENTY N = 50
(i) Weak Budgeting System	12 (24)
(ii) Lack of Experts in the Service	2 (4)
iii) Non-adherence to laid down Financial Rules and Regulations	10 (20)
iv) Excess Revenue	6 (12)
v) Budget Distortion	12 (24)
vi) Extra-Budgetary spending	6 (12)
vii) Others (Specify)	4 (8)
T O T A L	50 (100%)

Percentage of response (frequency) are in parenthesis.

5.7.2 Analysis of Results:

The results of our questionnaire survey are summarized in Tables 5.5; 5.6.; 5.7; and 5.8. The results are generally consistent with our conclusions on the budget format and process, its major weaknesses and the role of bureaucrats in contributing to the excessive growth of public spending. Questions summarized on Table 5.5 attempt to bring out the significance of the budget as an instrument of public policy and determinant of spending decisions. A high number of respondents 20 (or 40.0 percent) regard the budget very highly as an instrument of public spending, while another 15 (or 30 per cent) of them agreed that the role of the budget is sufficiently high to make it significant as a medium for articulating spending decisions. The significance of the budget as a tool of expenditure policy is further underscored by responses to the second question (2) which sought to establish the

relationship between budgetary allocation and actual spending. Although the relationship cannot be said to be quite strong, it is obvious all the same that a sufficiently high enough relationship exists. Despite the significance of the budget as an instrument of policy however, it does not seem that sufficient analysis, in terms of details and rigour, goes into the budget process at the ministry and departmental levels.

The role of top bureaucrats, specifically Permanent Secretaries and Directors General, in the growth of government spending is presented in Table 5.6. In an attempt to put the, agenda-setting role in proper context, the question was asked with regards to three periods, 1970s, 1980s and 1990s. It is clear that bureaucrats were far more influential in determining government spending profile in the 1970s. From the responses, an overwhelming 45 (or 90 percent) of respondents believed that top bureaucrats had a very strong agenda-setting role with regards to government spending in the 1970s. This role however appeared to have declined with time as only a total of 19 (or 38 per cent) of respondents believed top bureaucrats still had strong (very high or high) roles in determining government spending. A set of questions were asked in order to locate the sources of the bureaucrats domineering influence in determining governments spending profile. Interestingly, a sizeable number of respondents were of the view that the superior technical knowledge possessed by the bureaucrats coupled with the complex nature of budget preparation gave top bureaucrats the advantage they had. On the other hand upto 12 (or 24 per cent) of respondents believed that "corruption" was responsible for the role bureaucrats played in making spending decisions.

The last set of questions sought the respondents views on two areas: major

sources of expenditure growth (Table 5.7) and problems of budgeting and budgetary control in Nigeria, (Table 5.8). The question regarding factors affecting (expenditure) growth were asked in order to verify from an institutional perspective, how the factors we have earlier identified are percieved. A good number 20 (or 40 per cent) of respondents identified oil revenues as the major source of the excessive growth in government spending. A fairly high 12 (or 24 per cent) identified bureaucrats as the major source of the growth in public expenditures. This response is rather surprising considering the fact that all the respondents were bureaucrats. The final question (Table 5.8) sought to identify the sources of the weaknesses identified in the budget system. A variety of factors, the major ones including: inherent weakness in the budgeting system (24 per cent); non-adherence to laid down financial rules and regulations 20 per cent, and budget distortion, (24 per cent), were identified as being the major factors responsible for the problems of budget implementation and control in the Federal Civil Service.

Overall, the statistics obtained and summarized in the tables, though not subjected to any rigorous analysis, provide strong and convincing evidence to support our hypothesis regarding the role of bureaucrats in explaining the excessive growth of federal government spending in Nigeria.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.0 INTRODUCTION

In this study, a number of findings, a summary of which is presented below, were made. Based on these findings, a number of conclusions on the pattern, growth profile and the major sources of the phenomenal growth in public spending in Nigeria were drawn. A number of policy recommendations on how to effectively reorganise and rationalise government spending with a view to making them more productive, growth inducing and sustaining, and amenable to effective control limits, were also put forward.

6.1 Summary of Findings

The study identified the following features as the major characteristics of Federal Government spending in Nigeria

i) Federal Government expenditures have grown phenomenally in both nominal and real terms, over the period covered by the study, 1962 to 1995. In nominal terms, Federal Government's total expenditure rose from ₦168.3 million in 1962 to ₦248.7 billion in 1995. In real terms, when taken as a share of the GDP, Federal Government spending alone, has ranged between 8.0 per cent and 41.0 per cent over the period.

ii) The growth of Federal Government spending can, on the basis of some distinctive characteristics and growth patterns be categorised into four phases, with each (phase) spanning a given time period, and exhibiting growth rates and expenditure patterns that can easily be

associated with the peculiar socio-economic circumstances of each period. The periods identified are: 1962-1967, a period of modest growth in government spending. Expenditure levels ranged between 7.7 and 8.7 per cent of the GDP, with a median E/GDP ratio of 8.0 per cent. The second phase covered the period between 1968 and 1973, a period during which a sudden escalation in government spending became manifest. Spending rose from about 15.0 per cent of the GDP to over 31.0 per cent, with a median E/GDP ratio of 17.0 per cent for the period. The third phase covers the period between 1974 and 1980. This period witnessed the sharpest rise in government spending with the E/GDP ratio ranging between 20.8 and 41.0 per cent, with median ratio of 32.4 per cent. The fourth and final phase covered the period 1981and 1995, (when our study terminated). Though the E/GDP ratio was generally lower than for the immediately proceeding phase, spending in relation to the GDP was still relatively high. The E/GDP ratio ranged between 17.1 and 33.5 per cent, with a median ratio of 21.3 per cent.

iii) In terms of structure, the study confirmed the general weakness frequently associated with government spending, at all levels of government in Nigeria. This refers to the often overwhelming dominance of recurrent or consumption expenditure over and above capital or investment expenditures. For most of the period covered by our study, this was the general trend. Although, it now appears that the dominance of debt-related expenditure in the nation's fiscal profile has taken over from this traditional weakness.

iv) Expenditures, both recurrent and capital, are distributed between four sectors: administration, economic services, social and community services and transfers. Expenditures in the first three sectors are usually referred to as non-debt, while expenditures in transfers are generally and largely debt related. In the non-debt related category, the administrative sector attracts the highest percentage allocation relative to the other sector. The sector, has until recently, noticeably in 1990, accounted for significant shares of total Federal Government spending annually.

v) In terms of the relative GDP shares of sectoral non-debt expenditures, the study found that, again, expenditures in the administrative sector generally accounted for a relatively greater share of the GDP. In recent years however, the relative share of the administrative sector to the GDP has declined appreciably. The shares of the economic sector and social services sector, respectively, have similarly declined, although fairly gradually. The three sectors taken together account for an average of 8.0 per cent of the GDP in recent years, particularly since , 1984 or thereabout. Transfers (expenditure) share of the GDP has on the other hand risen fairly sharply particularly since around 1984. Since then, the sector's share (of the GDP) has ranged between 9.0 and 19.0 per cent, respectively. Viewed within a more global context, the relative shares, of expenditures on productive and services sector to the GDP have declined in recent years, while expenditures on debt-related commitments have risen quite significantly in relation to the GDP.

vi) Based on the results of our OLS regression estimates, we found that government spending has a strong and positive relationship with the GDP, a high R^2 of 0.9 (or 90.0 per cent). Not only that, government expenditure rises slightly faster than the growth in the GDP, this is evidenced by the income-elasticity coerfficient of 1.053, thus confirming one of the underlying properties of "Wagner's Law". That is, as a country experiences "economic progress," both national output and government spending will grow but the latter will grow at a faster rate than the former.

vii) Findings relating to sectoral expenditure exhibit strong positive relationships between them (sectoral expenditures) and the GDP. The results of the regression estimates show that for non-debt related expenditure, the administrative sector has the strongest positive relationship with the GDP with an R^2 of 0.91 (or 91.0 per cent), it is followed by the social services sector with 97.0 per cent, and the economic sector with about84.0 per cent. Interestlyingly however, in terms of their growth trend, relative to the GDP, our findings revealed that aside from the transfers sector, the social services sector has the highest income elasticity coefficient (1.06), followed by the economic sector (0.90). This means that even though the expenditure on the administrative sector dominates total government annual spending, and in consequence accounts for a higher share of the GDP in comparison to the other sectors, the sector (administration) grows at a slower rate than the other sectors. As is evidenced from our

analysis, the social services sector grows at about the same rate as the growth in total expenditures, while the economic sector grows at a slightly slower rate than total expenditure, and the administrative sector at an even lower rate than both total, expenditure and the economic sector, respectively.

viii) One of the cardinal objectives of the study is to determine the factors that constituted the major sources of growth in Federal Government spending between 1962 and 1995. At a general level, the study found that the combination of a number of factors have had an expansionary effect on government spending over the years. Among these factors include: the dominant role played by the military in the management and control of the Nigerian political economy; the Nigerian Civil War; the dominant centralist tendencies (of constitutional responsibilities) of the Federal Government; the unduly pro-active role which bureaucrats assumed from the period (especially) after the Civil War, and of course the combination of the structural and institutional changes in government's revenue circumstances, and the various macro-economic policies that have been pursued by government.

ix) The Granger causality test was used to determine the specific influences on the growth profile of Federal Government spending. The results not only generally confirmed our a-priori expectations, they also provided new insights into the dynamics of Federal Government spending in Nigeria. In the first place, our analysis confirmed the significant influences of relative price effects "Baumol Effects" on the

growth of government spending in Nigeria. Secondly, we found a positive and bi-directional relationship between government's recurrent revenue and the size of its annual spending (expenditures). Although the coefficients of this relationship, revenue - expenditure, appear generally weaker than expected, it was quite clear that there is a symbolic relationship between government revenue circumstances and its spending profile.

x) The result of our statistical analysis confirmed our expectation that within an institutional context, the civil service has had a significant influence on the growth of Federal Government spending through the budget process. Top bureaucrats had a clear agenda-setting role in the budget process which allowed than to influence the size and scope of government spending.

xi) An examination of the budget making proces revealed among other things that the process is still very incremental, while budget execution is made quite cumbersome and rather "repetitive", as release of authorised budget allocations are often delayed, or not honoured at all. More serious is however the finding that extra-budgetary spending and related fiscal indiscipline have become endemic in the management of Nigeria's fiscal resources.

xii) In all, it was confirmed that both structural and institutional factors contributed to the phenomenal growth of federal government spending within the period under review.

6.2 Conclusions

Government in Nigeria has become a "Leviathan".[1] This is evidenced by the phenomenal growth in public spending since the attainment of political independence in 1960, but more especially since the mid-1970s when the substantial in-flow of oil revenues appeared to have propelled a remakarbly high propensity, in government, to spend. This trend of growth is among other things underscored by the fact that federal government spending alone within this period accounted for varying, but nonetheless, significant shares of the country's GDP. This (share) ranged between 8.0 per cent in 1962, to over 40 per cent in the mid-1970s. Even though, there has been an observable (relative) decline in its real growth profile, the incidence and consequences of government spending remain major issues of public policy and concern in the country.

Although it is today a generally acknowledged fact that there exists some correlation between government spending and economic development, the peculiar circumstances of the structure and growth profile of public expenditures in Nigeria tend to draw attention to a number of factors which appear to have combined to generally weaken the efficacy of government expenditures in Nigeria. In particular, it has been observed that such expenditures though constituting significant shares of the GDP, have failed to make any corresponding contributions to economic growth, nor to the attainment of a number of macro-economic, as well as socio-political goals and objectives which these expenditures are designed to address. The inherent weaknesse in government spending have been attributed to a number of factors including its lop-sided structure and pattern which have been dominated by consumption expenditure, and a fiscal management system which has not only

contributed to the excessive growth of government spending but has equally contributed and facilitated high levels of fiscal indiscipline.

Factors that have positively influenced the phenomenal growth in federal government spending are as many as they are diverse, but they can nonetheless be classified into two broad categories - structural and institutional. Among the structural factors include revenue-effect, relative price effects and a host of government's macro-economic policies over time, while the institutional factors include the role of bureaucrats who have had a strong agenda-setting role in public policy including the budget process, and policy antecedents which combine to gradually concentrate far more responsibilities with the federal government, a manifestation of which is the rising profile of its expenditures.

The sum total of the impact of the various influences on the structure, pattern and growth profile of federal government spending in Nigeria is that today we have a disproportionate government expenditure profile, dominated by consumption expenditure particularly on general administration and defence. A structure that has over the years witnessed the increasing dominance of debt related expenditure and a decline in expenditures that contribute to the enhancement of human welfare. The major conclusion we can make given the expenditure scenario in Nigeria is that policy should be directed towards reversing this excessive growth trend and making sure that government spending more and more serve human welfare and development needs.

6.3 Recommendations

On the basis of our findings and the conclusions therefrom, and in light of the

need to make government spending in Nigeria more functional, efficient and equitable while at the same time serving the wide range of socio-political and macro-economic goals and objectives which generally underlie government's fiscal policy and expenditure decisions, we make the following observations and recommendations;

i) Government expenditures have in recent years become excessive and should be trimmed down. As a long term macro-economic and overall fiscal policy measure, government should institute an "expenditure reduction" programme specifically designed to systematically check the excessive growth of its expenditures.

ii) In particular, government should pursue an expenditure policy programme that will, within a given time-frame, cut total government annual spending to a maximum of 15.0 per cent of the GDP. This measure will best be appreciated when viewed within the context of the overall government spending in the country. Thus, if the federal government is able to reduce its own spending to sustainable (maximum) level of 15 per cent (of the GDP), the combination of states' and local governments' expenditure should ultimately push total government spending in Nigeria to between 25 and 30 per cent of the GDP. This is against the over 60.0 per cent of the GDP which is currently the trend.

iii) The need to significantly cut back on federal government spending is based largely on the inability of government expenditure to among other things, make significant contributions to economic growth. Thus,

it follows that the principle, particularly that of "market failure" which initially informed, and in practice sustained the rather dominant posture of government in the appropriation and control of national fiscal resources appear no longer tenable. In effect, we have a clear manifestation of "government failure". It thus becomes inevitable for government to take a critical look at its constitutional or statutory responsibilities, particularly as they relate to the provision of some line of public goods, with a view to rationalise some of its functions and systematically transfer a number of them to the private sector. This is in line with the World Bank (1995) recommendation.

iv) At the same time, there should be a major reassignment of constitutional responsibilities between the levels (tiers) of government with a view to transferring major responsibilities for grassroots related functions to the states and local governments. Especially included here are primary education, primary health care, agricultural production and basic social services, which by nature are most efficiently and effectively performed by lower level governmental units.

v) Government should address the structural imbalances in its expenditure pattern. On the one hand, the relationship between recurrent (consumption) expenditure and capital (investment) expenditures should be realigned in such a way that capital spending especially for the provision of social and economic infrastructure in the areas of health, education, housing and transportation are accorded priority-ranking. On the other hand, spending on general

administration, including defence and internal security should be critically reviewed with the overall aim of bringing to a minimum, the administrative sector's dominant claim on the nation's resources.

vi) The overall objective which the reforms in public spending should pursue in Nigeria is that of making government more compact and efficient. The substantial budget allocations that go into funding personnel costs and overheads, as well as government's supportive financial obligations to a number of extra-ministerial bodies all point to the fact that the size of government is highly overblown and any policy to reduce public spending must begin with a conscious reduction in the size of government.

vii) The current budget philosophy which tends to be opportunistic should be critically reviewed. Budget allocations and appropriations should be fixed to a given (standard) share of expected revenues, and in the event of inflow of windfall income, such incomes should be ear-marked and transferred to a capital account which would always be in the form of an in-built, self regulating capital budget. This will have the effect of moving away from the established tradition for huge extra-budgetary spending which usually accompany such windfall revenues. In effect, a system or framework should be developed whereby windfall incomes are not seen as disturbance factors in the process of budget execution but more as anticipated phenomena for which the budget and the overall fiscal management structure have adequate provision.

viii Government should determine ceilings or limits for all expenditures, capital and recurrent, as this will help to further strengthen the control mechanism to realign government spending with resource availability.

ix) There is an urgent need to reduce the high profile of debt-related expenditure bringing the debt/GDP ratio to levels consistent with the growth of non-debt expenditure and the overall economy.

x) There is an urgent need for budget reforms. Budget procedures have followed incremental patterns which seek to emphasise resource input as against output. In the process the impression is created that the budget is only about spending. Budget reforms should therefore focus on making the budget process as a reasoned, rational and objective process for matching national priorities and needs with national resources. The underlying philosophy, structure and processes of current budget practices should therefore be subjected to a drastic review.

xi) A modified form of Planning, Programming and Budgeting System (PPBS) which seeks to integrate the budget process into a well designed framework for macro-economic policy, planning and programming of public expenditure should be adopted. The current system of budget (accounts) classification which emphasise spending should be changed through the recommended PPBS to re-emphasis output and performance. Expenditure proposals should emphasise relating costs with benefits in a systematic and comprehensive pattern. Comprehensiveness in all aspects of the budget is central to any

reform initiative since the current fragmented nature of the budget and the lack of attention to the results and consequences of government spending have been important influences on the general misallocation of resources and the excessive growth in government spending.

xii) In order to achieve most of the goals of trimming down public spending, the overall public service apparatus should be critically reviewed. The system should be made smaller and more compact, and expectedly, more efficient. There will be need for a thorough and comprehensive job analysis in respect of all civil service positions in order to determine the continuing relevance of a number of positions, eliminate waste, job replication, and large scale redundancy which currently characterise the civil service. It is only when this is done, and the civil service is given a completely new orientation and focus as well as appropriate incentives that we can hope to attain the goals of a stable and fairly rational public expenditure regime in Nigeria. In the same vein, it should be borne in mind that a strong political will to change at the highest level of government will be necessary to give the necessary impetus and political support to sustain whatever reforms may be introduced.

NOTE

The term "Leviathan" is used here in a context similar to the one used by Musgrave (1981) to describe government as a monster that swallows everything in its way.

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APPENDIX A

CONSUMER PRICE INDICES, 1962-1995

YEAR	CPI (1985 = 100)	Log CPI
1962	9.5	0.9777
1963	9.1	0.95904
1964	9.3	0.9684
1965	9.3	0.9684
1966	8.7	0.9395
1967	8.4	0.92427
1968	7.8	0.89209
1969	8.7	0.9395
1970	10.8	1.0334
1971	12.5	1.09691
1972	12.9	1.11058
1973	13.6	1.13353
1974	15.4	1.18752
1975	20.7	1.31597
1976	25.6	1.40823
1977	29.6	1.47129
1978	34.5	1.53781
1979	38.5	1.58546
1980	42.3	1.6263
1981	51.2	1.70926
1982	55.1	1.74115
1983	67.9	1.83186
1984	94.8	1.9768
1985	100.0	2.0000
1986	105.4	2.02284
1987	116.1	2.06483
1988	181.2	2.25815
1989	272.7	2.43568
1990	293.2	2.46716
1991	330.9	2.51964
1992	478.4	2.67979
1993	751.9	2.8761
1994	1,180.5	3.0720
1995	2,040.4	3.3097

Source: FOS, Annual Abstracts of Statistics, various issues.
Log values computed from CPI data

APPENDIX B

PUBLIC SECTOR WAGES, 1962-1995

	APPROVED NATIONAL MINIMUM WAGES ₦	BASIS
1962 - 1968	288.0	Mbanefor Salaries & Wages Commission
1969 - 1973	320.0	Adebo Commission
1974 - 1981	720.0	Udoji Commission
1982 - 1995	1,440.0	Shagari Administration

SOURCE: Figures for 1962-1973, and 1974-1981 obtained from FGN, Report of the Udoji Commission, Lagos, 1975.
1982-1995 - obtained from FGN, National Minimum Wage in Nigeria,, Lsgos, 1982.

APPENDIX C

Institute of Administration,
Ahmadu Bello University,
Zaria.

28th September, 1996

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Dear Sir/Madam,

QUESTIONNAIRE ON BUDGETING AND EXPENDITURE GROWTH IN NIGERIA

I am currently conducting a study on **Budgeting and Expenditure Growth in Nigeria** with particular reference to the Federal Government. In view of your position and the role you play in the annual budgetary exercise in your organisation (Ministry/Department), I am soliciting your kind assistance in helping to complete the attached questionnaire.

2. Let me assure you that the data generated will be used strictly for academic purposes and your response will be kept confidential.

3. Thank you for the assistance.

Sgd.
HALIDU I. ABUBAKAR
Researcher

11. How do you rank the following factors as accounting for the role of bureaucrats determining spending decisions?
    i) Supervisor knowledge of the system []
    ii) Low knowledge of policy makers []
    iii) Complexity of the budgetary process []
    iv) Corruption []

12. Which of the following factors have in your view contributed the most to the excessive growth of government expenditure?
    i) Oil Revenue []
    ii) Bureaucrats []
    iii) DEvelopmental objectives []
    iv) Expansion of the size of Government []
    v) Others (Specify) .....

13. Which of the following do you consider as the major factors affecting budgeting, budget implementation and control in the Federal civil service?
    i) Weak budgeting system []
    ii) Lack of experts in the service []
    iii) Non-adherence to the laid down Financial Rules and Regulations []
    iv) Budget distortion []
    v) Extra-budgetary spending []
    vi) Others (specify) .....