CORRUPTION, GOVERNMENT EXPENDITURE AND ECONOMIC GROWTH IN NIGERIA

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Abstract
The paper investigated the effect of corruption and government expenditure on economic growth as well as the pass-through effect of corruption to economic growth through government expenditure in Nigeria between 1981 and 2015. The study made use of the Vector Error Correction Model and Impulse Response Function. Six variables of real gross domestic product (RGDP); corruption perception index (CPI); government expenditure (GOVEXP); index of openness (IOP); inflation rate (INF) and gross fixed capital formation (GFCF) were used for the study. The model variables were tested using the Augmented Dickey Fuller Test and were found stationary at first difference. The study found out that, while corruption has negative effect on economic growth, government expenditure affects economic growth positively. The study also found out that corruption flitters away the gains to the economy due to increase in government expenditure. It therefore recommended that the fight against corruption should be stepped up and policies should be evolved to ensure that all monies expended by the government in the economy are fully tracked and accounted for.

Key Words: Corruption, Government Expenditure, Economic Growth, VECM and Impulse Response Function.

1.0 Introduction
Globally, corruption has been viewed as a clog in the wheels of economic development. It is recognized as a bad thing even by those who practice and perpetuate it. Corruption is not only found in democratic and dictatorial politics, but also in feudal, capitalist and socialist economies. Christian, Muslim, Hindu, and Buddhist cultures are equally bedevilled by corruption (Dike, 2005). Corruption is directly connected with rent-seeking behavior of people that have administrative or market power (Ogunlana, 2011). The World

Bank (2015) has estimated that over one trillion is paid in bribe for business transactions in less developed countries. Corruption is one among the greatest obstacle to economic and social development. It has been seen as a structural problem of political, economic, cultural and an individual's malaise (Akor, 2014). It undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends (World Bank, 2015). It is one of the greatest challenges of the contemporary world. It undermines good governance, fundamentally distorts public policy, leads to the misallocation of resources, harms the private sector and private sector development and particularly hurts the poor (Transparency International, 2010).

Also, some scholars have argued that increase in government spending can be an effective tool to stimulate aggregate demand for a stagnant economy and to bring about crowd-in effects on private sector (Sahid & Naved, 2010; Kolawole, 2015; Gbosi, 1998; Keynes, 1936). According to Keynesian view, government could reverse economic downturns by borrowing money from the private sector and then returning the money to the private sector through various spending programs. High levels of government consumption are likely to increase employment, profitability and investment via multiplier effects on aggregate demand. Thus, government expenditure, even of a recurrent nature, can contribute positively to economic growth. On the other hand, endogenous growth models such as Barro (1990), predict that only those productive government expenditures will positively affect the long run growth rate.

In Nigeria, the public debate recently is centered on the increasing rate of corruption resulting from inappropriate public finance management. The Transparency International in 2015 ranked Nigeria 136 out of 168 countries with a score of 26% which makes the nation the 32ndpoorest country in the World despite the abundant natural and human resources as well as annual increases in government expenditure.

Statistics have shown that federal government recurrent and capital expenditure have increased from ? 38.24 billion and ? 28.34 billion in 1990 to ? 461.60 billion and ? 239.45 billion in 2010 and ? 3,831.95 billion and ? 818.37 billion in 2015 respectively (CBN, 2015). Despite the huge increase in both recurrent and capital expenditure over the study period, Nigerian economic growth is not only slow, tragic but of crisis proportion. For instance,

in 2016, Nigerian economy entered into recession as its GDP growth rate decline by 3.16. The real GDP growth rate recorded downward trending pattern from 6.3% in 2014 to -1.6% and 0.8% in 2016 and 2017 respectively (World Bank, 2017). Furthermore, every year in Nigeria there is always a lag between the budgetary allocation and actual expenditure. The difference is due partly to lack of budget implementation occasion by rent–seeking individuals (corruption). In 2017, the issue of budget fraud known as budget padding (that is, one of the elements of corruption and a destructive crime against the future of the people) in Nigerian context resulted to not only inconsistence in budgeting but inflation of the budgetary allocation.

This study therefore seeks to investigate the effect of corruption on public expenditure and consequently on economic growth in Nigeria. This study differs from existing studies in that, it investigated both the direct effect/impact of corruption and government expenditure on economic growth and also the pass through effect of corruption to economic growth via government expenditure.

2.0 Conceptual Framework

Corruption involves securing wealth or power through illegal means for private gain at public expense; or a misuse of public power for private benefit. Corruption is a concept derived from the Latin word, "Corrumpo", which literally translates to mean "rot", "decompose", "disintegrate" or "decay." This clearly shows that corruption is bad for the society. Mamadu (2006) defines corruption as "an act of being dishonest with a given responsibility or duty for selfish end. It is the use of a position of trust for dishonest and selfish gain. Sen (1999) conceptualizes corruption as a behavior which involves the violation of established rules for personal gains or profits.

Corruption has coexisted with human society for a long time and remains as one of the problems in many of the world's developing economies with devastating consequences (Odubunmi and Agbelade, 2014). In Nigeria, corruption has become the order of the day happening among the young and the old, the politician and the non-politician as well as military and the non-military.

The unstoppable social economic scourge has suggested different meanings to different scholars from different schools of thought. Salisu (2000) simply defined corruption as the misapplication of public resources to private ends.

This among others include the public officials collecting bribes for issuing permits or licenses for authorizing passage of goods at sea/airport, passports or visa, for awarding contracts or for enacting regulations designed to create artificial scarcity, awarding undeserved scores or grades to students after examination, availing question papers to students before examination, and at times it may come in the form of sexual or other forms of gratifications. The World Bank (1996) defined corruption as "the abuse of public power for private benefit". The Transparency International (2005) defined it as "the abuse of entrusted power for private gain". According to Okere (2005), corruption is seen as "all actions that temper with or compromise justice and fairness"

Government Expenditure

Generally, government expenditure refer to the amount of money spent by the government for the maintenance of itself and for the provision of public goods, services and works needed to foster or promote economic growth and improve the welfare of the people in the society (Aigheyisi, 2013).

Public expenditure is categorized into two components: recurrent expenditure and capital expenditure. Recurrent expenditure on goods and services is expenditure, which does not result in the creation or acquisition of fixed assets (new or second-hand). It consists mainly of expenditure on wages, salaries and supplements, purchases of goods and services and consumption of fixed capital. Rational and efficient expenditures lead to improvement in economic performance and enhancement of human welfare, and it is thus referred to as productive expenditure, while irrational expenditure leads to wastage and is unproductive, having insignificant effect on the development of the economy at best, or retardation in the growth of the economy at worst (Aigheyisi, 2013). In Nigeria, different political regimes have played a major role in the provision of public (utilities) goods like roads, communication, power, education and health, as well as improving on the economic development of the entire Country.

Corruption and the composition of government spending

Generally, corruption is posited to affect the composition of public expenditure (see Shleifer and Vishny, 1993; Mauro 1998; and Delavallade, 2006 among others). It is argued that there exists a negative relationship

between corruption and public expenditures on socio-economic infrastructure such as education and health; whereas, the relationship between corruption and public expenditures on activities that provide more opportunities for rent seeking is positive, especially defence. Tanzi and Davoodi (1997): carried out a systematic study on the effect of corruption on government's expenditures and came out the following findings:

1) corruption tends to increase the size of public investment (at the expense of private investment)
2) corruption skews the composition of public expenditures away from needed operation and maintenance towards expenditure on new equipment.
3) corruption skews the composition of public expenditures away from needed health and education funds, because these expenditures, relative to other public projects, are less easy for officials to extract rents from.
4) corruption reduces the productivity of public investment and of a country's infrastructure. corruption may reduce tax revenue because it compromises the government's ability to collect taxes and tariffs.

Economic Growth

The concept of economic growth has been used synonymously with economic development and is associated with such things as growth in population, development of resources, technological advancement and increasing capital formation. Economic growth means growth in the level of output produced by a country over a certain period of time. It is a useful measure of economic performance of a country. Performance here means the degree of correspondence between actual output and the maximum output that could be realized if, given the pattern of demand, all the resources and the most advanced technology available were used to full advantage (Odubunmi and Agbelade, 2014). According to Olamade (1999), economic growth is defined as long-term change in an economy's productive capacity. The productive capacity of the economy is the output that could be produced if all of the economy's resources were fully and efficiently employed. The definition links economic growth to rate of growth of potential output which is related to the rate of growth of labour force and of productivity. The determinants of economic growth in the long run include technological progress and population growth and accumulation of capital.

3.0 Empirical Review

Corruption and Economic Growth

A few studies have been carried out on the impact of corruption and government expenditure on economic growth in Nigeria, though separately. Some of these studies include:

Rotini, Obasaju, Lawal and Ise (2013) used ordinary least square (OLS) and granger causality method to determine the relationship between corruption and economic growth in Nigeria. The study observed that corruption impacts economic growth. The study fails to establish the level of impact of corruption on economic growth by stating whether it is positive or negative.

Adewale (2011) investigated the crowding out effects of corruption in Nigeria using parsimonious error correction mechanism and employed experimental research design approach for the data analysis and revealed that there is a negative relationship between corruption and output growth in Nigeria. The implication of this is that Nigeria government should introduce a national re-orientation program to educate people on the crucial need to eradicate corruption in all sectors of Nigeria economy and socio-political system.

Akinpelu, Ogunseye, Bada, and Agbayangi (2013) examined the socio-economic determinants of corruption in Nigeria using co-integration test and vector error correction model. The study discovered that there is a long-run relationship between conception and the social economic variables in Nigeria. This study falls to establish the level of relationship like whether significant positive or negative relationship which has policy implication in the short and long run.

Mnhuda (2013) investigating the relationship between corruption, poverty and economic growth in Nigeria. The study employed regression analysis and granger causality test, it was discovered that there is an existence of cointegration chance tanging a long run causality relationship between corruption, poverty and economic growth in Nigeria.

Ade, Babatude and Awoniyi (2011) in the study of Corruption, foreign direct investment and Economic growth in Nigeria employed granger causality test and Ordinary Least Square Method in testing FDI inflow, corruption index, Exchange rate, Inflation rate, GDP for model one. For two, the variables are Gross Domestic Product, Government Expenditure, FDI and Gross fixed capital formation. The OLS result reveals that there is an inverse relationship between FDI inflow and corruption. This means that a large volume of FDI

inflow is associated with a low level of corruption in the host countries. Exchange rate depreciation and inflation rate are significant determinations of FDI inflow in Nigeria. Also, there is a significant position.

Similarly, Aidt, Dutta and Sena (2007) applied the method of instrumental variables (generalized method of moments) to estimate a threshold model specified to investigate the impact of corruption on growth in 84 countries within the period 1970 to 2000. Their findings revealed that the relationship between corruption and growth is regime-dependent. Specifically, the study found that corruption has a substantial negative impact on growth in regimes with high quality political institutions, and no impact on growth in regimes with low quality institutions.

Government Expenditure and Economic Growth

Wagner's law states that as the economy develop (evidenced in high rate of industrialization and growth in per capita income), the share of government expenditure in gross national income tends to rise accordingly. The law therefore attributes growth in government expenditure to economic growth and development. Olorunfemi, (2008) studied the direction and strength of the relationship between public investment and economic growth in Nigeria, using time series data from 1975 to 2004 and observed that public expenditure impacted positively on economic growth and that there was no link between gross fixed capital formation and Gross Domestic Product. He averred that from disaggregated analysis, the result reveal that only 37.1% of government expenditure is devoted to capital expenditure while 62.9% share is to current expenditure.

Abu and Abdullah (2010) investigated the relationship between government expenditure and economic growth in Nigeria from the period ranging from 1970 to 2008.They used disaggregated analysis in an attempt to unravel the impact of government expenditure on economic growth. Their results reveal that government total capital expenditure, total recurrent expenditure and Education have negative effect on economic growth. On the contrary, government expenditure on transport, communication and health result in an increase in economic growth.

In a study to investigate the impact of government expenditure (disaggregated into various components) on economic growth in Nigeria in the 1970-2008 period, Nurudeen and Usman (2010) found that government total capital

expenditure, total recurrent expenditure and expenditure on education had negative effect on economic growth. Expenditure on transport, communication and health are however observed to have had positive effect on growth. Similarly, Loto (2011), employs the method of co-integration and error correction to investigate the impact of government expenditures in various sector of the economy such as education, health, national security, transportation and communication, and agriculture, on economic growth in Nigeria in the 1980-2000 period, and found that government expenditure on agriculture and education impacted negatively on economic growth, though the impact of expenditure on education is observed to be insignificant.

Following from above, it shows that the relationship between corruption and economic growth in Nigeria is an issue needs empirical attention given the paradoxical nature of government expenditure effects and the consequences of the continued episode of corrupt activities in Nigeria yearly. More so, the effect of corruption on public expenditure and consequently on economic growth in Nigeria has not been given any empirical attention. This study differs from existing studies as it intends to investigate both the direct effect of corruption and government expenditure on economic growth and also the pass through effect of corruption to economic growth via government expenditure.

Theoretical Framework

The Keynesian Theory

Of all economists who discussed the relation between public expenditures and economic growth, Keynes was among the most noted with his apparently contrasting viewpoint on this relation. Keynes regards public expenditures as an exogenous factor which can be utilized as a policy instruments promote economic growth. From the Keynesian thought, public expenditure can contribute positively to economic growth. Hence, an increase in the government consumption is likely to lead to an increase in employment, profitability and investment through multiplier effects on aggregate demand. As a result, government expenditure augments the aggregate demand, which provokes an increased output depending on expenditure multipliers.

The Endogenous Growth Theory

The basic improvement of endogenous growth theory over the previous models is that it explicitly tries to model technology (that is, looks into the

determinants of technology) rather than assuming it to be exogenous. Mostly, economic growth comes from technological progress, which is essentially the ability of an economic organization to utilize its productive resources more effectively over time. Much of this ability comes from the process of learning to operate newly created production facilities in a more productive way or more generally from learning to cope with rapid changes in the structure of production which industrial progress must imply (Verbeck, 2000).

4.0 Methodology

4.1 Method of Data Analysis

The study made use of the Vector Error Correction Model and the impulse response function as standard tools for the estimation of the impact model and determination of the pass through effect of corruption to economic growth through government expenditure.

4.2 Model Specification

To investigate the effect of corruption and government expenditure on economic growth, we specify a linear regression model of the functional form:

$RGDP = f(CPI, GOVEXP, X)$ 1

Where RGDP = Real Gross Domestic Product as measure of economic performance; CPI = Corruption Perception Index and GOVEXP = total Government Expenditure (current plus capital) and X represents a battery of relevant explanatory variables (such as Index of Openness, Inflation rate and gross fixed capital formation) to be included in the model as control variables. The Functional form of the model is re-specified thus:

$RGDP = f(CPI, GOVEXP, IOP, INF, GFCF)$ 2

The stochastic form of the model is thus specified as;

$RGDP = \hat{a}_0 + \hat{a}_1 CPI + \hat{a}_2 GOVEXP + \hat{a}_3 IOP + \hat{a}_4 INF + \hat{a}_5 GFCF + \mu$ ... 3

The Vector Autoregressive (VAR) structure of the model (3) is stated as:

$$RGDP_t = \beta_{10} + \sum_{i=1}^{p} \beta_1 RGDP_{t-i} + \sum_{i=1}^{p} \beta_2 CPI_{t-i} + \sum_{i=1}^{p} \beta_3 GOVEXP_{t-i} + \sum_{i=1}^{p} \beta_4 IOP_{t-i} + \sum_{i=1}^{p} \beta_5 INF + \sum_{i=1}^{p} \beta_6 GFCF_{t-i} + \mu_{1t} CPI_t$$

$$= \partial_{20} + \sum_{i=1}^{p} \partial_1 RGDP_{t-i} + \sum_{i=1}^{p} \partial_2 CPI_{t-i} + \sum_{i=1}^{p} \partial_3 GOVEXP_{t-i} + \sum_{i=1}^{p} \partial_4 IOP_{t-i} + \sum_{i=1}^{p} \partial_5 INF + \sum_{i=1}^{p} \partial_6 GFCF_{t-i} + \mu_{2t} GOVEXP_t$$

$$= \emptyset_{30} + \sum_{i=1}^{p} \emptyset_1 RGDP_{t-i} + \sum_{i=1}^{p} \emptyset_2 CPI_{t-i} + \sum_{i=1}^{p} \emptyset_3 GOVEXP_{t-i} + \sum_{i=1}^{p} \emptyset_4 IOP_{t-i} + \sum_{i=1}^{p} \emptyset_5 INF + \sum_{i=1}^{p} \emptyset_6 GFCF_{t-i} + \mu_{1t} IOP_t$$

$$= \gamma_{40} + \sum_{i=1}^{p} \gamma_1 RGDP_{t-i} + \sum_{i=1}^{p} \gamma_2 CPI_{t-i} + \sum_{i=1}^{p} \gamma_3 GOVEXP_{t-i} + \sum_{i=1}^{p} \gamma_4 IOP_{t-i} + \sum_{i=1}^{p} \gamma_5 INF + \sum_{i=1}^{p} \gamma_6 GFCF_{t-i} + \mu_{1t} INF_t$$

$$= \delta_{50} + \sum_{i=1}^{p} \delta_1 RGDP_{t-i} + \sum_{i=1}^{p} \delta_2 CPI_{t-i} + \sum_{i=1}^{p} \delta_3 GOVEXP_{t-i} + \sum_{i=1}^{p} \delta_4 IOP_{t-i} + \sum_{i=1}^{p} \delta_5 INF + \sum_{i=1}^{p} \delta_6 GFCF_{t-i} + \mu_{1t} GFCF_t$$

$$= {}_{60} + \sum_{i=1}^{p} {}_1 RGDP_{t-i} + \sum_{i=1}^{p} {}_2 CPI_{t-i} + \sum_{i=1}^{p} {}_3 GOVEXP_{t-i} + \sum_{i=1}^{p} {}_4 IOP_{t-i} + \sum_{i=1}^{p} {}_5 INF + \sum_{i=1}^{p} {}_6 GFCF_{t-i} + \mu_{1t}$$

5.0 Estimation and Discussion of Results

To determine the stationarity properties of the model variables, the study conducted a unit root test using the Augmented Dickey Fuller test as shown in the table below;

Table 1: Unit Root Test of the Model Variables

Trace Statistic	0.05 Critical Value	Prob.	Max. Eigen Statistic	0.05 Critical Value	Prob.
176.9983	103.8473	0.0000	61.11983	40.95680	0.0001
115.8784	76.97277	0.0000	47.12916	34.80587	0.0011
68.74927	54.07904	0.0015	30.91431	28.58808	0.0247
37.83496	35.19275	0.0253	26.03646	22.29962	0.0143
11.79850	20.26184	0.4670	8.793480	15.89210	0.4563
3.005017	9.164546	0.5798	3.005017	9.164546	0.5798

Source: Excerpts from E-views 9 Ouptut

The results from both the Trace and the Maximum Eigen value tests showed that there are four cointegrating equation in the system. This implies that, there exist a long-run relationship between economic growth, corruption, government expenditure and the other control variables.

Cointegration is said to exist if the values of computed statistics (trace and Max. Eigen value) are greater than their critical values. The test result showed the existence of a long-run equilibrium relationship in four cointegrating equations at 5% significance level.

In any case, the existence of a long-run cointegrating equilibrium also provides for short-term fluctuations. In order to straighten out or absolve these fluctuations, an attempt was made to apply the Error Correction Mechanism (ECM).

Table 3: Error Correction Model for the Short-Run Dynamics

Dependent Variable: RGDP

Variable	Coeffici ent	Standard Errors	t-Statistics
CPI	-0.040560	0.03794	-1.06888
GOVEXP	0.020711	0.08531	0.24275
IOP	0.001440	0.27370	0.00528
INF	-0.030184	0.00814	-3.70860
GFCF	0.005597	0.01100	0.50885
C	0.023782	0.01101	2.16026
ECM	-0.223290	0.09570	-2.33323
Adj. R-squa red	0.475983		
F -sta tistic	5.152382		

Source: Excerpts from E-views 9 Output

The analysis of the short-run dynamics in Table 3 revealed that, corruption and inflation rate have negative effect on economic growth in Nigeria. On the other hand, the model indicated that, government expenditure, index of openness and gross fixed capital formation have positive effect of economic growth in Nigeria. The speed of adjustment towards long-run equilibrium in case of any initial distortion is reported by the ECM. The Error Correction Mechanism (ECM) holds a negative estimated coefficient which is a necessary condition in the model. The coefficient is statistically significant at 5% level of significance. This implies that the system corrects its previous period disequilibrium at a speed of 22.33% annually. The adjusted R^2 of 0.475983 showed that 47.60% of the total variations in the dependent variable are explained by the independent variables.

The pass-through effect of corruption to economic growth via government expenditure is anaysed using the impulse response function and the result presented in Figure 1.

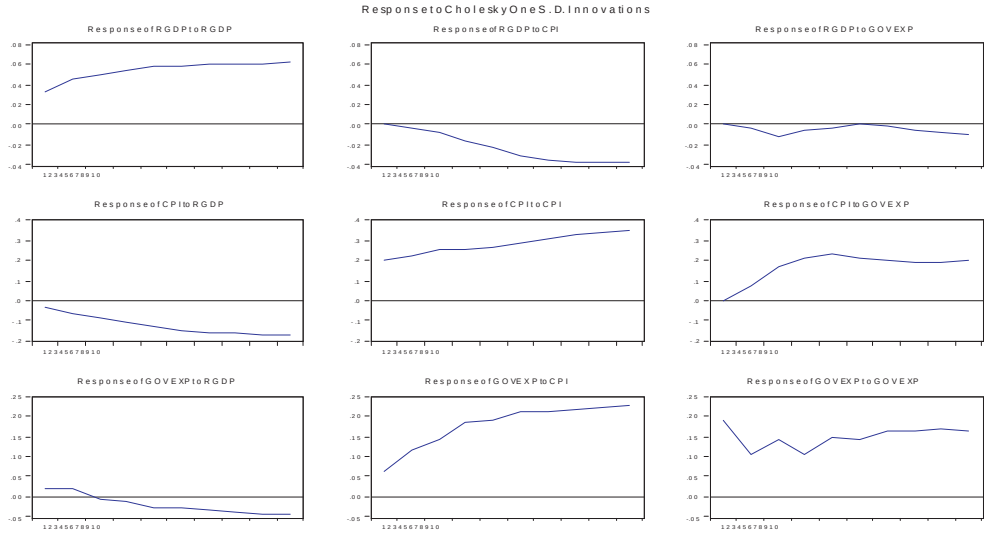

Figure 1:Impulse Response Function (IRF) of the Pass-Through Effect of Corruption to Economic Growth via Government Expenditure.

It is evident from the IRF in Figure 1 that RGDP would respond positively to own shocks throughout the forecast period. However, RGDP would respond negatively to shocks in CPI. This implies that one standard deviation shock or innovation given to CPI would cause RGDP to respond negatively in the next

10 years. More so, government expenditure (GOVEXP) responds positively to shocks in corruption (CPI) throughout the 10 year time horizon. This explains that higher levels of corruption in the country would cause higher government expenditure in the name of projects. Hence, economic growth (RGDP) would not respond positively to the growth in government expenditure but slightly negative. The finding therefore is that, the supposed gains of increase in government expenditure would be lost through corruption in Nigeria in the next 10 years of the study forecast.

6.0 Conclusion and the Way Forward

The paper found out that, while government expenditure may have positive effect on economic growth in Nigeria, the effects of corruption on economic growth are negative. The study also found out that increases in government expenditure is associated with increases in the level of corruption which as a consequence flitters away the gains to the economy due to increase in government expenditure. The study therefore recommends that the fight against corruption should be stepped up and policies should be evolved to ensure that all monies expended by the government in the economy are fully tracked and accounted for.

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