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Nexus Between Federal Government Spending on Agriculture, Agricultural Output Response and Economic Growth of Nigeria (1979-2013)

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Abstract

This study examined the nexus between federal government's expenditure on agricultural sector, agricultural output and economic growth of Nigeria. The objectives are: to describe the trend of expenditure on agricultural sector over the years, determine the relationship between government expenditure and economic growth, determine the relationship between government expenditure and agricultural output and offer recommendations based on the research findings on the possible ways of improving agricultural sector performance in the economy. Secondary source of data was obtained from the Central Bank of Nigeria (CBN) statistical bulletin, 2014 edition to analyze the stated objectives. The time series data covered 35 years, ranging from 1979-2013. The results revealed that there is a fluctuating trend in government expenditure in agriculture over the years under review. The regression results show about 16% of total variation in the dependent variable (Real GDP) has been explained by the explanatory variable (government expenditure) while about 21% of total variation in the dependent variable (Agricultural output) has been explained by the explanatory variable (government expenditure). Results also revealed a negative relationship between the public sector spending on agriculture agricultural output and economic growth. The results concluded that federal government spending on agricultural sector has significant impact on economic growth as well as agricultural output response in Nigeria. The study therefore recommends that conscious effort should be made by government at all levels towards increasing budgetary allocation to the agricultural sector.

Keywords

Public Expenditure, GDP, Regression Analysis, Total Government Expenditure, Agricultural Output and Economic Growth, JEL Codes: N57, B22, C01, C32

1. Background to the Study

Government spending is referred to as outflow of resources from government to other sectors of the economy (Nurudeen and Usman 2010). Government spending or public spending is sub-divided into current and capital expenditure. Capital expenditure has been defined as payment for non-financial assets used in production while current expenditures are payments for non-repayable transactions within a year, (CBN, 2003). In Nigeria, government expenditure has continued to rise due to the huge receipts from production and sales of crude oil and the increase demand for public goods like roads, communication, power, education and health, among others (Nurudeen and Usman 2010). Available statistics showed that total government expenditure (capital and recurrent) and its components have continued to rise in the last four decades. The contribution of agricultural sector to the economy cannot be overemphasized when considering its roles for sustainable development, in terms of, employment potentials, export and financial impacts on the economy.

Agriculture is an important sector of Nigerian economy in the world today. Agricultural sector acts as catalyst that accelerates the pace of structural transformation and diversification of the economy, enabling the country to fully

utilize its factor endowment, depending less on foreign supply of agricultural product or raw materials for its economic growth. Apart from laying solid foundation for the economy, it also serves as import sector, as it provides ready-made market for raw materials and intermediate goods for industries. The agricultural sector contributes significantly to the nation's economic development by: increasing government revenue through tax; improving the standard of living, infrastructural growth, contribution to Gross National Products (GNP); employment generation and enhances manpower development. It plays a key role as sources of food for man and animal and foreign exchange to the government, amongst others. Agriculture remains the most important single activity of the Nigerian economy; with about 70% of the working population still engaged in (Abdullah, 2000).

Despite the predominance of the oil and gas sector in Nigeria, agricultural sector still remains source of economic resilience in the economy. Before the discovery of oil in the country in the late 1950s and early 1960s, agriculture was the dominant sector of Nigeria economy. It consisted over 65% of the country's Gross Domestic Product (GDP) and provided the bulk of the foreign exchange earnings through the export of cash crops. The sector is one of the most important sectors of Nigeria's economy as it holds a lot of potentials for future economic development of the nation having played dominant role in the remote past. With the emergence of oil as a major source of government revenue and foreign exchange earner, agricultural sector was neglected which led to the decline of the sector's contribution to the economy (Ijaiya, 2000; Iwayemi, 1994; Ukpong and Malgwi, 1991).

In the last four decades, its impact have not been so prominent because of the dominating effect of the oil sector which annually contributes not less than 96% of the nation's total export earnings (Nwajiuba, 2012). Also, the total federal expenditure that was allotted to agriculture during 1980 to 2011 was less than 4% (CBN, 2010).

However, economic growth is the increase in the market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product (IMF, 2012). Of more importance is the growth of the ratio of GDP to population (GDP per capital), which is also called *per capital income*. An increase in growth caused by more efficient use of inputs is referred to as *intensive growth*. GDP growth caused only by increases in inputs such as capital, population or territory is called *extensive growth (Bjork* Gordon, 1999).

1.1. Problem Statement

The Food and Agricultural Organization (FAO) recommends that 25 per cent of government capital budget be allocated to agricultural development. This has not been achieved by the various administrations of Nigeria, thereby affecting government programs and policies for the sector (Iganiga and Unemhili, 2011). Nigeria has also consistently failed to reach the 10 per cent agriculture budget standard of the Maputo declaration, which has led to negative implications for food security (Ochigbo, 2012). The agricultural sector has been affected with numerous problems which has been the results of the poor performance of the sector itself. This has attracted various strategies including expansion of public expenditure on agricultural activities by different governments in the country. Overtime, this expenditure on agricultural sector has perhaps been on the increase without expressly translating to corresponding expansion or increase in economic growth. There is still the massive importation of rice, fish, wheat and other agricultural products into the country. There is still great variability in the income of farmers and food is still expensive for consumers and Nigeria in general cannot be said to be food secured (Adebiyi 2002). However, from a nominal point of view, it is evident that in Nigeria, government spending on agriculture continues to increase over the years while empirical evidence have revealed that the performance of the agricultural sector has not been impressive (Ekerete, 2000). The agricultural sector in Nigeria which was the main stay of the economy is no longer performing the leading role it was known for, as far back as 1960s. The research questions are: does public spending has any impact on agriculture and economic growth in Nigeria? and does public spending has any effect on agricultural output in Nigeria? Therefore, the broad objective of the study is to investigate the nexus between federal government's expenditure on agricultural sector, agricultural output and economic growth of Nigeria. However, other specific objectives of the study are to: describe the trend of expenditure in agricultural sector over the years, determine the relationship between government expenditure and economic growth, determine the relationship between government expenditure and Agricultural output and offer recommendations based on the research findings on the possible ways of improving agricultural sector performance in the Nigerian economy.

1.2. Research Hypothesis

H_o: Public spending has no significant impact on agriculture and the Nigeria economic growth

H_i: Public spending has a significant impact on agriculture and the Nigeria economic growth

1.3. Justification of the Study

According to Mogues *et. al*. (2008), Nigeria's agricultural public spending expressed as a share of total public spending was lower than that of all other African countries and it was also substantially lower than the regional averages for Asia and Latin America. This spending contrasts dramatically with the sector's importance in the Nigerian economy and the policy emphasis on diversifying from oil sector which falls below the 10% goal set by African leaders in the 2003 Maputo agreement. It is therefore evident that Nigeria remains highly dependent on oil, which accounts for 80% or more of its foreign exchange during the last four decades.

This policy has proved to be quite harmful to the country because oil price fluctuation has a negative impact on the

economy, causing a certain level of instability and uncertainty, aside the fact that the surface area covered by crude oil can no longer be useful for agricultural activities. The Nigerian government neglected the non-oil sectors including agricultural sector. This study therefore hopes to serve as a useful tool and material to students, researchers and other individuals from both the corporate world who may find it worthy as a guide on the impact of public spending on agricultural sector, agricultural output and economic growth.

2. Literature Review and Theoretical Framework

The relationship between public expenditure and economic growth has been extensively treated in the theoretical and empirical literature. The theoretical foundation of this relationship can be traced as far back as the time of Wagner (1883), to Keynes (1936), Peacock and Wiseman (1961), and later to Musgrave (1969). The schools of thought arose on the direction of causality between public expenditure and economic growth. One is that public expenditure is a consequence of economic growth as posited by Wagner (1883) and the other is by Keynes (1936) who stated that public expenditure is a tool adopted by the government to reverse economic downturns by borrowing money from the private sector and then returning it to them through various spending programmes, hence, economic growth is an outcome of public expenditure.

2.1. Wagner's Law of Increasing Public Expenditure

The theory was first associated to a German economist who based his law of increasing state activities on historical facts, primarily of Germany. To him, there are inherent tendencies for the activities of different layers of governments to increase both intensively and extensively thereby pinpointing that, there is a functional relationship between the growth of an economy and government activities with the result that the government sector grows faster than the economy in a more specific term. Wagner (1893) argued that government spending increases more than proportionately with income, that is, the income elasticity of demand for government services is positive and greater than unity through empirical test of this hypothesis. This hypothesis, often tries to find either a positive relationship between government spending and income and/or a unidirectional causality running from government spending to income. In particular, Musgrave believes that Wagner was thinking of proportion of public sector in the economy. In support of the above, Nitti (1903) concluded that Wagner's thesis is not only applicable to Germany but that it can also be applied to other government which differs largely from each other because it has the tendency to induce growth.

2.2. Wiseman and Peacock Hypothesis

The second thesis dealing with the growth of public expenditure was put forth by Wiseman and Peacock in their study of public expenditure in UK for the period 1890-1955. The main thrust of this thesis is that public expenditure does not increase in a smooth and continuous way but that it changes like fashion; this is because at times, some social or other disturbance takes place thereby creating a need for increased public expenditure which the existing public revenue cannot meet. It should be noted that the earlier insufficiency pressure for public expenditure introduces a constraint on revenue which results to restraining and/or expansion in public expenditure which in turn results to increased public expenditure and thereby make the inadequacy of the present revenue quite clear to everyone. Hence, the movement from the older level of expenditure and taxation to a new and higher level which is known as the *Displacement Effect*. Hence, the government and the people review the revenue position and the need to find a solution to the important problems that have come up and agree to the required adjustments to finance the increased expenditure. Considering the foregoing, they now attain a new level of tax tolerance which makes them to be ready to tolerate a greater burden of taxation and as a result the general level of expenditure and revenue goes up. In this way, the public expenditure and revenue get stabilized at a new level till another disturbance occurs to cause a displacement effect. Thus, each major disturbance leads to the government assents a larger proportion of the total national activity. In other words, there is a concentration effect. The concentration effect can also be referred to as the apparent tendency for central government economic activities to grow faster than that of the state and local level government as opined by (Adesoye *et al*, 2010).

2.3. Overview of Agricultural Policy and Expenditure Reforms

In order to revamp the agricultural sector, the federal government of Nigeria had embarked on and implemented several agricultural policies and programmes some of which are defunct or abandoned, and some restructured while others are still in place. These include the farm settlement scheme, National Accelerated Food Production (NAFPP), Agricultural Development Projects (ADPs), River Basin Development Authorities (RBDAs), National Seed Service (NSS), National Centre for Agricultural Mechanization (NCAM), Agricultural and Rural Management Training Institute (ARMTI) and Agricultural Credit Guarantee Scheme Fund (ACGSF). Others were the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB)/Agricultural Bank, Operation Feed the Nation (OFN), Green Revolution Programme, Directorate of Foods, Roads and Rural Infrastructure (DFFRI), Nigerian Agricultural Insurance Company (NAIC), National Agricultural Land Development Authority (NALDA), Specialized Universities for Agriculture, Root and Tuber Expansion Programme (RTEP) and rural banking scheme, etc.

Furthermore, the Federal Government in 2004 launched another economic reform called National Economic

Empowerment and Development Strategy (NEEDS) programme to encourage private sector participation in the development of the economy. It was also aimed at promoting growth and poverty reduction through a participatory process involving civil society and development partners. In the agricultural sector, NEEDS were directed to influence improvement in the production, processing and distribution of agricultural commodities. NEEDS was short-lived for only one year and therefore could not transform or make significant impact on the agricultural sector.

2.4. Review of Empirical Studies on Government Expenditure and Economic Growth

Several cross-country (Ghura, 1995., Devarajan*et al.,* 1996., Guseh, 1997., Kelly, 1997., Alexiou, 2009) and country-specific (Knoop, 1999., Alexiou, 2007, Irmen and Kuehnel, 2008., Hussain, 2011, Dandan, 2011) studies have been carried out across the globe to examine the relationship between government expenditure and economic growth, but their data periods, methodologies and findings differ from some studies indicating that government expenditure has a negative impact on economic growth and others positing that government expenditure has a positive impact on economic growth. The incongruent findings of the studies could be attributed to the short data periods of some of the studies, which must have affected the reliability of the inferences drawn from such studies. The inconsistencies between the methodologies and time series analyses of most of the studies must have also accounted for the variations in the findings of the studies.

Okezie *et. al.,* (2013), empirically analysed the relationship between Nigerian government expenditure on the agricultural sector and its contribution to economic growth using time series dat from 1980 to 2011. The results however concluded that a very weak causality exist between the two variables.

Similarly, Uger (2013), examined the impact of federal government's expenditure on the agricultural sector in Nigeria using data spanning from 1991-2010. The results also concluded a weak relationship between the variables using a simple regression analysis.

In Nigeria, Nasiru (2012), employed the Granger Causality test to examine the relationship between government spending and economic growth, and the results showed that while government capital expenditure causes economic growth, there was no observable causal relationship between recurrent government expenditure and economic growth. The policy implication of this finding is that any reduction in capital expenditure would have negative repercussions on economic growth in Nigeria. Through an augmented Solow model, Usman *et al.* (2011) posited that expenditure on administration, education, transportation and communication has a negative impact on economic growth in the short run, while FDI and expenditure on health and other services have a positive impact on economic growth.

Nurudeen and Usman (2010) used the data period of 1970 to 2008 in their study, and the estimation results showed that total capital expenditure (TCAP), total recurrent expenditure (TREC), expenditures on transport and communication (TRACO), education (EDU), and health (HEA), including inflation (IFN) and overall fiscal balance (FISBA), are statistically significant in explaining changes in economic growth. However, expenditures on defence (DEF) and agriculture (AGR) are not significant in explaining economic growth.

Loto (2011) investigated the growth effect of sectoral expenditures on economic growth and discovered that expenditures on national security, transportation, and communication were positively related to economic growth, but were not statistically significant. Meanwhile, expenditure on education, though negative, was not significant; expenditure on agriculture was negatively related to economic growth; and expenditure on health was positively related to economic growth.

Maku (2009) discovered that both government expenditure and private investment have no significant influence on economic growth in Nigeria, and that the rate of government expenditure to real GDP has been rising since the enactment of the Structural Adjustment Programme (SAP) without contributing significantly to economic growth in Nigeria.

According to Dorward *et al.*, (2002), despite potential positive returns to public spending on agriculture, few policy makers currently consider investment in agricultural development the best bet for poverty reduction. There are a number of reasons for this:

One, recognition that achieving agricultural growth in remote and marginal rural areas - where much of the rural populace are now concentrated – is more difficult. Two, the perception that many of agriculture's problems are seen as lying outside the agricultural sector – for example, in roads and telecommunications infrastructure, in health and education. Three, uncertainty regarding how best to invest in agriculture. Much of the investments called for more focus on research and extension, but policy makers have doubts about their effectiveness but concerned about recurrent costs and fiscal commitments, and are experimenting with private/public models for finance and delivery. Four, increasing recognition of the importance of non-farm incomes and activities to the livelihoods of the rural poor. This is a reason politicians would rather prefer to invest in Motorbike popularly known as "okada" rather than investing in agriculture in rural areas.

3. Methodology

3.1. Data Sources

Secondary source of data from the Central Bank of Nigeria (CBN) statistical bulletin (2014) was used in the study and the time series data covered 35 years ranging from 1979-2013. The purpose of choosing this period is to empirically test the extent to which agricultural sector spending contributes to the economic growth since 1979 to 2013.

3.2. Model Specification

The approach was to collate data for the agricultural sector spending, agricultural output and Real GDP. In the model, economic growth which is the dependent variable is proxy by Gross Domestic Product (GDP). The independent variable is agricultural sector spending. The statistical formulation of the model can therefore be presented as follows:

$$GDP = f(TGE)$$

Model 1: GDP = *f* (TGE) -Implicit Function
With a linear relationship such as:

$$GDP = \beta o + \beta_1 TGE + U \text{ –Explicit Function}$$

Model 2: AgOutput= *f* (Agricultural output) -Implicit Function

$$AgOutput = \alpha_0 + \alpha_1 TGE + U \text{ –Explicit function}$$

Where:
RGDP = Real Gross Domestic Product
β_0 = Intercept for model 1
α_0 = Intercept for model 2
β_1 = estimated coefficient
α_1 = estimated coefficient
TGE = Total Government Expenditure on Agriculture (monetary value) with respect to the period under review
AgOutput = Agricultural output in Nigeria (metric tonnes) with respect to the period under review
f = functional notation
U = error term

3.3. Apriori Expectation

The *apriori* expectation is that β_1 and α_1 (TGE) ≥ 0. This means the relationship between total government expenditure and economic growth proxied by GDP as well as Agricultural output is expected to be positive. Thus, a change in total government expenditure is expected to cause a change in real GDP/ Agricultural output.

3.4. Data Analysis Procedure

The methods of data analysis were descriptive statistics, ordinary least square (OLS) simple regression and correlation analysis with the use of statistical package for social scientists (SPSS) version 16 software.

4. Results and Discussion

4.1. Descriptive Statistics

4.1.1. Trends of Real Gross Domestic Product

The figure 1 below shows the trend of real gross domestic product over the years under review. It shows that the RGDP was very low around 1979-1980, later increased and fell around 1985. It then increased slightly between 1986 and 1990, and 1990-2005. The trend however continues to increase up to 2013.

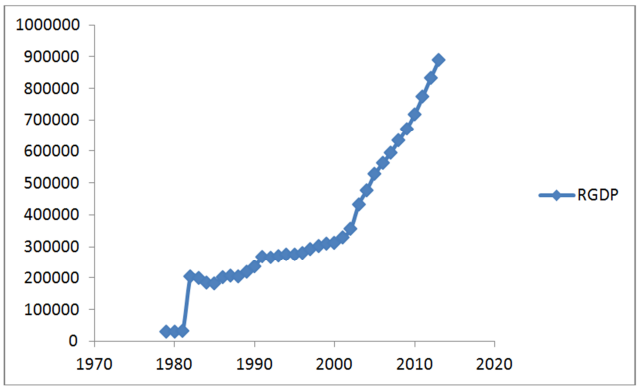

Figure 1. *The trend of RGDP over the years (1979-2013).*

4.1.2. Trends of Government Spending on Agricultural Sector in Nigerian Economy

Figure 2 below shows the trend of government spending on agricultural sector between 1979-2013. It however reveals that the spending on the sector was abysmally low between 1979 and 1991, later with a sharp increase around 1998. Later, it dropped and rose again sharply in 2008 and subsequently fell between 2011 and 2013.

The results thus shows a fluctuating trend in government spending on agricultural sector which really calls for urgent attention based on the recent dwindling in the crude oil prices globally.

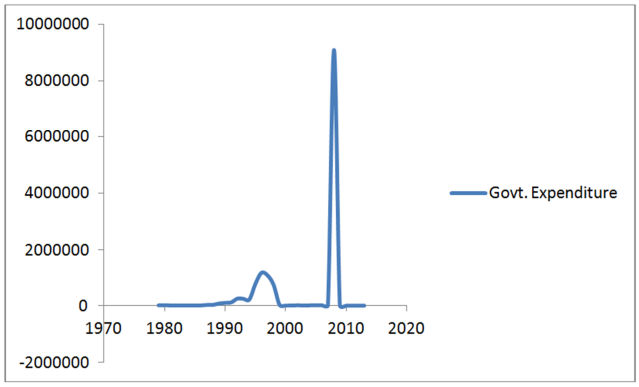

Figure 2. *The trend of Government expenditure on agriculture.*

4.2. Inferential Statistics

4.2.1. Regression Results of Government Expenditure on Agriculture on Economic Growth (Proxied by Real GDP)

Table 1 shows the regression results of the relationship between economic growth proxied by real gross domestic product and government spending on agriculture. The result reveals the existence of negative relationship (-32467.978) between government spending on agriculture and RGDP but significant at 5-percent level of probability.

R-Square value of 0.163 shows that about 16 percent of total variations in the dependent variable (RGDP) is accounted for by the explanatory variable (government expenditure).

F-statistic value of 6.446 with a probability of 0.016 indicates that the whole model has a good fit while Durbin-Watson (DW) value of 0.212 indicates that there is no autocorrelation.

However, an empirical evidence of this finding shows that the expenditure on the sector is significant but in reality, more efforts need to be directed towards improving the food security of the citizenry. This therefore suggests that a concerted effort is needed by Nigerian government to increase the spending with a view to driving economic growth and development.

Table 1. *Regression results of Government expenditure on Agriculture on economic growth (proxied by Real GDP).*

Model Summary[b]					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.404[a]	0.163	0.138	2.09E+05	0.212
a. Predictors: (Constant), LnAgEXP					
b. Dependent Variable: Real GDP					

Coefficients[a]								
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**F**	**Sig.**
		B	**Std. Error**	**Beta**				
1	(Constant)	682721.401	132005.591		5.172	0.000	6.446	0.016[a]
	LnAgEXP	-32467.978	12788.453	-0.404	-2.539	0.016		
a. Dependent Variable: Real GDP								

4.2.2. Regression Results of Government Expenditure on Agriculture and Agricultural Output Response

The result of table 2 shows that the relationship between agricultural output and government expenditure on agriculture. The result however shows that there is a negative relationship (-2.114E6) but also significant at 1-percent level of probability.

R^2 value of 0.21 indicates that about 21 percent of total variation in the dependent variable (agricultural output) is accounted for by the government expenditure on agriculture.

F-statistics of 8.811 with a probability of 0.006 indicates that the model has a good fit but Durbin-Watson (DW) value of 0.537 also indicates that there is no autocorrelation.

T-ratio and significance of the variable: The explanatory variable shows a significant relationship on the Agricultural output at 1-percent level of probability (P<0.006).

The empirical evidence of table 2 indicates that if there is no meaningful increase in government expenditure on agriculture, the tendency to hamper agricultural output is inevitable. Thus, spending on agricultural sector would certainly promote agricultural output with its attendant effect on many sectors of the economy. However, this result is in conformity with the finding of Ekerete (2000) who found out empirically that the performance of agricultural sector has been inadequate which might not be unconnected with the low injection of fund into the agricultural sector to stimulate growth in the economy.

Table 2. *Regression results of government expenditure on agriculture and agricultural output response.*

Model Summary[b]					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.459[a]	0.211	0.187	1.17E+07	0.537
a. Predictors: (Constant), LnAgEXP					
b. Dependent Variable: Agricultural output					

Coefficients[a]								
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**F**	**Sig.**
		B	**Std. Error**	**Beta**				
1	(Constant)	2.93E+07	7.35E+06		3.987	0.000	8.811	0.006
	LnAgEXP	-2.11E+06	712201.051	-0.459	-2.968	0.006		
a. Dependent Variable: Agricultural output								

4.2.3. Correlation Matrix Between RGDP, Government Expenditure on Agricultural Sector and Agricultural Output

Table 3 shows the correlation matrix between RGDP, expenditure on agricultural sector in Nigeria and Agricultural output. The results revealed that there is a weak correlation between expenditure on agriculture, agricultural output and RGDP. This finding corroborates the study of Okezie *et. al.* (2013) who found out the existence of weak causality between expenditure on agricultural sector and agricultural output. Surprisingly, the results of table 3 revealed a strong correlation between RGDP and agricultural output and significant at 0.01 level of probability.

However, the results empirically supports the public opinion that the spending on agriculture though positive but weakly correlated and not sufficient for serious and meaningful economic growth and development of Nigeria.

Table 3. *Correlation matrix between RGDP, Government Expenditure on Agricultural Sector and Agricultural output.*

		Expenditure on Agric Sector	Agricultural output	Real GDP
Expenditure on Agric Sector	Pearson Correlation	1	0.171	0.179
	Sig. (2-tailed)		0.327	0.304
	N	35	35	35
Agricultural output	Pearson Correlation	0.171	1	.916**
	Sig. (2-tailed)	0.327		0
	N	35	35	35
Real GDP	Pearson Correlation	0.179	.916**	1
	Sig. (2-tailed)	0.304	0	
	N	35	35	35

**. Correlation is significant at the 0.01 level (2-tailed).

5. Conclusion and Recommendations

5.1. Conclusion

This research work examined the nexus between federal government's expenditure on agricultural sector, agricultural output and economic growth of Nigeria using annual time series data from 1979-2013. The results of regression analyses showed a significant impact of government spending on agricultural sector on both the agricultural output response and economic growth. However, in correlation analysis, the result revealed positive but weak correlation between the public spending on agriculture, agricultural output and economic growth. This study therefore concluded that a significant nexus exists between federal government spending on agriculture, agricultural output response and economic growth of Nigeria.

5.2. Recommendations

Having examined the nexus between federal government's expenditure on agricultural sector, agricultural output and economic growth of Nigeria, the study specifically recommends that:

- Conscious effort should be made by government at all levels towards increasing budgetary allocation to the agricultural sector.
- Government should encourage the financial sector to set aside funds for agricultural financing as well as encourage flexibility in accessing loans to enhance agricultural production.
- Government should provide funds to acquire sophisticated farm tools with increase in her budgetary allocation to agricultural sector in a consistent manner with a view to contributing more to the economic growth of Nigeria.

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