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Impact of fiscal policy on economic growth in Nigeria: An approach of time series Econometric model

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Abstract

The Nigeria government through the help Ministry finance in several occasions have used fiscal Policy instruments in diverse ways to achieve economic growth yet Nigeria is still not achieved sustainable economic growth. The study examined the effect of fiscal policy's components on economic growth over a period of 1980 to 2017. The specific objectives are to: investigate to what extent does components of fiscal policy effect Economic Growth in Nigeria and ascertain if there is long-term relationship between components of fiscal policy and Economic Growth in Nigeria. This study made use of expost-facto research design which enables us to measure the effect or relationship between dependence variable and explanatory variables using time-series secondary data. The data was subjected to Augmented Dickey-Fuller Unit Root test statistic, Engle-Granger Co-integration test, error-correction mechanism, Heteroscedasticity White Test, Ramsey Reset and Durbin-Watson test. The study concluded that the effect of fiscal policy components on Economics growth. The empirical result shows that the coefficient of government capital expenditure (CAPITAL) has 25% positive significant effect on Real GDP, government recurrent expenditure (RECURRENT) has 25% positive significant effect on Real GDP, Public external Debts (DEBTS) has 6% negative significant effect on Real GDP and government Taxes revenue (TAXES) has 41% negative significant effect on Real GDP. Real GDP has long-run negative relationship with public external Debts. Hence, the component of fiscal policy has long-run relationship with economic growth. The study recommends the Nigerian government: Government fiscal policy should refocus and redirect government expenditure towards production of goods and services as well as development of basic infrastructure (example. transportation, productivity, energy and communication). Human capital development should be a priority.

Introduction

Fiscal policy is the means by which government use the state treasury or the government finances to produce desirable effects and avoid undesirable effects on the national income, production, employment, exchange rate, prices, balance of payment. It is used along with the monetary policy which the central bank uses to influence money supply in a nation. These two policies are used to achieve macroeconomic goals in a nation. In other words, fiscal policy is a major economic stabilization weapon that involves measure taken to regulate and control the volume, cost and availability as well as direction of money in an economy to achieve some specified macroeconomic policy objective and to counteract undesirable trends in the Nigerian economy (Gbosi, cited in Ubesie, 2016) [16]. Therefore, they cannot be left to the market forces of demand and supply as well as other instruments of stabilization such as monetary and exchange rate policies among others, are used to counteract are problems identified (Ndiyo & Udah, 2003) [10].

There is a consensus in the literature that an adequate and effective macroeconomic policy is critical to any successful development process aimed at achieving high employment, sustainable economic growth, price stability, long-viability of the balance of payments and external equilibrium. Despite the lofty place of fiscal policy in the management of the economy, the Nigerian economy is yet to come on the path of sound growth and development. Studies by Agiobenebo (2003), Gbosi (2002) and Okona (1997) indicate that the economy is still married by chronic unemployment, rising rate of inflation, dependence on foreign technology, monoculture foreign exchange earnings from crude oil, and more. Furthermore, stagnating revenue

mobilization in particular and some upward movements in expenditures led to a reversal of the fiscal stabilization process since the second half of the Nineties.

Nigeria's potential for growth and poverty reduction is yet to be realized. A key constraint has been the recent conduct of macroeconomics, particularly fiscal and monetary policies. This has led to rising inflation and decline in real incomes (Agu, Idike, Okwor, & Ugwunta, 2014) [2]. National economic management became a difficult task as the economy has to contend with volatility of revenue and expenditure. The widespread lack of fiscal discipline was further exacerbated by poor coordination of fiscal policy among the three tiers of government. Also, there is a weak revenue base arising from high marginal tax rate with very narrow tax base, resulting in low tax compliance. (Odewunmi, 2012).

As a result of these and other factors serious, macroeconomic imbalances have emerged in Nigeria. A review of these macroeconomic indices shows that inflation has accelerated to double-digit levels (from 6.94 in 2000 to 18.87 in 2001), (IMF, 2001). This double-digit inflation continued up to 2005, and decreases to single digit in 2006 and 2007. In 2008 the inflation rate reverted to double digit - 11.58 and continued to increase and in 2010 it was 13.72% (IMF, 2011). Unemployment is a major political and economic issue in most countries. In Nigeria the years of corruption, civil war, military rule and mismanagement have hindered economic growth of the country. Nigeria is endowed with diverse and huge resources both human and material. However, years of negligence and adverse policies have led to the under-utilization of these resources (Economic Watch, 2010), and this has contributed to the increasing unemployment rate in Nigeria. In 2000 the unemployment rate was 13.1%. on the average there has been an upward trend and in 2010 it was 21.10% (Nigerian Bureau of Statistics 2010, CBN 2005, 2006, 2009).

Poverty reduction has been a major goal of various governments. This is evidenced by the fact that various governments have introduced different programmes to reduce poverty levels. Examples are Nigerian Directorate of Employment (NDE) introduced in 1989 and the National Poverty Eradication Programme (NAPEP) introduced in 2001. Per capita income is the major index for measuring poverty level. Per capita income in Nigeria has been increasing steadily from year 2000 when it was N39,657 to N71,131 in year 2010, (IMF, 2011). This increase in per capital income has not led to an increase in the standard of living of the citizens because of increasing cost of goods and services.

The rising profile of Nigeria's indebtedness is a sour point in the public finance management and speaks volumes of the fiscal discipline of political actors' attitude to the sovereignty of Nigeria. According to Nwankwo (2010) Nigeria debt profile was $32.5billion as at September 2010, ie N5,241,667m as at September 2010, In year 2000, the total outstanding debt of Nigeria was N3,995,638m. There continued to be an upward trend until in 2006 when it came down to (N3,177,409m) because of debt cancellation agreement between Nigeria and Paris Club (Okwor, 2010). Thereafter, it started rising again and reached N5,241,667m in 2010. The expenditure pattern of Nigeria has been on the increase. In 2000, the total expenditure was N701,059m. It has increased steadily and in 2010 it was N4,199,429m. Generally, increase in expenditure should lead to reduced

unemployment rate but in Nigeria the reverse is the case i.e as total expenditure increases, rate of unemployment increases. This is because a greater percentage of the total expenditure is channeled to recurrent expenditure and the proportion is worsening. In 2000, the percentage of the total expenditure spent on recurrent was 66% and has increased to 79% in 2010. The implication is that less percentage of the total expenditure is spent on capital project which creates job in the economy.

According to Adeoye, (2006) [1], the debate on the effectiveness of fiscal policy as a tool for promoting growth and development remains inconclusive, given the conflicting results of current studies. In the words of Gbosi, (2008) [5], "the role of fiscal policies in the development of emerging economies has been a major source of concern in economic literature.

In support of the argument, it is evidence from the empirical review carried out that there is diverse result by various studies, where some studies found that fiscal policy has positive and significant effect on economic growth (Olukayode, 2015; Audu, 2012; Agu, Idike, Okwor, & Ugwunta, 2014; Babalola, 2015; Medee and Nenbee, 2011) [12, 3, 2, 4, 7]. Similiar studies reveal that there exists positive and insignificant effect of fiscal policy on economic growth (Enache, 2014; Ogbole, Amadi, & Essi, 2011) [11]. Agu, Idike, Okwor, & Ugwunta, 2014; Omodero, Ihendinihi, Ekwe & Azubuike, 2014; Ubesie, 2016) [2, 13, 16] researched components of fiscal policy and revealed that government expenditure and recurrent expenditure have positive and significant effect on economic growth while tax revenue and national debt have negative and significant effect on economic growth. The reason for these diverse findings were not far fetch from difference in methodology adopted, diversity in the choice of data used to capture the variables of study, variation in the time period which the study focused on. This major problem which this study is designed to solve is whether the components of fiscal policy in Nigeria have significant effect on economic growth. The specific objectives are to:

1. investigate to what extent does components of fiscal policy effect Economic Growth in Nigeria.
2. ascertain if there is long-term relationship between components of fiscal policy and Economic Growth in Nigeria.

Conceptual Issues
Fiscal policy refers to policy concerning the use of state treasury or the government finances to achieve the macroeconomic goals. Fiscal policy has however been variously defined by economists. Arthur Smithies defined fiscal policy as a policy under which government uses its expenditure and revenue programs to produce desirable effects and avoid undesirable effects on the national income, production, employment.

By fiscal policy Samuelson and Nordhaus means the process of shaping taxation and public expenditure to help dampen the swings of the business cycle and contribute to the maintenance of a growing, high employment economy, free from high or volatile inflation, exchange rate, and balance of payment disequilibrium. It seems that they have defined fiscal policy keeping in view the problems of the developing countries like Nigeria.

Government interventions in economic activities are basically in the form of controls of selected areas/sectors of

the economy. These controls differ, and depend on the specific needs or purpose the government desires to achieve. Samuelson & Nordhaus, cited in Ubesie, (2016) [16] distinguished between two forms of regulation, namely: (i). Economic regulation (involving control of prices, entry and exit conditions, regulation of public utilities, such as transportation and media organizations, regulation of the financial sector operations. (ii). Social regulation (aimed at protecting the health and safety of workers at work place, the environment, and protection of consumer rights. our focus is on economic regulation. Mitchell, (2005) [8] the proponents of government expansion are of the view that government expenditures provide valuable public goods including: education, roads, infrastructure, and security, among others. They claim that increases in government spending are capable of enhancing growth through, perhaps, rises in purchasing power of the citizenry, both in the short- and long-run

Samson, (2013) [14] other proponents was of the opinion that high government spending do crowd out private investments and hence, undermine economic growth. They are of the opinion that increases in government spending often transfer resources from the productive sector of the economy to government, where the resources are likely to be used inefficiently. They also argue that expanding public sector can complicate efforts aimed at implementing pro-growth policies such as, fundamental tax reform and personal retirement accounts (Mitchell, 2005) [8].

Theoretical Literature
Keynesian Theory
The role of fiscal policy in the achievement of macroeconomic objectives has been extensively dealt with the Keynesian Theory of an activist macroeconomic policy. The Keynesian analysis leads to the conclusion that demand management policies can and should be used to improve macroeconomic performance. An activist macroeconomic policy involves setting monetary and fiscal variables in each time period at the values which are thought necessary to achieve the government's objectives. A basic premise of Keynesian economics is that the private sector is inherently unstable. It is subject to frequent and quantitatively important disturbances in the components of aggregate demand. The broad objectives of Keynesian macroeconomic policy are not in dispute, these objectives are full employment, a stable price level, the absence of significant deviations of output from its equilibrium time path, a satisfactory rate of economic growth, an equitable distribution of income, and balance of payment equilibrium. There exist, however, differing opinions, regarding the priorities accorded to these objectives. In fact, there is an even greater divergence of views on them earns by which such objectives can be actualized.

Keynesian activist policy has come under increasing attack from the monetarist and classical schools, which regard the private sector as inherently stable. They do not deny that random disturbances occur in the private sector but they do not think that these are either large or further amplified by quantifying adjustments. The private sector adjusts via relative price changes to such disturbances quite adequately, so active stabilization policy is not required. Furthermore, it (stabilization policy) may, if implemented increase rather than diminish fluctuations in output and employment. Nevertheless, stabilization policy requires that policy

makers can determine feasible targets, have a reasonable knowledge of the workings of instrumental variables and can effectively control the instrumental variables. Keynesian theory posits that removing spending from the economy will reduces level of aggregate demand and stabilizing pries. However, recent researchers have made an impact to the development of fiscal policy and economic growth through their contribution to the theoretical issues on this study.

Empirical Review
The link between fiscal policy and economic growth has attracted the attention of the researchers and scholars. The issue under review is a vital subject that should be subjected to painstaking empirical review in order to keep abreast with the positions of the concerned researchers and scholars on this subject and to determine the gap inherent in the earlier related studies.

Audu, (2012) [3] conducted a study to evaluate the causal relationship between money supply, fiscal deficits and exports as a means of analysing the impact of policy on the growth of the Nigerian economy between 1970 and 2010. The research employed the Co-integration Error Correction Mechanism (ECM). The study reveals that fiscal policies have a significant influence on the output growth of the Nigeria economy.

Olukayode, (2015) [12] examined the impact of fiscal policy on economic growth of the Nigerian economy. The study used data from 1970 to 2011 and employed Engel-Granger cointegration for long-run relationship, ordinary least square for long-run estimate and diagnostic test for consistency of instruments. Empirical findings show that fiscal policy exerts a significant positive effect on economic growth, which indicates that appropriate fiscal measures stimulate the Nigerian economic growth. Thus, government spending has a greater impact on the growth rate of the Nigeria economy. There is need for continuous increase and growth of the nation's output by ensuring that government spending is channelled into sectors that best guarantees efficient and effective usage.

Agu, Idike, Okwor, & Ugwunta (2014) [2] investigated the impact of various components of fiscal policy on the Nigerian economy. The method of data was an OLS in a multiple form to ascertain the relationship between economic growth and government expenditure components after ensuring data stationarity. Findings reveal that total government expenditures have tended to increase with government revenue, with expenditures peaking faster than revenue. Investment expenditures were much lower than recurrent expenditures evidencing the poor growth in the country's economy. Hence there is some evidence of positive correlation between government expenditure on economic services and economic growth. An increase in budgetary allocation to economic services will lead to an enhancement in economic stability.

Morakinyo, Olusegun, & Adewale (2018) [9] examined the impact of fiscal policy instrument on economic growth in Nigeria using time series annual data from 1981-2014 which constitutes 34 years observations. The data were analysed using Ordinary Least Square method and vector error correction mechanism was conducted. The study found that recurrent expenditure and public domestic debt exert negative relationship while the capital expenditure and external debt exert positive relationship in the long run on

the economic growth (GDP) and in the short-run the entire variables are having positive influence except REC (recurrent expenditure) on the Economic growth (GDP).

Omodero, Ihendinihi, Ekwe & Azubuike (2014) [13] examined the impact of fiscal policy on the economy of Nigeria between 1994 and 2014. Multiple regression of ordinary least square estimation was the tool used to analyze the data in this study. The study has revealed, that there exists no significant relationship between capital expenditure, recurrent expenditure, tax revenue and the real GDP representing the economy. However, the study found a significant negative relationship existing between external debts and the real GDP. This supports the Keynesian view of government active intervention in the economy using appropriate various policy instruments.

Babalola, (2015) [4] examined the short and long run impact of fiscal policy on economic development in Nigeria between a period of 1981 and 2013 using annual time series data sourced from World Development Indicators (2014) and the Central Bank of Nigeria (2014). The model was estimated using Pair-wise Correlation to ascertain the relationship and then Cointegration and Error Correction Mechanism for impact after confirming the data's stationarity using Unit Root. The result showed that government recurrent expenditure and government investment have significant positive impact on economic development in both the short and long run within the period under consideration. Capital expenditure appeared to have a short run positive impact but not in the long run. Tax revenue had an inverse significant impact in both short and long run. The speed of adjustment to equilibrium was found to be high. The results are all in line with theories and previous studies.

Ubesie, (2016) [16] investigated the effect of fiscal policy on economic growth in Nigeria. The main objective is to analysis how various components of fiscal policy have contributed to the growth rate of the Nigerian economy. Descriptive statistics and the ordinary least square (OLS) multiple regression analytical method. The results from the analysis revealed that total government expenditure is significantly and positively related to government revenue, with expenditures climaxing faster than revenue. Investment expenditures were much lower than recurrent expenditures evidencing the poor growth in the country's economy.

Medee and Nenbee (2011) [7] study centred on an empirical investigation of the impact of fiscal policy variables on economic growth in Nigeria between 1970 and 2009, while adopting the not widely understood method of vector auto regression (VAR) and error correction mechanism techniques, the researchers found that there exists a mild long-run equilibrium relationship between economic growth and fiscal policy variables in Nigeria.

Enache (2014) investigated the connection between fiscal policy and economic growth in Romania using forecasted time series data which covered periods between 1992 and 2013. The researcher used OLS as the technique for data analysis. Empirical results showed weak evidence for the positive impact of fiscal policy on economic growth. The study concluded that government authorities could use fiscal policy to affect economic growth in an indirect manner.

Ogbole, Amadi, & Essi, (2011) [11] conducted a study that involves comparative analysis of the impact of fiscal policy on economic growth in Nigeria during regulation and deregulation periods. Econometric analysis of time series data from Central Bank of Nigeria was conducted. Results obtained showed that there is a difference in the effectiveness of fiscal policy in stimulating economic growth during and after regulation periods. The impact was marginally higher (only N140 million or 14% contribution to GDP) during deregulation, than in the regulation period.

Methodology

This study made use of expost-facto research design which enables us to measure the effect or relationship between dependence variable and explanatory variables using time-series secondary data. To empirically examine the impact of fiscal Policy on the economic growth in Nigeria, the researcher subjected the data collected to Augmented Dickey-Fuller Unit Root test statistic, Engle-Granger Co-integration test, error-correction mechanism, Heteroscedasticity White Test, Ramsey Reset and Durbin-watson test.

Data Sources

To investigate how fiscal policy could affect economic growth in Nigeria, a number of variables have been taken into consideration in this study. These variables consist of government capital expenditure (CAPITAL), government recurrent expenditure (RECURRENT), Public external Debts (DEBTS), government Taxes revenue (TAXES), and Real Gross Domestic Product (RGDP) for the period of 1980-2017 and are defined in our model specification. All the variables were sourced from Central Bank of Nigeria's (CBN) statistical bulletin for various years. And are all expressed in million Naira.

VI. Model Specification

This study is anchored on the Keynesian model in 1936 states that expansion of government expenditure accelerates economic growth. Thus, the model is represented in a functional form of the model was shown below:

RGDP = F (CAPITAL, RECURRENT, DEBTS, TAXES)

Where, government Taxes revenue (TAXES), and Real Gross Domestic Product (RGDP) EXPORTS = Exports volume (Dependent variable)

CAPITAL = Government capital expenditure (Independent variable)

RECURRENT = Government recurrent expenditure (Independent variable)

DEBTS = Public external Debts (Independent variable)

TAXES = Government Taxes revenue (Independent variable)

RGDP = Real Gross Domestic Product (Dependent variable)

In a linear function, it is represented as follows:

$$RGDP = \beta_0 + \beta_1 \, CAPITAL + \beta_2 \, RECURRENT + \beta_3 \, DEBTS + \beta_4 \, TAXES + Ut \ldots (2)$$

Where: β_0 = Constant term, β_1 to β_4 = Regression coefficient and Ut = Error Term.

Results and Discussion

The ADF test is used to test whether the variables are non-stationary (unit root). If the results indicate that all series are stationary in the first difference or all series are generated by 1(1) and 1(1) process, condition of stationarity is established or confirmed (Gujarati, 2004). The unit root was carried out to avoid non-sense regression and violation of ordinary least square assumption.

Table 1: Results of Stationarity (unit root) test

Variables	ADF- Statistics	Critical Value	Order of integration
RGDP	-6.042212	1% level = -3.626784 5% level = -2.945842 10% level = -2.611531	Stationary first difference
CAPITAL	-8.959402	1% level = -3.626784 5% level = -2.945842 10% level = -2.611531	Stationary first difference
RECURRENT	-3.195570	1% level = -3.626784 5% level = -2.945842 10% level = -2.611531	Stationary first difference
DEBTS	-7.515273	1% level = -3.626784 5% level = -2.945842 10% level = -2.611531	Stationary first difference
TAXES	-6.470994	1% level = -3.626784 5% level = -2.945842 10% level = -2.611531	Stationary first difference

Source: Author's computation

The results of the stationarity (unit root) test indicate that government capital expenditure (CAPITAL), government recurrent expenditure (RECURRENT), Public external Debts (DEBTS), government Taxes revenue (TAXES), and Real Gross Domestic Product (RGDP) were stationary at first difference. It is now referable to use Error Correction regression Model to estimate the parameters.

Engle-Granger Cointegration Results

Engle-Granger Co-integration test was used to check existence of long-run relationship among selected variables. The main theoretical argument of co-integration analysis is that even if individual variable is non-stationary, the group of variables may drift together. In support of this Engle and Granger (1987) pointed out that a linear combination of two or more non-stationary series may be stationary. If such a stationary linear combination exists, the non-stationary time series are said to be *cointegrated*. The stationary linear combination is called the *cointegrating equation* and may be interpreted as a long-run equilibrium relationship among the variables.

Since the variables under study are integrated at the same order, there is the need to test for co-integration relationships using Engle and Granger two step procedure.

Table 2

Date: 01/05/19 Time: 14:20				
Series: RGDP CAPITAL DEBT RECURRENT TAXES				
Sample: 1980 2017				
Included observations: 38				
Null hypothesis: Series are not cointegrated				
Cointegrating equation deterministics: C				
Automatic lags specification based on Schwarz criterion (maxlag=9)				
Dependent	tau-statistic	Prob.*	z-statistic	Prob.*
RGDP	-5.255289	0.0202	-29.62376	0.0356
CAPITAL	-3.385257	0.4338	-17.73089	0.4283
DEBT	-5.573048	0.0102	-34.90546	0.0067
RECURRENT	-3.915321	0.2243	-24.85575	0.1180
TAXES	-2.925140	0.6505	-15.50548	0.5661
*MacKinnon (1996) p-values.				

Source: E-view Results

The Engle and Granger two step co-integration test identified that there were two co-integration equations in the model. The null hypothesis was that there no co-integration equations in the model. The tau test statistic and its probability value indicated two co-integrating equations at 0.05 significant level. The probability value of RGDP and DEBT were than 0.05 significant level. It means that Real GDP has long-run negative relationship with public external Debts. Hence, the component of fiscal policy has long-run relationship with economic growth.

Data Analysis
Empirical Results of the Multi-regression Error correction model

Table 3

Dependent Variable: D(RGDP,1)				
Method: Least Squares				
Date: 01/05/19 Time: 14:28				
Sample (adjusted): 1981 2017				
Included observations: 37 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11223.79	12744.63	0.880669	0.3853
D(CAPITAL,1)	0.256306	0.029098	8.808371	0.0000
D(DEBT,1)	-0.061899	0.013046	-4.744605	0.0000
D(RECURRENT,1)	0.256752	0.115921	2.214884	0.0342
D(TAXES,1)	-0.415232	0.178100	-2.331454	0.0126
ECM-1	-0.641054	0.162612	-3.942231	0.0004
R-squared	0.597471	Mean dependent var		1034.120
Adjusted R-squared	0.532547	S.D. dependent var		89028.32
S.E. of regression	60869.17	Akaike info criterion		25.01823
Sum squared resid	1.15E+11	Schwarz criterion		25.27946
Log likelihood	-456.8373	Hannan-Quinn criter.		25.11033
F-statistic	9.202603	Durbin-Watson stat		1.885250
Prob(F-statistic)	0.000019			

Source: E-view Results

Error correction mechanism was carried out to examine parameters estimates. In testing this hypothesis, government capital expenditure (CAPITAL), government recurrent expenditure (RECURRENT), Public external Debts (DEBTS) and government Taxes revenue (TAXES) were regressed against Real Gross Domestic Product (RGDP). The result of the regression analysis was summarized and it shows that the model for the effect of components of fiscal policy on economic growth. The empirical result shows that the coefficient of government capital expenditure (CAPITAL) has 25% positive significant effect on Real Gross Domestic Product (RGDP) because observed values of t – statistics was greater than its P-values. The government recurrent expenditure (RECURRENT) has 25% positive significant effect on Real Gross Domestic Product (RGDP) because observed values of t – statistics was greater than its P-values. The Public external Debts (DEBTS) has 6% negative significant effect on Real Gross Domestic Product (RGDP) because observed values of t – statistics was greater than its P-values. The government Taxes revenue (TAXES) has 41% negative significant effect on Real GDP because observed values of t – statistics was greater than its P-values. The results of the F – statistical test show that the overall regression of the variables was statistically significance. This is because observed values of the F – statistics (9.2026) was greater than its P-value. The ecm statistic showed that the model has 64% of the error is corrected every year from short-run to long-run. Again, our empirical result shows that the adjusted R-squared (R^2) is 0.5325. Explanatory powers of the variables were fair.

Econometric /Second Order Test

Table 4: Result of Durbin-watson Autocorrelation Test

Model	Observed value of Durbin – Watson (Dw)	Critical value of Durbin-Watson Du(4 – du)	Test Result
Model 1	1.885	1.58	AA

AA = Autocorrelation Absent

The Durbin-watson test was used to identify whether the model suffer from autocorrelation problem. The autocorrelation problem violates of ordinary least square assumption that says there is no correlation among error terms of different observation. Durbin- Watson statistics (d*) was carried to test randomness of the residuals and the assumption of ordinary least square was not violated. The result of Durbin–Watson test (1.885) carried out at five percent level of significance shows that the model is free from Autocorrelation problem was greater than upper critical value of Durbin-watson (1.58). This denotes that prediction base of the Ordinary Least Square estimates were efficient and unbias.

Result of Heteroscedasticity White Test

Table 5

Heteroskedasticity Test: White			
F-statistic	18.44883	Prob. F (20,16)	0.0013
Obs*R-squared	23.57525	Prob. Chi-Square (20)	0.0014
Scaled explained SS	39.99861	Prob. Chi-Square (20)	0.0050

Source: E-view Results

This second order test checks whether the model of the study suffers Heteroscedasticity problem. Heteroscedasticity is violation of ordinary least square (OLS) assumption that error terms have unequal variance which results to biasedness and inconsistency in OLS estimators and the model can no longer be best linear unbiased estimator (BLUE). The null hypothesis; there is heteroscedasticity. The White test showed that there was no heteroscedasticity because Probability value of F-statistic was less than 0.05 significant level.

Result of Ramsey Reset Test

Table 6

Ramsey RESET Test			
Equation: UNTITLED			
Specification: D(RGDP,1) C D(CAPITAL,1) D(DEBT,1) D(RECURRENT,1)			
D(TAXES,1) (ECM-1)			
Omitted Variables: Squares of fitted values			
	Value	df	Probability

t-statistic	7.460485	30	0.0000
F-statistic	55.65883	(1, 30)	0.0000
Likelihood ratio	38.81947	1	0.0000

Source: E-view Results

This second order test checks whether the model of the study suffers model specification error. The Ramsey reset test showed that there was no specification error because Probability value of F-statistic was less than 0.05 significant level. It means that model include core variables in the model, does not include superfluous variables, the functional form of the model was very well chosen, there is no error of measurement in the regressand and regressor.

Conclusion/ Recommendations
The study concluded that there is effect of fiscal policy components on Economics growth in Nigeria. The empirical result shows that the coefficient of government capital expenditure (CAPITAL) has 25% positive significant effect on Real GDP, government recurrent expenditure (RECURRENT) has 25% positive significant effect on Real GDP, Public external Debts (DEBTS) has 6% negative significant effect on Real GDP and government Taxes revenue (TAXES) has 41% negative significant effect on Real GDP. Real GDP has long-run negative relationship with public external Debts. Hence, the component of fiscal policy has long-run relationship with economic growth. The study recommends the Nigerian government: Government fiscal policy should refocus and redirect government expenditure towards production of goods and services as well as development of basic infrastructure (example. transportation, productivity, energy and communication). Human capital development should be a priority. There is need for an improvement in government expenditure on health, education and economic services, as components of productive expenditure, to boost economic growth. Government should fight the problem of corruption because without a reduction of the level of corruption in the country, fiscal policy components will not achieve the required level of economic growth in Nigeria. Capital expenditure should be well monitored and ensure that these expenditures are not diversified to individuals' pockets and also quality assurance be gotten from executors of government projects. The government has to put in place effective debt management strategies. This is to ensure that all public debts are directed towards the purpose for which they are applied for. However, the Federal Inland Revenue Service should explore many other untapped ways of getting more tax revenue for the government as there are still many people and firms who do not pay tax out of tax evasion and avoidance.

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