Corruption, Government Expenditures and Economic Performance: Nigeria's Experience in the New Democratic Era (1999-2012)

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Abstract

The paper employs the ordinary least squares (OLS) estimation technique to estimate a simple regression model with a dummy variable to investigate the effect of corruption and government expenditures on the performance of Nigeria's economy in the pre-democratic (1994-1998) and the democratic (1999 – 2012) eras using annual time series data sourced from the Central Bank of Nigeria Statistical Bulletin, and Transparency International. The analysis indicates that corruption had no significant impact on Nigeria's economic growth in both sub-periods. It further indicates that capital expenditure component of government expenditure negatively impacted growth in the sample periods. The impact of government recurrent expenditure on the growth of Nigeria's economy was found to be significantly negative in the 1994-1998 period, but significantly positive in the democratic period (1999-2012). The paper recommends measures to make government expenditure more productive – enhancing its contribution to the growth of the nation's economy.

Keywords: Corruption, Recurrent expenditure, Capital expenditure, Economic performance, Nigeria

Introduction

The effects of corruption and government expenditures on economic performance have continued to attract the attention of

researchers in recent times. Consequently, a large volume of research on the issue exists in the extant literature. The views expressed by researchers and analysts on the effects of corruption on economic performance have been somewhat divergent. While some researchers argue that corruption acts as a clog in a country's wheel of economic progress, or as the rust on the wheel that slows it down, and that it contributes to the impoverishment of people in most countries, and that if unchecked, it is "accompanied by misallocation of resources, economic stagnation, social and economic disparities and, eventually political violence" (Jain, 2011, p. 3), others on the other end of the divide, are of the view that it could be the grease that oils that wheel of economic progress to ensure efficient running of the economy. The arguments advanced by the latter group are that corruption works like a piece-rate pay for bureaucrats, which induces a more efficient provision of government services and that it allocates investment to the most efficient uses as the most efficient investors are able to pay higher bribes, just as it improves efficiency in the use of time, because investors who consider time to be a very valuable asset could save on its use by paying the highest bribes to move in front of bureaucratic lines, and that corruption makes it possible for government to keep wages low because the bribes received by public sector workers make them accept lower wages, which allows taxes to remain low and which in turn stimulates economic growth (Tanzi, n.d; Mo, 2001).This view however appears to be oblivious of other forms of corruption such as embezzlement and inflation of contract costs which could be more devastating to economic performance. Moreover, it appears to be oblivious of the fact that corruption-induced growth is not sustainable, considering that all over the world, corruption is viewed as a vice that should not be accommodated and as such there is intense war against it, and when the battle is eventually won, there is bound to be growth reversal, for when the wood is taken off, the fire goes out.

Similarly, divergent views exist in the literature on the impact of government expenditures on economic performance and human development. While some researchers see it as a necessary ingredient for growth and improvement in welfare, especially in developing economies, where it could *inter alia* boost domestic production and consumption and crowd in private investment, with good governance as the catalyst (Rajkumar and Swaroop, 2008), others have argued that (excessive) government expenditure could hinder growth and adversely affect human welfare (especially in the short run), as it could crowd out private investment (which is also a necessary ingredient for economic growth),

particularly where the government has to compete with the private sector for loans/investible funds, and this could engender a hike in interest rates, acting as a disincentive to private sector investors.

It could be seen from the foregoing that there is no consensus among researchers and analysts on the effects of corruption on economic performance (Mo, 2001). As a matter of fact, "theoretical and empirical debates on the effect of corruption on economic development remain unclear" (Kutan, Douglas and Judge, 2002). Poor or substandard economic performance may not be an indication of pervasive corruption, neither is economic success always and everywhere a sign of innocence of corruption (Mauro, 1997), as evidence exists of countries with a high prevalence of political corruption, whose per capita incomes are very high. For example, Jain (2011) reports that Kazakh's president, Nazarbayev used his country's oil wealth to create three billionaires within his families, while raising the per capita GDP of citizens from USD 700 in 1994 to USD 9000 in 2011. Similarly, government expenditure is not always and everywhere a catalyst or an inhibitor of economic growth. It could therefore be asserted that the effects of corruption and government expenditure on the economic performance of any country are empirical issues, considering the plethora of conflicting experiences and research findings. The paper seeks to empirically investigate the impact of corruption and government spending on economic performance in Nigeria in the period from 1994 to 2012, and in particular, the new democratic era (1999 – 2012). It is expected that the findings in the paper will have strong relevance for policies that are targeted at improving the performance of the nation's economy.

Statement of problem

Corruption has become a deep rooted problem in Nigeria, and it has virtually become the norm rather than being the exception in the society (Chukwuemeka et al, 2013). This clearly explains why in spite of the *fight* against, or the war supposedly waged against corruption in the country, corruption is still endemic. The consequences of the phenomenon of corruption in Nigeria are numerous. Firstly, it contributes significantly to the wide income inequality in the country, as those who actively indulge in it, enrich their purses to the detriment of the masses. Secondly, the expenditure pattern of the *corruptly rich* engenders high inflation rates, which hurts the poor and slows down the rate of growth of the economy, considering that the welfare of the people is strongly linked to the growth

and development prospect of every nation, *ceteris paribus*. Thirdly, in a corrupt system of government such as Nigeria's, government expenditure tends to rise astronomically, and is generally unproductive, just as it also generates sharp rises in the prices of goods, services and works, with its attendant negative consequences for human welfare and economic performance. Fourthly, prevalence of corruption increases the likelihood of poor tax administration as well as tax evasion and avoidance, leading to a sharp decline in government revenues from taxes (Tanzi, 2010). Fifthly, the ranking of Nigeria among the most corrupt countries in the world by the anti-corruption watch dog – the Berlin-based Transparency International (TI) has tended to portray a negative image/picture of the country in the international community, so much so that foreigners are overly cautious when it comes to business and financial transactions with the citizens of the country. This explains why, for example, Western Union does not permit Nigerians to send money out of the country using its facilities – probably a measure to check money laundry. It also explains why the facilities of some online payment facilitators such as PayPal are not opened to Nigerians. Little wonder, the phenomenon of corruption has been fingered for the socio-economic stagnation of Nigeria (Ogbeidi, 2012). Furthermore, corruption in the form of payment of bribes raises cost of production of private firms, which translates into higher prices for private sector output, resulting in decrease in the demand for the locally produced goods in the face of intense global competition, as a result of dumping, as well as decrease in private investment. In fact, the damages corruption does and the viciousness of its effect on society are just too numerous to enumerate (Ike, 2008). As a matter of fact, the World Bank identified corruption as the single greatest obstacle to economic and social development (Blackburn, Bose and Haque, 2004).

The fight against corruption in the country got intensified in the new democratic era. This era saw the establishment of two anticorruption agencies (the ICPC and the EFCC established in 2000 and 2003 respectively by the Obasanjo's Administration). Though these agencies have strived assiduously to combat the menace, complete victory appears to be out of sight. The high level of poverty incidence in the country does not match the huge sum of money budgeted and expended annually by the government. In spite of the huge expenditures, (dominated by recurrent expenditures, and financed mainly by earnings from export of crude oil, taxes and loans) the state of infrastructure in most parts of the country remain worrisome, just as the percentage of the population living in absolute poverty remains

high (Over 64% according to the 2013 Nigeria's Millennium Development Goals Report), and the human development index (HDI) computed annually by the United Nations since 1995, has consistently been below 0.5, an indication that the development and welfare-enhancing objectives of government expenditure in the country have been largely defeated. All these indicate that a large percentage of Nigeria's populace do not benefit from the expenditure of her government (Aigheyisi, 2013). Several factors are responsible for this. Political corruption, no doubt reduces the effectiveness of government expenditure, same way it reduces the effectiveness of other sources of development finance. Irrational spending and embezzlement of public funds are also not left out. Ike (2008) succinctly notes that much of the corruption being experienced in the country is attributable to the consequences of "centralized and democratized corruption". A combination of these (corruption and unproductive expenditures) have tended to impoverish a vast majority of the Nigerian people, and limited the development of the nation's economy.

In this paper, we focus mainly on the new democratic era (1999 – 2012). This era which has seen rising government expenditures, has also witnessed rising poverty incidence as well as rising incidences of corrupt practices. However, our main intention is to investigate the effect of corruption and government expenditures on Nigeria's economic performance, with a view to recommending policies that will help enhance the growth of the nation's economy. To this end, we investigate empirically, the effect of corruption and government expenditures on Nigeria's economic performance in between 1994 (when corruption perception index was first computed for Nigeria by the Transparency International) and 2012, using regression model with a dummy variable to capture the democratic era (1999-2012). The research seeks to provide answers to the following questions: Has corruption helped or hindered Nigeria's economic performance in the new democratic era? Has government expenditure exerted any significant effect on Nigeria's economic performance in the new democratic era?

Review of selected literature – theoretical and empirical

Corruption and democracy

Qizibash (2008) points out two views of corruption and democracy – the pessimistic view and the optimistic view. The pessimistic view traced

to the writings of Plato and Aristotle sees democracy as either corrupt or unlikely to deter corruption, as egalitarian tendencies in democracies produce conditions conducive to corruption. The optimistic view on the other hand, sees democracy as a powerful corruption deterrent.

Until recently, the popular notion was that corruption and democracy were inversely related. Corruption was believed to be more prevalent in autocracy than in democracy, as pure or ideal democracy creates room for accountability and transparency in governance which are inherently absent in most countries with autocratic systems. As a matter of fact, several empirical researches provided ample evidence in support of this notion. For example, in a study to investigate the effect of democracy on corruption in a sample of 151 countries, Kolstad and Wiig (2011), employs the method of instrumental variables and other estimation methods, and find that democracy was very effective in combating corruption. However, using panel data set for a large number of countries between 1993 and 2006, Rock (2007) finds that the relationship between corruption and democracy is U shaped, and that the turning point in corruption occurs rather early in the life of new democracies and at low per capita income.

Nurt-tegin and Czap (2012) employed the ordinary least squares estimation technique to investigate the relationship between corruption and unstable democracy, and corruption and stable dictatorship in selected countries in the period 2000 – 2009. Emanating from the study is the evidence that corruption is less prevalent in unstable democracies than in stable dictatorship. Ogundiya (2010) has argued that Nigeria's democracy has been under threat since 1999 when the country returned to democratic form of governance as a result of high prevalence of bureaucratic and political corruption. In a study to investigate the impact of corruption on democratic stability, the researcher shows that political corruption and bureaucratic corruption have grave implications for democratic stability (defined as having a government which represent and pursue the interest of the citizens) in Nigeria. The researcher argues that as long as corruption remains pandemic and unchecked, democratic stability will be difficult to attain.

In Brazil (reputed as the fourth largest democracy in the world, and the largest in Latin America), the transition to democratic system of government on March 15 1985 raised expectations for increased

transparency and accountability, and hence reduction in corruption, yet each of the five post authoritarian presidential administrations has been sullied by accusations of corruption, which has had severe consequences for the policy-making process and the public's view of democracy in the country (Power and Taylor, 2011).

Similar stories can be said of some other countries. For example, Cherotich (n.d) observes that since 1990 when Kenya began her transition to democracy, the country has witnessed an explosion of grand corruption primarily linked with election financing necessitated (engendered, made more urgent) by exigencies of competitive politics. Lim (2003) has argued that in South East Asia, the advent of democratization has not yet led to decline in corruption, but has rather, in some cases even increased with democratization. For example, in Indonesia, the Philippines and Thailand which transited recently from authoritarian regimes to democratic regimes, there has been no discernable drop in corruption, rather there has even been some increase in corruption following democratization, though with some changes in its perpetrators and beneficiaries.

Government expenditure and democracy

It has been argued that democracy (in its ideal form) as opposed to authoritarian regimes, allocates better (in terms of expenditure), the available resources to productive uses as the political leaders are accountable to the electorate on how the collectively owned resources are spent (Attah, 2012). In the absence of accountability, resource misallocation is inevitable, leading to an astronomical rise in expenditure, the bulk of which is wasted and unproductive.

Democracy is not practiced in its ideal form in most countries, particularly those in sub-Saharan Africa, and other so called third world countries. Consequently, the problem of resource misallocation with its attendant ills continues to plague these countries, as the political office holders are not accountable to the citizens. In Hazama (2013), it is noted as a stylized fact that, in developing countries democracy is associated with larger social spending than non-democracy. Evidence in support of this fact exists.

Data from the Central Bank of Nigeria shows that government expenditure has undergone dramatic and sharp increases since the country

returned to democratic rule in 1999. Average annual expenditure in the period following democratization is far higher than in the period preceding it. Partly responsible for the astronomical rise in government expenditure within the period are corruption (perpetrated in the form of embezzlement of public funds, connivance between government/government officials with contractors to inflate contract costs, etc.) and wasteful, and unplanned government spending which have been largely unproductive, dominated largely by recurrent expenditure, rather than capital expenditure considering the huge infrastructural gap in the country. A large chunk of government expenditure in Nigeria in the new democratic regime is unaccounted for as in previous dictatorial/authoritarian regimes, owing to the lack of transparency and accountability in the country's polity. El-Rufai (2011) noted that in 2011, 75% of Nigeria's budget for 2011 went into non-productive, non capital spending, and lamented that the cost of *democratic* governance in Nigeria has become unsustainable. A critical examination of Nigeria's political terrain reveals that the desire of incumbent political office holders at the state, federal and local levels of government to remain in power, creates the tendency for them to device various means to siphon public funds to private purses to finance their electioneering campaigns as they stage a come-back. It is no longer news that in Nigeria, at all levels of government, political parties are maintained and sustained by the government in power by the use of public funds. These have contributed to the sharp increase of government expenditures in Nigeria, and indeed in many other democracies.

In a study of Ghana's economy under the country's Fourth Republican dispensation, Gyampo and Anamzoya (2010), attribute the increase in the size of the government to appointment of too many ministers, to which section 78 (2) of the country's 1992 constitution sets no upper limit. The researchers recommend a small sized government capable of delivering quality services to the people at much less cost to the citizens and the state.

Corruption and economic growth

Generally, corruption is seen as a vice that has very adverse effects on economic growth and development, hence the intense war being waged globally against it. Ogundiya (2010) has argued that a nation inundated with corruption cannot be viable economically. However, there is a notion

that the negative effect of corruption on growth is diminished in economies with low governance levels or a degree of regulation (Hodge et al, 2009).

Corruption affects economic growth through its effect on key growth variables. Mo (2001) identifies three channels through which corruption affects economic growth (investment, human capital and political stability channels) in selected countries in Latin America, OECD, East-Asia, and Sub-Saharan Africa regions, and employs the ordinary least squares estimation technique to investigate the impact of corruption on each of the channels as well as on economic growth using data spanning the period between 1970 and 1985. The empirical results reveal that a 1% increase in corruption levels reduces the growth rate by about 0.72%. Corruption was observed to have significant negative impact on investment, human capital and political instability, and identifies political instability as the major route through which corruption affects economic growth as it accounted for 53% of the total effect of corruption on economic growth. Public sector corruption has been identified as the most severe impediment to development and growth in developing countries (Gray and Kaufman, 1998). Similarly, Hodge et al (2009) models the transmission channels through which corruption indirectly affects growth using data for a cross section of 81 countries for the period 1984-2005. The analysis indicates that corruption hinders growth through its adverse effect on human capital, physical capital and political stability. Concurrently, it is found that corruption fosters growth by reducing government consumption, and less robustly, increasing trade openness. Similar results are found in the empirical work of Dridi (2013), which also suggest that the negative effect of corruption on economic growth is transmitted mainly by its impact on human capital and political instability.

In Wei (1999), it is noted that countries with high corruption levels have poorer economic performance. Some channels through which corruption hinders economic development are also identified. These include reduced investment, reduced foreign direct investment, overblown government expenditures, distorted composition of government expenditure away from growth-drivers such as education, health and manufacturing, towards less efficient but more manipulatable projects. However, Lim (2003) has argued that corruption does not always have adverse effect on economic growth as some of the South East Asia countries that attract huge inflows of foreign direct investment annually, are also

among the most corrupt countries in the world by all existing indices, specifically China, Thailand, Indonesia and the Philippines.

Some researchers have also argued that corruption is not always growth-inhibiting, but could be conducive for growth under some situations or circumstances. Using regression analysis, Heckelman and Powell (2008) find that corruption is growth enhancing when economic freedom is most limited, and that the beneficial impact of corruption on growth decreases as economic freedom increases. In other words, an inverse relationship exists between economic freedom and the beneficial impact of corruption on economic growth.

Ebben and de Vaal (2009) have argued that the effect of corruption in a particular society cannot be studied without taking the institutional framework of that society into consideration. According to them, corruption will have different effects on an economy in different institutional settings and the effect of corruption on the economy, expectedly will therefore differ from place to place and from time to time. To test this argument, the researchers developed a two-layer model to investigate the effect of corruption on growth. In the first layer, the corruption-growth relationship in an institutional vacuum, without any recourse to institutional settings was investigated, and in the second layer, institutional quality was added to access how this alters the impact of corruption on growth. The estimated model shows that for corruption to have a positive effect on growth, labour should not be too important in production while general institution quality should be sufficiently low. They also find, contrary to commonly held notion, that corruption will be higher in a democratic society than in autocratic systems and the effect on economic growth will depend on the initial society and institutional circumstances.

Similarly, Aidt, Dutta and Sena (2007) apply 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 – 2000. Their findings reveal that the relationship between corruption and growth is regime-dependent. Specifically, the study finds 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 political institutions.

The foregoing views are shared by da Silva, Garcia and Bandeira (n.d) who describe corruption as a phenomenon that plagues many countries and mostly walks hand in hand with inefficient institutional structures which choke the effectiveness of public and private investment. In an empirical study to investigate the effect of corruption on factor productivity in a sample of 81 countries studied in 1998, the researchers find that corruption negatively affects the wealth of a nation by reducing capital productivity or its effectiveness. They argue that corruption can affect not only the productivity of the productive factors, but also their accumulation.

Government expenditure and economic growth

Wagner's law (also referred to as the law of expanding State roles) states that as the economy develops (evidenced in the 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. According to Peacock and Wiseman's hypothesis (which emanated from a study that was based on Wagner's law), industrialization which elicits increased government spending also enhances government revenue generation particularly through taxation which is used to finance government expenditure which could be growth enhancing if it is productive. Peacock and Wiseman were however of the view that government expenditure evolves in a step-like pattern owing to variations in government expenditure pattern in period of upheavals and periods of relative calm (Aigheyisi, 2013). It can be inferred from the foregoing, that a combination of Wagner's law and Peacock and Wiseman's hypothesis implies that bidirectional causality exists between government expenditure and economic growth.

Several attempts have been made to investigate the effects of government expenditure on economic performance. While some have attempted to investigate the impact of total government expenditure on economic growth, others attempted to investigate the effects of recurrent and capital expenditures on growth, and yet others investigated the effects of sectoral expenditure on growth in various countries and time periods. However, empirical findings on the effects of government expenditure on growth have been divergent and inconclusive, hence the debate rages on (Amoafo, 2011).

Keefer and Khemani (2003) have observed that public expenditure, if appropriately allocated, can overcome market failures that exacerbate poverty, such as the inability of the poor to borrow for education, their lack of information about preventive health care, or the externality that exacerbate public health hazards to which the poor are most exposed.

In an empirical research to investigate the growth effects of public expenditure for a panel of 30 developing countries over the 1970s and 1980s Bose *et al* (2007) finds that the share of government capital expenditure in GDP was positively and significantly correlated with economic growth, while recurrent expenditure was observed to be insignificant. At the disaggregated level, government investment in education and total expenditures in education were the only outlays that were observed to be significantly associated with growth if the budget constraint and omitted variables were taken into consideration Similarly, applying two different panel data methodologies in a study of seven transition economies in South Eastern Europe, Alexiou (2009) finds evidence for the support of significant positive effect of government spending on capital formation on 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) find that government's total capital expenditure, total recurrent expenditure and expenditure on education had negative effects on economic growth. Expenditure on transport, communication and health are however observed to have had a positive effect on growth. Similarly, Loto (2011), employs the method of cointegration and error correction to investigate the impact of government expenditures in various sectors 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 finds that government expenditure on agriculture and education impacted negatively on economic growth, though the impact of expenditure on education is observed to be insignificant. The impact of expenditure in the health sector on economic growth is observed to be positive and significant, while the impact of expenditure on national security, transportation and communication are observed to be positive and statistically insignificant.

Methodology

This study is premised partly on Ram's (1986) growth accounting model which suggests that government size or spending (expenditure) "generally affects *economic* growth and performance in a favourable manner largely through a positive externality effect on growth" (Wu, n.d. p.4). Theoretically, no consensus exists on the relationship between corruption and economic growth (Mo, 2001). Thus the relationship between the two variables (corruption and growth) varies across countries, is based on country-specific conditions, and is therefore an empirical issue.

To investigate the effect of corruption and government expenditure on economic performance in Nigeria, we specify a linear regression model of the functional form: RGDPG = f(CPI, GOVEXP) ……....1*
Considering that government expenditure has both recurrent and capital components, equation 1 can be further resolved into:
RGDPG = f(CPI, REC, CAP)…..……..1**
Where RGDPG = Growth Rate of Real Gross Domestic Product (a proxy for economic performance); CPI = Corruption Perception Index, REC = Federal Government Recurrent Expenditure and CAP = Federal Government Capital Expenditure.

The scope of the study is 1994 to 2012. The rationale for this scope is that Nigeria's data for corruption perception index (CPI) used as proxy for corruption, as computed by Transparency International begins from 1994. As a matter of fact, the TI began publishing the CPI In 1995. The low number of observations (19) may be taken as a limitation of the study. In order to maintain focus on the objective of the paper, we divide the study period into two: pre-democratic (1994-1998) and democratic (1999-2012) periods. These periods, shall be captured in the model with a dummy variable defined as DEM (Democracy dummy). Thus the functional specification of the model is rewritten as
RGDPG = f(CPI, RECEXP, CAPEXP, DEM)……...1***
The empirical specification of the model to be estimated (in logarithm) is therefore: $LRGDPG = \beta_0 + \beta_1 DEM + \beta_2 LCPI + \beta_3 LREC + \beta_4 LCAP + \beta_5 DEM*LCPI + \beta_6 DEM*REC + \beta_7 DEM*LCAP + \mu$……2
Where RGDPG, CPI, REC, CAP are as earlier defined. μ is the residual error term. The *a priori* expectations are $\beta_2 </> 0$, (β_3, β_4) > 0. Considering that the corruption perception index takes on values from 0 to 10, with 0 indicating highly corrupt and 10 indicating very clean, where $\beta_1 < 0$, (and statistically

significant) this implies that increase in CPI, or decrease in the level of corruption is associated with decrease in RGDPG, and where $\beta_1>0$, the implication is that RGDPG rises as the CPI increases, or as the corruption levels go down. DEM = 0 for pre-democracy era (1994-1998) = 1 for democracy era (1999-2012).

In equation 2, β_1 is the differential intercept, β_5, β_6, β_7 are differential slope coefficients with respect to CPI, REC and CAP respectively, and their t-ratios indicate whether or not the effects of corruption, recurrent expenditure and capital expenditure differ significantly in the two periods (pre-democracy and democracy). Data used for the estimation are annual time series data which were obtained from the Central Bank of Nigeria's Statistical Bulletin (2012) and the website of Transparency International (www.transparency.org). Ordinary Least Squares (OLS) estimation technique shall be employed to estimate the parameters of the model.

Results and discussion

Presentation of results

The results of the ordinary least squares estimation of the empirical specification of the model are presented in Tables 1A and 1B

Table 1A: **Preliminary ordinary least squares estimation result**

Dependent Variable: LRGDPG
Method: Least Squares
Sample: 1994 2012
Included observations: 19

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-12.86249	11.35297	-1.132962	0.2813
DEM	7.896469	11.99020	0.658577	0.5237
LCPI	-0.753241	0.336997	-2.235159	0.0471
LREC	-0.184287	1.472447	-0.125157	0.9027
LCAP	1.318486	0.600779	2.194627	0.0506
DEMLCPI	-0.066509	0.654215	-0.101662	0.9209
DEMLREC	1.341299	1.489574	0.900458	0.3872
DEMLCAP	-2.003898	0.660848	-3.032313	0.0114
R-squared	0.897482	Mean dependent var		1.487302
Adjusted R-squared	0.832244	S.D. dependent var		0.660152
S.E. of regression	0.270386	Akaike info criterion		0.517626
Sum squared resid	0.804192	Schwarz criterion		0.915285
Log likelihood	3.082550	Hannan-Quinn criter.		0.584926
F-statistic	13.75692	Durbin-Watson stat		1.312060
Prob(F-statistic)	0.000122			

Source: Author's calculations using EVIEWS 7 Computer Software

Table 1B: **Corrected results using the first order autoregressive (AR (1)) scheme**

Dependent Variable: LRGDPG
Method: Least Squares
Date: 10/06/14 Time: 12:46
Sample (adjusted): 1995 2012
Included observations: 18 after adjustments
Convergence achieved after 22 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	148.8064	57.65945	2.580781	0.0297
DEM	-146.5063	56.74294	-2.581929	0.0296
LCPI	0.106302	0.516643	0.205755	0.8416
LREC	-5.833630	2.245455	-2.597973	0.0288
LCAP	-5.934708	2.506755	-2.367487	0.0421
DEMLCPI	-0.925708	0.575310	-1.609059	0.1421
DEMLREC	6.396528	2.164512	2.955182	0.0161
DEMLCAP	5.350758	2.554053	2.095007	0.0656
AR(1)	0.613091	0.028650	21.39932	0.0000
R-squared	0.942067	Mean dependent var		1.583398
Adjusted R-squared	0.890571	S.D. dependent var		0.525035
S.E. of regression	0.173681	Akaike info criterion		-0.356335
Sum squared resid	0.271487	Schwarz criterion		0.088851
Log likelihood	12.20701	Hannan-Quinn criter.		-0.294950
F-statistic	18.29404	Durbin-Watson stat		2.189933
Prob(F-statistic)	0.000105			
Inverted AR Roots	.61			

Source: Authors's Estimations using EVIEWS 7

Result and discussion

The diagnostic statistics of preliminary OLS results in Table 1A shows that the model has very high goodness of fit as indicated by the coefficient of adjustment (R-squared) and the adjusted coefficient of adjustment (R-Bar Squared) of 0.897 and 0.832 respectively. The R-squared value indicates that nearly 90% of the systematic variation in the dependent variable is explained by the regressors. The highly significant F-statistic of 13.8 indicates that the explanatory variables are jointly significant in the determination of the dependent variable. However, the D.W. statistic of 1.312 is indicative of first-order positive autocorrelation. This poses serious problems for the model and so the model may not be entirely reliable for policy.

To get around the problem in the initial estimations, the first order autoregressive (AR(1)) scheme was employed, utilizing the method of least squares. The results which display marked improvements over the former are presented in Table 1B. An examination of the diagnostic statistics reveals that the model has very high goodness of fit as shown by the coefficient of determination of 0.942067, indicating that over 94% of the systematic variation in the dependent variable is explained by the regressors. The highly significant F-statistic of 18.29404 indicates that though some of the explanatory variables are individually statistically insignificant as indicated by the t-ratios, they are all jointly significant in the determination of the dependent variable. The D.W. statistics is also satisfactory, and indicates that the model is not plagued with the problem of first order positive autocorrelation. The model could therefore be relied upon for policy.

A look at the estimated coefficients of the model reveals that corruption has no effect on the growth of real GDP in both the pre-democratic and the democratic era. This is indicated by the coefficient and the differential coefficient of CPI which are both statistically insignificant at the conventional levels. This is in line with the findings of Asiedu and Freeman (2008) and Akai et al, (2005). The results also show that both recurrent and capital expenditure adversely affected real GDP growth in the 5-year period before the return to democracy in 1999, as indicated by the negative and highly significant coefficients of recurrent and capital expenditures variables. The differential coefficients of these variables are also highly significant at the 5% level, indicating that the impacts of these variables on the real GDP growth in the two sub-periods (1994-1998 and 1999-2012) differ significantly. Specifically, a 10% rise in recurrent expenditure was associated with 58.3% decrease in real GDP in the period from 1994 to 1998, while 10% rise in recurrent expenditure was associated with 5.63% (i.e.(-5.833630+6.396528)*10) rise in real GDP growth in the 1999-2012 period. Furthermore, a 10% rise in capital expenditure was associated with 59.3% decrease in real GDP growth in the 1994-1998 period, while it was associated with 5.84% decrease (i.e. (-5.934708+5.350758)*10) in 1999-2012 period.

The empirical result holds some implications for Nigeria's economy. First it reveals that, contrary to the widely held view that corruption inhibits growth, corruption did not have any significant effect on the growth of Nigeria's economy in the period from 1994 to 2012.

Second, it reveals that government expenditures (recurrent and capital) in the 5-year period (1994-1998) before the return to democratic rule in 1999 was largely unproductive, and contributed largely to the low growth rate of the nation's economy. Thirdly, it shows that only recurrent expenditure component of government expenditure contributed positively to the growth of the economy in the democratic era (1999-2012), while capital expenditure inhibited it.

In the light of the totality of our findings, the following are recommended for policy considerations:

I. The observed significant negative effect of capital expenditure on real GDP growth in the 1994-1998 (pre-democratic) and 1999-2012 (democratic) periods calls for urgent measures by the government to reexamine its capital expenditure, as this is counter-intuitive. The observed relationship between both variables implies that capital expenditure has been unproductive (and growth inhibiting). Several factors may have been responsible for this. There is therefore the need for proper management of the nation's expenditure, particularly the amounts budgeted for and expended in capital projects to avoid over-inflation of contract cost which could have adverse effects on the economy as a result of the high rate of inflation it induces in the economy at large. To this end, the Bureau of Public Procurement should be strengthened to perform its responsibilities so as to ensure due process, transparency, economy and value for money in public procurement.

II. Efforts should be geared towards making recurrent expenditures more productive, contributing meaningfully to the growth of the economy.

Conclusion

In this paper, an attempt has been made to investigate the effect of corruption and government expenditures on Nigeria's economic performance in the period 1994-2012, focusing mainly on the new democratic era (1999 – 2012) using a regression model with a dummy variable. The empirical analysis found no significant relationship between corruption and economic growth in the 5-year period (1994-1998) preceding the new democratic era and the new democratic era (1999-2012). It found that government expenditures (recurrent and capital) adversely affected economic growth in the 1994-1998 period. The effect of government

recurrent expenditure on the growth of real GDP in the democratic era (1999-2012) was positive and significant, while that of capital expenditure was negative and significant. These findings help us answer the (two) research questions that were raised in Section 2 of the paper. First, corruption neither helped nor hindered the growth of Nigeria's economy in the new democratic era. Second, government recurrent expenditures exerted significant positive impact on Nigeria's economic growth in the democratic era, though it's impact on economic growth in the 5-year period (1994-1998) preceding the return to democratic rule was negative. Capital expenditure exhibited a significantly negative impact on the growth of real GDP in both periods.

The nation's democracy is neither too young, nor too old. Ideal democracy is believed to foster rapid economic growth better than other systems of government. It is time Nigeria's government began to get things right. Ideal democracy must be practiced; inefficient, wasteful expenditure must be avoided. These will help to improve the performance of Nigeria's economy.

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