



Munich Personal RePEc Archive

Government Size, Political Institutions and Output Growth in Nigeria

Modupe Mary Fasoranti and Rasaq Santos Alimi

Economics Department, Adekunle Ajasin University,
Akungba-Akoko, Ondo State, Nigeria

2017

Online at <https://mpa.ub.uni-muenchen.de/80562/>
MPRA Paper No. 80562, posted 9 August 2017 23:48 UTC

Government Size, Political Institutions and Output Growth in Nigeria

Fasoranti, M. M. (Ph.D)

and

R. Santos Alimi

Department of Economics, Adekunle Ajasin University,
Akungba-Akoko, Ondo State, Nigeria.

email: rasaq.alimi@aaua.edu.ng, modupe.fasoranti@aaua.edu.ng

Abstract

Nigeria has had an uninterrupted democratisation wave since 1999 and the country has had its share of macroeconomic instability in terms of high rates of inflation and huge debt profile due to high cost of governance. Against this background, this study test the hypothesis that government in young democracies tend to generates large government size and test also the hypothesis that the outgoing dictatorships of the day engaged in activities which would bequest the young democracies big bills to be repaid at the initial stages of those new democratic regimes. Applying time series analysis on Nigeria data for the period of 1960 to 2015, the study found that (i) democracy in Nigeria is associated with bigger government and huge public debts (ii) the hypothesis that outgoing dictatorship bequest the young democracies with big bills is not confirmed for Nigeria. Moreover, the study found evidence that as democracy mature over the long run, the size of government tends to decrease, this is suggestive that democracy needs time to adapt and evolve over time. This study has provided deeper understanding of the recent history of Nigeria in terms of its dynamics during political transitions.

Keyword: *Democracy, government size, external debt, public debt, Nigeria*

1. Introduction

The idea that political and institutional environments have the potential of influencing economic outcome has been around since the time of Adam Smith. However, the nature of influence and causation between political regimes and long-term economic performance has remained inconclusive. A literature survey by Doucouliagos and Ulubasoglu (2008) ends up with a wide range of estimates ranging from negative to positive (and significant to insignificant) relationship between democracy and economic growth. One reason for this inconclusiveness is theoretical as pointed out in Plumer and Martin (2003). The study posits that the controversy could be traced to the positions of Friedman (1962), which argues that the more democratic a country is, the higher the government's incentive to implement sound economic institutions thus increasing the overall social well-being through its expenditures and Olson (1965;1982) who surmises that special interest groups are more likely to exert their

detrimental influence in democratic political systems than in autocracies, therefore resulting to more unproductive public spending at the expense of viable public investment.

Nigerian first democratic experience after independence in 1960 was aborted by military dictatorship in 1966 and the second republic of 1979 was also truncated by military coup in 1983. The political regimes presented in Table 1 shows that the share of public spending in GDP is reducing by each successive regime with an average of 0.35 (% of GDP). In case of public debt, it is observed that the regimes of military dictatorship incurred higher debt than their preceding democratic dispensation. For instance, public debt in Nigeria rose on the average from 0.36 per cent in the second republic to 0.98 per cent during the period 1984 – 1998. The pattern of GDP growth does not follow a consistent form as the lowest (-1.65%) and highest (5.52%) growth are recorded during democratic regimes (the periods 1979-1983 and 1999-2015). As such, establishing the relationship between political regimes and public sector indicators is not as simple as it appears.

Table 1: Stylized fact on Average Public Spending, Public Debt and GDP growth in different Political regimes

Year	Political regime	Average public spending (% of GDP)	Average public debt (% of GDP)	Average GDP growth (%)
1960-1965	Democratic Regimes – First Republic	0.69	0.62	3.81
1966-1978	Military Regimes	0.50	0.63	5.09
1979 -1983	Democratic Regime – Second Republic	0.22	0.36	-1.65
1984 -1998	Military Regimes	0.19	0.98	1.77
1999 -2015	Democratic Regimes – Third Republic	0.14	0.41	5.52
1960-2015	All Regimes	0.35	0.60	2.91

There is an extensive amount of academic literature dedicated to the relationship between democracy and economic growth (Przeworski *et al.*, 1993; Heliwell, 1994 and Haan *et al.*, 2005). Nevertheless, there are few existing studies that have considered the relationship between political regimes and the size of government. For instance, Aidt and Eterovic (2011) suggest that political competition has an inverse relationship with the size of government spending, while the opposite is true for political participation. Moreso, in the studies of Plümper and Martin (2003), Hausken *et al.* (2004) and Aidt *et al.* (2010), they establish that there exist a U-shaped relationship between democracy and government spending. Thereby, suggesting that for low levels of democracy public spending is high to meet the demands of elites, while for high levels of democracy the usual median voter’s model prediction applies and public spending is high due to popular demand of public goods. However, for medium

levels of democracy, none of these pressures is active and government spending is at its minimum (Dizaji, Farzanegan and Naghavi, 2014).

Most of the existing studies focused on advanced and emerging economies, with a few others focusing on developing Africa, but none on Nigeria. Therefore, this study contributes to the literature by examining the specific case of Nigeria on the influence of political regimes on the size of government. This is important because some studies do suggest that differences in the empirical results could be attributed to regional or individual countries differences. More so, with the assertion of Downs' (1957) that as a result of political competition, politicians in office will want to pursue their own goals, the most important of which is to maximize votes in the next election (in addition to expensive lifestyle of politicians and other public office holders), the question of whether government size will always be incremental becomes empirical matter.

Upon the foregoing, this study tests three hypotheses – that government in young democracies tend to generate large government size, that the outgoing dictatorships of the day engaged in activities which would bequest the incoming democratic regimes with big bills to be repaid at the initial stages of those new administrations and lastly, that as democracy and government mature (in the long run), the size of government tends to decrease.

The rest of the paper is organized as follows. The next section provides a theoretical perspective on size and growth of government in relation to growth, after which the data and method are described in section 3. Section 4 present and discuss empirical results and ends with concluding remarks in section 5.

2. Data and Methods

The data set for this study covers the period between 1960 and 2015 for Nigeria and all the data are sourced from Central Bank of Nigeria (CBN) Statistical Bulletin. The variables used to measure the size of government are the share of external debt to GDP (*gov1*), total government expenditure as a share of GDP (*gov2*), share of recurrent expenditures to GDP (*gov3*) and total public debt to GDP (*gov4*). Following Bittencourt (2013) variables' definitions, the study constructed different sets of dummy variables to account for the role of political regime characteristics on government size. The first one (*Demo*) accounts for the whole democratic period (a positive estimate suggests that the size of government increases under more democratic regimes). The second one is for the last four years of dictatorship (*Junta*), in which a negative and significant estimate indicates that the last dictator, did not engage in generating a bigger government (e.g. via higher debt and widespread consumption), which would leave the new democratic regime with significant bills and financial constraints in its initial stages. Lastly, we have a variable which counts the number of years after democratisation (*Ndemo*). In this case, a negative and significant estimate indicates that the size of government decreases with time, or alternatively that democracy, or the electorate, mature over time, or to put it another way, that governments become more responsible and efficient, or constrained, with a more mature electorate and better checks and balances in place.

The study also includes some control variables often used in the literature and they are as follows: a measure for trade openness relative to GDP (*Open*) and it is expected that more open economies tend to display smaller governments (via higher exports taxes and imports tariffs). The share of the liquid liabilities to GDP (*M2*) is another explanatory variable and it is expected that in economies with better developed financial sectors governments can

acquire finance more easily and therefore increase in size via higher consumption and debt. The control variables gross domestic product (*GDP*) and its growth (*Growth*) capture the productivity capacity of the economy. It is expected that in economies with low gross domestic products, the size of government tends to be large and economies that are growing relatively fast during booms have the potentials of reducing their share of debt to GDP, subsequently engenders smaller government size. The last explanatory variable is inflation rates (*Inf*); it is expected that higher inflation, via higher nominal interest rates, leads to higher or even ballooning, debt, or bigger governments in general.

Model Specification and Estimation Techniques

Following earlier studies such as Adams and Sakyi (2012) and Bittencourt (2013), the basic models we estimated have the following specification;

Model 1 – Whole Democratic Period

$$gov_t^* = \alpha_0 + \alpha_1 Demo_t + \alpha_2 Open_t + \alpha_3 M2_t + \alpha_4 GDP_t + \alpha_5 Growth_t + \alpha_6 Inf_t + \varepsilon_t \quad (1)$$

Model 2 – Last 4 years of Dictatorship

$$gov_t^* = \beta_0 + \beta_1 Junta_t + \beta_2 Open_t + \beta_3 M2_t + \beta_4 GDP_t + \beta_5 Growth_t + \beta_6 Inf_t + \varepsilon_t \quad (2)$$

Model 3 – Number of years of Democratisation

$$gov_t^* = \mu_0 + \mu_1 NDemo_t + \mu_2 Open_t + \mu_3 M2_t + \mu_4 GDP_t + \mu_5 Growth_t + \mu_6 Inf_t + \varepsilon_t \quad (3)$$

where gov_t^* stands for government size, measured as share of external debt to GDP (*gov1*), total government expenditure as a share of GDP (*gov2*), share of recurrent expenditures to GDP (*gov3*) and total public debt to GDP (*gov4*).

In this study, we first examine the stationarity of our variables. A non-stationary time series has a different mean at different points in time, and its variance increases with the sample size (Harris and Sollis (2003). The problem with non-stationary data is that the standard OLS regression procedures can easily lead to incorrect conclusions (Asteriou and Hall, 2007). In the case of spurious regression, t-values of the coefficients are highly significant, coefficient of determination (R^2) is very close to one and the Durbin Watson (DW) statistic value is very low, which often lead investigators to commit a high frequency of Type 1 errors. Mostly in the literature to find out the order of integration ADF (Dickey & Fuller, 1979) and PP (Philip & Perron, 1988) tests have been used extensively. Due to their poor size and power properties, both tests are not reliable for small sample data set (Dejong et al, 1992). These tests seem to over-reject the null hypotheses when it is true and accept it when it is false. While newly proposed tests such as Dicky-Fuller generalized least square (DF-GLS) detrending test developed by Elliot et al. (1996) seem to solve this arising problem. Hence, the unit root tests are conducted using DF-GLS. If a unit root is detected for more than one variable, we further conduct the test for cointegration employing Johansen system cointegration tests. The study thus employ ordinary least square (OLS) estimation technique for case where there is evidence of long run relationship among our variables of interest, with AR(1) errors (autoregressive error of order 1) to take into account the autocorrelation

3. Presentation of Results and Discussion

3.1 Descriptive Statistics for the 1960-2015 Long Sample

Figure 1 attempt to show the behaviour of the variables used as proxies for government size over time. We plot the normalised series of External Debt to GDP (*gov1*), Total Government Expenditures to GDP (*gov2*), Recurrent Expenditures to GDP (*gov3*) and Total Public Debt to GDP (*gov4*) for the period 1960-2015 against time. The four series show an increasing trend in the late 960s possibly due to Nigeria civil war. All the series except external debt plateau in 1969, suggesting that government finance her budget majorly internally. High public debt is associated with the era of political dictatorships (1983-1998) and it is observed that most series begin to record reduction in size from the 1999 onwards, which suggest that sometime after democratisation the size of those governments decreased (or returned to a sort of long-run steady state).

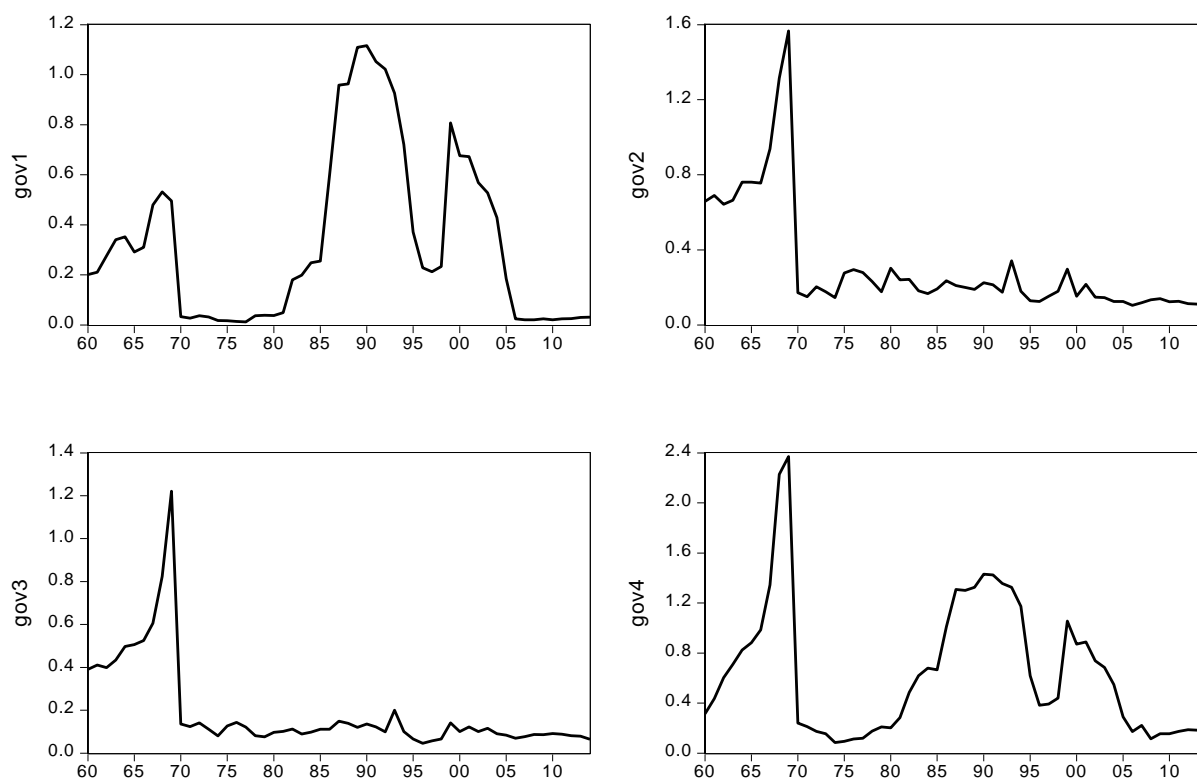


Figure 1: External Debt to GDP (*gov1*), Total Government Expenditures to GDP (*gov2*), Recurrent Expenditures to GDP (*gov3*) and Total Public Debt to GDP (*gov4*) for the period 1960-2015. Source: CBN Statistical Bulletin.

Table 2: Descriptive Statistics for the government size and political regime variables

	<i>gov1</i>	<i>gov2</i>	<i>gov3</i>	<i>gov4</i>	<i>Demo</i>	<i>Junta</i>	<i>Ndemo</i>
Mean	0.333043	0.309075	0.190132	0.642163	0.490909	0.109091	0.290909
Median	0.228408	0.189252	0.111582	0.485671	0.000000	0.000000	0.000000
Maximum	1.116107	1.566638	1.221234	2.371372	1.000000	1.000000	1.000000
Minimum	0.011583	0.087142	0.046062	0.084208	0.000000	0.000000	0.000000
Std. Dev.	0.342480	0.303433	0.215761	0.538538	0.504525	0.314627	0.458368
Skewness	0.942916	2.382668	2.835815	1.200437	0.036370	2.507811	0.920737
Kurtosis	2.693440	8.652603	11.89138	4.180641	1.001323	7.289116	1.847756
Jarque-Bera	8.365358	125.2633	254.8882	16.40400	9.166671	99.80890	10.81367
Probability	0.015258	0.000000	0.000000	0.000274	0.010221	0.000000	0.004486
Sum	18.31735	16.99915	10.45728	35.31895	27.00000	6.000000	16.00000
Sum Sq. Dev.	6.333816	4.971879	2.513841	15.66125	13.74545	5.345455	11.34545

The study also provides Descriptive Statistics for the government size and political regime variables in Table 2 and the correlation matrix of the key variables in Table 3, and the statistical correlations amongst our proxies for government size are all positive and statistically significant at the 5% level except for external debt (*gov1*) and government spending (*gov2* & *gov3*), which suggest that external loan are used for capital expenditure financing. The correlations amongst the proxies for government size and the dummy for the whole democratic period (*Demo*) are negative and statistically significant only for debt variables i.e *gov1* and *gov4*. Similarly, the correlation amongst government size and the variable which counts the number of years after democratisation (*Ndemo*) are negative and statistically significant for all except for external debt (*gov1*). Lastly, the correlations amongst the proxies for government and the dummy for the last six years of those dictatorships (*Junta*) are not statistically significant.

Table 3: The Correlation Matrix of Government size and Political Regime

Variables	<i>gov1</i>	<i>gov2</i>	<i>gov3</i>	<i>gov4</i>	<i>Demo</i>	<i>Junta</i>	<i>Ndemo</i>
<i>gov1</i>	1.0000 (----)						
<i>gov2</i>	0.1171 (0.3944)	1.0000 (----)					
<i>gov3</i>	0.1304 (0.3425)	0.9852*** (0.0000)	1.0000 (----)				
<i>gov4</i>	0.8092*** (0.0000)	0.5960*** (0.0000)	0.6173*** (0.0000)	1.0000 (----)			
<i>Demo</i>	-0.2927** (0.0301)	-0.0921 (0.5036)	-0.0916 (0.5059)	-0.3511*** (0.0086)	1.0000 (----)		
<i>Junta</i>	0.1193 (0.3856)	-0.1450 (0.2908)	-0.1654 (0.2274)	0.0526 (0.7028)	-0.3436** (0.0102)	1.0000 (----)	
<i>Ndemo</i>	-0.1467 (0.2850)	-0.3569*** (0.0075)	-0.2922** (0.0304)	-0.2744** (0.0426)	0.6522*** (0.0000)	-0.2241 (0.1000)	1.0000 (----)

* represents significance at the 5% level, correlation (P-value)

These preliminary correlations suggest that the size of government tend to reduce during the democratic period and with number of years of democratization. Moreover, there are no meaningful correlations indicating any harmful behaviour by the last dictator towards the new

regimes coming into power in terms of bequeathing the new democratic government with high debt.

3.2 Result of DF-GLS Unit Root Test and Cointegration Tests

Table 4: DF-GLS Unit Root Test

Variables	Statistics at level	Statistics at first difference	Decision
<i>gov1</i>	-2.1265	-5.4968***	I(1)
<i>gov2</i>	-3.6402**	-	I(0)
<i>gov3</i>	-3.8101***	-	I(0)
<i>gov4</i>	-2.5292	-6.5624***	I(1)
<i>Demo</i>	-2.0474	-7.2992***	I(1)
<i>Junta</i>	-2.3490	-7.2190***	I(1)
<i>Ndemo</i>	-1.7474	-7.4196***	I(1)
<i>Open</i>	-1.7412	-8.2979***	I(1)
<i>M2</i>	-2.5409	6.6488***	I(1)
<i>GDP</i>	-2.9053*	-6.6078***	I(1)
<i>Growth</i>	-5.1105***	-	I(0)
<i>Inf</i>	-3.4607**	-	I(0)

Test critical values: -3.7586 (1% level), -3.1804 (5% level) & -2.8810 (10% level)

The unit root results reported in Tables 4 show that total government expenditures, recurrent expenditures, GDP growth and inflation are stationary at level and the other variables are non-stationary at level but become stationary after taking their first difference i.e. I(1). Hence, the study applied Johansen cointegration tests to ascertain existence of long run relationship the variables. As suggested by Hualde (2006), the study tested for cointegration among the variables that are integrated of order one only.

Table 5: Results of Johansen Cointegration tests

Dependent Variables	Model	Number of Cointegrating Relations selected at 5% level (Intercept, No trend)	
		Trace Statistic	Max-Eig Statistic
<i>gov1</i>	1	1	1
	2	1	1
	3	1	1
<i>gov2</i>	1	2	1
	2	1	1
	3	1	1
<i>gov3</i>	1	2	1
	2	1	1
	3	1	1
<i>gov4</i>	1	5	1
	2	5	1
	3	1	1

The results of cointegration test presented in Table 5 suggested at least one cointegrating vectors for the models. Since the series are cointegrated, it becomes evident that long run relationship exists among the variables. We therefore proceed to estimate the long run regression models formulated in equations (1 – 3) and presented the result in Tables 5 - 7.

3.3 Result of Long Run Estimates

Table 5: Regression results for Model 1 – Whole Democratic Period and Government size

Variables	<i>gov1</i>	<i>gov2</i>	<i>gov3</i>	<i>gov4</i>
C	3.6011 (0.1805)	6.1889 (0.1085)	4.2653* (0.0730)	16.8881** (0.0185)
<i>Demo</i>	0.1662** (0.0184)	0.0096 (0.8292)	-0.0018 (0.9545)	0.1859** (0.0383)
<i>Open</i>	-0.0446 (0.5810)	0.2108*** (0.0001)	0.1826*** (0.0000)	0.0102 (0.9183)
<i>M2</i>	-0.0024 (0.5643)	0.0003 (0.9033)	-0.0010 (0.6092)	-0.0065 (0.2414)
<i>GDP</i>	-0.2481 (0.0097)	-0.3113*** (0.0000)	-0.2267*** (0.0000)	-0.8551*** (0.0000)
<i>Growth</i>	-0.0018 (0.4055)	0.0038*** (0.0083)	0.0047*** (0.0000)	0.0049* (0.0784)
<i>Inf</i>	0.000646 (0.6495)	0.0009 (0.3347)	0.0012* (0.0829)	0.0028 (0.1236)
R ²	0.8810	0.9337	0.9303	0.9200
Adjusted R ²	0.8629	0.9236	0.9197	0.9078
Durbin-Watson Stat.	1.4607	1.8998	11.9149	1.9565
F-stat.	48.6588	92.654	87.7417	75.5958
Prob.(F-statistic)	0.0000	0.0000	0.0000	0.0000

(P-value in parentheses)

Table 5 reports the OLS estimates of the dummy covering the whole democratic period against all the proxies for government size. *Demo* is found to be positive and significant at 5 percent level only for the government size measured as share of debt to GDP (i.e both external debt, *gov1* and total debt, *gov4*). These results suggest that the democratic period in Nigeria has been characterized by large debt profile.

Table 6: Regression results for Model 2 – Last 4 years of Dictatorship and Government Size

Variables	<i>gov1</i>	<i>gov2</i>	<i>gov3</i>	<i>gov4</i>
C	3.5034 (0.203)	6.1828 (0.1134)	4.2638*** (0.0726)	16.9549* (0.0236)
<i>Junta</i>	-0.3317* (0.0003)	0.0372 (0.5373)	0.0157 (0.7231)	-0.3210* (0.0075)
<i>Open</i>	-0.0225 (0.758)	0.2140* (0.0001)	0.1827* (0.0000)	0.0386 (0.6867)
<i>M2</i>	-0.0005 (0.884)	0.0003 (0.8903)	-0.0010 (0.5924)	-0.0043 (0.4095)
<i>GDP</i>	-0.2188**	-0.3081*	-0.2268*	-0.8185*

	(0.0113)	(0.0000)	(0.0000)	(0.0000)
<i>Growth</i>	-0.0008 (0.676)	0.0003 (0.0084)	0.0047* (0.0000)	0.0059** (0.0300)
<i>Inf</i>	0.0006 (0.614)	0.0007 (0.3897)	0.0011*** (0.0857)	0.0027 (0.1214)
R ²	0.8988	0.9342	0.9305	0.9248
Adjusted R ²	0.8834	0.9242	0.9199	0.9134
Durbin-Watson Stat.	1.4453	1.9024	1.9106	1.8782
F-stat.	58.393	93.365	87.9955	80.9029
Prob.(F-statistic)	0.0000	0.000	0.0000	0.0000

(P-value in parentheses)

Table 6 present the result of exercise that tested for Nigeria the hypothesis that the outgoing dictatorships engaged in activities that would leave the young democracies with significant debt, and consequently high bills to be repaid at the initial stages of those new democratic administrations. The estimates of *Junta* (which accounts for the last four years of dictatorship in Nigeria) against the different proxies for government size showed that it is negative and significant at 10 per cent level only for the government size measured as share of debt to GDP (external debt, *gov1* and total debt, *gov4*). These negative estimates suggest that the outgoing dictatorship did not build up excessive debt for the incoming democratic administration before relinquishing power. In other words, the last junta did not bequest the new democratic regimes with large bills to be repaid in the initial stages of democratisation.

Table 7: Regression results for Model 3 – Number of years of Democratisation

Variables	<i>gov1</i>	<i>gov2</i>	<i>gov3</i>	<i>gov4</i>
C	2.7524 (0.121)	5.6190*** (0.0867)	3.9273*** (0.0569)	14.1857* (0.0065)
<i>Ndemo</i>	0.5919* (0.000)	0.1139 (0.1837)	0.0800 (0.2025)	0.6497* (0.0001)
<i>Open</i>	-0.0370 (0.576)	0.2102* (0.0001)	0.1804* (0.0000)	0.0311 (0.7231)
<i>M2</i>	-0.0027 (0.434)	0.0001 (0.9626)	-0.0012 (0.5250)	-0.0065 (0.1789)
<i>GDP</i>	-0.2392* (0.002)	-0.3118* (0.0000)	-0.2291* (0.0000)	-0.8301* (0.0000)
<i>Growth</i>	-0.0008 (0.648)	0.0003* (0.0057)	0.0048* (0.0000)	0.0060** (0.0172)
<i>Inf</i>	0.0003 (0.739)	0.0009 (0.3093)	0.0012*** (0.0638)	0.0024 (0.1242)
R ²	0.9182	0.9362	0.9327	0.9378
Adjusted R ²	0.9058	0.9265	0.9225	0.9283
Durbin-Watson Stat.	1.0329	1.8084	1.8877	1.7445
F-stat.	73.831	96.469	91.163	99.132
Prob.(F-statistic)	0.0000	0.0000	0.0000	0.0000

(P-value in parentheses)

The results of the estimates of the variable that measures the number of years after democratisation (*Ndemo*) in Nigeria since 1999 against all proxies for government size are reported in Table 7. These estimates are all positive, although not entirely statistically significant – total government expenditure, *gov2* and recurrent government expenditure *gov3* are not statistically significant while total debt, *gov4* and external *gov1* are significant at 10 per cent). These estimates are not suggesting that as democracy matures over time in Nigeria public spending and external debt as share of GDP is becoming any smaller.

In sum, the study findings suggest that the young democracies of Nigeria run higher public and external debt as percentage of GDP. This position is supported by studies such as Brender and Drazen (2007) and Bittencourt (2013), which surmised that young democracies face many challenges from the outset among which are poor infrastructure, high inequality and need for redistribution of income, high expectation from the electorate to enjoy ‘dividend of democracy’. Contrary to Alesina and Tabellini (1990), this study do not lend support to the proposition that those young democracies would inherit from the outgoing military/dictator, high levels of public debt or big bills to be repaid by those new democratic governments coming into power. Nevertheless, the finding of study favours the submissions of Bittencourt (2013) for South American democracies and Akhmedov and Zhuravskaya (2004).

The variables *open* present the expected negative only in model 1 (when government size was measured by external debt – *gov1*) however the estimate is not statistically significant. The estimate of trade openness is positive and significant at 10 per cent level for government spending (*gov2* & *gov3*). Thus, the variable *open* does nor display the predicted effect that more open economies tend to lead to smaller governments through higher exports taxes and imports tariffs as channel of transmission. The estimate of *M2* for all the models is negative except for Model 2 and not significant for all measures of government size. Therefore the hypothesis that government size increases via higher consumption and debt in economies where governments can acquire finance more easily with better developed financial sector is not supported.

The coefficients of *GDP* and its growth (*Growth*) are expected to be negative. The estimates of *GDP* for the four models have expected negative sign and significant. This suggests that during economic backwardness, periods of low GDPs, the share of public spending and debt to GDP is enlarged. Whereas it is reported that GDP growth is positive and significant at 10 per cent level in the models except for external debt as share of GDP. These estimates suggest that higher growth increases the size of government, through growth in national income. This finding support the Wagner’s position on public spending – growth nexus. The result of the estimate of inflation provides evidence that inflation displays the expected effect of increasing government size probably via higher nominal interest rates, which ultimately leads to bloating debt and large governments. However, it is significant only for recurrent public expenditure (*gov3*).

4. Concluding Remark

This study test the hypothesis that government in young democracies tend to generates large government size and test also the hypothesis that the outgoing dictatorships of the day engaged in activities which would bequest the young democracies big bills to be repaid at the initial stages of those new democratic regimes. Applying time series analysis on Nigeria data for the period of 1960 to 2015, the study found that democracy in Nigeria is associated with bigger government and huge public debts. This evidence indicates that indicates that young

democracies will become more responsible overtime, and perhaps become more conservative, in terms of public spending and debt as share of GDP in other word there is a learning process within democracies. Hence, Hayek's claim as pointed out in Bittencourt (2013) that the benefits of democracy comes in the long run in the terms of reduction in debt burden and government efficiency.

More so, the hypothesis that outgoing dictatorship bequest the young democracies with big bills is not confirmed for Nigeria. This finding might be contrary to the popular opinion that the military governments usually loot the treasury before they exit. Moreover, the study found evidence that as democracy mature over time (in the long run), the size of government tends to decrease. This suggests that democracy needs time to adapt and evolve over time. Thus, the study provides deeper understanding of the recent development in developing West African nations such as Nigeria in terms of its dynamics during political transitions.

References

- Adams, S. and Sakyi, D. (2012). Globalization, Democracy, and Government Spending in Sub-Saharan Africa: Evidence from Panel Data, Globalization and Responsibility, Dr. Zlatan Delic (Ed.), InTech, Available from: <http://www.intechopen.com/books/globalization-and-responsibility/globalization-democracy-and-government-spending>
- Aidt, T. S., Dutta, J. and Dauntan, M. (2010). The retrenchment hypothesis and the extension of the franchise in England and Wales. *The Economic Journal* 120, 990–1020.
- Aidt, T.S., and Eterovic, D.S. (2011). Political competition, electoral participation and public finance in 20th century Latin America. *European Journal of Political Economy* 27, 181–200.
- Akhmedov, A. and Zhuravskaya, E. (2004) Opportunistic Political Cycles: Test in a Young Democracy Setting. *The Quarterly Journal of Economics*, 119(4), pp. 1301-38.
- Alesina, A. and Tabellini, G. (1990). A Positive Theory of Budget Deficits and Government Debt. *Review of Economic Studies*, 57, pp. 403-14.
- Asterio, D. and Hall, S. G. (2007). *Applied Econometrics', A Modern Approach using Eviews and Microfit*. Basingstoke: Palgrave Macmillan.
- Brender, A. and Drazen, A. (2005). Political Budget Cycles in New Versus Established Democracies." *Journal of Monetary Economics*, 52, pp. 1271-95.
- De Haan, J. and Siermann, C. L. J. (1996). New evidence on the relationship between democracy and economic growth. *Public Choice*, 86(1-2), 175-198.
- DeJong, D. N., Nankervis, J. C., Savin, N.E and Whiteman, C. H. (1992). Integration versus trend stationarity in time series. *Econometrica*, 60, 423-433.
- Dizaji, S. F., Farzanegan, M. R. and Naghavi, A. (2014). Political Institutions and Government Spending Behavior: Theory and Evidence from Iran. *Quaderni - Working Paper DSE* No. 986.
- Doucouliaagos, H. and Ulubasoglu, M. (2008). Democracy and Economic Growth: A Meta-Analysis. *American Journal of Political Science* 52(1): 61-83.
- Downs, A. (1957). *An Economic Theory of Democracy*. New York: Harper and Row.
- Elliot, G., Rothenberg, T. J., and Stock, J. H. (1996). Efficient Tests for an Autoregressive Unit Root. *Econometrica*, 64, 813-36.
- Friedman, M. (1962). *Capitalism and freedom*. Chicago: Chicago University Press.
- Harris R. and Sollis R. (2003). *Applied Time Series Modelling and Forecasting*. United Kingdom, Wiley.
- Hausken, K., Martin, C.W. and Plümper, T. (2004). Government spending and taxation in democracies and autocracies. *Constitutional Political Economy* 15, 239–259.
- Helliwell, J. F. (1994). Empirical Linkages between Democracy and Economic Growth. *British Journal of Political Science*, 24(2), 225-248.

- Hualde, J. (2006). Unbalanced Cointegration. *Econometric Theory*, 22(5), 765-814.
- Olson, M. (1965). *The logic of collective action: Public goods and the theory of groups*. Cambridge: Harvard University Press.
- Olson, M. (1982). *The rise and decline of nations*. New Haven: Yale University Press.
- Phillips P.C.B. and Perron P. (1988). Testing for a unit root in a time series regression. *Biometrika*, 75, 335-346
- Przeworski, L. (1993). Political Regimes and Economic Growth. *The Journal of Economic Perspectives*, 7(3), 51-69.