



**The Effect of Economic Policies on Private Consumption Expenditure
in Nigeria**

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Abstract

This study empirically examined the effect of economic policies on private consumption expenditure in Nigeria from 1981 to 2014 using time series data. The study employed the fiscal and monetary policy variables (government expenditure and broad money supply) in order to establish this relationship and adopted the Ordinary Least Square (OLS) method of estimation. The unit root and co-integration test were conducted on all the variables and the result revealed the existence of stationarity and long run relationship among them. The empirical result of the model showed broad money supply as having a positive and insignificant relationship with private consumption expenditure in Nigeria. The result further indicated a positive and significant relationship between government expenditure and private consumption expenditure in Nigeria. In the analysis of the relationship between private consumption expenditure and Gross Domestic Product in Nigeria, the result of the model showed that Gross Domestic Product has not significantly impacted on private consumption expenditure for the period under review. Therefore, it was recommended from this study that the Nigerian government should refocus and redirect monetary and fiscal policy towards production of goods and services so as to enhance private consumption expenditure, economic growth and development.

Keywords: Economic Policy, Private Consumption Expenditure, Government Expenditure, and Money Supply.

1. Introduction

Expenditures on goods and services include private consumption expenditures, gross private domestic investment, government purchases of goods and services, exports of goods and services and imports of goods and services (Nwabueze, 2009). Consumption expenditure is expenses incurred for sustenance and protection as opposed to providing for future production. Consumption expenditure is made up of private and government consumption expenditures. Private consumption expenditure is considered a primary indicator of economic-wellbeing and a significant financial planning tool (Gulcin and Ayca, 2014). Private consumption expenditures consist of the market prices of all goods and services purchased by households to satisfy their needs and wants. It includes all durable and nondurable goods such as cars, household washing machines, television etc. It excludes purchases of residences but includes owner-occupied residences imputed rent . Household final consumption expenditure is typically the largest constituent of final uses of GDP, representing in general around 60% of GDP. It is therefore an essential variable for economic analysis of aggregate demand (OECD, 2009).

According to John (2003), private consumption expenditure, implies expenditure made in the consumption of durable and non durable goods, maintenance and protection, payment of factor services, and goods and services. The consumption pattern of a household is the combination of qualities, quantities, acts and tendencies characterizing a community or a human group's use of resources for survival, comfort and enjoyment. The type of food and non-food items consumed, vary from region to region. Consumption patterns normally contribute greatly to the social and economic policy of the country. In a less developed economy like Nigeria, the consumption pattern is skewed towards food. That is, food accounts for a higher proportion of the total expenditure, while in developed economies the opposite is the case. The more developed a society becomes, the less it spends on food and the more it spends on non-food items (National Bureau of Statistics, 2010).

Household consumption expenditures, investment, public expenditures and net export are the components of GDP. Due to the high share in GDP, consumption expenditures is taken into account in macroeconomic policies for fiscal planning. Policy makers try to predict how the consumers will behave in the face of income fluctuations. In terms of consumers, consumption phenomenon requires a decision-making process. For the reason, consumption function reveals a behavioral relationship in macroeconomics.

The Nigerian government has over the years implemented various economic policies (fiscal and monetary policies) in order to stabilise the economy and to achieve macroeconomic objectives. Basically, fiscal policy involves the use of government spending, taxation and borrowing to influence the pattern of economic activities and also the level and growth of aggregate demand, output and employment. Fiscal policy entails government's management of the economy through the manipulation of its income and spending power to achieve certain desired macroeconomic objectives (goals) amongst which is economic growth (Medee and Nembee, 2011). Olawunmi and Tajudeen (2007) opined that fiscal policy has conventionally been associated with the use of taxation and public expenditure to influence the level of economic activities. They further said the implementation of fiscal policy is essentially routed through government's budget. As noted by Anyanwu (1993), the objective of fiscal policy is to promote economic conditions conducive to business growth while ensuring that any such government actions are consistent with economic stability.

Monetary Policy, on the other hand, is the deliberate use of monetary instruments (direct and indirect) at the disposal of monetary authorities such as central bank in order to achieve macroeconomic stability. Monetary Policy is essentially the tool for executing the mandate of monetary and price stability. Monetary policy is essentially a programme of action undertaken by the monetary authorities generally the central bank, to control and regulate the supply of money with the public and the flow of credit with a view to achieving predetermined macroeconomic goals (Dwivedi, 2005). Accordingly, monetary policy ensures the achievement of a consistency between the expansion in domestic liquidity and government's macroeconomic objectives of price and exchange rate stability, higher output growth, full employment of resources, balance of payments equilibrium, promotion of a sound financial system and sustainable growth and development (Okafor, 2009). The achievement of this balance is paramount in the design and conduct of monetary policy by the central bank, as an excess or shortage in the supply of money could either induce excess aggregate demand, resulting in higher inflation rate or induce stagnation thus retarding economic growth and development. However, the smoothing of the business cycle, preventing financial crisis and stabilizing long term interest rates and real interest rate have been identified recently as other supplementary objectives of monetary policy because of

the weaving global financial crisis which engulfed major developed and emerging economies of the world (Mishra and Pradhan, 2008).

In the past years, the Nigerian government has implemented various economic policies (fiscal and monetary policies) aimed at stabilizing the economy and achieving macroeconomic objectives, but the extent to which these policies have impacted on private consumption expenditure in Nigeria had not been established by extant literatures. Therefore, this study is aimed at analysing the effect of economic policies such as fiscal policy and monetary policy on private consumption expenditure and to determine whether increase in Gross Domestic Product necessarily affects private consumption expenditure in Nigeria.

2. Literature Review

The literature on the relationship between government expenditure and consumer spending is clear cut on the transmission mechanisms and the results of policy actions. On one side stands the standard Real Business Cycle (RBC) model and on the other the corresponding Keynesian IS-LM model (Ozerkek and Celik, 2010). The impacts of government spending on private consumption for these two strands of literature differ remarkably.

According to the RBC model, an increase in government spending should cause a decline in consumption. The RBC model relies on the consumption decisions of infinitely-lived Ricardian households subject to intertemporal budget constraints. Other things being equal, higher taxes needed to finance higher government spending negatively affect private wealth and consumption. Conversely, the well-known Keynesian IS-LM model asserts consumption rises in response to an increase in government spending. Consumers exhibit non-Ricardian behavior in the IS-LM model and consumption is a function of current disposable income. Therefore, the impact of an increase in government spending relies on how the government spending is financed (Gali et al, 2005).

While some studies found a degree of substitutability between government spending and private consumption (a “crowding-out effect”), others showed a complementary relationship (or “crowding-in” effect). Martin J. Bailey in 1971 first proposed the potential substitutability between government spending and private consumption and suggested that government spending leads to crowding-out effect. Similarly, the studies of Baxter and King (1993), Kormendi (1983) and Ho (2001), supported the substitutability between government spending and private

consumption. On the contrary, studies associating government spending with an increase in private consumption were Blanchard and Perotti (2002), and Fatas and Mihov(2001).

Using an estimated New-Keynesian dynamic stochastic general equilibrium model, Günter and Straub (2005) showed that the presence of non- Ricardian households is generally conducive to raising the level of consumption in response to government spending shocks in the euro area from 1980 to 1999. However, their results suggested that there is only a small chance for government spending shocks to crowd in consumption.

The increasing interest in the effect of economic policies on private consumer spending has been further fuelled by the persistent global economic crisis which began in 2007. Studies on the effect of fiscal policies and monetary policy on private consumer spending provide mixed evidence. The study of Perotti (2002) pointed to the ineffectiveness of Keynesian fiscal policies, showing that contractionary fiscal policies may in fact exert expansionary pressure on consumption, investment and output. However, the work of Hjelm (2002), did not agree with this position and caution against generalization of this claim.

The effects of changes in government spending on aggregate economic activity and the transmission of these effects into household behavior are important in conducting macroeconomic policy. In this context, several studies have linked the private consumption expenditures to government spending and have searched for this relationship's direction and magnitude. Studies in the neoclassical tradition usually predict a negative effect on private consumption, while studies employing Keynesian models usually favor a positive response (Blanchard and Perotti, 2002; Baxter and King,1993).

Ozerkek and Celik (2010), opined that Keynesian fiscal policies are usually intended to stimulate economic growth. However, a growing body of empirical literature has tried to question the efficacy of Keynesian fiscal policies in stimulating economic activities. The literature tries to answer the question whether fiscal policies have Keynesian or non-Keynesian effect. In general, it contends that the response of economic aggregates to fiscal policy is determined by such factors as whether there is a budget contraction or expansion, the previous pattern of growth of the public debt, prior exchange rate and domestic credit fluctuations, the size and duration of the fiscal impulse, and changes in transfers and taxes with respect to changes in

public investments, public sector consumption expenditure and social security (Onodje,2009).

Majority of the studies surveyed indicated that fiscal policies precipitate Keynesian type of responses. Specifically, the study by Giavazzi and Pagano (1996) found that government spending, taxes and transfers have clear impact on private consumption expenditure and that a dollar rise in taxes increases private consumption by fifteen to twenty cents. Their methodology consists of an error correction consumption model and panel regression for 19 OECD countries over the period 1970 - 1992. Also, Hjelm (2002), using panel regressions of structural consumption functions for 19 OECD countries, found that fiscal contractions preceded by real depreciations improve private consumption growth compared to contractions preceded by real appreciations.

The study by Kweka and Morrissey (1998) on the impact of economic growth on consumption expenditure using Granger causality test with time series data in Tanzania, revealed no evidence or impact of GDP on consumption expenditure in Tanzania. However, Folster and Henrekson (1999) argued that there is no correlation regarding the direction of causality between economic growth and consumption expenditure.

In Nigeria, Abata and Adejuwon (2011) in their study on economic policy as a tool for economic growth and development in Nigeria, concluded that government policies should be framed by the principles of positive sustainability – dynamic efficiency and capital formation that allow for standards-of living to perpetually increase. As noted by Ajisafe and Folorunso (2002), the monetary rather than fiscal policy exerts a great impact on economic activity in Nigeria and that the emphasis on fiscal action of the government has led to greater distortion in the economy.

A number of empirical studies have been carried out on the relationship between consumption and income. For instance, Benjamin and Joseph (2011) examined the Nigerian small scale farmers using the disaggregated Engel function analysis. The result showed that increase in total income would lead to a corresponding increase in each of the disaggregated expenditure groups. Household had high marginal propensity to consume more food for every naira increase in household income. That as household income rises, spending on necessities rises, but the proportion of income spent on them falls.

Nwabueze (2009) investigated the causal relationship between gross domestic product and personal consumption expenditure in Nigeria, using data from 1994 to

2007. The result showed an insignificant value, indicating that an increase in GDP has no significant effect on personal consumption expenditure in Nigeria. But, an empirical analysis of change in income on private consumption expenditure in Nigeria, which characterized the work of Akerele and Yousuo(2012), revealed that gross domestic product (income) has a significant effect on private consumption expenditure in Nigeria.

2.1 Theoretical Framework

Theoretically, we have four widely accepted theories of consumption, which include; Absolute Income Hypothesis (AIH) by J.M. Keynes (1936), Relative Income Hypothesis (RIH) by J.S. Duesenberry (1949), Permanent Income Hypothesis (PIH) by Milton Friedman (1957) and Life Cycle Hypothesis (LCH) by F. Modigliani (1963). All these theories seek to explain the nature of income consumption relationship both in the short and long run (Onyema and Ohale, 2002).

2.2 The Absolute Income Hypothesis (AIH):

In Keynesian model, current real income is the primary determinant of consumption and the relationship between income and consumption is determined by Absolute Income Hypothesis. According to Keynes interest rate as one of the explanatory variables of consumption have no effect on consumption decisions due to the reason that income and substitution effect of interest rate eliminate each other. In AIH, consumers take their decisions by taking into account the current disposable income and consumption is an increasing function of the real disposable income. As the disposable income increases, so will the consumption expenditures, but it will lead to a decreasing proportion of income. (Tapsin and Hepsag, 2014). The first objection to Keynesian theory came from Kuznets in 1952, who analyzed the long run relationship between consumption and income in US and he found contradictory results with Keynes. According to the results of his study, consumption does not decline as income increases. These findings revealed the existence of short run and long run consumption functions. In the short run, Keynesian consumption function gives accurate results but in the long run consumption function has a constant average propensity to consume (Mankiw, 2010). During the period of a business cycle or in the short run, because of the fluctuations in income, marginal propensity to consume is smaller than average propensity to consume as Keynes indicated. But in the long run average propensity to consume is constant and equals to marginal propensity to consume.

2.3 Relative Income Hypothesis(RIH):

Relative Income Hypothesis developed by James Duesenberry in 1949, states that consumption depends not only on absolute income but also on relative consumption patterns determined by the position in income distribution. The other consumption theories put forth later also directed criticism against the Absolute Income Hypothesis of Keynes and they developed Permanent Income Hypothesis and Life Cycle Income Hypothesis.

2.4 The Permanent Income Hypothesis (PIH):

According to Permanent Income Hypothesis developed by Friedman (1957), individuals are faced with both temporary and permanent fluctuations in income. But consumption does not react to changes in temporary income because individuals seek to smooth consumption.

2.5 Life Cycle Hypothesis (LCH):

In Life Cycle Income Hypothesis developed by F. Modigliani, A. Ando and R. Brumberg, the consumer decisions do not only depend on the current real income, but also the weighted average of expected future income and the wealth. In the model saving and borrowing are used to smooth consumption over the life cycle (Dornbush, et al., 2010). When the consumption decisions examined within the framework of rational expectations, different results arises. This is because in Rational Expectations Theory, consumers want to smooth consumption overtime and they use all available information about future income. Since the consumers receive the consumption decisions by using all the information, only unpredictable things would change their consumption. For this reason, consumption follows a random walk depending on the rational expectations error term (Foote, 2010).

3. Fiscal and Monetary Policy: Theoretical Issues

The Keynesians, however, remained skeptical about the efficacy of monetary policy under certain conditions. They argued that expansionary monetary policy that increases the reserves of the banking system need not lead to a multiple expansion of money supply because banks can simply refuse to lend out their excess reserves. Furthermore, the lower interest rates that result from an expansionary monetary policy need not induce an increase in aggregate investment and consumption expenditures because firms and households demands for investment and consumption goods may not be sensitive to the lower interest rates. The Keynesians believed in the concept of liquidity trap which is a situation in which real interest rates cannot be reduced by any action of the monetary authorities. Hence, at liquidity trap, an increase in the money supply would not stimulate economic growth because

of downward pressure of investment owing to insensitivity of interest rate to money supply and the only way out is fiscal policy. For these reasons, the Keynesians placed less emphasis on the effectiveness of monetary policy and more emphasis on fiscal policy, which they regarded as having a more direct effect on real GDP (Adefeso and Mobolaji, 2010; Jhingan 2010).

The monetarists, on the other hand, are the economists who criticized Keynesian economics and laid emphasis on the importance of monetary policy, especially money supply. The role of monetary policy which is of course influencing the volume, cost and direction of money supply was effectively conversed by the monetarists whose position is that inflation is always and everywhere a monetary phenomenon (Onyeiwu, 2012). The monetarists argued that the demand for money is stable and is not sensitive to changes in the rate of interest. Hence, expansionary monetary policy only serves to create a surplus of money that household will quickly spend, thereby increasing aggregate demand. They viewed money supply as a strategic variable in the transmission process which affects income directly as follows; $\uparrow\text{OMO} \rightarrow \uparrow\text{Ms} \rightarrow \uparrow\text{SPENDING} \rightarrow \uparrow\text{GNP}$, where OMO is Open Market Operations, Ms is money supply and GNP is Gross National Product (Anyanwu and Oaikhenan, 1995).

3.1 An Appraisal of Economic Policies in Nigeria

(i) The Exchange Rate Targeting Regime (1959-1973)

According to Nnanna (2001), the conduct of monetary policy in Nigeria under the colonial government was largely dictated by the prevailing economic conditions in Britain. The instrument of monetary policy at that time was the exchange rate which was fixed at par between the Nigerian pound and the British pound. This was very convenient, as fixing the exchange rate provided a more effective mechanism for the maintenance of balance of payments viability and for control over inflation in the Nigerian economy. However, this fixed parity lasted until 1967 when the British pound was devalued.

The Exchange Rate Targeting period was also associated with the establishment of the Central Bank of Nigeria as the apex regulatory body which commenced operations in 1st July, 1959 as well as the independence of Nigeria in 1st October, 1960 (Nzotta, 1999). The money and capital market were established during this period as well as the introduction of treasury bills in 1959 which was used mainly as a tool of fiscal policy. Later, the call money

and commercial bills were introduced in 1962 and treasury certificates were introduced in 1968.

Owing to the civil war that occurred in late 1960s, the monetary authorities did not consider it expedient to devalue the Nigerian currency in sympathy with the British Pound. The reasons were that a considerable proportion of the country's resources was being diverted to finance the war and there was the apprehension that the devaluation of the Nigerian currency would only raise the domestic price of imports without any appreciable impact on exports, which were largely primary products. Rather than devalue, the monetary authorities decided to peg the Nigerian currency to the US dollar with strict administrative controls on foreign exchange. Following the severe drawbacks of pegging the Nigerian currency (naira) to a single currency, the need to independently manage the exchange rate became imperative. Hence, in 1978 Nigeria pegged her currency (naira) to a basket of 12 currencies of her major trading partners.

(ii) Direct Controls Period (1973-1985)

The major objective of economic policy during this period was to promote rapid and sustainable economic growth. Consequently, the monetary authority relied heavily on sectoral credit allocation, credit ceiling, cash reserve requirement, administrative fixing of interest and exchange rate, as well as imposition of special deposit (Uchendu, 2009). The monetary authorities imposed differential quantitative ceilings on all sectors of the economy, given more of such credit ceiling to the preferred sectors of the economy such as agriculture, manufacturing and construction. The preferred sectors benefited from credit allocation below market lending rate. This was to ensure that these sectors were given the utmost attention to take the lead of growing the economy through the multiplier effect.

According to Nnanna(2001), empirical evidence during the control regime revealed that the flow of credit to the priority sectors did not meet the prescribed targets and failed to impact positively on investment, output and domestic price level. For instance, between 1972 and 1985, bank aggregate loans to the productive sector averaged 40.7 per cent instead of the stipulated target of 49.4 per cent. Accordingly, a major factor which impaired the effectiveness of monetary policy was the lack of instrument autonomy by the Central Bank of Nigeria (CBN) as monetary policies were mainly directed by

the Ministry of Finance and as such, were influenced by short term political considerations.

Nzotta (1999) observed that from 1980, crude oil prices took a downturn as prices fell from the peak of US\$40 per barrel to US\$28 per barrel in 1982 and below US\$10 per barrel in the first quarter of 1986. This led to severe external sector imbalance and the emerging economic development made Nigeria to adopt the Structural Adjustment Programme (SAP). The emergence of SAP ushered in a regime of financial sector reforms characterized by the use of indirect instruments of monetary policy. The strategy was to introduce measures that would increase competition, strengthen the supervisory and regulatory capacity of the CBN, improve the financial structure and redress the financial repression already identified (Oke, 1995).

(iii) The indirect Policy Regime (1986-Date)

The adoption of Structural Adjustment Program (SAP) in Nigeria, offered an era of policy change in monetary policy management in Nigeria with the introduction of indirect monetary policy. This was borne out of the desire to eliminate distortions and inefficiencies in the financial system cause by the prolonged use of administrative control and the need to engender competition among banks and other operators in the financial system. The operational framework for the indirect monetary policy management involved the use of market instruments to regulate the growth of major monetary aggregates. Under this framework, only the operational variables, monetary base or its components are targeted, while the market is left to determine the interest rates and credit allocations efficiently (Nnanna, 2001).

According to Ditimi *et al* (2011), the deregulation exercise in the financial system, led to the establishment of two foreign exchange markets (the first and the second tier foreign exchange market) in 1986. In 1987, Interest rate controls was completely removed, the liberalization of bank licensing was enforced and the foreign exchange markets was unified. The foreign exchange bureaus and the Nigerian Deposit Insurance Corporation were established in 1988 as well as the relaxation of restrictions on bank portfolio. In 1989, banks were permitted to pay interest on demand deposits and the auction markets for government securities was introduced, the capital adequacy standards were reviewed upward and the extension of credit based on foreign exchange deposits was banned. In 1990, the risk-weighted capital standard was

introduced and banks' required paid-up capital was increased. Also, a uniform accounting standards was introduced for banks while a stabilization security to mop up excess liquidity was also introduced.

In 1991, there was embargo on bank licensing while the administration of interest rate was introduced. Also in the same year, the Central Bank was empowered to regulate and supervise all financial institutions in the economy through the strengthening of the CBN Act. Nnanna (2001) explained that the first of such laws was the CBN Decree 24 of 1991 and the Banks and Other Financial Institutions Decree (BOFID) 25 of 1991. In 1992, the interest rate controls was removed once again while the privatization of government-owned banks commenced. More so, capital market deregulation commenced and credit control was dismantled while the foreign exchange market was reorganized.

In 1993, an indirect monetary policy instruments were introduced. The indirect (market-oriented) instruments are market induced action taken by the Central Bank to influence the availability and the rate of return on financial asset, thus affecting the desire of the public to hold money balances and the willingness of financial institutions to accept deposit and lend them to users. Example of such instruments are open market operations, discount window operations and reserve requirement.

The interest and exchange rate controls were re-imposed in 1994. In 1996, all mandatory credit allocations on banks by the CBN guidelines were abolished while in 1997 the minimum paid up capital of merchant and commercial banks was further raised to a uniform level of ₦500 million. In addition, the operational environment for banks was further liberalized in 2001 with the introduction of universal banking system while in 2005 the minimum paid up capital was further raised to ₦25 billion naira for all commercial banks in accordance with the recapitalization exercise.

In 2006, the Central Bank of Nigeria introduced a new monetary policy implementation framework, Monetary Policy Rate (MPR)) to replace the Minimum Rediscounted Rate (MRR). The Monetary Policy Rate serves as an indicative rate for transaction in the inter- bank money market as well as interest rate of other Deposit Money Banks (DMBs). Specifically, the Monetary Policy Rate(MPR) was introduced in order to dampen the volatility of interest rate in money market and stimulate a transaction rate that would

improve the transmission of monetary policy actions and ultimately to achieve a stable value of the domestic currency. An important implication of the various policies initiated under the indirect policy regime up to date is to bring about stability in the macroeconomic variables.

4. Methodology

Based on the framework of Mishkin (2010), Ozerkek and Celik (2010), Abata and Adejuwon(201), and Akerele and Yousuo(2012), the model is hereby specified in a functional form as follows;

$$PCE = f(MS, FIS, GDP) \dots\dots\dots 1$$

While in econometrics form, the model is stated as follows;

$$PCE = b_1 + b_2MS + b_3FIS + b_4GDP + u \dots\dots\dots 2$$

Where;

PCE = Private Consumption Expenditure

MS = Broad Money Supply (a proxy for monetary policy)

FIS = Fiscal Policyproxied by government expenditure

GDP = Gross Domestic Product

U = Error Term

b_1, b_2, b_3, b_4 = Parameters to be estimated

Apriori Expectation (MS.FIS,GDP> 0)

The log linear form of the model is given as;

$$\text{LogPCE} = b_1 + b_2 \text{LogMS} + b_3 \text{LogFIS} + b_4 \text{LogGDP} + u \dots\dots\dots 3$$

The log linear form of the model is adopted because it was the best fit for the model.

4.1 The Unit Root Test

A time series is said to be stationary if its mean and the value of the covariance between the two time periods depend only on the distance or gap or lag between the two time periods and not the actual time at which the covariance is computed (Gujarati, 2009). In this study, the Augmented Dickey-Fuller (ADF) Unit Root test was applied. The general specification of the unit root model is given as follows;

$$\Delta Y_t = B_1 + B_2 + \rho Y_{t-1} + \sum \alpha_i \Delta Y_{E-1} + U_t \dots\dots\dots 4$$

Where Y_t is the variable under investigation and U_t is a random error term.

4.2 The Augmented Dickey-Fuller (ADF) Unit Root Test Results:

The results of the ADF test are presented in Table 4.1. The ADF test result showed Private Consumption Expenditure (PCE) to be stationary at levels. Broad money supply (MS) was stationary at second difference, while Fiscal Policy (FIS) and Gross Domestic Product(GDP) were stationary at first difference. Thus, at 0.05 significant level, the variables were stationary and were thus suitable for OLS estimation.

Table 4.1: The Augmented Dickey-Fuller (ADF) Unit Root Test Results

Variables	Degree of Freedom	ADF Critical values	ADF t-statistic	p-values	Order of Integration
PCE	1%	4.30	3.61	0.0457	1(0)
	5%	3.56			
	10%	3.21			
MS	1%	4.28	9.09	0.0000	1(2)
	5%	3.56			
	10%	3.21			
FIS	1%	4.27	6.16	0.0001	1(1)
	5%	3.56			
	10%	3.21			
GDP	1%	4.27	5.33	0.0006	1(1)
	5%	3.56			
	10%	3.21			

Source: Authors' data analysis

4.3 Test for Co-integration:

The results of the ADF unit root tests in section 4.2 indicated that all the variables used in the study were stationary at all levels and first difference and would not produce any spurious regression. Therefore, having established the stationarity of the variables, we proceeded to test for co-integration among the variables. When co-integration is present, it means the variables share common trend and long run equilibrium (Onyeiwu, 2012). According to Ditimi et al (2011), ensuring stationarity test is the examination of the long run (co-integration) relationship among the variables. However, variables are co-integrated if they have long-term or equilibrium relationship among them (Gujarati, 2009).

4.4 The Johansen Co-integration Test Analysis:

In testing for co-integration among the variables used in this study, the Johansen multivariate co-integration test was adopted instead of the Engle-Granger test which is suitable for testing co-integration between two variables (Ditimi et al, 2011; Jawaid et al, 2011). However, Johansen and Juselius (1990) have derived two tests namely; the Trace and Maximum Eigen value tests for the testing of co-integration among variables.

The results of the co-integration tests are shown in Tables 4.2. The trace statistic revealed that there were three (3) co-integrating relationships at 5 percent level of significance, while the maximum eigenvalue statistic also revealed the same at 5 percent level of significance. However, the trace statistic was recommended because it possessed more power than the maximum eigenvalue statistic since it takes into account all of the smallest eigenvalues (Johansen and Juselius, 1990). Therefore, based on the co-integration test results, the null hypothesis that there is no significant co-integration was rejected at 5 percent level of significance and the Alternative was accepted. This mean that Private Consumption Expenditure (PCE), Broad Money Supply (MS), Fiscal Policy (FIS) and Gross Domestic Product (GDP) had long-run or equilibrium relationship among them.

Table 4.2 Johanson Co-integration Test Result:

Series: PCE MS FIS GDP

Lags interval (in first differences): 1 to 1

Unrestricted Co-integration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.947700	163.3601	47.85613	0.0000
At most 1 *	0.808788	71.88676	29.79707	0.0000
At most 2 *	0.485224	20.60123	15.49471	0.0078
At most 3	0.000533	0.016528	3.841466	0.8976

Trace test indicates 3 cointegratingeqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Co-integration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
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None *	0.947700	91.47337	27.58434	0.0000
At most 1 *	0.808788	51.28554	21.13162	0.0000
At most 2 *	0.485224	20.58470	14.26460	0.0044
At most 3	0.000533	0.016528	3.841466	0.8976

Max-eigenvalue test indicates 3 cointegratingeqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Source: Authors' data analysis.

4.5 Presentation and Analysis of Regression Result

The regression result as presented in Table 4.3 indicated that some of the coefficients were in line with our apriori expectations. The result showed Money Supply (MS) to be positive, but insignificantly related to Private Consumption Expenditure (PCE). While Gross Domestic Product (GDP) indicated a negative and insignificant relationship with Private Consumption Expenditure (PCE), Fiscal Policy proxied by Government Expenditure(FIS) was positive and significant at one percent level. The F-statistics which showed the joint significance of the estimated parameters and goodness of fit of the model was significant at one per cent level. The result further showed that both the coefficient of determination (R^2) and the adjusted coefficient of determination are 0.98. This meant that the independent variables could jointly explain 98% of the total variation in the dependent variable (Private Consumption Expenditure).

Table 4.3: The Regression Result

Dependent Variable: LOG(PCE)

Method: Least Squares

Sample (adjusted): 1981 2013

Included observations: 33 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.076337	0.683015	1.575861	0.1259
LOG(MS)	0.049358	0.221282	0.223056	0.8251
LOG(FIS)	1.022751	0.251819	4.061454	0.0003
LOG(GDP)	-0.013903	0.304856	-0.045605	0.9639

R-squared	0.979634	Mean dependent var	7.037121
Adjusted R-squared	0.977527	S.D. dependent var	2.312886
S.E. of regression	0.346727	Akaike info criterion	0.832655
Sum squared resid	3.486370	Schwarz criterion	1.014050
Log likelihood	-9.738806	Hannan-Quinn criter.	0.893689
F-statistic	464.9705	Durbin-Watson stat	0.896376
Prob(F-statistic)	0.000000		

Source: *Authors' data analysis.*

4.6 Discussion of Findings

Based on the regression result in Table 4.3, it is shown that government expenditure significantly and positively affected private consumption expenditure in Nigeria for the period under review. This result corresponds to the works of Giavazzi and Pagano (1996), Ozerkek and Celik (2010), and Blanchard and Perotti (2002) which showed that government expenditure significantly affect private consumption expenditure.

The regression result further showed an insignificant relationship between Private Consumption Expenditure and Gross Domestic Product (GDP) in Nigeria for the period under review. This means increase in GDP, although positive, does not have any significant impact on private consumption expenditure in Nigeria during the period under study which is consistent with the work of Nwabueze (2009) which indicated an insignificant relationship between Gross Domestic Product and Private Consumption Expenditure in Nigeria

The impact of money supply on private consumption expenditure is shown to be positive and insignificant. This contradicts the work of Ajisafe and Folorunso (2002), which argued that monetary rather than fiscal policy exerts a great impact on economic activity in Nigeria and that the emphasis on fiscal action of the government has led to greater distortion in the economy.

5. Conclusion and Recommendation

This study analyses the effect of economic policies on private consumption expenditure in Nigeria. In doing this, the study tries to establish the relationship between private consumption expenditure and Gross Domestic Product. In this study, government spending was employed as a proxy for fiscal policy, while monetary policy is proxied by broad money supply. The study revealed that the

achievement of economic wellbeing through government expenditure could be possible in Nigeria if government can ensure fiscal discipline, transparency and accountability, effective policy implementation and eradication of corrupt practices in governance.

Evidently, stimulating private consumption expenditure through monetary policy in Nigeria has remained a mirage. In spite of the various monetary policy management tools employed over the years, the impact of the policy on private consumption expenditure has been insignificant as indicated in this study for the period under review. The poor performance of monetary policy has been ostensibly blamed on the problems of policy inconsistencies, high level of corruption, wasteful spending, poor policy implementation and lack of feedback mechanism for implemented policies. This study revealed that the effect of fiscal policy on private consumption expenditure in Nigeria is much stronger than that of monetary policy.

Therefore, this study recommends as follows:

- i. that government should employ fiscal policy for the purpose of economic stabilization.
- ii. that government should give more priority attention to capital and public investments by making them of higher proportion in gross government expenditure, thereby creating more jobs and enhancing the quality of private consumption expenditure and the attainment of sustainable growth and development.
- iii. that, for a low income economy like Nigeria, a well planned tax cut and targeted government expenditure is crucial to stimulating private consumption expenditure in the bid to ward off the negative impact of the global economic crisis.
- iv. Economic policies should be directed at critical economic sectors like roads, power, education, health, housing and urban development to generate that required catalyst to economic growth, wealth and employment creation as envisaged in government's Vision 20:20:20: strategy. It is wealth creation and employment creation that will reduce the pervasive poverty in the land and enhance private consumption expenditure.
- v. The Nigerian government should refocus and redirect monetary and fiscal policy towards production of goods and services so as to enhance GDP growth.

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The Data of the Study(n Billions)

YEARS	PCE	MS	FIS	GDP
1981	28.57	14.47	11.41	94.33
1982	30.41	15.79	11.92	101.01
1983	35.22	17.69	9.64	110.06
1984	42.86	20.11	9.93	116.27
1985	49.30	22.30	13.04	134.59
1986	51.54	23.81	16.22	134.60
1987	75.98	27.57	22.02	193.13
1988	106.68	38.36	27.75	263.29
1989	126.19	45.90	41.03	382.26
1990	177.23	52.86	60.27	472.65
1991	206.81	75.40	66.58	545.67
1992	373.53	111.11	92.80	875.34
1993	502.78	165.34	191.23	1,089.68
1994	610.34	230.29	160.89	1,399.70
1995	1,387.45	289.09	248.77	2,907.36
1996	2,124.27	345.85	337.22	4,032.30
1997	2,091.07	413.28	428.22	4,189.25
1998	2,371.33	488.15	487.11	3,989.45
1999	2,454.79	628.95	947.69	4,679.21
2000	2,478.78	878.46	701.06	6,713.57
2001	3,687.66	1,269.32	1,018.03	6,895.20
2002	5,540.19	1,505.96	1,018.16	7,795.76
2003	7,044.54	1,952.92	1,225.97	9,913.52
2004	8,637.73	2,131.82	1,426.20	11,411.07
2005	11,075.06	2,637.91	1,822.10	14,610.88
2006	11,834.58	3,797.91	1,938.00	18,564.59
2007	16,243.72	5,127.40	2,450.90	20,657.32
2008	16,090.50	8,008.20	3,240.82	24,296.33
2009	18,980.96	9,411.11	3,452.99	24,794.24
2010	22,845.13	11,034.94	4,194.58	54,612.26
2011	22,840.83	12,172.49	4,712.06	62,980.40
2012	19,536.05	13,895.39	4,605.39	71,713.94
2013	6,809.28	15,160.29	5,185.32	80,092.56
2014		17,680.52	4,578.06	89,043.62

Source: CBN Statistical Bulletin (2014)

Where,

PCE= PRIVATE CONSUMPTION EXPENDITURE

MS = MONEY SUPPLY

FIS = FISCAL POLICY

GDP = GROSS DOMESTIC PRODUCT