Impact of Government Policies on Economic Development in Nigeria

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ABSTRACT

There have been concerns on the low rate of development in the Nigerian atmospheric environments. Several stakeholders have submitted different views on this issue, which could be attributed to low tax rate and capital budget allocation which are all embedded in government policies. In this light, this study examined government policies on rural and national development in Nigeria, focusing on the individual impact of public expenditure and tax revenue on economic development in Nigeria. The study adopted ex-post facto. The data obtained were from secondary source through published annual reports by Federal Inland Revenue Service (IFRS) and CBN Statistical Bulletin between 2010 and 2024. Descriptive statistics and panel regression analysis were used for the analysis. The findings reveal that public expenditure has positive and significant effect on rural and national development in Nigeria. However, tax revenue shows a positive but insignificant effect rural and national development in Nigeria. It was concluded that public expenditure and tax revenue are capable of developing the economy, if employed judiciously. The study recommended that the three tiers of governments in Nigeria should increase spending on capital projects and consider other forms of revenue generation that the burden are not on the citizens to boost the current revenue base.

Keywords: Public administration, rural and national development, public expenditure, tax revenue.

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59

1   INTRODUCTION

Although the claim on the use of government policies for public administration and economic stability is believed to be old. However, it has become of great interest to public administrators and accounting researchers in particular, Africa and Nigeria (Aduwa-Ogiegbaen & Iyamu, 2023). These interests emanates from the challenges with the reduction in gross domestic product in recent times, and the low rate of development in the African domain and in particular, in the Nigerian atmospheric environments as compared with the international arena. According to Nwuzor and Udoikah (2025) liquidity is stated as low as 29% in Ghana and South Africa, which suggests that these economies find it hard to support a local market with its own trading system because the business volume would be too low. The low liquidity in Ghana has led to low returns which reduced the Gross Domestic Products (GDP) from USD 79.51 billion to USD73.92 billion, and in South Africa, has negatively affected the South Africa's GDP. This is evident in a GDP value of USD406.9 billion in 2023 reducing to USD400.3 billion in 2024. The implication has altered 19% of capital projects in the country (Ogu, et al., 2025).

In Nigeria, there has also been a growing focus on the issues of gross domestic product reduction as the stock market capitalization decreased from ₦19.033trillion to ₦18.321trillion in 2022 and further shrink from ₦18.321trillion to ₦15.191trillion in 2023 but increased to ₦15.891 trillion in 2024 which was attributed to poor public administration due to the low resistance against the shock of COVID-19 Nwuzor and Udoikah (2025). The challenges with effective government administration has also reflected in the Nigeria Gross Domestic Product by shrinking the GDP which stood USD477.4 billion in 2023 to USD187.8 billion in 2024. This has created high percentage increase in actual prices, the importation, exportation of goods and services, also, making it hard for the government to increase infrastructural budgeting. Several stakeholders have submitted different views on these issues, which could be attributed to low tax rate and capital budget allocation which are all embedded in government policies. This is as a result that these policies are a fundamental mechanism for fostering socioeconomic development, particularly in community and in the rural areas, which often face persistent challenges such as poor infrastructure, limited access to healthcare, inadequate educational facilities, and low agricultural productivity (Akinwale & Oduwaye, 2023).

Government policies is a key instrument being employed by the government in controlling economic activities. The importance of government policies towards the functioning of any economy if developed, under developed or developing cannot be ignored (Ogu, et al., 2025). The need to allocate resources efficiently among the various arms of government, as structured by their fiscal ability, capacity and responsibility gave rise to public administration and finance (Afolabi & Ajayi, 2020). In Nigeria, successive governments have formulated policies aimed at addressing several developmental deficits; however, their effectiveness largely depends on successful implementation. Despite well-intentioned policies, the persistent gap between policy formulation and execution continues to hinder rural progress (Akinwale & Oduwaye, 2023).

It was observed that most studies on government policies and economic development in Nigeria have generally disaggregated government policies without focusing on aggregated effect on gross domestic product such as the studies of Olonite et al. (2021), Afolabi and Ajayi (2020) and Ibrahim and Musa (2022). Also, most studies conducted have majorly focused on rural development with few conducted in on economic development in Nigeria. There also exist mixed results from past studies, as the studies of Nwuzor and Udoikah (2025), Ogu et al. (2025) and Apata et al. (2016) submitted positive results between government policies and economic development in Nigeria, However, Olonite et al. (2021) submitted negative results between certain government policies and economic development in Nigeria. The disaggregated government policies by most studies, the scanty studies of government policies and economic development in Nigeria, and the mixed findings of related studies overtime is an indication that the issues of government policies and economic development in Nigeria need more

attention, particularly in the aggregated form.. This study intends to explore the aggregated government expenditure, which differs significantly from most studies

Based on the inconsistencies of results, and conceptual differences, this study examines the effectiveness of government policies in fostering economic development in Nigeria. It seeks to identify the key barriers to successful policy execution and explore strategies for improving governance structures, resource mobilization, and stakeholder engagement. By addressing these challenges, public policy can become a more effective tool for driving sustainable economic development in Nigeria. The research question is to investigate how government policies affects economic development in Nigeria by specifically exploring the relationship that exist between public expenditure and tax revenue on economic development in Nigeria. The hypothesis of the study is stated in the null form i.e. public expenditure does not have significant effect on economic development in Nigeria, and tax revenue does not have significant effect on economic development in Nigeria,

The outcome of this study would also serve as a benefit to the federal government in the area of rating and valuation of existing policies in different capacities, in line with global best practices. Furthermore, the outcome of this study would be beneficial to the society as it would form a yardstick used to evaluate a government policies to create value, so as to make an informed economic decision regarding social welfare and community support.

2 LITERATURE REVIEW
2.1 Conceptual Review
2.1.1 Government Policies
These are frameworks by which government employed by the government to achieve intended outcomes (Demirgüç-Kunt et al., 2022). These policies involve various decisions, laws, and actions taken by a government to address societal issues and achieve specific goals in areas like health, education, the economy, and the environment (Satgar, 2022). They can be formal (like laws and regulations) or informal (like established practices and norms) and are guided by underlying principles to influence public actions and serve the collective public interest, developed in response to problems or issues that need attention (Njoroge & Wanjiku, 2021). They aim to achieve a specific objective or desired state for the public, such as improving public health or promoting economic growth (Aduwa-Ogiegbaen & Iyamu, 2023). For the purpose of this study, government policies are proxied using public expenditure and tax revenue.

2.1.1.1 Public Expenditure
This is refer to the money a government spends on the purchase of goods and the provision of services for its citizens. This expenditure covers a wide range of public goods and services, such as education, healthcare, social security, infrastructure (like roads and bridges), national defense, and public administration and payment of salaries (Olonite, et al., 2021). Governments primarily fund public spending through taxes.

2.1.1.2 Tax Revenue
This is the income that is collected by governments through taxation. Taxation is the primary source of government revenue. Revenue may be extracted from sources such as individuals, public enterprises, trade, royalties on natural resources and/or foreign aid (Aliyu & Abubakar, 2020). While there are various taxes that individuals and businesses may be subject to, this study focused on the key taxes that are most pertinent in Nigeria: Personal Income Tax (PIT), Company Income Tax, Value Added Tax, Petroleum Profit Tax, Withholding Tax, Capital Gains Tax, Education Tax and Stamp Duties (Leyira, et al., 2012).

2.1.2 Economic Development
2.1.2.1 Real Gross Domestic Product
This is an inflation-adjusted value of a country's economic output of goods and services over a specific period. Unlike nominal GDP, which is measured in current prices. Real GDP uses constant prices from a specific base year, allowing for accurate comparisons of economic output across different time periods (Sedrakyan & Candamio, 2017). The Real Gross Domestic Products (GDP) is known as inflation-adjusted gross domestic product, measuring the value of finished goods and services at constant base year prices (Investopedia, 2019). This concept argues that the Gross Domestic Products (GDP) is a function of public expenditure and the aggregate revenue, and it measures a country's economic development (Magazzino, et al., 2015).

2.2 Conceptual Framework
A concept representation to illustrate the interplay between government policies and economic growth in Nigeria.

Figure 2.1: Conceptual Model showing the relationship between Government Policies and Economic Development
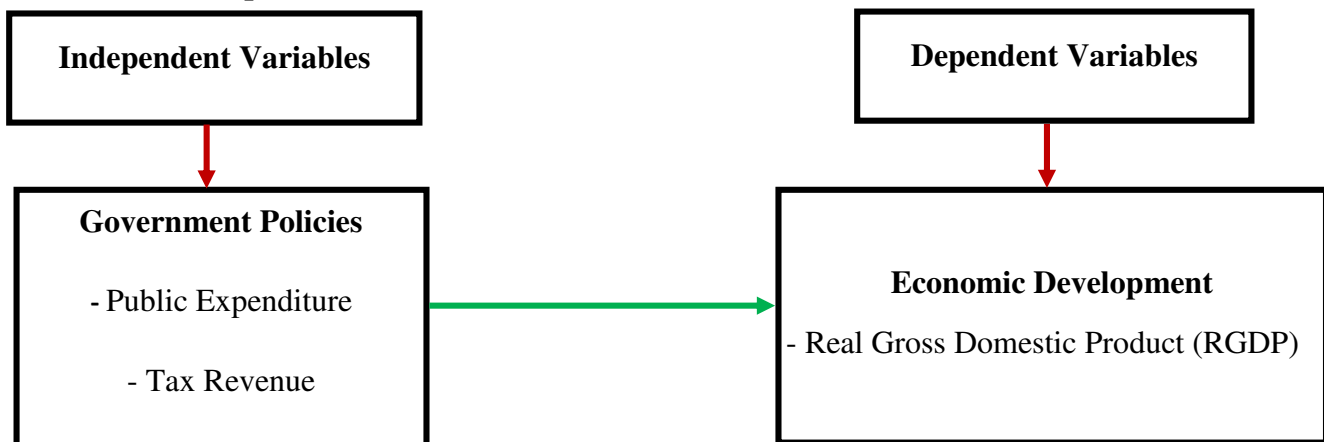
Source: Authors' Design, (2025)

2.3 Theoretical Review
2.3.1 Public Finance Management Theory:
This theory was postulated by Erik Lindhal in 1919. This theory claims that the government should keenly and prudently control her spending to benefit the citizens. The theory however stress that the government's income should be well managed and mobilized to ward-off looting of the revenue into private accounts. This affirms that such managements should include: programmes prioritization, prioritization of resources, efficient management of resources, budgetary system scrutinization, etc. therefore, this will disallow misapplication of public spending.

2.3.2 Classical Optimal Theory
The classical optimal theory (1776) research how to plan the tax system in such a way that social welfare would be maximized. The hypothesis of best taxation principle posits that a tax system should be chosen to maximize social welfare function subject to a set of constraints. The literature on optimal taxation typically treats the social planner as utilitarian that is, the social welfare function is based on the utilities of individual in the society.

2.3.3 Olonite Theory of Public Finance and Economic Growth/Development

This theory asserts that not all Government policies on expenditure drive economic growth. Public spending comprises of the recurrent expenditure, capital expenditure and expenditure on transfer. The recurrent expenditure and expenditure on transfer won't drive economic growth since they are consumption expenditures. They won't drive economic growth; the capital expenditure is an investment spending which this study believes drives economic growth (Olonite, 2021). In light of this, this study claim that recurrent expenditure should be kept minimal since it can't be equal to zero, as an increase in the capital expenditure will definitely expand the recurrent expenditure, though not in the same proportion. Some capital expenditure should be increased in particular, the performing functions while some functions decreased and this should be observed in respect to the public finance management theory by Erik Lindhal in 1919 and expenditure on transfer should be made to zero especially, the non performing functions since it has a negative impact on the economic growth. To reduce the recurrent expenditure and increase the capital spending, the Public Private Partnership (PPP) should be encouraged.

2.3.4 The Rostow-Musgrave Growth/Development Model

Rostow in 1969 provided a political theory of the role of public spending and the stages of growth in the process, and Musgrave in the same year 1969 presented a macroeconomic insight of public expenditure policy for development and industrialization. According to their model in early stages of economic growth and development, public sector investment is seen to be high. The public sector will in turn provide the human capital in the form of spending on health, education, etc. and social capital in the form of real (bridges, roads, transport, communication system technologies, and sea port). They argued that it is necessary for the spending in order to expand the economy towards the middle stages of economic growth and development.

2.4 Theoretical Framework

For the purpose of study, the Classical Optimal Theory and Olonite Theory of Public Finance and Economic Growth/Development were considered as they best suit the arguments of the study.

2.5 Empirical Review

Ogu et al. (2025), study examines the impact of public policy implementation on rural and community development in Nigeria, guided by Implementation Theory. The research aims to assess the multisectoral influence of public policies, the role of local governments in policy execution, and the barriers to effective implementation. Using a mixed methods approach, 400 respondents from Various individual in different local government area in South East of Nigeria were surveyed. Data analysis through descriptive statistics and regression analysis revealed a strong correlation ($R = 0.999$) between public policy types and rural development, with 99.7% of rural development variability attributed to policies. Additionally, local government actions had a significant correlation ($R = 0.942$), explaining 88.8% of the variability, emphasizing the critical role of local governance in policy implementation. The study concludes that while public policies can enhance rural development, their effectiveness relies on overcoming systemic barriers and empowering local governments. It recommends developing targeted policies for rural communities and strengthening local governance to improve policy outcomes, contributing to a deeper understanding of policy dynamics in Nigeria.

Nwuzor and Udoikah (2025) The study was undertaken to examine the various rural and urban development policies embraced upon by various administrations in Nigeria, to examine the interplay between politics and the achievement of these policies and as well the impact of eaanvironmental variables on the achievement of rural development policies in Nigeria. The study adopted the Marxist political economic theory as its theoretical tool. It employs content analysis in the discussion of various

variables in the study. The findings of the study among others revealed that successive administration has evolved a lot of policies aimed at developing the rural areas, but none of these policies appears to achieve the intended development at the rural development exhibited by the elite class. The study among others recommended the adoption of bottom top approach to rural development to provide solution to these much lingering problem in Nigeria.

Nwankwo and Uche (2023) explored the relationship between public policy implementation and rural healthcare development in Enugu State, Nigeria, focusing on healthcare providers and rural residents. The study comprised a sample of 400 healthcare workers and rural inhabitants and employed chi-square and logistic regression analyses. The results demonstrated that healthcare policy implementation improved access to primary healthcare services by 30%, although inconsistent execution of these policies hindered broader healthcare coverage. The authors recommended increasing budget allocations for rural health initiatives and establishing accountability mechanisms for healthcare workers. This study emphasizes the critical need for consistent and effective implementation of health related public policies to enhance healthcare services in rural communities.

Olawale and Adeyemi (2021) examined the role of infrastructure policies in rural development through a case study in Ondo State, Nigeria, involving rural residents and local government officials. The research included a sample of 500 respondents and employed descriptive statistics and correlation analysis for data interpretation. The findings revealed that infrastructure policy implementation improved rural road access by 25% and positively influenced local economic activities by 18%. The authors recommended conducting periodic evaluations of infrastructure projects and increasing government funding to promote sustainable rural development. The study provides valuable insights into how infrastructure focused public policies can significantly enhance rural development by addressing critical elements such as transportation and economic growth.

Ibrahim and Musa (2022), in their study on public policy and rural education development in northern Nigeria, targeted teachers and school administrators in rural schools across Kano, Katsina, and Kaduna States. The sample included 450 respondents, and data analysis was conducted using ANOVA and regression analysis. The findings indicated that education policies contributed to a 22% increase in school enrollment; however, challenges in implementation led to a 10% dropout rate. To ensure the sustainability of education policies in rural areas, the authors recommended improved funding and the provision of learning materials. This research is significant as it highlights how public education policies can directly influence rural development, particularly by enhancing human capital through increased educational opportunities.

Afolabi and Ajayi (2020) investigated the effects of rural electrification policy on community development in Southwestern Nigeria, focusing on households and business owners in Osun and Ekiti States. The study sampled 300 respondents and utilized descriptive and inferential statistics, including correlation analysis, for data interpretation. Findings showed that rural electrification improved household incomes by 20% and enhanced small scale business operations by 25%. The authors suggested expanding electrification projects and improving maintenance efforts to secure long-term benefits for rural communities. This study emphasizes the role of public infrastructure policies in economically empowering rural areas through enhanced access to electricity.

Chukwu and Okechukwu (2022) conducted a study on public policy implementation and food security in rural communities of southeastern Nigeria, focusing on farmers and agricultural stakeholders in rural Enugu and Abia States. The research included a sample of 360 farmers and employed ANOVA and regression analysis for data assessment. Findings showed that food security improved by 18% as a result of agricultural policies, yet inconsistencies in policy execution led to a 12% fluctuation in food availability during off seasons. To enhance food security outcomes, the authors recommended bolstering agricultural support programs and ensuring consistent policy implementation. This study is

directly relevant to the discussion of how public policy affects rural food security, a vital component of overall rural development.

Abubakar (2023) In Nigerian, several public policies have been implemented over the years with the goal of promoting prosperity and reducing income inequality. However, these policies seem to have fallen short of their objectives. The issue that has been addressed in this study is the need to evaluate the effectiveness of existing public policies in Nigeria, particularly concerning their contribution to fostering prosperity and enhancing income equality. The study was aimed at determining the effects of public policies on prosperity and equality in Nigeria. The methodology employed for the study was purely a review of relevant literature. From the review, it was found out that Nigeria can improve on its business climate by implementing policies that reduce the cost of doing business, improve access to finance, and enhance the regulatory environment. It was concluded that government has no enough investment in education and skills development, hence it should increase funding for education, expand access to vocational training, and promote entrepreneurship. The study went further to recommend that government should improve business climate by implementing policies that will reduce the cost of doing business, reduce lending rate, and enhance the regulatory environment. Another recommendation is that government should strengthen governance and accountability by implementing policies that promote transparency, reduce corruption, and enhance public sector performance.

Adebayo and Adekunle (2022) conducted a study on the impact of agricultural policy implementation on rural development among farmers in Southwestern Nigeria, specifically in Oyo, Ogun, and Ekiti States. The research involved a sample of 350 farmers and utilized descriptive statistics and multiple regression analysis for data evaluation. The findings indicated that effective agricultural policy implementation led to a 20% increase in agricultural productivity and a 15% decrease in rural poverty. To enhance the effectiveness of policy implementation, the study recommended strengthening government monitoring mechanisms and facilitating easier access to agricultural inputs. This research underscores the significant influence of policy implementation on rural economies, particularly its role in boosting agricultural productivity, which is vital for rural development.

A study conducted by Olonite et al. (2021) analysed the relationship between public spending and economic growth in Nigeria. The study used the secondary data from CBN 2018. The Real Gross Domestic Product formed the dependent variable and the independent variable of interest were the Capital Spending on Economic Services, and Spending of Transfers. The variables were validated by conducting the unit root test using the Augmented Dickey Fuller (ADF) and Phillips Perron Test (PP), and the correlation coefficient were determined using STATA and the Pearson Product Moment Correlation. A multiple regression model was employed for the study and was analysed using the Generalized Least Squares (GLSs) with the aid of Eviews 11 statistical program. The results of the study indicated that Capital Spending on Economic Services has a positive and significant impact on Economic Growth while Spending on Transfer has a negative and insignificant impact on Economic Growth. The study recommends that Capital Spending on Economic Services should be maintained and increased and Spending on Transfer should be made Zero, also, the government should develop the refineries to start mass production in order to null off the negative effect of transfers (subsidy payment on oil import and price equalization).

Apata et al. (2016) examined the relationship between public spending and agricultural growth using Malaysia as a case study. The study captured a period of forty years (40) from 1970 to 2010 using the Panel Data Analysis. The finding of the study shows that public spending has a significant impact on economic growth in Malaysia on the long run. They concluded that public spending is one of the important components of fiscal policy in order to achieve economic objectives. From their findings, they recommend expansion of the public spending since it has a positive impact on agricultural growth on the long run. Their claim agrees with the finding of Fan and Rao (2003) since they asserted a significant impact of public spending on economic growth.

2.6   Gap in Literature

It was observed that most studies on government policies and economic development in Nigeria have generally disaggregated government policies without focusing on aggregated effect on gross domestic product such as the studies of Olonite et al. (2021), Afolabi and Ajayi (2020) and Ibrahim and Musa (2022). Also, most studies conducted have majorly focused on rural development with few conducted in on economic development in Nigeria. There also exist mixed results from past studies, as the studies of Nwuzor and Udoikah (2025), Ogu et al. (2025) and Apata et al. (2016) submitted positive results between government policies and economic development in Nigeria, However, Olonite et al. (2021) submitted negative results between certain government policies and economic development in Nigeria. The disaggregated government policies by most studies, the scanty studies of government policies and economic development in Nigeria, and the mixed findings of related studies overtime is an indication that the issues of government policies and economic development in Nigeria need more attention, particularly in the aggregated form.. This study intends to explore the aggregated government expenditure, which differs significantly from most studies.

3   METHODOLOGY

The study applied *ex-post* facto research design. The data obtained were from secondary sources through published annual reports by Federal Inland Revenue Service (IFRS) and CBN Statistical Bulletin between 2010 and 2024. The study adapted the model of Musa et al. (2016).

$$ARV_{it} = \beta_0 + \beta_1 NI_{it} + \beta_2 GX_{it} + \beta_3 XG_{it} + \beta_4 INF_{it} + \mu_{it} \ldots\ldots\ldots.i$$

Where:

ARV= Aggregate Tax Revenue

NI = National Income (GDP)

GX = Government Expenditure

XG = External Grant

INF = Inflation Rate

To achieve the objectives of this study, Musa et al. (2016) model was adapted, thus: $RGDP_{it} = \beta_0 + \beta_1 PEX_{it} + \beta_2 TRV_{it} + \mu_{it}$ …………………………………...……….ii

RGDP = Real Gross Domestic Product

PEX = Public Expenditure

TRV = Tax Revenue

The *a priori* expectation of this equation is that both public expenditure and tax revenue would have positive impacts on economic development. The expectation is econometrically stated thus: β_1-β_2 > 0. The data were regressed using the Error Corrected Panel data analysis.

Description and Measurement of Variables
Table 3.1: Measurement of variables

Variables	Description	Measurement	Source
Independent Variables			
i. Public Expenditure	This is the cost incurred by the government on capital, recurrent and transfer spending.	This is measured on the total amount spent on capital expenditure, recurrent and transfer payment.	Olonite (2021)
ii. Tax Revenue	This is the total of monetary inflow from business and individuals.	This is measured on the total amount received by the government from corporate entities and taxable individuals.	Musa et al. (2016).
Dependent variable			
i. Gross Domestic Product	This is the value of goods and services produced by a country for a given year.	This is measured on the basis of real gross domestic product basis, which has been adjusted for inflation or deflation	Nwuzor and Udoikah (2024).

Source: Researcher's Computation, 2025

4 DATA ANALYSIS AND DISCUSSION OF FINDINGS
4.1 Descriptive Statistics
Table 4.1: Descriptive Statistics

Variables	Obs	Mean	S.D	Std. E	MIN	MAX	SUM	SKW	KURT	J.B.	P.Value
RGDP	45	.01321	.0190	.0005	0.000	5.343	42.042	1.462	9.201	11.54	0.0000
PEX	45	.44641	.3993	.0142	0.000	2.482	33.143	.125	1.467	9.674	0.0012
TRV	45	.42094	.4021	.0146	0.000	1.381	31.215	.1881	1.723	9.487	0.0003

Researcher's Computation, 2025

From Table 4.1, it was indicated that real gross domestic product shows a mean value of 0.1321 with a standard deviation of 0.0190, and this implied a moderate variation in real gross domestic product considering its distance to the mean value. Also, the same Table shows the least figure for public expenditure with a score of 0 and displayed a maximum of 5.343, having a total sum of 42.042. The data for variable was positively skewed and normally peaked as indicated 1.462 for skewness and 9.201 for kurtosis. The Jarque Berra test for normality showed that data were not normally distributed considering its statistics of 11.54 with a P-value of 0.0000 which indicated significance for null hypothesis test and data abnormality at P<0.05.

In the Table 4.1, it was indicated that public expenditure shows a mean value of 0.44641 with a standard deviation of 0.3993, and this implied a moderate variation in public expenditure of Nigeria considering its distance to the mean value. Also, the same Table shows the least figure for public expenditure with a score of 0 and displayed a maximum of 2.482, having a total sum of 33.143. The data for variable was positively skewed and normally peaked as indicated 0.1725 for skewness and 1.467 for kurtosis. The Jarque Berra test for normality showed that data were not normally distributed considering its statistics of 9.674 with a P-value of 0.0012 which indicated significance for null hypothesis test and data abnormality at P<0.05.

Tax revenue displayed a mean value of 0.42094 with a standard deviation of 0.4021, and this implied a moderate variation in tax revenue considering its distance to mean value. The total sum of tax

revenue 31.215 with a minimum score of 0 and the maximum score was 1.381. The variable data were positively skewed and normally peaked as indicated 0.1881 for skewness and 1.723 for kurtosis. The Jarque Berra test for normality showed that data were not normally distributed considering its statistics of 9.487 with a P-value of 0.0003 as indicated a significance of null hypothesis test and abnormality data at P<0.05.

4.2 Correlation Analysis

The correlation analysis was conducted to help in detecting likelihood of multicollinearity among variables that could have a devastating effect on standard error of variables. The correlation results that showed relationship between the study variables are presented in Table 4.2.

Table 4.2: Correlation Analysis of Hypotheses

VRB	OBS	RGDP	PEX	TRV
RGDP	45	1.0000		
PEX	45	0.4239*	1.0000	
TRV	45	0.3804*	0.2953*	1.0000

Researcher's Computation, 2025

The results in Table 4.2 revealed that relationship between real gross domestic product and public expenditure (PEX) was positive having a coefficient of 0.4239 and this implies that both move in the same direction as an increase in public expenditure will drive an increase of 42.39% in real gross domestic product of Nigeria.

Furthermore, the correlation result revealed that relationship between real gross domestic product (RGDP) and tax revenue (TRV) was positive having a coefficient of 0.3842 and this implies that both move in the same direction as an increase in tax revenue will drive an increase of 38.42% in real gross domestic product of Nigeria.

4.3 Panel Unit Root Test

In identifying stationary conditions of the variables, the study uses Levin, Lin & Chu t* and Im-Pesaran-Shin unit-root test. The null hypothesis assumption of the unit root test is that all panels contain unit roots while the alternate hypothesis implies that some panels are stationary and the results of unit root tests is displayed in Table 4.3.

Table 4.4: Panel Unit Root Test of Variables

Variable	Levin, Lin & Chu t*		Harris-Tzavalisunit-root test	
	Test-statistics	P-value	Z-Statistics	P-value
RGDP	-15.483	0.0001	-13.869	0.0000
Public Expenditure	-8.4859	0.0003	-7.4048	0.0001
Tax Revenue	-7.2905	0.0002	-6.6578	0.0001

Researcher's Computation, 2025

The results of the unit root tests displayed in Table 4.4 showed that all the variables were integrated of order zero which is 1(0) which is significant at 5% level of significance. Therefore, the study rejects the null hypothesis and conclude that the series is stationary. Therefore, it is not necessary to conduct the co-integration test to determine the long-run relationship among the variables. The Error Corrected Panel data analysis is capable of solving the challenges with series stationarity.

4.4   Multicollinearity Test

Multicollinearity tests are part of post estimation test to confirm the validity of the assumption of the regression model. In a situation where two or more explanatory variables are highly correlated, meaning that one can linearly predict the other variable with a certain degree of accuracy, then there is a problem of multicollinearity. The Variance Inflation Factor (VIF) value is considered for this purpose to determine the independence of the explanatory variables.

Table 4.5: Multicollinearity Test of Variables (Tolerance and VIF Value)

Variable	VIF	1/VIF
ERGDP	1.32	0.560483
EPEX	1.24	0.432058
ETRV	1.22	0.413322
Mean VIF	1.26	

Researcher's Computation, 2025

From the evidence presented in Table 4.5, it can be concluded that there is no multi-collinearity problem found in all the variables. This is because the VIF values for all the variables are less than 10 and the tolerance values for all the variables are greater than 0.10. Therefore, the study can rely on regression co-efficient to predict the level of impact of government policies on economic development, and results from this findings can be considered valid.

4.5.   Heteroscedasticity Test

The heteroscedasticity test was conducted to check the validity of assumption that displayed variance in the residuals that violates the assumption which could lead to wrong inference. The test was conducted using Breusch-Pagan/Cook-Weisberg test.

Table 4.6: Heteroscedasticity Test

Null Hypothesis	Statistics	Probability
Constant variance across the variables residuals (P>0.05)	15.32	0.0746

Researcher's Computation, 2025

The result from Table 4.6 revealed that there is no presence of heteroscedasticity with probability value of 0.0746 that was lower than 0.05. This heteroscedasticity problem was corrected by using panel-corrected standard error (PCSE).

4.6   Serial Auto-Correlation Test

Autocorrelation depicts how closely its values are correlated across time. It measures how similar two-time series, one current and the other lagged, are to one another over time. The data for the study is also tested for auto-correlation using the Wooldridge test for autocorrelation in panel data. The result of autocorrelation for all the variables is presented in Table 7.

Table 4.7: Serial Auto-Correlation Test

Null Hypothesis	Statistics	Probability
no first-order autocorrelation (P>0.05)	8.395	0.0630

Researcher's Computation, 2025

The results show a probability of 0.0630 which is significant indicating that there is no problem of Auto-correlation hence the null hypothesis that there is no first-order correlation is accepted.

4.7 Cross-sectional Dependence Test

Cross-sectional dependence is one of the most crucial diagnostics that a researcher should look into before conducting a panel data analysis. Panel-data models are likely to show strong spatial dependence, idiosyncratic pairwise dependence in the disturbances with no particular pattern of common components, and substantial cross-sectional dependence in the errors. These effects may be caused by the presence of common inflation shocks and unobserved components that eventually become part of the error term. The Pasaran Cross-sectional Dependence test is utilized to ascertain whether the residuals are associated across entities.

Table 4.8: Cross-sectional Dependence Test

Null Hypothesis	Statistics	Probability
no cross-sectional dependence (P>0.05)	63.294	0.0002
The average absolute value of the off-diagonal elements	0.622	

Researcher's Computation, 2025

4.8 Hausman Test

The Hausman test is used to choose the model that is most suitable for application between 'inside' estimator and random effects estimator. If the null hypothesis is rejected, the treatment of the omitted effects by the "inside" estimator is favoured (i.e., it favours fixed effects but only relative to the random effects). The test is being used in this situation to distinguish between models where the omitted heterogeneity is handled as fixed and correlated with the explanatory factors, and models where it is treated as random and independent of the explanatory variables.

Table 4.9: Hausman Test

Null Hypothesis	Statistics	Probability
The difference in coefficients is not systematic (P≤0.05)	6.49	0.0430

Source: Researcher's Computation, 2025

The model interpretation in Table 4.9 showed chi2 of 6.49 and a p-value of 0.0730 that is significant at 0.05 level of significant, implying that variation across entities is assumed to vary, and correlated with independent variables included in the models; this indicates that best model for interpretation is random effect model.

4.9 The Relationship between Government Policies and Economic Development in Nigeria

Table 4.10: Regression Analysis of the Impact of Government Policies and Economic Development in Nigeria

Variables	Coef.	Std. Err.	t	P>|t|
ERGDP	0.3823946	0.0730599	4.281	0.000
EPEX	0.6901303	0.0693774	2.522	0.001
ETRV	0.5387876	0.1311043	1.038	0.065
-cons	4.5594401	0.2339200	14.39	0.000
Number of obs	45			
di r(rho)^2	0.0752920			
Wald chi 2(4)	51.35			
Prob> chi2	0.0000			

Source: Researcher's Computation, 2025

The regression analysis in Table 4.10 shows that public expenditure (PEX) has a co-efficient value of 0.6901303, a Z-statistics figure of 2.522, and a probability value of 0.001 which is statistically significant at 5 per cent. This implies that public expenditure has a positive and significant impact on economic development. On the same Table 4.10, tax revenue (TRV) has a co-efficient value of 0.5387876; Z-statistics of 1.038, and a p-value of 0.065 which is statistically insignificant at 5 per cent with. This implies that tax revenue has a positive impact on economic development. However, the impact is insignificant. The linearity of the model as revealed by Wald square implies that the variation caused by the variables is different from zero indicating Wald chi2 of 51.35 and probability value of 0.0000. This imply that the model is significant and fit.

Furthermore, the overall result shows that the measures of government policies have significant influence on economic development in Nigeria. The findings disclosed that government policies are vital practices that are significant in demonstrating economic responsibilities in Nigeria. Economic development in Nigeria will yield positively because the recurrent, capital and transfer expenditure are drive workers and community motivation, and also expand social amenities.

4.10   Discussion of Findings

The overall findings showed that components of government policies displayed a positive influence on economic growth in Nigeria. The results revealed that a change in public expenditure creates a variation change in economic growth, proxied by the real gross domestic products. This result aligns with the study of Sedrakyan and Candamio (2017), Musa et al. (2024) indicating a positive and significant effect of government spending on economic development in Nigeria. In another vein, the result revealed that tax revenue has a positive but insignificant impact on economic development in Nigeria. This is However, supported by the study by Olonite et al. (2021), by submitting a negative relationship between certain government policies and economic development.

4.11   Policy Implication of Findings

It was observed from the findings that public expenditure positively influence economic growth in Nigeria. These spending encourage expansion of community services to the citizens by the government. The policy implication suggested that government should increasing capital budgeting and focus on other revenue generating sources other than taxation. This is evident because the impact of tax revenue on economic development is not significant. More so, the federal government will likely undertake initiatives and policies that could motivate other tiers of government to spend more on capital projects within the states or local government areas.

5   SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS
5.1   Summary

The findings reveal that public expenditure has positive and significant effect on rural and national development in Nigeria. However, tax revenue shows a positive but insignificant effect rural and national development in Nigeria.

5.2   Conclusion

The study therefore concluded that public expenditure and tax revenue are capable of developing the economy, if employed judiciously.

5.3   Recommendations

It is recommended that the three tiers of governments in Nigeria should increase spending on capital projects and consider other forms of revenue generation that the burden are not on the citizens to boost the current revenue base.

5.4   Suggestions for further studies
The fact that this study limits itself to Nigeria as a whole, suggests that further studies could be undertaken within different states in Nigeria and in other countries to confirm if there are any similarity factors or differences from the findings of this study. The findings obtained from other countries could be used to compare the result gotten from this study.

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73