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Government Expenditure on Defence and Internal Security: A Prerequisite for Achieving Sustainable Economic Growth and Development. 1994-2020

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ABSTRACT

Government expenditure on defence and internal security has been on the increase in the last few decades making it vital to look at its effect on the growth and development of the economy. The study examined the Government expenditure on defence and internal security: a prerequisite for achieving sustainable economic growth and development in Nigeria. The study used time series data, from 1994-2020. The issue of security has become a serious threat to sustainable development in any economy and it has become a great concern in view of its escalating trend. The objective of the study is to determine the effect of government expenditure on defence and internal security on economic growth and development in Nigeria. The data employed were sourced from Central Bank of Nigeria publications and World Bank World Development Indicators (WDI). The study was anchored on progressive theory of public expenditure. The dependent variables for the study are economic growth proxy by real gross domestic product (RGDP) and economic development proxy by Human development index (HDI) while the independent variables are recurrent government expenditure on defence and internal security. The data were analyzed using Vector Autoregressive Estimates (VAR) to ascertain the effect of government recurrent expenditure on defence and internal security on economic growth and development at 0.05% level of significance. The findings revealed that the impact of government recurrent expenditure on defence and internal security on RGDP and HDI is insignificant within the period under review. Therefore, the study recommends that government should invest more on defence and security and also design a device to ensure all the expenditures on Security and defence are considered guardedly as to consolidate on the gains realized so far.

KEYWORDS: *Recurrent Expenditure, Internal Security, Defence, Economic Growth, Sustainable economic development*

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1. INTRODUCTION

Government expenditure on defence and internal security is a major concern of many countries' financial plan. It also differs depending on countries' security concerns and requirements for dealing with challenges they face both internally and externally. The role of government in an economy cannot be over-emphasized in protecting the society from the violence and invasion of other independent societies and protect every member of the society from the oppression of every member of it through a strong military mechanism, involving robust commitments to defence expenditure in order to strengthen security and counter threats. (Galvin,2003). Security spending is alienated into internal security expenditure and defence expenditure. Internal security expenditure refers to the cost incurred on the protection of citizens, properties and infrastructure by security agencies such as the police, civil defence corps, department of state security, prisons service, etc. Defence expenditure as well covers that segment of government spending on the acquisition and maintenance of military hardware, intelligence,

research-development and payment of armed forces (Army, Navy and Airforce) salaries and other government agencies such as the NIA (National Intelligence Agency). Principally, the government has been lumbered with two major functions of ensuring that the law and order are maintained and making available the desired social infrastructure. But these activities have taken a different shift in this modern time to include ensuring there are economic growth and development (Ofanson, 2007).

Nigeria as a nation is presently passing through some dreadful challenges in the area of insecurity. Sixty-one years after independence, the security mode of the country has remained unchanged, the peace and security challenges have principally not been addressed, with several issues transforming into huge insecurity problems with uncomplimentary consequences that is affecting the economic activities. Particularly in this present era of democratic dispensation, new forms of violent crimes have become common; these include kidnapping for ransom, pipeline vandalization, Boko Haram bombings, rape, political violence and more, which have affected the Nigerian economy adversely.

Historical data shows that internal security and defence spending increased tremendously from 1999 immediately the democratic governance came on track. Increased security spending was also informed by rising sectarian and ethno-religious crises, rampant kidnappings for ransom, hostage taking of oil company workers, crude oil pipelines and oil installations vandalism, ritual killings among others (Peterside, 2014).

The effect of national security spending on economic growth and development, especially in Nigeria is not clear and therefore its impact on gross domestic product (GDP) and economic development is crucial. Furthermore, most studies on defence-growth relationship focus more on external defence, however, the security challenges in Nigeria are more of internal insecurity. Therefore, this study focuses on government expenditure on internal security and external defence and its effect on economic growth and development in Nigeria. Based on the background, it is therefore imperative to examine empirically the effect of government security expenditure (defence and internal security) on Nigeria economy. To achieve this, specific objectives are to: (i) examine the impact of government recurrent expenditure on defence and internal security on economic growth in Nigeria. (ii) Evaluate the impact of government recurrent expenditure on internal security and defence, on economic development of Nigeria.

The subsequent sections are structured as follows: Section two focuses on literature review, section three theoretical framework,section four focuses on methodology and section five on conclusion and policy implication.

2. LITERATURE REVIEW

National security

National security is the ability to preserve the nation's physical integrity and territory; to maintain its economic relations with the rest of the world on reasonable terms; to preserve its nature, institution, and governance from disruption from outside; and to control its borders." (Brown, 1983) "National security is best described as a capacity to control those domestic and foreign conditions that the public opinion of a given community believes necessary to enjoy its own self-determination or autonomy, prosperity, and wellbeing." (Maier, 1990)

Military Expenditure

Military Expenditure According to Wikipedia, military expenditure also known as a defence budget, it is the amount of financial resources dedicated by a state to raising and maintaining an armed forces or other methods essential for defence purposes. Military budgets often reflect how strongly a country perceives the likelihood of threats against it, or the amount of aggression it wishes to conjure. It also gives an idea of how much financing should be provided for the upcoming fiscal year. Factors that determine a defence budget include the size of that country's economy.

Internal Security Expenditure

Security spending includes the payment of the salaries of armed forces personnel, thus enabling them to take care of their basic needs (Beijer, 2010). The security spending also encompasses medical services, education and training of both local and foreign security personnel as well as research and development. The bulk of security spending is on the procurement of materials and equipment such as ammunitions of all categories. While, National security and defense can be understood as preparedness for military action, protection of resources considered critical to the functioning of a nation to protect a country from attack or subversion (Otto and Ukpere, 2012).

Economic growth

Economic growth can be defined as an increase in the value of goods and services produced by economy overtime. It is conventionally mentioned as the percent rate of increase in real gross domestic products, or real GDP. Growth is usually calculated in real terms, i.e. inflation adjusted terms; in other obviate the distorting effect of inflation on the prices

of goods and services produced. In economics, "economic growth" or "economic growth theory typically refers to the potential output. (Omojimite, 2012).

Human Capital Development

The concept of human capital formulation, according to, Adawo (2011) refers to a conscious and continuous process of acquiring and increasing the number of people with requisite knowledge, education, skills, and experience that are crucial for the economic development of a country. Obisi & Anyim (2012), also noted that human capital development are talents, skills, competencies and other advantages which people possess, and could be put to better use to give organization and nations more benefits. However, it is important to note that the higher human capital of a society is the higher would be the potentials for economic development.

Conceptually, the present study shall be based on the fact that while governments try to reallocate their military expenditure to essential human needs with the aim of improving the human capital factor of a country, it has to be done in such a manner as not to make either of the two suffer disproportionately since security guarantees a stable political and economic climate that engenders growth of the domestic economy. (Alugbuo and Uremadu. 2020)

3. THEORETICAL FRAMEWORK

3.1. The Progressive Theory of Public Expenditures:

The theory was adopted by an American writer and public finance analyst. The progressive theory by Mabel Walker was one of the earliest attempts to develop a positive budget theory. Walker intends to provide theory to aid in decisions for allocation of government expenditures. Mabel Walker (1937) reviews the theories of public expenditure and devises a method for ascertaining the tendencies in distribution of expenditures on the assumption that the way would be pointed to "a norm of expenditures that is consistent with the state of progress at present achieved by society" (Key, 1987).

3.2. Empirical Review

In an attempt of determining the impact of government expenditure on defence and internal security on economic growth and development, many scholars have carried out related studies from which few are reviewed in an attempt of finding a solution to our research problem. Such scholars include;

Laniran & Ajala (2021) explored the relationship between military expenditure and economic growth in Nigeria using annual time series data from 1981 – 2017. The autoregressive distributed lag (ARDL) estimation technique was used in testing the relationship between the variables in the model. The result of the study shows that there is a significant positive long-run relationship between military expenditure and economic growth.

Amana, Aigbedion & Zubair (2020) Assessed the impact of government security expenditure on economic growth in Nigeria from 1986-2018. The study was carried out using time series data, and econometrics tools were used for testing and estimation. Augmented Dickey-Fuller (ADF) was used to test the stationarity, the Ordinary Least Square (OLS) and Error Correction Model (ECM) techniques were used to estimate the impact of government security expenditure on economic growth in Nigeria. The study revealed that all the independent variables were statistically insignificant.

Taheer & Asmau (2017) studied the effects of defense and health expenditures on Economic growth in Nigeria from 1970 to 2015. The Error Correction Mechanism (ECM) and Granger Causality methods were methods of analysis used in the estimation of the models. Among other findings, the result of the ECM model shows that defense spending has positive and statistically significant impact on the Nigerian economy in the short run. The Granger causality result also revealed a unidirectional causality running from DSP to GDP but not the other way around.

Ismail (2017) examined the relationship between military expenditure and economic growth in five South Asian countries from 1988 – 2013 using panel data. Their result indicates a positive effect of military expenditure on economic growth.

Phiri (2016) using the logistic smooth transition regression (LSTR) model explored a non-linear relationship between military spending, economic growth and other determinants for the South African economy using time series data from 1988 – 2014. His findings indicated an inverted U shaped relationship between military spending and economic growth.

The work of Mohammed & Lawong (2016), examined the impact of insecurity on selected macroeconomic variables using dynamic modeling approach to analyze time series data for the period 1960-2014. Findings indicate the existence of a long run relationship between arms import, our measure of insecurity, and the variables considered.

Korkmaz (2015) studied the effect of military spending on economic growth and unemployment in Mediterranean countries from 2005 – 2012, using panel data analysis. His findings showed that military spending affect economic growth of countries

negatively while increasing unemployment. Khalid and Mustapha (2014) examined the effects of military spending on economic growth in India using annual data from the period of 1980 to 2011. In their paper, the autoregressive distributive lags (ARDL) co integration approach was used to reexamine the long-run relationships among the variables. The results for ARDL tests indicate that there is a significant relationship between military spending and economic growth in the short run, while the long run results suggest otherwise.

Apansile & Okunlola (2014) examined the effect of military spending on output in Nigeria both in the short-run and in the long-run period. Using ARDL bounds testing approach to co-integration. Results showed that military spending has negative and significant effect on output in the short-run but positive and significant effect in the long-run. Labour and capital have positive and significant effects both in the long-run and short-run.

Oriavwote & Eshenake (2013) used Error Correction Model and found out that the expenditure on defence has a negative impact on the level of economic growth. Though, with an indication of defective expenditure budgeting and implementation in the defense sector, expenditure on internal security played important role in generating the desired level of economic growth in Nigeria.

Pradhan, Arvin, Norman & Bhinder (2013) in their study on military expenditure and economic growth using a dynamic multivariate causality tests applied to data from 22 countries for the period 1988–2012. Their findings revealed equilibrium relationships between military expenditure and economic growth.

Olofin (2012) examined the relationship between the components of defense spending and poverty reduction in Nigeria between 1990 and 2010. Four models were estimated using Dynamic Ordinary Least Square (DOLS) method, two in which poverty index constructed from human development indicators serves as dependent variable and the others in which infant mortality rate serves as dependent variable. The result shows that military expenditure per soldier, military participation rate, trade, population and output per capita square were positively related to poverty indicator and, military expenditure, secondary school enrolment and output per capita were negatively related to poverty level.

In the work of Otto & Ukpere (2012) which was carried out by examining the impact of national security on growth. The work observes that there is a positive relationship between security and development in accordance with literature.

Tiwari & Shahbaz (2011) studied the effect of defense spending on economic growth using ARDL bounds testing approach. They found out that there is long run relationship between the variables, and there is also a positive effect of the defense spending on economic growth. Furthermore, there study also showed that there is bidirectional causal relationship between defense spending and economic growth using variance decomposition approach.

Anyanwu (2011) analysed defence spending and economic growth in Nigeria within the Vector Error Correction model, the study found a positive relationship between military expenditure and economic growth in the long and short run. Enimola and Akoko (2011) examined the relationship between the level of economic growth and defense spending in the case of Nigeria from the period of 1977 to 2006. The result of the Granger causality test shows that there is a unidirectional causality running from economic growth to defense spending.

4. METHODOLOGY

This study seeks to examine the effect of government expenditure on defence and internal security on economic growth and development of Nigeria. The nature of data for this research work is secondary data and they were obtained from CBN statistical bulletin for various years and World Bank development indicators.

The variables used in this study were broadly categorized into dependent and independent variables. The dependent variables include the economic growth proxy by real gross domestic Product and economic development proxy by human development index. On the other hand, the independent variables are government expenditure on defence and internal security. The study used Vector Autoregressive Estimates (VAR) to ascertain the effect of government recurrent expenditure on defence and internal security on economic growth and development Nigeria from 1994 to 2020.

The study adapted the model of Amana, Aigbedion & Zubair (2020) who examined the impact of government expenditure on economic growth in Nigeria. The model was stated as;

RGDP = f (GRDEXP, GRISEXP, GSCAEXP)

Where;

RGDP = Real Gross Domestic Product

GRDDEXP = Government recurrent defence spending

GRISEXP = Government recurrent internal security spending

GSCAEXP = Government security capital spending

Therefore the models for this study is given below
RGDP = *f*((DEF)
RGDP = *f*((SEC)
HDI = *f* (DEF)
HDI = *f*(SEC)

While the econometrics form of the models were written as;
$RGDP = \alpha_0 + \alpha_1 DEF + \alpha_2 SEC + \mu_t$
$HDI = \alpha_0 + \alpha_1 DEF + \alpha_2 SEC + \mu_t$

Where;

RGDP = Gross Domestic Product
HDI=Human Development Index
DEF=Government recurrent expenditure on defence
SEC= Government recurrent expenditure on internal security

RESULTS AND DISCUSSION

Descriptive statistics was used to explain the characteristics of the variables in the model. The mean and the standard deviation of any given set of data are usually reported together, though standard deviation in most cases is a measure of uncertainty .They measure how spread out a trend is in a set of data. A high standard deviation of any given set of data indicates that the data points are far from the mean and a low standard deviation indicates that the data points tend to be very close to the mean. Table 1 shows the summary of descriptive statistics used in the analysis. The mean value was shown to be 45424.97 for RGDP, 0.494704 for HDI, 208.9030 for SEC and 177.2437 for DEF. The median value was shown to be 43385.88 for RGDP, 0.492000 for HDI, 181.2900 for SEC and 76.30000 for DEF. The standard deviation for RGDP, HDI, SEC and DEF were 18694.47, 0.031272, 197.7182 and 178.6432 respectively.

Table 1: Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std.Dev	Obs
RGDP	45424.97	43385.88	71387.83	21660.49	18694.47	27
HDI	0.494704	0.492000	0.548000	0.459000	0.031272	27
SEC	208.9030	181.2900	668.6300	4.400000	197.7182	27
DEF	177.2437	76.30000	588.9900	4.210000	178.6432	27

Source: Author's Computation

4.1. Unit Root Test

Augmented Dickey-Fuller (ADF)

Augmented Dickey-Fuller (ADF) unit root test was conducted in order to determine whether there are unit roots or stationary series. In conducting this test, the Augmented Dickey-Fuller (ADF) unit root test with intercept would be employed to determine the stationarity of data.

Table 2: ADF Test Result at Level: Intercept

Variables	ADF Test Statistic	Test Critical Value at 1%	Test Critical Value at 5%	Remarks
RGDP	-0.0598 (0.94)	-3.711457	-2.981038	Not Stationary
HDI	3.080021(1.00)	-3.711457	-2.981038	Not Stationary
SEC	0.960796 (0.99)	-3.711457	-2.981038	Not Stationary
DEF	1.149548 (0.99)	-3.711457	-2.981038	Not Stationary

Source: Output Data via E-views 9.0

Table 3: ADF Test Result at 1st DIFF: Intercept

Variables	ADF Test Statistic	Test Critical Value at 1%	Test Critical Value at 5%	Remarks
RGDP	-2.093343 (0.24)	-3.724070	-2.986225	Not Stationary
HDI	-2.070487 (0.25)	-3.724070	-2.986225	Not Stationary
SEC	-5.081632(0.00)	-3.724070	-2.986225	Stationary
DEF	-4.562415 (0.00)	-3.724070	-2.986225	Stationary

Source: Output Data via E-views 9.0

Table 4: ADF Test Result at 2nd DIFF: Intercept

Variables	ADF Test Statistic	Test Critical Value at 1%	Test Critical Value at 5%	Remarks
RGDP	-4.918598 (0.00)	-3.737853	-2.991878	Stationary
HDI	-6.532201 (0.00)	-3.737853	-2.991878	Stationary
SEC	-5.696803(0.00)	-3.737853	-2.991878	Stationary
DEF	-6.474546 (0.00)	-3.737853	-2.991878	Stationary

Source: Output Data via E-views 9.0

Unit root test in Table 2 shows that none of the variables were stationary on level. Table 3 shows that SEC and DEF were stationary at 1st difference while table 4 indicates that all the variables were stationary at 2nd difference. This indicates that the variables were stationary at I(I) and I(2) which necessitated the use of Vector Autoregressive Estimates (VAR) to determine the effect of dependent variables (RGDP) and (HDI) on the independent variables recurrent government expenditure on defence and internal security.

4.2. Multicollinearity Test

Correlation indicates the degree of association between variables. It assesses the extent and strength of the association between two variables. The result as presented in the table 3 showed that most of the variables employed are highly correlated and that there is significant correlation between the variables used in the model as most of them are not considered insignificant as they are above 50% level of significant. The directions of the correlation for the study are positive and the study found that there was a positive correlation coefficient between SEC (0.930), DEF (0.902) and RGDP, while a positive correlation exist between SEC (0.963), DEF (0.936) and HDI. Hence, there is no suspicion of possible multicollinearity.

Table 5: Multicollinearity Test

	RGDP	HDI	SEC	DEF
RGDP	1.000000	0.989825	0.930084	0.902918
HDI	0.989825	1.000000	0.963063	0.936240
SEC	0.930084	0.963063	1.000000	0.976418
DEF	0.902918	0.936240	0.976418	1.000000

Source: Data output via E-views 9.0

4.3. Short Run Relationship

Table 6: Results of Vector Autoregressive Estimates Normalised on RGDP

Parameters	Coefficient	Standard Error	t-statistic
RGDP(-1)	1.547430	0.18538	8.34714
SEC(-1)	-1.670934	6.34105	-0.26351
DEF(-1)	-15.09923	6.93632	-2.17684
C	1631.298	1332.70	1.22405

Adjusted R-squared = 0.99 F-Statistic = 1097.892

Table 7: Results of Vector Autoregressive Estimates Normalised on HDI

Parameters	Coefficient	Standard Error	t-statistic
HDI(-1)	1.866727	0.16566	11.2686
SEC(-1)	-1.48E-06	7.0E-06	-0.26351
DEF(-1)	5.07E-06	7.7E-06	0.65590
C	0.029185	0.02380	1.22639

Adjusted R-squared = 0.99 F-Statistic = 3046.563

The result from Table 6 and table 7 shows that SEC, DEF have negative effect on RGDP while SEC has negative effect on HDI. RGDP, HDI and C have a positive effect on RGDP and HDI respectively while DEF has a positive effect on RGDP. A one percent change in one year lag of RGDP and C will results to a positive change in RGDP by 1.547 percent and 1631.3 percent respectively. Also one percent change in one year lag of HDI and C will results to a positive change in HDI by 1.90 percent and 0.0291 percent respectively. On the other hand, a one percent change in one year lag of SEC and DEF will results to negative change in RGDP by -1.7 percent and -15 percent respectively while one percent change in one year lag of SEC will result to a negative change in HDI. On the performance of the individual variables, the results reveal that only one year lag of DEF are statistically significant given the high values of t-statistics.

The adjusted R-squared value in table 6 and 7 shows 0.99% about 99% of the variations in RGDP and HDI is explained by the combined effect of the independent variables. It also implies that the model has good fit in explaining the relationship. Similarly, the F-statistic which measures the overall significance of the models showed a high value of 1097.892 and 3046.563 which indicates that the effects of government expenditure on defence and internal security is statistically significant in Nigeria.

4.4. Granger Causality Test

Table 8 Pairwise granger causality test on input variable RGDP

Null Hypothesis:	Obs	F-Statistic	Prob.
DEF does not Granger Cause RGDP	25	3.89121	0.0374
RGDP does not Granger Cause DEF		1.48344	0.2508
SEC does not Granger Cause RGDP	25	2.69544	0.0919
RGDP does not Granger Cause SEC		1.26670	0.3034
SEC does not Granger Cause DEF	25	1.26753	0.3032
DEF does not Granger Cause SEC		0.52424	0.5999

Source: Output Data via E-views 9.0

Table 9 Pairwise granger causality test on input variable HDI

Null Hypothesis:	Obs	F-Statistic	Prob.
DEF does not Granger Cause HDI	25	0.38561	0.6850
HDI does not Granger Cause DEF		4.85852	0.0191
SEC does not Granger Cause HDI	25	0.83219	0.4496
HDI does not Granger Cause SEC		5.77864	0.0105
SEC does not Granger Cause DEF	25	1.26753	0.3032
DEF does not Granger Cause SEC		0.52424	0.5999

Source: Output Data via E-views 9.0

Table 8 shows that DEF granger causes RGDP which indicates that there is unilateral causality between DEF and RGDP with causation moving from DEF to RGDP. The granger causality test in Table 9 indicates that HDI granger causes SEC since the probability value is less than 5% and the F-statistic is greater than the F-tabulated. This shows that there is unilateral causality between HDI and SEC within the period of the study.

5. CONCLUSION AND POLICY IMPLICATION

Defence and internal security has been viewed as an important element in the economic development and growth of a nation since no meaningful development can take place without adequate security. For investors to be attracted in a country security of life and property should be guarantee. Insecurity tends to discourage foreign investors even local investors in investing in a country.

Various studies have been carried out on the effect of government expenditure on security and defence in Nigeria economy. Results from these studies are conflicting as such the study tends to find out the effect government expenditure on security on Nigerian economy from 1994 to 2020. The study adopted an econometric method of analysis and data were sourced from the Central Bank of Nigeria statistical bulletin. Descriptive statistical analysis was carried out on the data to establish the characteristics and/or attributes of our datasets , thereafter that the unit root status of the variables was established and was discovered to be intergrated at order I(1) and I(2). This necessitated the use of Vector Autoregressive Estimates (VAR) models in the study .The result of the analysis shows that government expenditure on security and defence has positive but insignificant effect on Nigeria economy within the period of the study. The result is consistent with the study of Amana, Aigbedion & Zubair (2020), Pradhan, Arvin, Norman & Bhinder (2013), Apansile & Okunlola (2014) and Olofin (2012). The study therefore agrees that government expenditure on defence and security will help improve the economic growth and development of Nigeria due its effect still remains insignificant in the country.The study therefore concludes that there is need for improved security in the country which will help investment by local and foreign investors. The result of the Granger causality test shows that there is a unidirectional causality between government expenditure on defence and security on Nigerian economy.

Security situation in the country has discouraged foreign investors even local investors in investing in Nigeria as such the study makes the following recommendations; government should allocate more funds on defence and security and also design a device to ensure all the expenditures on Security and defence are considered guardedly as to consolidate on the gains already made towards economic growth and human development . We also recommend that funds allocated for external defence and internal security are monitored with a view of ensuring that they are used specifically for that purpose and not committed to other use. Nigeria should tackle the insecurity in the country by increasing its funding on the sector while investing in security hardware and intelligent gathering as worsening security challenges in the country serves as a deterrent to inflow of foreign capital in the country.

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