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Original Research Article

Capital Formation and Economic Growth in Nigeria

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Abstract

The study investigates the influence of capital accumulation on economic growth in Nigeria. The researchers employed trend analysis and advanced econometrics tests to ascertain the impact of capital formation and economic growth in Nigeria. The variables used in the analysis were subjected to unit root test to determine whether the variables are stationary or not. The model was subjected to co-integration test to determine the long run relationship between capital formation, and economic growth in Nigeria for the period of 1980-2016. The Granger causality test was also used to determine the causality between capital formation, and economic growth in Nigeria for the period of 1980-2016. Findings revealed that none of the models was stationary at level but were all stationary at first difference. The results also show that there is a long run significant relationship that exists between the variables examined and there is a causal relationship between capital formation and economic growth in Nigeria within the period under study. The result also revealed a negative non-significant relationship between economic growth and capital formation in Nigeria. The study recommends that policy formulators in Nigeria need to enact some investors' friendly policies that will encourage, promote and attract more capital inflows (be it official or private inflows) and to provide a conducive and enabling environment for the gross fixed capital formation to thrive. There is need to play down on speculative businesses and to invest in the real sectors of the economy.

Keywords: Capital formation, Foreign Direct Investment, Domestic Investment, Economic Growth.

JEL Classification Codes: M41 M48

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1.0 INTRODUCTION

Capital formation is analogous to an increase in the physical capital stock of a nation with investment in social and economic infrastructures. Gross fixed capital formation can be classified as gross private domestic investment and gross public domestic investment. The gross public investment includes investment by government and/or public enterprises. Gross domestic investment is equivalent to gross fixed capital formation plus net changes in the level of inventories (Jhingan, 2006). Capital formation perhaps leads to the production of tangible goods (i.e., plants, tools & machine) and intangible goods (i.e., qualitative & high standard of education, health, scientific tradition and research) in a country.

A lot of economies depend on investments to resolve several economic problems, crisis and challenges. Less developed countries in Africa such as Nigeria is introducing various economic policies that will attract as well as keep hold of private investors. This is due to the fact that investments in certain sectors of the economy can rapidly transform the numerous economic challenges we are facing as a nation (Adegbite & Owualla, 2007). Therefore, the Nigerian government at any given opportunity works a lot to attract investments into various sectors of the economy. The motive for this is not farfetched. Investment both private and the public comes with a lot of benefits such as job creation, increase in per capita income, reduction in the level of poverty, increase in standard of living, increase in GDP, etc.

Real investment in the economy is an acceptable way of increasing capital formation in the economy has been known to increase productivity and output. Investment of this type can be undertaken by the public or private sectors, with the government being involved mainly with autonomous investments which act as the main drivers of other investment in the

economy. Autonomous investment had dwindled drastically while the expenditure being made by the public sector are not delivering value where rightly conceived (Akanbi, 2010). A simple analysis of the capital formation statistics from the Central Bank of Nigerian shows that the nominal investment in capital formation is going down and has fallen in real terms. The investment could be social or soft in outlook (housing, health and education), while others are infrastructural or hard (transport, power and water), and yet others are purely economic, which the private sector undertakes for private capital accumulation (Orji, & Peter, 2010; Uremadu, 2006; Seng, 2014). While financial investment is an avenue to increase wealth, real investment should be more emphasized to increase productivity and growth in the economy.

Capital accumulation is often suggested as a means for developing countries to increase their long-term growth rates. To increase capital accumulation, it is necessary to: increase savings ratios, maintain good banking system and system of loans, avoid corruption, good infrastructure to make investment more worthwhile (CBN, 2016). The problem becomes that Nigeria domestic investment as well as capital accumulation has not been growing and have declined by 24% between 1998-2013 (World Bank, 2014). This is a real problem. Although, foreign direct investment has been growing steadily except with the recent economic recession in the country that saw a substantial reduction in FDI by about 28% within 2014-2016 (CBN, 2016). It is, therefore, necessary to investigate holistically, the domestic investment, capital formation, and economic growth in Nigeria between the periods of 1980-2016. The main objective of this study is to determine the impact of capital formation on economic growth in Nigeria.

2.0 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Concept of Gross Fixed Capital Formation

It is worth noting that fixed assets in national accounts have a broader coverage than fixed assets in business accounts. Fixed assets are produced assets that are used repeatedly or continuously in production processes for more than one year. The range of fixed assets included in statistical measurement is defined by the purpose of using them. A vehicle, for example, is a fixed asset, but vehicles are included in GFCF only if they are used in work activities, i.e. if they fall within the scope of "production". A car for personal use only is not normally included. The boundaries are not always easy to define, however, since vehicles may be used both for personal purposes and for work purposes; a conventional rule is usually applied in that case. Non-produced assets (e.g. land except the value of land improvements, subsoil assets, mineral reserves, natural resources such as water, primary forests) are excluded from the official measure of GFCF (Seng, 2014; Ugwuegbe, & Uruakpa, 2013; Sarkar, 2006; Uremadu, 2006).

Also, ordinary repair work, purchases of durable household equipment (e.g. private cars and furniture) and animals reared for their meat are not part of GFCF. It is sometimes difficult to draw an exact statistical boundary between GFCF and intermediate consumption, insofar as the expenditure concerns alterations to fixed assets owned. In some cases, this expenditure can refer to new fixed investment, in others only to operating costs relating to the maintenance or repair of fixed assets. Some countries include the insurance of fixed assets as part of GFCF. Of recent, there has been a change in the treatment of expenditures on research and development (R&D) (Seng, 2014; Ugwuegbe, & Uruakpa, 2013).

It is now recorded as the production of an asset instead of intermediate consumption, which has the effect of increasing GDP. While it is not possible to measure the value of the total fixed capital stock very accurately, it is possible to obtain a reliable measure of the trend in net additions to the stock of fixed capital, since the purchase prices of investment goods are recorded. GFCF time series data is often used to analyse the trends in investment activity over time, deflating or redeflating the series using a price index. But it is also used to obtain alternative measures of the fixed capital stock. This stock could be measured at surveyed "book value", but the problem here is that the book values are often a mixture of valuations such as historical cost, current replacement cost and current sale value/scrap value. In other words, there is no uniform valuation (Seng, 2014; Ugwuegbe, & Uruakpa, 2013).

According to Kanu, Ozurumba, and Anyanwu 2014, it has been acknowledged that the value of fixed assets is almost impossible to measure accurately, because of the difficulty of obtaining a standard valuation for all assets. By implication, it is also almost impossible to obtain a reliable measure of the aggregate rate of profit on physical capital invested, i.e. the rate of return. Arguably though, the data to provide an "indicator" of the trend over time; using mathematical models one can estimate that the true rate is most likely to lie within certain quantitative limits. Nowadays; fixed assets purchased may include substantial used assets traded on second-hand markets, the most significant items being road vehicles, planes, and industrial machinery. Worldwide, this growing trade is worth hundreds of billions of dollars. Often it is brought from Europe, North America and Japan, where fixed assets are on average scrapped more quickly. Statistical treatment of the trade in second-hand fixed assets varies among different countries. Increasingly an attempt is made in many countries to identify the trade in second-

hand assets separately if it occurs on a quantitatively significant scale (for example, vehicles) (Kanu, Ozurumba, & Anyanwu 2014).

In principle, if a fixed asset is bought during the year by one organization, and then resold to another organization during the same year, it should not be counted as investment twice over in that year; otherwise, the true growth of the fixed capital stock would be overestimated. The expenditure on Gross Domestic Product of which GFCF is a component should include only newly produced fixed assets, not second-hand assets. In the computation of GFCF, offensive weaponry and their means of delivery were excluded from capital formation, regardless of the length of their service life; reason being that military weaponry is used to destroy people and property, which is not value adding production (Kanu, Ozurumba, & Anyanwu 2014).

2.2 Economic Growth Theories

Schumpeter's Theory of Economic growth and Development

Schumpeter is among the classical economist that explain the theory of economic growth and development. His theory is hinged on four features namely: Circular flow, Role of entrepreneur, cyclical process or business cycle and End of capitalism. On the circular flow, he argues that the economic activity produces itself continuously at a constant rate through time. Circular flow is based upon a state of perfectly competitive equilibrium in which costs are equal to receipts and prices to average costs. According to Schumpeter (2011; 1934), "The circular flow is a stream that is fed from the continually flowing springs of labour power and land and flow in every economic period into the reservoir which we call income, to be transformed into the satisfaction of wants". Thus, the economy is always in a state of equilibrium without change except on the ground of innovation. He defined development as a

"Spontaneous and discontinuous change in the channels of flow, disturbance of equilibrium which forever alters and displaces the equilibrium state previously existing". When changes take place in the economy, circular flow is disturbed, and the development process starts. He assumed that change is the basic element of the dynamic process, and those changes come in the form of innovations.

According to Schumpeter (2011; 1934), an entrepreneur or innovator is the key figure in the society in the process of development. He occupies the central place in the development process because he initiates development in a society and carries it forward. Entrepreneurship is different from the managerial activity. A manager simply directs production under existing techniques, but entrepreneurship requires the introduction of something new. An entrepreneur is also different from a capitalist. The capitalist simply furnishes the funds while the entrepreneur directs the use of these funds. He further argues that in the process of growing an economy experiences business cycle that is characterized by recession and boom (Andersen, 2009). According to Schumpeter, the creation of bank credit is assumed to accelerate money incomes and prices in the economy. It creates a cumulative expansion throughout the economy. With the increase in the purchasing power of the consumers, the demand for the products increases in relation to supply. The rising prices and the high rates of profits stimulate producers to raise investments by borrowing from the banks. The credit inflation starts with the entrance of new entrepreneurs in the field of production, which superimposes on the primary wave of innovations. This may be called boom or prosperity period. In this stage, the economic activities reach their maximum heights and the idle or unemployed resources are minimized (Andersen, 2009).

Schumpeter (2011; 1934) argued that if profit increases that the per capita output will keep growing. Hence, “there is, therefore, no prior ceiling to the level of per capita income in a capitalist society. Nevertheless, the economic success of capitalism will eventually lead to its decay”. The progress of capitalism makes industrialists and merchants economically powerful and they begin to dominate in the political field (Breschi, Malerba, Orsenigo, 2000).

Empirical Literature on Capital Formation and Economic Growth

Oyedokun (2016) investigated the effect of working capital finance on the entrepreneurship business growth in Nigeria, the study employed ex-post facto research design using panel data analyses of financial information extracted from Financial Statements for the years 2010 to 2014 of 10 companies listed under “consumer goods” on the floor of Nigeria Stock Exchange using stratified and purposive random sampling technique of only companies under “Consumer Goods” sub-sector with multiple regression analysis with the conclusion that there is a significant positive relationship between entrepreneurship business growth and working capital finance.

Dada (2017) investigated the behaviour of government spending and economic growth in six ECOWAS nations using ARDL and UVAR-based modified Granger non-causality strategy with secondary data covering 1981-2013 sourced on key factors from (WDIs) 2014 version. He discovered that Johansen and ARDL bound test indicates a long-run equilibrium relationship between government spending and economic development in all the six countries. While the altered ARDL suggests that variables adjust to a long-run equilibrium path after a brief run deviation. The research concluded that there is a cause-effect connection between government spending among other variables

and economic development in the developing ECOWAS nations. In the study of Aleksandra, Dragan, and Anastazija (2014) it was emphasised the important issues of the budget deficit and public debt and their impact on economic growth. The main outcome of the investigation indicates a crisis of public financing, which can be accumulated for several decades, with an increasing budget deficit and the dominant external financing of the budget deficit. Though the study by Terry and Isaya (2014) reviewed the evaluation of Kenya's public debt dynamics and sustainability using annual data on a financial year basis for the period 1983 - 2013, they examined the sustainability of Kenya's public debt using both the co-integration and stochastic debt sustainability strategies. The results show that the public debt is sustainable. In addition, depreciation in the exchange rate did not have significant influences on the average rates of interest on external debt during the analysis period. Expenditure and enhancing the absorption of development capital and promoting domestic revenue mobilization efforts.

Abu and Abdullahi (2010) investigated Nigeria government investment and economic development from 1970 to 2008 using a disaggregated analysis and It was observed that increasing government expenditure has not translated to meaningful development as Nigeria still ranks among world's poorest countries. It was also revealed that government total capital expenditure, total recurrent expenditures, and government expenditure on schooling have an adverse effect on economic growth. According to Bakafre (2014) there is growing evidence that foreign direct investment enhances technological change through technological diffusions, Braunstein and Epstein (2002), argues that the impact of trade performance adopted by multinational enterprise in the case of vertical investment theoretical imperfect competition models predict complementary relationship between FDI and trade Choe

(2003) analyses the causality between FDI and economic growth. They use data for 11 developing countries in East Asia and Latin America. Using co-integration and Granger causality tests and according to the findings of Choe (2003), causality between economic growth and FDI runs in either direction but with a tendency towards growth causing FDI; there is little evidence that FDI causes host country growth. Rapid economic growth could result in an increase in FDI inflows.

Bakare (2011) used OLS Multiple Regression analytical method in the economy of Nigeria to examine the relationship between capital formation and economic growth. The test proved that the growth rate of national income positively, related to savings and capital formation.

Tang and Chau (2009) conducted a study based on the relationship between savings and growth in Malaysia by using nonparametric co-integration test and DOLS method. They found that savings and economic growth are cointegrated and positively related in the long run so the study indicates savings is an engine to economic growth through its impact on capital formation. Orji and Peter (2010) in their study, looked at the relationship between FPI, Capital Formation and Growth in Nigeria, using the two-stage least squares

3.0 METHODOLOGY

Research Design

The research design that is adapted for the study is descriptive research design and Ex Post Facto Research Design. The variables used for the analysis are a real gross domestic product (RGDP) known as the dependent variable in the model and the independent variables: capital formation captured by gross fixed capital formation, government expenditure (GEX), and Saving (SAV). The variable used in the analysis was subject to unit root test to determine whether the variables are stationary or not. The model was subjected to co-integration test to determine the long run relationship

(2SLS) method of estimation. The study finds that the long run impact of capital formation and foreign private investment on economic growth is larger than their short-run impact.

Robson (2014) studied the causal relationship between investment and economic growth based on Zimbabwe, but the findings revealed that there is no causality from any direction between two variables. However, the study does not deny any other relationship between the investment, savings and Economic Growth. Lean and Song. (2009) chose the whole country and 4 representative provinces as their sample to analyse the relationship between economic growth and savings in China by using Johansen co-integration and Granger causality. The study found that there is bilateral causality exists between the household savings and economic growth in the short run and in the long run unidirectional causality exist from the economic growth to savings growth. Cambodia, Seng and Sothan (2014) investigated the causality between domestic savings and economic growth in South Africa. The study does not find any casualty runs from either GDS to Growth or Growth to GDS, so the study concluded that GDS and Economic growth are independent of each other in Cambodia. between capital formation and economic growth in Nigeria for the period of 1980-2016. The Granger causality test was also used to determine the causality between Capital Formation and economic growth in Nigeria for the period of 1980-2016.

The research utilises secondary data annual time series for the variables identified above. The data was from the sources such as; Central Bank of Nigeria (CBN) statistical Bulletins, Nigeria Stock Exchange (NSE), and World Bank Database for the data relating to real gross domestic product, fixed capital formation, government expenditure and domestic savings.

Model Specification

$$RGDP = F(GFCF, GEX, SAV) \text{ ----- (1)}$$

Where: *RGDP* = Real Gross Domestic Product, *GFCF* = Gross Fixed Capital Formation, *GEX* = Government expenditure, *SAV* = Domestic savings.

The relationship is structurally expressed as follows:

$$RGDP_t = \beta_0 + \beta_1 GFCF_t + \beta_2 GEX_t + \beta_3 SAV_t + U_t \text{ (2)}$$

Where; β_0 = Constant term, β_1, \dots, β_3 = Regression coefficient and U_t = Error Term

a with a priori expectation that the variables of interest will exert positive and significant effect.

4.0 ESTIMATION RESULTS AND DISCUSSION OF FINDINGS

Unit Root Test

The Augmented Dickey-Fuller (ADF) was employed to test for the existence of unit roots in the data using trend and intercept. The results are presented in table one below.

Table 1: Augmented Dickey-Fuller Unit Root Test
Trend and Intercept @ Levels

Series	ADF Test Statistic	5% critical values	10% critical values	Order	Remarks
LRGDP	-1.433594	-3.552973	-3.209642	0	Not Stationary
LGFCF	-3.287902	-3.552973	-3.209642	0	Not Stationary
LGEX	-0.330000	-3.552973	-3.209642	0	Not Stationary
LSAV	-1.946480	-3.552973	-3.209642	0	Not Stationary

Table 2: Augmented Dickey-Fuller Unit Root Test, Trend and Intercept @ 1st Difference

Series	ADF Test Statistic	5% critical values	10% critical values	Order	Remarks
LRGDP	-6.228408	-3.548490	-3.207094	1	Stationary
LGFCF	-4.092495	-3.548490	-3.207094	1	Stationary
LGEX	-3.681068	-3.548490	-3.207094	1	Stationary
LSAV	-4.039659	-3.548490	-3.207094	1	Stationary

Table 1 shows that RGDP, GFCF, GEX, and SAV are not stationary at levels. Considering the time series using Augmented-Dickey Fuller at trend and intercept, all the calculated statistics are less than the critical values at both the 10% and 5% level of significance integrated of order one. However, at 5% level of significance, all the variables became stationary at first difference since their t-test is greater than the Critical value at 5% level of significance. Since the result is significant, we, therefore, proceed to conduct a co-integration test to ascertain if there exists a long-run relationship between the variables

under consideration. It should be further noted that proper examination of the co-integration test, Error Correction Model (ECM) and Granger causality test cannot be conducted without first carrying a unit root test. According to Pasaran and Pasaran (1998) and Pesaran & Shin (2001), if variables are stationary at level normal OLS can be used to estimate the parameters, but if series are not stationary at level but are stationary at same order, I(1) and is co-integrated we can go ahead and estimate their parameter estimate with an ECM result.

Table 3. Johansen co-integration test

Series: LOG(RGDP) LOG(DIN) LOG(GFCF) LOG(FDI) LOG(SAV) LOG(GEX)				
Lags interval (in first differences): 1 to 1				
Unrestricted Co-integration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.596346	108.7602	95.75366	0.0047
At most 1 *	0.580214	77.00833	69.81889	0.0119
At most 2	0.447395	46.62800	47.85613	0.0649
At most 3	0.361792	25.86911	29.79707	0.1327
At most 4	0.247786	10.15094	15.49471	0.2693
At most 5	0.005278	0.185223	3.841466	0.6669
Trace test indicates 2 co-integrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

Under the Johansen Co-integration Test, there is one co-integrating equation. In Johansen’s Method, the trace statistic determines whether co-integrated variables exist. As can be seen from the trace statistics, here only the absolute values of RGDP are greater than 5% critical values (i.e. GDP [108.7602 > 95.75366], also its Eigenvalue is greater than 5% level of significance, signifying the presence of long-run relationship among the variables employed in the analysis. In other words, the null hypothesis of no co-integration among the variables is rejected since at least two variables in the five equations at 5%

were statistically significant. The test result shows the existence of a long-run equilibrium relationship among the variables.

Vector Error Correction Mechanism (VECM)

The presence of long-run equilibrium relationship among the variables as found from the Johansen co-integration led to the application of VECM. With this approach, both the long-run equilibrium and short-run dynamic relationships associated with variables under study is established.

Table 4: VECM Model

Standard errors in () & t-statistics in []		
Co-integrating Eqn:	CoIntEq1	
LOG(RGDP(-1))	1.000000	
LOG(GFCF(-1))	0.090846	
	(0.14272)	
	[0.63656]	
LOG(SAV(-1))	-0.325163	
	(0.08823)	
	[-3.68522]	
LOG(GEX(-1))	-0.716175	
	(0.09741)	

	[-7.35195]	
C	-2.795600	
Error Correction:	D(LOG(GDP))	D(LOG(GFCF))
CointEq1	-0.428541	-0.163049
	(0.10580)	(0.29740)
	[-4.05030]	[-0.54825]
D(LOG(GDP(-1)))	0.443340	0.919901
	(0.14415)	(0.40519)
	[3.07546]	[2.27029]
D(LOG(GDP(-2)))	0.423483	-0.088102
	(0.17245)	(0.48473)
	[2.45568]	[-0.18176]
D(LOG(GFCF(-1)))	-0.060799	0.027314
	(0.07179)	(0.20178)
	[-0.84693]	[0.13537]
D(LOG(GFCF(-2)))	0.114072	-0.303354
	(0.06387)	(0.17953)
	[1.78595]	[-1.68970]
D(LOG(SAV(-1)))	0.558821	0.406984
	(0.10406)	(0.29249)
	[5.37019]	[1.39143]
D(LOG(SAV(-2)))	0.166225	0.172094
	(0.10602)	(0.29801)
	[1.56783]	[0.57748]
D(LOG(GEX(-1)))	0.227626	0.226474
	(0.10564)	(0.29693)
	[2.15480]	[0.76273]
D(LOG(GEX(-2)))	-0.131125	0.142340
	(0.08930)	(0.25100)
	[-1.46841]	[0.56710]
C	0.083969	-0.151113
	(0.03932)	(0.11052)
	[2.13558]	[-1.36730]
R-squared	0.695744	0.482853

R-Squared = 0.695744, F-Statistics = 60.97888, Prob (F-Statistic) = 0.0000

The model, however, revealed the opposite showing that gross fixed capital formation negatively relates with economic growth in Nigeria and does not have any significant impact on economic growth in Nigeria, this is also revealed by the t-test above.

Granger Causality Test

With this test, the pair-wise relationships between the estimated variables are ascertained. Thus, the table is presented below:

Table 5: Granger Causality Test

	Obs	F-Statistic	Prob.
LOG(GFCF) does not Granger Cause			
LOG(RGDP)	36	1.30100	0.2872
LOG(RGDP) does not Granger Cause LOG(GFCF)		4.61320	0.0061

Using 5% level of significance at 95% degrees of freedom, the tabulated F-value is 2.76. Since the calculated F-value (60.97) is greater than the tabulated F-value at 5% level of significance; we reject the null hypothesis and conclude that capital formation has a significant impact on Economic Growth of Nigeria within the sample period.

Discussion of Findings

On the other hand, the second model revealed a negative non-significant relationship between economic growth and capital formation in Nigeria. This finding does not conform to stylized fact that capital formation leads to economic growth anywhere in the world. The study is contrary to the findings of Bakare (2011), Orji and Peter (2010), and Ugwuegbe & Urakpa (2013) that finds a positive significant relationship between economic growth and capital formation in Nigeria. But however, conform to the findings of Kanu, Ozurumba, and Anyanwu (2014) who finds a negative relationship between economic growth capital formations in Nigeria.

On the long run relationship. The research revealed a significant long-run relationship among the variables under examination. The result as indicated by the trace statistics of the Johansen co-integrating equation shows that there exists a long-run equilibrium relationship gross domestic product (LRGDP) and the explanatory variables: (LGEX, LSAV, and gross fixed capital formation (LGFCF) within the period under review. The findings also collaborated with many of the empirical work reviewed earlier in the discussion. The study by Orji and Peter (2010) on the relationship between

foreign private investment, capital formation and economic growth in Nigeria using a two-stage least square (2SLS) method of estimation. The study finds that the long run impact of capital formation and foreign private investment on economic growth is larger than their short-run impact. There is thus, a long-run equilibrium relationship between the variables as the error correction term was significant, but the speed of adjustment was found to be small in both models.

5. CONCLUSION AND RECOMMENDATIONS

Conclusion

The general objective of this study is to evaluate the link existing among capital formation and economic growth while the specific objectives are to; ascertain if there is long run significant relationship that exists among capital formation and economic growth in Nigeria within 1980 and 2016 and to find out if there is significant causal relationship between, capital formation and economic growth within the period under study.

The study employed ex-post facto research design using Nigeria’s data obtained from Central Bank of Nigeria (CBN) (1980-2016). The empirical results were on Augmented Dickey-Fuller test. In the second step, Johansen Co-integration Test was conducted. The presence of long-run equilibrium found led to the use of Vector Error Correction Mechanism (VECM). It was found that domestic investment and capital formation cause the growth of the economic growth in Nigeria within the period under study. It is therefore imperative to conclude from the findings that capital formation did not have a

significant impact on Nigeria economic growth. The findings could not find the statistically significant influence of capital formation on the economic growth in Nigeria.

The researchers noted that, if Nigeria economy will make a meaningful progress, there is need to increase capital formation in the domestic economy, encourage industrialization, promote agricultural output drastically and above all draft developmental document that addresses how the country will achieve sustainable high level of economic growth.

Recommendations

1. The federal government of Nigeria should reprioritize her needs. They should spend more on capital expenditures as against the current trend of 68.32 % allocations to recurrent and capital expenditures respectively. Efforts must be made to mobilize the desired level of gross national savings that could be big enough to attract foreign direct investments This is very vital as FDI will help to complement our domestic savings.

2. Policy formulators in Nigeria need to enact some investor-friendly policies that will encourage, promote and attract more capital inflows (Be it official or private inflows) and to provide a conducive and enabling environment for the gross fixed capital formation to thrive. There is need to play down on speculative businesses and to invest in the real sectors of the economy.

3. There is also the need to reduce the level of capital flight out of the country. Inflows should be tied to specific, relevant and purposeful projects. This will help to create employment opportunities in the long run. Prudence and proper accountability should be the watchword in the management of accruals from official capital inflows and transfers. Such monies are expected to be channelled into productive ventures by the governments in power and not for profligacy.

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