Relationship Between Public Expenditure, Economic Growth and Poverty

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Abstract: The objective of this paper is to examine the relationship between public expenditure, economic growth and poverty. The data are taken from the Word Development Indicator (WDI).We conduct an empirical study for a set of African countries to investigate the impact of public expenditure and economic growth on poverty reduction during the study period 1990-2020 and the impact of public expenditure and poverty on economic growth for a period from 1996 to 2020.

We use Generalized least squares (GLS). The econometric results show that economic growth and public spending have a positive effect on poverty reduction. This manchette are necessary for poverty reduction. This study, therefore, recommends that the government should promote pro-poor growth that can have a significant impact on poverty reduction through increased incomes and job creation. It should also increase public funding for education and health.

Keywords: Public spending, poverty, human development, growth
JEL Classification : A13, H50, O40.

INTRODUCTION

The fight against poverty is a priority for governments in developing countries, particularly in Africa. Public spending is a powerful tool to combat the scourge of poverty. Indeed, public spending on education, health and infrastructure contributes directly and indirectly to poverty reduction by enabling the poor to access basic public services. However, this depends on the redistribution of these expenditures. Thus, poverty is essentially a mechanism of unequal distribution of wealth, a complex, multidimensional phenomenon that is increasingly perceived not only as a serious economic and social scourge, but also as a potential factor of political destabilization at the national and even global level.

Poverty is difficult to combat, it remains a fundamental issue for which global solutions are sought, it requires country-specific programs to be put in place and global action to be supported by these international effects. Among the means of fighting poverty, notably economic growth, investment and public expenditure are considered key factors in poverty reduction.

Therefore, public spending on education, health and infrastructure has played a key role in the poverty reduction framework. Thus, some consider that such spending is necessary to stimulate economic growth, such as Bernur and Serkan (2017), who found that public spending has a positive effect on economic growth and thus can reduce poverty. Others point to the adverse effects of such spending in Guandong and Muturi (2016).

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Given the importance of this topic, which is the subject of analysis, reflection and observation by economists, we will address the relationship between public spending, growth and poverty. Thus, firstly, we propose a theoretical and empirical framework for the relationship between public spending and economic growth, and secondly, we discuss the different theories that study the relationship between public spending and poverty reduction.

We conduct an empirical study for a set of African countries to investigate the impact of public expenditure and economic growth on poverty reduction during the study period 1990-2020 and the impact of public expenditure and poverty on economic growth for a period from 1996 to 2020.

I - EMPIRICALDEBATESABOUT THE EFFECT OF PUBLIC SPENDING ON ECONOMICGROWTH AND POVERTY

I-1- Public Spending and Economic Growth: Review of the Literature

Several works have been proposed in the literature to better understand the link between public spending and economic growth and the conclusions reached are divergent: some studies claim that an increase in public spending is accompanied by a slowdown in growth. Others claim that there is a positive relationship between public spending and growth (Landau (1986), Mesghena (2003), Taiwo et al (2011), Segun *et al.* (2015), Dahliah (2021)). According to other studies, there is no significant relationship between public spending and growth (Easterly, Loayza and Montiel (1997), Olumide and Olatunji (2021) ...).

Landau. D (1983) studied the relationship between the growth rate of real GDP per capita and the share of public expenditure in (%) GDP in developing countries for a period of 20 years (1960 to 1980), he showed that an increase in the share of public expenditure in real GDP reduces the growth rate of real GDP per capita. For the same 20-year period in the least developed countries, Landau (1986) was able to confirm a positive correlation between public expenditure and growth.

Similarly, Devarajan, swaroop and zou (1996) found a positive relationship between public consumption expenditure and economic growth. Caselli, Esquivel and Lefort (1996) also found a positive effect of public spending on growth.

Similarly, other time series work, in particular that of Aschauer (1989) on US data, has shown that an increase in public spending is accompanied by a slowdown in economic growth. Thus, several empirical studies have highlighted the existence of an inverse relationship between public spending and economic growth.

Ojo and Oshikoya (1995) have shown in the case of sub-Saharan countries that an increase in public expenditure reduces the growth of GDP per capita. In the case of WAEMU countries. Tenou (1999) also came to the same result. Also, Barro (1998) found a significant negative relationship between the share of public consumption and real GDP per capita growth.

On the other hand, Easterly, Loayza and Montiel (1997) found no significant effect of the share of public consumption expenditure in GDP on growth in Latin America. Nevertheless, Josaphat and al (2000) studied the impact of public spending on economic growth in Tanzania using time series data during the period 1965-1996. They found that productive expenditure has an inverse effect on growth while consumption expenditure stimulates growth.

Mesghena (2003) studied the effect of public expenditure on economic growth during the period 1986 to 1997, with a sample of 26 sub-Saharan African countries. He found that public spending has a significant positive impact on economic growth.

Conducting his research for the case of Nigeria, Loto (2011) highlighted the link between public spending and economic growth over the period 1980-2008.He was particularly interested in sectoral spending. Five key sectors such as security, health, education, transport and agriculture were examined. The results revealed that in the short-term spending on national security, health, transport and communication was positively related to economic growth. Agricultural expenditure was found to be negatively related to economic growth. The impact of education was negative and not significant.

Taiwo. M and Abayomi. T (2011) observed that in Nigeria, the impact of government expenditure on economic growth is positive and statistically significant in the period 1970 to 2008. Segun and Adelowokan (2015) came to the same result.

Elmi. M. Z and Sadeghi. S (2012) studied the causal and cointegrating relationships between health expenditure and economic growth in developing countries. The period of studyis: 1990 -2009. They found that there is a short-run causal relationship between GDP and health expenditure, while there is no causal relationship between health expenditure and growth. Similarly, there is a two-way causality and a long-term relationship between economic growth and health expenditure.

Olumide Olaoye, Olatunji Afolabi (2021) examined the influence of the institutional environment and the relationship between public expenditure and economic growth in the Economic Community of West African States (ECOWAS) for the 9-year period 2008-2017. The result of this study showed that there is no unidirectional or bidirectional causal relationship between public expenditure and economic growth in ECOWAS.

I-2 The Effect of Public Expenditure on Poverty Reduction

Many econometric studies have attempted to estimate the relationship between public expenditure and poverty. Fan, Hazell and Thorat (1999) found a correlation between public expenditure and rural poverty levels for Indian states.

Based on the estimation results, public spending on productivity and investments, such as agricultural research and development, irrigation, roads and electricity all have negative and statistically significant effects on rural poverty. This means that an increase in these expenditures would lead to a reduction in poverty.

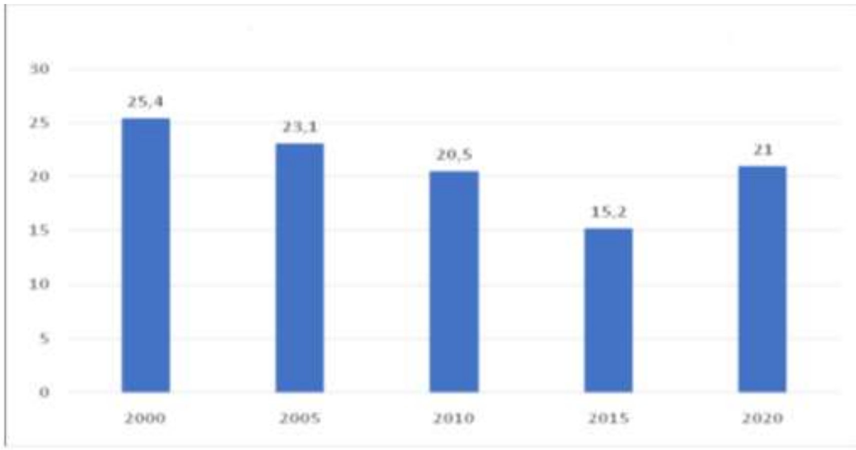
A similar study was conducted by the same authors on Chinese provinces in 1999. The results showed that spending on rural education has the greatest impact on poverty. This was followed by spending on agricultural research and development.

Mehmood and Sadiq (2010) examined the relationship between public expenditure and poverty rates in Pakistan during the period 1976-2010. Using the error correction model, the results show that government spending has a direct impact on poverty. This means that an increase in public expenditure would lead to a reduction in poverty at the national level.

In the study by Asghar and al (2012), the impact of public spending on education on poverty is negative and statistically significant. These results are consistent with those of Awe (2013) in his case study of Ekiti in Nigeria. While for Osundina and al (2014) found that public expenditure on education in Nigeria plays no role in poverty reduction.

Asghar and al (2012) studied the long-term impact of public expenditure in various sectors of the economy (in education, health, economic and community services) as well as fiscal deficit and law and order on poverty reduction in Pakistan, the period of study is 1972-2008. The method used to estimate is the error correction model (ECM). The authors show that public spending on education and law and order contributes significantly to poverty reduction, while public spending on the budget deficit and on economic and community services did not contribute to poverty reduction in Pakistan. This study also shows that public spending on the health sector does not have a significant impact on poverty reduction.

Osundina, Ebere and Osundina (2014) also examined the effect of public health expenditure on poverty in Nigeria, using cointegration analysis of time series data. They found



Graph 1: Evolution of the poverty rate in Tunisia (in %)

Source: Authorsbased on NIS data.

that the coefficient on public health expenditure is positive and insignificant. While over the same period Saw (2013) found that public health expenditure has a positive impact with a significant coefficient on poverty reduction. Sourya, Sainasinh and Onphanhdala (2014), using panel data regression, found that national health financing had a positive and significant coefficient on poverty.

Regarding public spending on infrastructure Awe (2013) showed that public spending on infrastructure played an important role in poverty reduction in Ekiti State. While Sourya and al (2014) found that domestic and foreign spending on infrastructure did not have a significant impact on poverty eduction in Lao PDR. They explain that this maybe due to an asymmetric distribution of funds between rich and poor provinces.

Similarly, the main objective of the study by Osundina and al. (2014) was to examine the relationship between public spending on infrastructure and poverty reduction in Nigeria. The study found that public spending on construction had a positive impact on poverty reduction, while public spending on road transport was negatively related to poverty reduction.

While, Omari and al (2016) examined the effect of sectoral public expenditure on poverty level in Kenya for the period 1964 to 2010. The regression results indicate that agricultural and health spending have a positive and significant effect on poverty level while infrastructure spending has a negative and significant effect on poverty level. The effect of education expenditure on the poverty level was insignificant.

Also, Olanubi and Osode (2017) examined the effectiveness of public funds allocated to human resources for health in Nigeria during the period 1966-2014. The results of this study show that public expenditure on human resources for health is inefficient. Therefore, the Nigerian government should pay more attention to developing this vital health input.

Anderson and al (2018) examined the relationship between public expenditure and income poverty, the results show that the relationship between public expenditure and poverty is less negative for sub-Saharan African countries, and more negative for Eastern European and Central Asian countries compared to the other study regions.

Focusing on the West African Economic and Monetary Union area, Arthur (2019) showed the direct link between poverty and public expenditure during the period 2000-2013. Econometric estimates show that public spending has a positive effect on poverty reduction. Of note, social spending (education and health) showed good poverty reduction effects. While the lack of funding for infrastructure and agriculture justifies the mixed results of their public spending in the fight against poverty.

Similarly, Omodero (2019) examined the role of sectoral public expenditure on poverty reduction for a period of 17 years (2000 to 2017) with the ordinary least squares (OLS) technique, they showed that public expenditure on agriculture, construction, education and health have no significant impact on poverty reduction in Nigeria.

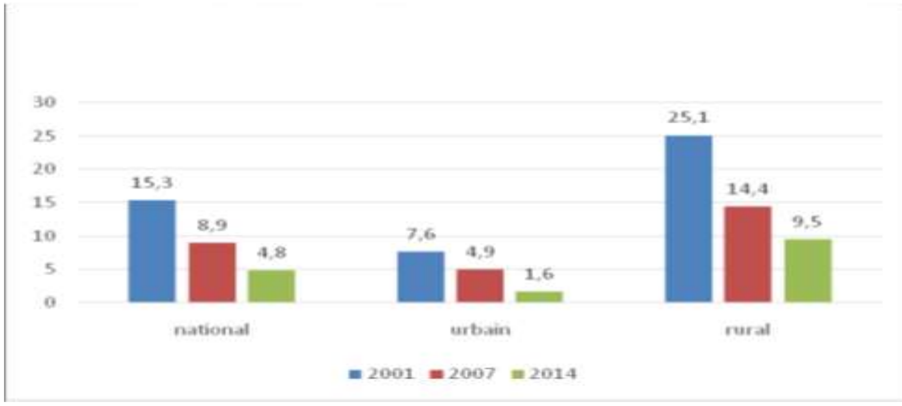
Liu and al (2020) examined the structural differences between rural public spending (education, health, social security, infrastructure, living environment) and poverty in 27 provinces in China for a 16-year period from 2010 to 2016. The result of this study showed that spending on education, health, social security and infrastructure all contributed more to poverty reduction, while spending on the living environ menthad no significant effect on poverty reduction. Thus, public expenditure is a key factor contributing to poverty reduction. Other factors may also play a role in poverty reduction in relation to foreign direct investment, human capital, etc.

II- AN ANALYSIS OF POVERTY IN SOMEAFRICAN COUNTRIES

II-1. Poverty Profile in Tunisia

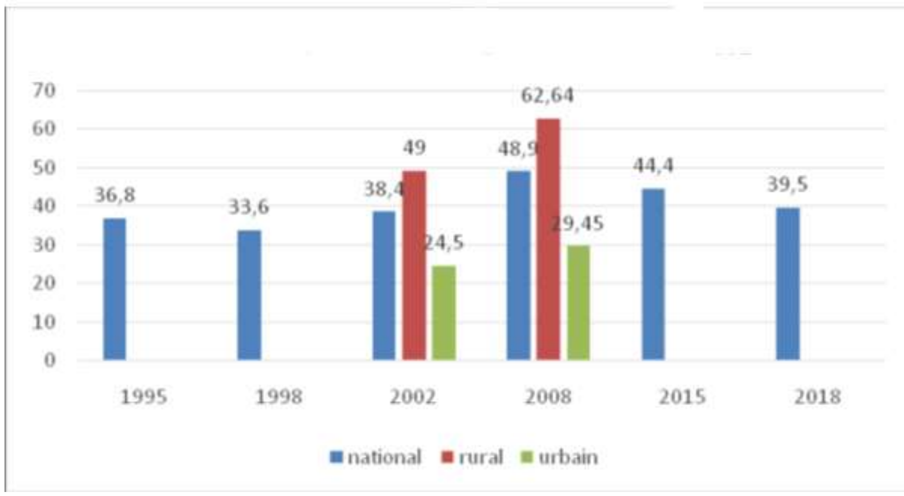
In order to present the profile of poverty in Tunisia, we are based on its evolution from the year 2000 to 2020.

According to this graph which traces the evolution of the poverty rate in Tunisia over the period 2000-2020. We note that poverty has been significantly reduced in 15 years, from 25.4% in 2000 to 15.2% in 2015.This rate varies according



Graph 2: Evolution of the poverty rate according to area of residence (in %)

Source: National Household Consumption and Expenditure Survey 2001 and 2014.



Graph 3: Evolution of the poverty rate between 1995 and 2018 in Cote d'Ivoire.

to the economic situation; indeed, following the health crisis in 2019, we see that the poverty rate has increased to 21% in 2020.

II-2. Poverty Profile in Morocco

The evolution of the poverty rate by area of residence in Morocco is shown in the following graph **2**:

Between 2001 and 2014, the evolution of poverty was marked by a general downward trend, while remaining more concentrated in rural areas. At the national level, the incidence of poverty fell from 15.3% in 2001, 8.9% in 2007 to 4.8% in 2014. By area of residence, the incidence of poverty fell from 7.6% to 4.9% and 1.6% respectively in urban areas and from 25.1% to 14.4% and 9.5% in rural areas.

Although poverty was rapidly reduced in both areas of residence, the decline was more pronounced in urban areas than in rural areas.

II-3. Poverty Profile in Cote d'Ivoire

Analysis of the evolution of the incidence of poverty between 1995 and 2018, as shown in fig. (**3**), reveals three important sub-periods.

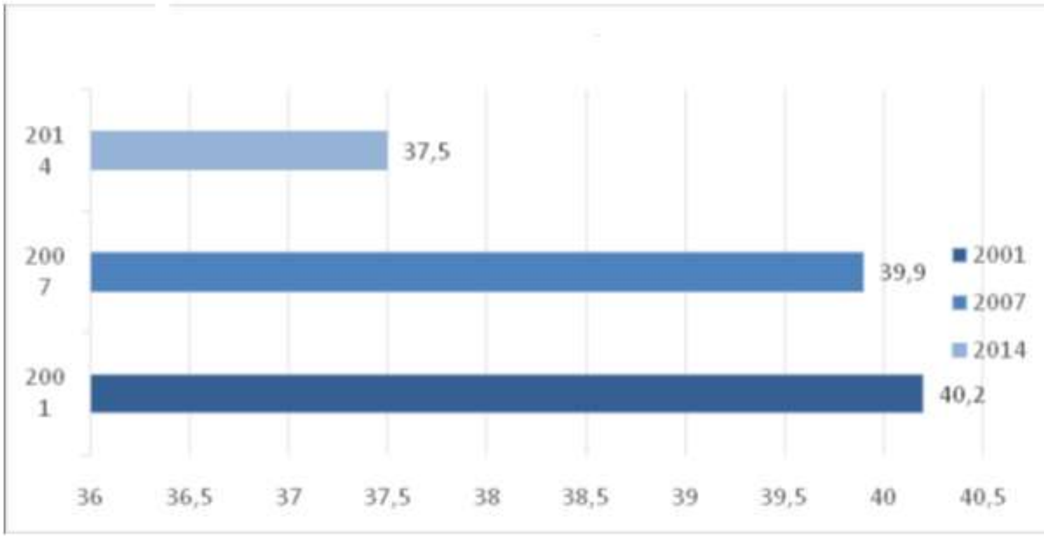
The first sub-period, from 1995 to 1998, saw a slight inflection in poverty, with the incidence falling from 36.8% in 1995 to 33.6% in 1998.The second sub-period from 1998 to 2008 is characterized by a worsening of poverty, the rate of which rose from 33.6% in 1998 to 38.4% in 2002, then to 48.9% in 2008. Finally, the third sub-period from 2008 to 2018 is characterized by a decrease in poverty, the rate of which fell from 62.65% in 2008 to 44.4% in 2015 and 39.5% in 2018.

The second sub-period from 1998 to 2008 is characterized by a worsening of poverty, the rate of which rose from 33.6% in 1998 to 38.4% in 2002, then to 48.9% in 2008. Finally, the third sub-period from 2008 to 2018 is characterized by a decrease in poverty, the rate of which fell from 62.65% in 2008 to 44.4% in 2015 and 39.5% in 2018.

All the studies carried out in Cote d'Ivoire have shown that poverty is more pronounced in rural areas than in urban areas. It rose from 49% in 2002 to 62.45% in 2008 than in urban areas, where the poverty ratio increased from 24.5% in 2002 to 29.45% in 2008.

II-4. Poverty Profile in Cameroon

The evolution of poverty in Cameroon between 2001 and 2014 is represented in the following graph **4**:



Graph 4: Evolution of the poverty rate between 2001 and 2014.

Source: Made by the authors based on NSI data.

From this graph, which traces the evolution of the poverty rate in Cameroon over the period 2001- 2014. We see that the poverty rate in this country is significantly higher. However, Cameroon has managed to reduce this poverty by almost three percentage points from 40.2% in 2001 to 37.5% in 2014.

III -EMPIRICAL VERIFICATION

Through econometric research, we try to estimate first the impact of public expenditure and economic growth on poverty reduction and second the effect of public expenditure and poverty on economic growth.

Our studies will be based on a sample of 21 African countries, namely Tunisia, Morocco, Algeria, South Africa, Nigeria, Ghana, Kenya, Uganda, Sudan, Angola, Cameroon, Malawi, Mauritania, Gabon, Mozambique, Burkina Faso, Ivory Coast, Mali, Benin, Niger and Senegal. The data are annual and cover the period 1990-2020 and have been analyzed using Eviews software. The data are related to World Development Indicators (WDI).

III-1-Effects of Public Expenditure and Economic Growth on Poverty Reduction

To study the impact of public expenditure and economic growth on poverty during the period 1990-2020, we have opted for the generalized least squares method. We propose the following model:

PAUi, t=α0 + α1GRW i, t + α2DEP i, t +α3POP i, t +α4INF i, t + α5INV i, t + $\varepsilon_{i,t}$

The dependent variable in the estimation model is poverty reduction, the independent variables are: economic growth (GRW), public expenditure (DEP), population growth rate (POP), inflation rate (INF) and investment as percentage of GDP (INV).

The Hausman test proved that the model isa fixed effect. The results of the estimation, taking poverty reduction as the dependent variable, are shown in the following table **1**:

Table 1: Estimation Result.

Variable	Coefficient	Std. Error	T-Stat	Prob.
C	63.56762	0.221265	25.45175	0.0000
GRW	0.319166	0.004878	3.755788	0.0077
DEP	0.601072	0.015560	6.541356	0.0000
POP	-1.395490	0.063222	-5.830662	0.0076
INF	-0.104300	0.003613	-5.811978	0.0005
INV	0.436781	0.010836	6.205501	0.0000
R^2= 0.921878				

The results found show that the majority of the coefficients are statistically significant.

We noticed that the coefficient relating to the economic growth variable is significant and has a positive sign (0.319166) therefore this variable has a positive effect on poverty reduction. Therefore, the increase in economic growth leads to an increase in poverty reduction of 0.319166 percentage points. This result is consistent with those of dollar and al (2013).

The econometric results prove that public spending has a positive effect on poverty reduction. This further implies that public spending is necessary for poverty reduction. The estimation results confirm the importance of public spending in improving the living conditions of African countries. These results confirm those of Mehmood and Sadiq (2010).

Similarly, the model shows that a percentage increase in investment will reduce poverty by 0.436781%. Similar to the study by Chaniand al (2011), an initial investment contributes to the increase in output and increase in income. This improvement in income is accompanied by an increase in consumption, the increase in consumption in turn leads to the increase in output and therefore growth.

The coefficient on the inflation variable is statistically significant and negative (-0.104300), supporting the hypothesis that a one percentage point increase in inflation is equivalent to a decrease in poverty reduction by an average of -0.104300 percentage points. This result is identical to that of Chaniand al (2011) for a study in Pakistan during the period 1972-2008. Inflation reduces the purchasing power of the population and lowers their real income, so that many people will fall below the poverty line.

Similarly, the coefficient of population growth rate is statistically significant and has a negative effect on poverty reduction. This result confirms the results deduced by Klasen and Lawson (2007) in their study, they examine the link between population growth and economic growth in Uganda. He showed that Uganda is one of the countries with the highest population numbers in the world, he suggested that the high level of population growth puts a considerable drag on Uganda's per capita growth prospects and similarly contributes to increased poverty.

III-2 Effects of Public Expenditure and Poverty on Economic Growth

In order to detect the effects of public expenditure and poverty on economic growth, we present the following model:

$$GRW\ i,t = \alpha 0 + \alpha 1 INV\ i,t + \alpha 2 INF\ i,t + \alpha 3 DEP\ i,t + \alpha 4 PoPi,t + \alpha 5 HDI\ i,t + \varepsilon_{i,t}$$

The dependent variable in the estimation model is economic growth, the independent variables are: investment as a percentage of GDP, inflation rate, government expenditure, population growth rate, and Human Development Index.

The stationarity of the variables is tested using Dickey-Fuller (ADF) unit root test procedure. The estimation of second model showed the following results:

Table 2: Estimation Results for Model 2.

Variable	Coefficient	STD.error	T-stat	Prob.
C	0.572190	0.073466	2.849619	0.0060
INV	0.703432	0.200296	3.511957	0.0005
INF	-0.078527	0.012167	-6.454365	0.0000
DEP	0.076736	0.007795	9.844670	0.0000
POP	-0.007404	0.010411	-0.711241	0.4773
HDI	0.034392	0.005215	6.594523	0.0000
R^2=0.838323				

The coefficient of determination R-squared shows a good linear adjustment (0.83).

The coefficient associated with the investment variable is statistically significant and has a positive sign (0.703432). This variable has a positive effect on economic growth, a 1% increase in investment resulted in an increase of about 0.703432 in economic growth.

Similarly, public spending has a positive effect on economic growth. This result is consistent with many studies such as Mesghena (2003) in his study of sub-Saharan African countries for the period 1986 to 1997.

The Human Development Index statistically significant and positive sign, thus this variable has a positive effect on economic growth. These result scorrobo rate those of Elistia and Syahzuni (2018), in his study of 10 member countries of the Association of Southeast Asian Nations (ASEAN) during the period 2010-2016, the result of this research indicates that each country has a strong and significant correlation between HDI and GDP. Thus, an increasing level of human development leads to an increase in economic growth.

As for the coefficient on the inflation variable, or empirical results show that it is negative. A one percentage point increase in inflation is equivalent to a decrease in economic growth of -0.078527 percentage points on average. This result is similar to Shamim. A (2005) in his study in Bangladesh for the period 1981-2005. Any increase in inflation will lead to a decline in purchasing power parity, which leads to the decline in consumption and production.

CONCLUSION

The fight against poverty remains a fundamental issue for which global solutions are being sought. Indeed, despite the various measures taken to combat it, it remains a major concern and one of the problems and constraints to economic growth.

Similarly, the literature review informs us that increased economic growth is conducive to poverty reduction, which can only be maintained and improved if certain policy measures are put in place, stable macroeconomic policies, such as sound fiscal and monetary policies that will create a favorable investment climate

Thus, the sustainable reduction of poverty necessarily requires the improvement of human capital, investments that concern the underprivileged social strata and the access of this category of the population to the various social orders. Public expenditure therefore plays a crucial role in poverty reduction and everything depends on the way and the category of expenditure that can reduce poverty.

This paper investigated the impact of public expenditure and economic growth on poverty reduction during the study period 1990-2020 and the impact of public expenditure and poverty on economic growth in African countries for a period from 1996 to 2020.In order to achieve the objectives of the study, an econometric model was proposed using the generalized least squares method and referring to World Bank data (WDI 2021)

From the analysis, we find that the spread of poverty in Africa is high and should be a major concern. Our study was based on the link between public expenditure, growth and poverty in a first model we studied the impact of public expenditure and economic growth on poverty reduction for a set of African countries for the period 1990 to 2020.The study found that public expenditure, economic growth and investment all have a positive impact on poverty reduction. In contrast to the inflation and population growth rate variables, their coefficients prove that they aggravate poverty in these countries.

The second model was based on the impact of public expenditure and poverty on economic growth for these African countries over the period 1996 - 2020. The results show that public expenditure has a positive effect on economic growth. Investment and the human development index are also important in the growth process for most African countries in our sample. On the contrary, the coefficients of the inflation rate and population growth rate variables are negative.

At the end of our study, itis important to draw the attention of the authorities to the various economic and social policies that need to be implemented in order to fight poverty effectively. Several suggestions can be made in this regard, including:

-Increased investment in social sectors, including education and health.

- Increased public spending in key sectors such as agriculture and infrastructure improvement...

- Public spending to reduce poverty must be done in such a way that proper implementation with appropriate monitoring is done to achieve a significant reduction in poverty rates.

-Promote pro-poor growth that can have a significant impact on poverty reduction through increased income and job creation.

CONFLICT OF INTEREST STATEMENT

The authors declare that they have no conflict of interest.

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Received: Aug 20, 2022 Revised: Aug 28, 2022 Accepted: Nov 28, 2022