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Deficit Financing in the Process of Economic Development in Nigeria

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Abstract: These empirical research works is anchored on the three fundamental and theoretical arguments that emanated between the Keynesian school, the neoclassical school of thought and Ricardo hypothesis and their view on deficit financing with respect to its contribution to economic development. Despite the huge quantum of debt Nigerian government accommodate yearly, the expected level of development is not been attained as larger percentage of her citizens still lives in abject poverty, low standard of living and high level of unemployment and so on. At this junction, one begins to wonder why the theoretical suggestion dose not seems to be working in the Nigerian context. It is based on these hullabaloos that this study seeks to investigate the effect of deficit financing on development of the Nigerian economy between the periods 1981 to 2015 using error correction model and granger causality test. Study report that Federal government external debt exhibits a significant P-value of 0.0173 with a positive coefficient of 0.000031 suggesting that 1% increase in government external debt is capable of stimulating economic development in Nigeria to the tune of 0.00003. The report of the causality test also validate the report in the error correction model and thus suggest that external debt significantly contribute to the development of the Nigeria economy while domestic debt and deficit budget does not seems to granger cause economic development in Nigeria. On this premises, study conclude that deficit financing is a vital stimuli in promoting economic development in Nigeria if adequately channel for the original purpose for which it was meant for. Furthermore, study thus validates the Keynesian postulation of the existence of positive relationship between deficit financing and economic development. On this note, study recommend that managers of the Nigerian economy should coordinate the appropriation of borrowed fund and ensure that it is properly channelled towards improving the capital and production dominance of the nation as this will further help in achieving a sustainable level of economic development in Nigeria.

Keywords: Economic Development, Granger Causality, Deficit Financing

INTRODUCTION

These empirical research works is anchored on the three fundamental and theoretical arguments that emanated between the Keynesian school, the neoclassicals and Ricardo hypothesis and their view on deficit financing with respect to its contribution to economic development.

Viewing from the Indian commission, deficit financing simply refers to the direct addition to gross national expenditure through budget deficit, whether the deficit is on revenue or on capital account. The rationale behind this move lies in the government spending in excess of the revenue it receives in the form of taxes, earning on state entrepreneur, loan from the public, deposits and other miscellaneous source. The government may cover the deficit either by running down its accumulated balances or by borrowing from the banking system (the central bank). Thus, deficit financing involve, (1) withdrawal of past accumulated cash balance by the government (ii)borrowing from the central bank (iii) issuing new currency by the government through the central bank.

Theoretically, when government initiate a project and her retained revenue is not sufficiently enough in sponsoring the project, there are three major ways of financing such project and there are taxes, borrowing and monetization. Mine while, the most popular method of deficit financing is by borrowing which is usually done through the open market operation by issuing of government bonds. It is important to note that deficit financing in an economic has it implication either positive or negative has argued by various school of thoughts.

The neoclassical economist argues that deficit financing crowd out private investors as increase in government spending stimulate aggregate demand and hence lead to high competition between government and private investor. high governmental demand for loan-able fund leads to increase in interest rate which will result to low level of output if not fully crowding out investment and hence create high level of unemployment.

Meanwhile, the traditional Keynes theory argues that deficit financing will stimulate development in an economy that is faced with persistent increased unemployment. they explains that increase in government spending will lead to availability of fund in the economy, reduction in interest rate, increase in the level of private savings, trigger investment level, increase level of output, create more employment opportunities and hence stimulate general economic development with the notion of crowding in private investors.

Ricardian Equivalence Theorem emphasis that increases in the deficit financing through fiscal spending will be matched with a future increase in taxes, and so they leave interest rates and private investment unchanged Bahmani-Oskooee [1]. That is, In an attempt to repay the borrowed fund, tax which was cut in the previous years will eventually be raised higher than what was supposed to be paid earlier which implies that the accumulated private savings during increase in government spending will be used in setting off the borrowed fund in the future. The choice is therefore between taxes now OR tax later.

The theoretical postulation has thrown a shocker in the Nigerian perspective as none of this theoretical exertion seems to be yielding positive result. Since independent, over 85% of Nigerian budget are on deficit Akinmulegun [2]. Considering the fact that Nigeria is faced with persistence high level of unemployment coupled with the huge quantum of debt Nigeria government accommodate yearly, can one emphatically says that deficit financing has really stimulated economic development in Nigeria as earlier stated by Keynes or reverse is the case?

Despite high governmental strive through borrowing and generated revenue in ensuring economic development, Osaku and Achinihu [3] reported that borrowed fund in Nigeria is centred towards current consumption which lead to downsizing of economic development hence increases debt servicing cost. Monogbe, *et al*. [4] reported that mismanagement and misappropriation of borrowed funds is a major impediment in the Nigeria economy and hence, debars development. Prolong deficit financing have an overall negative impact on the economy by crowding out private investment Isah [5]. However, Onuorah and Ogbonna, [6] opined that mix match of internal and external debt has led to failure of deficit financing in stimulating economic development. Consequently, Ndekwu [7] opined that the use of deficit financing for the pursuit of fiscal policies often leads to increased danger in an economy.

Having considered all of this abnormities, the researcher is inspired to investigate deficit financing and its effect on development of the Nigerian economy between the periods 1981 to 2015. The model is develop to test whether deficit financing has really promote economic development in Nigeria and to identify the causality flow between deficit financing and economic development so as to justify which of the school of thought opinion holds in the Nigeria context.

THEORETICAL UNDERPINNING

Traditional Keynes' theory

The Keynesian economist propose a positive relationship between deficits financing and economic development. In the Keynesian model, it was argues that an increase in government spending stimulates the domestic economic activity, increases aggregate demand, increases savings and private investment at any given level of interest rate and hence crowds-in private investment. The Keynesians provide a counter argument to the crowd-out effect by making credence to the expansionary fiscal policy. They argue that usually deficits financing result in an increase in domestic production, which makes private investors more optimistic about the future course of the economy resulting in them investing more. This is known as the "crowding-in" effect. The theory suggested that active government policy could be effective in managing the economy. deficit spending is appropriate when a nation's economy suffers from recession or when recovery is long-delayed and unemployment is persistently high—and the suppression of inflation in boom times by either increasing taxes or cutting back on government outlays. The theory exert that governments should solve problems in the short run rather than waiting for market forces to do it in the long run, because in the long run, we are all dead.

Neoclassical School

The neoclassical economist proposes a negative relationship between fiscal deficits and economic development. The theory exert that increase in government spending stimulate aggregate demand and hence bring about high level of competition between government and private investors in demanding for loan leading to higher interest rates and further discourages the issue of private bonds, private investments and private spending, increases inflation level, and cause a similar increase in the current account deficits and finally slows the development rate of the economy through resources crowding out. The Neoclassical school considers individuals planning their consumption over their entire cycle. By shifting taxes to future generations, fiscal deficits increase current consumption. By assuming full employment of resources the neoclassical school argues that increased consumption implies a decrease in savings. Interest rate must rise to bring equilibrium in the Capital markets. Higher interest rate in turn results to a decline private investment, domestic production and an increase in the aggregate price level. When the government sector expands, the private sector will contract because of the increase in prices on these resources due to an excess demand by the government, hence this leads to a fall in investment and consumption by the private sector. Thus the government sector's expansion crowds out the private sector. However, resource crowding out is an important issue to take into account especially in developing countries where resources are scarce even sometimes to the private sector, so any excess demand for these resources by the government will severely impinge on private sector productivity. The assumption that government borrowing reduces private investment plays a key role in the neoclassical analysis. It is sometimes referred to as the 'crowding out hypothesis' when the public sector draws on the pool of resources available for investment, private investment is crowded out. Crowding out is induced by changes in the interest rate.

Ricardian Equivalence Theorem

The theory according to Baro [8], assumes that asset holders completely discount future tax liabilities embedded in the deficits. This implies that, a deficit financing with borrowing and a lump-sum cut in tax today will definitely be followed by a lump-sum tax increase in the future and will be fully offset by an increase in private saving, as taxpayers recognize that the tax is merely postponed, and not cancelled. The offsetting increase in private saving means that the deficit would have no effect on national saving, interest rates, exchange rates, future domestic production, or future national income Gale and Orszag [9]. Governments may either financing their deficit by taxing current taxpayers, or by borrowing. In an attempt to repay the borrowed fund, tax which was cut in the previous years will eventually be raised higher than what was supposed to be paid earlier which implies that the accumulated private savings during increase in government spending will be used in setting off the borrowed fund in the future. Hence, Ricardian Equivalence suggests that government attempts to influence demand using fiscal policy will prove fruitless. Therefore, deficit financing do not crowd-in nor crowd out investors. In his view, no positive or negative relationship exists.

The Dual Gap theory

This theory is proposed on the condition that state thus, to achieve a reasonable level of development in an economy, investment is a key player. However, such investment cannot be successively achieved without huge domestic savings meaning that for a country to achieve a sustainable level of development, investment and huge domestic savings in required. However, in attaining comprehensive development, this domestic savings and investment is not sufficient enough hence there is need to borrow fund from abroad. This implies that the combination of domestic savings, investment and foreign borrowed fund is a function of economic development as opined in this theory.

Review of Relevant Literature

In an attempt to examine the nexus between deficit financing and how it has contributed to development of the Nigerian economy, Monogbe, *et al*. [10] empirically investigate the effect of deficit financing and economic development in Nigeria between the periods 1981 to 2014 using series of estimating tools which include parsimonious error correction mechanism, dickey fuller unit root test, impulse response, variance decomposition among others. Finding reveals that total money supply in the economy and external debt is positive and significantly influences economic development in Nigeria thereby canvassing support for the Keynesian school. Hence study recommends that appropriate measure such be design to ensure effective usage of borrowed fund.

Eze and Nwambeke [11], carried out a studies on the effect of deficit financing on unemployment rate in Nigeria using time series that from 1970 to 2013. Five variables were used in the process of research as proxy for deficit financing, the output of the vector error correction model reveals that deficit financing through external source has a positive and significant influence in stabilising the Nigeria economy and hence could help in reducing the level of unemployment in the country.

Monogbe [10] investigated the intergenerational causality effect of external debt on the development of the Nigeria economy between the period of 1981 to 2014 using four different variable, the output of his findings reveals that injecting borrowed fund into capital investment will be of a great benefit to the entire economy as it increase aggregate returns and stimulate economic development and hence reduce the threat of debt transfer to the future generation.

Onuorah and Ogbonna [6], studied deficit financing and the development of Nigeria economy using quite a number of estimating tools which include descriptive statistics, ordinary lease square dicker fuller unit root test and so on. All variable used in the process of research are all stationary at 1(1) and has long run relationship. The result of the OLS shows that domestic debt and external debt are positively and significantly related to economic development in Nigeria canvassing support for the Keynesian school. On that note, there advice that government should control the level of deficits to ensure that it is within a reasonable leverage.

Abdullahi *et al*. [12], statically investigate if budget deficit crowd out private credit from the banking sector using Egypt as a case study. Finding reveals that government borrowing crowds out private investment through its dampening effect on private credit. The study estimates a VAR model using quarterly data spanning for almost four decades. The estimated model has unearthed a number of interesting results. As the government issues more debt instruments to financing its deficit, banks shift their portfolio away from risky private loans and opt for lazy behaviour characterized by a shrinking overall credit tilted more and more toward government debt-instruments. This behaviour not only limits their exposure to the private sector, hence reducing private investment, but also adversely affects investment and hence overall development potential. In addition, evidence shows that output development positively impacts the willingness of the banking sector to extend more credit to both the government and the private sector. Finally, in consistent with the lazy bank model, impulse response functions show that the effect of a government borrowing shock is contractionary (as opposed to the effect of private credit shock which is slightly expansionary) with regard to the overall banking sector credit.

Utomi [13] investigated the effect of external debt on the development of the Nigeria economy using a time series date and series of estimating tools which includes Johansson co-integration test, unit root test among others. External debt stock and external debt servicing was proxy for external debt burden while real gross domestic product was proxy as economic development indicator. Findings reveal long run insignificant relationship and a bi-directional relationship between external debt and economic development in Nigeria. Stevan [14] in an attempt to investigate the economic implication of deficit finance model twins effect of deficit. From the model, it was reported that there is ever tendency that there is a correlation between budget deficit and trade deficit. One is expected to be positive has it promoted aggregate demand and stimulate national income while the other is pessimistic as it leads to crowding out of private investors.

Benjamin and Olanipekun [15], investigated the relationship between fiscal deficit and debt in Nigeria using an error correction approach granger causality in estimating the flow while time series data is sourced from the CBN statistically bulletin spanning from 1970 to 2011. All variable Used in the process of research were stationary at 1(1) except for inflation rate that became stationary at 1(0). Joahnson co-integration test show a long run association between the variable used in the process of research. The result of the granger causality test reveals a bi directional flow between fiscal balance, public debt as well as its domestic component while causality only runs from external debt to fiscal deficit. Sequel to this, the researcher confirmed that domestic debt has greater influence on fiscal deficit and foreign debt and hereby recommend that government should ensure appropriate debt mix in ensuring economic development in Nigeria.

Fredric and izuchukwu [16] using granger causality test and ordinary least square model investigated the crowding out effect of budget deficit on private investment in Nigeria with times series data. Five different variables were used in the process of research, finding reveals that application of deficit as a means of financing government excess is vehemently affecting the development and survival of the private sector hence, there advice that money creation could be a substitute borrowing in financing government deficit in Nigeria. Akinmulegun [2] investigated deficit financing and economic development in Nigeria using time series data spanning from 1970 to 2010. Finding reveals that deficit financing has a negative effect in promoting development of the Nigeria economy.

Somia *et al*., [17] investigate the linkage between the current account deficit and budget deficit in Pakistan with the intension of testing the validity of Keynesian stance, which states that there is positive and significant relationship between the said variables. Autoregressive distributed lag model (ARDL) is used for the robustness of long-run relationship between current account deficit and budget deficit in the presence of control variables. For short run dynamics ECM (Error Correction mechanism) is applied. To test the validity of the Keynesian proposition and the Ricardian equivalence in the case of Pakistan multivariate Granger causality test was applied. The empirical analysis in this paper partially supports the Keynesian view that there is a positive relationship between current account deficit and budget deficit. In terms of policy implication, it is recommended that any policy measures to reduce the budget deficit in Pakistan could well assist in reducing the Pakistan's current account deficit, which will ultimately leads to sustain economic development.

Critique of Related Literature and Gap Identification

Based on the reviewed Empirical Literatures and with a primary focus on employed hypotheses, there has been series of theoretical and empirical evidence negating each other as to whether deficit financing stimulate economic development by the means of crowding in private investors or debars economic development by crowding out private investors. The empirical work of the following scholar justify the fact that deficit financing has a positive relationship with economic development and hereby canvas support for the Keynesian school. Monogbe *et al*, [4], Faraji and Makame [18], Tallman and Rosensweig [19], Eisner [20], Egwaikhide [21], Onafowora and Owoye [22], Osuka and Achinihu [3] among others. On the other hand, the below listed researcher are of the opinion that deficit financing has a negative influence on economic development hence, they are of the opinion that increase in deficit financing crowd out private investors. On this premises, they canvas support for the neoclassical school, Ogunmuyiwa [23], Ayadi and Ayadi [24], Safdari and Mehrizi [25]. Despite an extensive existing literature on this subject matter, there is no clear consensus till date in the literature as to whether deficit financing stimulate economic development or debars development as empirical result varies par country. Sequel to this identified gap, this paper set out to contribute to the line of research by investigating the causality flow between deficit financing and economic development in Nigeria using diverse of variable to capture various aspect of government deficit and to offer new evidence to enrich the debate around the literature.

METHODOLOGY

This research work utilizes the Ex-poste Facto Research Design also known as the Investigative econometric research design as it undertakes the examination of a data-set and looking for potential relations between variables, Due to unknown direction and strength of the relation.

The study population consists of all economic variables associated with deficit financing and economic development. In which a series of variables were selected which includes domestic debt, external debt and government deficit budget while human development index was selected as a proxy for economic Development amongst other variables between the periods 1981 - 2015.

The data were sourced and extracted from existing documents and materials. These include the Central Bank of Nigeria (CBN) statistical Bulletin, CBN Annual Report and Statement of Account, World Bank data base, index mundi, CBN Bullion, text books, journals, internet sources, and lecturer's notes relating to the research work among others.

Operational Measures of Variables

- **Human Development Index:** human development index is a proxy for economic development as stated by the world economics standard. This is a composite statistics of life expectancy rate, birth rate, level of education and par capital income indicators which are used to rank countries into four tiers of human development.
- **Budget Deficit:** This variable is operationalized using the different between total government expenditure and total revenue over the years as obtained from CBN statistical bulletin 2015 issues. Here, it must be noted that the difference between the total government expenditure and total revenue could be surplus or deficit, for the scope of this study, we employed the deficit side.
- **External Debt:** This is a combination of multilateral and bilateral debt which is simply captured using the total quantum of public debt borrowed by Nigeria government from abroad over the years as obtained from the CBN statistical bulletin 2015 issues.
- **Domestic Debt:** This is captured using the total public debt borrowed within the resident of a given country (Nigeria) as obtained from the CBN statistical bulletin 2015 issues.

Model Estimation

The model follows the classical linear regression model assumption (CLRM) in line with the models of Monogbe et al. [4] and Isah [5] we formulate our model in a functional form thus;

HDI = f (FGDF)-- (3.1)

Where

HDI =Human development index

FGDF = Federal Government Deficit financing

Following the theoretical postulation and the underpinning of the Keynesian theory, the below listed explanatory variables were used as an indicators of deficit financing while human development index is used as a proxy of economic development accordingly.

$HDI_t = f(FGDB_t, FGXD_t, FGDD_t)$ -------------- (3.2_a)

We convert the above model into econometrics form by introducing constant term (α0) and error term (μ)

$HDI_t = \alpha_0 + \alpha_1 FGDB_t + \alpha_2 FGXD_t + \alpha_3 FGDD_t + \mu_t$--(3.3a)

A priori Expectation

Based on theories and empirical studies, we expect the explanatory variables to have a direct relationship with the explained variable which is therefore mathematically states as:

A priori expectation $\alpha_1, \alpha_2, \alpha_3 > 0$ for equation 'a'

The above signifies a positive relationship and movement of explanatory variables such as deficit budget, external debt, and domestic debt to human development index.

Where

HDI	=	Human Development Index
FGDB	=	Federal Government Deficit Budget
FGXD	=	Federal Government External Debt
FGDD	=	Federal Government domestic Debt
α0	=	Constant Term
α1 – α3	=	Coefficients of Predictors

RESULTS AND DISCUSSION

Following the postulation of porter and Gujarati (2009) that time series data are prone to stationality problems, we subject our data to stationarity test using Augmented Dickey Fuller unit root test thus

Table-1: Unit root test result

Variables	ADF Sta	Critical @5%	P-Value	Remarks
D(HDI)	-7.26448	-2.95402	0.0001	Stationary
D(FGDB)	-5.11582	-2.95402	0.0002	Stationary
D(FGDD)	-4.40948	-2.95402	0.0014	Stationary
D(FGXD)	-3.61159	-2.954021	0.0109	Stationary

Source: Extraction from E-view 9 output.

From the result presented in table 1 above, time series under investigation repot stationarity at order 1(1) justifying the uniformity of the data set and thus suggest that we can proceed to test for long run synchronization which might have exist amongst employed variable using johansen co-integration test.

Table-2: Result of Johansen Co-Integration Test

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.739441	77.43915	47.85613	0.0000
At most 1 *	0.463994	33.05658	29.79707	0.0203
At most 2	0.242402	12.47745	15.49471	0.1354
At most 3	0.095617	3.316563	3.841466	0.0686

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

Source: Extraction from E-views 9 output.

The report presented above captures the estimation model and thus suggests the existence of at list two co-integrating equation. This equally suggests the existence of long run association among employed variables. To this extent, having justifies the existence of long run association among employed variable, we proceed in our analysis by introducing restricted VAR estimated which is Vector Auto regression mechanism (VECM). The condition for introducing this estimation tool is prior to presence of co-integrating equation among employed variables.

Table-3: Result of the Error Correction Model

Dependent Variable: HDI				
Method: Least Squares				
Date: 02/19/17 Time: 15:27				
Sample (adjusted): 1982 2015				
Included observations: 34 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.516242	0.009502	54.33066	0.0000
FGDB	2.86E-05	3.66E-05	0.782666	0.4402
FGDD	-2.96E-06	1.46E-05	-0.202383	0.8410
FGXD	1.31E-05	5.20E-06	2.525171	0.0173
ECM(-1)	-0.729070	0.146785	-4.966920	0.0000
R-squared	0.721057	Mean dependent var		0.520294
Adjusted R-squared	0.668789	S.D. dependent var		0.058852
S.E. of regression	0.038646	Akaike info criterion		-3.533691
Sum squared resid	0.043312	Schwarz criterion		-3.309226
Log likelihood	65.07274	Hannan-Quinn criter.		-3.457142
F-statistic	11.88218	Durbin-Watson stat		2.511539
Prob(F-statistic)	0.000008			

Source: Extraction from E-view 9 output

Error correction mechanism is introduced in fulfilment of the existence of co-integrating equation as established by the result of the johansen reported in table 2 above. Secondly, in order to ascertain the speed at which disequilibrium in the explained variable is corrected in the long run, error correction model was inculcated.

From the global statistics, the Adjusted R^2 stood at 0.66878 which suggest that about 57% variation in the explained variable is accounted for by the explanatory variables while the error term takes care of the remaining 43 as the case may be. The F-statistics exhibit a coefficient of (11.88218 with a corresponding P-value of 0.00008 thus establishing the overall fitness of the model and therefore justifies the significances of federal government external debt of all the explanatory variables under investigation considering its P-value which is lower than the 5% alpha value accordingly. The Durbin Watson statistic maintains a coefficient of 2.5115 showing height of acceptability and absence of auto correlation. This implies that the report from this investigation is reliable and as such could be used for decision making.

From the relative statistics, the ECM coefficient is negative and significant as expected. Error correction term exhibit a negative coefficient of -0.72907 and a significant P-value of 0.0000 suggesting that about 73% disequilibrium in the explained variable is corrected in the long run. The coefficient (C) exhibit a significant P-value of 0.0000 and a positive coefficient of 0.516242 which suggest that if all employed variable are held constant, human development index in Nigerian will increase to the tune of 0.5162 unit all things been equal. Emphatically, the result further shows that from all the three explanatory variables under investigation, only one passes the test of hypothesis. Federal government external debt exhibit a significant P-value of 0.0173 with a positive coefficient of 0.000031 suggesting that 1% increase in Federal government external debt is capable of stimulating economic development in Nigeria to the tune of 0.00003.

Theoretically, the report from this investigation justifies the Keynesian postulation of deficit financing been a key stimuli to economic development. Practically speaking, Nigerian economy has not enjoy the dividend of deficit financing as larger percentage of her citizens still lives in abject poverty, poor standard of living, high inflationary pressure, poor health facility and massive economic instability as the case may be. The question then arose that why the inverse relationship between the empirical report and practical experience? Historically, Nigerian economy has been undergoing series of economic development stages overtime but inequalities in income distribution has widen the gap between the few rich and the much poor and has such, this make the projected development a mirage. The report from this investigation validates empirical findings of Monogbe, *et al.* [4], Onuorah and Ogbonna [6]. Meanwhile, domestic debt exhibits a negative association to economic development while budget deficit report a positive but insignificant relationship to economic development in Nigeria.

Table-4: Granger Causality Test Result

Pairwise Granger Causality Tests			
Date: 02/19/17 Time: 17:49			
Sample: 1981 2015			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
FGDB does not Granger Cause HDI	33	0.09457	0.9101
HDI does not Granger Cause FGDB		0.71991	0.4956
FGDD does not Granger Cause HDI	33	0.58467	0.5639
HDI does not Granger Cause FGDD		0.14822	0.8629
FGXD does not Granger Cause HDI	33	3.2756	0.0427
HDI does not Granger Cause FGXD		0.1763	0.8393

Source: Extraction from E-view 9

The result of the pairwise causality test is judge by the probability value against the preferred level of significances (5%). From the table presented above, there exist a causal association between federal government external debt and economic development in Nigeria with causality flowing from FGXD to HDI accordingly. This implies that FGXD granger cause HDI. This further shows the existence of supply leading relationship between external debt and human development index in Nigeria.

CONCLUSION AND RECOMMENDATIONS

Obviously, against all odds and expectation, of all the explanatory variables under investigation, only one passes the test of hypothesis. Federal government external debt exhibit a significant P-value of 0.0173 with a positive coefficient of 0.000031 suggesting that 1% increase in government external debt is capable of stimulating economic development in Nigeria to the tune of 0.00003. The report of the causality test also validate the result in the error correction model and thus suggest that external debt significantly contribute to the development of the Nigeria economy while FGDD and FGDB do not seems to granger cause economic development in Nigeria.

Theoretically, the report from this investigation justifies the Keynesian postulation of deficit financing been a key stimuli to economic development. Practically speaking, Nigerian economy has not enjoy the dividend of deficit financing as larger percentage of her citizens still lives in abject poverty, poor standard of living, high inflationary pressure, poor health facility and massive economic instability as the case may be. The question then arose that why the inverse relationship between the empirical report and practical experience? Historically, Nigerian economy has been undergoing series of economic development stages overtime but the inequalities in income distribution has widen the gap between the few rich and the much poor and has such, this make the projected development a mirage. Again, financial indiscipline, moral hazard and misappropriation of fund have been documented as some of the impediment militating against the expected level of development in the Nigeria Nigerian context. Having established the following short coming, study conclude that deficit financing is a vital stimuli in promoting economic development in Nigeria if adequately channel for the original purpose for which it was meant for. Furthermore, study thus validate the Keynesian postulation of the existence of positive relationship between deficit financing and economic development while. On this note, study recommend that managers of the Nigerian economy should coordinate the appropriation of borrowed fund and ensure that it is properly channelled towards improving the capital and production dominance of the nation as this will further help in achieving a sustainable level of economic development in Nigeria.

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