OPEN ACCESS

Global Journal of Research in Business Management
ISSN: 2583-6218 (Online)
Volume 05 | Issue 02 | March-April | 2025
Journal homepage: https://gjrpublication.com/gjrbm/

Review Article

Impact of Government Expenditure on Private Sector Investment: Assessing the Crowding-Out Effect

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DOI: 10.5281/zenodo.15253985 **Submission Date:** 14 March 2025 | **Published Date:** 21 April 2025

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Abstract

Assessing the crowding-out effect, government expenditure was measured with capital expenditure, recurrent expenditure and total expenditure, the study aims to examine the relationship between capital expenditure, recurrent expenditure, total expenditure and private sector investment crowding-out effect in Nigeria. Quantitative survey research were adopted for the study using a structured questionnaires design in a five linkert scale to generate primary data. Partial least square- structural equation model (PLS-SEM) were used for measurement model and structural model. The study found that Capital expenditure has a significant positive impact on private sector investment, recurrent expenditure does not significantly affect private sector investment and Total government expenditure has no significant effect on private sector investment. It was recommended that the government should prioritize infrastructure development, industrial projects, and technological advancements. Investing in roads, power supply, and digital infrastructure can reduce business costs and attract private investments. and government should restructure its recurrent spending to make it more productive.

Keywords: *government, expenditure, capital, recurrent, total Expenditure.*

Introduction

Government expenditure plays a critical role in economic growth and development. However, the extent to which public spending influences private sector investment remains a subject of debate. While some argue that increased government spending stimulates private investment through infrastructure development and economic stability, others contend that excessive government expenditure leads to a crowding-out effect, where private investment declines due to higher interest rates and resource competition. This study aims to assess the impact of government expenditure on private sector investment, with a specific focus on the crowding-out effect.

Government expenditure is a crucial component of economic policy, influencing macroeconomic stability and growth (Chugunov et al., 2021). Public spending is often justified as a means to stimulate economic development, enhance infrastructure, and provide essential services. However, the extent to which government spending affects private sector investment remains a subject of debate. While some argue that government expenditure fosters a conducive business environment, others contend that it may discourage private sector participation by increasing competition for financial resources.

The crowding-out effect suggests that excessive government spending, particularly when financed through borrowing, leads to higher interest rates and reduced private investment (Liu, et al., 2023). When the government absorbs a large portion of available financial resources, fewer funds remain accessible to private investors, making capital acquisition more expensive. This phenomenon is particularly evident in economies where government borrowing dominates financial markets, limiting credit availability for private enterprises.

Understanding the impact of government expenditure on private sector investment is essential for formulating effective economic policies. By assessing the extent of the crowding-out effect, this study aims to provide empirical evidence on

the relationship between public spending and private sector growth. The findings will contribute to policy discussions on balancing government intervention and private sector dynamism, ensuring sustainable economic progress.

Government expenditure plays a crucial role in shaping economic growth and private sector investment. It is generally categorized into capital expenditure, recurrent expenditure, and total government expenditure**,** each influencing the economy differently. Capital expenditure refers to long-term investments in infrastructure, such as roads, power supply, and public facilities, which create an enabling environment for private sector growth (Liu, 2021). Recurrent expenditure**,** on the other hand, includes ongoing expenses such as salaries, subsidies, and administrative costs, which ensure the continuous operation of government services but may also impact fiscal sustainability. Total government expenditure represents the overall spending by the government, encompassing both capital and recurrent expenditures, which collectively affect macroeconomic stability and investment dynamics (Chindengwike, 2022).

Understanding the relationship between government expenditure and private sector investment is critical, particularly in developing economies like Nigeria, where government intervention significantly influences market conditions. Efficient capital expenditure can stimulate private sector growth by improving infrastructure and reducing business costs, while excessive recurrent expenditure may lead to fiscal deficits, inflation, and potential crowding-out effects. This study aims to analyze how these different components of government expenditure impact private sector investment, providing insights into whether government spending fosters or hinders economic development.

2. Research Problem

The relationship between government expenditure and private sector investment is complex and varies across economies. In some cases, government spending may complement private investment, while in others, it may substitute or hinder private sector activities. Understanding this relationship is crucial for policymakers to design fiscal policies that encourage economic growth without adversely affecting private sector participation. Despite extensive research of Shabbir, et al., (2021). Arvin, 2021 and Chandana, (2024). on the relationship between government expenditure and private sector investment, scholars remain divided on whether government spending stimulates or inhibits private investment, with Keynesian and neoclassical perspectives offering opposing views. Many studies conducted in the past rely on traditional econometric models that fail to capture dynamic, long-term interactions. Most research focuses on developed economies, limiting applicability to emerging markets. This study addresses these gaps by integrating advanced econometric techniques, like partial Least squire structural equation modeling, to provide a more comprehensive analysis. The government expenditure is measured by capital expenditure, recurrent expenditure and total government expenditure, it accounts for diverse financial structures, regulatory environments, and fiscal policies, offering insights into how government expenditure influences private sector investment across different economic contexts.

Research Questions

The key question this research seeks to answer are:

1. What is the impact of capital expenditure on crowd out private sector investment in Nigeria?
2. Does recurrent expenditure crowd out private sector investment in Nigeria?
3. Does total government expenditure have any effect on crowd out private investment in Nigeria?

Research Objectives

The following objectives is set out to guide this study

1. To examine the impact of capital expenditure on crowd out private sector investment in Nigeria.
2. To assess the effect of recurrent expenditure on crowding-out private sector investment in Nigeria.
3. To evaluate the influence of total government expenditure on crowding-out private sector investment in Nigeria.

Hypotheses

The following hypotheses is stated in a null form to guide the study

H_{01}; Capital expenditure do not crowd out private sector investment in Nigeria.

H_{02}; Recurrent expenditure do not crowding-out private sector investment in Nigeria.

H_{03}; Total government expenditure do not crowding-out private sector investment in Nigeria.

Literature Review

Government expenditure

Government expenditure refers to the total amount of money spent by a government to provide public goods, services, and infrastructure necessary for economic development and social welfare. It is broadly categorized into capital expenditure **and** recurrent expenditure**.** Capital expenditure involves long-term investments in infrastructure, such as roads, schools, and healthcare facilities, which contribute to economic growth and productivity**.** Recurrent expenditure, on the other hand, includes ongoing government operational costs such as salaries, pensions, and subsidies. The level and

composition of government spending play a crucial role in shaping macroeconomic conditions, influencing factors like employment, inflation, and private sector investment (Chandana, 2024).

The impact of government expenditure on the economy remains a subject of debate among economists. Keynesian theory argues that increased government spending stimulates economic activity by boosting demand and encouraging private sector investment (Carvalho, 2024). However, the neoclassical perspective suggests that excessive government expenditure can lead to inefficiencies, distort resource allocation, and "crowd out" private investment by increasing interest rates or creating fiscal deficits (Gathu, 2024). The effectiveness of government spending depends on factors such as the fiscal policy framework, the efficiency of resource allocation, and the overall economic environment.

Government expenditure and private sector investment in Nigeria share a complex and dynamic relationship that significantly impacts the country's economic growth. While government spending on infrastructure, security, and social services can create an enabling environment for private investment, excessive public expenditure—especially on recurrent costs—may lead to fiscal deficits, higher interest rates, and inflation, which can discourage private sector participation. Nigeria's economy has historically been influenced by oil revenue fluctuations, affecting government spending patterns and, consequently, private investment confidence. Inadequate infrastructure, regulatory inefficiencies, and policy inconsistencies have also posed challenges to private sector growth. However, strategic capital expenditure on roads, power supply, and industrial policies can enhance business productivity and attract both domestic and foreign investments. Therefore, achieving a balanced and efficient allocation of government spending is crucial to fostering a thriving private sector and ensuring long-term economic stability in Nigeria.

Capital expenditure

Capital expenditure refers to government spending on long-term assets and infrastructure projects that enhance a nation's productive capacity (Miar, et al., 2024). This includes investments in roads, bridges, schools, hospitals, power plants, and other public infrastructure that contribute to economic growth and development. Unlike recurrent expenditure, which covers ongoing operational costs, capital expenditure focuses on creating assets that yield long-term benefits. By improving essential infrastructure, capital expenditure can enhance business productivity, attract private investment, and boost overall economic efficiency.

The impact of capital expenditure on the economy depends on its efficiency and funding sources. Well-targeted capital investments can stimulate private sector growth by reducing production costs and improving market access. However, if financed through excessive borrowing or misallocated to unproductive projects, it can lead to debt burdens and economic inefficiencies (Xu, et al 2021). In developing economies like Nigeria, capital expenditure plays a crucial role in bridging infrastructure gaps and fostering sustainable economic development, but its effectiveness hinges on transparency, accountability, and sound fiscal management.

Capital expenditure and private sector investment in Nigeria are closely linked, as government spending on infrastructure and long-term assets can either stimulate or hinder private sector growth. When the government invests in essential infrastructure such as roads, power, and transportation, it reduces business costs, enhances productivity, and creates a conducive environment for private investment. However, inefficiencies in capital expenditure, such as project delays, corruption, and misallocation of funds, can limit its positive impact on the private sector (Catalão 2023). Additionally, if capital projects are financed through excessive government borrowing, it may lead to higher interest rates, making it more expensive for private businesses to access credit. In Nigeria, improving the efficiency, transparency, and prioritization of capital expenditure is crucial for maximizing its role in attracting and sustaining private sector investment, ultimately driving economic growth.

Recurrent expenditure

Recurrent expenditure refers to government spending on ongoing operational costs necessary for maintaining public services and administrative functions (Samuel & Oruta,2021). It includes expenditures on wages and salaries of public employees, pensions, subsidies, interest payments on debt, and costs related to running government institutions. Unlike capital expenditure, which focuses on asset creation, recurrent expenditure is consumed within a fiscal year and does not directly contribute to long-term economic growth. However, it plays a vital role in sustaining government functions, ensuring the smooth delivery of public services such as education, healthcare, and security.

While recurrent expenditure is essential for maintaining government operations, excessive spending in this category can strain national finances and limit resources available for capital investment (Sulasmi,2023). If a large portion of government revenue is allocated to salaries, subsidies, and debt servicing, it may lead to fiscal deficits and increased borrowing. In economies like Nigeria, balancing recurrent and capital expenditure is crucial for sustainable development, as excessive recurrent spending can reduce funds available for infrastructure and other productive investments needed to drive long-term economic growth.

Recurrent expenditure and private sector investment in Nigeria have a complex relationship, as high government spending on wages, subsidies, and debt servicing can both support and hinder private sector growth. While recurrent expenditure is essential for maintaining public services and ensuring economic stability, excessive spending in this category can limit funds available for capital projects that directly benefit businesses. Androniceanu, (2021) stated that a high recurrent expenditure, particularly when financed through borrowing, can lead to fiscal deficits, increased interest rates, and inflation, making it more expensive for private businesses to access credit. Moreover, inefficient allocation of recurrent spending such as bloated public sector wages and subsidies can crowd out private investment by reducing resources for infrastructure and business-friendly policies. For Nigeria to foster private sector growth there must be a balance between necessary recurrent spending and adequate investment in capital projects that enhance business productivity.

Total government

Total government expenditure refers to the overall spending by the government on both capital and recurrent expenditures to fulfill its economic and social responsibilities (Chandana, 2024). It encompasses all financial outlays required for public administration, infrastructure development, social services, and debt obligations. This expenditure is typically funded through government revenue sources such as taxes, borrowing, and grants. The composition of total government expenditure determines the extent to which a government can influence economic growth, employment, and social welfare. An optimal balance between capital and recurrent spending is crucial to ensuring long-term economic stability and development (Odinakachi,2021).

The impact of total government expenditure on an economy depends on its efficiency, allocation, and sustainability. If well-managed, it can stimulate economic growth by enhancing infrastructure, improving human capital, and providing social safety nets. However, excessive or misallocated government spending can lead to inflation, fiscal deficits, and a crowding-out effect, where private sector investment is reduced due to high government borrowing. In developing economies like Nigeria, the effectiveness of total government expenditure is often influenced by factors such as revenue generation capacity, fiscal discipline, and the efficiency of public sector management.

Total government expenditure plays a significant role in shaping private sector investment in Nigeria, as it determines the overall fiscal environment and economic stability. When government spending is efficiently allocated between capital and recurrent expenditures, it can create a favorable business climate by improving infrastructure, maintaining economic stability, and providing essential public services. However, if total government expenditure is heavily skewed towards recurrent costs, such as salaries and debt servicing, it can limit resources for productive investments that support private sector growth. Additionally, excessive government spending, especially when financed through borrowing, can lead to higher interest rates and inflation, discouraging private investment. Therefore, for Nigeria to achieve sustainable economic growth, total government expenditure must be well-structured to balance short-term operational needs with long-term investments that enhance private sector participation and economic development (Odinakachi, 2021).

Private Sector Investment

Private sector investment refers to the allocation of financial resources by businesses, individuals, and institutions toward productive activities aimed at generating profits (Wanof, 2023). It includes investments in physical assets such as machinery, infrastructure, and buildings, as well as financial assets like stocks and bonds. Private sector investment is a key driver of economic growth, as it fosters innovation, enhances productivity, and creates employment opportunities. The level of private investment in an economy is influenced by factors such as government policies, interest rates, access to credit, and overall macroeconomic stability.

The relationship between private sector investment and government expenditure is complex and varies depending on economic conditions and policy frameworks. While well-targeted government spending on infrastructure and incentives can stimulate private investment by reducing business costs and improving market efficiency, excessive public sector intervention may lead to a crowding-out effect. This occurs when high government borrowing drives up interest rates or when inefficient public expenditures create economic distortions that deter private investment. In economies like Nigeria, fostering an environment that encourages private sector investment through stable policies, infrastructure development, and access to finance is crucial for achieving sustainable economic growth.

Empirical review

Sim, et al., (2021) conduct a study on impact of public spending on private investment in Malaysia: crowding-in or crowding-out effect. The study aims to explore the crowding effect of disaggregated public expenditure on private investment in Malaysia from 1980 to 2016 via Vector Error Correction model. Using empirical model for this study, Data adopted are obtained from CEIC database and Department of Statistic Malaysia from1980 until 2016. The variables used in this study includes private investment, disaggregate level of public expenditures, Gross Domestic Product (GDP), and Foreign Direct Investment (FDI). Empirical findings show that public spending has an enormous impact on long-term but

marginal effect on short-term private investment. Specifically, private investment is significantly crowd-in education and defense of government expenditures while significantly crowd-out health and transportation expenditure in the long term. Chandana, et al., (2021) examine the impact of government expenditure on economic growth in Nigeria, 1970-2019. The study aims to investigates the impact of Nigerian government expenditure (disaggregated into capital and recurrent) on economic growth. The paper employs Autoregressive Distributed Lag (ARDL) model. The study accounts for structural breaks in the unit root test and the co-integration analysis. The study found that capital expenditure has positive and significant impact on economic growth both in the short run and long run while recurrent expenditure does not have significant impact on economic growth both in the short run and long run.

Van, (2022) conducted a study on the Relationship between Public expenditure and private investment in developed and developing economies: policy implications based on the difference. The study is a universal study that aims to investigating the effect of public expenditure on private investment for a group of 36 developed countries and a group of 98 developing countries from 2002 to 2019. The study uses the FE-IV estimator and the PGM estimator to check the robustness of these estimates. The results by the two-step difference GMM Arellano-Bond estimator seem to be counter-intuitive. Public expenditure crowds out private investment in developed countries but crowds in it in developing countries.

Felix & Oluwasegun, (2020) conduct a study on Government Capital Expenditure and Private Sector Investment in Nigeria: Co-integration Regression and Toda-Yamamoto Causality Analysis. The study aims to analyzed the relationship between government capital expenditure and private investment in Nigeria. The study adopted Xu and Yan (2014) model to probe the relationship between government capital expenditure and private investment in Nigeria. The results of T-Y causality revealed the bidirectional causality between private sector investment and government capital expenditure in Nigeria.

Comfort, et al., (2020) conducts a study on Government Expenditure and Private Investment in Nigeria. The study aims to look at the impact of government expenditure on the Nigerian economy and the sphere of the Nigerian private investment between the period of 1981 – 2018. Johansen co-integration approach, Error Correction Methodology (ECM) and Granger Causality text were used for the analysis in the study. The findings show that capital expenditure had positive (crowd-in) effect on Private investment while recurrent expenditure showed a negative standing on the Nigerian private investment quota.

Theoretical review

This research work on the impact of government expenditure on private sector investment in Nigeria can be underpinned by Keynesian Theory of Public Expenditure and the Crowding-Out and Crowding-In Theory. These theories provide a strong theoretical foundation for examining the relationship between government expenditure and private sector investment in Nigeria. These theories help explain how different types of government spendings like capital, recurrent, and total expenditure—affect private sector activities, either by stimulating or discouraging investment.

The Keynesian Theory of Public Expenditure suggests that increased government spending, particularly on capital projects such as infrastructure, can stimulate private sector investment by creating demand and improving business conditions. According to Keynes, government expenditure has a multiplier effect**,** where increased public spending leads to higher aggregate demand, improved economic activity, and enhanced investor confidence. In the Nigerian context, capital expenditure on roads, power supply, and industrial infrastructure can reduce operational costs for businesses, attract foreign direct investment, and drive economic growth. This theory underpins the argument that strategic government investment can crowd in private sector investment by creating a more conducive business environment**.**

On the other hand, the Crowding-Out and Crowding-In Theory provides a nuanced perspective on whether government spending enhances or restricts private investment. The crowding-out effect occurs when excessive government spending, particularly through borrowing, increases interest rates, making it costly for private businesses to access credit. In Nigeria, high government recurrent expenditure such as public sector salaries, subsidies, and debt servicing can lead to fiscal deficits and inflation, discouraging private sector participation. Conversely, the crowding-in effect suggests that when government spending is directed towards productive capital projects, it complements private sector investment rather than replacing it. This theory is essential for assessing whether Nigeria's government expenditure patterns foster or hinder private investment.

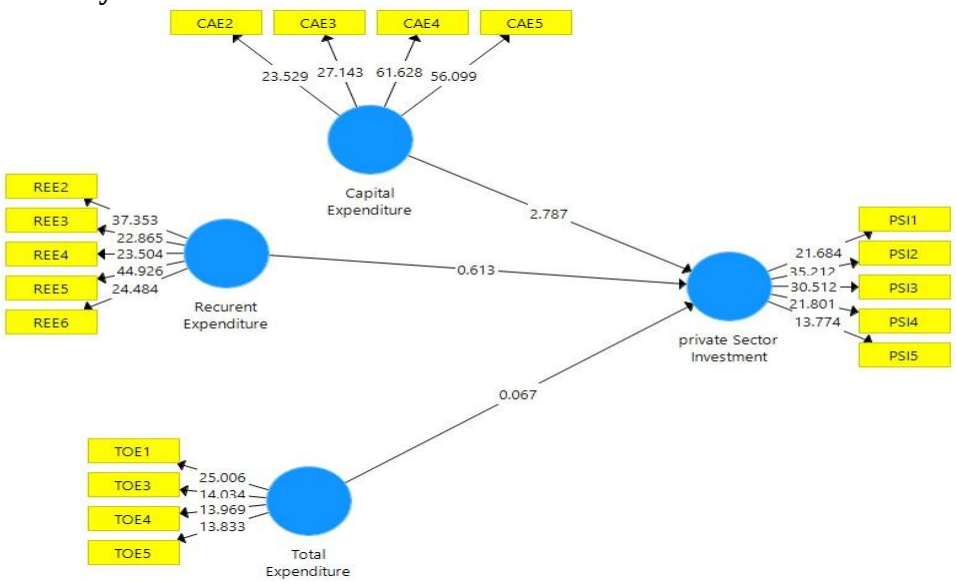
Research Methodology

This study will adopt a quantitative survey method to examine the impact of government expenditure (capital, recurrent, and total expenditure) on private sector investment in Nigeria. A structured questionnaire was used to collect primary data from private sector investors, business owners, financial analysts, and economic policymakers.

The major subjects of this study are Private sector investors, business owners, corporate executives, financial analysts, and policymakers in Nigeria. 300 respondents were co-opted for the study, being a minimum threshold for ensuring reliable, valid, and generalizable results.

These questionnaires were adapted from various studies. Structural Equation Modeling (SEM) SEM will be used for hypothesis testing and relationship modeling between government expenditure and private sector investment. The analysis will include Measurement Model to ensures reliability and validity of constructs and Cronbach's alpha, Composite Reliability (CR), and Average Variance Extracted (AVE) will be tested to validate the model. while Structural Model Examines the direct and indirect effects of capital, recurrent, and total government expenditure on private sector investment by testing the hypotheses.

Model of the study



PLS-SEM output 2025

Outer Loading

	Capital Expenditure	Recurent Expenditure	Total Expenditure	private Sector Investment
CAE2	**0.825**			
CAE3	**0.867**			
CAE4	**0.936**			
CAE5	**0.924**			
PSI1				**0.840**
PSI2				**0.899**
PSI3				**0.858**
PSI4				**0.774**
PSI5				**0.766**
REE2		**0.920**		
REE3		**0.867**		
REE4		**0.876**		
REE5		**0.890**		
REE6		**0.830**		
TOE1			**0.830**	
TOE3			**0.813**	
TOE4			**0.842**	
TOE5			**0.851**	

Source; PLS-SEM output 2025.

The outer loadings represent the correlation between observed variables and their respective latent constructs. Higher loadings (typically above 0.7) indicate that the indicators strongly reflect their latent constructs.

Capital Expenditure (CAE) value of CAE2 (0.825), CAE3 (0.867), CAE4 (0.936), CAE5 (0.924)**,** indicators exhibit strong outer loadings (above 0.8), with CAE4 (0.936) and CAE5 (0.924) being the strongest. This suggests that high reliability in measuring Capital Expenditure.

Private Sector Investment (PSI) value of PSI1 (0.840), PSI2 (0.899), PSI3 (0.858), PSI4 (0.774), PSI5 (0.766) indicators exceed 0.7, indicating good reliability. PSI2 (0.899) has the highest contribution, while PSI4 (0.774) and PSI5 (0.766) are slightly weaker but still acceptable. Recurrent Expenditure (REE) value of REE2 (0.920), REE3 (0.867), REE4 (0.876), REE5 (0.890), REE6 (0.830)**,** indicators have strong loadings above 0.8, with REE2 (0.920) being the strongest. This suggests high consistency in measuring Recurrent Expenditure. Total Expenditure (TOE) value of TOE1 (0.830), TOE3 (0.813), TOE4 (0.842), TOE5 (0.851)**,** indicators exceed 0.8, confirming strong contributions to Total Expenditure. TOE5 (0.851) is the strongest indicator.

R Square

	R Square	R Square Adjusted
private Sector Investment	0.251	0.229

Source; PLS-SEM output 2025.

R-Square (R^2) measures the proportion of variance in a dependent variable explained by independent variables in a model. The R-Square value (0.251) suggests that the model explains 25.1% of the variation in Private Sector Investment (PSI)**,** indicating that other external factors significantly influence PSI beyond the included predictors. The Adjusted R-Square (0.229) slightly lowers this estimate, suggesting that some independent variables may have weaker contributions. This finding implies that while the model provides some insight into private sector investment decisions, it does not fully capture all influencing factors. For the study, this means that additional variables—such as interest rates, government policies, or economic growth should be considered to improve the model's explanatory power and provide a more comprehensive understanding of PSI trends.

Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Capital Expenditure	0.912	0.932	0.938	0.790
Recurent Expenditure	0.925	0.931	0.943	0.770
Total Expenditure	0.855	0.862	0.901	0.696
private Sector Investment	0.886	0.900	0.916	0.687

Source; PLS-SEM output 2025.

The construct reliability and validity results indicate that all constructs in the study demonstrate high internal consistency and strong convergent validity, making them reliable for further analysis. The results confirm that all constructs are highly reliable and valid**,** meaning they consistently measure their intended expenditure indicators. The strong AVE values suggest that each construct captures a significant portion of the variance in its indicators. However, Private Sector Investment (PSI) has the lowest AVE (0.687)**,** indicating slightly weaker explanatory power. This suggests that additional factors may influence PSI, and further refinement of its measurement could enhance validity. Overall, the study's constructs are robust, reliable, and suitable for financial analysis.

Model_Fit

	Saturated Model	Estimated Model
SRMR	0.092	0.092
d_ULS	1.457	1.457
d_G	2.245	2.245
Chi-Square	378.084	378.084
NFI	0.908	0.908

Source; PLS-SEM output 2025.

The model fit statistics indicate how well the proposed structural model aligns with the observed data. Since the Saturated Model and Estimated Model have identical values, it suggests the model is properly specified. The results indicate that the model is a good representation of the data, with NFI (0.908) confirming a strong fit. However, the SRMR value (0.092) suggests minor discrepancies, meaning some relationships in the model may need slight

adjustments. The moderate Chi-Square value also suggests that while the model structure is sound, it may not fully capture all underlying relationships.

Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Capital Expenditure -> private Sector Investment	0.679	0.700	0.244	2.787	0.006
Recurent Expenditure -> private Sector Investment	-0.211	-0.227	0.344	0.613	0.540
Total Expenditure -> private Sector Investment	0.014	0.023	0.217	0.067	0.947

Source; PLS-SEM output 2025.

The path coefficients measure the strength and direction of the relationship between government expenditures (Capital Expenditure, Recurrent Expenditure, and Total Expenditure) and Private Sector Investment in Nigeria. The T-Statistics and P-values help determine whether these relationships are statistically significant.

Path Coefficient (O) = 0.679, T-Statistic of 2.787, critical value (1.96) for significance at the 5% level. the P-Value of 0.006 which is Less than 0.05, meaning the result is statistically significant. Therefore, the study rejects the null hypothesis and accepted that Capital expenditure has a significant positive impact on private sector investment, indicating it does not crowd out but instead encourages private investment in Nigeria.

Path Coefficient (O) value of -0.211 with negative relationship, T-Statistic of 0.613 which is less than 1.96 threshold, meaning it is not significant. The P-Value of 0.540 is greater than 0.05, meaning the result is statistically insignificant. Therefore, the study fails to reject the null hypothesis and conclude that recurrent expenditure does not significantly affect private sector investment. There is no evidence to suggest that it crowds out or encourages private investment.

Path Coefficient (O) value of 0.014 that is close to zero, indicating almost no effect, T-Statistic of 0.067 that is lower than 1.96 thresholds, meaning that it is not significant. The P-Value of 0.947 that is greater than 0.05, meaning the result is highly insignificant. Therefore, the study fails to reject the null hypothesis and concludes that total government expenditure has no significant effect on private sector investment, implying that overall government spending does not crowd out private investment.

Discussion of findings

The study's findings provide critical insights into the relationship between government expenditure and private sector investment. The results show that capital expenditure has a significant positive effect on private sector investment**,** suggesting that infrastructure development, industrial projects, and productive public investments create an enabling environment for businesses to thrive. This supports the theory that government spending on essential infrastructure—such as roads, energy, and technology—reduces business costs and enhances private sector confidence. It also aligns with previous research of Xu, et al 2021, Catalão 2023 & Miar, et al., 2024, which stated the importance of capital investment in stimulating economic growth and attracting private sector participation.

On the other hand, recurrent expenditure was found to have no significant impact on private sector investment, indicating that government spending on wages, administration, and operational costs does not necessarily encourage private sector growth. While recurrent expenditure is essential for maintaining government operations, excessive spending in this area may divert resources away from more productive investments. This finding suggests that unless recurrent spending is channeled into human capital development such as education and healthcare, it is unlikely to have a meaningful impact on private investment. This study aligns with previous study of Onifade et al., 2020, Yusuf & Mohd, 2021 & Chandana etal., 2024. Policymakers must therefore ensure that recurrent expenditure is structured in a way that indirectly supports private sector growth by improving workforce productivity and institutional efficiency.

Lastly, the study found that total government expenditure does not significantly affect private sector investment, reinforcing the idea that the overall size of government spending is not the main determinant of private sector growth. Instead, what matters most is the composition and efficiency of spending. This suggests that merely increasing government expenditure will not necessarily lead to higher private sector investment; rather, targeted and well-managed spending is required. The findings align with the previous studies of Kim, et al 2021, Galli, 2021& Long & Liao,2021 that affirmed that governments should adopt a more strategic fiscal policy, ensuring that a larger proportion of spending

is allocated to capital projects with long-term economic benefits, while also maintaining fiscal discipline to avoid excessive borrowing that could crowd out private investment.

Concussions

The findings reveal that capital expenditure significantly enhances private sector investment, rejecting the first null hypothesis **(**H_{01}**).** This suggests that government spending on infrastructure, industrial development, and productive assets creates a conducive environment for private sector participation. The positive relationship implies that well-targeted capital investments can stimulate business growth by reducing operational costs, improving infrastructure, and enhancing economic stability. Therefore, policymakers should prioritize capital expenditure as a tool for fostering private sector expansion and overall economic development.

On the other hand, recurrent expenditure does not significantly impact private sector investment, leading to the acceptance of the second null hypothesis **(**H_{02}**).** This indicates that government spending on wages, administrative costs, and other non-capital expenses does not necessarily encourage private sector growth. While recurrent expenditure is essential for maintaining government operations, excessive spending in this area could divert resources from more productive investments. To enhance private sector participation, the government should focus on ensuring that recurrent spending is directed toward skill development, education, and institutional efficiency, rather than merely sustaining bureaucratic costs.

Lastly, total government expenditure does not have a significant effect on private sector investment, supporting the third null hypothesis **(**H_{03}**).** This finding highlight that the overall size of government spending is not the key determinant of private sector growth; rather, the composition of spending matters. Simply increasing government expenditure without a strategic allocation will not necessarily crowd in or crowd out private investment. Therefore, fiscal policies should emphasize efficient resource allocation, with a higher proportion dedicated to capital projects that provide long-term economic benefits, such as infrastructure and technological advancements.

Recommendations

The study recommends as follows;

That government should increase its investment in productive infrastructure, such as roads, power supply, and communication networks. These improvements lower business costs and create an enabling environment for private investment.

That government should rationalize its recurrent spending to focus on human capital development. This includes increased funding for education, healthcare, and skill acquisition programs that enhance workforce productivity.

That government should implement fiscal policies that promote efficient resource allocation while avoiding excessive debt accumulation that could deter private sector growth.

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CITATION
IBRAHIM, Lamido. (2025). Impact of Government Expenditure on Private Sector Investment: Assessing the Crowding-Out Effect. In Global Journal of Research in Business Management (Vol. 5, Number 2, pp. 151–160). https://doi.org/10.5281/zenodo.15253985