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Fiscal Policy, Private Consumption, and Economic Growth among the Economic Community of West African States

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Abstract: This study examines the impact of fiscal policy and private consumption on economic growth among the Economic Community of West African States (ECOWAS) spanning from 1988 to 2017 using the Panel Pool Mean Group. The results depicted that the government's recurrent expenditure for growth was inversely but significant to economic growth, while capital expenditure was positively and statistically significant to explain economic growth in Nigeria. It can be seen that capital expenditure is vital for economic growth. Besides, private consumption's negative effect on economic growth was a disconnection between economic output and private consumption. The results further showed that tax revenues in ECOWAS countries had a positive and significant influence on economic growth. Therefore, the study recommends re-visit government policy(ies) channeling government spending to increase ECOWAS output rates and spur regional economic growth.

Keywords: Private Consumption; Macroeconomic Policy; Economic Growth; ECOWAS

JEL Classification: D1; E2; E6; F43; O47

Introduction

The growth in the Economic Community of West African States (ECOWAS) has been challenged from its inception. Different scholars have shown in their studies how the growth of embattled ECOWAS member states is affected by various factors, including public funds mismanagement, corruption, poor economic policies, absence of trade integration from the region, lack of coordination, and ineffective fiscal policies. Impulsive government financing and feeble sectorial linkages with socioeconomic difficulties also constitute an impediment to a sustainable economy (Amadi, 2006). Today, the most key objective of any economy being challenged in the Anglophone Economic Community of West African State is the growth due to its inefficiency in allocating human and material endowment.

In this regard, Kuznets (1973) considers economic growth as a drawn-out ascent in the ability to progressively support the various goods and services of a populace's economy, where developing its capacity depends on the propelling innovation and the institutional and

philosophical changes it demands. Thus, economic growth is the expansion in yield of an economy throughout a given timeframe. It estimates an expansion in the production of goods and services over a particular period. In a developing nation, enough output is created in each progressive timeframe. In this way, growth happens when a country's output increases and, thus, is utilized to create more output.

Moreover, the macroeconomic performance of ECOWAS countries varies across the organization. While few countries among the ECOWAS were reported to have steady macroeconomic performance, others are unsatisfactory by comparison. However, the macroeconomic performance at ECOWAS had commonly been poor despite the many commitments from the policymakers to economic stability from the ECOWAS member states. ECOWAS was set up to help promote member states' economic growth; the proposed objectives of members state, however, have failed to ignite for over forty years of its reality. It will be coherent that an increment in public consumption prompts an expansion in output growth. However, Barro (1991) has opposed its validity for certain nations, particularly the developing countries.

On the other side, in their work, Gwartney et al. (1998) emphasized that “even though government expenditure on its core functions may enhance economic performance, there are good reasons to believe that growth will be retarded if government expenditure goes beyond its core functions into non-productive activities.”

The present state of household consumption resulting from government changes in government fiscal policy surges the modest of this research as an attempt to quantify the effect of household expenditure on goods and services and changes in fiscal policy instruments on economic growth. Concerning this, many researchers have looked into the relationship between private consumption and fiscal policy and their impacts on growth in developing countries. However, earlier studies' ability to verify the significant influence of government financing on expanding private consumption's influence is missing in the empirical review. To that end, this study intends to focus on this gap by expanding the earlier works to verify how fiscal policy influences private consumption and its effect on economic growth among West African states countries. Besides, in macroeconomics, private consumption is one of the key drivers of aggregate expenditure. An increase in consumption will automatically lead to an increase in aggregate expenditure, subsequently fueling economic growth. Following this importance, this study examines how both fiscal policy and private consumption can affect ECOWAS members' economic growth. The study subsections include the literature review, methodology, results, and conclusion and recommendations.

Several researchers have verified the relative effect of fiscal policy on economic growth worldwide, both in developed and developing economies. However, the nature of the relationship between fiscal policy, private consumption, and economic has not been discussed, especially in a cross-country study. Using a structural equation model, with data spanning China's 29 provinces between 1992 and 2010, Zhang and Yang (2016) explored how consumption affects economic growth. They reported that the path coefficients relating to consumption and economic growth depicted a significant positive

effect. Benos (2009), also through the examination of how fiscal policy affects economic growth among EU countries, reported that the components of public spending and revenues enhanced economic growth of the 14 European Union countries between 1990 and 2006.

In addition, Keho (2019) investigated the relationship between government spending and household consumption among ECOWAS countries. The study adopted a correlated effect mean group and confirmed that government consumption negatively influenced private consumption. While crowding-out effects in six countries posited a significant level, the crowding-out effects in one country had no significant effect in the remaining five countries. The study ascertains that government consumption in the ECOWAS states was not a good instrument to stimulate aggregate demand and economic growth. Besides, Pegkas (2018) empirically investigated the relationship among economic growth and several factors "investment, private and government consumption, trade openness, population growth, and government debt" in Greece. The results revealed a long-run relationship between the variables. Private investment, government consumption, and trade openness positively influenced economic growth, while the study found a negative long-run effect of government debt and population growth on economic growth.

In a conceptual review, Alkasasbeh and Haron (2018) examined the relationship between fiscal policy and economic growth. Their study showed that the sources of income and expenditure in fiscal policy varied, and their relative importance also varied from one country to another, where incomes for some economies relied mostly on the income generated from taxes. For this reason, it is not out of point to adjudge tax as a determinant factor of growth for such an economy as Jordan. Alkasasbeh and Haron (2018) retorted that an economy like Saudi Arabia considers oil more important because it is its biggest source of income, while its expenditure includes employee salaries and wages in the government sectors and the disbursement on infrastructure like electricity, good roads, aids, etc. The study also noted that economic conditions differ from country to country according to the economic and political systems prevailing in each country, and therefore cannot provide a single study that is valid for all these systems. It also indicated the need to find out which variables are most influential to economic growth. In addition, the issue of economic growth reflects the strength in the state's economy, and the more attractive the state is to foreign investment, the better the rate of economic growth, indicating a state of equilibrium and recovery in the economy.

Moreover, Zabiullah et al. (2017) tested the role of fiscal policy in Indian economic development: a conceptual observation. The study was based on secondary data, such as the role of fiscal policy in influencing the Indian economy and its evolution, in addition to articles, magazines, books, and so on. The study found that fiscal policy has an influential role in the Indian economy because it is useful to use resources in the best way, making use of national income in proper distribution, providing financial incentives, and reducing inequality. The success of the fiscal policy depends on taking the right time, reducing public spending, increasing revenues, and reducing taxes, which will help strengthen the economy and manage it effectively during implementation. Also, the importance of

establishing industries in the public sector and the government has a prominent role in achieving balanced development in the country.

Foster Comlan (2017) examined the relationship between fiscal policy and economic growth among the WAEMUC. Using panel regression, the study findings showed that all indicators of fiscal policy “tax revenues, private investments, the rate of inflation and population growth” influenced the economic growth in Nigeria. Meanwhile, Slimani (2016) studied how the fiscal policy affected economic growth among forty developing countries. The study using a comparative analysis between Morocco and the rest of the countries affirmed a double threshold effect of the fiscal balance. While also confirming that when the budget deficit exceeded 4.8% of the country's gross domestic product or when the budget surplus was as high as 3.2% of the country's gross domestic product, the economic growth was affected negatively. In comparison, the second showed that the sign between the budget deficit and economic growth was conditioned by the attainment of total investment in Morocco. In Malaysia, Ridzuan et al. (2014) studied the relationship between “economic growth, household consumption, domestic investment, and public expenditure.” The study employed ARDL analysis between 1960-2010, and the findings disclosed a long-run relationship between the variables.

Furthermore, Shihab et al. (2014) discussed the causal effect between Jordan's economic growth and fiscal policy. To achieve this objective, the study designed a mathematical model that relied on Granger methodology to determine the relationship between the study variables. The study data covered the period (2000-2012). After collected the data and analyzed the results, it showed that any change in budget deficit could be explained through the changes in the economic growth. Also, there was a directional relationship between the study variables “fiscal policy and economic growth” in Jordan.

Looking at research on household consumption, private investment, government expenditure, and economic growth in South Sulawesi, Indonesia, Ramli and Andriani (2013) explored the use of regression analysis that all independent variables “household consumption, private investment, and government expenditure” had positively and statistically significant influence on economic growth. Isaac and Samwel (2012), on the other hand, showed the effect of fiscal policy on private investment on economic growth in Kenya. With the use of stage regression, the study affirmed that fiscal policy on investment played a major role in determining economic growth. Another study on the “relationship between economic growth, fixed investment, and household consumption” was carried out by Karim et al. (2012). They adopted the structural vector error correction model in Malaysia and reported a significant positive linkage between household consumption and fixed investment in the short run. However, they reported no statistically significant long-run effect of fixed investment, household consumption, and economic growth. Meanwhile, the study affirmed that permanent long run runs from economic growth, household consumption, and investment.

Amin (2011), in another study on “causal relationship between consumption expenditure and economic growth in Bangladesh,” reported using ARDL the existence of long-run effect between consumption and economic growth. The study also revealed that a

unidirectional causal relationship runs from economic growth to consumption expenditure. It ascertained the application of Keynesian consumption functions in Bangladesh. On fiscal policy and economic growth in South Africa, Ocran (2009) used quarterly from 1990 to 2004 with autoregressive vector analysis and reported that investment from government posited a direct effect on output growth, while the effect was minimal to influence consumption expenditure. The study also reported that the receipt of tax posited a direct effect on the growth output. Mishra (2011), on the other hand, reported a long-run relationship between real consumption expenditure and economic growth in India, whereas there were no short-run relationships between the variables.

A sequel to this review, it was identified that studies linking fiscal policy, private consumption, and economic growth were not in existence despite some studies were related to fiscal policy, private consumption, and economic growth. It was identified that most studies had been restricted to a country study. While few identified studies were carried out by Foster Comlan (2017) on West African Economic Monetary Union Countries' fiscal policy and economic growth and Slimani (2016) on 40 developing countries, Keho (2019) studied how government spending affected household consumption among ECOWAS countries. However, these studies failed to link fiscal policy, private consumption, and economic growth. Therefore, this study examines the effect of fiscal policy and private consumption on economic growth in ECOWAS countries.

Research Method

Time-series data for choosing five ECOWAS countries were selected for the time frame of 1988-2017. The selected ECOWAS countries included Benin, Cote d'Ivoire, Ghana, Nigeria, and Sierra Leone. The justification for the period was premised on the data availability. This study adopted the Keynesian theory of fiscal policy as its theoretical framework. The Keynesian theory advanced a strong argument for the primary role of fiscal action and suggested that active government policy could effectively influence macroeconomic variables, such as economic growth. The theory reflects on the equilibrium of the market's performance in the economy. The market equilibrium is analogs of aggregate demand and aggregate supply. Aggregate demand encompasses the purchases of locally produced goods and services during the accounting period. In addition, Adolph Wagner's theory on expenditure posited as an endogenous factor was for determining national income growth. As income increases, the public sector's output grows. However, Keynes posited that public expenditure is determined by exogenous factors that reflect on the macroeconomic policy for growth and development in the short and long run. The traditional equation posits that output growth is a function of consumption, investment, and government expenditure:

$$Y = C + I + G \tag{1}$$

Where: Y represents GDP (national income), C refers to consumption, I represent an investment, and G is government expenditure.

The equation reflects that consumer spending is a vital part of output growth along with capital investments and government investment. This model envisages a greater role of government in improving the efficiency of resource allocation and promoting investment to raise the rate of economic growth in developing countries (Ahuja & Tatsutani, 2009). The government is assumed to make an adequate investment through infrastructures like electricity, good roads, and improvement in human capital, which is necessitated to improve private investment and generate increasing returns to scale. Meanwhile, it is ascertained that endogenous growth is an extension of the neoclassical theory. This theoretical model was employed to reflect the effect of fiscal policy and private consumption on economic growth among the ECOWASs.

Model Specification

Following the theoretical postulation by the Keynesian model and Wagner's Law, this study adapted its model from the background information provided by the Keynesian theory of fiscal policy and incorporated other variables into the model based on the previous studies of Adeoye (2006) and Onyinyechi et al. (2016). Therefore, in line with this explanation, the model is specified to capture the relationship between fiscal policy, private consumption, and economic growth. The functional form of the model is stated:

$$GDP_{it} = f(GRE_{it}, GCE_{it}, TX_{it}, PC_{it}) \quad (2)$$

In order to make the regression model in an estimation form, the model is reformulated to include the stochastic error term.

$$\begin{aligned} \Delta RGDP_{it} = & \alpha_0 + \sum_{i=1}^N \alpha_1 \Delta RGDP_{it-1} + \sum_{i=1}^N \alpha_2 \Delta GRE_{it-1} + \sum_{i=1}^N \alpha_3 \Delta GCE_{it-1} + \sum_{i=1}^N \alpha_4 \Delta TX_{it-1} + \sum_{i=1}^N \alpha_5 \Delta PCE_{it-1} \\ & + \phi_1 RGDP_{it-1} + \phi_2 GRE_{it-1} + \phi_3 GCE_{it-1} + \phi_4 TX_{it-1} + \phi_5 PCE_{it-1} + v_t \end{aligned} \quad (3)$$

Where; RGDP = Real Gross Domestic Product, **GRE** = Government spending on recurrent expenditure, **GCE** = Government spending on capital expenditure, **TX** = Tax revenue (value-added tax and exercise duties), PC= Household Final consumption, α_0 = intercept or constant term, α_{1-5} = the various parameter estimates measuring the impact of the explanatory variables, μ = the error term, i = Cross-sectional data, and t = Time Series. The study time frame lapsed between 1991 and 2018. The time frame was chosen based on the availability of data from various sources.

Estimation Techniques

There are already a large number of dynamic panel data estimators. This study used the Pool Mean Group estimator. Pesaran et al. (1999) showed that the traditional procedure for estimating pane data, such as fixed-effect model or instrumental variables or generalized methods of moments estimators, can produce an inconsistent and potentially misleading average value of the parameters for the dynamic panel data model unless the coefficient is in fact identical. However, in most panels of this sort, the test indicates that

these parameters differ significantly across the group. Thus, estimators that impose weaker homogeneity assumptions would be useful. Prior to the Pooled Mean Group estimates, various pre-estimation tests were verified. The tests, including the multicollinearity test, panel unit root test of Levin et al. (2002) and Im et al. (2003) W-Stat, were also employed.

In estimating a dynamic regression, it is germane to identify the level of individual integration, whether the unit root problem persists and at what level. The unit root test of the Augmented Dickey-Fuller test followed an autoregressive model. The model is identified:

$$Y_{it} = \rho Y_{it-1} + \mu_t$$

μ_{it} is stochastic, Y_{t-1} is, in fact, equal to 1.

$$Y_{it} = \rho Y_{it-1} + \mu_t$$

Actually, if $\rho = 1$, the Y_t has a unit root. In (times series) econometrics, a time series with a unit root is known as a random walk (times series). A random walk, in turn, is an example of a non-stationary time series. An alternative form of:

$$Y_{it} = \rho Y_{it-1} + \mu_t$$

The first difference can be re-writing as:

$$\Delta Y_{it} = (Y_{it} - Y_{it-1})$$

Result and Discussion

Table 1 presents the descriptive statistics of the variables used. The descriptive include the mean, median, and standard deviation. Comparing the mean and standard deviation implies that all series had high variation from their mean as the standard deviation of the series lay above 1. All series were in line and reflected the data as their mean lay within the maximum and minimum values. All variables were also positively skewed except HOUSCONS. Similarly, only HOUSCONS was leptokurtic in nature as the Kurtosis values lay below 3. Besides, GDP, GCE, GRE and TX were platykurtic. However, the values of the Jarque-Bera statistic showed that all the series were not normally distributed since the p-values of these series were more than a 5% significance level.

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Table 1 Descriptive table

	GDP	TAXREV	CUREXP	CAPEXP	HOUSCONS
Mean	7.67E+11	3.82E+10	1.65E+12	1.36E+12	77.43061
Median	3.49E+11	2.31E+09	6.13E+11	6.79E+11	84.23295
Maximum	6.32E+12	4.85E+11	9.50E+12	1.15E+13	130.7260
Minimum	7497000.	11913167	15220100	21301000	0.106504
Std. Dev.	1.06E+12	9.73E+10	2.40E+12	1.97E+12	30.72679
Skewness	3.072743	3.184897	1.650020	2.814087	-0.355506
Kurtosis	14.73326	12.29352	4.870420	12.36587	1.873328
Jarque-Bera	1016.069	735.2157	83.33480	691.5007	10.27979
Probability	0.000000	0.000000	0.000000	0.000000	0.005858
Sum	1.07E+14	5.30E+12	2.30E+14	1.89E+14	10762.85
Sum Sq. Dev.	1.56E+26	1.31E+24	7.95E+26	5.37E+26	130290.8
Observations	139	139	139	139	139

Note: "LNGDP = long of Gross Domestic Product, LNGRE = Log of Government recurrent expenditure, LNGCE= Government capital expenditure, LNTX = Log of Tax Revenue, LNPC = Log of Private Consumption" Where *, **, *** indicates 10%, 5%, 1% Significant level.

Table 2 Correlation matrix among the variables

	LGDP	LHCON	LTAREV	LCAPEXP	LCUREXP
LGDP	1				
LHCON	-0.106128	1			
LTAREV	0.413296	0.206272	1		
LCAPEXP	0.976803	-0.088373	0.316438	1	
LCUREXP	0.611837	0.044615	0.217032	0.573659	1

Note: "LNGDP = long of Gross Domestic Product, LNGRE= Log of Government recurrent expenditure, LNGCE= Government capital expenditure, LNTX = Log of Tax Revenue, LNPC = Log of Private Consumption" Where *, **, *** indicates 10%, 5%, 1% Significant level.

Table 2 shows the correlation matrix among the variable used. It was observed that the independent variables' correlation coefficients were not perfectly correlated since none of the correlation coefficients were closer to one (1). Hence, the tendency of multicollinearity problem was closed.

Table 3 Unit root test

Variables	Levin, Lin & Chu t*		Im, Pesaran & Shin W-Stat		Order of Integration
	Level	First Diff	Level	First Diff	
LGDP	-0.95548	-3.75759	0.47175	-4.75948	I(1)
LHCON	-1.21811	-2.18108	-2.37300	-6.05135	I(0)
LTAREV	0.61574	0.49731	0.32633	-4.06246	I(1)
LCAPEXP	-1.16472	-4.67681	0.89401	-5.09759	I(1)
LCUREXP	-1.28514	-2.32296	1.40188	-4.04885	I(1)

Note: "LNGDP = long of Gross Domestic Product, LNGRE= Log of Government recurrent expenditure, LNGCE= Government capital expenditure, LNTX = Log of Tax Revenue, LNPC = Log of Private Consumption" Where *, **, *** indicates 10%, 5%, 1% Significant level.

Table 3 displays the unit root test for the unit-roots problem in the panel data. It was observed that Levin, Lin and Chu t* test for unit root at 5% significance level indicated that LGDP, LTAREV, LCAPEXP, and LCUREXP all had a unit root at their original series. Whereas in their first differences, the existence of unit root in the series was eliminated. Hence, they were integrated of order one (1). While the LHCON series at level was stationary, the unit root problem was eliminated at the original series. It showed that LHCON was integrated of order zero (0). Similarly, Im et al. (2003) W-Stat at 5% significance level indicated that all series (LGDP, LHCON, LTAREV, LCAPEXP, and LCUREXP) had unit root problems at the level. Meanwhile, they were stationary at their first differences. Hence, they were all integrated of order one (1).

Table 4 Short-run estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Short Run Equation				
D(LHCON)	0.144913	0.118076	1.227290	0.2225
D(LTAREV)	-0.209740	0.093763	-2.236911	0.0274
D(LCAPEXP)	0.069718	0.241104	0.289163	0.7730
D(LCUREXP)	0.966606	0.510043	1.895145	0.0608
C	-3.798643	1.517904	-2.502559	0.0139

Note: "LNGDP = long of Gross Domestic Product, LNGRE= Log of Government recurrent expenditure, LNGCE= Government capital expenditure, LNTX = Log of Tax Revenue, LNPC = Log of Private Consumption" Where *, **, *** indicates 10%, 5%, 1% Significant level.

The co-integration estimator results in Table 4 reveal that economic growth and the annual result for the independent and control variables showed the expected negative sign of co-integration and were highly significant as theoretically expected. The highly significant cointegrated further confirms the existence of a stable long-run relationship. The co-integration coefficient of -0.2678 simply implies that deviation from the long-run economic growth is deemed corrected by 26.78% by the following year. This negative sign signals an oscillating convergence in economic growth in Nigeria and a move back towards equilibrium.

Table 5 Long run estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Long Run Equation				
LHCON	-0.769088	0.125068	-6.149362	0.0000
LTAREV	0.529703	0.089317	5.930587	0.0000
LCAPEXP	1.441019	0.085854	16.78453	0.0000
LCUREXP	-0.288718	0.041189	-7.009576	0.0000

Note: "LNGDP = long of Gross Domestic Product, LNGRE= Log of Government recurrent expenditure, LNGCE= Government capital expenditure, LNTX = Log of Tax Revenue, LNPC = Log of Private Consumption" Where *, **, *** indicates 10%, 5%, 1% Significant level.

The short-run coefficient indicates that LHCON, LCAPEXP, and LCUREXP posited a positive effect on Nigeria's economic growth. The coefficient of the lagged LHCON, LCAPEXP, and LCUREXP of 0.1449, 0.0697, and 0.9666 showed that unit increase in LHCON, LCAPEXP, and LCUREXP brings about an increase of 0.1449%, 0.0697%, and 0.9666% in economic growth. However, LHCON, LCAPEXP, and LCUREXP were not significant at a 5% significant

level. LTAREV posited an inverse effect on Nigeria's economy and was statistically significant to economic growth. The LHCON lagged coefficient of -0.2097 signified that a unit increase in lagged LHCON brings about a decrease of 0.2097 in economic growth.

Table 5 shows the Pool Mean Group (PMG) long-run analysis of the fiscal policy and private consumption effect on economic growth in ECOWAS countries. The estimated PMG model in Table 4 is represented in the equation. From the estimate, both LHCON and LCUREXP posited an inverse effect on LRGDP in the ECOWAS countries, while both LTAREV and LCAPEXP positively affected LRGDP in ECOWAS countries. The coefficient of LHCON and LCUREXP of -0.7691 and -0.2887 respectively posited that a unit increase in LHCON and LCUREXP decreases 0.7691% and 0.2887% in LRGDP of the ECOWAS countries. Also, the coefficient of LTAREV and LCAPEXP of 0.5297 and 1.4410 showed that a unit increase in LTAREV and LCUREXP brings a proportion rise of 0.5297% and 1.4410% in LRGDP among ECOWAS countries, respectively. The t-statistics also showed that all independent variables were statistically significant at a 5% level. Hence, all variables were represented in the model and true reflection on LRGDP of the ECOWAS countries.

The study by Keho (2019) is in tandem with the empirical findings, as the study concluded that public spending does not influence economic growth positively among ECOWAS countries. Similarly, Foster Comlan's (2017) studies align as the study revealed that such a tax policy, designed as the use of tax for economic or social purposes, promotes economic growth in the WAEMU zone. Isaac and Samwel (2012) also gave credence to the study's findings as the study showed that fiscal policy impacts on investment played a major role in the determination of economic growth in Kenya. On the inverse reflection of consumption on economic growth, the study by Amin (2011) confirmed the result as the study retorted that Bangladesh consumption is the result rather than the cause of growth. However, a study by Ramli and Andriani (2013) does not augur well with the study as their study concluded that an increase in consumption, private investment, and aggregate demand from year to year could boost economic growth.

Conclusion

This research examined the impact of fiscal policy and private consumption on economic growth in ECOWAS from 1988 to 2017. The study reported that though only tax revenue negatively influenced economic growth in the short run, capital expenditure and tax revenue were positively significant to economic growth in ECOWAS countries. However, both private consumption and current expenditure inversely and significantly influenced economic growth in ECOWAS countries. It is evident that both the private and public sectors lagged in spurring growth in the countries. Therefore, there is a need for re-visiting government policy channeling towards government spending to increase the ECOWAS output rate. Also, adequate government spending via tax and consistent private consumption will not only bring about economic growth but there will also be a general increase in the citizens' standard of living. In contrast, fiscal policy and consumption provide a challenge to economic growth across African countries. In a broad survey, the study may not be generally justified in African states. Therefore, a study covering the Sub-

Saharan, which quantified most African states, is needed. More so, a longer period covering all policy regimes from pre- and post-structural adjustment program periods will give the study a broader outlook.

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