Resource Gaps and Economic Growth in Nigeria: 1970-1999

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ABSTRACT The study examined the effects of, and the most significant and binding resource gaps (Investment-Savings, Export-Import and Budgetary gaps) on economic growth in Nigeria between 1970 and 1999. The study made use of secondary data and econometric analysis, which involved specifying models to estimate the effects of the resource gaps on economic growth in Nigeria. The models adopted error correction modeling (ECM) technique. The equations were estimated simultaneously using the Two Stage Least Squares (2SLS) techniques. The results showed that a unit increase in the Investment-Savings gap worsened the output gap by 1.5 units, while a unit increase in the Export-Import gap worsened the output gap by 0.04unit. However, a unit increase in the Budgetary gap worsened the output gap by 2.5units. Thus, the three resource gaps combined together to limit economic growth in Nigeria. The Budgetary gap was found to be the most significant and binding constraint on economic growth in Nigeria, while Investment-Savings gap and Export-Import gap followed in that order. The result validated the original Chenery hypothesis to the effect that countries in their pre-take-off stage of development usually have Investment-Savings gap predominance, as the Nigerian economy was found not to be suffering from low monetised savings. Furthermore, the results showed that Investment-Savings gap and Export-Import gap were not of the same magnitude as reported by some other studies. The study concluded that economic management authorities should pursue policy to reduce output gap, as this is an important way to ensure sustainability of economic growth. This could be pursued through a frequent reassessment of the relationships between potential and actual output as well as the desired resources to fill the gap.