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POLITICAL INSTABILITY AND ECONOMIC GROWTH: EVIDENCE FROM NIGERIA

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ABSTRACT

Despite her potentials, launching Nigerian on a sustained growth trajectory has remained elusive. The paradox is not unconnected with macroeconomic volatility propelled by an age-long political tensions and acrimonies. This study examines the link between political instability and economic growth in the context of Nigeria. Adopting ordinary least square estimation model on Nigerian data for a period between 1985 and 2014, it was established that political instability impacted negatively on economic growth, measured by the growth of GDP per capita. Consistent macroeconomic reforms and tension-free polity are some of the measures recommended.

Key-words: Political instability, economic growth, macroeconomic stability Maastricht criteria, resource-rich economy, gross domestic product.

INTRODUCTION

Politics and economics are in many ways closely connected. Production and distribution of wealth are largely influenced by government. On the other hand, solutions to many economic problems (must) come through political channels. By extension political ideas and institutions are themselves influenced by economic conditions. A classic example is democracy which owes not a little to Industrial Revolution. Akanbi and Chima (2014) noted that the process of democracy and economic development are believed the form a solidary couple in the sense that one cannot thrive well without the other. An economy needs a well-run state (good governance, stable political environment) that can provide an efficiently managed public policies/goods in such critical areas as infrastructure security, bureaucracy and judiciary. On the other hand, the state needs the economy (market) as there are abundant evidences from the troubled economies of the post independence period that the state, the custodian of political apparatus could not singlehandedly create or expand the productivity necessary for economic growth. This is why good governance and political stability hinge on the role of the state as a responsible and accountable agent of distributive justice, promoter of equitable access to power and resources, manager of public institutions as well as a respecter of individual and collective rights.

The centrality of political stability to economic growth could be seen in the way state apparatus is strengthened as a property of the citizens to play the directive, regulatory and redistributory roles that are expected of it in the process of economic development. Indeed, one of the expectations of the long drawn and often desperate struggles for political stability is that it will make state better able to actualize the demands of macroeconomic stability. No doubt, political stability is a since qua non for economic development because, frequent changes in the policy (often associated with political instability) bring about unstable macroeconomic policy environment capable of stifling economic growth.

The Nigerian economy has, since independence, undergone changes which have resulted in numerous distortions that have undermined the growth potentials of the country. This, further, underscores the role of good governance-driven political stability as a critical element for macro-economic stability and sustained economic growth. The concern of this paper is, primarily, to examine the relationship between political instability and economic growth in the context of Nigerian development experience between 1980 and 2014. The paper also probes into the connection between regime types (military and democracy) and macroeconomic stability during the same period. The rest of the paper is divided as follows: conceptual and empirical review, theoretical framework, Nigerian economic and political experience, methodology and the empirical results.

Conceptual and Empirical Review

Political instability according to Hussain (2014) is the propensity of a government collapse either because of conflict or rampant competitions between (among) various political parties. It is, therefore, a qualitative or latent variable not well-defined (compared to economic growth). It was against this background that Paldam (2005) sets out four dimensions of political stability namely: S1 stable government; S2-stable political system; S3-internal law and order S4 – external stability.

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These categorization has some overlapping boundaries with those of Global peace index (2014) which identified twenty-two indicators of peace of which political in stability is conspicuously present and measured by sub-indicators of social unrest, the strength of constitutionalism, accountability, antagonistic opposition and international disputes

Macroeconomic stability describes a national economic, that has minimized vulnerability to external shocks, which in turn, increases its prospect for sustained growth. It is a necessary (though not sufficient) requirement for growth. It is measured by volatility of consumer price index (CPI), change in unemployment rate, real gross domestic product (GDP) growth over one or more business cycles, flunctuation in the current account of balance of payments (BOPs) size of government deficit/surplus changes in government finance, volatility of short and long-term interest rates and bonds (respectively), stability of exchange rate. N.

A stable economy provides a framework for an improved supply-side performance, while unstable polity shortens policymaker horizons leading to sub-optional short term macroeconomic policies. It may also lead to a more frequent switch of policies-creating volatility and thus, negatively affecting macroeconomic performance. (Aisen and Veiga 2010:3). It is not surprising therefore that macroeconomic stability is a core requirement of IMF's reform

Jaduadi and Arfaoul (2014) examined the causal relationship between political instability and growth through the estimation of panel comprising 69 developing countries between 1985-2012. The result showed a harmful effect of political instability on the fundamental base of the economy. This result is similar to the one earlier obtained by Gurgul and Loch (2012), Alesina etal (1996) and Mbaku (1992). In each of these studies economic growth is inversely related to political instability. Indeed, Gurgul and Lach (2012) were more categorical by establishing that there was no causality in the opposite direction. One-way directional causality, does not fit in to the position of Paldam (2005) who investigated the effect of growth on political stability and found that economic growth promotes political stability. The result of (Hussain 2014) is mixed. He found that some African States with a relatively low growth had remarkably stable political system. By implication not all form of political stability are, equally development- friendly; much depends on the extent to which stability translates to good governance. Political stability can be achieved through oppression or through political party that does not have to compete to be re-elected. This kills ingenuity and innovation; the concomitant complacency lead to economic stagnation. This line of thinking makes the link between economic growth and political instability is weak or the result mixed. The influence of education an development is well established. Education improves productivity as it reduces crime rate, child labour, misuse of environment and other variables that kill productivity. (Kpolovie and Obilor, 2013; Oladeji 2008).

On the transmission of political instability into growth, while Aisen and Veiga (2010) found the channel in low productivity, investment and human/physical capital accumulation provoked by instability, Paldam (2005) identified income distribution which, he observed, explained development disasters in Argentina, Peru and Uruguay. The channel of transmission is high level of corruption as found in the work Omololu (2007). To him, with corruption the society remains pauperized and development is retarded. Kwanashie (2000:12) had expressed similar view on Nigerian development process. According to him, the political class in developing countries is accustomed to looting the nation's resources as insurance far (re)election at the expense of country's economic growth and development.

While there exist as overwhelming evidence that political instability provokes macroeconomic stability and thus, economic growth, studies rarily discriminated between the types of regime (autocratic and democratic) on growth result obtained. An allusion to this is found in the work of Hussain (2014) while Alesina (1996:23) concluded that democracies do not appear to show a different growth performance than non-democracies. By extension while economic growth-political instability nexus studies are wide spread internationally such studies are patry and scanty in Nigeria. Thus, in Nigeria, the actual relationship between economic growth and political instability had been dominated by belief and opinion not founded an the result of any serious and robust empirical investigation; hence the justification for this study.

Theoretical Framework

The decision-making is central to economic studies. Decisions are taken by people, who are organized in a variety of way and style for their common purpose. An economic decision making unit can run from individual through village community to a country or a world organization. As Aboyade (1984:19) posited, one can say that any economic-decision unit is really, a system of parts which are intricately related, with its own internal rules and norms for good governance. This position is in tandem with the distant views of the state and the people. From Aristotle through, Hobbes to Adam Smith, politics exist "for the sake of best life.

The great and chief end of men uniting into commonwealth and putting themselves under government is the preservation of their property. The better preservation of these natural rights is therefore the purpose of political society (Locke in Appadorai, 1975:40).

The above provides a foundation for macroeconomic goals of the state. These goals are many and diverse, general and, in some cases, specific to the underlying and prevailing economic situation of a country. These include:

- attainment of full employment
- price stability
- fair and equitable income distribution
- external equilibrium
- safe and clean environment
- economic growth and development

While these macroeconomic goals are not mutually exclusive, growth and development may be singled out as necessary (if not sufficient to guarantee the achievement of the others. In this regard, Kayode and Oyeranti (1999:17-18) identified six ways by which economic growth can be conceived:

- Increase in the flow of total economic output of a country or a region during a period
- increase in output per head
- increase in consumption per head
- increase in personal welfare
- a series of stages through which countries pass in the course of economic development.
- a change in economic structure (including a marked shifts in political view and participation).

The attainment of these macroeconomic goals defines economic stability which is difficult or impossible, altogether, in the face of rising political tension. Put in another way, the failure to achieve the socio-economic goals through the state apparatus has been the basis for which obedience and cooperation are withdrawn by the people and resistance taking a central stage. Political stability depends on government legitimate use of physical force. If government cannot ensure the basic services it provides for people (security, food, shelter among others,) it uses the power to enforce laws, tension is generated in the polity and the economy is worse off.

Omololu (2007) identified two major sources of political instability: external and internal. Externally political process is propelled when its nature and outcome are manipulated by foreign forces to meet their parochial political and economic interests. The internally-generated political instability has always been from the pressure to transform from an authoritarian rule to a democracy as well as from ethno-socio-cultural diversities in the country. The latter is not being helped by wrong use of political apparatus to address the needs of the people. By inference, if the motive for the internal pressure for political stability is not to improve the material and social security of the people, liberalization of the political process, then the consequences can be as bad if not worse than when political agenda is externally engineered.

Political instability, to Paldam (2005) is a feature of transition with regimes alternating between military and democratic government. Democracies may be unstable for long periods during transition before becoming properly established. Nearly all stable democracies have emerged from successful economic transition. Three transition strategies were identified

These are:

- Import-substitution-industrialization (ISI) model
- Export-promotion (EP) model
- Resource-rich (RR) strategy

The IST model follows a strategy of state controlled, protected industry – now regarded as of *cul-de-sac*. The ISI model is characterized by rent-seeking group and high inflation with low growth. High inflation, no doubt is politically destabilizing and vice versa. It generates wealth that make income distribution to be skewed and therefore leads to political instability. The EP model creates employment through exports (as against wage increase of ISI's), equalizes income distribution and promotes political stability. The RR strategy involves the export of resources (usually in raw states) and use the proceeds to build a 'modern economy. This strategy is not growth-friendly. This sounds paradoxical. The resource rents causes wages to rise faster than productivity apart from distortions it creates in government spending as virtually every economic effort is subsidized as the state becomes automatic socialist". When this could no longer be sustained, tension and political instability crop up. Social cohesion determines the quality of institutions which has an important impact on whether or not pro-growth policies are implemented (Easterly et al, 2006:).

Political Instability and Economic Growth: Evidence from Nigeria

Nigerian Economic and Political Environment during the Review Period

Nigeria is a case study of oil-based wealth squandered by poor governance, political instability and internal strife. The index of Economic Freedom (2013) ranks Nigeria as mostly unfree economy due to high trade barriers, heavy regulations and excessive government intervention. Political and macroeconomic instabilities have curtailed foreign investment outside of the oil sector.

The period 1979 and 1985 with predominantly civilian regime was characterized by a declining trend in economic fortunes as a result of a downward trend in the oil industry and concomitant significant increase in the level of poverty as the proportion of Nigerians below the poverty line rose from 30% in 1979 to 42% in 1985. The gloomy economic situation of the period informed u-turn from developmental planning approach to economic transformation to structural adjustment (SAP) option. So by 1986, SAP was introduced. This involved the adoption of more market friendly measures and incentives (in place of cumbersome administrative controls): exchange rate devaluation payments system liberalization, appropriate pricing of public goods and services, tight monetary and fiscal policies. While SAP represented a very bold attempt to address the lapses the previous models failed to produce it neither stabilized the economy nor its polity. Inflation rose to 56.1% and 57.2% in 1988 and 1988 and 1993 respectively and further rose to 72.8% in 1995. Capacity utilization reduced significantly to as low as 20%.

The three-year rolling plan crept into Nigerian economic management menu in 1990 with the first rolling plan for 1990-1992. This involves the projection of both resources and expenditure profile for the medium-term (as a against long term) which are adjusted annually based on the changing for tunes of the national resources- which was volatile and largely unpredictable. It also embraces the determination of appropriate macroeconomic framework upon which specific assumptions about projections of economic aggregates for the plan period are based. The main macroeconomic variables considered are: the gross domestic output (and its major components), population growth rate, the price level and overall investment for the period.

The rolling plan, though flexible, has not really changed the Nigerian economy malady as witnessed by decay of key institutions, especially education and health, energy; except telecommunication (owing to its whole sale privatization). The privatization which changed the fortune of the telecommunication has not produced the same result in the energy sector.

Akanbi and Chima (2014) reported 3,674.9 as the generated megawatts of electricity (out of the available capacity of 6,668.6 megawatts) as a result of gas shortage (in an oil producing country!). The year 2014 also witnessed a very serious decline in oil revenue with its devastating effects on already macroeconomic indicators: depletion of reserves, mounting national debt, high exchange rate, double-digit inflation rate, high un-employment rate, high interest rate, precarious perennial budget deficits.

All macroeconomic indicators performed far well below the international standards as found in the Maastricht criteria: low and stable inflation (capped at 3% as against an average of 20% in Nigeria during the review period); low long-term interest rate (capped at 9% as against average 20.1% for Nigeria); low national debt relative to GDP (capped at 60% of GDP as against average of 64.54% in Nigeria); low deficits (capped at 3% of GDP as against an average of 18.4% in Nigeria), currency stability (fluctuation capped at 2.5% as against the Nigerian period average of 27.3%).

On the political arena, the country during the study period was under the tutelage of eight leaders – four military, three civilian and one a mixture of the two sparing two equal period 1985 – 1999 and 2000-2014 (15 years each) The first period was characterized by coups and counter coup d' tal. There was also the annulment of the first ever freest, most credible and most acceptable election (June 12 1992 Presidentials. The human right violations was also high during the period. The second period witnessed some stability of regime but not stability of the political system. Party politics has been dominated by just few individuals with mounting social tension from different geo-political zones especially from the south-south (The Ijaw Youths) and the North East (Boko Haram). The period also witnessed the creation of an additional 17 states (from just 19 in 1985 to 36 1996) and perceived and apparent lack of executive capacity to manage the economy. State creation has had mixed results in Nigeria.

Nigeria, being on oil resource dominated economy the volatility of the oil sector, largely, determine economic policy direction as well as financial capacity to execute public investment programmes. Having almost depleted the Excess Crude Oil Account (ECA) in 2013, the Federal and Stage government were faced with the option of external borrowing thereby breaching the Fiscal Responsibility Act and infringing more injuries on the nation economy. Such was the precarious situation the country has had to grapple with during the period under review.

METHODOLOGY

Data and the Empirical Model

The relationship between political instability and economic growth is established by estimating the growth equation as a function of all exogenous (economic and political variables) in the system using a ordinary least square (OLS) regression method. The estimation is for ten consecutive, non-over lapping, three-year periods, from 1985 to 2014. This estimation technique has the foundation in the work of Aisen and Veiga (2010) which found the annual real GDP per capital growth rate (proxy for economic growth) reduced by 2.39 percentage point as a result of political instability. Applications of this method are also found in Alesin et al (1996), Barro (1991), Jang-a-Pin (2009) and Paldam (2005).

Growth function is given as:

G =

Where: G is the GDP per capita growth for the sample period

is the functional notation relating the dependent variable, economic growth (G) to some measures of exogenous economic variables (Es) and measure of political instability (P) as independent variables

is the vector measures of some exogenous economic variables affecting growth. These are

(i) GDP per capital (ii) investment of (iii) Public expenditure (iv) inflation rate

(vi) Unemployment rate.

P is are proxy for political instability.

Assuming a linear relationship between the dependent variable and the independent variables, then the functional relationship, equation I becomes.

where: *G is as already defined; is GDP per capita; is total investment as a percentage of GDP; is public expenditure as a percentage of GDP; E4, and E5 are (the indicators of macroeconomic stability employed:) inflation rate, and national debt respectively, E6 education budget as a percentage of the total, P is a proxy for political instability.*

(Are the parameters of variables to be estimated, and U is the error term.

Two indicators of human capital are used. These are: GDP per capita income (PCI) and education budget. The justification for the use of PCI as a proxy for education is found in the study by Gupta et al (1999) which underscored the fact that as household incomes rise the relative cost of enrolling children into schools is reduced. That is an increased income is associated with rising school enrolment (education is assumed to be a normal good which raises human capital. Dauda (2011) and Olaniyan (2000) used inflation unemployment rates and national debt as proxies for macroeconomic uncertainty. Dummy variable is used for political instability. This is because, it is a discrete phenomenon, not directly observable. Alesina etal (1996) used 1 for democratic regime, 2 for regimes mixing democratic and with authoritarian features and 3 for authoritarian regime. Aisen and Veiga (2010) used 10 for a democratic regime and -10 for an autocratic regime. We have adopted Alesina et al typology considered better suited the Nigerian situation.

The expectation of the parameters of the estimated equation are symbolically denoted as follows:

Table 1 presents the data for the study, obtained from the National Bureau of Statistics (NBS) which provided total investment as a percentage of GDP; Central Bank of Nigeria (CBN) is our source for government expenditure unemployment rate, and public debt; we relied on International, on Monetary Fund (IMF) Financial Statistics data files for inflation rate, current account balance, GDP, the UNDP Human Development Reports were also used to update for some years between 2011 and 2014; GDP per capita growth, and non overlapping periodic averages were derived by the authors from the relevant columns of table I. The Estimated statistics are found in table 2.

The Empirical Results

The hypothesis that political instability has negative effects on economic growth is tested by estimating regression for GDP per capita growth, the results of which is presented is table 2. The estimation is for ten consecutive, non-over-lapping three-year periods from 1985 to 2014.

All the coefficients of the slope, with the exception of, have the expected signs. The negative sign (-0.008) of the coefficient of GDP per capital (one of the two measures of human capital), though not significant dismisses the assumption of a high income elasticity of demand for education. This is not being helped by a highly skewed income distribution. This result is not surprising if the size of Nigerian youths out of school, especially in the northern part of the country, is anything to go by.

The second indicator of human capital, education budget, has an expected positive coefficient of 1.596 indicating on 1.6 percentage point rise in GDP for every 1% increase in education budget.
The coefficient of political instability, is -18.65. This goes a long way to validate our hypothesis that political instability has a negative impact on economic growth.

Table 2: Regressions on Growth
Dependent Variable: Average per Capital Growth 1985-2014

Independent Variables	**Sample Means of the (Standard Deviations in Parentheses**	**Coefficients of the Variables (t-statistics in Parentheses)**	**Standard Error**	**MODEL & SUMMARY**
Constant	**17.06** (15.90)	**55.37** (0.370)	**149.71**	**R^2** = 0.778
GDP Per capital (E1)	**941.30** (987.02)	**-0.008** (-0.653)	**0.012**	**Durbin-Watson** 2.663
Investment (E2)	**22.87** (2.06)	**0.039** (0.010)	**3.82**	**F. Statistics** 5.100
Public Expenditure (E3)	**23.88** (7.22)	**-1.020** (-0.373)	**0.376**	**Standard Error** **15.88**
Inflation Rate (E4)	**19.60** (15.63)	**-44.728**	**0.443** (39.23)	
National Debt (E5)	**64.54** (44.98**)**	**-1.178** (-0.118)	**0.376**	
Education Budget (E6)	**(7.02)** 3.48	**1.542** (0.596)	**2.59**	
Index of Political Instability	**1.93** (0.992)	**-18.654** (-0.677)	**27.55**	

Source: Derived from table 1
By what this result reveals, a one dose per year change in cabinet brings down the annual growth rate by 18.65%. This, though appears exaggerated compared to 2.39% obtained by Aisen and Vaiga (2010:9), the peculiarity of Nigeria makes the seemingly oddity a reality.
Investment impacts positively on the economy and this is established in this study save for its low level of significance 0.01. However, the negative correlation between investment and annual growth of GDP makes such a positive impacta suspect. This is not unconnected with the nature of investment often undertaken in Nigerian economy, analogously, public expenditure. in this part of the world, has tended to be on unproductive activities. This, more likely, informs the negative estimated parameter of -1.020 for public expenditure. Besides, government spending, has been established to crowd out private investment required for economic growth. Inflation rate and national debt as a percentage of GDP have negative coefficients, -44.73 and -1.18 respectively. These further testify to the harmful effect of macroeconomic uncertainty of economic growth.
The coefficient of determination, R^2 of 0.778 for the model is relatively okay. It shows that about 78% of the variation in the annual GDP growth rate is explained by the independent variables of the model. However the high standard error of 15.88 is suggestive of the existence of multi-collianearity. The reason for this is not for feltched: both the economic variables and political instability measure are endogenous; not strictly exogenous as assumed in the model. The Durbin-Watson, 2.663 rules out any significant auto-correlations of the independent variables. The F-calculated 5.100 is greater, than F-tabulated 2.18 at 95% confidence level. With this, the null hypothesis of no significant relationship between political instability and economic growth is rejected in favour of the alternative hypothesis. However there is no evidence that regime types make the difference in the Nigerian economic growth results.

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CONCLUSION AND RECOMMENDATION

There exist overwhelming evidence that sustained growth acceleration seem to be associated with political stability and macroeconomic reforms; the converse is also true. Nigeria's economic growth potential has been check-mated by long years of political struggles between the military and the civil society on one hand, and within the democratic elements on the other hand. The struggle has had a toll on the macroeconomic stability for which Nigeria and Nigerians had paid a huge price. Reversing the trend requires a serious and sincere commitment on the part, especially, of the political class.

There is also an urgent need for a more equitable income distribution. The current trend that makes an average Nigerian to fall below poverty line would further retard economic growth.

The Nigerian environment (political, economic, legal, social, cultural, policy and others) should be made more investment friendly. Social strifes, regional, and ethnic jingoism (chauvinism) religious acrimonies and political tension are too bearing for a meaningful investment; they repel investment. Investment on the other hand is required for economic growth.

The foundation that has been laid for a private-driven economy should be vigorously pursued. The effort is yielding dividends in the telecommunication sub-sector which was, in the past, dominated by the public with the attendant inefficiency, bureaucracy, and colossus waste of public fund. Akin to this is the diversification of the productive base of the economy away from oil and its inherent danger as explained of a resource-rich model.

Education is a means through which a nation can advance its course. No wonder that UNESCO expects 26% of nation's budget to be devoted to education. Nigeria was never closed to this figure, the period average being about 7%. The benefit of education is usually greater than its combined private and social costs. The earlier the country realizes this the better.

The issue of endogeneity of the economic and political variables calls for a model and tool that take care of that. There is also the need to use a more direct data on human capital development and inclusion of some economic and political variable to improve the power of explanatory variables.

Economic growth that is consistent with low inflation, low unemployment rate, low national debt, low long run interest rate, financial stability, low deficits and other macroeconomic reforms is what is desirable. The trade-off between credibility and flexibility in the reform agenda should also be addressed; what to reform is as important as how to reform.

APPENDIX

Table 1: Regressions Data

PERIOD	**G**	**E1**	**E2**	**E3**	**E4**	**E5**	**E6**	**P ***
1985-1987	-8.00	283	21.66	20.13	7.08	94.87	2.80	3.00
1988-1990	10.64	300	20.00	20.16	30.37	133.10	2.93	3.00
1991-1993	21.50	244	24.73	23.67	37.97	131.26	3.52	2.67
1994-1996	43.71	322	19.32	14.43	53.15	65.23	8.88	3.00
1997-1999	9.48	308	23.21	15.37	8.39	46.33	13.04	2.67
2000-2002	17.28	407	24.90	39.37	12.90	80.33	7.09	1.00
2003-2005	20.69	670	23.66	28.61	15.63	48.40	7.21	1.00
2005-2008	41.50	1705	23.94	24.83	8.40	12.10	10.70	1.00
2009-2011	6.79	22O4	25.32	27.93	12.37	14.73	4.88	1.00
2012-2014	6.98	2970	22.12	24.27	9.70	19.03	9.14	1.00

Sources: (1) CBN (2013) Statistical Bulletin and Information
National Bureau of Statistics
International Monetary Fund Financial Statistics Data Files (2012)
UNDP (2013) Human Development Reports
* Already being defined.

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