

# The Role of Political Institutions in Economic Growth and Development of Nigeria

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## Abstract

Theoretical and empirical evidences support the notion that political institutions enhance economic performance in incipient democracies. It is the aim of this paper to ascertain the impact of political institutions on the performance of the Nigerian economy from 1999 to 2018. Consequently, it examines the concepts of political institutions, economic growth and development as well as reviews the trend in real GDP growth rates, youth unemployment and human development index in Nigeria. It was observed that during the 19 years of democratically elected government, there was consistent GDP growth from 1999 to 2002; fluctuating and declining growth from 2003 to 2018. The desired economic growth for the most populous country in Africa was somewhat a mirage and development snail speed. It supports the findings of Anwana and Affia (2018) that political institutions negatively impact growth and development in Nigeria. It suggests a revamp of the current political institutions (the rule of the game) by well meaning Nigerians, the need for reorientation of the masses about the innate power to vote out bad leaders and creation of a system that allows for proper representation of the masses at the state and national houses of assemblies. Improving economic growth and development in Nigeria requires a paradigm shift in her political institutions.

**Keywords:** Economy, political institutions, growth, development, Nigeria

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## 1. Introduction

Achieving economic growth is one of the macroeconomic goals of any government. With a population of about 200 million people (World bank, 2019), Nigeria operates a federalist democratic regime and has had more than 15 years of continuous democratic leadership. In a bid to ensure economic prosperity, the three democratically led administrations have adopted different economic reforms and policies to improve human capital, infrastructure, technology and so on.

According to Acemoglu and Robinson (2010) human capital, physical capital, and technology are proximate causes of fast growth and increased wealth of some countries while institutions are the fundamental causes of economic growth and development differences across countries. It is on this note that it is not sufficient to look at only the traditional causes of growth and development in Nigeria but also ‘institutions’ of which political institutions constitute a part.

Political institutions are rules on how to organise the polity, how authority and power are constituted, exercised, legitimated, controlled and redistributed (Kilishi, 2017). They shape the fate of economic institutions and indirectly determine economic growth and development by the type of policies, laws, regulations political actors choose to approve and implement. Given the different economic reforms and policies adopted by different administrations in the past 15 years, the possibility of political institutions militating against the desired growth and development in Nigeria, informed this study.

Democracy is beneficial to a country’s economy and has worked for some other climes. Be that as it may, there is room for different economic outcomes depending on the style of democracy adopted. Has significant development been experienced in Nigeria since 1999? Considering Nigeria’s population size, how well has the economy grown? In an attempt to answer these questions, this paper assesses the political institutions in Nigeria and its impact in economic growth and development by discussing the concepts of economic growth, development and political institutions; political structure and economy of Nigeria and analysing the trend of real GDP growth rates, youth unemployment and human development index from 1999 to 2018.

## 2. Literature Review

Government plays a significant role in promoting and maintaining growth and stability in the economy. The level of dependency on government may vary across countries as can be seen in China, South Korea, Britain, United States of America to name a few but the common notion is that there is an important and key position of the state in the life of man. Some countries will rely greatly on government to initiate economic growth while others will depend on government to sustain it. The relationship between politics and economic outcomes dates back to the era of Adams Smith when people reflected the belief that economics was inseparable from politics. Till date there is a widespread view that political factors are crucial in determining and influencing economic outcomes. Thus the

political climate, structure and invariably the government of a country are pivotal to its economic dynamics.

The high dependence on government to initiate and sustain growth is obvious in developing countries. The electorates expect to reap the benefits of the electoral process which include job availability, improved standard of living and sustainable socio-economic prosperity. Though the politics and the process of politicking do not necessarily give rise to the social structure of a people, the institutional framework, process and outcome of this exercise do influence the course and outcome of achievable socio-economic status of the nation and its people (Rafiu, 2011). Consequently over time, series of studies have been done to investigate the roles of political structures, political stability and political institutions on economic growth and development. Persson, Roland and Tabellini (2000) as cited in Marsiliani and Renstrom (2004) presented a theory of how a parliamentary system is better at enhancing public spending compared to a congressional/presidential system Also cited in Marsiliani and Renstrom (2004) were studies (Hall and Jones, 1999; Acemoglu, Johnson and Robinson, 2001; Glaeser et al., 2004; Rodrik, Subramanian & Trebbi, 2004) showing the impact of political institutions on economic development.

Using political institutions as a substitute for democracy, Pereira and Teles (2014) assessed the effects of political institutions on economic growth in different stages of democratization and economic development. It concluded that political institutions are important for increasing economic growth, mainly when democracy is not consolidated. Nomor and Iorember (2017) empirically investigated the relationship between political stability and economic growth in Nigeria for the period 1999 to 2014 and concluded that a stable political environment is an indispensable element for economic growth. From the empirical study of institutions' infrastructure that enhance economic performance in Nigeria, Anwana and Affia (2018) concluded that in Nigeria, economic and regulatory institutions drive economic growth, while governance, legal/security and political institutions hamper economic growth.

Long-standing, deep-rooted political and social challenges have shaped nations' institutions and economies (Pereira and Teles, 2011) hence assessing the role of political institutions in economic performance is not an easy task. However, an attempt will be made in this paper to examine how the economy of Nigeria has fared from 1999 to 2018 given the political institutions that hitherto existed.

## 2.1 Conceptual clarification

### 2.1.1 *Economic growth and development*

Feldman, Hadjimichael, Lanahan and Kemeny (2016) defined Economic growth as an increase in aggregate output and economic development as the expansion of capacities that contribute to the advancement of society through the realization of individuals', firms' and communities' potential. Ivic (2015) also defined economic growth as an increase in gross domestic product (GDP) as the main quantitative indicator of production for a period of one year while economic development as not only quantitative changes when it comes to the economic position of the country, but also qualitative changes (for example changes in the economic structure, emergence of new sectors and industries, new jobs, etc.). There is a large literature that explains these concepts hence it is the position of this paper that most Economists have identified that economic growth is increase in the volume of production in a country annually while economic development is the sustained increase in real per capita income, wealth and quality of life of people. Although economic growth is a necessary but insufficient condition for development much importance is attached to its trend. Economists seek to identify the causes of stagnant, slow, decreased or increased growth and development. There is no single factor that can consistently spur the perfect or ideal economic growth needed in an economy; however a proper assessment and improvement of some factors such as Physical capital, human capital, innovation, entrepreneurship, fiscal and monetary policies, and infrastructure have been identified to influence growth. A typical example is the high growth rate of 10% experienced in Japan between 1930 and 1960 which was attributed to increase in inputs and rapid technology. This example supports the view of Acemoglu and Robinson (2010) that economic growth is related to the ability of a society to increase its human capital, physical capital, and improve its technology. They however identified human capital, physical capital, and technology as proximate causes of fast growth and increased wealth of some countries and argued that institutions are the fundamental causes of economic growth and development differences across countries.

Two broad classes of institutions identified by Kilishi (2017) are economic and political institutions. Political institutions shape the fate of economic institutions while economic institutions are critical to the fate of political institutions (Kilishi, 2017). Inclusive economic and political institutions matter for broad-based economic growth (Hickey, Sen, & Bukenya, 2014). A broad based growth and development benefits a majority of the population.

### 2.1.2 *Political institutions*

According to Kilishi (2017), political institutions are rules on how to organise the polity; how authority and power are constituted; exercised; legitimated; controlled and redistributed. It was further stated that they are laws and regulations that govern political process and political decision making as well as the citizens' ability to engage with and criticise that process. Although there are other definitions of political institutions, this study adopts the definition of Kilishi (2017) and focuses on political institutions as the 'political rules of the game'.

Underlying the political system (democracy, republic, monarchy, communism or dictatorship) adopted by a

society are political institutions without which a political system cannot work. Political institutions create and maintain political and economic stability and are determined by the political power of different groups in society.

Political institutions affect how political actors are enabled or constrained by mitigating the actions and policy preferences of politicians by way of curbing the abuse of political power. Thus policy preferences and actions of politicians depend on the strength of the constraints that the political institutions create. They deter political actors by punishing deviations from institutionally prescribed behaviours and rewarding appropriate behaviour.

Political institutions indirectly determine economic growth and development by channelling the incentives of politicians to choose and implement policies. (Borner, 2005). That is, the benefits to be achieved by politicians informs the policies they choose to pursue. This can be done in favour of personal interest or societal interest.

Political institutions and systems that are straightforward, evolving and people centred have a direct impact on the business environment of a country. This is because to a large extent the political actors influence the business environment by the type of laws, policies, and regulations established. These policies, laws or regulations affect the use of resources, property and the interaction of agents in market transactions (buying and selling of goods and services inclusive).

When these institutions are relatively weak, as observed in some growing economies, affluent persons or groups oftentimes influence the governing capabilities of the political system. Also, the politician(s) or political actors shape and adopt policies, laws that yield poor economic outcomes. How has the Nigerian economy performed considering the existing political institutions?

### **3. Political structure and economy of Nigeria**

Long-standing, deep-rooted cultural, social and economic challenges have shaped Nigeria's political atmosphere and economy. As at 2018, her real gdp growth rate was 1.94% (World bank, 2019), youth unemployment 19.68% (World bank, 2019) and 2017 human development index was low (UNDP, 2018). She is the most populous country in Africa and has had her fair share of different regimes - colonization by the British, independence, military rule and currently a federalist democratic regime. With a population of about 200 million people, she operates a multi-party system with 18 registered political parties of which only three are represented in the bicameral legislature (National Assembly).

The National Assembly consists of a senate with 109 members and 360 House of Representatives representing the different constituencies in the country. Three senators represent each of the 36 states in the country irrespective of the size of the state and one for the federal capital Abuja. To achieve equal and proportional representation of the population of Nigeria in the house, the number of representatives equals the number of constituencies in each state of the federation. These representatives and senators are to make laws that are beneficial to the masses and scrutinize the actions of government amongst other things. The ruling party, All Progressive Congress (APC) has 64 seats, Peoples Democratic Party (PDP) 44 seats and Young Progressive Party (YPP) 1 seat. The most recent producers of presidential candidates are the PDP (1999 – May, 2015) and APC (2015 till date). The presidential, gubernatorial and legislative positions are occupied through an electoral process where citizens within the country vote for candidates of their choice. The electoral process is still largely manual and candidates win by outright majority.

### **4. Political institutions, economic growth and development in Nigeria**

There exist a substantial body of theoretical and empirical studies establishing the link between economic growth and institutions (Sihag, 2007; Acemoglu and Robinson, 2010; Dandume, 2013). However few empirical evidences exist to show the role of political institutions in economic growth and development. The limited studies reveal that political institutions are important for increasing economic growth, mainly when democracy is not consolidated (Pereira and Teles, 20011, 2014). Furthermore, the level of the impact of political institutions on economic growth varies drastically in relation to the level of democratization and to the stage of economic development of each particular country.

In 20 years, Nigeria has witnessed three democratically elected presidents, a number of senators and representatives at the national level. During this period politics at the national, state and local levels have been personalized in such a manner that it is not the formal rules of the game that matter but personalities, cliques, families, tribes, religion and social networks which function completely outside the formal rules. Despite the existence of a party and national constitutions, political affiliates stand above the law and allow personal interests; relationships of loyalty and ethnicity permeate a formal political and administrative system that ought to produce candidates that can navigate the economy to great heights. Thus her political institutions can be described as weak. Amid weak political institutions, the past and current governments have embarked on a number of economic reforms and policies to improve the macroeconomic environment.

### **5. Nigeria's economic performance**

An assessment of the economic performance of Nigeria will be done by analysing the real GDP growth rates

(change in national output), youth unemployment and human development index (HDI). The HDI captures human progress, combining information on people’s health, education and income in just one number (UNDP, 2018). Table 1 shows the real gdp growth rate and youth unemployment from 1999 to 2018 as well as the HDI values from 2003 to 2017. The trends in GDP growth and youth unemployment are seen in fig 1.

Table 1: Trend in real GDP growth rates, youth unemployment and HDI values

| Year | Real GDP growth rate (%) | Youth Unemployment (%) | HDI value |
|------|--------------------------|------------------------|-----------|
| 1999 | 0.58                     | 9.14                   | n.a       |
| 2000 | 5.02                     | 8.99                   | n.a       |
| 2001 | 5.92                     | 9.15                   | n.a       |
| 2002 | 15.33                    | 9.24                   | n.a       |
| 2003 | 7.35                     | 9.24                   | 0.44      |
| 2004 | 9.25                     | 9.04                   | 0.46      |
| 2005 | 6.44                     | 9.04                   | 0.47      |
| 2006 | 6.06                     | 8.8                    | 0.48      |
| 2007 | 6.59                     | 8.51                   | 0.48      |
| 2008 | 6.76                     | 8.66                   | 0.49      |
| 2009 | 8.04                     | 9.49                   | 0.49      |
| 2010 | 8.01                     | 9.65                   | 0.48      |
| 2011 | 5.31                     | 9.71                   | 0.49      |
| 2012 | 4.23                     | 9.75                   | 0.51      |
| 2013 | 6.67                     | 9.84                   | 0.52      |
| 2014 | 6.31                     | 12.62                  | 0.52      |
| 2015 | 2.65                     | 16.3                   | 0.53      |
| 2016 | -1.62                    | 20.67                  | 0.53      |
| 2017 | 0.81                     | 19.96                  | 0.53      |
| 2018 | 1.94                     | 19.68                  | n.a       |

Note. Real GDP growth rates and youth unemployment data are from Worldbank (2019) while HDI values are from UNDP (2018) Human Development Indices and Indicators. n.a means ‘not available’.

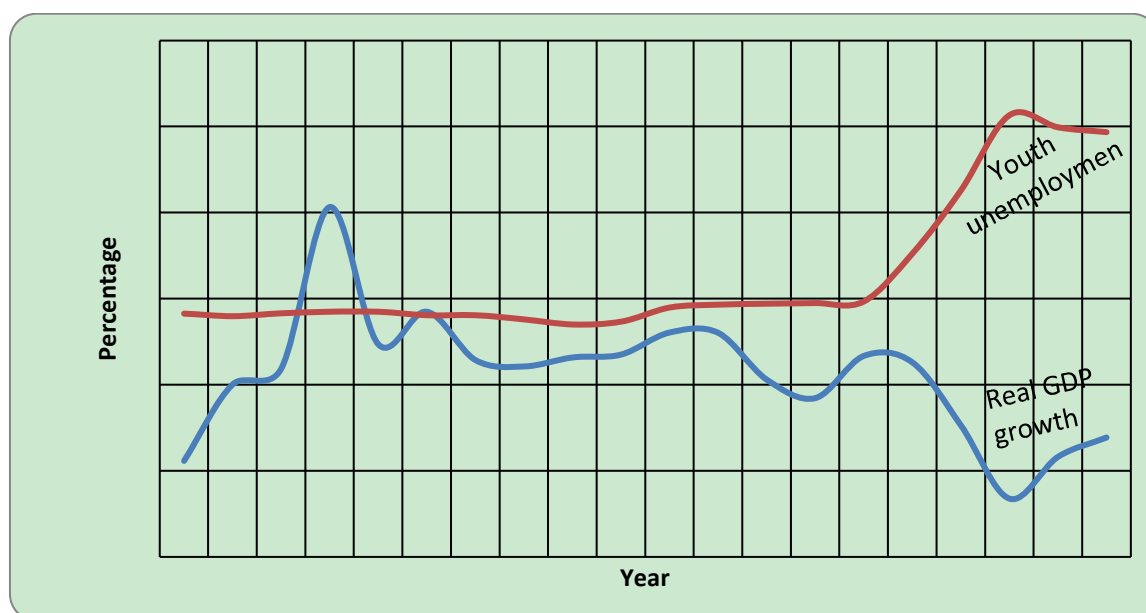


Fig 1: Real GDP growth rate and youth unemployment rate trends

From 1999 to 2002, the economy expanded at an average of 6.71% and the highest GDP growth rate of 15.33% was recorded in 2002 (see table 1 and fig 1). The next 10 years of continuous democracy recorded fluctuating growth between 9.25% and 4.23. From 2013 to 2015, there was continuous decline in productivity and by 2016 the economy was in recession. However by 2017 and 2018, the economy experienced low positive growth of 0.81% and 1.94% respectively. From the above, economic growth can generally be described as slow and far from the desired. Though the recession was attributed to collapse in oil prices between 2014 and 2016, poor foresight and economic planning are other reasons for the slow growth rate seen over the years. Since 1999, political actors and

economists were aware of Nigeria’s high vulnerability to external shocks due to her being a mono-product and import dependent economy. The lack of political will to do the needful contributed to Nigeria’s poor economic state. The required laws and policies to ensure that the economy improved were not pursued because of the weak political institutions inherent in the country.

The average youth unemployment between 1999 and 2012 was 9.17% with the lowest rate of 8.66% in 2008. Between 2013 and 2016, it increased from 9.84% to 20.67%, the highest in 19 years (see fig1). The high rate in 2016 was expected because of the recession. 2017 and 2018 however recorded a slight decline. This could be attributed to the N-power initiative of the current government to tackle youth unemployment. However the marginal change in youth unemployment within these two years and the apparent high rates over the years implies that some priorities were misplaced and for a better future this should not continue.

In the same vein, human development index for Nigeria remained low from 2003 to 2017 despite the different reforms and macroeconomic policies (see table 1). This implies that for 14 years of democratically elected government, the average state of Nigerians in terms of the three basic dimensions of human development (long and healthy life, knowledge and a decent standard of living) has not improved significantly. This should not be the case for Nigeria when Ghana, India, china, Brazil and some other countries are above that category (see table 2).

Table 2: Interpretation of HDI values / HDI status of some countries

| HDI value       | Interpretation              | 2017 HDI status                                      |
|-----------------|-----------------------------|--|
| less than 0.550 | Low human development       | Nigeria, Tanzania, Zimbabwe, Rwanda, e.t.c           |
| 0.550- 0.699    | Medium human development    | South Africa, India, Ghana, Kenya, e.t.c             |
| 0.700- 0.799    | High human development      | Turkey, Mexico, Brazil, China, e.t.c                 |
| above 0.800     | Very high human development | Norway, Canada, United Kingdom, United States, e.t.c |

Note. Adapted from UNDP (2018) Technical Reports, Human Development Indices and Indicators

The findings of Pereira and Teles (2011, 2014) that political institutions are important for increasing economic growth in incipient democracies was seen in the first three years of Nigeria’s democracy. However the glaring increase in youth unemployment, decline in GDP growth rates and the consistent low human development index corroborates the claim by Anwana and Affia (2018) that political institutions negatively impact economic growth and development in Nigeria.

## 6. Conclusion

The recurrent tale of poor economic performances in Nigeria, within the period under review can be largely attributed to wrong decisions made by different administrations. Political institutions shape the fate of economic institutions and indirectly determine economic growth and development by the type of policies laws, regulations political actors choose to approve and implement. This study is not aimed at promoting a pessimistic view of the state of political institutions in Nigeria but to argue that they are not efficient.. Straight forward, evolving and people centred political institutions have a positive impact on the business environment of a country. These institutions are not easy to design or implement. Nevertheless, it is high time more research is done on how to create strong political institutions that can shape and change the narrative of slow growth and development in Nigeria. A democratic regime is not sufficient to achieve greater economic growth and development, but democracy with strong rules that can curtail the predominance of the private interests of politicians and ensure proper representation of the political will of the citizens. Nigerians need to “get the politics right” for the economy to flourish.

## Recommendations

As a way of changing the status quo of the political institutions in Nigeria, the following are suggested:

- i. An overhaul of the current political institutions (political rules of the game) or the establishment of new political parties with strong political institutions by credible well meaning Nigerians who have the interest of Nigerians at heart.
- ii. Political institutions should aim at protecting the political and economic interests of society and not the self-interest of some money bags.
- iii. Proper grass root representation and transparent enrolment of political party members through the use of technology.
- iv. Incorporation of checks and balances within the political party structure that allows for feedback of the political actor’s performance.
- v. Reorientation of masses about their constitutional ability to vote out bad leaders by well meaning Nigerians should be done two years before an election year.
- vi. A review of the election act bill to accommodate the use of technology in the voting, and collation process.
- vii. Presence of formal institutional mechanisms for constraining the excesses of political leaders as well

as removing them when necessary.

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