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Political instability and economic growth in Nigeria

Taiwo Akinlo[1,•] , Omobola Hannah Arowolo [2,♦], Taofeek Bidemi Zubair[3,*]
[1] *Ph.D. Department of Economics, Adeyemi Federal University of Education, Ondo, Nigeria*
[2] *MSc. Department of Economics, Adeyemi Federal University of Education, Ondo, Nigeria*
[3] *Department of Economics, Adeyemi Federal University of Education, Ondo, Nigeria*

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Abstract

Using annual data spanning from 1984 to 2020, the study analysed the effect of political instability on economic growth in Nigeria. To explore both the short and long-run relationship, the Autoregressive Distributed Lag (ARDL) technique is used. The cointegration test shows that political instability and economic growth are cointegrated. In the short run, the finding indicated that political instability negatively impacted economic growth. Likewise, in the long-run, political instability harms economic growth. Government expenditure contributed to economic growth in the short-run and long-run. Gross capital formation and financial development have detrimental effect on economic growth. Based on the findings from this study, there is a need for the government to address the frequent political instability to achieve the expected long-term growth in the economy.

1. Introduction

Political instability is regarded as one of the hindrances to economic development. This is based on the premise that it serves as an obstacle to the long-term policies and thereby limiting policymakers to short-term macroeconomic policies. In addition, political instability results in frequent changes in policies and this, in turn, adversely affects the performance of the various sectors of the economy. Tabassam et al., (2016) emphasised that an unstable political environment reduces the level of investment in the economy and hence economic growth due to the uncertainty and volatility. Asteriou and Price (2001) argued that the patterns of government spending are affected by political instability as the government has to spend more to restore stability instead of on investment. Aisen and Veiga (2011) indicated that political instability reduces the level of productivity as well as the rate of human and physical accumulation while Kuznets (1966) linked the slow growth rate of an economy to political disorder. Barro (2013) claimed that the effect of economic policies on economic growth depends on the prevailing political conditions.

Several studies have reported a negative relationship between political instability and economic growth. For instance, studies like Gupta (1990), Barro (1991), Alesina, et al., (1996), Perotti (1996), Ades and Chua (1997) and Abdelhameed and Rashdan (2021) all reported an inverse connection between political instability and economic growth. However, studies on political instability and economic growth are scanty in Nigeria. This might likely be due to the unavailability of data as Gurgul and Lach (2013) linked the lack of attention on political instability and economic growth nexus in the past to insufficient data.

In recent times, most of the empirical studies that examined the relationship between political instability and economic growth have been criticised based on the data used to capture political instability. For instance, de

• **E-mail:** taiwoakinlo@yahoo.com & **ORCID:** https://orcid.org/0000-0002-1415-4241
♦**E-mail:** arowoloomobola@gmail.com
***E-mail:** bidemizubair@gmail.com

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