PRESIDENTIAL ELECTION AND ECONOMIC ACTIVITIES IN NIGERIA: IS THERE AN EMPIRICAL NEXUS?

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Abstract
This paper examines the empirical nexus between presidential elections and a host of macroeconomic variables in Nigeria in order to determine the effects of pre-election (preelection dummy) and post-election (post-election dummy) on economic activities in Nigeria in the new democratic era spanning 1999-2015. Employing OLS econometric techniques, the empirical results reveal that presidential elections have a significant effect on economic activities in Nigeria. In particular, the results, using Nigerian data, show that pre-election and post election have significant influence on stock market, gross capital formation (proxy by gross domestic investment), government expenditure and inflation. The impact of pre-election and post-election on real GDP (a measure of economic growth) is positive though insignificant. Therefore stable political environment must be put in place that guarantees credible elections. Importantly, it needs to be supported with sound institutional structures and macroeconomic policies that enhance rapid economic growth. **Keywords:** Presidential elections, Economic outcomes, Institutional structures, Election dummy, OLS
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1. INTRODUCTION

Presidential elections are regarded as the most powerful political events and the bedrock of any political economy; hence its impact on macroeconomic activities is not in contention. As the most influential political event, all other political and future economic activities usually depend on it, particularly in the build up towards elections (pre-election) and post-after election period.

A budding number of literature posits that governance, which embodies the traditions and institutions that determine how authority is exercised in a nation matters to sustainable growth and development (Kaufmann and Kraay, 2003; Avellaneda, 2006, cited in Eregha, 2014). In particular, a number of institutional development economists (see Knack & Keefer, 1995; Glaeser et al, 2004; Rodrik, Subramanian & Trebbi, 2004) have found that sustained growth cannot take place under political and economic uncertainty but only in an atmosphere of certainty, stability and right institutional framework. Thus, steady growth in the economy can only occur when institutions are right (Acemoglu, Johnson & Robinson, 2002). Several empirical studies have found a strong link between political activities, institutions and economic outcomes (Brown, Harlow, & Tinic, 1988, Avellanda, 2006). It is therefore not surprising that a broad harmony exist among growth and development experts as well as international policy-makers observing, elections and governance in a democratic setting as preconditions for sustained growth (Kaufmann et al. 2000; Knack 2003).

As a country ruled by successive military governments for more than half of its 56 years of political existence, sound presidential elections rooted in democratic structures and the rule of law is imperative for improved sound economic outcome. For instance, economic growth, investment and stock market activities only thrive in an atmosphere of certainty devoid of political instability where sound democratic structures and supporting institutional framework for peaceful change of government exist. Against this background, macroeconomic outcomes such as output, government expenditure, investment and inflation may change during pre-election and post-election periods.

In Nigeria, build-up to election and post-election periods are usually characterized by uncertainty. The incumbent government which desire to be re-elected for instance may increase spending to entice or sway voters into re-electing them. The increased government spending prior to elections may increase economic activities. In such case, presidential elections tend to stimulate government consumption expenditure. On the other hand, a government which has completed its constitutionally mandated terms in office may not find it necessary to engage in such political merchandising, and as such may reduce spending, except in the case where such government desires that the candidate of its party is re-elected or in the case of a preferred candidate. Few empirical studies have examined the empirical relationship between presidential elections and stock market prices in Nigeria (see Eriki and Uwabor, 2012), none of these studies has however examined the impact of presidential election on macroeconomic outcomes. Given that political activities affect economic outcomes, there is therefore a gap in literature, warranting an investigation of the impact of presidential election on economic activities. It is this perceived gap in literature that this study seeks to fill.

2.0. REVIEW OF LITERATURE

2.1. Political Events and Economic Activities

The connection between political events and economic activities is well established. A stable political environment with strong institutional framework is sine qua non for improved economic activities. During political upheavals, economic growth generally takes a downward dimension as investment and economic growth declines. Stable political environment is therefore critical for steering rapid economic growth and development. Foreign investment inflow for instance can only take place in an economy when there is stable political environment.

In general, investors consider the political environment as a major factor in making investment decisions. When elections are over and announcements are made, the political environment is often calmer and more certain, providing an environment conducive for investment and growth. Investments do not thrive under political uncertainty, as can be captured during periods of election build up. But under stable political environment, investment is stimulated. This position has been supported by institutional development economists who argue that steady growth in the system can only occur when institutions are right such and there is no political and economic uncertainty (see Acemoglu, Johnson & Robinson, 2002; Glaeser, 2004; Acemoglu, 2005).

Economic growth largely depends on the political process in any country. For instance, the US presidential election has an impinging impact on the US economy and the world economy at large. No wonder, economy policies of other countries are usually hinges on its outcome. In the same vein, given the existence of ideological and philosophical differences exists between the Democratic and Republican Party in the US, future economic policies and that of the world at large may be influenced in line with the ideology of the party that wins the presidential elections. By large, political events has an overbearing impact on economic activities, ranging from growth rate of the economy, government expenditure, public and private investment, stock market activities, e.t.c. Since the success of any economy depends on political events, a sound political environment anchored on right institutional framework is a sine qua non (desideratum) for sustained growth and development (Acemoglu, Johnson & Robinson, 2005).

2.2. Macroeconomic Performance in Nigeria during Presidential Elections (Democratic Era-1999-2015)

From Table 1, beginning from 1999, the year the first presidential elections in the current democratic dispensation was held, the growth rate of real GDP following a recovery from plunge in crude oil prices was 4.9 percent. Unemployment rate was high at 17.5 percent, with an inflation rate at a moderate level of 6.6 percent. The lacklustre economic growth rate had made the economy slumped into mild recession amidst the announcement of the presidential election. Short term-aggregate demand and growth-inducing policies were adopted. By 2003, prior to the presidential election, the growth rate of the economy improved considerably, rising to about 9.7 percent due to the rise in crude oil prices in the international market. This induced government spending and investment, necessitating increase economic activities given the fact that fiscal policy is largely procyclical in Nigeria. The increased aggregate demand that followed induced a two digit inflation rate of 14.03 percent coexisting with an unemployment rate of 14.8 percent. In 2007 the growth rate of the economy had decelerated to 6.4 percent, with unemployment rate at 12.7 percent, inflation rate of 5.4 percent, and exchange rate of the Naira to Dollar at 125.83. By 2011, the growth rate of the economy marginally increased to 6.5%, with a rise in inflation rate to the tune of 10.2%; exchange rate of ₦/$156 .72 and unemployment rate which dramatically rose 23.9 percent. Presently, the economy is characterized by deep-seated problems. These include rising fiscal deficits and external debt to the tune of $11.26billion (CBN, 2016, DMO, 2016), intolerable rates of unemployment coexisting side by side with accelerating inflation, rising exchange rate and exchange rate variability. Also, the rising interest rate has had a deteriorating effect on manufacturing sector performance, including the decrepit infrastructural base and epileptic power supply, which have combined to produce a lack-lustre and disappointing economic performance (Ozekhome, 2016).

Table 1. Selected Macroeconomic Indicators in Nigeria during Presidential Elections

Indicators	1999	2003	2007	2011	2015
GDP Growth (%)	4.9	9.6	6.4	6.5	0.8
Unemployment rate	17.5	14.8	12.7	23.9	28.6
Inflation Rate (CPI Average)	6.6	14.0	5.4	10.2	15.2
Exchange Rate (N/$)	92.69	129.36	125.83	156.72	297.20

Gross Fixed Domestic Investment to GDP	22.36	21.72	30.28	27.20	19.45
Stock Market Capitalization (N'Billions)	300,041.1	1,359,274.2	13,294,059	10, 250, 120	10, 300,050

Source: CBN, SEC (Various Issues)

2.3. Theoretical Issues

Theories of Election and Macroeconomic Outcomes

In this section, we provide a theoretical review of the nexus between election and economic activities. In doing this, two basic theories that relate election with economic activities are:

(i) Opportunistic Political Business Cycle (Opportunistic PBC); and (ii) Partisan Political Business Cycle (Partisan PBC)

(i) Opportunistic PBC-

The PBC theory posits that voters take into cognizance their economic and financial position when voting (Brown, Harlow, & Tinic, 1988). According to the premise of the theory, the incumbent government has an incentive or disposition to implementing shortterm economic policies oriented towards public welfare in order to canvass for votes and consequently gain their support during elections. Such policies for instance may include increase government expenditure or public investment in order to raise aggregate demand, output, employment and which may also gear up stock market activities an stock returns, policies to combat inflation in order to increase purchasing power the of the currency, policies to reduce the lending rate to guarantee access to credit. Such policies, according to the theory are however short-term since they are primarily geared towards making the electorate vote or re-elect the incumbent government into political power as the election date approaches (build up to election). Such economic policies are usually geared towards increasing the maximum likelihood of the electability of the incumbent government. In line with this, Eriki and Eboigbe (2012) opined that irrespective of political orientation and ideologies, incumbents will pursue policies that that maximizes their chances of being reelected

Opportunistic PBC theory thus posits the implementation of short-term favourable economic policies by the government that–be in order canvass for votes from the electorate. Such policies may however be reversed after gaining political power since they are usually politically-oriented, known as political merchandising.

(iii) Partisan Political Business Cycle (Partisan PBC)

The partisan PBC theory on the other hand, gave credence to the importance of the ideology of a government since different ideology will lead to policy differences and will consequently have differential impact on the general economy and citizenry. According to this theory, the effects of such ideological differences on economic activities be short-lived or temporary and as such, may disappear once election results are announced (rational models), or permanent over the term of the government (traditional party models) (Brown, Harlow, & Tinic, 1988).

The inference of the Partisan PBC theory is that ideological differences by different political parties should be considered before voting since the varying ideology will have different economic impacts on the economy, and that the effects of such ideology may be short-term once election results are known or the party seeking to be elected or re-elected gain political power.

2.4 Empirical Evidence

A number of empirical studies have spawned the literature purporting to establish the linkage between elections and economic activities. We review some of these related studies.

Pantzalis, Stangeland and Turtle (2000) examine the impact of elections on the economy of Brazil. In particular, the study sought to find out the resolution of economic uncertainty in pre-election announcement and post-elections results. The empirical findings reveal that elections have mixed economic effects on the economy. The studies by Banning and Jones (2002) unlike previous studies examine the relationship between election and economic activities. Their results show that government speeding (even in developed political systems) tend to rise marginally prior to elections.

Vuchelen (2003) examine electoral system and the effects of political events on the economic activities in Belgium. Using evidence from the stock market, he found a significant relationship between election, stock market and economic activities in Belgium. Santa-Clara, Pedro & Valkanor (2003) examine the nexus between presidential elections, in the context of political cycles and its effect on the economy. Employing the methodology of event study, the authors found that build-up to elections create uncertainty effect, thereby reducing economic and stock market activities. The post-election effect on the economy is found to be positive and significant, since the environment becomes calmer. Booth and Booth (2003) examine whether presidential election cycle in security returns was merely a reflection of business condition. The findings reveal that presidential election phase in fluencies economic activities, and in particular, security returns.

Yuan and Khan (2004) construct a dynamic model of a kleptocratic dictatorship devoid of elections to explain Sub-Saharan Africa’s (SSA) dismal economic performance between the early 1970s and the mid-1990s. The dictator’s objective is to maximize a discounted stream of revenue generated through theft of the economy’s resources by choosing the optimal expropriation rate and the size of the security force to enforce his rule. The model is used to evaluate the explicit importance of sound democratic structures, institutions and governance for growth. Employing dynamic modelling technique, the findings show that kleptocratic dictatorship devoid of democratic structures and institutions has a significant destabilizing effect on SSA’s growth. He concludes that economic activities thrive more in a democratic environment, under a stable political atmosphere. Avellaneda (2006) examines the empirical nexus between, good governance, institutions and economic development in Spain. Employing varying econometric techniques, the findings reveal that sustained growth and development growth are guaranteed when institutions are right and there is stable political process.

Dokpe and Pierdzioch (2006) examine the impact of politics on the economy of Germany. Employing various econometric techniques, the findings reveal the existence of a strong nexus between elections, stock market and investment, as investment is stimulated in the post-election period.

Jinliang, Li & Jefferty (2006) find that economic activities react to political activities and in particular, that financial market responds behavioural to political events. They argue that any policy-induced cycle in real activities will be transient if the economic agents and voters have national expectation. As a result, they conclude that economic performance was directly influenced by elections such that political uncertainty creates economic uncertainty.

Mehdian, Nas & Perry (2008) empirically examine investor' reaction to unexpected political and economic events caused by elections in Turkey. The empirical findings reveal that investors tend to reduce investment in reaction to political and economic uncertainty. Investment is found to be higher when the political and economic environment is stable and certain.

Dipo et al (2010) empirically examine if per capita growth in Africa is hampered by poor governance and weak Institutions. Employing panel data approach after modelling for elections, the results reveal that poor elections and weak institutions have a negative effect on economic performance of African countries. The authors recommended sound institutional structures to guarantee credible elections in order to enhance rapid economic development in African countries. The findings by Julio & Yook (2012) also corroborate this result

Ling-Chun (2011) examines the impact of presidential election in the Taiwanese economy, particularly the stock market. The results of his analysis show that presidential elections creates short-run positive abnormal returns before elections, indicating an election bull-run, and that abnormal returns becomes significantly higher when the intending incumbent government fails to be re-elected.

In Nigeria, Eriki and Eboigbe (2012) examine the relationship between presidential elections under the democratic dispensation and stock market prices. Employing descriptive statistics and the t-test, and finally using the OLS to generate the residual, the empirical finding reveal that presidential elections in Nigeria have significant negative effect on stock prices on account of the low patronage and capital flight during elections period . This according to them is due to the lack of confidence and uncertainty characterizing our political system and activities. They therefore recommend that prospective investors should make informed and wise decisions with respect to investment during elections.

Eregha (2014) empirically investigate whether per capita growth is hampered by weak institutions and poor governance in ECOWAS countries. Employing panel data analysis, the findings reveal that weak institutions and poor governance account for the low per capita growth in the region. He thus recommends the strengthening of institutions in order to launch the region on the path of sustained growth and development.

From the fairly large volume of literature, it appears that none of the studies have examined the effect of presidential election on macroeconomic outcomes, particularly by using several economic performance measures, hence, warranting further empirical investigations.

3.0 .METHODOLOGY.

3.1. Theoretical Framework

Based on the theoretical review in the previous section, the model for this study is based on the opportunistic business cycle theory presupposes the existence of a strong relationship between political activities and economic outcomes. According to the theory, political variables influence economic variables. In line with theory, the build up to elections and post elections periods influence macroeconomic outcomes since the government in power, desiring to be re-elected will implement economic policies that will favour its course.

3.2. Model specification

Four macroeconomic economic variables are used in this study to capture the effects of elections on economic activities in Nigeria. These variables constitute the dependent variables for the models, and they include real GDP (a measure of economic growth/size); market capitalization (a measure of stock market performance); gross investment and government expenditure. The explanatory variables of prime focus are Pre-election and post-election periods. The functional form of the model is specified as:

$GDP\_component_t = f(Pre\text{-}election\ quarter_t,\ Post\text{-}election\ quarter_t,\ Controls_t)$ (3.1)

Equation (3.1) estimates the average impact of an election on each of the five main dependent variables. Similar approach was adopted by Julio & Yook (2012). In econometric form, the model is specified as:

$GDP\_component_t = \alpha_0 + \beta_1 preelq_t + \beta_2 postelq_t + X_t'\beta + \varepsilon t$ (3.2) Where X is the vector of control variables used in the model. In terms of apriori expectation, the coefficient β_1 is expected to be positive since the incumbent government has the tendency of increasing any of the GDP components just before elections. The coefficient, β_2 on the other hand could take a positive or negative value depending on the state of the GDP component immediately after elections (post-election) periods. Thus, apriori expectation is: $\beta_1, > 0$ and $\beta_2 < 0$ (Julio & Yook, 2012).

4.0 EMPIRICAL RESULTS AND ANALYSIS

Table 2 presents the results of the real GDP estimates. The coefficient of both *preel* and *postel* are negative but both fail the significance test at the 5 percent level. The coefficients of inflation and investment are both positive and both significant at the 5 percent level respectively, while that of government expenditure is significant at the 1 percent level. Apparently, government expenditure, investment and price level both have significant effects on real GDP.

Table 2: Real GDP Equation

Variable	**Coefficient**	**T-ratio.**	**Prob.**
Constant	6.995	20.80	0.00
PREEL	-0.013	-0.33	0.72
POSTEL	-0.003	-0.07	0.89
LOPEN	-0.035	-0.86	0.35
LINFL	0.032	1.78	0.05
LGOVEXP	0.271	14.76	0.00
LINV	0.039	2.92	0.01

R-squared= 0.901
Adjusted R-squared =0.892 F-statistic =85.1(0.0000)

Source: Authors' computation (2016).

The results of the capital market equation are reported in table 3 below. The coefficient of post-election is positive and passes the significance test at the 1 percent level. This is an indication that post-election period tend to have a stimulating effect on stock market, since environment would become certain. Thus, the capital market is post-election responsive rather than the build-up towards the election since the former offers a more investmentfriendly environment. The coefficient of trade openness passes the significance test at 1 percent, an indication that openness of the domestic economy tends to stimulate the capital market in Nigeria.

Table 3: Market Capitalization

Variable	**Coefficient**	**T-ratio.**	**Prob.**
Constant	11.82	6.92	0.00
PREEL	0.290	1.00	0.32
POSTEL	1.204	2.77	0.01
LOPEN	-1.490	-3.62	0.00
LINFL	-0.032	-0.16	0.85

R-squared=0.384
Adj. R-squared=0.364
F-statistic
8.92 (0.0000) Source: Authors' computation (2016).

The result of the estimates for the effect of elections on investment (proxied by real gross domestic capital formation) is reported in table 4. The coefficient of post-election dummy is significant at the 5 percent level, showing that immediately after elections, investment expenditure tends to increase. This result implies that investment only under political certainty. But under stable political environment, investment thrives. This position is in line with institutional development economists who argue that stable and sustained investment-led growth can only be guaranteed in the presence of stable political atmosphere (Acemoglu, 2005).

Table 4: Investment Model Result

Variable	**Coefficient**	**T-ratio.**	**Prob.**
Constant	10.81	12.05	0.00
PREEL	-0.060	-0.28	0.80
POSTEL	0.551	2.14	0.05

LOPEN	-1.268	-4.57	0.00
LINFL	-0.118	-0.89	0.32

R-squared = 0.321
Adj. R-squared= 0.302
F- Value=23. 4 (0.0001)
Source: Authors' computation (2016).

The result of the impact of presidential election on aggregate government expenditure is presented in Table 5. The coefficient of pre-election dummy is positive and significant at the 5 percent level while that of post-election is not. These findings are in line with findings by Banning and Jones (2002) who found that government spending tend to rise prior to election (or build up to election) in order to convince the electorate into re-electing them or their party. Finally, the coefficient of trade openness is significant, an indication that it is strong factor in the determination of government expenditure. Thus, the higher the increased size of trade and the associated income generated, the greater the tendency for government expenditure to rise.

Table 5: Government Expenditure

Variable	**Coefficient.**	**T-ratio.**	**Prob.**
C	7.882	8.75	0.00
PREELQ	0.310	2.18	0.05
POSTELQ	0.242	1.92	0.07
LOPEN	-0.218	-1.50	0.14
LINFL	-0.105	-1.78	0.08
LGCONS	0.426	10.72	0.00

R-squared=0.832
Adj. R-squared=0.814
F-statistic=52.1 (0.00)
Source: Authors' computation (2016).

5.0. CONCLUSION AND POLICY RECOMMENDATIONS

This paper has examined the empirical nexus between presidential elections and economic activities in Nigeria, covering the period 1999 to 2015 (new democratic era) in which elections were held. Four macroeconomic aggregates consisting of real GDP (a measure of economic growth); market capitalization (a measure of stock market performance); gross investment and government expenditure were used to capture the effect of elections on economic outcomes (activities). The empirical results show that pre-elections and postelections significantly influence economic outcomes in Nigeria. Government expenditure, gross capital formation, domestic openness and macroeconomic policy (captured by inflation rate) are also important variables that influence economic outcomes in Nigeria. Importantly, considering the significance of the variable of interest in Nigeria's economic performance, it is necessary for the country to create a stable political environment rooted in sound institutional structures that is indispensible for investment and rapid economic growth. Since sustained growth is only guaranteed in an environment of sound democratic structures and institutional framework that ensures peaceful change of government, the need to foster an investment friendly and growth-induced political environment becomes critical. Nigeria and other developing countries need to adequately create a stable political and macroeconomic environment conducive to rapid economic growth and development against the background of good institutions and macroeconomic frameworks/ policies. In other words, they must meet the prerequisites of political and macroeconomic stability. Importantly, they need to implement open domestic economic policies in an orderly manner, and on their own terms that will rapidly drive their economies to sustained paths of economic growth and development.

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