ELECTIONS, POLITICAL VARIABLES AND ECONOMIC PERFORMANCE

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INTRODUCTION

Political activity was initially thought to have minimal influence on macroeconomic variables until researchers like Kalecki's (1943), Åkerman (1947) and Downs (1957) showed that politicians were driven by private interest and, consequently, care about re-election prospects. In developed climes, it has been proven that political uncertainty surrounding elections can affect how corporate investment responds to stock prices (Durnev, 2010). In the same study, it was resolved that country-level politics have real effects on corporate decision-making and company performance. This was as a result of managers paying less attention to stock prices during elections.

This interesting dynamic have been studied largely in industrialised countries of the world with mature democracies. Many of the findings cannot be generalized in developing and low-income economies due to the differences in both the political and macroeconomic landscape. The purposes of this study to verify the existence of political business cycle, its nature and the various macroeconomic reactions, if any, in Nigeria, a West African country.

Nigeria has had four political dispensations since independence in 1960, the first democratic dispensation (1960 - 1966); the first military dispensation (1966 – 1979); the second democratic dispensation (1979 – 1983); a second military dispensation (1983 – 1999) and the third democratic dispensation (1999 – date). Nigeria has the largest economies in Africa and the major oil exporter in the continent. The study will focus on the third (and thus far) the longest democratic periods of the country, that is from 1999 to date. The election cycle in Nigeria is every four years.

CONCEPTUAL BACKGROUND

The political business cycle was conceived of by Nordhaus (1975) based on Kalecki's (1943) model. It was one of the predictions of a two-part proposition: that the politically determined policy choice will have lower unemployment and higher inflation than optimal; and that the optimal partisan policy will lead to political business cycle with unemployment or deflation in early years followed by an inflationary boom as elections approach. Dubois (2016), pointed out in his review, that governments are seen to be driven by private interest and cared only about their re-election prospects. Governments exploit the short-term Phillips curve and benefit from the naive expectations of voters to attain their goal. As voters are concerned about unemployment, the incumbent improves the probability of being re-elected by increasing the inflation rate so that the unemployment rate decreases just before the election. After the election, the government faces a high inflation rate and then implements austerity measures, leading to more unemployment. Unemployment and inflation are thus subject to cyclical fluctuations linked to the rhythm of elections and these fluctuations are called political business cycles. Conditions under which the political business cycle proposition can be observed are – when the government is chosen in periodic competitive elections; when government has sufficient economic control and sophistication to move the economy in the desired direction; and when the voting function is myopic in the sense that voters evaluate policies only over the electoral period.

According to Niemira and Klein (1994), the political theory revolves around the idea that politicians change their policies as election day draws near in order to stimulate the economy and present a healthy growth under their influence. The idea is that showing a healthy economy will bring them more votes. The growth is however, often created through short term political initiatives, which do not have the foundation to last. A cycle presents itself, a few years later, when the economy goes down as the negative consequences of the unfounded growth. When this is getting under control the next election draws near and the cycle is ready to repeat itself. The cycle is thought to last approximately an election period. The theory is criticized in that it is difficult to empirically test it and therefore confirm it (Niemira and Klein, 1994, Clements and Hendry, 2011). It is though that it is highly unlikely that politicians can actually control the economy on the level that is expected for this cycle to exist.

Twenty-five years after the origin of political business cycle, Drazen (2001) provided a brief review of the existing literature with a conclusion that models based on manipulating the economy via monetary policy are unconvincing both theoretically and empirically; and suggested that explanations based on fiscal policy conform better to the data and form a stronger basis for a convincing theoretical model of electoral effects on economic outcomes. Drazen (2001) also presented a new model of political budget cycles, incorporating both monetary and fiscal authorities.

In a review, forty years after Nordhaus (1975), Dubois' (2016) review covered Nordhaus's model. Dubois (2016) noted that Nordhaus' views came after several others, and presented the critiques addressed to Nordhaus's model.

In the context of developing economies, Mosley and Chiripanhura (2016) argued that the political business cycle often doesn't behave in the same way as it does in industrialised economies. Treisman, and Gimpelson (2001) maintained that some of the reasons are that the policy instruments for stimulating the economy are different in developing countries (for example, minimum wage, increased government expenditure on public works, and so on) are quite different from those in use in industrialised economies (monetary and fiscal policies). Bratton and van de Walle (1997) and Schultz (1995) noted that the incumbent dominant party may also be so far ahead of rival parties in its share of the vote and consequently the incumbent's incentive to administer pre-election boost to the economy may be reduced and Remmer (1993) concluded that political business cycle becomes less evident or even non-existent under these circumstances. Bratton and van de Walle (1997) and Schultz (1995) opinion was contradicted by evidence provided by Dubois (2016) that political business cycle has been found to be in operation in non-democratic systems: in Egypt (Blaydes 2011), in Mexico (Gonzalaez 2002), in China (Guo 2009), in Malaysia (Pepinsky 2007) and in the Republic of Korea (Soh 1988).

PROPOSITIONs

For the purpose of this developmental study, the following propositions relevant:

1. There is a political business cycle in Nigeria. To test this proposition, the study will employ both monetary and fiscal policies (on one hand) and minimum wage and government expenditure (on the other) to discover the unique nature of the country's political events (elections) and macroeconomic responses;
2. Political business cycle in Nigeria is more evident when a political party (incumbent) has the opportunity at re-election. The political business cycle will not be as evident when the incumbent is not qualified for re-election. The rationale behind this

proposition is that when the government in power is qualified to stand re-election, it is likely that manipulation of monetary and fiscal policies and/or increase in minimum wage and government expenditure will be observed. Conversely, when the government in power is not qualified for re-election (that is, serving its second term) they are less likely to manipulate the above factors towards the end of their tenure. The influence of political party may be subdued because of party crossing evident in Nigeria; and

3. Political business cycle in Nigeria is less evident when the ruling party has been in the presidency for more than two political cycles. Usually, by a third cycle, where the ruling party is still in authority, and the previous set of rulers have been in power for two cycles, the new rulers will initially not be concerned with economic performance until the third year of the electoral cycle. Concern for re-election will likely spur the leaders to adopt manipulative behaviour.

VARIABLES AND ANALYSIS

The variables of interest in this study are the dependent macroeconomic variables such as gross domestic product (GDP) and stock market performance. The independent variables are monetary policy (money supply, interest rate), fiscal policy (capital and recurrent expenditure), minimum wage, and so on. The study will build a model on the basis of the variable. Data on these variables will be collected from 1999 to 2018 (as available). The appropriate statistical analysis will be applied to test the model. It is expected that this will serve as a foundation for further study, especially on the coping strategies adopted by companies located in the jurisdiction.

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APPENDIX

Table 1: Election Dynamic in Nigeria

	1999	2003	2007	2011	2015	2019
First Tenure	1	0	1	1	1	0
Second Tenure	0	1	0	0	0	1
Incumbent wins	0	1	0	0	0	1
Incumbent loses	0	0	0	0	1	0
Death of President	0	0	0	0	0	0
Same party wins	0	1	1	1	0	1

Source: Author (2019)

Table 2: Monetary and Macroeconomic Information on Nigeria 1999 - 2017

Year	M_3 (N'Billion)	Money Supply[2] (M_2) (N' Billion)	Credit to Private Sector[2] (CPS) (N' Billion)	GDP at Current Basic Prices (N' Billion)	Financial Deepening (M_2/GDP) (%)	Financial Deepening (CPS/GDP) (%)
1999		628.95	431.17	5,307.36	11.9	8.1
2000		878.46	530.37	6,897.48	12.7	7.7
2001		1,269.32	764.96	8,134.14	15.6	9.4
2002		1,505.96	930.49	11,332.25	13.3	8.2
2003		1,952.92	1,096.54	13,301.56	14.7	8.2
2004		2,131.82	1,421.66	17,321.30	12.3	8.2
2005		2,637.91	1,838.39	22,269.98	11.8	8.3
2006		3,797.91	2,290.62	28,662.47	13.3	8.0
2007		5,127.40	3,680.09	32,995.38	15.5	11.2
2008		8,008.20	6,941.38	39,157.88	20.5	17.7
2009 [1]	10,780.63	10,780.63	10,219.34	44,285.56	24.3	23.1
2010 [1]	11,525.53	11,525.53	9,830.34	54,612.26	21.1	18.0
2011 [1]	14,306.78	13,303.49	14,183.59	62,980.40	21.1	22.5
2012 [1]	16,488.12	15,483.85	15,151.76	71,713.94	21.6	21.1
2013 [1]	19,009.29	15,688.96	16,191.47	80,092.56	19.6	20.2

2014 [1]	21,246.34	18,913.03	18,126.05	89,043.62	21.2	20.4
2015 [1]	21,718.86	20,029.83	18,720.51	94,144.96	21.3	19.9
2016 [1]	28,501.89	23,591.73	21,982.15	101,489.49	23.2	21.7
2017	31,157.56	24,140.63	22,290.66	113,711.63	21.2	19.6