Democracy, External Debt and Growth in Nigeria: An Impact Analysis under a Narrow Definition of Debt-Led Growth

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1. Introduction

There is a growing concern that the less democratic character of political leaderships in many debtor countries might have played a major role in the accumulation and performance of external resources in the growth efforts of developing economies. Nigeria fits the picture of a debtor nation whose politics was dominated by undemocratic governance. In addition to mismanaging both borrowed funds and the huge economic rent from crude oil exports, the political leadership in Nigeria has been accused by commentators since the 1990s of adopting repressive and unpopular policies that drastically reduced the level of incentive for foreign investment. The international community, dominated by Nigeria's creditors, continued to demand the democratization of the political process as a primary condition for debt relief. The pressure on Nigeria paid off and in 1999 the country began a fourth attempt at democratization. Six years later, it can be said with some degree of certainty that democratic behaviour is feasible in the political economy of the country. But how much of the country's failure to achieve economic growth via external debt can be accounted for by the nature and level of democratization?

This paper investigates the empirical relationship between the democratization of the political system in Nigeria and debt-led growth, defined here to mean economic growth led by external resources, for the period 1970 to 2000. One of the goals of this paper is to determine the appropriate measures of democratization as they apply to Nigeria. Luckily, this difficult task has been done elsewhere, but an attempt will be made in section 3 to summarize the construction and scoring of four primary and

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two composite indices of democratization for Nigeria. This exercise will provide the data for the analysis. The very rich but largely inconclusive literature examining which political system is more conducive to growth will not be studied here, because doing so will unduly digress from the narrow scope of this paper. In its place section 2 of this paper is devoted to a review of recent literature on the link between the political leadership in debtor nations and the accumulation, management and viability of borrowed capital. The central research questions and the consequent hypotheses are outlined in section 4. In section 5, the models for testing the hypotheses are specified. In section 6 the results are presented, while in section 7 conclusions are drawn.

2. The Link Between the Character of Political Leadership and the Accumulation of Debt

There are two main dimensions to the literature on the association of the debt crisis with the character of political leadership. The argument in the first dimension runs in two stages. First, that the observed predominance of dictatorships in Third World debtor countries was linked to political instability, high defence spending, official corruption and capital flight. Second, that the accumulation of external debt was a direct outcome of political instability, high defence spending and official corruption, among other factors. The second dimension derives from the first, and centres on political conditionality (targeted at political institutions which appear to have been responsible for accumulation of debt) for debt relief and economic assistance by creditors and aid donors.

According to Adams (1991), during the decade of the debt build-up, dictatorships outnumbered democracies in the Third World by a ratio of five to one, arms expenditures amounted to 40 per cent of debt increase, and arms sales to the Third World more than doubled. Quoting the Stockholm International Peace Research Institute (SIPRI), the German Institute for Peace Research (GIPR) and World Bank sources, Adams reveals that direct arms purchases accounted for between 15 to 33 per cent of total Third World debt accumulation in the 1980s. Adams makes the point that while both internal and external threats inherent in dictatorships dictated high military spending, the unrestricted access to their countries' treasuries and lack of public scrutiny made it easy for dictators to incur debts to keep themselves in power.

In an analysis of the military-related external debt of Third World countries, Brzoska (1983) observes that sources of financing for arms imports changed from supplier grants in the 1960s to credit and cash payments in the 1970s. The result was that in the second half of the 1970s, more than half of Third World arms imports were financed through credit.

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Abstract. The imposition of political conditionality for debt relief and further assistance to debtor nations presupposes that the political leadership under which borrowing and spending decisions were made could have contributed to the poor performance of external capital in debtor countries. Yet no attention seems to have been given to an empirical evaluation of the link between the level of democratization and growth of debtor economies caused by foreign capital. This paper employs two models—debt-cum-growth and democracy-debt-led growth—to investigate the contribution of external debt to the growth of the Nigerian economy, and to evaluate whether the direction of this contribution could be explained by, for instance, the process of power change among political stakeholders, the quality of governance, the political environment, and democratic dividends in the democratization process in a typical debtor nation. Although the results in the first model are mixed, Wantchekon's links between natural resource endowment and regime type on the one hand, and external capital and the nature of the host country's industry on the other, are established for Nigeria, with the implication that the gains of political conditionality for debt relief should not be expected from debt-led growth of the Nigerian economy.

Résumé. Lorsqu'on impose des conditions politiques à l'allégement de la dette et à d'autres mesures d'aide aux nations débitrices, on présuppose que les gouvernements responsables des emprunts et de leur utilisation peuvent avoir contribué à la piètre performance du capital externe dans les pays concernés. Cependant, il semble qu'on ne se soit pas préoccupé d'évaluer empiriquement le lien entre le niveau de démocratisation et la croissance économique des nations débitrices due au capital étranger. Cet article utilise deux modèles—d'abord endettement avec croissance, puis démocratie et croissance économique par endettement externe—pour étudier la contribution de la dette externe à la croissance de l'économie nigérianne et pour évaluer si la direction de cette contribution peut s'expliquer, par exemple, par le processus de changement de pouvoir entre intervenants politiques, par la qualité de la gouvernance, l'environnement politique et les dividendes démocratiques dans le processus de démocratisation d'une nation débitrice typique—le Nigéria. Bien que les résultats du premier modèle soient mitigés, les liens que fait Wantchekon entre les richesses en ressources naturelles et le genre de régime politique d'une part et le capital étranger et la nature de l'industrie du pays d'autre part sont établis pour le Nigéria, ce qui implique qu'il ne faut pas s'attendre à ce que l'imposition de conditions politiques à l'allégement de la dette produise des gains politiques dans une économie nigérianne dont la croissance est alimentée par la dette extérieure.

The author estimates the opportunity cost of military credits for this period to be about 30 per cent of total long-term credit transfers to Third World countries. The author's conclusion is that in 1979 alone, had there been no credit-financed arms import, the net transfer of debt could have been about 30 per cent lower.

Although still controversial, investment in military expenditure is strongly believed to be a net economic burden. Fontanel (1990) argues that much of the canvassed benefits[1] of military spending may only be derived from domestic arms production, as opposed to arms importation. With the exception of Benoit's study (1973), which, in a later work (1978) the author clarified as not applicable to developing countries, most empirical studies have suggested that high military spending represents a net economic burden for arms-importing debtor countries, especially research undertaken after the escalation of the debt crisis in the mid-1980s (Fontanel, 1990, see also Dunne and Mohammed, 1995). Political instability has been found to reduce foreign direct investment, thereby creating higher

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demand for external loans (Gyimah-Brempong and de Camacho, 1998). In addition, the limitations on growth imposed by political instability in Third World debtor countries is said to arise from the negative effects on private investment and human capital formation (Gyimah-Brempong and Traynor, 1999). It has also been argued that higher instability in non-democratic debtor countries has led to the accumulation of debt through a stronger preference for present as opposed to future government consumption. In a study of 55 developing countries, Ozler and Tebellini (1991) found a strong positive relationship between domestic political instability and the demand for sovereign borrowing in the period from 1972 to 1981. The relationship can also be extended to include the possibility that political instability reduced the average maturity of debts, thus increasing the cost of servicing debts.

To understand how governments in poor countries could have borrowed beyond their economies' capacity to pay back, Jain (1993) extends the principal/agent relationship to include situations where the agents (governments) acquired decision-making power without the consent of the principal (the electorate) and shows that over-borrowing could be high when the agents were corrupt and the principal lacked control over them. Jain argues that foreign debt decisions took place under dictatorships, which were dominant in African debtor countries. He blames the lack of institutional controls and unchecked official corruption in authoritarian regimes for the accumulation of debt.

As can be seen from the above overview, the literature strongly supports the view that the political environment under which borrowing and spending decisions were made could have contributed to the poor performance of external capital in debtor countries. This is underscored by the imposition of political conditionality for debt relief and further assistance to debtor nations.

Although political conditionality had always existed, its importance increased in the 1990s. Stokke (1995) identifies two generations of conditionality since the late 1970s, both of which had political contents. The basic difference between them seems to be the developments that triggered off each and the consequent degree of openness in the mechanisms for their pursuit. While in the 1970s, the oil shocks and a prolonged world economic recession was the trigger for conditionality, in the late 1980s and early 1990s, conditionality was reactivated following the disintegration of the Soviet Union. At this time it became more open and transparent.

According to Stokke (1995: 10–12), greater openness in the second generation of conditionality was underpinned by major developments in the world political economy at the time. The first was the unimpressive performance of the 'first generation' conditionality, which had focused mainly on the economic policy reform of the debtor economies. The sec-

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ond was the cessation of the Cold War, with the West becoming freer than before to pursue basic political concerns in the Third World without the consideration of possible losses in the power block game. Third, in the absence of the war, Western governments needed a new justification to their own electorate for the continuation of development assistance; the concept of "good governance" came in handy. A fourth reason suggested by Singer (1994) was that the debt crisis of the 1980s had eroded the sovereignty of developing countries so much that by the 1990s there was hardly any resistance to political conditionality. In addition to these external forces, there was also growing popular domestic pressure against the political leadership of non-democratic debtor countries (Mkandawire, 1994).

Whether or not the governments in the debtor countries had enough capacity to resist conditionality, its introduction has come under severe criticism. According to Zeleza (1989: 35), "It has been a raw deal for Africa, in exchange for puny loans which are subsequently over-paid, the IMF and World Bank, on behalf of their godfathers in the developed capitalist countries, have accorded themselves the right not only to supervise individual projects, but to manage whole economies entirely." Cahn (1993: 160–161) describes the political conditionality of aid as the new imperial authority and characterizes the World Bank as a "governance institution, exercising power through its financial leverage to legislate entire legal regimens and even to alter the constitutional structure of borrowing nations."

Paradoxically, within the World Bank's hierarchy, there have been some[2] who believe that attaching political conditions to IMF and World Bank loans undermines democracy in recipient countries (Stiglitz, 1999: 48). Stiglitz's position is that a belief in democratic processes requires that the debtor countries must make the decisions for themselves, and that the responsibility of economic advisers like the IMF should only be to apprise them of prevailing views concerning the consequences of their policies.

There is, however, a different angle to the criticism of political conditionality. Ihonvbere (1993: 148–150) assessed the structural adjustment programme (SAP) in Nigeria in the mid-1980s and concluded that the IMF and World Bank-sponsored programmes were a colossal failure, not because of political conditionality but because of lip service to it. For Ihonvbere, the Bank and Fund prescriptions actually protected the corrupt political leadership, while at the same time denying the vulnerable population the basic means of livelihood. It was probably in the latter sense that Ihonvbere (1994) suggested to his audience at the 1994 All African Students Conference in Guelph, Canada that the general conditionality package, which paid less attention to real, local political situations, was facilitating the recolonization of Africa by the West.

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Ihonvbere's views highlight the fact that even when political conditionality is required—for example, to correct structural problems in debtor economies—the universal application of one type of conditionality package could be damaging. Sectoral targeting does not seem to have resolved the problem of universal application of political conditionality in many countries. The efficacy of political conditionality with regard to the choice between micro and macro levels as targets in the promotion of democracy has been criticized by some scholars. Questioning micro-level targeting of political conditionality such as direct empowerment of NGOs, Doornbos (1995: 386) contends that "for all the heightened concern with the promotion of good governance in the third world, it is quite conceivable that one of the effects of the various external initiatives and involvements in this regard is paradoxically to reduce rather than strengthen third world governments' capacity for policy making and implementation." In a study of eight countries, Dijkstra (1999: 37–38) found that political conditionality was not very effective in redressing the majority of leadership problems. Dijkstra's conclusion was that political conditionality tended to be more effective as countries became more aid-dependent, and as donors de-emphasized other commercial and strategic interests. This conclusion does not help the case for conditionality because recipient countries will aspire to be less dependent and most donor nations are not likely to de-emphasize their commercial and strategic interests.

Sorenson (1995: 400−401) reviewed the serious criticism of political conditionality relating to differences in the understanding of the concept of democracy, double standards by donor countries, and implementation difficulties due to the seeming conflict between economic and political conditionality. The author contends that double standards were manifest in both donor and recipient countries. Sorenson believes that conditionality is not undesirable, and that the expressed difficulties do not pose insurmountable problems to political conditionality.

Whether the renewed focus on political conditionality is good for the economies of debtor nations or not, no one contests its origins in the link between the characters of political leadership, in this case the absence of democracy, and debt accumulation in debtor countries. Perhaps one way to effectively reject or support conditionality is to see if there are empirical relationships between debt accumulation, debt mismanagement and the character of the political leadership in the first place.

3. Indices of Democratization for Nigeria[3]

The task of investigating the empirical relationship between democracy and the performance of borrowed funds requires that appropriate measures of the variables associated with both exist. In this section, I argue

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that existing measures are not appropriate for democracy in transition polities such as Nigeria and I summarize my earlier attempt to construct appropriate measures which are applied in the analysis in this paper.

The democracy/growth relationship and its imperative of incorporating political institutions' variables in the analysis of national growth and development raise the issues of conceptualization and measurement of the institutional variables. While orthodox economic indicators are quantifiable and therefore are easy to measure, political *institutional variables* present some difficulty. How, for instance, is democracy defined and measured? What institutions provide the frameworks for sustainable national development; and do existing measures of democratic developments provide a basis for universal application? Since the peoples of the world are exposed to varying degrees of cultural, social, economic, political, psychological and geographic historical experiences, it follows that, despite a universally accepted body of basic human rights, the process of democratization would exhibit differences.

The most widely used quantitative measure of democracy is Raymond Gastil's indices of political freedoms and civil liberties (Freedom House, 2001). This is because other, equally valid existing measures (Hadenius, 1997) are either one period or decade summaries, or they apply to a small number of countries (not including Nigeria). Bollen undertook a comparative confirmatory factor analysis—a method which tests for random or systematic measurement errors in variables—and concluded, "The variables with the highest validity are Gastil's political rights" (Bollen, 1993). Further evidence of the popularity of Gastil's measures is demonstrated by Goldsmith's (1995) account of a record 35 citations in the 1990 edition of the Social Science Citation Index.

For all their good credentials in offering a continuous measure of the level of democracy, the Gastil indices have been found to suffer from very low variability, especially when applied to societies in transition (Federke et al., 2001). Federkke argues that for a measurable relationship between two indicators, there must be variation in both. Federkke's criticism reinforces earlier dissatisfaction with the Gastil indices. According to Sklar, "despite the preponderance of evidence of an oscillating political development in Nigeria since its independence, and in many other African countries evaluated by the Gastil Index, the measure remained static, assigning virtually the same level of ranking for several consecutive years" (1995). Nigeria's rankings on the Gastil indices are reflective of these criticisms. From 1972, when the index was first constructed, to 1979, the rankings for both political freedom and civil liberty remained steady at "partly free." Between 1979 and 1984, it stood stationary at the ranking "free." Another stationary state followed for three years. Variation in the ranking did not improve until 1998.

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The lack of variability in the Gastil indices is a direct consequence of the measure as a product, devoid of its own processes. It is obvious that despite the procedural claim of detailed coverage of numerous dimensions of democratization, the rankings had actually placed undue emphasis on elections, for only in the periods where elections took place did the index show any sign of movement from its customary steady state. Outside election years, transition societies characterized by oscillating political development are ranked very poorly. This near-zero performance on the orthodox democracy scales has given empirical credence and further impetus to the theory of the infeasibility of democracy in poor African countries. Championed by the Polish political economist Andreski since 1968, the list of protagonists of the infeasibility thesis had grown to include, among others, Larry Diamond and David Kaplan (Kaplan 1997).[4]

Andreski's original hypothesis was that "democracy is compatible with rapid economic growth only in countries which already have enough resources to make heavy investment in a relatively painless process ... there is no case of a democratic government breaking through a vicious circle of misery and parasitism" (1968: 266). Here, political freedom is viewed as a luxury good whose high income-elasticity ensured the emergence of democratization only at high levels of per capita income.

Richard Sklar was among the first to give voice to a notable opposition to the infeasibility thesis, rekindling interest in African democracy. He saw enormous potential for Africa as a "workshop of democracy" and advocated for developmental democracy (Sklar, 1986: 696). Another powerful voice was lent by Ake; he rejected the incompatibility between democracy and development: "the primary issue was not *whether* it is more important to eat well than to vote, but *who* is entitled to decide which is more important, and once this is understood the argument that democracy must be sacrificed to development collapses" (1991: 39–40). To further debunk the infeasibility thesis, Peterson provided a comprehensive list of ten myths about democracy in Africa, which "though largely false, had already become objects of worship, misleading and influencing African history" (1994: 139). The argument here is that democracy in Africa is real, with enormous potential, and its consolidation means that the setbacks around which the myths were built—poor governance, corrupt leadership, absence of the rule of law and closed authoritarianism—be instead seen as a challenge that must be survived.

Despite the vigorous challenge to the theoretical foundations of the infeasibility thesis, the ratings assigned to African transition societies by existing measures of democracy use this thesis as the basis of their validity, treating democracy as a *product* only, but relegating the processes, which bring about the end product. Under existing product-based measures, "transition societies" present a special case; in these societies, despite continuing attempts and struggles aimed at achieving higher

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national developments, neither the general level of national development nor the desired actual specific political freedoms have been achieved.

Sklar's description of Africa as a workshop of democracy emphasizes democratic processes, albeit at the theoretical level. There is a need to redress the infeasibility fallacy from an empirical perspective, by looking at democratization in transition political economies as a process of institutional reforms (when deliberate) or evolution (when voluntary), moving in either direction between the two utopian poles that may be termed "absolute democracy" and "total authoritarianism." As noted by George Sorenson, "a macro framework of democracy does not guarantee its reality on the local level; while its authoritarian counterpart does not completely block democratic elements on the local level" (1995: 399). Within the above definitional scope, there is bound to be some degree of democracy in the character of political leadership of even the worst authoritarian regimes. Sklar captures the point when he notes that all political systems have (and ought to have) both democratic and oligarchic components and that effective governance in so-called democracies has been achieved by oligarchic components acceptable to all major political stakeholders (1995: 26–27). Thus, for Africa, what should be more important as a concept is not democracy *per se* but the dynamic processes that move political systems towards or away from the ideals—i.e., democratization.

A process approach to evaluating democracy has both domestic and international policy implications. Locally, it regenerates hope even in the face of frustrating and apparently unyielding democratic dividends. It is also perhaps the only way to qualify a country such as Nigeria as a democratizing state, thereby removing the roadblocks against such benefits that the international community currently attaches to democratizing states. Should the international community adopt the advocacy of the *process approach*, international perceptions regarding human rights and other allied business and environmental ratings of many transition political economies of Africa will improve. The highly indebted poor countries of sub-Saharan Africa, in particular, stand to benefit from an expanded classification.

A meaningful measure of democratization in societies such as Nigeria, where the level of actual political freedoms has been low despite continuing attempts and struggles to install democracy, should move beyond the "snapshot approach" and attempt to capture major occurrences in the process. Exclusive emphasis on the end product of actual freedoms enjoyed by citizens misses the point and value of those freedoms that have been denied the people. It also ignores the foundations of their denial and the beneficial implications of learning from such past experiences. Such undue emphasis on actual freedoms underplays the way in which democratic struggles lay foundations for political development in the future.

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Measuring democracy in transition societies such as Nigeria should, for obvious practical purposes, dilute the importance of actual levels of freedoms by emphasizing the processes, albeit not ignoring the product, of democratization. In an earlier work, Dinneya and Tsegaye (2004: 354) argue that understanding the relevant dimensions of democratization in Nigeria calls for a recognition that the natural rights of Nigerian citizens are the primary input they invest in the political process. The democratization process in a typical transition polity revolves around four main dimensions. The first is the political input level, in the form of electoral and "selectoral" processes by which political power is achieved and maintained by political stakeholders. Electoral processes result from a wider distribution of natural rights, while selectoral processes are indicative of a higher concentration of rights. In other words, there would be more electoral (selectoral) processes the higher (less) the democratic content of a political system. Both elections and selections express the investment of rights and delegation of authority to the "elect" and "select."

The second level involves governance as a management of citizens' investible rights, the responsibility for which is shared among the executive, legislative and judicial arms. These responsibilities become more (less) separated the more (less) democratic content a system has. The political environment, the third level, represents the intermediate output produced by the interaction of electoral and selectoral processes and the nature and quality of governance, but also offers an input to the next level. As with any investment, the fourth level consists not only of the actual rights and liberties that could be enjoyed by citizens but also the expectations for future rights that enable them to offer input into the next round of the process. Every political system goes through these processes, irrespective of whether the dominant regimes are military/civil diarchy, military/personal dictatorship or democratic civilian.

On the basis of the foregoing, four measurable primary indices of democratization in Nigeria are identified: power change, quality of governance, political environment and democratic dividend.[5]

The final equation for the democratic content of power change, GINC, is expressed in the formula

$$GINC = RGL + INC + OPN + FAI + PEC - VLT \qquad (1)$$

where GINC is a positive function of the degrees of regularity (RGL), inclusiveness (INC), openness (OPN) and fairness (FAI) of the electoral process. GINC is also a positive function of peaceful selection (PEC) but a negative function of the level of violence (VLT) that is associated with a selectoral process.

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The democratic content of governance, QIG, is expressed in the formula

$$QIG = OCT + CPT + LIP + LFT + CSP + JIP \quad (2)$$

where QIG is positively related to the government's level of consultation with opposition/major political stakeholders in crucial policy decision making (OCT), the level of civil participation in executive functions (CPT), the level of independence of the legislature (LIP), the functionality of the legislature (LFT), the level of constitutional support for the judiciary (CSP) and the level of judicial independence (JIP).

The democratic content of political environment, PIE, is expressed in the formula

$$PIE = (TAL - TGN) + (LDR - CSI) + (OFD + ADS) \quad (3)$$

where PIE is a positive function of the level of potential stability measured by the difference between tension alleviation (TAL) and tension generation (TGN); the level of actual stability, assessed by the gap between the level of law and order (LDR); and the level of crisis and instability (CSI). It is also a positive function of the level of democratic struggle, indicated by the existence and quantity of organizational framework for democratic struggle (OFD), and the intensity of actual democratic struggle (ADS).

The level of democratic dividends, PID, is expressed in the formula

$$PID = OFD + IFD + PMT + CMT \quad (4)$$

where PID is positively associated with the level of liberty enjoyed by citizens, measured by the levels to which organizational freedom (OFD) and individual freedoms (IFD) are allowed. It is also a positive function of democratic hope, measured by government pronouncements (PMT), and government's actual commitment (CMT) to democratic principles.

In addition, a composite index, the democratization index for Nigeria (DIN), is obtained by a simple average of the scores of the indices GINC, QIG, PIE and PID. In this case, democratic variables complement one another, recognition that the various dimensions of democratization are complementary. In all cases, the higher the score for the index the more democratic the system is taken to be.

The democratization index for Nigeria, DIN, is expressed in the formula

$$DIN = GINC + QIG + PIE + PID \quad (5)$$

where GINC, QIG, PIE and PID measure, respectively, the democratic content and quality of power change, governance, political environment and democratic dividends.

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4. Research Questions and Hypotheses

In general, it would be expected that governments whose poor debt management policies resulted in poor economic performance risked electoral/selectoral losses. While electoral losses come through the ballot box, selectoral losses result from direct interventions, such as coups d'état. Although their sphere and levels of accountability may differ,[6] both elected and selected governments have incentives to avoid political losses. One way of avoiding political losses will therefore be for governments, elected or selected, to strive to use their external resources prudently. The empirical questions that emerge here are:

- First, do available data support the negative or positive contribution of external resources to the growth of the Nigerian economy?
- Second, could the pattern of this contribution be explained by, for instance, the process of power change among political stakeholders, the quality of governance, the political environment or as a democratic dividend in the democratization process in Nigeria?

Thus, two central testable null hypotheses of the study are reformulated as follows:

H_0^1: *External debt had a positive contribution to the growth of the Nigerian economy during the period from 1970 to 2000.*

H_0^2: *The level of democratization of the political system in Nigeria was negatively related to debt-led growth for the period under review.*

Correspondingly, the alternative hypotheses may be stated as follows:

H_1^1: *External debt contributed negatively to the growth of the Nigerian economy during the period from 1970 to 2000.*

H_1^2: *The level of democratization of the political system in Nigeria was positively related to debt-led growth in the period from 1970 to 2000.*

5. Model Specifications

The analysis in this paper takes place in two stages. The first tests use a macroeconomic model derived from Taylor (1983) to gauge the effect of external debt on the economic growth of the Nigerian economy. The second stage is the "democracy-cum-debt multiple regression model," which investigates the effects of democratization on debt-led growth.

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The Adjusted Taylor Model[7]

This model specifies the marginal conditions under which external borrowing may lead to a positive contribution to the growth of a capital-importing economy. The final equation of the model expresses the growth rate of the economy, **g**, as a function of a quotient **y**/x, where **y** represents the sum of export earnings and receipts of transfer payments less the sum of imports and debt service obligations, and **x** represents the product of the capital output ratio and the share of imported capital less debt service obligations.

$$g = (\pi + t) - \theta - mc - r\Delta$$
$$\lambda(1 - \alpha) - r\Delta) \tag{6}$$

Since the intent is to gauge the effect of external borrowing on economic growth, the partial derivative of growth (g) with respect to (Δ) satisfies this requirement, and yields equation 7:

$$\partial g/\partial \Delta = [\pi + t - \theta - mc - r(1 - \alpha)\lambda]$$
$$[\lambda(1 - \alpha) - r\Delta]^2. \tag{7}$$

Equation 7 is the marginal condition relating to the growth rate of the economy (g) when the debt to GDP ratio (Δ), increases over time. Since the denominator, $[\lambda\ (1 - \alpha) - r\Delta]^2$ is positive, the necessary condition for the positive impact of external debt on the growth of the economy follows from equation 7, which is expressed in the formula

$$\partial g/\partial \Delta > 0 \text{ if and only if } \pi + t - \theta - mc > r(1 - \alpha)\lambda. \tag{8}$$

If other factors (including the character of political leadership) are kept constant, the inequality (8) suggests that foreign borrowing will contribute positively to the growth of the economy, provided the share of export in GDP (π) is high; transfer payment as a share of GDP (t) is high; import of intermediate goods (θ) are low; the share of imported capital $(1 - \alpha)$ is small; imports of consumer goods (mc) are low; interest rates on foreign debt (r) are low; and capital is used efficiently, i.e., the incremental capital output ratio, ICOR, represented by (λ), is low.

The Democracy-Cum-Debt-Led-Growth Model

From equation 8, two components of debt-led growth are isolated: $(\pi + t - \theta - mc)$, and $r(1 - \alpha)\lambda$. Increases in $(\pi + t - \theta - mc)$ affect growth positively while decreases in $r(1 - \alpha)\lambda$ affect growth positively. Debt-led growth (DLG) is in this narrow sense a function of two composite variables: positive growth (POSGTH), represented by the sum of the left-hand side of the inequality (8), and negative growth (NEGTH), represented by the product of the right-hand side. The relevant analytical issue

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in this narrow definition is therefore the nature (negative or positive) of the association between each of these two variables (i.e., POSGTH and NEGTH) and the five democratization variables (GINC, QIG, PIE, PID and DIN).

Sources of Data Used in the Analyses

Data for the calculation of debt-led growth are drawn from publications of the Central Bank of Nigeria (CBN), the Federal Ministry of Finance (FMF) and the Federal Office of Statistics (FOS). While FOS is the statutory institution for economic, demographic and financial data generation and publication, the CBN and FMF shared joint responsibility for collation and publication of the country's external debt data until 2000, when a Debt Management Office (DMO) was established to solely handle these functions. Data for the democratization variables have been generated from equations 1.4, 2.5, 3.6, 4.4, and 5 in section 2, and are presented in Table 1.

6. Estimation and Results

The first stage of the analysis is to gauge the direction of the impact of foreign borrowing on the economic growth of the Nigerian economy. This is the debt-cum-growth model. The second stage—the democracy-cum-debt-led growth model—involves correlation analysis of the democratization and debt-led growth.

Estimation and Discussion of Results of the Debt-Cum-Growth Relationship

The calculation of the level of debt-led growth is presented in Table 2. The condition provided by the inequality (8) is used to gauge the direction of the impact of foreign borrowing on the economic growth of the Nigerian economy. Where the left-hand side (LHS) of the inequality (8) $\{\pi + t - \theta - mc\}$, is found to be greater than the right hand side (RHS) $\{r(1 - \alpha)\lambda\}$, this is taken to mean a positive contribution of external debt to the growth of the Nigerian economy, and vice versa. The incremental capital/output ratio (ICOR) (λ) is obtained by ordinary least square (OLS) estimation, since the year-to-year data exhibited considerable variation, including negative values. This method is preferred, since it eliminates the overwhelming impact of negative and extreme values if the average of the annual incremental capital/output ratio is used instead. The value obtained by this method is 6.86, and this is applied for the entire period. The share of imported capital in the production process $(1 - \alpha)$ is calculated as $(1 - M_k/\text{GFCF})$, where M_k is the value of imports

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TABLE 1
Nigeria: Summary of Indices of Democratization, 1960–2000

	GINC		*QIG*		*PIE*		*PID*		*DIN*
YEAR	Score	%Score	Score	%Score	Score	%Score	Score	%Score	s/Average
1960	64.00	64.00	102.00	68.00	37.71	37.71	69.00	69.00	59.68
1961	75.00	75.00	102.00	68.00	36.71	36.71	70.00	70.00	62.43
1962	64.00	64.00	96.00	64.00	21.71	21.71	64.00	64.00	53.43
1963	62.00	62.00	100.00	66.67	41.76	41.76	64.00	64.00	58.61
1964	47.00	47.00	98.00	65.33	42.76	42.76	61.00	61.00	54.02
1965	42.00	42.00	96.00	64.00	26.28	26.28	58.00	58.00	47.57
1966	−5.00	−5.00	52.00	34.67	2.28	2.28	31.00	31.00	15.74
1967	−8.00	−8.00	53.00	35.33	4.54	4.54	24.00	24.00	13.97
1968	−14.00	−14.00	46.00	30.67	1.54	1.54	24.00	24.00	10.55
1969	−17.00	−17.00	46.00	30.67	0.26	0.26	24.00	24.00	9.48
1970	8.00	8.00	51.00	34.00	25.98	25.98	42.00	42.00	27.50
1971	10.00	10.00	49.00	32.67	41.34	41.34	42.00	42.00	31.50
1972	12.00	12.00	49.00	32.67	36.32	36.32	45.00	45.00	31.50
1973	14.00	14.00	45.00	30.00	38.37	38.37	46.00	46.00	32.09
1974	9.00	9.00	48.00	32.00	38.20	38.20	37.00	37.00	29.05
1975	13.00	13.00	47.00	31.33	25.34	25.34	44.00	44.00	28.42
1976	10.00	10.00	48.00	32.00	39.16	39.16	48.00	48.00	32.29
1977	13.00	13.00	51.00	34.00	36.99	36.99	50.00	50.00	33.50
1978	13.00	13.00	56.00	37.33	35.79	35.79	56.00	56.00	35.53
1979	69.00	69.00	97.00	64.67	35.14	35.14	60.00	60.00	57.20
1980	72.00	72.00	102.00	68.00	44.11	44.11	70.00	70.00	63.53
1981	74.00	74.00	101.00	67.33	43.82	43.82	65.00	65.00	62.54
1982	72.00	72.00	101.00	67.33	44.89	44.89	64.00	64.00	62.06
1983	42.00	42.00	99.00	66.00	40.90	40.90	63.00	63.00	52.98
1984	6.00	6.00	42.00	28.00	22.68	22.68	32.00	32.00	22.17
1985	10.00	10.00	49.00	32.67	21.67	21.67	32.00	32.00	24.08
1986	11.00	11.00	49.00	32.67	34.20	34.20	32.00	32.00	27.47
1987	72.00	72.00	47.00	31.33	39.58	39.58	38.00	38.00	45.23
1988	61.00	61.00	51.00	34.00	32.73	32.73	39.00	39.00	41.68
1989	63.00	63.00	53.00	35.33	33.13	33.13	41.00	41.00	43.12
1990	55.00	55.00	50.00	33.33	37.14	37.14	42.00	42.00	41.87
1991	58.00	58.00	51.00	34.00	45.22	45.22	42.00	42.00	44.80
1992	54.00	54.00	62.00	41.33	48.63	48.63	38.00	38.00	45.49
1993	11.00	11.00	58.00	38.67	45.01	45.01	26.00	26.00	30.17
1994	3.00	3.00	40.00	26.67	55.76	55.76	17.00	17.00	25.61
1995	3.00	3.00	40.00	26.67	64.19	64.19	17.00	17.00	27.72
1996	3.00	3.00	37.00	24.67	63.02	63.02	18.00	18.00	27.17
1997	3.00	3.00	31.00	20.67	54.05	54.05	16.00	16.00	23.43
1998	12.00	12.00	40.00	26.67	50.38	50.38	48.00	48.00	34.26
1999	56.00	56.00	96.00	64.00	52.33	52.33	58.00	58.00	57.58
2000	56.00	56.00	96.00	64.00	57.33	57.33	58.00	58.00	58.83

Source: Dinneya and Tsegaye (2004: 373).

of capital goods and GFCF is gross fixed capital formation, both in 1985 prices.

The results of the above exercise are presented in Table 2. The observed contributions are plotted in Figures 1.1 and 1.2. Figure 1.1 under-

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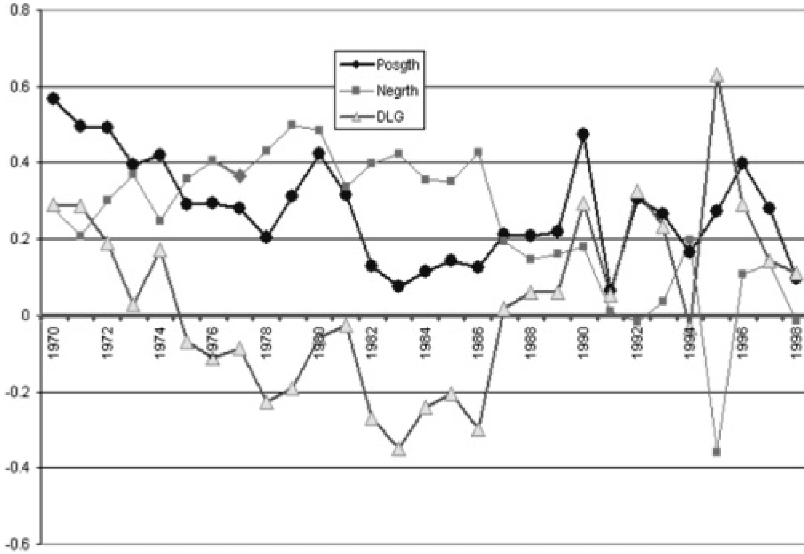
TABLE 2
Nigeria: Calculation of Debt-led Growth, 1970–2000

	π	t	mc	θ	LHS	r	$GFCF$	M_k	α	$(1-\alpha)$	RHS	DLG
Year	2	3	4	5	(2 + 3) − (4 + 5)	7	8	9	10	11	7(11) λ (λ = 6.86)	13 6–12
1970	0.17	0.478	0.055	0.025	0.568	6	9188.35	2968.78	0.323	0.677	0.279	0.29
1971	0.197	0.382	0.063	0.023	0.493	4.5	12830.00	4178.00	0.326	0.674	0.208	0.285
1972	0.199	0.363	0.051	0.019	0.492	6.1	13471.15	3768.27	0.28	0.72	0.301	0.191
1973	0.207	0.244	0.041	0.016	0.394	6.6	17550.34	3297.99	0.188	0.812	0.368	0.027
1974	0.317	0.16	0.036	0.022	0.419	4.4	14265.77	2530.63	0.177	0.823	0.248	0.17
1975	0.228	0.149	0.063	0.024	0.291	7.6	18627.09	5792.21	0.311	0.689	0.359	−0.068
1976	0.247	0.133	0.06	0.025	0.296	8.5	26389.97	8031.25	0.304	0.696	0.406	−0.11
1977	0.233	0.142	0.074	0.023	0.278	8.2	27651.89	9718.23	0.351	0.649	0.365	−0.087
1978	0.168	0.143	0.081	0.027	0.202	10.1	23175.31	8823.21	0.381	0.619	0.429	−0.227
1979	0.251	0.156	0.07	0.028	0.31	10.7	19228.33	6141.86	0.319	0.681	0.5	−0.189
1980	0.279	0.238	0.067	0.026	0.424	10.6	20493.38	6900.57	0.337	0.663	0.482	−0.059
1981	0.217	0.218	0.087	0.034	0.314	9.2	16965.28	7872.36	0.464	0.536	0.338	−0.024
1982	0.159	0.075	0.076	0.029	0.129	10	14839.67	6209.10	0.418	0.582	0.399	−0.27
1983	0.131	0.035	0.066	0.026	0.075	10.2	9514.62	3758.36	0.395	0.605	0.423	−0.349
1984	0.143	0.039	0.043	0.025	0.114	9.8	5417.00	2568.10	0.474	0.526	0.354	−0.24
1985	0.162	0.043	0.039	0.022	0.144	9	5358.65	2321.54	0.433	0.567	0.35	−0.206
1986	0.122	0.051	0.028	0.019	0.126	9	7179.41	2233.14	0.311	0.689	0.425	−0.299
1987	0.279	0.028	0.059	0.036	0.212	7.9	6967.97	4462.55	0.64	0.36	0.195	0.017
1988	0.215	0.071	0.045	0.035	0.206	7.6	6622.46	4759.68	0.719	0.281	0.147	0.06
1989	0.222	0.063	0.034	0.032	0.219	7.1	6855.55	4602.64	0.671	0.329	0.16	0.059
1990	0.489	0.095	0.062	0.049	0.473	6.6	10638.07	6431.33	0.605	0.395	0.179	0.294
1991	0.375	0.084	0.327	0.067	0.064	6.1	10357.90	10075.88	0.973	0.027	0.011	0.053
1992	0.377	0.071	0.089	0.054	0.306	4.6	10410.08	11027.75	1.059	−0.059	−0.019	0.325
1993	0.314	0.074	0.081	0.041	0.266	6.1	11564.00	10620.07	0.918	0.082	0.034	0.232
1994	0.225	0.057	0.059	0.059	0.163	6.3	9425.83	5118.93	0.543	0.457	0.197	−0.034
1995	0.481	0.053	0.135	0.126	0.272	6.5	5989.01	10794.82	1.802	−0.802	−0.358	0.63
1996	0.556	0.017	0.1	0.075	0.397	6.7	6559.19	5023.31	0.766	0.234	0.108	0.289
1997	0.429	0.044	0.113	0.081	0.279	6.4	11474.30	7903.62	0.689	0.311	0.137	0.143
1998	0.262	0.042	0.121	0.087	0.095	6.2	7881.40	8179.36	1.038	−0.038	−0.016	0.111
1999	n/a	n/a	n/a	n/a	n/a	n/a	6388.34	n/a	n/a	n/a	n/a	n/a
2000	n/a	n/a	n/a	n/a	n/a	n/a	5120.56	n/a	n/a	n/a	n/a	n/a

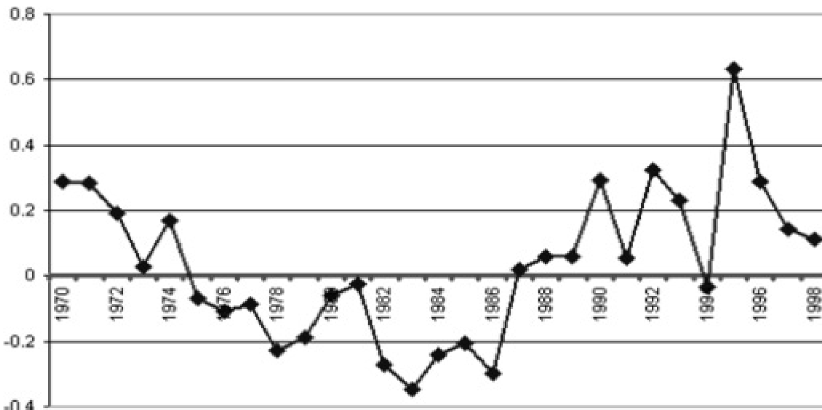
Source: Calculated by author from equation 8.

FIGURE 1.1
Nigeria: Patterns of Positive and Negative Debt-led Growth



scores the relationship between positive and negative debt-led growth paths. The line DLG, representing overall direction of debt-led growth, remains above (below) the original so long as the positive growth line, POSGTH, was above (below) the negative growth line NEGTH. In Figure 1.2 the following patterns are observed:

FIGURE 1.2
Nigeria: Patterns of Overall Debt-led Growth



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- positive contribution to the growth of the economy in the period 1970–1974;
- negative contribution to the growth of the economy in the period 1975–1986;
- positive contribution to the growth of the economy in the period 1987–1993;
- brief relapse to negative contribution in 1995; and
- positive contribution to the growth of the economy in 1996–1998.

A closer look at Figure 1.2 reveals that although the pattern is positive, it is decreasing and almost touches the original in 1973. The 1974–1975 period indicates a slight recovery from the downward trend but also marks the beginning of a nosedive that not only reverses the contribution but also keeps it negative for twelve uninterrupted years. The explanation for the change from a decreasing marginal positive contribution in the 1970–1973 period, to an increasing marginal positive contribution in 1974, may be located in the beginning of the oil boom. Since the increase in oil revenue was not envisaged, it came as a shock, and government expenditure responded after a lag in time.

The greater part of the twelve-year negative contribution coincided with Nigeria's oil boom years, an indication that with so much oil wealth, little attention was paid to debt performance.

In addition to the above, the level of external debt and the consequent debt obligations were not seen at this time as a threat to the health of the economy. Interestingly, the marginal negative contributions for the period were not uniform. From 1975, when the negative trend commenced the downward slope (negative marginal contribution) was relatively low until 1978 when the slope became steeper. This was the period when private capital, in the amount of one billion euros with double-digit market interest rates, made its debut in Nigeria's external debt portfolio.

An apparent recovery is observed in 1980–1981. Two possible explanations for the brief recovery can be teased out. First is the Shagari administration's 'austerity measures,' aimed at reducing government expenditures and the general import bill. However, the austerity measures do not seem to have been successful in halting the rise in the import bill, as seen in column 4 of Table 2. The second and most probable reason can be located in the observed recovery in the contribution of exports to GDP, as seen in column 2 of Table 2. This recovery also reflected an improvement in the nation's external reserve position, which had improved creditor perception of the economy and led to the lowering of interest on loans from 10.6 per cent in 1980 to 9.2 per cent in 1981. Although there was a legal limit for external borrowing, the decline in interest rates encouraged further borrowing, particularly from the international capital

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market. Given that the improvement in the external sector was only brief, it did not sustain the recovery. Private capital carried variable interest rates that mirrored perceived risks in debtor countries; as a result, they rose again to 10 per cent in 1982. Consequently, debt-led growth relapsed and fell to an all-time high marginal negative contribution in 1983. This downward slide in the negative band was punctuated in 1984–1985 with a remarkable recovery in terms of declining negative marginal contribution. If the Shagari administration had survived its second term in office, one could attribute this to the austerity measures working with a two-year time lag. However, the credit should go to the more stringent import restriction policies of the Buhari regime, as illustrated in columns 4 and 5 of Table 2, with both consumer and intermediate imports as a percentage of GDP declining in this period. Another brief relapse occurred in 1986, which may be explained by the policy disruptions arising from the power change from the Buhari to the Babangida regime in 1985.

While oil shocks and domestic policies are offered as explanations for the undulating pattern in the negative band, the general negative relationship between external debt and growth in the period from 1975 to 1986 can be explained by the way in which external capital was used. The bulk of foreign capital during this period was devoted to improving the nation's non-directly productive infrastructure. It is also common knowledge that the money meant for the few directly productive loan-sponsored projects was corruptly misappropriated, which lead to their failure.

The sustained recovery from 1987 is informative. Nigeria's structural adjustment program (SAP) was introduced in 1986. During this period, foreign capital was not only targeted at productive sectors, but it was also monitored by donor agencies. The year 1988 also marked a turning point in the country's debt management policy. The formulation of national debt-management policy guidelines and the establishment of a Debt Conversion Committee (DCC) improved debt management in two ways. First, it provided a more effective framework for monitoring debt performance. Second, it gave debt managers an improved degree of executive capacity and reduced government interference and manipulation. From 1988 onwards, the nation's debt management was co-ordinated largely by the DCC, which appears to have improved the country's data gathering on debt. Like the negative, the positive band from 1988 to 1998 follows an irregular, undulating pattern. The troughs of 1991 and 1994, and peaks of 1992 and 1996, are particularly important. While the 1991 scenario can be explained as a direct response to rising import bills (see column 4, Table 2), the negative contribution in 1994 was largely due to the increasing political tension following the annulment of the 1993 presidential election. This view is further corroborated by the poor perfor-

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mance (declining demand for the country's debt instrument) of Nigeria's debt conversion programme during this period (CBN, 1998).

Estimation and Discussion of Results of the Democracy-Cum-Debt-Led Growth Model

Since we are interested at this stage in investigating the nature of the linear relationship between debt-led growth and the democratization process, correlation analysis is the preferred estimation procedure.[8] The democratization indices are correlated with debt-led growth variables as well as the derived composite variables: negative growth (NEGTH) and positive growth (POSGTH). The tables containing the matrixes of correlation coefficients are available on request. The results are summarized in Table 3 and presented below.

Power change and debt-led growth

Power change is negatively correlated with POSGTH but positively correlated with NEGTH. However, neither of these is statistically significant, even at the 10 per cent level. We can observe a negative but not significant correlation between power change and debt-led growth. Thus, there appears be no association between the democratic content of power change and debt-led growth. However, disaggregated correlations reveal some interesting results. A positive significant (at a level of 2%) correlation is observed between violence and POSGTH, suggesting that less democratic selectoral processes of power change are positively associated with positive debt-led growth. The reason for this association seems

TABLE 3
Nigeria: Correlation of Debt-led Growth and Democratization Indices

	Positive growth	Negative growth	Debt-led growth
Power change (GINC)	−0.121	0.148	−0.195
Quality of governance (QIG)	−0.060	0.472 **b**	−0.427 **a**
Political environment (PIE)	0.304	0.735 **c**	−0.426 **a**
Political dividend (PID)	0.027	0.612 **c**	−0.491 **c**
Nigeria index of democratization (DIN)	0.038	0.546 **c**	−0.443 **a**

[N = 29; df. = 27; p ≥ 381 (a = 5%); p ≥ 445 (b = 2%), p ≥ 487 (c = 1%)]

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to derive from a significant negative association between less democratic regimes (violence) and imports, especially of consumer goods (mc). The most plausible explanation of this finding is that within the framework of an overvalued currency and the relative availability of foreign exchange afforded by oil wealth, imports are very attractive. Governments' import substitution (and later import restriction) policies were designed to reduce the volume of imports to ease the pressure on foreign exchange. It is most probable that regimes with less democratic content might have been more effective in policing the physical restrictions on the growth of imports than their counterparts with more democratic content. Therefore, imports might have been affected by a reduction in cross-border smuggling.

Quality of governance and debt-led growth

Quality of governance (QIG) reveals a negative (positive) correlation with POSGTH (NEGTH). While the former is not significant, the correlation between QIG and NEGTH is significant at a level of 2 per cent, summing up to a negative and significant (at 5%) association between QIG and debt-led growth (DLG). In the disaggregated picture, the path of this negative relationship appears largely located in the relationship between QIG and interest rates on foreign loans (r). All the variables of QIG are positively correlated with (r) and significant at the 1 per cent level.

Political environment and debt-led growth

Political environment (PIE) is positively correlated with both POSGTH and NEGTH, but the stronger and more statistically significant correlation is that between PIE and NEGTH. Consequently, the statistical significance of a negative correlation between political environment and debt-led growth is reduced from the level of 1 per cent to 5 per cent. Disaggregating this relationship reveals the path of the positive, albeit not statistically significant, association between positive debt-led growth and political environment. While PIE's respective positive and negative correlations with transfer payments (t) and imports (mc and θ) are consistent with a positive correlation with positive debt-led growth, the observed negative correlation between PIE and rate of export might explain the overall negative correlation between PIE and debt-led growth.

Equally important is the correlation (and suggestive association) between the shares of domestic and foreign capital in the production process and PIE. Political environment shows a very strong and negative association with (α) and an equally strong but positive association with ($1 - \alpha$).

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Democratic dividend (and debt-led growth)

Democratic dividend (PID) shows a positive correlation with both positive and negative growth. While the former is not significant at all, the latter is strong at 1 per cent, thus leading to a negative (and significant at a 1 per cent level) correlation between political dividends and debt-led growth. In tracing the path of this association, it is observed that PID's positive correlation with transfer payments (t), as well as its negative correlation with imports (mc), are consistent with positive growth. As in the case of political environment, PID's negative and significant correlation with the rate of export (π) accounts for the erosion in the significance of the positive relationship between PID and positive debt-led growth. Similarly, PID's positive correlation with negative growth (NEGTH) can be located in the former's negative (positive) association with the shares of domestic (foreign) capital.

Overall level of democratization and debt-led growth

The composite index of democratization (DIN) is positively but not significantly correlated with positive growth. Its correlation with negative growth (NEGTH) is positive and very significant at the 1 per cent level. The overall correlation with debt-led growth (DLG) is negative and significant.

For the period under review, the association between the democratization process in Nigeria and debt-led growth may be summarized as follows:

- An increase in democratic power change was not associated with debt-led growth.
- Improvements in the democratic quality of governance were associated with lower debt-led growth, or more appositely, a less democratic quality of governance was associated with higher debt-led growth.
- A more democratic political environment was associated with both positive and negative growth factors, but the latter association was stronger than the former.
- Increases in democratic dividend were associated with lower debt-led growth.
- Increases in the overall level of democratization were associated with lower levels of debt-led growth. Or, put another way, lower levels of democratization were associated with higher levels of debt-led growth.

7. Conclusion

What conclusions can we draw from the above analysis? A rejection of the null hypothesis H_0^1 would mean that for the period of the study, and

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based on the analysis in section 6, external capital contributed positively to the growth of the Nigerian economy. An acceptance will mean the opposite. However, neither of these positions truly accords with the mixed results of the analysis. For some period external debt did not satisfy the Taylor conditions for positive contribution to growth, for others external capital indeed contributed positively to the growth of the Nigerian economy. The mixed results reinforce the fact that external capital can be both growth enhancing as well as growth depressing. What role external capital plays in a nation's economic growth depends on how capital is managed in the host economy. As demonstrated above, the contribution of external capital in Nigeria followed this pattern: positive largely during those periods when debt was better managed, and negative in those periods when little or no attention was paid to debt management.

Strictly within the context of this narrow definition of debt-led growth, a rejection of the null hypothesis H_0^2 is the logical outcome of the analysis. The suggestion of a negative relationship between democratization and debt performance should be interpreted with caution. As revealed in the disaggregated correlations, in this narrow definition, the single most important variable on which debt-led growth depends is exports. All four indices of democratization showed up with negative correlations with export; two of these, *PIE* and *PID*, were statistically significant. Why would lower (higher) levels of democratization be associated with higher (lower) exports? Without suggesting causality in any definite direction, the closest explanation will naturally fall within the pessimist domain. If a country's export sector was predominantly extractive, (as in oil industry) foreign high-tech intensive, with its price erratic and determined largely by exogenous factors, then higher levels of democratization may play no significant role in increasing the level of export revenues. Thus, being dominantly extractive and dependent on exogenous factors, domestic political processes in Nigeria did not significantly influence the performance of exports. But there is another sense in which democratization or lack of it may affect export growth in economies dominated by an extractive industry. From the domestic front, if civil agitations against exploration-related environmental degradation have the capacity to disrupt exploration, then this can reduce the output of exportable goods. The key question here becomes whether a higher level of democratization is more accommodating to such agitations or not? It is tempting to argue, from a pessimistic viewpoint, that tough (meaning less democratic) regimes in Nigeria did a superior job of bringing order to society by containing such agitations, and creating a more conducive environment for export-led growth. This view is supported by the episodes of violent agitations in the Niger Delta—the Adaka Boro revolution prior to the outbreak of the Nigerian civil war, and the clamour for resource control since the return to civil rule in Nigeria in 1999. This

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pessimistic explanation is in consonance with the Wantchekon (1999) positive association between natural resource endowment and authoritarians. In Wantchekon's (1999: 20–21) analysis, "rentier economies tend to generate incumbency advantage, undermine democratic governance and sociopolitical stability."

Yet one may not wish away the fact that the performance of export as an important determinant of the level of debt-led growth in Nigeria may have been a question of 'luck,' where export earnings for purely exogenous factors grew faster during military regimes.

The other finding, perhaps more important for this study, is that except for power change, improvements in all the dimensions of democratization are associated with an increase in the share of imported capital and a decrease in the share of domestic capital. This suggests that foreign investors preferred to deal with more democratic than less democratic governments, an indication that although democratization is pushed as a condition for more lending, democratization dividends are not restricted to debt-led growth. They also extend to increasing the rate of foreign investment in a democratizing polity.

Finally, what are the policy implications of the results presented in this paper? Wantchekon (1999: 21) provides two answers to the question of how the oil industry or oil revenues could be managed to promote democratic governance in Nigeria. The first solution would be to follow Norway's example, which involves monitoring of the management of the petroleum funds by an independent body directly controlled by the judicial branch of government. A second solution would be decentralization of distributive policy, which would place a portion of the oil revenue beyond the reach of day-to-day government spending.

Unfortunately, the efficacy of both policy prescriptions depends on two factors. The first is how democratic the polity is. Judicial independence and fiscal decentralization are both very important ingredients for a federal democratic system. The important policy question is not how huge rents to governments from oil revenues can promote democracy, but how to democratize the polity in order to translate growth in oil revenues to growth and development in other sectors of the economy. In addition to Wantchekon's explanation, resource dependence allowed the political leadership in Nigeria to be more detached and less accountable to the electorate since governments did not have to depend on personal income taxes to get their big budgets running. A combination of a low level of political education on the part of the citizenry, and the enclave nature of a foreign-dominated oil industry, makes it difficult for citizens to appreciate that the huge oil revenues actually belong to the people. The second factor is that foreign investors concerned with the security of their 'sunk investments,' in the extractive oil industry in particular, favour the continuity of powerful regimes with less democratic content.

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Only a true democratization process can ensure adequate political education for the electorate, and establish the kind of fiscal federalism that will redress both the unaccountability of the central government, and the manipulation of the political process by multinational oil companies.

Notes

1 The benefits include technological spin-offs, backward linkages and the creation of effective demand for inputs by horizontal integration of military and civilian industries and import substitution
2 Stiglitz served the World Bank for over ten years and played leading roles in policy formulation at the organization. As an insider, no one knows better than Stiglitz how wrong these policies have been proven.
3 Like every new idea, and especially with an issue as controversial and largely subjective as the measurement of institutional variables, the author appreciates the difficulty many readers will have with the new democratization variables adopted in this study. However, studying the original construction of the indices of democratization for Nigeria will help readers to better understand the issue. See Godson E. Dinneya and Asrat Tsegaye (2004).
4 For a detailed account of the infeasibility thesis and its advocates, see Robert D. Kaplan's "Was Democracy Just a Moment?" (1997).
5 For details of the scoring mechanism see Dinneya and Tsegaye (2004: 354).
6 Elected governments are accountable to the electorate; selected regimes are equally accountable to their 'selectorate.' Accountability may be more crucial for selectoral processes that are more prone to violence.
7 For a detailed account of the Taylor model see Degefe (1992).
8 Among the works that follow this simple analytical method are Goldsmith (1995) Op. Cit.; Ersson and Lane (1996) and Feld and Savioz (1997).

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