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Path Dependence and Interdependence between Institutions and Development

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This study investigates incidences of path dependence and the persistence of institutions. The availability of a long time-series makes this exercise feasible, which was not a possibility in the past. Time-series data on characteristics of institutions in SSA (Nigeria included) further allows for the examination of long-run co-movement between economic institutions, political institutions and economic development; that is, which influences the other the most, and which is more influential on economic development. The policy question in this regard being, what this could imply for the institutional environment in the present time. In attending to these questions, we use Nigeria as a case study, and employ a newly constructed data set of institutional indices for Nigeria for this purpose. This study embarks on an area of inquiry which was quite impossible in the past, due to paucity of data such as the newly constructed institutional data used in this study. In many African countries, the struggle is often to find the balance between pushing for economic progress and political progress simultaneously, in order to achieve economic development. In addition, many also struggle to identify which institutional changes are more pertinent for development, because of the lack of the ability to decipher whether or not such institutions have persisted over time.

The institutional indices used cover three categories: civil and political liberties, freehold property rights, and customary (non-freehold) property rights. These three indices capture two different aspects of a country's institutional environment, namely: political, economic. Therefore making it possible to analyse the interdependence and comprehensively assess the interrelationships between political and economic progress. To assess the existence of path dependence, we employ a unit root testing approach, which is recommended for long-time series data such as ours, which covers the period 1862 – 2011. In analysing the interdependence between economic and political institutions, both the modernisation hypothesis and critical juncture hypothesis are tested to see which holds true at a country specific level. We use an autoregressive distributed lad estimation technique, which is good for avoiding some of the oft faced biases in macroeconomic analysis. The empirical results indicate that; co-movement exists between economic and political institutions, with tendency for causality to flow from economic institutions to political institutions. Evidence also suggests a long-run association between economic growth and institutions. Finally, the analysis suggests a possible causal influence of institutions on economic growth.

The results have important policy implications for Nigeria, which can also be inferred upon for South Africa. That path dependence exists, means that governance needs to take cognisance of institutions passed in the past that have persisted overtime, and are still having an impact on the economy today. Such institutions require concerted efforts to break the path, and effect institutional change to set the economy on a more positive path. Secondly, given the primacy of economic institutions over political institutions, in influencing each other, this suggest that more efforts needs to directed towards economic integration, as this would in-turn engender political integration as well.