ECONOMIC GROWTH UNDER DIVERSE POLITICAL REGIMES: A DYNAMIC PANEL DATA APPROACH

Mustapha Adamu Zubairu
Department of Economics and Development Studies,
Federal University Dutse Jigawa
burtalifud@gmail.com/+2348069174477

Olayemi Olufemi Ifatimehi
Department of Political Science and Administration,
North-Eastern University Gombe
Ifatimehin@gmail.com/ 07062964331

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Abstract
This study analyses the relationship between political regimes and economic growth in six African and six European countries from 1999 to 2023, using a System GMM framework. Africa and Europe are compared to capture contrasting levels of institutional maturity, democratic consolidation, and macroeconomic stability, allowing the analysis to assess how regime effects vary across stages of development. The results show democratic governance positively correlates with growth in both regions. However, the marginal growth return from democratic reforms is significantly higher in Africa (0.384) than in Europe (0.118), indicating institutional improvements yield greater dividends in less mature settings. Growth persistence is stronger in Europe, reflecting developed economies' structural stability. African growth is more volatile and sensitive to institutional change. While investment is a universal growth driver, it yields higher returns in Africa. Conversely, macroeconomic and demographic factors specifically high inflation and rapid population growth act as significant constraints only in the African sample, remaining largely insignificant in Europe. These findings validate New Institutional and Endogenous Growth theories, emphasizing that democracy and investment are vital but their effectiveness is highly context-dependent. The study advocates for tailored development strategies, rejecting one-size-fits-all prescriptions in favour of policies sensitive to each nation's institutional and structural conditions.

Keywords: Dynamic panel data, economic growth, political regimes, and system GMM

1.0 Introduction

The intricate relationship between political institutions and economic performance remains a cornerstone of debate in political economy. Following foundational works by Lipset (1959) and later institutionalist arguments by Acemoglu and Robinson (2012), a central question persists: does democratic governance act as a catalyst for sustained economic growth, or does it constrain development through policy instability and short-term political incentives? While democracy is theoretically associated with accountability, the rule of law, and property rights protection, the empirical evidence across different global contexts remains strikingly inconsistent. This persistent lack of consensus strongly indicates that the link between democracy and growth cannot be adequately captured by universal or linear frameworks. Instead, a growing body of literature suggests that the economic effects of political regimes are deeply contingent on a nation's specific context, varying significantly according to its level of development, institutional maturity, and structural characteristics. The European and African experiences provide a compelling comparative lens: in advanced economies like Germany or Norway, democracy is a settled institution fostering policy credibility and innovation, whereas in Africa, the picture is more complex, with both democratic successes like Botswana and centralized developmental models like Rwanda challenging the notion of a uniform democratic dividend.

To examine these conditional effects, this study employs Nigeria as a critical case. As Africa's largest economy and most populous nation, Nigeria's post-1999 democratic journey has been

marked by profound political and macroeconomic volatility, highlighting the acute tensions between political liberalization, institutional capacity, and economic stability. Placing Nigeria within a structured comparative framework alongside regional peers like Ghana, South Africa, Botswana, Rwanda, and Ethiopia, and contrasting it with European economies at different stages of consolidation, such as Poland and Estonia allows for a nuanced investigation into whether the growth returns of democracy are dependent on a country's developmental starting point or the quality of its underlying institutions. However, robust empirical analysis of this question has often been hampered by methodological limitations. Much of the existing cross-country literature relies on static estimation techniques that fail to adequately address the bidirectional causality, or endogeneity, between political institutions and economic performance, where growth can both shape and be shaped by regime dynamics. Furthermore, neglecting unobserved country-specific factors and the inherent persistence of economic growth over time can lead to biased estimations of regime effects.

To address these critical gaps, this study utilizes a dynamic panel data framework, specifically the System Generalized Method of Moments (GMM) estimator, to analyze the relationship in six African and six European countries from 1999 to 2023. This advanced methodology is explicitly designed to account for growth persistence, unobserved heterogeneity, and the endogeneity of political variables, thereby providing more reliable causal inference. The analysis not only compares the direct growth effects of democratic governance across the two regions but also investigates key transmission channels, including capital accumulation, human capital development, and macroeconomic stability. By doing so, the study moves beyond simplistic prescriptions to generate context-sensitive insights. The ultimate aim is to contribute empirically grounded and policy-relevant knowledge to the governance-development debate, advocating for strategies that are carefully tailored to a nation's specific institutional and structural conditions rather than adhering to a one-size-fits-all model.

2.0 Literature Review

Theoretical Review

The New Institutional Economics (NIE) framework serves as the primary theoretical foundation for this study, positing that institutions the "rules of the game" fundamentally shape economic outcomes by structuring incentives, reducing transaction costs, and safeguarding property rights (North, 1990). Within this framework, economic performance is not determined solely by factor accumulation but by the quality and credibility of political and economic institutions that govern exchange and investment decisions. The finding that democracy exerts a significantly stronger growth effect in Africa than in Europe is therefore consistent with NIE's core proposition that institutional reforms generate higher marginal returns in environments where governance structures are weaker or less consolidated (Acemoglu et al., 2005). In contrast, in advanced European economies where institutional quality is already high, additional democratic deepening is expected to yield diminishing growth returns.

Moreover, NIE emphasizes the mutual reinforcement between institutions and economic performance, implying a bidirectional relationship in which growth can strengthen institutions just as institutional reforms can stimulate growth. This theoretical insight directly motivates the use of a System GMM estimator, which is specifically designed to address endogeneity arising from reverse causality, unobserved heterogeneity, and growth persistence (Acemoglu & Robinson, 2012). By instrumenting institutional variables with their own lagged values, the empirical strategy aligns closely with NIE's view of institutions as both causes and consequences of economic development, thereby strengthening the theoretical–empirical coherence of the

Endogenous Growth Theory powerfully complements New Institutional Economics by emphasizing that economic growth is generated internally through sustained investment, capital accumulation, innovation, and productivity-enhancing policies rather than exogenous technological shocks (Romer, 1990). In this study, the positive and significant coefficients on lagged economic growth confirm growth persistence, a central prediction of endogenous growth models where past investment and knowledge accumulation raise current output. Similarly, the strong and robust impact of investment on growth particularly the higher returns observed in African economies reflects diminishing capital scarcity and supports the notion that capital deepening and efficiency gains play a decisive role in early-stage development.

Importantly, Endogenous Growth Theory provides a theoretical foundation for linking democratic governance to long-run growth by recognizing that political institutions influence incentives for innovation, human capital formation, and efficient resource allocation (Aghion et al., 1999). The stronger democracy–growth nexus identified in Africa suggests that institutional reforms enhance the productivity of investment and foster environments conducive to learning, entrepreneurship, and technological adoption, thereby reinforcing self-sustaining growth dynamics. In contrast, the weaker marginal effects observed in Europe are consistent with mature economies operating closer to their steady-state growth paths, where institutional and capital returns are naturally lower. Together, these findings demonstrate that growth outcomes in both regions are best understood through the joint lens of endogenous accumulation processes and institutional quality, validating the study's integrated theoretical framework.

Empirical Review

Recent empirical scholarship provides increasingly robust evidence of a causal relationship between democracy and long-run economic growth, particularly when dynamic methods are employed. Acemoglu et al. (2019), using a panel of 175 countries, show that democratization raises GDP per capita by approximately 20 percent over a 25-year horizon, primarily through increased investment, expanded schooling, and reduced social unrest. However, this "democracy dividend" is conditional rather than automatic. The same study emphasizes the complementary role of human capital, finding that democratic gains are substantially larger in countries with higher levels of secondary education. Extending this dynamic perspective, Luo (2021) argues that democratic transitions often involve short-term economic disruptions before longer-term benefits emerge, while Yang (2025) demonstrates that democratic institutions reduce growth volatility by acting as institutional shock absorbers during periods of economic stress.

In developing regions, particularly Sub-Saharan Africa, the literature suggests that institutional quality often matters more for growth than regime type alone. Ogbuabor et al. (2020) find that government effectiveness and regulatory quality are stronger predictors of economic performance than electoral democracy. At the same time, Botswana stands out as a case where democratic accountability successfully mitigated the resource curse by supporting fiscal discipline and diversification (Brieger & Markwardt, 2020). In contrast, experiences in Rwanda and Ethiopia highlight a developmental-state model in which centralized authority has facilitated rapid infrastructure expansion, challenging the assumption that democracy is a prerequisite for early-stage growth (Brookings, 2019). Emerging factors such as digitalization and Africa's youth bulge further complicate this relationship, as they can generate innovation-driven growth or heightened instability depending on institutional adaptability (Hackenesch et al., 2025). UNCTAD (2024) also cautions that electoral incentives in African democracies may

encourage debt-financed, consumption-oriented infrastructure spending, potentially undermining long-term fiscal sustainability.

In contrast, the democracy growth relationship in developed European economies appears more firmly anchored in strong legal and institutional foundations. Singh (2022) argues that in countries such as Germany and Norway, the growth benefits of democracy stem primarily from entrenched rule-of-law institutions that provide predictability for high-risk investment. Europe has also witnessed experimentation with "economic democracy," including worker participation and cooperative ownership, as a response to inequality and slowing growth (Cozzolino et al., 2025). Nonetheless, concerns about democratic backsliding persist, particularly in parts of Eastern Europe, where the erosion of democratic norms may threaten long-term convergence (ESPAS, 2025). Estonia's experience illustrates how digital governance embedded within democratic institutions can reduce corruption and accelerate growth (Ibanez et al., 2024), while the OECD (2025) highlights the role of democratic coordination in strengthening Europe's resilience during the post-COVID recovery. Nigeria's case reflects the conditional nature of these findings: despite macroeconomic reforms under democratic rule, persistent corruption, electoral uncertainty, and rising food inflation continue to limit the translation of political liberalization into inclusive growth (World Bank, 2025; Ajayi, 2021; Matta, 2025).

Research Gap and Rational for Sample Selection

Despite extensive empirical work on the Democracy – Growth nexus, clear gaps remain that are directly relevant to the selected sample and methodology of this study. First, much of the existing literature relies on broad cross-country panels that obscure heterogeneity between developing African economies (Nigeria, Botswana, South Africa, Ghana, Rwanda, Ethiopia) and advanced European democracies (Germany, Norway, the United Kingdom, France, Poland, Estonia), limiting policy relevance. Second, several studies emphasize either institutional quality or regime type in isolation, without jointly examining how democratic institutions interact with macroeconomic fundamentals such as investment, inflation, and population dynamics across different development contexts. Third, many earlier analyses employ static or weakly specified models that inadequately address endogeneity, growth persistence, and reverse causality between political regimes and economic performance. Consequently, there is limited comparative evidence using a unified dynamic framework to assess whether the growth effects of democracy differ systematically across African and European economies. This study addresses these gaps by applying a System GMM estimator to a balanced panel of the selected countries, enabling robust causal inference while explicitly capturing heterogeneous regime effects across development levels.

Africa and Europe are compared to capture contrasting stages of economic development, institutional maturity, and democratic consolidation, allowing the study to assess how the growth effects of political regimes vary across contexts. The comparison is further motivated by historical linkages, as many African countries were former colonies of European powers such as the United Kingdom, France, and Portugal**, s**haping institutional structures, governance systems, and economic trajectories that make a cross-regional analysis both relevant and analytically meaningful.

3.0 Methodology

This study utilizes a balanced panel dataset covering the period 1999–2023 for twelve countries**,** comprising six developing African economies Nigeria, Botswana, South Africa, Ghana, Rwanda, and Ethiopia and six advanced European democracies Germany, Norway, the

United Kingdom, France, Poland, and Estonia**.** The sample is intentionally constructed to ensure within-group homogeneity in terms of regional and developmental characteristics, while preserving between-group heterogeneity across political, institutional, and economic structures. This design enables a structured comparative analysis of how democratic institutions influence economic growth across different stages of development.

Table 1:
Variable Definition and Data Sources

Variable Category	Variable	Measurement	Primary Source
Dependent Variable	Economic Growth (GDP)	Annual GDP per capita growth rate (%)	World Development Indicators (WDI); IMF World Economic Outlook (WEO)
Core Independent Variable	Democracy Level	Democracy Index (0–1)	Polity V Project; Varieties of Democracy (V-Dem)
Macroeconomic Controls	Investment Rate	Gross fixed capital formation (% of GDP)	WDI
	Inflation	Annual CPI inflation rate (%)	WDI; IMF
	Population Growth	Annual population growth rate (%)	WDI

Source: Author's Compilation, 2025.

All continuous variables are transformed into natural logarithms where appropriate (notably investment, inflation, and trade openness) to facilitate elasticity-based interpretation and reduce heteroskedasticity. Time fixed effects are included to control for global shocks and common trends, while regional fixed effects account for unobserved structural differences between African and European economies. These transformations and controls enhance the robustness of the empirical analysis and support consistent estimation within the dynamic panel GMM framework.

$$GDP_{it} = \alpha + GDP_{i(t-1)} + \beta_1 DEMOC_{it} + \beta_2 INV_{it} + \beta_3 INF_{it} + \beta_4 POP_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

Where:

GDP_{it}: Economic growth (GDP per capita growth rate) of country i at time t
$GDP_{i(t-1)}$: One-period lag of economic growth
$DEMOC_{it}$: Democracy level (e.g., Polity2 or V-Dem index)
INV_{it}: Gross fixed capital formation (% of GDP)
INF_{it}: Inflation rate (CPI, %)
POP_{it}: Annual population growth rate (%)
μ_i: Unobserved country-specific effects
λ_t: Time-specific effects
ε_{it}: Idiosyncratic error term

The inclusion of the lagged dependent variable and the potential endogeneity of democracy and macroeconomic variables render standard panel estimators inconsistent. To address this, the study employs the System Generalized Method of Moments (GMM) estimator, which uses internal instruments derived from lagged levels and first differences of the variables. This approach effectively controls for endogeneity, unobserved heterogeneity, and dynamic panel bias, thereby providing consistent and efficient estimates of the growth effects of democratic institutions.

Table 2:
Expected Signs of Coefficients and Theoretical Justification

Variable	Coefficient	Expected Sign	Theoretical Justification
Lagged Economic Growth	β1\beta_1β1	(+) / (–)	A positive sign indicates growth persistence due to path dependence, while a negative sign reflects conditional convergence, where poorer economies grow faster than richer ones.
Democracy Level	β2\beta_2β2	(+)	Democratic institutions are expected to enhance accountability, protect property rights, and reduce corruption, thereby fostering investment and economic growth.
Investment Rate	β3\beta_3β3	(+)	Gross fixed capital formation increases productive capacity and is a fundamental driver of output growth in neoclassical and endogenous growth models.
Inflation Rate	β4\beta_4β4	(–)	High inflation reflects macroeconomic instability, increases uncertainty, and discourages long-term investment and savings, thereby constraining growth.
Population Growth	β5\beta_5β5	(–)	In many growth models, rapid population growth dilutes capital per worker and places pressure on public resources, reducing GDP per capita growth.

Source: Author's Compilation, 2025.

4.0 Results and Discussion

Descriptive Statistics

The descriptive statistics reveal clear contrasts between the developed European countries and the developing African economies. Economic growth is higher on average in Africa (4.30%) than in Europe (1.85%), reflecting faster expansion in developing economies, but it is also more volatile, as indicated by a larger standard deviation (4.10% vs 1.90%). Democracy scores are markedly higher and less dispersed in Europe (mean = 9.80, SD = 0.45) compared to Africa (mean = 4.45, SD = 4.80), highlighting institutional stability in the former and greater heterogeneity in the latter. Investment rates are slightly higher in Africa (24.2%) than Europe (21.2%), yet African economies face much higher inflation (7.8% vs 2.1%) and faster population growth (2.55% vs 0.45%), which may dilute per capita gains. Overall, these differences underscore the need for dynamic panel GMM estimation, as the method can account for persistence, endogeneity, and cross-country heterogeneity in both stable and volatile economic and institutional environments.

Table 3:
Descriptive Statistics – Developed Countries

Developed Countries (Europe)						
Variable	**Symbol**	**Mean**	**Std. Dev.**	**Min**	**Median**	**Max**
Economic Growth (%)	GDP_{it}	1.85	1.90	−4.50	1.95	6.20
Lagged Growth (%)	$GDP_{i,t-1}$	1.86	1.88	−4.50	1.95	6.20
Democracy (Polity2)	$DEMOC_{it}$	9.80	0.45	8.00	10.00	10.00
Investment (% of GDP)	$INVi_t$	21.20	3.10	17.50	21.00	28.40
Inflation Rate (%)	INF_{it}	2.10	1.50	−0.50	1.90	7.50
Population Growth (%)	POP_{it}	0.45	0.35	−0.20	0.40	1.20

Developing Countries(Africa)						
Variable	**Symbol**	**Mean**	**Std. Dev.**	**Min**	**Median**	**Max**

Economic Growth (%)	GDP_{it}	4.30	4.10	−12.40	4.15	11.80
Lagged Growth (%)	$GDP_{i,t-1}$	4.32	4.05	−12.40	4.15	11.80
Democracy (Polity2)	$DEMOC_{it}$	4.45	4.80	−3.00	5.00	9.00
Investment (% of GDP)	INV_{it}	24.20	7.80	11.50	23.00	37.80
Inflation Rate (%)	INF_{it}	7.80	8.10	1.20	6.50	44.40
Population Growth (%)	POP_{it}	2.55	0.65	1.10	2.60	3.90

Source: Author's Compilation, 2025.

Panel Unit Root

The panel unit root test results show that all variables are stationary at levels I(0), indicating no persistent stochastic trends in the European sample. Economic growth, investment, inflation, democracy, and population growth all reject the null hypothesis of a unit root at conventional significance levels, with particularly strong significance for growth, investment, and inflation. This reflects the stability and low volatility of macroeconomic indicators in developed European economies, suggesting that these variables can reliably be used in dynamic panel GMM estimation without further differencing.

Table 4:

Panel Unit Root Test Developed Countries (Europe)

Variable	IPS (W-stat)	Fisher-ADF (χ^2)	p-value	Decision
Economic Growth	−4.12***	48.55***	0.000	Stationary (I(0))
Democracy	−2.95**	35.12**	0.012	Stationary (I(0))
Investment	−3.88***	42.60***	0.001	Stationary (I(0))
Inflation	−5.10***	55.40***	0.000	Stationary (I(0))
Population Growth	−2.10*	29.80*	0.065	Stationary (I(0))

Source: Author's Compilation, 2025.

In the African sample, all variables are also stationary at levels I(0), despite higher volatility in growth, inflation, and democracy scores compared to Europe. Economic growth, investment, and inflation are highly significant, while democracy and population growth are significant at slightly lower levels. These results indicate that although developing countries experience more economic and institutional variability, the series are still suitable for dynamic panel GMM estimation**,** allowing for consistent estimation while controlling for persistence and endogeneity.

Table 5:

Panel Unit Root Test Developing Countries (Africa)

Variable	IPS (W-stat)	Fisher-ADF (χ^2)	p-value	Decision
Economic Growth	−3.85***	44.18***	0.000	Stationary (I(0))
Democracy	−2.45**	32.70**	0.021	Stationary (I(0))
Investment	−3.10***	39.45***	0.004	Stationary (I(0))
Inflation	−4.60***	51.22***	0.000	Stationary (I(0))
Population Growth	−1.95**	30.15**	0.048	Stationary (I(0))

Source: Author's Compilation, 2025.

GMM test Result

The System GMM results confirm that economic growth exhibits persistence in both developed and developing countries, as indicated by the positive and significant coefficients of lagged GDP. Developed European economies show stronger growth persistence (0.425) compared to African countries (0.215), reflecting the relative stability and maturity of their economic structures. Democracy positively influences growth in both samples but is notably stronger in Africa (0.384***) than in Europe (0.118*), suggesting that institutional quality and democratic governance play a more critical role in stimulating growth where political systems are less mature. Similarly, investment significantly boosts growth across both regions, with a slightly

higher effect in Africa (0.412***) than Europe (0.285***), highlighting the higher marginal returns to capital in developing economies.

Table 6:
System GMM Estimation Results-Economic Growth

Variable	Developed (Europe)	Developing (Africa)
Lagged Growth ($GDP_{i,t-1}$)	0.425*** (0.082)	0.215** (0.095)
Democracy ($DEMOC_{it}$)	0.118* (0.065)	0.384*** (0.112)
Investment ((INV_{it})	0.285*** (0.074)	0.412*** (0.088)
Inflation ((INF_{it})	−0.042 (0.031)	−0.156*** (0.045)
Population Growth (POP_{it})	0.095 (0.120)	−0.245** (0.098)
Constant	1.150*** (0.320)	2.450*** (0.610)
Observations	150	150
Number of Instruments	22	22
AR(1) p-value	0.002	0.001
AR(2) p-value	0.485	0.520
Hansen J-test p-value	0.240	0.315

Source: Author's Compilation, 2025.

Inflation and population growth show divergent impacts across regions. In Africa, inflation is strongly negative (-0.156***), while in Europe it is insignificant, reflecting the vulnerability of developing economies to macroeconomic instability. Population growth negatively affects African growth (-0.245**), indicating that rapid demographic expansion can dilute per capita income gains, whereas Europe's low and stable population growth exerts no significant effect. Diagnostic tests support the validity of the model: AR(1) is significant, AR(2) is insignificant, and the Hansen J-test confirms instrument validity in both samples. Overall, the results demonstrate that while the dynamics of growth are similar, the magnitude and significance of institutional and macroeconomic determinants differ markedly between developed and developing countries, emphasizing the need for context-sensitive policy interventions.

Table 7:
Static Panel Estimates-Economic Growth

Variable	Developed POLS	Developed FE	Developing POLS	Developing FE
$GDP_{i,t-1}$	0.842*** (0.038)	0.315** (0.062)	0.785*** (0.055)	0.088** (0.042)
$DEMOC_{it}$	0.095** (0.045)	0.072* (0.040)	0.284*** (0.082)	0.215** (0.095)
INV_{it}	0.210*** (0.052)	0.185*** (0.048)	0.385*** (0.075)	0.310*** (0.068)
INF_{it}	−0.015 (0.022)	−0.008 (0.015)	−0.125** (0.048)	−0.095*** (0.032)
POP_{it}	0.052 (0.088)	0.012 (0.110)	−0.188* (0.102)	−0.412*** (0.125)
Constant	0.950*** (0.280)	1.420*** (0.410)	2.110*** (0.550)	4.150*** (0.820)
R-squared	0.72	0.51 (within)	0.61	0.39 (within)

Observations	150	150	150	150

Source: Author's Compilation, 2025.

The static panel estimates reveal several notable differences between developed and developing countries. Lagged growth is more persistent in Europe (0.842 POLS; 0.315 FE) than Africa (0.785 POLS; 0.088 FE), reflecting the stability of European economies. Democracy exerts a stronger positive impact in Africa (0.284 POLS; 0.215 FE) than in Europe (0.095 POLS; 0.072 FE), highlighting the growth-promoting role of democratic institutions in developing contexts. Investment is a significant driver of growth in both regions but shows higher magnitudes in Africa, suggesting higher marginal returns to capital in developing economies. Conversely, inflation and population growth negatively affect growth only in Africa, indicating that macroeconomic instability and rapid population expansion are more binding constraints in developing countries. Overall, Europe demonstrates lower variability and more stable growth determinants, while Africa exhibits stronger responsiveness to institutional and investment factors but remains vulnerable to inflation and demographic pressures.

Table 8:
Dynamic Panel Estimation Results (GMM)

	Dependent Variable:GDP_{it}			
Variable	**Developed (Diff-GMM)**	**Developed (Sys-GMM)**	**Developing (Diff-GMM)**	**Developing (Sys-GMM)**
$GDP_{i,t-1}$	0.385***	0.425***	0.182**	0.215**
	(0.075)	(0.082)	(0.090)	(0.095)
$DEMOC_{it}$	0.082*	0.118*	0.295***	0.384***
	(0.048)	(0.065)	(0.105)	(0.112)
INV_{it}	0.240***	0.285***	0.365***	0.412***
	(0.068)	(0.074)	(0.082)	(0.088)
INF_{it}	−0.022	−0.042	−0.110***	−0.156***
	(0.025)	(0.031)	(0.038)	(0.045)
POP_{it}	0.045	0.095	−0.198**	−0.245**
	(0.095)	(0.120)	(0.092)	(0.098)
Constant	—	1.150***	—	2.450***
		(0.320)		(0.610)
Observations	138	150	138	150
AR(1) p-value	0.005	0.002	0.002	0.001
AR(2) p-value	0.410	0.485	0.550	0.520
Hansen J-test p-value	0.185	0.240	0.215	0.315

Source: Author's Compilation, 2025.

The results confirm strong growth persistence across both developed and developing economies, with higher persistence observed in Europe, reflecting economic stability. Democracy exerts a significantly stronger growth-enhancing effect in developing countries, indicating that institutional improvements yield larger marginal gains where democratic structures are less mature. Investment consistently promotes growth in all specifications, with higher coefficients in Africa, supporting the notion of higher returns to capital in developing economies. In contrast, inflation and population growth significantly constrain growth only in developing countries**,** highlighting structural vulnerabilities absent in advanced economies. Diagnostic tests confirm model validity, with no second-order autocorrelation and satisfactory Hansen J-statistics across all specifications.

5.0 Conclusion and Recommendation

In conclusion, this dynamic panel analysis demonstrates that democratic governance and investment are positively associated with economic growth, but their effectiveness is strongly

conditioned by regional development levels and institutional maturity. The substantially higher growth dividend from democracy and the larger marginal returns to investment observed in African economies indicate that institutional reforms are most impactful where governance structures and market-supporting institutions remain incomplete. In contrast, the stronger growth persistence and stability evident in European economies suggest diminishing marginal growth returns to further democratic consolidation, consistent with institutional saturation. These results align with New Institutional and Endogenous Growth theories, reinforcing the view that political regimes influence growth primarily through context-dependent institutional and macroeconomic channels rather than through uniform causal mechanisms.

From a policy perspective, African governments should prioritize specific institutional reforms that directly lower investment risk, including strengthening judicial enforcement of contracts, improving regulatory predictability, and depoliticizing investment approval processes. Democratic reforms should be complemented by credible monetary policy frameworks**,** such as inflation-targeting regimes and enhanced central bank independence, to prevent macroeconomic instability from eroding institutional gains. Additionally, converting rapid population growth into a growth dividend requires scaling investment in secondary education, skills training, and labour-market absorption**,** rather than population control measures alone. For European economies, policy emphasis should shift toward preserving institutional credibility and policy continuity**,** particularly by safeguarding rule-of-law institutions, fiscal discipline mechanisms, and regulatory transparency, as these underpin growth persistence more than incremental democratic reforms. Overall, the study advocates sequenced**,** development-stage–specific policy packages**,** in which democratic deepening, macroeconomic stabilization, and investment promotion are jointly calibrated to national institutional capacities and structural constraints, rather than applied as uniform governance prescriptions.

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