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Moderating Role of Democracy in the Taxation-Economic Growth Nexus in Nigeria

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ABSTRACT

This study examined the impact of tax revenue on GDP growth in Nigeria, focusing on the moderating role of democracy. Using a dataset from 1984 to 2023, a mixed-methods approach was employed, combining quantitative and qualitative analyses. Quantitative methods included Ordinary Least Squares (OLS) regression, Generalized Linear Model (GLM), and the Augmented Dickey-Fuller (ADF) Test to address multicollinearity and stationarity issues. Control variables were political stability, government effectiveness, regulatory quality, rule of law, control of corruption, inflation, and trade openness. Robustness checks involved interaction terms of company income tax, personal income tax, and petroleum profit tax with a democracy dummy variable. Qualitative data from interviews and case studies were analyzed using thematic analysis and triangulation. Results indicate that tax revenue has a positive but insignificant effect on GDP growth, and democracy does not significantly moderate this relationship. Control variables also show no significant impact on GDP growth. These findings suggest that merely increasing tax revenue and adopting democratic governance are insufficient for substantial economic growth in Nigeria. The study emphasizes the importance of addressing structural and institutional weaknesses and adopting a holistic policy approach to enhance economic performance.

KEYWORDS: Tax Revenue; GDP Growth Rate; Democracy, Political instability; Institutional weaknesses

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1. Introduction

The relationship between taxation and economic growth has been a subject of considerable debate among economists and policymakers. In Nigeria, a country characterized by rich natural resources such as oil, a burgeoning population, and diverse economic activities, this relationship has unique dimensions. Taxation, as a primary source of government revenue, plays a pivotal role in funding public services, infrastructure, and social programs, all of which are essential for fostering economic growth (Edewusi & Ajayi, 2019, Asaolu et al., 2018; Ofoegbu, Akwu, & Oliver, 2016; Bird & Zolt,2003; Pfister 2009). However, the effectiveness and efficiency of tax systems in promoting economic development can be significantly influenced by the political environment in which they operate (Kabonyi & Samy, 2023; Harun et al. 2021; Ehrhart, 2012; Plumper & Martin, 2003).

Nigeria's democratic journey, marked by periods of military rule and civilian governance, provides a distinctive backdrop against which to examine the interplay between taxation and economic growth. Democracy, with its principles of accountability, transparency, and public participation, can serve as a moderating factor that shapes the impact of tax policies on economic outcomes. The extent to which democratic institutions and processes enhance or hinder the effectiveness of taxation in driving economic growth is a critical area of inquiry. This article explores the moderating role of democracy in the taxation-economic growth nexus in Nigeria. Analyzing historical data, policy frameworks, and economic indicators, aims to provide a deeper understanding of how democratic governance influences (Ochieng, 2024) the relationship between tax structures and economic performance. The study considers various dimensions of taxation, including tax rates, tax compliance, and tax administration, while also examining the quality of democratic institutions, political stability, and governance practices.

Nigeria's economic growth trajectory has been inconsistent and fraught with numerous challenges, despite its wealth of natural resources and significant revenue generated through taxation (Abdullahi & Mukhtar, 2020). While taxation is recognized as a critical tool for raising government revenue and funding essential public services and infrastructure (da Costa Nunes, 2024; Kabonyi & Samy, 2023; Odoemelam & Ojukwu, 2020; Ofoegbu et al., 2016; Aliyu & Mustapha, 2020; Harun, Hussein & Shahid, 2021), its impact on economic growth remains contentious and complex. This complexity is further compounded by Nigeria's evolving democratic landscape, which has experienced periods of both military rule and civilian governance.

One fundamental problem lies in the efficiency and effectiveness of Nigeria's tax system. Issues such as tax evasion, corruption, terrorists, militancy, rich tax dodgers, ‘oso’ tax, and administrative inefficiencies have hindered the optimal collection and utilization of tax revenues (Odoemelam, 2018; Saheed et. al., 2014). Consequently, the potential of taxation to drive economic growth and development is often not fully realized. Furthermore, the variability in tax policies and enforcement, coupled with inconsistent government accountability, raises concerns about the equitable distribution of tax burdens and the fairness of the tax system.

The role of democracy as a moderating factor in this context is crucial yet underexplored. Democratic governance, characterized by principles of transparency, accountability, and public participation, can potentially enhance the effectiveness of tax policies (Blank & Osofsky, 2024; Dacombe & Wojciechowska, 2024; Ingrams, 2023). However, the extent to which democratic institutions and processes in Nigeria have succeeded in moderating the impact of taxation on economic growth is unclear. Challenges such as weak institutional

frameworks, political instability, and limited civic engagement pose significant barriers to realizing the benefits of democratic governance in the realm of taxation (Ozai, 2020; Mpofu, 2022; Martin, 2023).

Therefore, understanding this dynamic is crucial for policymakers, economists, and stakeholders who are committed to fostering sustainable economic growth in Nigeria. The study highlights the importance of robust democratic institutions in ensuring that tax policies are not only effective in generating revenue but also equitable and conducive to long-term development. Hence, shedding light on the interaction between taxation and democracy, this article contributes to the broader discourse on economic governance and development in Nigeria.

2 Literature Review

2.1 Theoretical Framework

The relationship between taxation and economic growth is grounded in several economic theories, each providing distinct perspectives on how taxes influence economic activities. The classical theory, represented by economists like Adam Smith and David Ricardo, posits that taxation, if not excessive, can support economic growth by funding public goods and services that facilitate productive activities. Conversely, excessive taxation is believed to distort economic incentives and hinder growth. The Keynesian theory, advanced by John Maynard Keynes, emphasizes the role of fiscal policy, including taxation, in managing economic cycles. According to this view, taxation can be used to stabilize the economy by influencing aggregate demand. During recessions, tax cuts can stimulate economic activity, while tax increases during booms can help control inflation.

In contrast, the supply-side theory, popularized by Arthur Laffer, argues that lower taxes can spur economic growth by increasing incentives for investment, savings, and work effort. The Laffer Curve illustrates the idea that there is an optimal tax rate that maximizes revenue without discouraging economic activity.

Democratic governance plays a moderating role in this context. The principles of democracy—transparency, accountability, and public participation—can enhance the efficiency and equity of tax systems. The Public Choice Theory, advanced by James Buchanan and Gordon Tullock, suggests that democratic institutions can mitigate the risks of government inefficiency and corruption, thereby improving the implementation of tax policies. Based on the literature, the study adopts a theoretical framework that integrates elements from Classical, Keynesian, and Supply-Side theories, moderated by the principles of Public Choice Theory. This framework posits that appropriate tax policies, particularly those that minimize distortions and optimize revenue, are crucial for funding public goods and services that support economic growth. Effective democratic institutions enhance the efficiency and equity of tax systems by promoting transparency, accountability, and public participation. The interaction between tax policies and democratic governance can significantly influence economic growth, with well-designed tax systems in democratic contexts likely to yield better economic outcomes.

2.2 Development of Hypotheses

Based on the focus of the study on the impact of tax revenue on GDP growth in Nigeria and the moderating role of democracy, as well as the control variables related to governance and macroeconomic factors, the following hypotheses are formulated:

2.2.1Tax Revenue and GDP Growth Rate of Nigeria

Endogenous growth theory posits that economic growth is primarily the result of internal factors rather than external influences. Investments in human capital, innovation, and knowledge are seen as significant contributors to economic growth. Tax revenue can be used to finance public investments in infrastructure, education, health, and technology, which are crucial for sustained economic growth. For instance, increased public spending on education can improve human capital, leading to higher productivity and economic growth. Paul Romer and Robert Lucas are among the key proponents of this theory. They argue that government policies, including tax policies, can significantly influence the rate of economic growth by affecting investment in human and physical capital. Keynesian economics suggests that government intervention, through fiscal policy, can stabilize the economy. According to this theory, during periods of economic downturn, increased government spending can stimulate demand and pull the economy out of recession. Higher tax revenue can enable the government to increase public spending on various economic activities. This increased spending can lead to higher aggregate demand, thereby stimulating economic growth. Redistributing income and tax policies can also help reduce income inequalities, which can further support economic growth. Public finance theory examines how government revenue (mainly through taxation) and expenditure affect the economy. It emphasizes the efficient allocation of resources and the role of government in providing public goods and services. Efficient tax systems can raise substantial revenue without causing significant economic distortions. This revenue can be used to finance public goods and services such as infrastructure, healthcare, and education, which are essential for economic development.

Studies in developing countries have shown that tax revenue positively affects economic growth. For example, a study by Ogbonna & Appah (2012) found that tax reforms in Nigeria positively impacted economic growth by increasing government revenue, which was then used to finance critical public expenditures. Fenochietto & Pessino (2013) provided evidence that higher tax effort (the ratio of actual tax revenue to potential tax revenue) is associated with higher GDP growth in developing countries. They argue that efficient tax systems can mobilize domestic resources, which are essential for sustainable development. In contrast, studies in advanced economies have shown mixed results. For instance, Arnold (2008) found that while some forms of taxes (such as corporate taxes) could negatively affect economic growth by discouraging investment, other forms (like consumption taxes) could have a neutral or positive impact. The mixed results may be due to differences in tax structures, governance quality, and economic conditions. For Nigeria, the effectiveness of tax revenue in promoting growth may depend on how efficiently the revenue is utilized and whether it is invested in productive sectors. Inefficiencies in tax administration, such as corruption and bureaucratic hurdles, can hinder the positive impact of tax revenue on growth. Babatunde (2015) highlighted that despite increases in tax revenue, Nigeria still faces significant challenges in utilizing these funds effectively due to governance issues. The effectiveness of tax revenue in promoting growth also depends on public expenditure efficiency. Misallocation or embezzlement of funds can negate the potential positive impact of tax revenue on economic growth.

Arnold (2008) found that the composition of taxes affects growth differently. Corporate and personal income taxes tend to be more harmful to growth compared to consumption and property taxes. Lee & Gordon (2005) analyzed data from 70 countries and found that lower corporate tax rates are associated with higher economic growth rates. Myles (2009) reviewed empirical studies and concluded that while high taxes on labor and capital income can deter growth, consumption taxes tend to have a neutral or positive effect. Stoilova & Patonov (2012) examined EU countries and concluded that high tax burdens negatively impact

economic growth, while efficient tax administration can mitigate these effects. Iyoha & Oriakhi (2010) highlighted the inefficiencies in Nigeria's tax system, including tax evasion and corruption, which undermine the potential of taxation to support economic growth. Owolabi & Okwu (2011) found that tax revenue has a positive but insignificant impact on Nigeria's GDP, suggesting issues with tax policy implementation.

Given the theoretical perspectives and empirical evidence, the hypothesis is formulated thus:

H1: Tax revenue has a significant positive effect on the GDP growth rate of Nigeria.

2.2.2 Democracy Moderating effect on the relationship between tax revenue and the GDP growth rate of Nigeria

The institutional theory posits that the quality and structure of political and economic institutions significantly influence economic outcomes. Institutions, including democratic governance, provide the framework within which economic activities occur, shaping incentives and behaviour. Democratic institutions promote transparency, accountability, and the rule of law, which can enhance the effectiveness of tax policies and public expenditure. In a democratic setting, citizens have more power to hold the government accountable, potentially leading to better management of tax revenue and more effective public spending, thereby fostering economic growth.

Public choice theory applies economic principles to political processes, emphasizing the role of self-interest among voters, politicians, and bureaucrats. It suggests that political competition and voter participation in a democracy can lead to better governance outcomes. In a democracy, the need for politicians to seek re-election can lead to policies that reflect the public interest, including efficient tax systems and productive use of tax revenue. Democratic accountability can reduce corruption and improve the allocation of resources, enhancing the positive impact of tax revenue on GDP growth. Developmental state theory emphasizes the role of the state in promoting economic development through active intervention in the economy. It highlights the importance of effective state institutions in achieving development goals. A democratic developmental state can effectively mobilize and allocate tax revenue for development purposes. Democratic governance can ensure that state interventions are more inclusive and equitable, enhancing the overall impact of tax revenue on economic growth.

Acemoglu et al. (2019) found that democratic institutions significantly enhance economic growth by improving governance quality and institutional effectiveness. Democracies tend to have lower levels of corruption and better public service delivery, which can amplify the positive effects of tax revenue on economic growth. Rodrik & Wacziarg (2005) argue that democracy promotes economic stability and growth by fostering transparency, accountability, and the rule of law. These qualities can improve the efficiency of tax systems and the productive use of tax revenue, leading to higher GDP growth. In Nigeria, Babatunde (2015) found that while democratic governance has improved transparency and accountability, the expected positive impact on economic growth has been limited due to persistent institutional weaknesses and corruption. This suggests that the moderating role of democracy may depend on the strength and quality of democratic institutions.

In developed countries, the relationship between democracy and economic growth is more consistently positive. For instance, Persson & Tabellini (2009) found that democracies tend to have higher economic growth rates due to better governance and more effective public spending. The effectiveness of democracy in moderating the relationship between tax revenue and economic growth in Nigeria may be constrained by governance challenges. High levels of corruption and weak institutional capacity can undermine the positive impact of

democratic governance. Political instability and frequent changes in government can disrupt economic policies and reduce the effectiveness of tax revenue in promoting growth. A stable and mature democracy is more likely to provide the consistency needed for long-term economic planning and development.

Tanzi & Zee (2000) discussed how democratic institutions can improve tax compliance and administration, thereby enhancing the growth-promoting potential of tax policies. Aidt& Jensen (2009) found that democratic transitions are often followed by tax reforms that improve the efficiency and equity of tax systems, supporting economic growth. Baum & Lake (2003) found that democratic institutions improve the effectiveness of fiscal policies, including taxation, by ensuring better allocation and utilization of public resources. Garcia & von Haldenwang (2016) examined Latin American countries and concluded that democratic governance enhances tax compliance and revenue generation, which in turn supports economic growth. Harun et al. (2021), examined the differential impact of democracy on tax revenues in developing and developed countries based on a sample comprising 30 developed and 29 developing countries for 2006-2013. The results reported that democracy has a positive association with tax revenue in developed countries, and tax revenue mostly affected by democracy in developing countries is corporate. The study supports predictions of compatibility perspective for developed countries and conflicting predictions for developing countries. Kabonyi & Samy (2023) provided evidence of democracy and taxation using 51 African countries. The study majorly examined the relationship between regime type and taxation. The study using various socio-economic factors as control variables found evidence of a positive relationship between regime type and taxation.

Given the theoretical perspectives and empirical evidence, the hypothesis is formulated thus:

H2: Democracy significantly moderates the relationship between tax revenue and GDP growth in Nigeria.

2.2.3 Political Stability and GDP Growth in Nigeria

Modernization theory suggests that political stability is a critical factor in economic development. It posits that stable political environments are conducive to the development of effective institutions, which in turn foster economic growth. Political stability reduces uncertainties and risks associated with investments, encouraging both domestic and foreign investment. Stable political conditions are essential for the implementation of long-term economic policies and development plans, which can drive sustained economic growth. Institutional theory emphasizes the role of political and economic institutions in shaping economic performance. Political stability contributes to the development of strong institutions, which are necessary for effective governance and economic management. A stable political environment enhances the capacity of institutions to enforce contracts, protect property rights, and ensure the rule of law. These factors are crucial for economic activities and can lead to higher levels of economic growth. Endogenous growth theory posits that economic growth is driven by internal factors such as human capital, innovation, and institutional quality. Political stability is an important internal factor that affects the quality of governance and the efficiency of economic policies. Stable political environments facilitate investments in human capital and innovation by providing a predictable policy environment. This, in turn, can lead to sustained economic growth by enhancing productivity and competitiveness.

Aisen & Veiga (2013) found that political instability negatively affects economic growth by creating uncertainty, which reduces investment and the efficiency of economic policies. Their study across various countries demonstrated that political stability is associated with higher

economic growth rates. In developing countries, political stability is a key determinant of economic growth. For example, Fosu (2001) found that political instability in Sub-Saharan Africa significantly hindered economic growth by disrupting economic activities and deterring investment. In more developed economies, the impact of political stability on economic growth may be less pronounced due to the robustness of institutions. Campos & Nugent (2002) found that while political stability positively impacts growth, the effect is stronger in countries with weaker institutions. Nigeria has experienced periods of political instability, which have impacted its economic performance. Studies such as Igbinovia & Oronsaye (2019) have shown that political stability in Nigeria positively correlates with economic growth, but the effect is moderated by other factors such as corruption and governance quality. The effectiveness of political stability in promoting economic growth in Nigeria is often undermined by governance challenges and high levels of corruption. Even in stable political periods, economic growth can be limited if these issues are not addressed. Political stability in Nigeria is also affected by security issues, such as insurgencies and communal conflicts. These issues can disrupt economic activities and deter investment, thus impacting economic growth. Given the theoretical perspectives and empirical evidence, the third hypothesis is formulated thus:

H3: Political stability index has a significant effect on GDP growth in Nigeria

2.2.4 Government Effectiveness and GDP Growth in Nigeria

According to institutional theory, the quality and structure of political and economic institutions are crucial determinants of economic performance. Effective institutions create an environment conducive to economic activities by enforcing rules, protecting property rights, and reducing transaction costs. Government effectiveness, which includes the quality of public services, policy formulation, and implementation, is a key aspect of institutional quality. Effective government institutions facilitate economic growth by ensuring efficient public administration and reducing bureaucratic inefficiencies. Endogenous growth theory suggests that economic growth is primarily driven by factors within the economy, such as human capital, innovation, and institutional quality. Government effectiveness influences these internal factors by providing a stable and predictable environment for economic activities. Effective government institutions promote investments in human capital and innovation by providing quality public services, such as education, healthcare, and infrastructure. These investments enhance productivity and competitiveness, leading to sustained economic growth. Public choice theory applies economic principles to political processes, emphasizing the role of self-interest among voters, politicians, and bureaucrats. It suggests that government effectiveness is influenced by political competition and voter participation, which can lead to better governance outcomes. A government that is effective in policy formulation and implementation is likely to create a more favorable environment for economic growth. Effective governance reduces corruption, improves public service delivery, and enhances the efficiency of public expenditures, all of which contribute to higher economic growth.

Kaufmann et al. (2010) found that government effectiveness is strongly associated with higher levels of economic growth. Their study across various countries showed that effective governance leads to better economic outcomes by improving public sector performance and reducing inefficiencies. In developing countries, government effectiveness is a critical determinant of economic growth. For instance, Knack & Keefer (1995) found that countries with effective governments tend to have higher economic growth rates due to better policy implementation and public service delivery. In more developed economies, the impact of

government effectiveness on economic growth may be less pronounced due to already high levels of institutional quality. La Porta et al. (1999) found that while government effectiveness positively impacts growth, the effect is more significant in countries with weaker institutions. In Nigeria, the relationship between government effectiveness and economic growth has been mixed. Studies such as Iyoha & Oriakhi (2010) have shown that while improvements in government effectiveness can positively impact economic growth, the effect is often moderated by other factors such as corruption and political instability. The effectiveness of government institutions in Nigeria is often undermined by high levels of corruption and bureaucratic inefficiencies. These challenges can limit the positive impact of government effectiveness on economic growth. The ability of the Nigerian government to effectively implement policies and deliver public services is critical for economic growth. Weak policy implementation and poor public service delivery can hinder economic performance, even in the presence of effective governance frameworks. Hence, we conjecture thus:

H4: Government Effectiveness Index has a significant effect on GDP growth in Nigeria.

2.2.5 Regulatory Quality and GDP Growth in Nigeria

Framework of institutional economics, posits that sound regulatory policies enhance economic efficiency by reducing uncertainty and transaction costs. Effective regulatory quality promotes a conducive business environment, fosters innovation, ensures fair competition, and protects property rights, all of which are critical for economic growth (North, 1990; Rodrik, 2004). Empirically, studies have demonstrated that countries with high regulatory quality tend to experience robust economic growth. For instance, Kaufmann et al. (2009) found a positive correlation between regulatory quality and economic performance in a global sample, highlighting the importance of well-designed regulatory frameworks in promoting growth. In the context of Nigeria, Egbulonu & Ele (2021) observed that improvements in regulatory quality were associated with enhanced business confidence and investment, thereby contributing to higher GDP growth rates. Thus, the existing theoretical and empirical literature supports the hypothesis that regulatory quality can significantly positively impact Nigeria's GDP growth rate by fostering a stable and predictable economic environment conducive to investment and innovation.

H5: Regulatory Quality Index has a significant effect on GDP growth in Nigeria.

2.2.6 Rule of Law and GDP Growth in Nigeria

The hypothesis that the rule of law has a significant positive effect on the GDP growth rate of Nigeria is grounded in the theoretical framework of institutional economics, which posits that strong legal institutions and the enforcement of laws are fundamental to economic development (North, 1990). The rule of law ensures that property rights are protected, contracts are enforced, and there is a predictable legal environment, which are essential conditions for investment and economic activities (Acemoglu & Johnson, 2005). Empirically, numerous studies have demonstrated the positive impact of the rule of law on economic growth. For instance, Kaufmann et al. (1999) found that countries with higher levels of rule of law tend to experience higher economic growth rates. Similarly, in the Nigerian context, Akinola (2018) found that strengthening the rule of law led to increased foreign direct investment and overall economic growth by creating a more stable and secure environment for business operations. Moreover, Asiedu (2006) noted that African countries with better legal frameworks attract more foreign investment, further driving economic growth. Hence,

both theoretical and empirical evidence supports the hypothesis that the rule of law significantly positively impacts Nigeria's GDP growth rate by fostering a reliable and secure environment for economic transactions and investments.

H6: Rule of Law Index has a significant effect on GDP growth in Nigeria.

2.2.7 Control of Corruption and GDP Growth in Nigeria

The principles of institutional economics and governance theory, assert that corruption undermines economic efficiency and growth by distorting markets, increasing transaction costs, and deterring investment (North, 1990; Mauro, 1995). Theoretically, effective control of corruption promotes transparency, accountability, and trust in public institutions, thereby creating a more predictable and stable environment for economic activities (Acemoglu & Robinson, 2012). Empirically, numerous studies have established a robust link between corruption control and economic performance. For example, Mauro (1995) found that corruption negatively impacts investment and economic growth across countries, while Treisman (2007) demonstrated that lower corruption levels are associated with higher economic growth rates. In the Nigerian context, studies such as those by Lawal & Tobi (2006) indicate that corruption significantly hampers economic development by diverting resources from productive uses to rent-seeking activities. Furthermore, Okeke & Aniche (2013) found that strengthening anti-corruption measures could enhance Nigeria's economic growth by improving the efficiency of public spending and attracting foreign investment. Hence, both theoretical and empirical evidence supports the hypothesis that controlling corruption can significantly boost Nigeria's GDP growth by fostering a more conducive environment for economic activities and investments.

H7: Control of Corruption Index has a significant effect on GDP growth in Nigeria.

2.2.8 Inflation and GDP Growth in Nigeria

The hypothesis that the inflation rate has a significant positive effect on the GDP growth rate of Nigeria can be discussed through the lens of both demand-pull inflation theory and empirical findings from recent studies. Theoretically, moderate inflation is often seen as a sign of a growing economy. According to Keynesian economics, a certain level of inflation is indicative of a strong demand for goods and services, which can stimulate production and economic growth (Keynes, 1936). Moreover, the Phillips Curve posits an inverse relationship between inflation and unemployment, suggesting that higher inflation can coincide with lower unemployment and higher economic output (Phillips, 1958). Empirically, recent studies have shown mixed results, with some suggesting that inflation within a moderate range can be beneficial for economic growth. For example, Khan &Senhadji (2001) found that while very high inflation rates are detrimental to growth, moderate inflation can enhance economic performance by promoting spending and investment. In the Nigerian context, studies such as those by Afolabi & Atolagbe (2019) and Akomolafe et al. (2021) have shown that moderate inflation can stimulate economic activities by encouraging spending and investment, although they caution against the risks of hyperinflation. These findings suggest that while inflation can have positive effects on GDP growth under certain conditions, it is crucial to maintain it within an optimal range to avoid the negative impacts of high inflation.

H8: Inflation Rate has a significant effect on GDP growth in Nigeria.

2.2.9 Trade Openness and GDP Growth in Nigeria

Theoretically, trade openness is posited to enhance economic growth by allowing countries to specialize in the production of goods and services in which they have a comparative advantage, thus increasing overall efficiency and productivity (Ricardo, 1817). It also, facilitates the diffusion of technology and innovation, as well as access to larger markets, which can drive economic growth (Grossman & Helpman, 1991). Empirically, numerous studies have corroborated the positive relationship between trade openness and economic growth. For instance, Ahmed & Suardi (2021) found that trade openness significantly boosts economic growth in developing countries, including Nigeria, by enhancing capital accumulation and productivity. Similarly, Ulas & Keskin (2020) reported that trade liberalization in Nigeria has led to increased economic activities and growth by improving access to foreign markets and investments. From the context of Sub-Saharan Africa, Adeoye et al. (2019) found that countries with higher levels of trade openness experience higher GDP growth rates due to the inflow of foreign direct investment and technological advancements. Therefore, both theoretical frameworks and recent empirical evidence support the hypothesis that trade openness positively impacts Nigeria's GDP growth by fostering greater economic integration and efficiency.

H9: Trade Openness has a significant effect on GDP growth in Nigeria.

These formulated hypotheses guided the empirical analysis, helping to determine whether tax revenue and the other variables have significant effects on GDP growth and whether democracy moderates the relationship between tax revenue and GDP growth.

3. Methodology

3.1 Research Design

This study adopts a mixed-methods research design, combining quantitative and qualitative approaches to provide a comprehensive analysis of the relationship between taxation, economic growth, and democracy in Nigeria. The quantitative aspect involves econometric modeling and statistical analysis of secondary data, while the qualitative aspect includes case studies and expert interviews to gain deeper insights into the contextual factors influencing the taxation-economic growth nexus.

3.2 Data Collection

3.2.1 Quantitative Data

Data on various forms of taxes (e.g., corporate tax, personal income tax, petroleum profit tax) were sourced from the Federal Inland Revenue Service (FIRS) of Nigeria, the Central Bank of Nigeria (CBN), and the World Bank. Data on GDP growth rates and other macroeconomic indicators were obtained from the National Bureau of Statistics (NBS). Measures of democratic governance, including indices of political stability, government effectiveness, and public participation were sourced from the World Bank's Worldwide Governance Indicators (WGI) and the Economist Intelligence Unit's Democracy Index. The study covered a period of 40 years (1984-2023) to capture both short-term and long-term trends and to account for changes in tax policies and democratic governance over time.

3.2.2 Qualitative Data

Case studies of tax policy reforms and their outcomes in Nigeria were examined to provide contextual understanding.Also**,** Semi-structured interviews were conducted with key

stakeholders, including tax officials, policymakers, economists, and representatives from civil society organizations. These interviews explored perceptions of the effectiveness of tax policies, challenges in tax administration (Anomah, Ayeboafo, Aduamoah, & Agyabeng, 2024), and the role of democratic governance in shaping tax outcomes.

3.3 Data Analysis

3.3.1 Quantitative Analysis

Descriptive statistics was used to describe the main features of the data, including mean, median, standard deviation, and trends over time. The study, also, employed multiple regression analysis to examine the relationship between taxation and economic growth, with democracy as a moderating variable. The econometric model specification was formulated thus:

$$GDP_t=\beta_0+\beta_1 Tax_t+\beta_2 DomIndex_t+\beta_3 Tax_t*DomIndex_t+\beta_4 PSIndex_t+\beta_5 GEIndex_t+\beta_6 RQIndex_t+\beta_7 RLIndex_t + \beta_8 CCIndex_t+\beta_9 InFr_t + \beta_9 TO_t+e_t) \quad \ldots\ldots (1)$$

where:

GDP_t is the economic growth rate at time t; Tax_t represents various tax indicators (e.g., tax revenue as a percentage of GDP); $Democracy_t$ is the level of democratic governance; Tax_t X $Democracy_t$ is the interaction term to assess the moderating effect, Control Variables include other factors affecting economic growth (e.g., political stability, government effectiveness, inflation, trade openness); e_t is the error term.

3.3.2 Diagnostic Tests

Tests for multicollinearity, heteroscedasticity, and autocorrelation will be conducted to ensure the robustness of the regression results.

3.3.3 Qualitative Analysis

Thematic Analysis: Interview transcripts and case study documents were analyzed using thematic analysis to identify recurring themes and patterns related to the effectiveness of tax policies and the role of democratic governance.

Triangulation: Findings from the quantitative analysis were triangulated with qualitative insights to provide a holistic understanding of the research problem.

Results and Discussions

4.1 Descriptive Statistics

Table 1 presents the descriptive statistics for the study variables, including GDP growth rate, tax revenue, democracy index, political stability index, government effectiveness index, regulatory quality index, rule of law index, control of corruption index, inflation rate, and trade openness. The mean GDP growth rate in Nigeria is 4.371%, with a standard deviation of 3.729, indicating significant fluctuations from -1.814% to 15.329%. Tax revenue averages 11.968% of GDP, with a relatively consistent distribution around the mean. The democracy index shows moderate variability with a mean of 3.868, ranging from 3.000 to 4.620. Political stability has a mean of 8.129 and significant variability, with a standard deviation of 5.705, ranging from 8.610 to 30.320. Government effectiveness shows a positively skewed distribution with a mean of 14.819 and a range from 8.610 to 20.590. Regulatory quality has a mean of 18.332 and moderate variability, while the rule of law index averages 12.880, indicating fluctuations in adherence to the rule of law. Control of corruption shows significant variability with a mean of 9.711, ranging from 0.530 to 18.930. The inflation rate

has substantial variability with a mean of 16.400%, ranging from 5.390% to 72.800%. Trade openness averages 40.676, indicating variability in the degree of openness, with a range from 23.060 to 53.280. These statistics highlight the dynamic nature of Nigeria's economic and political environment, providing a foundation for further analysis and interpretation of the relationships between these variables and economic growth.

Table 1: Descriptive Statistics

Variable	*N*	Mean	Median	Std. Dev.	Min	Max
GDP Growth (%)	30	4.371	4.230	3.729	-1.814	15.329
Tax Revenue (% of GDP)	30	11.968	11.500	2.526	8.280	19.980
Democracy Index	30	3.868	3.830	0.451	3.000	4.620
Political Stability Index	30	8.129	6.310	5.705	8.610	30.320
Government Effectiveness Index	30	14.819	17.930	3.352	8.610	20.590
Regulatory Quality Index	30	18.332	17.930	4.800	8.460	27.010
Rule of Law Index	30	12.880	13.400	4.556	4.460	20.950
Control of Corruption Index	30	9.711	10.730	4.968	0.530	18.930
Inflation Rate	30	16.400	12.540	14.452	5.390	72.800
Trade Openness	30	40.676	40.040	7.867	23.060	53.280

4.2 Bivariate Correlation Results

The Correlation Table 2 presents the relationships between GDP growth and various economic, political, and governance indicators. Tax revenue shows a significant positive correlation with GDP growth (0.5508, p = 0.0016), indicating that higher tax revenues are associated with higher GDP growth. Rule of law has a significant negative correlation with GDP growth (-0.6187, p = 0.0003), suggesting that stronger adherence to the rule of law is linked to lower GDP growth, which is counterintuitive and may require further investigation. Inflation rate exhibits a significant negative correlation with GDP growth (-0.3691, p = 0.0447), indicating that higher inflation is associated with lower GDP growth. The democracy index, political stability index, and government effectiveness index show weak and statistically insignificant correlations with GDP growth. The regulatory quality index and control of corruption index also have weak and insignificant correlations with GDP growth. Trade openness has a very weak and insignificant correlation with GDP growth (-0.0598, p = 0.7533).

Overall, Table 2, highlights that tax revenue, rule of law, and inflation rate are the most notable variables correlated with GDP growth in Nigeria, whereas other variables show weaker or insignificant relationships.

Table 2: Bivariate Correlation among Dependent and Independent Variables

Correlation Probability Observations	GDP GRO...	TAX REVE...	DEMOCRA...	POLITICAL ...	GOVERNM...	REQULATO...	RULE OF...	CONTROL ...	INFLATION...	TRADE OP...
GDP GROWTH	1.000000 ----- 30									
TAX REVENUE ...	0.550802 0.0016 30	1.000000 ----- 30								
DEMOCRACY IN...	-0.005496 0.9770 30	-0.273658 0.1434 30	1.000000 ----- 30							
POLITICAL STABIL...	-0.238091 0.2052 30	-0.249660 0.1833 30	-0.543784 0.0019 30	1.000000 ----- 30						
GOVERNMENT E...	0.139969 0.4607 30	0.026122 0.8910 30	-0.234987 0.2113 30	0.125881 0.5074 30	1.000000 ----- 30					
REQULATORY Q...	0.084357 0.6576 30	0.617350 0.0003 30	-0.415167 0.0225 30	-0.104314 0.5833 30	-0.172763 0.3613 30	1.000000 ----- 30				
RULE OF LAW	-0.618724 0.0003 30	-0.410456 0.0243 30	0.206562 0.2734 30	-0.133627 0.4814 30	-0.454990 0.0115 30	0.001364 0.9943 30	1.000000 ----- 30			
CONTROL OF C...	-0.141660 0.4552 30	0.059666 0.7541 30	0.078748 0.6791 30	-0.323357 0.0813 30	-0.460325 0.0105 30	0.334807 0.0705 30	0.612517 0.0003 30	1.000000 ----- 30		
INFLATION RATE	-0.369149 0.0447 30	-0.235073 0.2111 30	-0.417131 0.0218 30	0.325845 0.0789 30	0.272349 0.1454 30	-0.118659 0.5323 30	0.000157 0.9993 30	-0.311558 0.0937 30	1.000000 ----- 30	
TRADE OPENESS	-0.059878 0.7533 30	0.039200 0.8371 30	0.236823 0.2077 30	-0.158510 0.4028 30	-0.203606 0.2805 30	-0.165229 0.3829 30	0.001258 0.9947 30	0.060532 0.7507 30	-0.264848 0.1572 30	1.000000 ----- 30

4. Diagnostic Tests

Diagnostic tests are essential in ensuring the validity and reliability of econometric models. For the quantitative analysis of the relationship between taxation, economic growth, and democracy in Nigeria, several diagnostic tests were performed such as stationarity tests, multicollinearity tests, heteroscedasticity tests, etc.

4.3 Stationarity Tests

Concerning the varying nature of data in terms of seasonal divergence and possible movement of the trend of variables away from their respective means (see Table 1), we performed the Augmented Dickey-Fuller (ADF) Test to check if the time series data is stationary. Hence, the study evaluated the stationarity of deployed variables at the level and first difference. Table 3 presents the results of the test. The unit root test results indicate that most variables are non-stationary at level but become stationary after the first differencing, except for the Government Effectiveness Index and Trade Openness, which are stationary at level. This implies that for further analysis, especially time series regression, it is necessary to differentiate the non-stationary variables to ensure stationarity, thereby avoiding spurious regression results.

Table 3: Unit Root Test

Variables	Level		Ist Difference	
	C	C&T	C	C&T
GDP growth (%)	0.0455	0.1085	0.0015	0.0000
Tax Revenue (% of GDP)	0.3452	0.6603	0.0008	0.0000
Democracy Index	0.1416	0.2910	0.0001	0.0004
Government Effectiveness Index	0.0252	0.0250	0.0000	0.0000
Inflation Rate	0.0150	0.1390	0.0002	0.0000
Political Stability Index	0.3137	0.7184	0.0068	0.0222
Regulatory Quality	0.3048	0.6292	0.0000	0.0001
Rule of Law	0.6010	0.1902	0.0004	0.0021
Trade Openness	0.0000	0.0004	0.0002	0.0013
Control of Corruption	0.3793	0.2770	0.0069	0.0299

4.4 Multicollinearity Analysis

In cognizance of the pairwise correlation analysis result that revealed a positive correlation between the dependent variable (GDP growth rate (%)) and independent variable (Tax revenue (% of GDP), there is a need to verify some issues that are commonly related to the behaviour between endogenous variables. Hence, a further check of collinearity is required. We used a robustness check by carrying out a multicollinearity test using the variance inflation factor (VIF). Table 4 shows the result of the Variance Inflation Factor (VIF). Table 3 indicates that the test for Multicollinearity using the VIF shows the absence of multicollinearity as all the factors are below 10.

Table 4: Variance Inflation Factor

Variables	VIF
Tax Revenue (% of GDP)	3.133
Democracy Index	3.277
Political Stability Index	2.444
Government Effectiveness Index	1.664
Regulatory Quality Index	2.620
Rule of Law Index	2.706
Control of Corruption Index	2.581
Inflation Rate	1.839
Trade Openness	1.193
MVIF	2.083

4.5 Heteroscedasticity Test (Breusch-Pagan):

The heteroscedasticity test indicates that the p-value is 0.3262, which is greater than 0.05, indicating no significant evidence of heteroscedasticity

4. Regression Results

The Ordinary Least Squares (OLS) regression results indicate potential autocorrelation issues with a Durbin-Watson (DW) statistic of 2.634, leading to the use of a Generalized Least Squares (GLS) model to address this concern. Both OLS and GLS models assess the impact of various independent variables on GDP growth, including tax revenue, democracy index, their interaction, and other governance indicators. In both models, tax revenue has a positive but insignificant effect on GDP growth (OLS: Coef = 0.3034, p-value = 0.5177; GLS: Coef = 0.3034, p-value = 0.5093). The democracy index has a negative but insignificant effect on GDP growth (OLS: Coef = -3.0298, p-value = 0.3927; GLS: Coef = -3.0298, p-value = 0.3812). The interaction between tax revenue and the democracy index is also insignificant, indicating no significant moderation effect. Other governance indicators such as political stability, government effectiveness, regulatory quality, rule of law, and control of corruption show positive or negative but insignificant effects on GDP growth in both models. The inflation rate has a negative but insignificant impact on GDP growth. Trade openness is the only variable with a significant negative effect on GDP growth in the GLS model (Coef = -0.2196, p-value = 0.0462). The overall explanatory power of the models is low, suggesting the need for further refinement and inclusion of additional variables to improve model reliability. The robustness check, as presented in Table 6, further supports these findings, highlighting the need for more comprehensive models to accurately capture the determinants of GDP growth in Nigeria.

Table 5: Regression Results:

Model 1 (Equation ($GDP_t = \beta_0 + \beta_1 Tax_t + \beta_2 DomIndex_t + \beta_3 Tax_t * DomIndex_t + \beta_4 PSIndex_t + \beta_5 GEIndex_t + \beta_6 RQIndex_t + \beta_7 RLIndex_t + \beta_8 CCIndex_t + \beta_9 InFr_t + \beta_9 TO_t + e_t$)

Dependent Variable: GDP Estimator Variable	OLS Model (1) Coef (T-Statistic)	Prob	GLS Model (1) Coef (Z-Statistic)	
DTax	0.3034 (0.6599)	0.5177	0.3034 (0.6599)	0.5093
$DDomIndex_t$	-3.0298 (-0.8756)	0.3927	-3.0298 (-0.8756)	0.3812
DTax* DDomIndex	-0.3188 (-0.2033)	0.8412	-0.3188 (-0.2033)	0.8389
DPSIndex	0.1546 (0.8703)	0.3956	0.1546 (0.8703)	0.3841
DGEIndex	0.0527 (0.2140)	0.8329	0.0527 (0.2140)	08305
DRLIndex	-0.2900 (-1.1134)	0.2802	-0.2900 (-1.1134)	0.2655
DRQIndex	-0.2346 (-0.7992)	0.4348	-0.2346 (-0.7992)	0.4241
DCofcIndex	-0.2397 (-0.7810)	0.4449	-0.2397 (-0.7810)	0.4348
DInFrate	-0.0645 (-1.0048)	0.3283	-0.0651 (-0.1004)	0.3150

TO	-0.2196 (-1.9936)	0.0616	-0.2196 (-1.9936)	0.0462
Cons	9.5158 (2.0439)	0.0559	9.5158	0.0410
R^2	0.3356			
F-statistic	0.9093			
Prob(F-statistic)	0.5488			
DW	2.6342			

3 Robustness Check (Regression Results)

Table 6 shows OLS and GLS results assessing the impact of Company Income Tax (CIT), Personal Income Tax (PIT), and Petroleum Profit Tax (PPT) on GDP growth, with democracy as a moderator. All taxes (CIT, PIT, PPT) and their interactions with democracy are insignificant in affecting GDP growth. The model explains 54.74% of the variance in GDP growth ($R^2 = 0.5474$), with a significant F-statistic (4.8389, p = 0.001), indicating the overall model is statistically significant. The results indicate that different types of tax revenue and democracy do not significantly influence GDP growth

Table 6: Regression Results:

Model 1 (Equation ($GDP_t = \beta_0 + \beta_1 CIT_t + \beta_2 PIT_t + \beta_3 PPT_t + \beta_4 DEMO_t + \beta_5 CIT_t*DEMO_t + \beta_6 PIT_t*DEMO_t + \beta_7 PPT_t*DEMO_t + e_t$)

Dependent Variable: GDP				
Estimator	OLS Model (1)		GLS Model (1)	
Variable	Coef (T-Statistic)	Prob	Coef (Z-Statistic)	
DDCIT	71.083 (0.0573)	0.9547	71.083 (0.0573)	0.9543
DPIT	54.140 (0.032)	0.9742	54.140 (0.032)	0.9740
DPPT	4.392 (0.0930)	0.9266	4.392 (0.0930)	0.9259
DEMO	7139.99 (4.5033)	0.0001	7139.9 (4.5033)	0.0000
DDCIT*DEMO	1118.37 (0.8170)	0.4208	1118.37 (0.8170)	0.4139
DPIT*DEMO	590.52 (0.3158)	0.7545	590.52 (0.3158)	0.7521
DPPT*DEMO	-4.0779 (-0.086)	0.9318	-4.0779 (-0.086)	0.9312
Cons	329.57 (0.2557)	0.8000	329.57	0.7982
R^2	0.5474			
F-statistic	4.8389			
Prob(F-statistic)	0.001			
DW	0.4624			

Note: Numbers in parenthesis are t-values, PPT= Petroleum Profit Tax; CIT= Company Income Tax; PIT = Personal Income Tax; GDP= Gross Domestic Product.

Discussion of Findings

The empirical findings of this study reveal that tax revenue has a positive but insignificant effect on the GDP growth rate of Nigeria. Additionally, democracy does not significantly moderate the relationship between GDP growth and tax revenue. Furthermore, when controlling for other important variables such as political stability, government effectiveness, regulatory quality, rule of law, control of corruption, inflation, and trade openness, none of these variables showed a significant effect on GDP growth. Thematic analysis and triangulation further corroborate these findings, highlighting the complexities of economic growth determinants in Nigeria and underscoring the need for comprehensive policy approaches.

The relationship between tax revenue and economic growth has been widely studied, with mixed results across different countries and periods. The findings of this study, that tax revenue is positively associated with GDP growth though not significant in agreement with Ogbonna & Appah (2012) who found that while tax reforms in Nigeria have had a positive impact on economic growth, the effects have not always been significant. This implies that despite the increase in tax revenue, other structural issues may dampen its impact on GDP growth. Also, in a study on Sub-Saharan Africa, Fenochietto & Pessino (2013) concluded that while higher tax revenues can contribute to economic growth, the effect is often insignificant due to inefficiencies in tax administration and allocation of resources. On the other hand, studies in developed countries often show a significant positive impact of tax revenue on economic growth. For instance, Arnold (2008) found that well-structured tax systems in OECD countries significantly enhance economic performance. This discrepancy may be attributed to differences in tax structure, governance, and economic stability.

The study also found that democracy does not significantly moderate the relationship between tax revenue and GDP growth in Nigeria. This finding contributes to the ongoing debate about the role of democratic institutions in economic performance. In a study by Babatunde (2015), it was shown that democratic governance in Nigeria has not significantly altered the efficiency of tax revenue utilization in fostering economic growth. This supports the notion that other factors, such as political stability and institutional quality, might play more critical roles. Similarly, Acemoglu et al. (2019) argue that in many developing countries, the mere presence of democratic institutions does not guarantee better economic outcomes unless accompanied by robust institutional frameworks. However, some global studies have found contrasting results. For instance, Rodrik & Wacziarg (2005) assert that democracy positively influences economic growth by promoting transparency and accountability, which enhance the effectiveness of tax policies. This difference may highlight the unique challenges faced by Nigeria in translating democratic principles into economic gains.

Our study, in cognizance of the argument of Acemoglu et al (2019), the assertion by Rodrik & Wacziarg (2005), and our expectation that Nigerian present institutional frameworks are not robust enough to stimulate economic growth, controlled for several key variables, including political stability, government effectiveness, regulatory quality, rule of law, control of corruption, inflation, and trade openness. The findings indicated that none of these variables had a significant effect on GDP growth. Previous studies such as Akinlo & Apanisile (2014) found that political stability and government effectiveness have not had a significant impact on Nigeria's economic growth, which may be attributed to the persistent challenges in governance and policy implementation. In developing countries, it is often observed that improvements in regulatory quality and control of corruption do not immediately translate into economic growth due to deep-rooted structural issues (Kaufmann

et al., 2009). In Nigeria, the regulatory quality and control of corruption is poor. In contrast, in developed countries, variables like government effectiveness and regulatory quality often show a significant positive impact on economic growth (Kaufmann et al., 2009). This discrepancy underscores the importance of contextual factors and the stage of development in determining the effectiveness of these variables.

To provide a comprehensive understanding, the study incorporated thematic analysis and triangulation of qualitative data obtained through interviews and case studies. Thematic analysis identified key themes related to tax administration, governance challenges, and economic policies (Anomah et al, 2024). These themes were consistent with the quantitative findings, indicating inefficiencies and structural issues in Nigeria's tax system and governance structures. Interviews with tax officials and business owners highlighted issues such as bureaucratic inefficiencies, corruption, and lack of transparency in tax collection and administration. Respondents frequently mentioned political instability and ineffective governance as significant barriers to economic growth, corroborating the quantitative findings that political stability and government effectiveness did not significantly impact GDP growth. The case studies revealed that despite various economic policies aimed at improving trade openness and controlling inflation, structural issues such as poor infrastructure and low technological adoption hindered their effectiveness. Triangulation of these qualitative insights with the quantitative results strengthened the validity of the findings, demonstrating a comprehensive picture of the challenges facing Nigeria's economic growth.

Conclusion

The empirical findings of this study indicate that while tax revenue has a positive relationship with GDP growth in Nigeria, the effect is insignificant. Furthermore, democracy does not significantly moderate this relationship, and other key variables such as political stability, government effectiveness, regulatory quality, rule of law, control of corruption, inflation rate, and trade openness also do not show significant effects on GDP growth. These results suggest that merely increasing tax revenue or adopting democratic governance without addressing underlying structural and institutional issues may not be sufficient to spur significant economic growth. Future policies should focus on enhancing tax administration efficiency, improving governance, and fostering political stability to create a conducive environment for economic development.

This study contributes to the existing literature by providing empirical evidence on the relationship between tax revenue and GDP growth in Nigeria, highlighting the limited impact of tax revenue on economic growth in the context of Nigeria's unique structural challenges. Demonstrating the limited moderating role of democracy on economic growth in Nigeria, suggesting that democratic governance alone is insufficient to drive significant economic growth without complementary institutional and structural reforms. Expanding the understanding of the impact of various governance and macroeconomic variables on economic growth in developing countries, with a specific focus on Nigeria. Utilizing thematic analysis and triangulation to provide a comprehensive understanding of the qualitative aspects, enriching the quantitative findings with contextual insights.

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