

Economic Freedom, Corruption and Economic Growth in Nigeria

Research Paper

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Abstract: **Research purpose.** This study examines the relationship between economic freedom, corruption, and economic growth in Nigeria from 1995 to 2023. It contributes to the existing literature by investigating the interactive effects of economic freedom and corruption on Nigeria's economic growth.

Design/Methodology/Approach. Using autoregressive distributed lags and the Granger causality test, the study analyses both short- and long-run relationships and determines the direction of causality among the variables.

Findings. Results indicate that economic freedom supports sustainable growth primarily in a low-corruption environment. In the short term, economic freedom enhances growth despite the presence of corruption. However, the estimates show that corruption undermines economic freedom to deter long-run growth. The Granger causality test validates the potential influence of economic freedom on growth. These findings highlight the importance of reducing corruption alongside promoting economic freedom for sustainable growth.

Originality/Value/Practical implications. Although there are few studies on the direct impact of economic freedom on growth in Nigeria, this literature has ignored the critical role of corruption in the relationship. This study is different in that it investigates the moderating role of corruption in Nigeria's economic freedom-growth nexus.

Keywords: *Economic freedom • corruption • economic growth • Nigeria*

JEL codes: F1, F43, D73

Introduction

Economic growth is a fundamental goal for any nation, especially developing countries striving to reduce poverty, create employment and raise living standards (Akmal et al., 2025). Since several factors, including a country's institutional and structural settings, are closely linked to growth (Acemoglu et al., 2005; Akmal et al., 2025), strong institutions that foster sustainable growth are essential. The need for a free-market economy and reduced corruption is increasingly becoming a catalyst for economic growth. Scholars argue that economic freedom (EF), encompassing secure property rights, freedom to trade, minimal government interference and robust regulatory framework foster higher economic growth (Afonso & Blanca-Arana, 2024; Ahmed, 2023; Bergh & Bjørnskov, 2021; Brkić et al., 2020; Cervelló-Royo et al., 2023; De Haan & Strum, 2000; Gwartney et al., 2024; Hall et al., 2020; Hardi et al., 2024; Heckelman, 2000; Hung, Oanh & Trang, 2024; Islam, 2015; Sekunmade, 2021). Studies such as (Bjørnskov & Foss, 2008; De Haan & Sturm, 2000; Sayed & Abedelrahim, 2024) attest that a freer economy encourages entrepreneurship, innovation, efficient resource allocation, and competitiveness, all of which boost productivity and growth. Conversely, a restricted economy reduces business opportunities and innovation, promotes corruption and inefficiency and lowers economic

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growth (Hardi et al., 2024). While EF is typically associated with higher growth, its benefits may be reversed in countries where corruption distorts market signals, weakens institutions, and erodes investor confidence.

The impact of corruption on economic growth has long been a strong debate in the literature, with assumptions that corruption is either beneficial or harmful to growth. Several studies (Danlami, 2024; Mo, 2001; Ndem et al., 2022; Rotimi et al., 2021) support that corruption hinders economic growth. Corruption inhibits market efficiency by promoting rent-seeking behaviour, reducing competition and investors' confidence, deterring investment, and weakening institutional foundations, thus limiting economic freedom gains (Hall et al., 2020; Sharma & Mitra, 2019). Meanwhile, studies such as Aidt (2009) and Heckelman and Powell (2010) suggest that corruption could promote economic growth by reallocating resources.

Nigeria's economic growth remains volatile despite decades of economic reforms. The country is plagued by systemic corruption and weak institutions, undermining the effectiveness of market-based reforms. Corruption in Nigeria is endemic, manifesting in the form of bribery, lack of accountability, excessive government interference, embezzlement of public funds, perversion of property rights, and the judicial system. Several efforts to liberalise the economy (such as reducing state control, deregulating sectors, and encouraging private investment) for sustainable growth have been altered by systemic corruption and a fragile institutional environment, which continue to distort market efficiency, discourage investment and weaken economic prosperity and global competitiveness. This persistent corruption amid liberalisation raises a critical question about whether EF alone can drive growth in such an environment. As Africa's major oil exporter and largest economy, Nigeria plays a crucial regional and global role in trade, investment, and competitiveness. Insight from Nigeria has significant regional and global implications as a member of several economic blocs within and outside Africa. As an open economy, Nigeria's policy successes or failures have significant implications for the neighbouring and the global economies. Understanding the dynamics between EF, corruption and growth in Nigeria can inform policymaking within the country and across other developing nations grappling with similar challenges.

This current study aims to examine whether economic freedom in Nigeria promotes or retards growth amid the persistent corruption. The study's contribution is twofold: firstly, despite numerous studies on the EF-growth nexus, previous Nigerian research has only focused on either corruption or EF (Guseh & Oritsejafor, 2007; Kagochi et al., 2007; Sekunmade, 2021) in isolation without exploring their combined effects on growth. Secondly, relatively few studies examined the interactive impact of these variables. Most existing studies are cross-country research (Hall et al., 2020; Islam, 2015; Leite et al., 2019; Swaleheen & Stansel, 2007), with complex and somewhat contradictory outcomes. Besides, these studies tend to generalise findings without adequately accounting for the unique institutional and economic realities of individual country's dynamics. This study aims to fill these gaps by examining the interaction of corruption and EF on Nigeria's growth from 1995 to 2023, using the ARDL approach and the Granger causality test. The study period reflects data availability, particularly the EF index, which began in 1995. The analysis suggests that while EF is essential for growth, its impact may be significantly undermined by corruption. The paper is structured as follows: Section two presents the overview of the variables and reviews the literature. Section three outlines the methodology. Section four presents the empirical results, and section five concludes with recommendations.

Literature review

Overview of economic freedom, corruption, and economic growth in Nigeria

Nigeria remains poorly ranked on global governance and economic freedom indices despite policy efforts to boost economic competitiveness. In 2024, Nigeria's EF score was 53.1, ranking 125th worldwide and 23rd out of 47 Sub-Saharan African countries. Meanwhile, average annual economic growth between 1995 and 2023 was only 1.85% (World Bank, 2024). According to Transparency International (2024), Nigeria's Corruption Perceptions Index (CPI) was 0.69 (out of 10) in 1996, ranking last (54/54 countries). By 2024, it ranked 90th out of 90 countries with a slightly improved score of 1.2. Persistently, Nigeria scored 25 in both 2020 and 2023, ranking 149th and 145th globally, respectively, indicating continued high corruption levels (see Figure 1). Figure 2 shows that Nigeria is moderately free. While Nigeria's moderate economic freedom score suggests some progress, it remains unclear whether corruption enhances the relationship between EF and economic growth. Hence, this study is undertaken to answer this question.

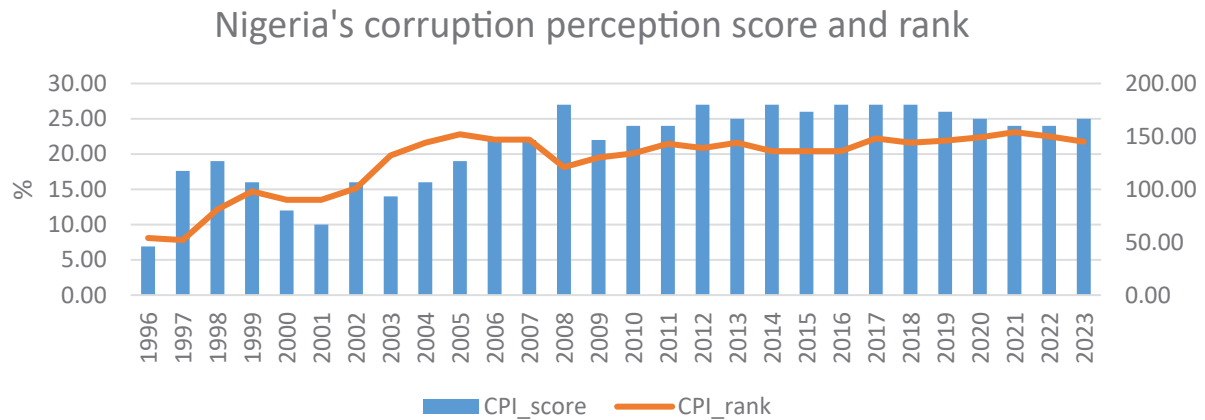


Figure 1. Nigeria's corruption perception scores and ranks (Source: Transparency International, 2024).

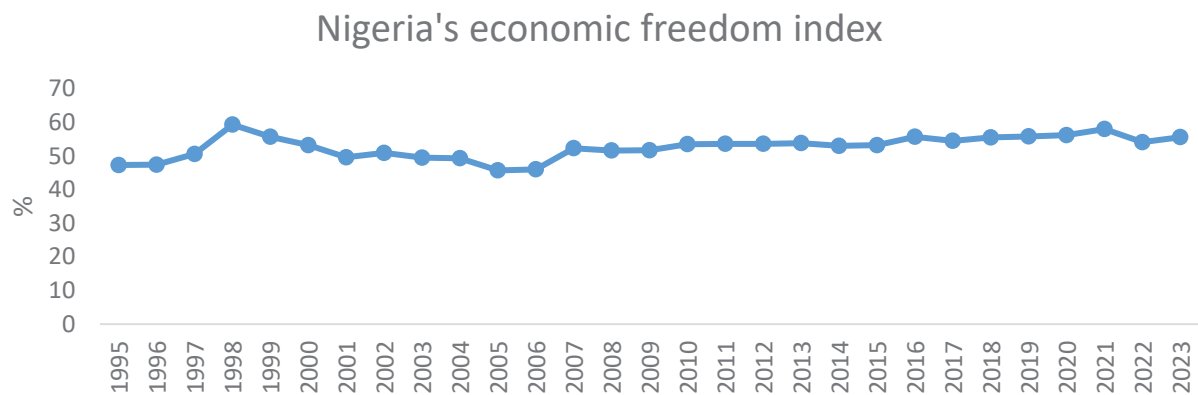


Figure 2. Nigeria's economic freedom index (1995-2023) (Source: The Heritage Foundation Economic Freedom Index (2024))

Empirical literature

Scholars increasingly are examining the growth impact of economic freedom, with most studies signifying that a freer economy promotes economic prosperity (Hussain & Haque, 2016; Sharma & Tokas, 2024; Spruk & Kešeljević, 2018). Doucouliagos and Ulubasoglu (2006) report the indirect effect of EF on economic growth through physical and human accumulation and demographic factors.

Studies have shown that different components of EF have varied effects on growth. De Haan and Sturm (2000) found that change in EF drives growth, though not uniformly across components, in a study of 80 countries. Carlsson and Lundström (2002) and Heckelman (2000) found that while aggregate EF boosts economic growth, tax rates and trade policy had a limited impact. At the subnational level, Compton et al. (2011) reported that lower tax burdens and a flexible labour market support growth in the USA. Kacprzyk (2016) affirms property rights, robust monetary policy, free trade, and regulatory quality as growth-enhancing factors. Bergh and Bjørnskov (2021) observed that quality institutions and optimal government size benefit growth in lower-income countries. Tran (2019) found that increased labour liberty boosts growth, while free trade hinders it. Ahmed et al. (2023) linked freedom components (e.g. property rights, business, trade, investment, and financial freedom) to growth, highlighting tax burden as a constraint. Cervelló-Royo et al. (2023) highlight the importance of business freedom, labour market flexibility, low tax burden, and institutional integrity in economic growth and unemployment reduction. In Indonesia, Hardi et al. (2024) found that economic progress is positively influenced by EF, except for labour freedom. The role of culture and EF was analysed by Williamson and Mathers (2010), who found that while culture promotes economic growth, it cannot substitute EF. Thus, supporting the need for higher EF to boost growth. Kabir and Alam (2021) found that democracy and EF boost economic growth, whereas private liberty hinders it. Yulek and Ozayturk (2024) identified

a two-way relationship between EF and development in D8 countries, but a weaker link in G8 nations. However, in a high-corruption environment, EF's benefits may be eroded.

The link between corruption and growth has been extensively researched, with mixed findings. While some suggest that corruption hurts growth (Batool et al., 2025; Feruni et al., 2019; Islam, 2015; Mauro, 2004; Mo, 2001), others view corruption as an important factor for growth (Aidt, 2009; Dreher & Gassebner, 2013). In Nigeria, while some studies suggest that corruption lowers growth (Danlami, 2024; Ndem et al., 2022; Obamuyi & Olayiwola, 2019), Ekone and Amaghionyeodiwe (2020) show that higher economic growth exacerbates corruption. Makar et al. (2023) reported that corruption indirectly hinders growth through foreign private investment, productivity, public spending, and import and export. Afonso and Rodrigues (2022) found that smaller governments manage corruption more effectively than larger ones. Evidence on causality is also mixed, with some studies suggesting a one-way relationship while Danlami (2024) reported a bi-directional relationship between corruption and economic growth.

Studies on EF and corruption are inconclusive. While some suggest that economic liberty promotes growth, others argue that its effectiveness is undermined by corruption. Pieroni and D'Agostino (2013) highlight that strong institutions and a legal framework that help mitigate corruption. Thach and Ngoc (2021) demonstrated that property rights, governance, low tax burden, and business, labour and investment autonomy reduce corruption, whereas government spending, trade and financial openness worsen it. Parsons (2025) showed that EF can reduce corruption. On the causality, Yamarik and Redmon (2017) found a one-way relationship, from corruption to EF.

Research on the interplay between EF, corruption and growth is limited. Available literature yields mixed results. While Hall et al. (2020) and Islam (2015) showed that higher EF can reduce corruption and boost growth, Leite et al. (2019) revealed that EF and corruption can positively influence growth. Contrarily, Malanski and Póvoa (2021) found that EF moderates the relationship between corruption and growth, sometimes exacerbates corruption and enhances growth in lower EFs. Also, Swaleheen and Stansel (2007) argue that corruption hinders growth in low-EF countries. Meanwhile, Hung et al. (2024) found that EF promotes growth regardless of the regulation's quality. In summary, despite the extensive research, the interactive effects of corruption and economic freedom on growth are scarce in Nigeria, leaving a critical gap in the literature.

Research methodology

Data description and sources

The study uses annual time series data from 1995 to 2023. The dependent variable is the GDP per capita (constant 2015 US\$) sourced from the WDI. Economic freedom is the index of economic freedom. We use the aggregate index by taking the average scores of the 12 freedom dimensions, namely property rights, government integrity, judicial effectiveness, government spending, tax burden, fiscal health, and business, labour, monetary, trade, investment, and financial freedom. The data is drawn from the Heritage Foundation's Index of Economic Freedom. Data on corruption is sourced from the International Country Risk Guide (ICRG). Other variables, foreign direct investment (FDI), net inflows, inflation (INF, %), employment (EMP), % of population engaged, population growth (% annual growth), and human capital proxied by life expectancy (at birth %) are all sourced from the WDI database, financial development index is collected from the International Monetary Fund database and the government expenditure (N'm) from the Central Bank of Nigeria statistical bulletin.

Modelling and strategies

Following the previous studies (Islam, 2015; Malanski & Póvoa, 2021; Swaleheen & Stansel, 2007), the study's model is specified in equation 1.

$$ecg_t = \beta_0 + \beta_1 efi_t + \beta_2 cor_t + \beta_3 fdi_t + \beta_4 inf_t + \beta_5 lep_t + \beta_6 popg_t + \beta_7 emp_t + \beta_8 fd_t + \beta_9 gfe_t + \varepsilon_t \quad (1)$$

Where *ecg* is economic growth, *efi* is the economic freedom index, *cor* denotes corruption control, *emp* represents employment, *gfe* is government spending, and *inf* is inflation. To capture a country's macroeconomic environment, *fdi* is foreign direct investment, *lep* is life expectancy, *popg* is population growth, and *fd* denotes financial development index. Equation (1) is re-specified to incorporate the moderating role of corruption in equation (2):

$$ecg_t = \beta_0 + \beta_1 efi_t + \beta_2 cor_t + \beta_3 (efi_t * cor_t) + \beta_4 fdi_t + \beta_5 gfe_t + \beta_6 inf_t + \beta_7 lep_t + \beta_8 emp_t + \beta_9 fd_t + \beta_{10} popg_t + \varepsilon_t \quad (2)$$

Where $efi_t * cor_t$ denotes the interaction term of the economic freedom index and corruption. Equation (2) allows us to investigate the combined effect of corruption and EF on growth. $\beta_1, \dots, \beta_{10}$ are the estimated parameters of the independent variables, and ε_t symbolises the stochastic error term.

The study employs the autoregressive distributed lags (ARDL) approach. This approach is appropriate, especially for a small sample size and mixed stationarity variables. Besides, the likelihood of omitted variable or autocorrelation issues that affect other approaches is taken care of by ARDL. The model in equation (3) comprises the short- and the long-term.

$$\begin{aligned} ecg_t = & \alpha_0 + \beta_1 efi_t + \beta_2 cor_t + \beta_3 (efi_t * cor_t) + \beta_4 fdi_t + \beta_5 gfe_t + \beta_6 inf_t + \beta_7 lep_t + \beta_8 popg_t + \\ & \beta_9 emp_t + \beta_{10} fd_t + \sum_{i=1}^p \delta_1 \Delta ecg_t + \sum_{i=1}^p \delta_2 \Delta efi_t + \sum_{i=1}^p \delta_3 \Delta cor_t \\ & + \sum_{i=1}^p \delta_4 \Delta fdi_t + \sum_{i=1}^p \delta_5 \Delta gfe_t + \sum_{i=1}^p \delta_6 \Delta inf_t + \sum_{i=1}^p \delta_7 \Delta emp_t + \sum_{i=1}^p \delta_8 \Delta fd_t \\ & + \sum_{i=1}^p \delta_9 \Delta popg_t + \sum_{i=1}^p \delta_{10} \Delta lep_t \end{aligned} \quad (3)$$

Where Δ is the difference operator and \sum = summation. The first part of equation (3) denotes the short-term, and the second part captures the long-run relationship. The error correction term is specified in equation (4):

$$\begin{aligned} \Delta ecg_t = & \sum_{i=1}^q \beta_1 \Delta efi_t + \sum_{i=1}^q \beta_2 \Delta cor_t + \sum_{i=1}^q \beta_3 \Delta (efi_t * cor_t) + \sum_{i=1}^q \beta_4 \Delta fdi_t + \sum_{i=1}^q \beta_5 \Delta emp_t \\ & + \sum_{i=1}^q \beta_6 \Delta inf_t + \sum_{i=1}^q \beta_7 \Delta gfe_t + \sum_{i=1}^q \beta_8 \Delta fd_t + \sum_{i=1}^q \beta_9 \Delta lep_t + \sum_{i=1}^q \beta_{10} \Delta popg_t + \gamma ECT_{t-1} \end{aligned} \quad (4)$$

The null and alternative hypotheses presented in equations (5) will be used to determine the F-statistic.

$$\begin{aligned} H_0 : & \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = \beta_7 = \beta_8 = \beta_9 = \beta_{10} = 0 \\ H_1 : & \beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 \neq \beta_5 \neq \beta_6 \neq \beta_7 \neq \beta_8 \neq \beta_9 \neq \beta_{10} \neq 0 \end{aligned} \quad (5)$$

The F-statistic examines the combined affiliation of the variables. The null hypothesis is rejected if it exceeds the upper bound at 5% level, and otherwise. Additionally, post-estimation tests like diagnostic and stability of the model are carried out using cumulative sum (CUSUM) and cumulative sum of squares (CUSUMSQ) to validate the model's exactness. The outcome is displayed in Table 5 and Figures 3 and 4, respectively.

Research results

Descriptive statistics

The descriptive statistics in Table 1 reveal that economic growth (ECG) averages 2109.92, with a moderate standard deviation (SD: 453.19), indicating a level of corruption impacting economic growth. The economic freedom index (EFI) remains moderately high with a mean of 52.627, the maximum (59.3) and low variability (SD: 3.43). Corruption control remains weak (mean = 1.44 on a 1-6 scale), indicating corruption is pervasive in Nigeria. Financial development index (FD) remains underdeveloped (mean = 10.909 on a 0 to 100 scale). The standard deviation indicates higher variability from its mean. Government spending (GFE) averaged 15.73. Foreign direct investment (FDI) is volatile, averaging 1.214 but ranging from -0.04% to 2.90%. Population growth rate (POPG) shows a progression with an average of 2.59%. Inflation (INF) mean (15.25) reveals a high inflation rate. ECG, EFI, LEP and POPG are negatively skewed, and the rest are skewed positively. Kurtosis values are relatively flat distributions. The Jarque-Bera test confirms normality, as all variables (except corruption) exceed the 0.05 threshold.

Table 1. Summary statistic result (Source: Authors' computation)

	ECG	EFI	COR	FDI	GFE	LEP	POPG	EMP	FD	INF
Mean	2109.92	52.627	1.442	1.214	15.733	50.021	2.594	57.409	10.909	15.251
Maximum	2679.55	59.300	2.000	2.900	30.857	53.633	2.764	58.133	19.603	72.835
Minimum	1429.01	45.700	1.000	-0.039	9.7600	45.487	2.379	55.026	6.150	5.388
Std. Dev.	453.19	3.430	0.279	0.856	4.636	2.567	0.119	0.903	3.269	12.285
Skewness	-0.410	-0.338	0.003	0.316	1.509	-0.454	-0.276	-1.265	0.849	3.733
Kurtosis	1.585	2.549	3.168	1.948	5.297	1.880	1.802	3.366	3.590	17.982
Jarque-Bera	3.231	0.800	0.034	1.819	17.393	2.515	2.102	7.898	3.907	338.61
Observations	29	29	29	29	29	29	29	29	29	29

Table 2. Unit root test (Source: Authors' calculation)

Variables	ADF		PP		Order of Integration
	Level	First difference	Level	First difference	
ECG	-1.291	-2.285**	-1.484	-2.691*	I(1)
EFI	-2.476	-5.162**	-2.522	-5.218***	I(1)
COR	-1.912	-5.013***	-2.362	-2.944*	I(1)
EMP	-3.423**	-3.527**	-1.228	-3.492**	I(0)
FDI	-2.310	-6.203***	-2.247	-6.300***	I(1)
GFE	-1.721	-5.332***	-2.084	-6.592***	I(1)
FD	-2.830	-4.744***	-1.865	-3.959***	I(1)
POPG	-0.258	-2.519**	-0.388	-2.374**	I(1)
INF	-4.603***	-3.082**	-4.569***	-5.769***	I(0)
LEP	-3.352**	-5.547***	-2.244	-5.547***	I(0)

Note: *p<0.10, **p<0.05, ***p<0.01

Stationarity test

The Augmented Dickey-Fuller (ADF) and Philip-Peron (PP) unit root test in Table 2 reveal that employment (EMP), inflation (INF) and life expectancy (LEP) are stationary at level, whereas GDP per capita (ECG), economic freedom (EFI), corruption control (COR), government expenditure (GFE), financial development (FD), foreign direct investment (FDI) and population growth (POPG) become stationary after first differencing, indicating I(0) and I(1) process. Having ascertained the variables' stationarity property, we use the autoregressive distributed lag (ARDL) approach to examine the correlation among the variables.

ARDL bound test

Table 3 reveals the F-statistic of 7.979, which is greater than all the asymptotic critical bound values, suggesting a long-term affiliation between the variables. This corroborates Pesaran et al. (2001) case 3 of Table CI(iii).

Economic freedom, corruption and economic growth

ARDL results in Table 4 offer insights into the relationship between EF, corruption and growth and other explanatory variables. The error correction term (ECT_{t-1}) demonstrates a statistically significant negative coefficient of -0.75, indicating strong error correction (75.1%) disequilibrium corrected each period.

The estimates in Table 4 reveal a significant negative influence of EF on growth in the short run, suggesting that a 1% increase in EFI may reduce growth. However, the long-run coefficient (0.799) is significantly positive at 5%, suggesting that policies aimed at promoting EF can boost economic growth by approximately 80%. Similarly, the short-run anti-corruption control has a significantly negative coefficient at 1%, suggesting that increased corruption

Table 3. ARDL Bound test result (Source: Authors' calculation)

Test-statistic	Value	Null Hypothesis: No levels relationship		
		Significant	I(0)	I(1)
F-statistic	7.9795	10%	1.83	2.94
K	10	5%	2.06	3.24
		2.5%	2.28	3.50
		1%	2.54	3.86

Note: K is the number of the series

Table 4. Estimated ARDL results (Source: Authors' calculation)

Dependent variable: log GDP per capita					
Variables	Short-run estimates		Long-run estimates		p-value
	Coefficient	p-value	Coefficient	p-value	
EFI	-0.472***	0.0002	0.799**		0.0471
COR	-0.305***	0.0001	0.413		0.191
FDI	-0.013***	0.0001	-0.028		0.1393
EMP	4.784***	0.0000	9.628***		0.0000
INF	-0.040***	0.0000	0.029***		0.0000
LEP	-2.222***	0.0000	6.628***		0.0000
EFI*COR	0.357***	0.0002	-0.707***		0.0952
POPG	0.945	0.1032	-1.258**		0.0396
GFE	-0.013	0.4703	-0.0173		0.4872
FD	0.077***	0.0008	0.103**		0.0086
ECT(-1)	-0.751***	0.0000			
Constant			-55.411**		0.0000
R-squared	0.98				
Serial correlation (F-stat)	5.442 (0.056)				
Heteroscedasticity (F-stat)	0.807 (0.6670)				
Normality test (Jarque-Bera)	0.055 (0.973)				

Note: ***P<0.01, **P<0.05. Lag selection criterion selection=1. ARDL selected model(1, 1, 1, 1, 1, 1, 0, 1, 1, 0)

Table 5. Granger causality tests result (Source: Authors' calculation)

Null Hypothesis:	Obs	F-Statistic	Prob.
ECG does not cause EFI	28	1.1049	0.3032
EFI does not cause ECG		4.4055	0.0461
COR does not cause EFI	28	12.608	0.0016
EFI does not cause COR		4.1697	0.0518
COR does not cause ECG	28	7.0797	0.0134
ECG does not cause COR		4.6816	0.0402

Note: Lag order=1

lowers growth, while the long-run coefficient (0.413) is statistically insignificant, demonstrating that anti-corruption control in Nigeria has, to some extent, spurred growth but insufficiently.

Of interest is the interaction term of corruption and EF, which is counterintuitive. While the short-run outcome is significantly positive, the long-run estimate is negative and significant at 1%. Employment, life expectancy, and financial development emerge as strong drivers of growth, suggesting that full employment, human capital development, and financial sector deepening are essential to drive long-term growth. Surprisingly, FDI reveals

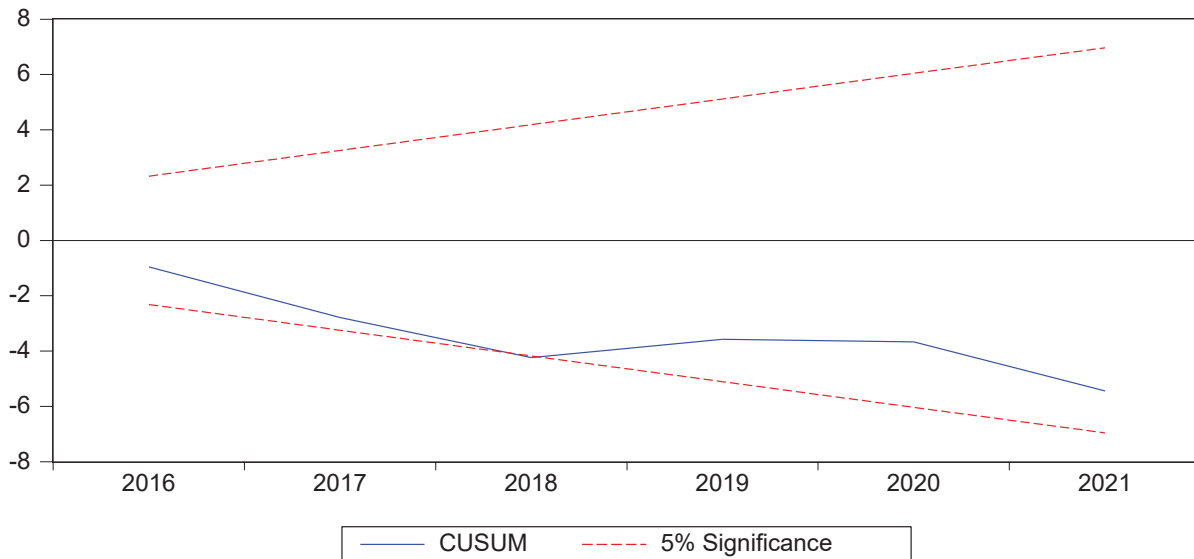


Figure 3. Cumulative sum (Source: Authors' computations).

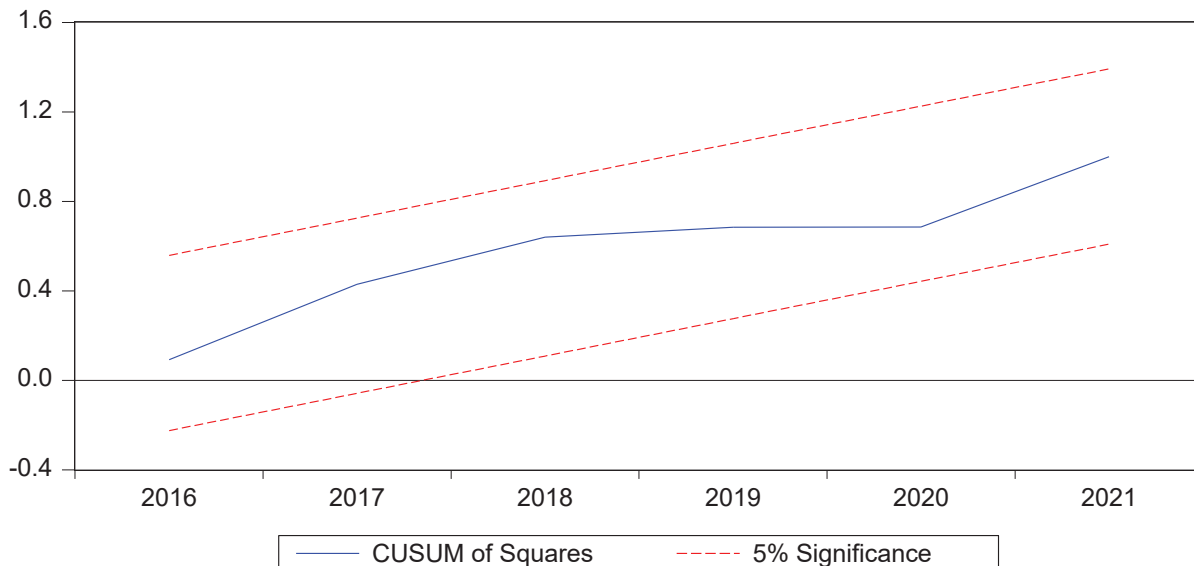


Figure 4. Cumulative sum of squares (Source: Authors' computations).

a negative impact on growth throughout the periods. Inflation, while detrimental in the short run, has a small but positive long-term impact, possibly reflecting the role of moderate inflation in stimulating investment. Conversely, population growth exerts a negative long-term influence on per capita income. However, government investment has been found to negatively contribute to growth in Nigeria.

The post-estimation results in Table 5 show that the model explains 98% of the variation in GDP per capita and is normally distributed (Jarque-Bera normality test). The Breusch-Godfrey (BG) serial correlation and Breusch-Pagan-Godfrey (BPG) heteroscedasticity tests suggest the presence of serial correlation. Meanwhile, the model is free from heteroscedasticity. Figures 3 and 4 present the model's stability based on cumulative sum (CUSUM) and cumulative sum of squares (CUSUMS), respectively. The CUSUMS displays a disequilibrium at the beginning and then readjusts to the equilibrium level. The tests confirm the model's stability, as indicated by the critical line, which falls within the 5% significance level.

Granger causality test

Table 5 presents the direction of causality of the variables. The discussion will basically be on the variables of interest. Consistent with the previous results (Justesen, 2008), there is a one-way causality between EFI and growth, running from EFI to growth. The result opposes the findings of Yulek and Ozayturk (2024), who found a two-way relationship between EF and growth in D8 countries. A bidirectional relationship is found between EFI and COR, suggesting that strong EF may decrease corruption and vice versa. This highlights the importance of a transparent and business-friendly environment and strong anti-corruption control. This outcome corroborates the findings of Goel and Nelson (2005) and Parson (2025). Also, supports Graeff and Mehlkop (2003) who argue that restricted freedom promotes corruption. Also, the relationship between COR and growth is two-way. This finding aligns with Danlami (2024) and Rotimi et al. (2021), who found a two-way effect between economic growth and corruption. Therefore, addressing corruption through effective governance mechanisms and promoting EF are critical to ensuring sustainable economic growth in Nigeria.

Discussion

This study documented a significant long-term impact of freedom on growth in line with the theoretical expectations that economic freedom is a catalyst for economic growth. This outcome aligns with previous studies such as (Brkic et al., 2019; Hall et al., 2020; Hardi et al., 2024; Hung et al., 2024; Malanski & Póvoa, 2021; Sharma & Tokas, 2025), who found a significant positive correlation between EF and growth. In Nigeria, economic growth is primarily driven by oil and the informal sector, which requires an increased EF to attract foreign investment and foster entrepreneurship and innovation. However, the short-term estimate of EFI is significantly negative, likely due to transitional friction or policy implementation challenge or time frame, as most of the economic policies are long-term base. This aligns with the work of Acemoglu et al. (2005), who noted that institutional reforms and freedom may initially disrupt economic structures, slow growth, but contribute to long-run growth. The results corroborate Baiti et al. (2017), who reported a short-term negative influence of EF on growth. Similarly, the short-term result shows a significant negative impact of corruption on growth. This reinforces the view that corruption “sands the wheel” of development by undermining resource allocation, raising business costs, promoting inefficiency and deterring investors’ confidence (Batool et al., 2025; Goel & Nelson, 2005; Gründler & Potrafke, 2019). Afonso and Rodrigues (2022) corroborate that corruption harms economic prosperity through government size. However, the long-term relationship turns out to be positive but insignificant, corroborating the “grease the wheel” hypothesis (Aidt, 2009; Heckelman & Powell, 2010). This explains Nigeria’s uniqueness as a country that has struggled with corruption over the years still could have corruption contributing to growth. This result supports the outcome of Swaleheen and Stansel (2007), who found a positive but insignificant correlation between corruption and growth. Also, Heckelman and Powell (2010) found corruption to be a growth booster. The interaction term of COR*EFI shows an inconclusive result. While the short run demonstrates a significant positive relationship, suggesting that corruption can promote growth in low-economic-growth countries. The results corroborate the submission of Carden and Verdon (2010), Hall et al. (2020), who suggest that corruption can promote growth in a low EF. However, in the long run, the interaction term is significantly negative, indicating that the growth impact of economic freedom is eroded by corruption. This means that Nigeria’s efforts to liberalise the economy may be hampered if corruption is not concurrently addressed. This underscores that while EF is desirable to drive growth, corruption can hinder its long-term sustainability. This outcome supports the view that corruption reduces growth in countries with lower economic freedom (Islam, 2015; Swaleheen & Stansel, 2007).

Turning to the control variables, the positive impact of employment, life expectancy and financial development on GDP per capita highlights the importance of human capital development, a robust labour market, and a well-developed financial system in economic expansion. This means that higher employment raises the country’s productivity and promotes growth, similarly, increases investment and reduces unemployment. The finding corroborates Afonso & Blanca-Arana (2024), Tran (2019), who found the importance of labour market development and a well-developed financial system in allocating resources and promoting long-term growth. Also, Akmal (2025) finds that employment contributed to growth in developing economies. Furthermore, the finding buttressed the intuition of the indispensability of human capital in growth. Interestingly, inflation exhibits a positive long-run effect contrary to its short-run ones, suggesting that beyond a certain threshold, moderate inflation is associated with growing economies or reflects structural changes such as price liberalisation, improved productivity. High inflation

is harmful to the economy as investors are discouraged from investing. This finding aligns with Hung et al. (2024), who found a positive impact of inflation on Indonesia's economic growth.

Surprisingly, the country's population growth shows a negative short-run and a positive long-run influence but an insignificant effect on per capita GDP, corroborating the outcome of Brkić et al. (2020), Malanski and Póvoa (2021) and Swaleheen and Stansel (2007). The short-run life expectancy was statistically negative, suggesting a poor funding of health-related expenditure or demographic shifts that temporarily constrain productivity. The positive long-run effect indicates the transformative role of human capital and public health in economic progress. Particularly noteworthy is the negative impact of FDI in both times despite various country's economic reforms to attract foreign investment. This suggests that when corruption is endemic, the positive effect of FDI on economic growth may be eroded. This calls for quick action on the part of the Nigerian government to combat corruption. A similar outcome is reported by Sekunmade (2021). Another reason may be that increased Nigerian FDI inflows are undermined by corruption, which diverts the proceeds away from productive investment. On the causal relationship among the variables, the result highlights the need for a balance between EF and anti-corruption control for sustainable growth. Globally, these results align with broader trends observed in many developing countries, where the effectiveness of economic reforms depends heavily on governance quality and long-term policy consistency.

Conclusions

This study investigates the relationship between economic freedom, corruption, and economic growth in Nigeria from 1995 to 2023, using the ARDL approach. The findings underscore the complexity of Nigeria's economic growth, highlighting the divergent impacts of EF and anti-corruption control. It is revealed that economic freedom, foreign investment, and anti-corruption efforts may yield limited or even adverse outcomes if implemented in isolation or within weak institutional environments in the short run. Conversely, economic freedom, employment, life expectancy, and financial development are found as contributors to long-term growth, emphasising the importance of economic liberty, financial development, and a healthy population in promoting sustainable growth. Of particular interest is the negative interaction between economic freedom and corruption control, which demonstrates that the benefits of liberalisation hinge on governance quality. For Nigeria, sustainable growth requires not just market-oriented reforms, but also a simultaneous strengthening of institutional integrity. Integrating strong anti-corruption strategies with higher economic freedom is crucial to unlocking the growth impact of economic freedom. The fact that Nigeria is rich in youth population does not imply increased productivity and growth without a proper policy to engage them. The government needs to urgently address demographic pressures through investments in education, healthcare, and job creation.

The study's findings resonate with patterns observed across many developing economies, where long-term growth hinges not merely on the adoption of market-friendly policies but on the governance's effectiveness. For policymakers in Nigeria and beyond, this study highlights the need for a balanced approach that promotes structural reforms with institution-building, human capital investment and demographic planning to foster sustainable economic growth. Specifically, the study advocates for strong anti-corruption control and economic independence. Additionally, a sustainable population with a favourable macroeconomic and business-friendly environment, labour market development and a functioning financial institution are all crucial for sustainable growth.

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