

**Political and Economic Freedom in Economic Development: Cross-Country Evidence and
Cases of Cape Verde and Namibia**

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Introduction

Economic development is often explained through institutions, but the institutional-growth literature has not reached a consensus on whether political freedom and economic freedom operate as substitutes, complements, or independent determinants of economic performance. Institutional factors have long been treated as important because economic decisions are made within political and economic rules. Greater political and economic freedom may improve incentives, investment, and resource allocation. At the same time, economic growth may itself feed back into institutional development, making the direction of causality difficult to identify (Farr et al., 1998).

The debate is especially important because the empirical evidence on democracy and growth remains mixed. Some studies argue that democracy or political freedom improves economic performance by increasing accountability, limiting arbitrary government action, and improving public goods provision. Acemoglu et al. (2019) provides evidence that democracy has a positive effect on GDP per capita. However, other studies have emphasized that democracy's effect is not always straightforward. Political freedom may have weak, mixed, or context-dependent effects on growth (Bashir & Xu, 2014).

Economic freedom has generally received stronger empirical support as a determinant of income and growth. Prior research argues that economic freedom promotes growth by protecting property rights, enabling voluntary exchange, and allowing resources to move toward more productive uses. Thies (2007) notes that the relationship between economic freedom and growth is more developed in the literature than the relationship between political freedom and growth. The direct relationship between political and economic freedom also remains less conclusive. These mixed findings raise an important question: do political and economic freedom reinforce one

another in shaping income and growth, do they weaken one another's effects, or do they operate independently?

Political freedom may influence development through a two-stage process. First, competitive elections, public debate, and institutional checks make it harder for political elites to preserve regulations, monopolies, and other restrictions that provide them with economic advantages. They also give entrepreneurs, consumers, and opposition groups more opportunities to demand clearer rules and wider market access. Political freedom may therefore create pressure for later improvements in economic freedom. Second, political accountability can make economic reforms more credible and durable by limiting arbitrary policy changes and improving the enforcement of market rules. Firms and households may then respond through investment, market entry, and productive activity. Because reforms and private economic responses take time, the benefits of political and economic freedom may appear after several years.

This paper examines this relationship using cross-country evidence from 2000 to 2023. Political freedom is measured by the V-Dem Liberal Democracy Index. Economic freedom is measured by the Fraser Institute's Economic Freedom of the World score, and economic performance is measured by GDP per capita from the World Bank.

The empirical analysis has two parts. First, it uses lagged fixed-effects models to examine the predictive relationship between political freedom and economic freedom. The results provide evidence that political freedom predicts higher economic freedom in the following year. Economic freedom does not predict later political freedom. Second, the paper examines how political freedom and economic freedom affect GDP per capita. Economic freedom is positively associated with income. Although political freedom does not directly impact GDP initially, it does contribute

to GDP per capita through its positive impact on economic freedom, and it magnifies the positive effect of economic freedom after three years.

Together, the results suggest that political freedom does not have a positive relationship with income by itself. Instead, it appears to play two related roles. Political freedom predicts later improvements in economic freedom, and after a period of time, it strengthens the positive relationship between economic freedom and GDP per capita. Political freedom may therefore matter less as an independent source of higher income and more as an institution that supports and enhances the role of economic freedom.

To place these findings in historical context, the paper examines Cape Verde and Namibia as contrasting cases. Both countries maintained meaningful political freedom, but their economic institutions developed differently. Cape Verde moved from below to above the estimated economic freedom threshold at which additional political freedom enhances income, as market reforms deepened and income rose. Namibia's economic freedom remained below the threshold, and its income gains were more modest. The cases illustrate how political openness can coexist with different paths of economic reform. They are used as historical illustrations rather than causal tests of the estimated threshold.

By examining how political freedom and economic freedom are connected over time and how they jointly relate to income, this paper provides a broader view of how these institutions may work together over time. The results suggest that political freedom may help predict later economic freedom, while its relationship with GDP per capita becomes positive only when economic freedom is sufficiently high. The economic value of political freedom may therefore depend on whether market institutions allow individuals and firms to use the opportunities created by political

openness. Political and economic freedom are best understood as complementary institutions whose effects may develop gradually and reinforce one another.

Literature Review

Previous studies have long examined the relationship between institutions and economic development, but the findings on political freedom and growth remain mixed. Acemoglu et al. (2019), for example, finds that democracy has a positive long-run effect on GDP per capita and argue that this effect works partly through investment, education, health, economic reform, and social stability. However, other studies suggest that the effect of political freedom is not always strong or consistent. Bashir and Xu (2014), using a panel of 117 countries from 1980 to 2012, find that political freedom has a mixed and fragile relationship with economic growth, while economic freedom and political stability show more robust positive effects.

Compared with the literature on political freedom, the literature on economic freedom has generally found a more consistent positive relationship with income and growth. Easton and Walker (1997) emphasize that economic freedom is not a simple yes-or-no condition, but a broad institutional environment involving property rights, taxation, regulation, and the degree to which markets are allowed to function. Studies in this area generally argue that greater economic freedom improves incentives for investment, entrepreneurship, and efficient resource allocation, thereby supporting higher income levels and stronger economic performance.

Another group of studies considers the relationship between political freedom, economic freedom, and economic well-being together. Farr et al. (1998) argues that political and economic institutions may influence growth, but economic growth may also influence institutional change, making the direction of the relationship difficult to establish. Thies (2007) similarly reconsiders the relationship between political and economic freedom. His results suggest that political freedom

may be a stronger predictor of later economic freedom than economic freedom is of later political freedom. Political freedom may improve the institutional conditions for later market reform. At the same time, both forms of freedom may be related to economic performance.

The idea of Granger causality provides a way to study this predictive order. A variable Granger-causes another variable when its past values contain useful information for predicting the second variable after the second variable's own past has been considered (Granger, 1969). This is not the same as proving structural causality. A Granger relationship may still reflect omitted factors. It provides evidence about timing and predictive content rather than a complete causal mechanism.

Taken together, previous studies suggest that both political freedom and economic freedom may matter for development. They also suggest that political freedom may help predict subsequent changes in economic freedom. However, predictive order alone does not show how the two institutions jointly relate to income. Much of the existing literature examines the direct effect of political freedom on growth, the direct effect of economic freedom on growth, or the direction of causality between them. This paper connects these questions. It first uses a one-lag Granger-style analysis to examine whether political freedom predicts later economic freedom or vice versa. It then examines whether political freedom and economic freedom are jointly associated with GDP per capita. The interaction analysis uses the V-Dem Liberal Democracy Index and the Fraser Institute's Economic Freedom of the World score. The later comparison of Cape Verde and Namibia places these relationships in historical context. Cape Verde illustrates a path of rising economic freedom under sustained political openness, while Namibia shows that meaningful political freedom does not automatically produce the same economic reforms or income gains.

Method and data

The empirical analysis uses an unbalanced country-year panel covering 159 countries from 2000 to 2023. Political freedom is measured using the V-Dem Liberal Democracy Index, denoted PF_{it} . Economic freedom is measured using the Fraser Institute's Economic Freedom of the World overall score, denoted EF_{it} . The political freedom variable ranges approximately from 0 to 1, while the economic freedom variable ranges from 0 to 10, with higher values representing greater freedom. The dependent variable in the interaction model is the natural logarithm of GDP per capita, obtained from the World Bank.

Granger-Style Analysis

The first part of the analysis examines whether past political freedom predicts current economic freedom and whether past economic freedom predicts current political freedom. Each model controls for the dependent variable's own lag, the one-year lag of the other freedom measure, lagged GDP per capita, country fixed effects, and year fixed effects. Country fixed effects control for time-invariant differences across countries, while year fixed effects account for global shocks common to all countries. Standard errors are clustered at the country level.

The political freedom equation is:

$$PF_{it} = \alpha_i + \delta_t + \rho_P PF_{i,t-1} + \beta_{EP} EF_{i,t-1} + \lambda_P \ln(GDPpc_{i,t-1}) + \varepsilon_{it}$$

The economic freedom equation is:

$$EF_{it} = \mu_i + \tau_t + \rho_E EF_{i,t-1} + \beta_{PE} PF_{i,t-1} + \lambda_E \ln(GDPpc_{i,t-1}) + v_{it}$$

Economic and Political Freedom as Determinants of GDP Per Capita

This study estimates the direct relationships of economic freedom and political freedom with GDP per capita and their joint relationship with GDP per capita with the following model:

$$\ln (GDPpc_{it}) = \alpha_i + \delta_t + \sum_{k=1}^3 \beta_k PF_{i,t-k} + \sum_{k=1}^3 \gamma_k EF_{i,t-k} + \sum_{k=1}^3 \theta_k (PF_{i,t-k} \times EF_{i,t-k}) + \varepsilon_{it}$$

where i indexes countries and t indexes years. Country fixed effects, α_i , control for time-invariant country characteristics such as geography, colonial history, culture, and long-run institutional background. Year fixed effects, δ_t , control for global shocks common to all countries, such as financial crises, commodity cycles, or worldwide technological change. Standard errors are clustered at the country level to allow for serial correlation and heteroskedasticity within countries over time.

The use of one-, two-, and three-year lags helps reduce concerns about contemporaneous reverse causality and allows institutional changes to affect economic performance with a delay. However, the estimates should still be interpreted as conditional panel associations rather than definitive causal effects. Institutional change and economic development may still be jointly determined by omitted time-varying factors.

The baseline specification includes up to three annual lags to capture short- to medium-term institutional effects. As a robustness check, the model is extended to five annual lags to determine whether the three-year result depends on the selected lag window.

Because the model includes interaction terms, the coefficients on political freedom and economic freedom cannot be interpreted in isolation. The marginal effect of political freedom at lag k is:

$$\frac{\partial \ln (GDPpc_{it})}{\partial PF_{i,t-k}} = \beta_k + \theta_k EF_{i,t-k}$$

The marginal effect of economic freedom at lag k is:

$$\frac{\partial \ln (GDPpc_{it})}{\partial EF_{i,t-k}} = \gamma_k + \theta_k PF_{i,t-k}$$

Thus, the interaction term shows whether the effect of one type of freedom depends on the level of the other.

Results

Table 1 reports the Granger-style fixed-effects results. Both political freedom and economic freedom are highly persistent. The coefficient on lagged political freedom in the political freedom equation is 0.886 and statistically significant at the 1 percent level. The coefficient on lagged economic freedom in the economic freedom equation is 0.777 and statistically significant at the 1 percent level.

The first model examines whether lagged economic freedom predicts current political freedom. The coefficient on lagged economic freedom is -0.001 with a p-value of 0.540. The coefficient is small and statistically insignificant. The second model examines whether lagged political freedom predicts current economic freedom. The coefficient on lagged political freedom is 0.119, with a p-value of 0.054. The coefficient is positive and marginally significant at the 10 percent level.

Because political freedom is measured from approximately 0 to 1, a 0.10-point increase in political freedom is associated with about a 0.012-point increase in the following year's economic freedom score. The estimated magnitude is modest.

Lagged GDP per capita is not statistically significant in either equation. Its coefficient is -0.002 in the political freedom model and 0.021 in the economic freedom model. These findings do not provide evidence that income predicts either institutional measure over the one-year period after institutional persistence, country effects, and year effects are considered.

Overall, the Granger-style analysis provides evidence of one-directional predictive ordering. Political freedom contains some information for predicting later economic freedom.

Economic freedom does not show the same predictive relationship with later political freedom. This pattern is consistent with earlier findings that political liberalization may help create conditions for later economic reform (Thies, 2007).¹

Table 2 reports the fixed effects estimates for GDP per capita. The model includes 3,275 observations across 159 countries, with both country and year fixed effects. The economic freedom results are generally positive. The one-year lag of economic freedom is positive and marginally significant, with a coefficient of 0.064 and a p-value of 0.067. The two-year lag is positive and statistically significant at the 5 percent level, with a coefficient of 0.032 and a p-value of 0.029. This means that, when political freedom is held at zero, a one-point increase in the economic freedom score is associated with approximately 3.2 percent higher GDP per capita after two years. The three-year lag of economic freedom is also positive but not statistically significant in the main effect.

The political freedom results are more conditional. The one- and two-year lags of political freedom are not statistically significant. The three-year lag is negative and statistically significant, with a coefficient of -1.044 and a p-value of 0.001. However, this coefficient represents the effect of political freedom when economic freedom equals zero, which is not the most meaningful case for many countries. Once the interaction term is considered, the interpretation changes.

The key finding is the three-year interaction between political freedom and economic freedom. The coefficient is positive, 0.155, and statistically significant at the 1 percent level. This

¹ As a robustness check, the Granger-style analysis was repeated using a combined Freedom House measure, constructed by reversing and rescaling its political rights and civil liberties scores. The results show a similar asymmetric predictive relationship. Lagged political freedom positively predicts economic freedom in the following year, while lagged economic freedom does not predict subsequent political freedom. The models include country and year fixed effects, lagged GDP per capita, and country-clustered standard errors. These findings support the baseline result. As with the main analysis, these tests indicate predictive ordering rather than structural causality.

suggests that the delayed effect of political freedom becomes more favorable as economic freedom increases. Using the estimated marginal effect,

$$\frac{\partial \ln(GDPpc)}{\partial PF_{t-3}} = -1.044 + 0.155EF_{t-3}$$

the effect of political freedom becomes positive when the economic freedom score is above approximately 6.7. This threshold is substantively important. It suggests that political freedom alone may not raise GDP per capita when economic freedom is low. But once a country reaches a moderate-to-high level of economic freedom, political freedom becomes positively associated with income. In other words, political openness appears more economically productive when individuals and firms also have sufficient market freedom.²

To place this threshold in context, Table 3 shows how many countries in the estimation sample had economic freedom scores above 6.7 in 2023. Seventy-seven of the 159 countries, or 48.4 percent, were above this level, indicating that the threshold lies near the middle of the sample rather than at an extreme.

The five-lag specification (Table 4) confirms that the interaction is not limited to the original lag window. The interaction remains positive and significant at the three-year lag ($\beta = 0.067, p = 0.044$), is insignificant at the four-year lag ($\beta = -0.036, p = 0.281$), and is positive and significant at the five-year lag ($\beta = 0.125, p = 0.006$). These findings suggest that complementarity between political and economic freedom appears at medium-term horizons rather than only after exactly three years.

² As an additional robustness check, the V-Dem Liberal Democracy Index was replaced with a combined Freedom House measure based on rescaled political rights and civil liberties scores. Economic freedom remains positively associated with income at the one- and two-year lags, while the conditional coefficient on political freedom is negative at the three-year lag. The interaction remains positive and significant at the three-year lag, while the one- and two-year interactions remain insignificant. Thus, the complementarity finding is robust.

The Granger-style and interaction results together provide a clearer institutional pattern. They are consistent with a possible two-stage process. Political freedom improves accountability, public debate, and the ability to challenge restrictive policies. These changes may support later economic reform. Economic freedom then allows individuals and firms to respond through investment, entrepreneurship, trade, and production. Once economic freedom reaches a sufficient level, the relationship between political freedom and income becomes more positive.

This interpretation does not prove that political freedom causes economic freedom and then causes higher GDP per capita. The Granger analysis tests predictive order, while the interaction model tests conditional relationships. The paper does not estimate a formal mediation model. The results are therefore best described as evidence consistent with institutional sequencing and complementarity.

Illustrative Country Cases

The regression results identify a general conditional relationship, but they do not show how political and economic institutions developed within individual countries. Cape Verde and Namibia represent different economic-freedom paths under comparatively open political systems. Comparing them helps clarify the pattern found in the panel analysis.

Cape Verde: Rising Economic Freedom

Cape Verde provides a useful case for examining the joint relationship between political freedom, economic freedom, and income growth. In 2000, Cape Verde scored 0.685 on the V-Dem Liberal Democracy Index, ranking 38th among 176 countries with available data. This placed it within approximately the top 22 percent of countries for political freedom. Its economic freedom score was 6.20, ranking 78th among 158 countries and placing it near the middle of the distribution. By 2023, its economic freedom score had increased to 7.39, ranking 44th among 165 jurisdictions.

Its GDP per capita also increased from about \$4,510 in 2000 to \$9,228 in 2023, a rise of approximately 105 percent. Cape Verde first moved above the estimated economic freedom threshold of 6.7 in 2003, when its EFW score increased to 7.00. Over the following three years, its GDP per capita rose from approximately \$4,841 in 2003 to \$5,941 in 2006, an increase of about 23 percent. This pattern makes Cape Verde especially relevant for this study because it is not simply a case of political liberalization or economic liberalization alone. Instead, it illustrates a broader sequence in which political openness was sustained while economic institutions became more market oriented.

Cape Verde became independent from Portugal in 1975 under the leadership of the African Party for the Independence of Guinea and Cape Verde, later the African Party for the Independence of Cape Verde (PAICV). Like several other former Portuguese colonies in Africa, Cape Verde initially adopted a one-party political system. However, its post-independence experience differed sharply from countries such as Angola, Mozambique, and Guinea-Bissau. Meyns (2002) emphasizes that Cape Verde was spared the militarization associated with guerrilla warfare on its own territory, which helped create a more civilian and administrative political culture. This also mattered for later democratization because political competition developed in a setting with relatively low political violence and a stronger tradition of elite negotiation.

Economically, the early post-independence model was more state-centered. Macedo and Pereira (2010) describe the period after 1975 as one in which Cape Verde pursued an inward-looking development strategy. The strategy was based on central planning, a large public sector, and protectionist trade policy. The state played a dominant role in banking, transportation, insurance, and energy, while protectionist policies limited export competitiveness and discouraged foreign direct investment. At the same time, the one-party period should not be interpreted simply

as institutional failure. Baker (2006) notes that the regime invested in water-retention projects, health, education, and women's rights. Its administration was relatively effective and less corrupt compared with many other African cases. In other words, Cape Verde entered the democratic period with some administrative capacity, but with an economy still constrained by state control and limited market openness.

The political transition accelerated in 1990–1991. The PAICV endorsed multipartyism in early 1990. Constitutional reforms later abolished the one-party system. The first competitive parliamentary elections were held in January 1991. Meyns (2002) describes this change as a negotiated or “pacted” transition. It was shaped by dialogue between the ruling party and the emerging opposition, the Movement for Democracy (MPD). The transition was peaceful and did not involve the type of street violence seen in many other African democratization episodes. In the 1991 election, the MPD defeated the PAICV and formed a new government. Baker (2006) similarly argues that the transition reflected both political and economic liberalization, with broad agreement among elites that Cape Verde needed less rigidity and more openness.

During the 1990s, Cape Verde's democratic institutions became more established while economic reform continued. The MPD won again in the 1995 legislative elections and the 1996 presidential election. In 2001, the PAICV returned to power through competitive elections, and the country experienced another peaceful transfer of power. Baker (2006) treats these repeated alternations in government as evidence of democratic maturity, because losing parties accepted electoral outcomes and the public appeared to have confidence in electoral institutions. This political stability created an institutional environment in which market reforms could continue across party lines rather than being reversed after each election.

The first major shift toward economic liberalization began before full democratization. According to Macedo and Pereira (2010), a wide-ranging reform program began around 1988. It aimed to liberalize trade, privatize state enterprises, and reduce the state's direct role in the economy. These reforms included the removal of price controls, privatization, stronger property rights in agriculture, promotion of foreign investment, and modernization of business law (Bourdet, 2000). This timing is important. Cape Verde's market-oriented reforms did not begin only after democratic elections; rather, economic reform and political opening overlapped. Later democratic stability also helped provide the policy continuity needed to deepen the reforms.

The first reform wave represented an uneven move toward greater economic freedom. The government reduced some market restrictions and encouraged private activity, but fiscal policy became more expansionary and public investment rose rapidly. By the mid-1990s, fiscal deficits and domestic public debt had increased, while unemployment remained high. Bourdet (2000) reports that unemployment reached about 38 percent in the 1996 labor-force survey. Economic liberalization therefore advanced in some policy areas, while greater government spending and investment continued in others.

A second reform wave began in 1997. This stage focused more on fiscal discipline and deeper privatization. The IMF, World Bank, and European Union became more involved. The government created a Trust Fund to reduce domestic public debt. The fund depended on privatization proceeds and donor support. The second wave of privatization was approved in 1997 and began in 1998. It covered banks, insurance, telecommunications, electricity, water, construction, travel, and maritime firms (Bourdet, 2000).

These reforms expanded private activity. Bourdet (2000) links Cape Verde's rapid growth in the 1990s to the rise of small and medium-sized firms. The number of non-rural enterprises

increased quickly after 1990. Financial liberalization also changed the service sector. Banks, insurance, hotels, and other services expanded after the mid-1990s. Bourdet (2000) argues that financial liberalization, foreign bank entry, bank and insurance privatization, and tourism promotion helped explain this growth.

Tourism became one of the most important growth channels. When the government moved away from state control after 1988, tourism began to develop more strongly. Public and private investment became more coordinated. The government encouraged tourism through project approval reforms, infrastructure investment, and regulatory changes. Tourism's contribution to GDP rose from about 2 percent in 1995 to 5 percent in 2000 and 10 percent in 2005. Services exports and foreign direct investment surpassed transfers as a share of GDP in 2001 (Macedo & Pereira, 2010).

Construction also played a role, but it should not be overstated. Cape Verde is a small island economy spread across several islands. This creates a strong need for ports, airports, roads, housing, and tourism infrastructure. Lopes et al. (2011) find that GDP and construction value added were strongly correlated from 1970 to 2008. They also find that construction followed the broader economy more than it drove GDP growth. This suggests that construction supported Cape Verde's service and tourism transition, but it was not the main independent source of growth.

After the PAICV returned to power in 2001, economic policy did not return to the earlier state-centered model. Instead, the government continued growth-oriented reforms. It rationalized import taxes, sought to reduce the budget deficit, and promoted trade integration through preferential access to U.S. and European markets. Cape Verde's accession to the World Trade Organization in 2008 further required a more transparent and predictable trade and investment environment (Macedo & Pereira, 2010). This policy continuity across party alternation is

important for the argument of this paper. Cape Verde's experience suggests that political competition did not undermine economic reform; rather, democratic consolidation and economic liberalization increasingly reinforced each other.

Cape Verde's experience is therefore consistent with the quantitative results of this paper. The panel results suggest that economic freedom is positively associated with GDP per capita, while the relationship between political freedom and income becomes more favorable when economic freedom is higher. Cape Verde follows a similar pattern historically. Political freedom was already relatively high around 2000, but the country's economic performance strengthened as economic freedom increased, market reforms deepened, and tourism expanded. The country became more integrated into global trade and investment flows. The case does not show that political freedom alone automatically produces growth. Rather, it suggests that political freedom may become more economically meaningful when it is combined with market-oriented reforms, policy stability, and institutions that allow private investment and exchange to expand.

At the same time, Cape Verde should not be treated as a perfect success story. Baker (2006) emphasizes that democracy did not eliminate poverty, gender inequality, or dependence on the diaspora. Macedo and Pereira (2010) also note continuing structural problems, including labor-market rigidity, administered prices in some sectors, and vulnerability to external shocks because of dependence on tourism and foreign financial flows. These limitations are important because they prevent the case study from overstating the results. Cape Verde is best understood not as proof that political freedom automatically causes development, but as an example of how sustained political openness and rising economic freedom can reinforce each other over time.

Namibia: A Contrasting Path

Namibia provides a useful contrast to Cape Verde. In 2000, Namibia scored 0.540 on the V-Dem Liberal Democracy Index. It ranked 56th among 176 countries with available data, placing it approximately in the top 32 percent. However, its economic freedom score remained below the estimated threshold of 6.7 throughout the study period. GDP per capita increased from approximately \$7,858 in 2000 to \$10,138 in 2023, an increase of about 29 percent. This was considerably smaller than the increase observed in Cape Verde. The comparison is consistent with the argument that political openness alone may have limited economic benefits when market institutions remain comparatively restricted.

Before independence, Namibia developed as a highly unequal settler economy. German colonial rule concentrated land and productive assets in the hands of settlers. South African rule later extended apartheid policies to Namibia. Mining, commercial agriculture, and fisheries mainly benefited foreign companies and the white minority. These sectors also relied heavily on cheap African labor. Indigenous Namibians had limited access to land, education, and skilled employment. Namibia therefore inherited a modern but a much poorer traditional economy (Godana & Odada, 2008; Melber, 2018).

Namibia became independent on March 21, 1990, following UN-supervised elections in 1989. The new constitution established a multiparty political system. It protected civil rights and political liberties. Namibia also developed an independent judiciary and a relatively free press. The SWAPO (The South West African People's Organization) government followed a policy of national reconciliation. It accepted private property and maintained a broadly market-oriented economy. These choices avoided major political and economic disruption after independence (Godana & Odada, 2008; Melber, 2018).

Political freedom remained meaningful after independence. Multiparty elections were held regularly. Courts and independent newspapers continued to hold the government accountable. This political stability provided a favorable setting for economic reform. However, the depth and results of the reforms depended on the economic conditions that Namibia had inherited (Melber, 2018).

The government introduced several reforms during the 1990s. In 1990, the government introduced new rules intended to encourage and regulate foreign investment. It also created an Investment Center to assist foreign investors. An industrial development strategy followed in 1992. The government later introduced manufacturing incentives, export-processing zones, and policies supporting small businesses. Investment recovered after independence and exceeded 20 percent of GDP during much of the 1990s. Nevertheless, manufacturing responded only weakly. Namibia remained dependent on primary commodities, services, and manufactured imports from South Africa (Godana & Odada, 2008).

Several inherited conditions limited the effect of these reforms. The constitution strongly protected property rights, but it also preserved an unequal distribution of land and productive assets. Land redistribution proceeded slowly under the willing-seller, willing-buyer system. Weak education and training also reduced labor productivity. Domestic savings did not always become productive domestic investment. Some capital instead flowed to South Africa, while the small domestic market offered limited investment opportunities (Godana & Odada, 2008).

Economic growth accelerated during parts of the period after 2000. However, Nakale (2016) finds that factor accumulation was the main source of growth. Total factor productivity declined after 2000. This suggests that growth depended more on additional labor, capital, construction, and public spending than on sustained improvements in efficiency. Productivity remained weak for several reasons. The economy continued to depend heavily on mining and government services

instead of developing a larger manufacturing sector. Many workers lacked the skills required by businesses. Complicated regulations discouraged private investment. A large share of government spending also went toward salaries and daily operations rather than productive investment. Growth therefore occurred, but its long-term basis remained uncertain.

The structure of the economy created an additional difficulty. Mining and government services were important sources of output. However, they did not always create broad employment opportunities. Agriculture contributed a relatively small share of GDP but remained important for employment and household income. Namibia also continued to export many raw or partly processed resources while importing a large share of its consumer goods. As a result, growth in mining and other resource sectors did not spread widely across domestic businesses, workers, and households (Humavindu & Stage, 2013).

These structural problems continued into the 2010s. Income and productive assets remained unevenly distributed. Namibia continued to depend on mineral exports and imported manufactured goods, especially from South Africa. Its small domestic market limited opportunities for industrial development, while skills shortages and business regulations restricted private-sector expansion. Drought and changes in international commodity markets created further economic difficulties. These conditions help explain why economic reform produced only gradual changes in the structure of the economy (Melber, 2018; Nakale, 2016).

Namibia therefore followed a different path from Cape Verde. It maintained constitutional government, civil rights, regular elections, and political stability. It also introduced policies intended to attract investment and support private businesses. However, inherited inequality, slow land reform, skills shortages, limited manufacturing, and dependence on mineral exports reduced

the reach of these reforms. Economic freedom remained below the estimated threshold of 6.7, while income growth was positive but comparatively modest.

The comparison suggests that introducing market-oriented policies is not always enough to produce large changes in economic freedom or income. Reforms must also overcome barriers that restrict investment, market entry, skills development, and economic diversification. In Namibia, these barriers prevented market reforms from spreading broadly across the economy. The case is therefore consistent with the paper's conditional argument: the economic benefits associated with political openness are greater when economic institutions provide wider opportunities for investment, competition, entrepreneurship, and productive activity.

The comparison should be interpreted cautiously. Namibia's experience does not prove that remaining below 6.7 caused its more limited income gains. Colonial inequality, dependence on natural resources, drought, a small domestic market, and close economic ties with South Africa also shaped its development. Namibia should therefore be treated as an illustrative contrast rather than an independent causal test of the estimated threshold.

Conclusion

This paper examines both the predictive relationship between political and economic freedom and their joint relationship with income. The Granger-style results suggest that political freedom may help predict later economic freedom, while economic freedom does not show the same predictive relationship with political freedom. The interaction analysis shows that the relationship between political freedom and GDP per capita depends on the level of economic freedom. Political freedom becomes more positively associated with income when economic freedom is higher, and this relationship appears with a delay.

Viewed together, the results suggest that political openness may help create a more favorable setting for economic reform. Greater accountability and public debate can make restrictive policies easier to challenge. However, the economic benefits of political freedom may remain limited when property rights are weak, and market activity is heavily constrained. Stronger economic institutions may therefore be necessary for political freedom to translate into higher income.

The policy implication is not that every country should follow one fixed order of reform. Cape Verde shows that political and economic reform may overlap. Some market reforms began before its democratic transition, while later democratic stability helped the reforms continue across changes in government. The more important policy goal is to create a process in which reforms support one another.

Political reform should therefore be accompanied by credible economic institutions. These include stable property rights, clear business rules, open entry into markets, and opportunities for private investment. Economic reform should also be supported by political accountability, policy transparency, and public trust. Without political accountability, market reform may benefit only politically connected firms. Without market access and economic opportunity, political freedom may have limited effects on income.

The results also show why institutional reforms should not be judged only by their immediate effects. The main interaction appears after three years, and institutional change often takes time to influence investment and production. Stable and credible reforms allow households and firms to adjust their plans. Frequent policy reversals may prevent even well-designed reforms from producing lasting benefits.

The broader lesson is that development does not depend on choosing between political freedom and economic freedom. What matters is whether the two are supported by credible rules, policy continuity, and institutions that allow reform to last. Political openness can improve accountability, while economic freedom can turn that openness into investment, innovation, and wider opportunity. When these conditions develop together, institutional reform is more likely to produce lasting gains in income and living standards.

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Table 1. Granger-Style Tests of Political and Economic Freedom

	(1)	(2)
Dependent variable:	Political freedom	Economic freedom
Lagged dependent variable	0.886*** (0.019)	0.777*** (0.016)
Economic freedom (t–1)	–0.001 (0.002)	

Political freedom (t-1)		0.119*
		(0.061)
Log GDP per capita (t-1)	-0.002	0.021
	(0.005)	(0.031)
Country fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Observations	3,594	3,594
Countries	159	159
R ² (within)	0.779	0.722

Notes: Column 1 tests whether lagged economic freedom predicts political freedom after controlling for lagged political freedom; column 2 tests whether lagged political freedom predicts economic freedom after controlling for lagged economic freedom. The lagged dependent variable is political freedom in column 1 and economic freedom in column 2. Political freedom is measured by the V-Dem liberal democracy index (v2x_libdem); economic freedom is the Fraser Institute EFW summary index. Both models include lagged log GDP per capita, country fixed effects, and year fixed effects; year fixed-effect coefficients suppressed. Robust standard errors clustered by country in parentheses. * p < 0.10, ** p < 0.05, *** p < 0.01.

Table 2. Political Freedom, Economic Freedom, and Their Interaction as Predictors of Log GDP per Capita

	(1)
	ln GDP per capita
Political freedom (t-1)	0.308
	(0.470)
Political freedom (t-2)	0.093
	(0.141)
Political freedom (t-3)	-1.044***
	(0.306)
Economic freedom (t-1)	0.064*
	(0.035)
Economic freedom (t-2)	0.032**
	(0.015)
Economic freedom (t-3)	0.019
	(0.020)
Pol. Freedom (t-1) × Econ. freedom (t-1)	-0.041
	(0.070)
Pol. Freedom (t-2) × Econ. freedom (t-2)	-0.027
	(0.025)
Pol. Freedom (t-3) × Econ. freedom (t-3)	0.155***
	(0.048)
Constant	8.514***
	(0.249)
Country fixed effects	Yes
Year fixed effects	Yes
Observations	3,275

Countries	159
R ² (within)	0.517

Notes: The dependent variable is the natural log of real GDP per capita. Political freedom is measured by the V-Dem liberal democracy index (v2x_libdem); economic freedom is the Fraser Institute EFW index. All regressors enter at lags 1–3. Robust standard errors clustered by country in parentheses. Year fixed-effect coefficients suppressed. * p < 0.10, ** p < 0.05, *** p < 0.01.

Table 3. Countries Above the Estimated Economic Freedom Threshold by Region, 2023

Region	Countries in sample	Above 6.7	At or below 6.7	Share above 6.7
North America	2	2	0	100.0%
Europe and Central Asia	46	36	10	78.3%
East Asia and Pacific	19	12	7	63.2%
Latin America and the Caribbean	23	13	10	56.5%
Middle East and North Africa	20	7	13	35.0%
South Asia	5	1	4	20.0%
Sub-Saharan Africa	44	6	38	13.6%
Total	159	77	82	48.4%

Notes: The table is restricted to the 159 countries included in the baseline estimation sample. Economic freedom is measured by the Fraser Institute's Economic Freedom of the World summary index. Above 6.7 denotes a 2023 score strictly greater than 6.7. Regions follow the World Bank classification reported in the Fraser dataset. Percentages are calculated within each region.

Table 4. Five-Lag Robustness Check: Political Freedom, Economic Freedom, and Their Interaction as Predictors of Log GDP per Capita

	(1) ln GDP per capita
Political freedom (t–1)	0.328 (0.436)
Political freedom (t–2)	–0.138 (0.140)
Political freedom (t–3)	–0.384* (0.226)
Political freedom (t–4)	0.176 (0.203)
Political freedom (t–5)	–0.855*** (0.265)
Economic freedom (t–1)	0.069* (0.036)
Economic freedom (t–2)	0.018 (0.013)
Economic freedom (t–3)	–0.011 (0.014)
Economic freedom (t–4)	0.038** (0.015)

	(1) ln GDP per capita
Economic freedom (t-5)	0.005 (0.020)
Pol. freedom (t-1) × Econ. freedom (t-1)	-0.049 (0.065)
Pol. freedom (t-2) × Econ. freedom (t-2)	0.013 (0.022)
Pol. freedom (t-3) × Econ. freedom (t-3)	0.067** (0.033)
Pol. freedom (t-4) × Econ. freedom (t-4)	-0.036 (0.034)
Pol. freedom (t-5) × Econ. freedom (t-5)	0.125*** (0.045)
Constant	8.566*** (0.278)
Country fixed effects	Yes
Year fixed effects	Yes
Observations	2,957
Countries	158
R ² (within)	0.465

Notes: The dependent variable is the natural log of GDP per capita. Political freedom is measured by the V-Dem Liberal Democracy Index (v2x_libdem); economic freedom is measured by the Fraser Institute Economic Freedom of the World index. Robust standard errors clustered by country are in parentheses. Country and year fixed effects are included; year coefficients are suppressed. * p < 0.10, ** p < 0.05, *** p < 0.01.