International Political Science Review
http://ips.sagepub.com/

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International Political Science Review 2009 30: 249
DOI: 10.1177/0192512109105636

International Political Science Review (2009), Vol. 30, No. 3, 249–269

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ABSTRACT. The relationship between federalism and development needs to be investigated in the context of values of governance and state–society relations, especially citizenship. This helps to uplift the discourse on the African state by situating it within the historiography and political economy of federalism. This article explores the institutional and political foundations of the fundamentally distributive orientation of Nigeria's fiscal federal system: the values that underlie governance and the character of state–society relations expressed in the demarcation of fiscal federalism from citizenship privileges and duties. It argues that a fragmented citizenship sustains predatory rule, which undermines the developmental content of federalism.

Keywords: • Fiscal federalism • State–society relations • Predatory rule • Citizenship • Development • Nigeria

Introduction

Political scientists have been preoccupied with federalism in Africa for the most part as an institutional design to deal with the problem of unity and diversity. The focus has been primarily on the need to achieve political stability by means of political inclusiveness and accommodation, with little or no attention being given to the economic incentives for federalism (Onwudiwe and Suberu, 2005: 7). Yet a cursory review of the burgeoning literature on the political economy of federalism shows that federal designs and practices have remarkable effects on economic growth and development.

Economic discourses, on the other hand, fail to deal directly with the politics of federalism, especially state–society relations and practiced values of governance (Olowu, 1991: 167). As Africa continues to experiment with democracy and federalism following the second wave of independence struggles of the 1980s and 1990s, it is important to put economic development at the center of any

DOI: 10.1177/0192512109105636
SAGE Publications (Los Angeles, London, New Delhi, Singapore and Washington DC)

engagement with federalism on the continent.[1] An engagement with the theory and practice of federalism provides a window through which we can understand the challenge of evolving a developmental state in multiethnic societies in Africa. By investigating how the designs of federalism relate to the contingencies of retaining and sustaining power under predatory rule, we may find ways to broaden the discourse and thereby help promote growth and development.

The Political Economy of Fiscal Federalism, State–Society Relations, and the Developmental State

The linkage between fiscal federalism and development is determined within the context of political structure and economic performance. In what ways do the structure and organization of government, whether unitary or federal, centralized or decentralized, affect economic growth and development? In other words, how does the integration or fragmentation of powers of government affect the capacity of the state to perform? A fundamental question for democratizing contexts such as we have in Africa would then be whether federal or devolved systems have advantages over nonfederal systems in economic policy-making. One very important reason for the formation of a federal union is the need to create a common market to facilitate the movement of goods, expand subnational autonomy, and limit the prerogatives of the national government with specific advantages for government responsiveness, such as efficient service delivery; accountability; increased competition, experimentation, and innovation in the government sector; and more sensitivity to subnational regional concerns, including the power of constituent governments to provide for their own needs (Kincaid, 2001: 88). These advantages have largely been teased out from the works of Hayek (1945) and Tiebout (1956). Hayek's point is that local governments enjoy the advantages of better access to information about local conditions, and are therefore in a better position than national governments to make decisions regarding the provision of local pubic goods. Tiebout's idea of "laboratory federalism" emphasizes the experimentation from which other regions may learn and then imitate that which is successful. Such local experimentation reduces the costs of failure under centralization, where such experimentation would have to be done on a larger scale. Thus, federalism ensures macroeconomic stability and promotes experimentation and innovativeness, while securing the larger market necessary for the achievement of economies of scale.

Federalism creates checks and balances among the levels of government by committing central policy-makers to spending restraints, thus preventing them from reneging on their macroeconomic commitments. In the absence of such checks and balances, politicians at the central level tend to expand the economy during election campaigns in an attempt to woo myopic voters, although the long-term results are suboptimal. Such action might provoke inflation when it is financed by deficit budgeting. With federalism, state governments can police the inflationary and deficit bias of central officials (Lohmann, 1998; Qian and Roland, 1999). Similarly, Lohmann (1998: 17) argues that federations are more likely than unitary countries to develop politically independent, inflation-averse central banks that refuse to provide accommodating monetary policy. Besides, competition among subnational units for tax revenue and investment constrains the size of the public sector and ensures efficient delivery of public services, consistent with the diverse demands of disparate, decentralized constituencies.

These claims have, however, not been consistently proven by the decentralization experience everywhere. Federalism often aggravates problems associated with collective action in the formulation and implementation of economic policy, especially macroeconomic management and market reforms (Prud'homme, 1995; Treisman, 1999). There are higher and more volatile deficits and inflation rates among federations than among unitary systems in developing countries (Wibbels, 2000). Federations do not demonstrate higher inflation rates than unitary systems, but if inflation problems develop, federations are less likely to resolve them (Treisman, 2000). According to the Wallis Hypothesis, decentralization increases subnational government size. Also, the collusion hypothesis holds that subnational governments try to circumvent the competition brought about by decentralization.

There are collective action problems that are peculiar to federal systems. For instance, the establishment of an efficient and modern tax system can be difficult in federal systems, if important taxes essentially belong to lower level governments (Gandhi, 1995). When borrowing is not strictly controlled by the national government, free-spending subnational governments may build up unsustainable deficits and then call upon the central government to provide special bail-out transfers or otherwise assume their liabilities. Subnational governments will try to overfish the common pool by shifting their costs onto others. This may undermine macroeconomic stability. Thus, it will be difficult to achieve optimal and macroeconomically sound public debt policy if lower subnational governments have complete authority to borrow from whatever sources they may wish. Several empirical studies show that overfishing the pool may make decentralization dangerous, if it allows subnational governments to expand their expenditures while externalizing the cost to others (Rodden, 2002; Vigneault, 2005).

Ahmad, Hewitt, and Ruggiero (1997) have observed that the reliance on transfers and grants from central government to finance subnational government expenditure creates an incentive for subnational governments to inflate expenditure and engage in perennial negotiations with the central government to attract more grants and transfers. Subnational governments inflate their budgets for fear of losing sharable revenues to competing jurisdictions (De Mello, 1999; Fukasaku and De Mello, 1998). This behavior may entrench free riding in a context where central funds are derived from the exploitation of natural resources or foreign aid. The situation is worse where such centralized funds are derived from natural resources that are located in subnational territories of minority groups, as we shall see in the Nigerian case. Free riding may completely overtake competition for investment, replacing it with opportunistic competition for federation funds that can become politically destructive when conducted along ethnic lines in a divided society. This is because it diverts energies from economically productive activities and drains society of social capital, limiting social networks that cut across traditional cleavages that promote trust and reciprocity, which in turn nourish wider cooperation, law abidingness, and commitment to the larger political community (Putnam, 1993; Woolock and Narayan, 2000).

To deal with these problems a wide range of options has been adopted worldwide. Ter-Minassian and Craig (1997) identify numerical debt ceilings, restrictions on the use of debt, outright prohibitions on borrowing, limits on foreign debt, and balanced budget requirements as some of the strategies adopted. Others have argued in favor of more centralized systems. Issues of coordination and control have led to a reverse wave of recentralization in Latin America, where recentralization drives have come to dominate the broader policy and political agenda in several countries (Eaton and Dickovick, 2004). It is argued that central government needs to control the main taxes and borrowing instruments to ensure effective macroeconomic management. It also needs to control investment capital in order to maximize returns and ensure a coherent growth policy for the purposes of privatization and building public and industrial infrastructure. Centralization enables the central government to allocate fiscal resources to goods and services with national benefits. Defining local autonomy too broadly creates a situation where aggregate expenditures will be greater on services that have more local benefits. Fiscal centralization is considered essential to reduce disparities in income and wealth between rural and urban areas and across geographical regions and ethnic groups. Centralization allows the central government more discretion in shaping regional differences in levels of public services and taxation. The central government can use tax policy and subsidies to shape spatial economic development. These indeed may constitute an important strategy for keeping a divided country together, but they might also be a source of tension when the consequences of equalization include central government deficits. Russia has faced the difficult decision of choosing among equalization, central government solvency, and appeasing the potential breakaway provinces (Bahl and Linn, 1994: 3–4; Bahl, 1995). This is really the dilemma for countries in the developing world with divided societies, such as Nigeria.

Overall, therefore, federalism creates as many advantages as disadvantages in macroeconomic management and development. Fiscal federalism is a thoroughly political matter that touches on the very possibility of the success or failure of not just the federal project but the state itself. It involves perennial struggles between national and subnational actors for the distribution of authority among different levels of government (Montero, 2001). Hence, how federalism can be made to do more good than harm in terms of collective prosperity must be given a high premium in the discourse on federalism in less developed countries. The focus of the political economy of federalism will be to find out how federal designs can integrate the political values of federalism with economic prosperity in those countries. As far as fiscal federalism is concerned, horizontal and vertical interactions and linkages among and between tiers of government should be such as to influence governments to promote productive activities and development. Of particular importance here are the works of Buchanan (1995) and Weingast (1995). The latter in particular has stimulated a lively debate on the model federal system that preserves markets and is thereby conducive to economic development (see McKinnon, 1997; Montinola, Qian, and Weingast, 1995; Parikh and Weingast, 1997; Rodden and Rose-Ackerman, 1997).

Market-preserving federalism, as described by Weingast (1995) in his study of England in the 18th century and the United States in the 19th century, has five characteristics. The first is that there must be a hierarchy of government with a delineated scope of authority such that each level of government is autonomous in its own sphere of political authority. Second, the autonomy of each government is institutionalized in a manner that makes federalism's restriction self-enforcing. The third is that subnational governments have primary regulatory responsibility over the economy. The fourth is that a common market is ensured, preventing lower governments from using their regulatory authority to erect trade barriers against the goods and services from other political units. The final condition is that lower governments face hard budget constraints, and that they have neither the ability to print money nor access to unlimited credit.

The success of federalism in the US, the experience of China, and the current European Union experiment seem to establish federalism as an ideal worthy of being pursued. The challenge is not just to chart the parameters of a federal system that serves economic development but also, perhaps more important, to discover the incentives that make politicians uphold, or at least fail to seek to exploit, federal principles associated with good government and development. These incentives make market-preserving or production-promoting federal designs effective. Otherwise, they may be used to serve contrary purposes. The point here is that values are critical to the functioning of the institution of federalism. For postcolonial states, the values that animate state–society relations may contradict the functioning of market-preserving elements of federalism. Besides, as Ziblatt (2004) has argued, federalism is about increasing the capacity of government with subunits that are highly institutionalized and deeply embedded in society. Kincaid (2001: 91) also notes the importance of the distinction between federations based on liberal individualism and federations based on communal identities, namely, nationality, language, religion, tribe, and/or race, when seeking to construct a model of federalism that can promote wealth.

The character of state–society relations does matter for the workings of the federal system for economic development. As such, federalism can be conceived as more or less an institutional framework of state–society relations, in which citizens and civil society engage the state at both local and national levels in order to deepen interaction and enhance state capacity. Nowhere are the implications of this for federalism more visible than in the idea of the developmental state. At the heart of the developmental state is the normative environment that links institutional design with state–society relations and economic prosperity. Values underlie institutional transformation that close the gap between formal and informal processes and networks that help strengthen the state and enable social organizations to achieve development. The discourse on the developmental state also emphasizes the mobilization of peoples, the social construction of patriotism, social capital, and the extension of access to education to unleash the innovative potentials and abilities of individuals. These sharply contrast with the disincentive effects of wealth accumulation through political corruption, including conspicuously large salaries for politicians, in a society in which a sense of duty or responsibility to the state needs to be augmented. Predatory rule has devastating effects on development because, as a nonviolent form of domination, it has to depend on nonviolent strategies that disorganize civil society (see Bagchi, 2000; Evans, 1989, 1995; Fatton, 1992, 1999; Mkandawire, 2001). In a postcolonial state like that of Nigeria, with fragmented citizenship and multiple communal identities territorially distributed, federalism poses a great challenge that can only be addressed by politically responsible leadership. Federalism specifically requires subnational governments that are institutionalized and deeply embedded in society. But where these do not exist, politically responsible leadership or state builders will have to engineer them, especially where the adoption of the federal option is dictated by the multiethnic character of the society (Ziblatt, 2004). The Center for the Future State (CFS) made this point when it noted that "there is more room for agency than is often supposed, and skillful design and implementation can make a difference" to the success of the state in developing countries (2006: 5). A leadership that is committed to nation building and development will constantly adjust and operationalize federal principles in ways that promote prosperity for all. Theorizing on federalism must reckon with the factors that motivate politics, especially at the informal level.

Political Ends and the Nigerian Economy

At independence Nigeria's economy and public revenue were largely derived from the export of agricultural produce such as cocoa, cotton, rubber, and groundnuts. As the mainstay of the economy, agricultural produce accounted for 64.1 percent of national output in 1960. Until 1966 oil accounted for less than 15 percent of national output, even though the oil sector had become the fastest growing sector of the Nigerian economy. In 1970 oil revenue accounted for 58.01 percent of total exports. Following a growth rate of 13 percent between 1986 and 1992, it soon accounted for over 90 percent of foreign exchange, 70 percent of budgetary revenue, and 25 percent of gross domestic product (GDP). At the same time, yearly production of Nigeria's cash crops fell by 43, 29, 65, and 64 percent respectively between 1970 and 1982. These figures show quite clearly that the inflow of oil revenues was not used to provide impetus for growth in other sectors. Indeed, the share of agriculture in GDP declined to 37 percent in 1991 and 41 percent in 1996 in spite of a series of programs, such as green revolution, back to land, and structural adjustment schemes, introduced by the government during the 1970s to boost agricultural production (Uche and Uche, 2004). Available records show that Nigeria continues to depend on imported plant and machinery in the manufacturing sector; capacity utilization even in the best of times never reached 60 percent during the 1990s and 2000s (MAN, 1999–2003). Indeed, the Nigerian economy has been marked by deindustrialization during these periods (Bangura, 1991; Hawkins, 1991). Thus, the entire Nigerian economy has remained heavily dependent on oil.

Although oil revenue increased the income of the state, a large chunk of these funds found their way into private pockets. Nigeria moved from a promise of rapid development by the 1970s into one of the most debt-ridden countries in Africa by the end of the 20th century, with a dismal record of economic growth. The World Bank's Federal Public Expenditure Review published in 1995 claimed that approximately US$200 billion were invested in Nigeria between 1973 and 1993, with very little development to show for it. Oil revenue accruing to the Nigerian state only served to transform the Nigerian economy into a mono-mineral economy, the state into a rentier state, and the population into (for the most part) consumers rather than producers. The expansion of the oil sector was so rapid, massive, and dramatic that it unraveled the use of the state as the major source of private accumulation by the political elite. This is particularly obvious in the way federal principles have been used to serve the self-interest of political elites, which is antithetical to broad development and welfare. Three elements can be teased out as defining characteristics of federal practice in Nigeria. The first is that the values that drive elite politics conflict with the demands of national prosperity. This is reflected not only in the choice of federal designs but especially in the interpretation and use of basic federal principles and institutions such as federal character, creation of new states and localities, and zoning or rotation.

For instance, the federal character principle was first introduced in the 1979 Constitution as a form of affirmative action to ensure that the composition of government and any of its agencies is not dominated by "persons from a few states, or from a few ethnic or other sectional groups." It sought to ensure that the conduct of government business recognizes "the diversity of the peoples within any area of authority and the need to promote a sense of belonging and loyalty among all such peoples." In practice, it is interpreted as a means of distributing federal amenities and opportunities such as public employment, political appointments, industries, and public universities and so on. Extending affirmative action so broadly contradicts the rational and strategic policy-making that is so imperative for development. The untoward nature of this interpretation has been demonstrated in the failures of virtually all significant national industries, especially the steel industry, the rail system, telecommunications, electricity, and the Nigerian airways. Nigeria's five steel industries are located in Ajaokuta (north central), Aladja (south-south), Osogbo (southwest), Jos (northeast), and Katsina (northwest). This locational pattern informed by the federal character principle "created problems with regard to sources of raw materials for the plant and mills, the markets for their finished products and the extent of intra-industry linkages among them" (Ohiorhenuan and Onu, 1989: 89).

Similarly, the policy of creating new states and localities was first initiated in 1962, when the Midwestern Region was carved out of the Western Region to allay minority fears of domination. It was effectively utilized in 1967 to undermine the secessionist effort of Biafra, when General Gowon created 12 states out of the existing four regions to ensure that no one state or group of states could threaten the corporate existence of the country or hold the country to ransom. Subsequently, state and local government creation became instruments of political control and patronage. In these circumstances, states were created simply to spread centers of development evenly across the country, since new states were to have direct access to federal funding and to meet pressures for equal distribution between north and south and between east and west. The creation of states and localities ultimately became channels of advancement for the regional elites who occupied (or determined the occupants of) the resultant expanded political and bureaucratic positions that emerged from the exercise. Little wonder that there is a perennial pressure for the creation of more states and localities, reflecting elite cake-sharing syndrome and "proliferation of unproductive, corrupt, wasteful and unviable political and administrative units" (Suberu, 1998: 282).

Thus, institutions created to promote accommodation of the country's diversity have been channelled toward corruption and waste, thereby undermining economic rationality in critical centers of decision-making. Economic reforms will scarcely achieve their stated goals without addressing these governance values and transforming the consequent structural foundations of predatory rule that have been institutionalized over the years.

Second, one of the critical structural foundations of predatory rule is the bifurcated citizenship that encourages representation without taxation and serves to confound commitment to government effectiveness and accountability by citizens and residents. This bifurcated citizenship promotes general opportunism that enables the elite to practice political corruption without strong concerted protests from ordinary people (I shall elaborate on this presently).

Third, given the nature of politics in Nigeria, the high levels of corruption, and the generally poor level of public accountability, coupled with poor levels of government performance, governments should not be seen as benevolent or committed to the public good. With the state as the chief means of economic advancement for individuals and sectional elites, "politics is not about alternative policies but about the control over men and resources" (Dudley, 1973: 75). Writing in the 1970s, before Nigeria became established as one of the most corrupt countries in the world, Dudley (1973: 52) had this to say:

> Compared to the gross domestic product of Nigeria, the proportion of wealth that went into private pockets of members of the political class was inordinately large; in carrying corruption to the extent that it was taken, the political class was destroying the prospects of a more rapid economic growth, which was badly needed if the life chances of the mass of the population, abysmally low as they are now, were to be improved and raised.

Nigeria's Economic and Financial Crimes Commission (EFCC) has estimated that more than US$380 billion of pubic funds were stolen or squandered by those in government between 1960 and 1999. During the administration of General Ibrahim Babangida (1985–1993) about US$12.2 billion in oil revenues were alleged to have disappeared. General Abacha, his successor, is believed to have personally stolen between one and three billion US dollars during his four-year rule (see Human Rights Watch, 2007: 16–17). Recently, the House of Representatives Committee on Power and Steel revealed that US$16 billion invested in the National Integrated Power projects between 2006 and 2007 were squandered by the government of President Olusegun Obasanjo. Some companies, paid up to five billion US dollars, had not yet mobilized to site a year after receiving the sum. Over US$6.2 billion were paid to contractors who had no record of registration at the Corporate Affairs Commission (Ogbodo, 2008: 1). The Minister for Health, Professor Adenike Grange, was sacked by the Yar Adua government in early 2008 for disobeying the directive of the president that any unspent budgetary allocations for the 2007 fiscal year be returned to the government treasury. This brought to public awareness the fact that unspent budgetary allocations were usually shared by civil servants. About four billion US dollars were returned as unspent budget for the fiscal year 2007 alone (Ohu, 2008: 1). Most of these stolen funds end up in foreign banks as capital flight.

Not surprisingly, Nigeria has always performed poorly in Transparency International's index on corruption. In the 2007 annual report on corruption, Nigeria was placed in 147th position out of 179 countries, having a score for 2006 of 2.2 on a scale of 0–10, where zero represents the most corrupt and 10 the least corrupt. This score was actually an improvement over scores consistently lower than 2 for the period 2000 to 2005.

Academic discussions of fiscal federalism have paid undue attention to the politics of revenue allocation rather than focusing on ways to ensure governments that are development oriented, production promoting, and market preserving. Economic studies and ideas about fiscal federalism in Nigeria have been dominated by the traditional public interest approach to decentralization. Many of these studies have emphasized the overcentralization and vertical imbalances in expenditure responsibility and revenue distribution. Consequently, there is a tendency to attribute governmental failures to the overconcentration of revenue at the center and the resulting dependence of the states on allocations from the federation account. However, a comparative review of the degrees of centralization and decentralization reveals that Nigeria is no more centralized than many other federations in terms of tax revenue jurisdiction and the granting of subnational government rights to centrally collected revenues (Aiyede, 2005). The problem is that all tiers of government depend on revenue from oil, which is a free gift to all the states, with the exception of the oil-bearing states that suffer severe externalities arising from oil production activities. The concentration of revenue in the federation account serves the purpose of private accumulation by the political elites. This is not to say that Nigeria could not do with some decentralization, but to argue that the problems of the Nigerian federal system have more to do with the values that governments and politicians seek to maximize, within given state–society relations, and how these have determined the character and use of fiscal arrangements.

The Politics of the Federal Structure

Federalism in Nigeria is traced back to the Macpherson Constitution of 1946 under colonial rule. The Constitution generated concerns about the distribution of revenue powers between the two tiers of government because it devolved responsibilities to the regions. Sir Sydney Phillipson, the then financial secretary of the Nigerian colony, investigated the state of fiscal relations and introduced some principles for revenue sharing between the regions and the central government as a way of meeting the financing demands of the administration of the entire country (Phillips, 1971). Since then, fiscal federalism in Nigeria has centered on the distribution of federation revenues. Eight other advisory fiscal commissions were appointed to deal with these issues, until finally in 1988 a permanent body was created for that purpose (Suberu, 2001: chapter 3). After almost five decades of postindependence government, revenue allocation has become yet more controversial and conflictual, pointing to the fact that the resolution of the fiscal relations question lies elsewhere than in the evolution of an appropriate fiscal arrangement.

At independence, Nigeria was a federation of three regions and a federal capital. In 1962 the Midwestern Region was created out of the Western Region, making it a four-region federation. This involved a debilitating imbalance. The preponderant size and population of the Northern Region put the rest of the country under the perpetual domination of the Northern Region, which had more than half of the seats in parliament. Second, the number of federating units was too few, leading to perpetual face-to-face conflicts (Osaghae, 1998: 36). Thus, in 1967 at the outbreak of the civil war, the country was split into 12 states by the Yakubu Gowon military government. This transformation of the federal structure was accompanied by a concentration of the main government revenues into a common pool for distribution among the various tiers of government, which led to heavy financial dependence on the common pool revenue by the federating units. The preference for giving considerable importance to interstate/local area equity in the distribution of allocations from centrally collected revenue among subnational units, supposedly done to ensure even development across the country, has served as an incentive to subnational governments to invest efforts in getting "more funds from this source, encouraging financial irresponsibility and setting up strong forces for the creation of new states" (Tom Forrest as cited by Suberu, 1994: 3). Local elites mobilize the support of their communities to put pressure on military governments to give them their own state and localities because this is a sure way to increase avenues for political and material advancement (see Suberu, 1991, 1994, 1998, 2001; Suberu and Agbaje, 1999).

Subsequent military rulers adopted state and local government creation as an instrument for mobilizing support, or for deflating opposition. Hence, after a series of territorial fragmentations under military rule, Nigeria now consists of 36 states, a federal capital territory, and 774 local governments. The 1999 Constitution recognizes the 36 states of the federation. It also recognizes local governments as constituting a third tier of government. The 1999 Constitution lists not only the states and their capital cities, but also the names of the 774 local governments (Part I, First Schedule). This renders the creation or the adjustment of boundaries of local government a matter of constitutional amendment.

At independence, although the federal government collected mining royalties and rents, it paid to each region a sum equal to 50 percent of the proceeds of any royalty derived from mining and exploration activities in each region. The Distributable Pool Account, shared among the regions, received 30 percent of such proceeds. The federal government collected customs duties on behalf of the regions, but each region paid the cost of collecting the duties proportionate to its share in the proceeds of those duties. However, between 1966 and 1979 and between 1984 and 1999, when the military was in government, the revenue allocation formula was changed several times on the initiative of the federal government, sometimes on the advice of a technical committee set up for that purpose. These changes reduced the size of the federally collected revenues going to the regions of origin and increased what goes into the Distributable Pool Account. At a certain point, the states were deprived of any right to revenue from the Distributable Pool Account on the basis of derivation. This was possible because the major oil-producing communities were minority ethnic groups. Thus, policy choices did not favor oil-producing communities, reflecting their relative lack of strength in the power game. The political marginalization of minority ethnic groups led to their loss of the right of ownership of the natural resources in their territories. Derivation was reintroduced only after the oil communities violently challenged the right of the Nigerian state to control natural resources (Aiyede, 2006; Anugwom, 2004; Isumonah, 2005; Obi, 1995, 2005).

The 1999 Constitution of Nigeria allocated jurisdictional powers to the various tiers of government. It contains two legislative lists: the exclusive and the concurrent. The exclusive legislative list is for the federal government, while the concurrent list is for both the national and the state governments. In addition, the Constitution places the functions of local government in the Fourth Schedule, and mines and minerals, including oil exploration, mining, geological surveys, and natural gas, are placed in the exclusive legislative list (i.e. under national government control). Sections 162, 163, 164, 165 and item A of the concurrent list of the Constitution provide for revenue allocation and a Distributable Pool Account "to be distributed in terms and in such manner as may be prescribed by the National Assembly." They outline basic principles to be taken into account in horizontal revenue allocation. These include: population, equality of states, internal revenue generation, land mass, terrain, and population density. Furthermore, they require that the principle of derivation be constantly reflected in any approved formula for vertical revenue allocation, and be not less than 13 percent of the revenue accruing to the federation account directly from natural resources. Currently, 13 percent derivation is adopted as against the demand for 50 percent by the Niger Delta oil-bearing states. The federal government administers the major taxes, some of which, such as the value added tax, were taken over from the states because they were poorly administered by subnational governments (Suberu, 1998: 278). The vertical sharing formula for the Federation Account assigns fixed proportions to the various tiers of government, with the federal government taking 48 percent in addition to being in control of 7.5 percent of special funds to be used for general ecological problems, the stabilization account, and the development of oil and mineral producing areas. The states collectively take 24 percent and local governments 20 percent. Thus, all governments have a guaranteed revenue from the federation account.

Section 11 of the Constitution gives the National Assembly overriding powers to make laws for public safety and public order for the federation or any part of it. The National Assembly can make laws on behalf of any state House of Assembly that is unable to perform its functions due to situations that make it impossible for it to hold meetings or transact business. This is usually understood to refer to a situation where a state of emergency is declared in a state.

The role of the federal government in such circumstances is further expanded in the section on emergencies. The Constitution empowers the president to declare a state of emergency. It outlines seven conditions of emergency during which the president may declare a state of emergency, but without the aim of reducing the autonomy of the states. Indeed, to emphasize the autonomy of the state tier of government, section 265(5) bars the president from proclaiming a state of emergency in any state unless the governor of that state fails within a reasonable time to request that the president issue such a proclamation. The life span of a state of emergency is six months, but may be extended by the National Assembly. The subsistence of a state of emergency will depend on a resolution of the National Assembly supported by a two-thirds majority of all the members of each house of the National Assembly approving the proclamation. The National Assembly may also revoke a state of emergency by a simple majority vote of all members of each house.[2] However, the Constitution bars the National Assembly from removing the governor or deputy governor of a state from office (Section 305 of the 1999 Constitution). In this way Nigeria, to a large extent, fulfills the first two conditions required for market-preserving federalism.

Unlike under military rule, the creation of new states and localities has become very difficult as a result of constitutional rigidities.[3] Currently, the chief means of increasing access to federation funds is to gain as many places as possible in high political and directorate level appointments. Two principles come into play here. The first is the federal character principle and the second is the rotational principle. The federal character principle was first introduced by the 1979 Constitution (and reiterated in the 1999 Constitution) as a form of quota system to "promote national unity" and "command national loyalty" by ensuring that there is "no predominance of persons from a few states or from a few ethnic or other sectional groups in [that] Government or any of its agencies" (1999 Constitution, sections 14.3 and 14.4). The rotational principle is not a constitutional idea; it is, however, an established practice in Nigeria that, given the limited number of high positions in government, such positions are to be rotated among the various zones and regions of the country. Thus, debates about the origin of those who occupy particular positions and how this affects the states and regions are usually central to political and public service appointments or elections. At the state level the rotation occurs among the various localities and senatorial districts. These two principles have been the chief means of ensuring balanced representation and therefore political accommodation and stability.

The federal government exercises control over interstate commerce. Goods and factors move freely across subnational government jurisdictions. Competition among states for investments may gradually emerge as a result of new government policies that focus on the private sector as the engine of growth. However, competition for a share of the Distributable Pool Account is characteristic of interstate relations. While the federal government has been committed to market reforms, this is not the case with most state governments (see Wibbels, 2000).[4]

States and local governments are not accountable to the federal government in respect of how they spend their revenue. Hence the federal government is unable to curb the spending activities of states and local governments. While the federal and state governments can borrow from both internal and external sources, local governments can only borrow from internal sources. The federal government has to guarantee external borrowing by any state government. Such borrowing cannot exceed 30 percent of a state's share of revenue from the federation account. Until 2000, when the Supreme Court ruled that each state government has to pay its debts, the federal government used to make deductions from the federation revenue allocated to states to service states' external debts (Egwakhide, 2004: 12–13). Subnational governments thus do face a severe budget constraint in that respect.

Against the backdrop of the above discussion of political ends, the distribution of state money, and the politics of federalism, the next section explores how a particular form of relations between state and society supports misgovernance and accounts for the maintenance of the fundamentally distributive character of federalism in Nigeria. It unveils the predatory disposition of civil society, often ascribed to colonialism, as the creation of the postcolonial leadership. This form of state–society relations, defined by a fragmented citizenship of antagonistic indigenes versus non-indigenes, is conducive to the exercise of power without political accountability by the postcolonial leadership.

State–Society Relations as the Foundation of Predatory Distributive Federalism

Until recently, engagement with state–society relations in Nigeria has been dominated by the idea of a bifurcated public realm as espoused by Ekeh (1975). According to him, colonialism worked to set state and society apart in Nigeria. This is because the forces of the colonial state alienated the individual and led to the emergence of two public domains: the primordial public domain, which is the domain of modern social formations associated with ancient structures of kinship, and the civic public domain, which is the political space within which the formal state operates. Nigeria's bifurcated public realm has created a dilemma for public accountability and collective action because people are attached and committed to the primordial public domain against the civic public realm. Predatory rule reflects the underlying illegitimacy of the civic realm. Morality holds sway in the primordial public realm, but the civic public realm is amoral. Politicians are wont to steal from the civic public realm for personal benefit and for the benefit of the primordial realm.

This theory is extended to explain the problem of public finance. In another work, Ekeh (1994: 236) contrasts the evolution of the relationship between public finance and citizenship responsibility in the West with that in Africa. According to him, public finance in liberal democratic theory is "conceived and run as [an] aspect of the theory of citizenship and of the public domain. Individuals pay taxes as part of their duties to the state from which they will receive several benefits." But this does not apply in Africa, where the state is alien and has not been owned by or embedded in society. Hence citizens find it hard to pay taxes and perform duties to the state. What is more, the alien nature of the state coupled with the bifurcated public realm make it legitimate in the eyes of the African to divert resources and funds of the inclusive civic public for the use of the more restricted primordial public by officials whose kinship origins are from smaller enclaves. In other words, the dialectic of the colonial experience has generated a morality that legitimizes the use of civic public office and funds for the benefit of the individual or his primordial group. Thus, public officers steal from the civic realm but will not steal from the primordial realm, which remains the preserve of moral obligations. But one of the shortcomings of this reading of the colonial impact is that it fails to reckon with the human agency and policy decisions that establish arrangements within which political interactions occur, or with the evolution of values within society and how these values are sustained or changed over time. Thus, its most debilitating weakness is that it discounts the notion of political responsibility. Besides, corruption is no longer confined to the civic public realm (if it ever was), as studies on corruption have shown.

To be sure, colonial rule was discredited and resisted by means of tax evasion, insubordination, strikes, and other forms of sabotage in Nigeria. Indeed, the de-legitimization of the civic realm was an essential part of the anticolonial strategy. But in protesting colonial rule the nationalist had also to fight traditional chieftaincy institutions that collaborated with the colonial authorities under indirect rule. Thus, the nationalist struggle was a two-pronged struggle to put an end to colonial rule and to ensure that power did not return to traditional institutions. The promise of independence included the fact that the emergent educated elite would exercise political power. It was a struggle spearheaded by the Western-educated elite to take over the mantle of leadership and thereby the responsibilities of political power. The struggle for independence was therefore a struggle for power among the emergent educated political elites and between them and traditional institutions. Postcolonial democratic politics required the partisan mobilization of people. Given the limited spread of Western education and capitalist relations, ethno-linguistic mobilization was the ready form of mass political organization, which the nontraditional power elites took advantage of. Hence, postcolonial politics became ethnic in character. Given the disrepute of traditional institutions, legitimacy was invested in the emergent sociocultural organizations of the colonial civil society, the various town unions, and ethnic associations. It was therefore not surprising that the major political parties at independence developed first as sociocultural organizations before transforming into political parties (Sklar, 1963).

Thus, postcolonial politics was destined to be ethnic because the mainstream or conservative nationalists mediated the link between the people and the postcolonial state through political ethnicities. As the struggle for power intensified in the postcolonial period, the elite increasingly adopted the divide and rule strategy of colonialism, but redefined this strategy in the light of postcolonial realities. This was because the dominant elites were more interested in power and how to consolidate it than they were committed to the welfare promises of independence.[5]

A very incisive analysis of the colonial divide and rule strategy and how it was transfigured in the postcolonial era has been made by Mamdani (2001). According to him, colonialism divided the population into races and ethnicities. Races were constructed hierarchically and governed by law with rights and responsibilities. Ethnicities were horizontally demarcated and governed by tradition. There was no sharp division between colonizers and the colonized but rather a gradation of relations; there were master races and subject races. Master races were the colonizers, subject races were middle men, and their position was marked by petty privilege economically and preferential treatment legally. Subject races could be nonindigenous migrants, such as Indians, or were constructed as nonindigenous by the colonial powers, like the Tutsi of Rwanda and Burundi. Ethnic groups were the colonized. While the rule of law circumscribed power, government by tradition used the language of custom and custom was enforced. It did not circumscribe power. The real institution for governing the African was therefore the native authority. Hence, Mamdani writes, the colonial state was an "ethnic federation" of "many native authorities". Authentic "nationalism was a struggle of natives to be recognized as having transethnic identity, as a race, as Africans, and thus as a race to gain admission to a world of rights, civil society" (Mamdani, 2001: 654). Radical nationalism regarded master races (conquerors) as settlers, while conservative or dominant nationalism regarded immigrants as settlers.

The goal of conservative nationalism was the control of power and the perquisites and preferment of the postcolonial state. Thus, the transition from the colonial to the postcolonial state involved both a change of guard and a reconfiguration of the colonial strategy of control by the dominant postcolonial elite. The dominant elite changed the postcolonial world by turning it upside down to suit its purposes: predatory rule. In the postcolonial era, society has been dissolved into ethnicities and sustained by a bifurcated citizenship of indigenes and settlers. This bifurcation of citizenship has been used to mediate elite competition under predatory rule, a system adopted by the elite to create a material base for themselves in order to consolidate their hold on state power. The postcolonial state should not be differentiated in terms of those who govern and those who are governed, state and citizens. Predatory rule could not have been sustained without a concept of citizenship that fragments society into antagonistic settler and indigene at every level of government. A bifurcated citizenship enables the elite to get away with monumental corruption amid widespread failures of public services. Here lies the great dilemma of political accountability. The idea that the use of public office for private ends is corruption has never been strange to a typical Western-educated Nigerian. The point is that just as the colonial state was used to serve the metropole, the postcolonial state is used to serve predation instead of broad development and welfare.

The working of this postcolonial variant of the divide and rule strategy is clearly evident in the practice of federalism in Nigeria, in the way the distinction between indigenes and nonindigenes or settlers has gradually come to define citizenship rights and access to government opportunities and services, as institutionalized by two innovative federal principles introduced to promote national belongingness, loyalty, and even development: federal character and the formula for revenue sharing. Thus federalism, adopted as a means of allaying fears of domination and ensuring balanced representation in Nigeria's divided society, has been converted into a formula for distributing political offices as political booty, for sharing the national cake in Nigeria's monomineral rentier state.

The federal character clause was first instituted in the 1979 Constitution to ensure inclusiveness in government. In practice it is interpreted and operationalized as a means of distributing state amenities and opportunities, including public employment, on an equal basis among the states and localities of the federation. Indigeneity is a fundamental factor at the individual level for access to these opportunities. In theory, it appears to be a means of preserving cultural identity and traditional institutions; in practice it has nothing to do with cultural identity and autonomy. For the purposes of the right to access opportunities arising from the state, only indigenes are recognized. An individual may be born in a state, reside there all his life, pay taxes to the state, and speak the local language but still be barred from enjoying access to state opportunities because he is not ethnically indigenous to that state. In many states he/she will pay higher school fees for his/her children if they attend public schools, especially post-primary and higher education. On the other hand, an indigene enjoys full access and rights to state opportunities even if he/she does not pay taxes. Being an indigene entitles him/her to resources and offices of the local state or positions at higher levels of government. If nonindigenes are interested in a political or public position or employment, they must return to their state of origin.

The relative robustness of the opportunities available determines the vehemence of the discrimination against nonindigenes. Those who are employed by a state that is territorially fragmented after a state-creation exercise will have to seek employment in their new state of origin. They may remain in their position only if indigenes of the current employing state are benevolent enough to allow them to continue to stay in employment. But they may be subject to discrimination when it comes to promotion to high positions. Even in areas where the population of residents is largely made up of nonindigenes, especially in urban centers, such nonindigenes have little or no chance of contesting an election to parliament, even though the laws allow nonindigenes who have lived in a particular state for at least three years to stand for such elective posts.

Furthermore, mobilization for the creation of new states and localities is usually spearheaded by indigenes, even though the general population (including both indigenes and nonindigenes) is a factor used to argue for a new state or locality, as well as for greater revenue from the federation account. What this means is that public offices in the context of the centralized resources received by the government of a state or locality constitute the share of the national cake that accrues to the indigenes of that state or locality and are reserved for the indigenes of that state alone. Nonindigenous residents must return to their own state of origin to take their own share of the national cake. The practice of allocating a major chunk of the shared revenue on an equal basis among states serves as an incentive to state elites to mobilize and clamor for new states and localities in order to expand access to the attendant opportunities. Public resources in the states and localities are then squandered by the political elite indigenes of a state or locality. In the context of this mobilization to support efforts to obtain more resources from the center, and preoccupation with efforts to ensure nonindigenes do not enjoy too great a share of state resources, public accountability and state effectiveness carry little importance among the general population of indigenes. Some individuals complain of general failures in public service provision, but many look forward to a chance to get into some position and take their own share of public resources.

Thus, Nigeria's political elites have sustained predatory rule by creating representation without taxation, and free riding and unviable political administrative units. The struggle for a share of the national cake has intensified "ethnic, regional and communal tensions over the beneficiaries and modalities of territorial restructuring; the stimulation of 'neo-ethnicity,' of new forms of parochial, divisive and exclusionary identities" (Suberu, 1998: 292). Hence, Nigeria's movement from a four-region federation in 1963 to 12 states in 1967, 19 in 1976, 21 in 1987, 30 in 1991, and 36 states since 1996 has less and less to do with economic development considerations and allaying minority fears of domination. Claims of overcentralization and the clamor for more states and localities have continued unabated. In general, on the one hand, the dynamics of the market continue to generate migration across states and localities in ways that wither real ties to regions of original habitation. On the other, elite political preferences punish those more dynamic entrepreneurs who respond to the market by defining themselves as settlers.

As Human Rights Watch (2006: 2) has observed, discriminatory policies have "served to aggravate inter-communal tensions that are dangerously volatile in and of themselves ... while high ranking federal officials including (former) President Olusegun Obasanjo have publicly denounced the growing negative impact of Nigeria's indigene/settler divide, federal government policies have served to reinforce and legitimize its consequences." In an editorial published in reaction to the Yobe State law on private schools, the *Guardian*, the flagship of Nigeria's print media, warned that there is no guarantee that a law that prohibits nonindigenes from working in a government bureaucracy will not be enacted. The law on private schools stipulates that interested school proprietors who may want to establish a private school in the state and are nonindigenes shall have a principal partner who is an indigene of the state (*Guardian*, May 16 2006: 16).

Meanwhile, the Nigerian economy continues to swing in accordance with changes in the global oil market, because no serious efforts have been made to take positive advantage of the opportunities offered by federalism to promote economic development. The struggle for power, with its promise of control of public (largely oil-based) revenue, has distracted the leadership from focusing on broad development and welfare. A system of patronage has been constructed within the federal architecture of accommodation, translated as it has been into a template for sharing the loot of politics, achieving some measure of political stability at the expense of economic prosperity. Current economic reforms and anticorruption measures have increasingly come into conflict with measures to secure control of power by the ruling political party. Healthy competition among subnational units has remained elusive, while free riding has become embedded in the structures of distributive federalism.

Conclusion

Federalism can serve two goals in multiethnic societies: political accommodation and economic prosperity. These must be the driving forces of politics for federalism to be meaningful in the long run. Federal restructuring policy must therefore seek to balance the demands of these two purposes, as such demands may come into conflict. Indeed, federalism requires subnational governments that are highly institutionalized and embedded in society for such a balance to be achieved and sustained for development. In Nigeria such balancing requires the transformation of state–society relations in ways that generate generalized commitment to the postcolonial state. Thus, federalism requires transformation of state–society relations through a redefinition of citizenship that links fiscal federal relations to citizenship privileges and duties, which in turn call for positive leadership political responsibility. Successful federalism cannot happen without state builders that seek to unleash the entrepreneurship required to succeed in our globalized capitalist world.

In the Nigerian case, an important sign of the emergence of such a leadership will be the reform of the indigene–settler bifurcation in the individual experience of national citizenship by an emphasis on residency as the defining criterion for subnational citizenship. This is essential to generating and promoting social networks that cut across traditional cleavages and are essential to promoting trust, cooperation, law abidingness, and commitment to the state in place of predatory competition among geo-ethnic groups for a share of the national cake. It is in this context that an alert and effective national civil society able to challenge corruption in public life can emerge.

Thus, federal discourse on Africa must engage the role of leadership political responsibility in transforming the values of governance. The international human rights regime that holds rulers accountable for crimes against humanity underscores this need. Global, regional, and local efforts to promote good governance and anticorruption attitudes, such as the African Peer Review Mechanism (APRM) and Mo Ibrahim Foundation, should be supported and sustained. The alternative is to allow predatory rule to run its course toward crises and wars. The developmental state in Nigeria, which is more likely to be federal in character than not, may arise from the generation of political responsibility and patriotism founded on the generalized acceptance of the values of good governance and economic development or from a reconstructed contract between citizens and state built from the ashes of civil war.

Notes

1. Osaghae (2006) observes that the federal idea is becoming popular in Africa as part of the political liberalization since the 1990s.
2. No state of emergency was declared during the second republic. President Obasanjo declared a state of emergency in two states (Ekiti and Plateau States) in his two-term presidency (1999–2007). The president proclaimed a state of emergency following protracted and violent ethno-religious conflicts in Plateau State. In doing this, the president suspended the governor and the House of Assembly of the state and appointed a sole administrator to run the affairs of the state for the six-month period of emergency that was upheld by the National Assembly. While the justification for the declaration of the state of emergency was not contested, controversies emerged over the extraordinary measures taken by the president. In the Ekiti State case, the president declared a second state of emergency after the expiration of the first one, but this was overturned by the National Assembly.
3. No local government or state has been successfully created since the return to civil rule in 1999.
4. Most states in the federation do not have the capacity to provide the enabling environment for investment, as most of them rely on allocations from federation funds to pay the salaries of civil servants.
5. Ake (1996: 1) has argued that: "The problem is not so much that development has failed as that it was never really on the agenda in the first place."

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Acknowledgments: I am grateful to Dr V.I. Isumonah for his valuable comments on the first draft of this article. I am also grateful to the anonymous reviewers whose critical comments opened my eyes to the missing linkages in this study.