PRESERVING FEDERALISM, LOCAL AUTONOMY IN A RESOURCE DEPENDENT RURAL STATE: A CASE OF NIGERIA

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Abstract
The Paper explores the practical implications of the new political economy of federalism, Tiebout hypothesis and the subsidiarity principle all of which couched around the modern market system of federal governance. Focusing on Nigeria’s experimentation, the paper casts a dissenting voice to the emergent converging proposition of the new political economy of federalism by arguing that federal governance is not merely a matter of market efficiency because the distinctive features of plural societies often require that both principles of good economics and federal governance be subordinated to political considerations. After exploring the practical implications of the Nigerian market preserving model of federalism in the light of its “three-player ethnic game,” the inference is that, there is organic relationship between the logic of the market and state, and the contradiction between “competitive federalism” and “cooperative federalism” that undermines the centralizing tendencies and enhances federalism’s perdition, and therefore predisposes the state to adopt both defective model of development and federal governance. Against the prevailing orthodoxy, the paper avers the need to move from a “market preserving federalism” that encourages “bargaining and compromise” at the cost of social equity to an institutional dimension and makes a case for yet another experimentation with the social market economy model of the East Asian and the Nordic nations which lays greater emphasis on social equity and participative aspects of delivery as well as encouraging of freedom of choices, political, social, economic and cultural freedom within the rule of law. Finally, as an alternative to the prevailing nominal modern market system of federal governance in Nigeria, the paper concluded by noting that the concept and practice of market preserving federalism had to be deconstructed to reflect the extension of the concept of market into politics and original idea behind federalism as a model of political organization.

Key Words: Federalism, Market system, Federal Sustenance, Tiebout hypothesis, Subsidiarity Principal, Social Market Economy, Natural Resource Curse, Nominal Federalism, and Collusive Bargaining.
INTRODUCTION

Federalism, in its modern form, has been shaped by the existing realities surrounding the concept of a market economy. Thus, the new political economy of federalism has provided refreshing ideas about federal sustenance. According to these emergent ideas, economic prosperity generated by local freedom is regarded as a key factor that unites citizens on the limits of state power and also forces political actors at the national and local levels to keep within their respective spheres. This is especially so because, federalism, with its interacting levels of government, was thought to be capable of offering a way of mediating the variety of citizen preferences.

The above indicates that federal relations should be considered as a reflection of economic interactions between sub federal authorities and taxpayers. Advocates of competitive federalism argue that just as economic competition produces superior benefits compared to monopolies or oligopolies, so competition between governments serving the same citizens is likely to provide citizens with better services. The mix of cooperation and competition is thus necessary, to avoid the harmful effect of conflict in areas of interdependence, and of collusive bargaining among levels of governments.

The single central government was replaced by a number of autonomous decentralized governments in different regions; individuals could then express dissatisfaction with the allocation of resources to public goods by voting with their feet: they could move to another jurisdiction offering a preferred bundle of public goods and tax liabilities.

Nevertheless, when these ideas are adapted to the practice of federalism, it could provide the best possible form of government for pluralistic societies. In retrospect, the underlying idea is that people can be different and yet beneficial to each other. Also, there are some trends pertinent to federalism and economic policy-making that are discernible and reinforce each other in a symbiotic way. These trends include, among others, the general acceptance of market economy and of federalism (at least in federal countries); global economic interdependence and integration under free-trade rules.

Similarly, a federal arrangement is also a substantially non-centralized self-organizing system that produces order out of repeated intergovernmental and inter-jurisdictional interactions within the framework of a constitution or constitutionalized treaties. Understood this way, there are imperative compatibilities between a well-functioning federal system and a well-functioning market economy.

Accordingly, constitutional federalism emerged not only as a mechanism that provided a limited, overarching governmental framework for a shared political market, but also as a basis for preserving significant powers and functions for the political communities that joined the market, defined as federalization. This division and sharing of powers (or competencies) between a general union government and the constituent political communities could resolve not only the need to restrain the power of both the federal government and the constituent governments for the sake of freedom but also the cultural and political demands of the constituent political communities for the preservation of their governmental integrity. The central questions the paper set out to answer are whether the modern market system is suitable for the complicities of modern society. Another question is whether federalism is still relevant and, if so, what type?

Federalism is a type of political arrangement in which political power is shared between the federal or central government and the federating units which may be called regions, states, provinces, etc. Nigeria became a federation of three regions in 1954 while today it is a federation of thirty—six states. The United States is a federation of fifty states.

In Nigeria, there are three levels or units or tiers of government which work together, coordinate and interact with one another and each of them has its powers and jurisdiction. The powers of these levels or units are from the same source which is the Nigerian constitution. The federal government exercises powers and functions in the exclusive list which includes currency defence, external Affairs, Aviation, Immigration, Customs, Mining among others.

The Federal and State Governments exercise the concurrent list at the same time.

These items include health, education, roads, communication, etc. The state or regional or local governments exercise powers and functions that are residual. These include those items which are neither in the exclusive nor in the concurrent list e.g. chieftaincy affairs.

The origin and evolution of Nigerian federalism could be traced to the division of the country into three provinces—Northern, Eastern and Western Provinces in 1939. Before Governor Bourdillon left office, he recommended for the introduction of regions to replace the existing provinces. In 1946, Richard’s constitution introduced regionalism into
the Nigerian political system. Northern, Eastern and Western regions then replaced the former provinces. The introduction of a federal structure in 1954 was the idea of Richard’s constitution of 1946. In 1953 McPherson’s Constitution improved on Richard’s by creating House of Representatives with powers to make laws for the country and Regional House of Assembly also to make laws for the regions on specific matters.

Federalism is identified with power sharing and this was what actually happened with McPherson Constitution. In the same vein, the Lyttleton Constitution of 1954 came with a federal system of government for the country. It was as a result of the 1953 London Constitutional Conference, where it was decided that Nigeria should be made a federal state. Federalism involves the sharing of powers between the central government and other subordinate unit or units, e.g. local government and states or region. In 1954, we had two tiers of government – the centre and regions, both had their powers defined and shared by the constitution.

The main features of Nigerian Federalism includes the following:-

i. Division and sharing of governmental powers between the federal and regional or state governments.

ii. The different governments in Nigeria derive their powers from the constitution.

iii. Duplication of organs of government in all governments of Nigeria.

iv. Adoption of a written and rigid constitution.

v. The supremacy of the constitution

vi. The supremacy of the federal government

vii. Existence of bicameral legislature in Nigeria

viii. Existence of Supreme Court for judicial interpretation and review.

ix. Constitutional republication of secession

x. The division of Nigeria into unequal regions or state.

THE POLITICAL ECONOMY OF NIGERIAN STATE

As a nation mired in paradox, the cause of socio-economic crisis in Nigeria is not that the state is too federal, nor, there is less ‘unity in diversity’, but because the Nigerian federation as a political organization, has remained less a “mere geographical expression” (Awolowo 1962). The fact that problems of nominal federalism in its own right tend to inhibit socio-economic development can seldom be dismissable as idle epiphenomena in resource dependent federations.

The original idea generally was that a centralized federal government protects both national and regional interests, just as market forces was thought to be protecting both the interests of the seller, and of the consumer. Hence federalism was regarded as being, the most responsive administrative strategy for a state characterized by ethnic and territorial diversity. This is only a presupposition since not only could administrative strategy be used to deny responsive good governance, but also because, the dividends of good governance were based on certain conditions: (1) the sub-national units willing accept the agreement to be part for the sake of unity in diversity and (2) the central government expand their territorial control by peaceful means.

As in market haggling, while federalism supposed to be “an exercise in the making of bargains” (Riker, 1975), for most postcolonial states in general, the political haggling and bargaining never took place by the federating units themselves prior to the imposition of the state on most post colonial state.

This partly the reason why prevailing politico-social, governance development model is seen as being incapable of laying an enduring foundation for a coherent and effective multinational framework that combine competitive free enterprise system and market-oriented economic policies with emphasis on equitable distribution of income that nurture local values and innovation.

Consequently, an environment of general political, economic freedom for the individual within the rule of law would become the bulwark of federalism in Nigeria.
Nigeria is a basket case of states where rational politics paradoxically, generates irrational socio economic affects. For instance, in 1969 the Nigerian government declared proprietary right over oil, and this displaced agricultural exports as the most important source of foreign exchange. With the appropriation, the principle of returning revenue to the point of origin was diminished (to 45 percent in 1970, 20 percent in 1975 and 10 percent in 1980 and 1.4 percent in 1983) and replaced with the equality of state principle (Ejobowah 2000). Despite the fact that the equality of state principle granted Local governments statutory right to share in the Federation Account, however, the political capture of the central bank (via intergovernmental transfer of oil revenue) induced intense competition for federal attention, but obliterates incentives to generate independent sources of revenue. This generated a culture of dependence on the Centre, and stifled local enterprise. The constituting states found themselves in a condition of economic paralysis and decay. This is perhaps evident in the nationwide declining trends in economic indicators. Per capita income fell from an all time high of $870 in 1982 (when international oil prices were very favourable) to $260 in 1998 while the national poverty rate in 2003 was 70%. The external debt stood at $33 billion which is more than its GNP of $29.2 billion (1999). In addition the country is listed among the world’s heavily indebted poor countries (Imevbore undated; Nigeria 2003; World Bank 1999).

In 1986, the national government responded to a World Bank/International Monetary Fund’s policy advice by implementing market-oriented reform. One crucial aspect of the reform was the divestiture of public enterprises. The federal level alone controlled about 600 public enterprises that commenced in 1988 following the establishment of the Technical Committee on Privatization and Commercialization (TCPC). By 1993 when phase one ended, 88 public enterprises had been fully or partially sold (Anya, undated). The second phase, which commenced in 1999 under the Bureau of Public Enterprises (a successor to the TCPC), entails the un successful sales of big state companies such as the Nigeria Port Authority, Nigerian Railway Corporations, Nigerian Telecommunication Company, Ajaokuta Steel, fertilizer companies, and refineries. In January 2004, former President Olusegun Obansanjo who was reelected the previous year announced in the National Assembly that his regime has been successful with privatization, especially with regards to the telecommunication sector, and that the sale of the country’s refineries and National Electric Power Authority will be accelerated (World Bank, 1999).

The reluctance of the centre to commit to the principle of market preserving federalism in practice has to do with the difficulties that such reform might pose for governance since commitment to market preserving federalism would require that sub-national governments provide, in their respective domains, basic security so important for economic enterprise. For instance, the existing states are not financially viable and may not survive in the short run. Of the thirty-six states, only Lagos is self-sustaining and this is on account of an efficient tax system and a strict regime of accounting (BusinessDay, 30 September 2002). Most of the remaining states are not like Lagos State that is an industrial and commercial city-state; rather they are non-industrialized with majority of the people operating outside the formal sector.

Furthermore, an arrangement by which the centre has to wait on the oil states to pay tax is one that the federal government would readily consider dangerous, as there is no guarantee that the states will fulfill their obligations. In other words, the central government is well aware of what would befall it if the states were given control of resources, and it is not likely to travel that road. Therefore, fiscal devolution is not an issue to be considered in the immediate future given the central government’s preference to manipulation than commitment to the principles of genuine fiscal federalism.

In the last several years, other scholars have written important works that deal with federalism and politics in different countries. Specifically for Nigeria’s experience, views expressed on Nigeria’s federalism do not converge on every issue; most stress the integrative needs of the state: ‘unity in diversity’ (Jinadu 1994; Agbese 1999; Momoh 1999; Uwazurike 1997; Ekeh 1997; Suberu and Agbaje 1998; Gana 1999). This is in spite of pointing out Nigeria’s unsuitability for the practice of federalism (Awolowo-Dosunmu 1994; Wonotanzokan 1994).

In both form and substance, Nigeria bears the trappings of a republican style of civilian administration but lacking the socio-cultural and political nexus necessary for its sustainability ‘Agi 1985:23). The debate therefore, revolves around the central ‘mobilization orientations’ of a federalist ideology in respect of whether the system has to ‘centralist’, ‘decentralist’ or ‘balanced’. Hence the major institutional design problem has been over the division of powers and functions at the various levels of government (federal, state, and local government).

It has been a case of how to strike a balance between opposing demands for centralization or decentralization of power (Jinadu 1994:57). The major task has been how to prevent an ethnic group or a combination of ethnic groups, or one state or a combination of states, from perpetually dominating and imposing their will on
other ethnic groups (Jinadu 1994; Awolowo-Dosunmu 1994). One cannot discuss federalism outside its implications for Nigeria’s ethnic diversity realizing that federalism was introduced in Nigeria more as an instrument of divide and rule than as a mechanism for promoting unity-in-diversity which it eventually came to represent in the post-colonial era (Awolowo-Dosunmu 1994). Certain contextual factors that determine the asymmetry in the formation of a new federal arrangement are: geopolitical factors (size, and population), ethnic considerations (the size of an ethnic minority group living in a region), and the level of economic development in a region. Thus, one can hypothetically assume that:

i. The larger the territory of a region and the higher it’s population, the more likely a request for increased autonomy from central government; regions bordering foreign states are more inclined to feel more remote from the administrative centre and might request a higher level of autonomy.

ii. The regions containing a high percentage of titular ethnic groups are more likely to demand more autonomy from the central government.

iii. The regions which are more economically developed, may attempt to gain more freedom in their “domestic” policy.

All of these enable us to classify Federal systems which has the advantages of distinguishing between the two facets of federalism – structural and functional as well as the factors that usually foster asymmetrical federalism:

i. Significant disparity in terms of the size of the regions;

ii. The density of the population; the presence or absence of ethnic minorities;

iii. And the socio-economic structures.

According to Collier and Hoeffler (2005), elites in power may choose to loot resource rents rather than invest in the public good of growth in four circumstances: (i) when time horizons are short, (ii) when the elite is narrowly based on a fixed and identifiable support group, (iii) when the public assets (e.g. resource rents) is very valuable relative to the income of the society and (iv) when democratic electoral competition degenerates into patronage. The temptation for the government to deviate from prudential behaviour may also be overwhelming when power can be readily transferred into wealth through resource appropriation and in the face of limited economic opportunities. Predatory behaviour by government can also result from advances from extractive firms, which the government finds irresistible.

Therefore, resource control is an intersection of ethnic power politics and hence, its centrality to the governance of plural societies explains the reason why no oil producing state in Nigeria do not want to use it as a tool of survival or be extremely vulnerable to fiscal federalism. Accordingly, the issue of revenue allocation has provided the primary arena for struggles in the Nigerian federation. In more recent times, this issue has revolved around the following—the conflict among the federal, state and local governments; tensions among the states and their localities, tensions between the oil-producing states and the federal government on the one hand, and between the federal government and the other states over revenue matters (Suberu and Agbaje 1998:342). Put succinctly, Nigeria’s current revenue allocation principles and practices are a recipe for inter-ethnic tension and intergovernmental contention (Suberu 1997:347).

**FISCAL FEDERALISM AND CHALLENGES OF ETHNIC RELATIONS IN NIGERIA**

As Horowitz explains thus:

In severely divided societies, ethnicity finds its way into a myriad of issues: development plans, educational controversies, trade union affairs, land policy, business policy, and tax policy. Characteristically, issues that would elsewhere be relegated to the category of routine administration assume a central place on the political agenda of ethnically divided societies (Horowitz, 1985:8).

Thus, one of the key objectives of ethnic conflict is to seek control of the state itself. Groups seek control of the state in order to ensure that their needs are met, usually to the detriment of opposing groups. This conflict over the control of the state is often perceived as a zero sum conflict. While this is undoubtedly the core conflict issue in most cases in polarized states, there are also contributing issues at stake that added to the complexity of the situation. Arthur Nwankwo in the concluding part of his book *Nigeria: The Challenge of Biafra* drew attention the contributing issues to the Nigerian crises, that:

*It is true that the basic problems that caused the Nigerian crises remained unresolved…. And there seems to be no consideration for*
the health of the Federation in the pursuit of individual or group interests -- from the smuggling racket to the huge payoffs in bribery and corruption. But it is also true that the traumatic bitterness of the war is rich with lessons for toleration and understandings. These lessons are our only guarantee against instability for they will serve as a buffer to cushion us through the rough times ahead. The mention of rough times ahead may have set some political noses twitching. But if it is realized that the contradictions in Nigeria are yet to be resolved, we will agree that Nigeria has anything but a quiet time to look to.

A potent illustration of the ethnic base of both state control and resources is the conflicting interests of ethnic or regional groups and the structure of control of political power at the centre combined to yield sub-optimal locations of major groups. Put differently, the location of national projects in Nigeria has followed the Tiebout hypothesis that implicitly requires that productivity is independent of location effects, and that by differentiating public goods consumption by location, it improves the incentives for individuals to reveal their true preferences in public goods. The oil refining and petrochemicals, and iron and steel companies are potent illustration of these point. In the oil refining and petrochemical sector the location of industrial projects has been vitiates by the principle of geographical spread. The location of refineries at Warri and Port Harcourt, which are situated in the oil rich coastal region of the south, is clearly material-based. The location of a similar facility at Kaduna, in the North, is not material-based but was determined by the political need to assuage the sectional interests of the northern region. This economically irrational location was technologically made feasible by a 3001-kilometre pipeline system connecting all petroleum depots in the country with Kaduna.

A second aspect of the economic irrationality of the Kaduna location is that it has eventually entailed the duplication of petrochemical facilities. The first refinery sited at Port Harcourt lacked the capability to manufacture petrochemical products. It had therefore been indicated in the Second National Development Plan (1970–1974) that in the design of a second refinery attention would be given to its possible linkage with the development of a petrochemical industry. But it was in the Fourth National Development Plan (1980–1985) that it was explicitly decided that the petrochemical complex would be located at Port Harcourt. In the interim, however, the Warri and Kaduna refineries had been built during the Third Plan period (1975–1980) and both were designed to also produce petrochemical products. The eventual implementation of the Plan to site a petrochemical complex at the choice location (Port Harcourt) has thus implied some duplication and waste.

Focusing on the steel projects, the decision to locate iron and steel projects in the country has also been dominated by non-economic considerations. In the first National Development Plan (1962–1968) which benefited from a major 1955 World Bank study of the industrialization potential of Nigeria as well as the expertise of a foreign consultant, Professor Wolfgang Stolper, the “Onitsha and Lokoja areas” were indicated as the most economic locations of the industries. But it was in the Fourth National Development Plan (1980–1985) that it was explicitly decided that the petrochemical complex would be located at Port Harcourt. In the interim, however, the Warri and Kaduna refineries had been built during the Third Plan period (1975–1980) and both were designed to also produce petrochemical products. The eventual implementation of the Plan to site a petrochemical complex at the choice location (Port Harcourt) has thus implied some duplication and waste.

The Third National Development Plan provided for five direct reduction plants. Since the plants are to utilize gas the optional location should be the oil fields in the southern region. But in implementation only one such plant has been located appropriately in the oil zone, i.e. the Delta Steel Company at Aladja. Although the Ajaokuta and the Aladja projects have in-built rolling mills, three rolling mills have surprisingly been located at Katsina, Jos, and Osogbo. These locations are quite far from the Delta Steel Company, which is supposed to feed them with billets. It was contemplated in the Fourth National Development Plan that the Katsina rolling mills should be redesigned into a full “mini steel complex” to produce flat steel from scrap metal. The rationalization that buttresses our third illustration above is that the cost of transporting billets over the long distance between Warri and Katsina would make the Katsina rolling mill unaivable (Federal Government of Nigeria, 1981:151).

In all these instances, policy formulation and implementation have been unduly influenced by the principle of even spread of core industrial projects. Economic rationality has always been the casualty. It is also instructive to note that while “even development” is the underlying principle, the precise location of the industries is a function of the dominant political forces at the time.

Many analysts reckon that the domination of the political leadership (since independence in 1960 till 1999) by the North has a serious bearing on the location of certain key industries in the region eg. Iron and steel, and
refineries. Consequently, certain parts of the country that have not been part of the political leadership (especially the North East and South East) have little or no significant Federal industries. This dispersion of industrial location without regard to economic considerations is a critical factor in understanding the reasons for poor performance and international competitiveness of such industries. Furthermore, most of the industries have been comatose, reflecting the rent-seeking environment that characterized their management.

CONCLUSION

We have so far been able to demonstrate that in Nigeria, like most of the postcolonial plural societies, federalism was introduced as an instrument of divide and rule than as a mechanism for promoting unity-in-diversity. Consequently, the debate has revolved around the central ‘mobilisational orientations’ of a federalist ideology in respect of whether the system has to be ‘centralist’, ‘decentralist’ or ‘balanced’. This poses a major institutional design problem over the division of powers and functions at the various levels of government (federal, state, and local government). Hence the herculean task has been how to strike a balance between opposing demands for centralization or de-centralization of power, on the one hand, and how to prevent an ethnic group or a combination of ethnic groups, or one state or a combination of states, from perpetually dominating and imposing their will on other ethnic groups.

As a result, politics, and federalism in Nigeria has become a “three-player ethnic game,” between shared-rule and self-rule where “federal principle” has become a mere rhetoric and governance, for those occupying public office not a means to serve but predominantly to enrich themselves by preserving a specific modality of “bargaining and compromise” which keeps the oil producing areas as federal market preserving areas. In other words, the contestation over federalism has fundamentally manifested itself in two principal ways—either as a quest for access and control over political power or as access to federally generated revenue. As such, federalism can perpetuate and intensify the very conflict it is designed to manage. One cannot discuss federalism outside its implications for Nigeria’s socio-economic cum political development.

Thus, the introduction of the essential features of the politics of fiscal federalism at best has made resource control an intersection of ethnic power politics and group survival. Hence, its centrality to the governance of plural societies explains the reason why no oil producing state in Nigeria would want to lose it as a tool of survival or be extremely vulnerable to the vagaries of fiscal federalism. As a basis for distributional politics, fiscal federalism has increasingly become a major if not the most important tool in the dynamics of federal governance in resource endowed plural societies.

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