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## FISCAL FEDERALISM IN NIGERIA: ROBBING PETER TO PAY PAUL

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### ABSTRACT

The issue of fiscal federalism and the management of the country's resources has been a complex one among the federating multi-ethnic nations within the Nigerian federation. Several conceptual and theoretical analysis expounds the way economies can be managed in a bid to abridge developmental crisis. The crux of Nigeria's problem lies in her federating arrangement which started in 1954 till date and has culminated in poor fiscal arrangement, disparity in the sharing of resources among the local, state and federal government, minority domination, and: agitation for resource control. Based on the above, this paper seeks to critically review the challenges of fiscal federalism and resource control in Nigeria in which the regions that produces the revenue are not adequately rewarded. The present revenue arrangement derogates the right of ownership. It is recommended that the revenue allocation formular be revisited. The percentage allocation to the state and local governments should be increased to 30% each for more purposeful governance.

### KEYWORDS

Fiscal Federalism, Resource Control, Socio-Economic Development. Revenue Allocation Formula.



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## INTRODUCTION

The corporate existence of a people and government of a nation is conditioned upon the availability of the things that make life worth living. No country survives without the systematic management of its resources to meet the developmental goals of her people. Scholars agree that in a democratic system the issue of government meeting her constitutional role compels her to act positively or negatively to various groups in the country. The economic survival of the people also makes them to interrogate whether a government is intended to subjugate, dominate and exploit them and their resources or to sustain them economically and pursue their common welfare. Public sector economics on the other provides a useful guide on how to divide functional responsibilities between the levels of government and how to allocate corresponding revenue resources (Nwaeke, Oruwari&Amadi, 2012).

Mugrave and Musgrave (2004) stated that a country's whole existence depends on the public sector for macro stabilization, income distribution and resource allocation. This is the obvious reason why Nigeria must start a gradual increase in her growth level. The most striking issue in the Nigerian polity is how to equitably, fairly and justifiably share the country's resources among the competing interests in the federation of Nigeria. However, the federation of Nigeria came as a relationship between the states and its citizens based on certain rights and obligation such that the state making process resulted in the loss of certain rights- previously enjoyed by autonomous ethnic nationalities and communities and the assumption of certain obligations by both the citizens and the larger polity called the state. Ake (1997) stated that the people lost their right to an exclusive exploitation of the resources in their environment for their socio-economic well-being and preservation of the resources in their environment for subsequent generations. Such is the case when subjugating power takes over the natural rights of the aborigenes in order to ensure its effective control of the subjugated territory and build a coherent polity and economy (Owugah, 2008). It is agreed that the subjugating authority assumes the responsibility of ensuring both the well-being as well as the personal and proper security of its citizens. The subjugating power before 1960 was Britain who colonized Nigeria and brought diverse autonomous ethnic nationalities and communities into the larger Nigeria polity. Thus, the present Nigeria state has transited through different political and administrative phases (the colonial, post-independence, military and the various democratic periods) with an appendage of various fiscal arrangement and resource management models. The colonial period was characterized by the penetration of the Europeans in search of trading links with natives and the introduction of a foreign system of worship and education that led to the expropriation of our resources abroad. This made the socio-economic position of the Nigerian state underdeveloped, dependent and fragile.

More disturbing is that states that contribute nothing to the center receive large amount of money from the central purse because of defective federal structure. Many views blame the kind of federalism in Nigeria where resources are controlled by the centre. So in the ethnicization of the state the elites among the major ethnic groups who control the centre transfer resources to benefit and develop areas other than where the wealth is coming from. More disturbing is the basis for the articulation of resource control which spurred the south-south states and civil society groups in Nigeria and overseas. The crux is glaring as meaningful transformation has not been achieved even with the 13 percent derivation by the deprived states. The population of people now reverses to efficient means by agitating qualitatively for management of resources for the common good. However, inspite of the hue and cry for resource control the Nigerian state creates doubt over its possibility, may be because of the fear of political equation and domination by the minority groups. In this regard -therefore this study intensify efforts to examine fiscal federalism and resource control; the implications in Nigeria's socio-economic system. The study is further structured into four sections.

The introduction in section one, section two has conceptual and theoretical framework. Section three objectives, needs, principles of fiscal federalism, treat Nigeria's fiscal experiences and the imminence of resource control option. Section four empirical Reviews while section five has conclusion and recommendations.

## Conceptual Review

### Concept of Fiscal Federalism

The heart of the average person in the globe strikes around the discuss of how the global economy functions and what it does and for whom. This serves the recent call for the Davos World Economic Forum. Have these meetings clearly contemplated the matter of income inequality, social injustice, and economic inequality? This gap seems to be such a structural feature of our world that for every country closing the gap appears to be some more falling further behind. But this does not amount to a polemic against wealth or people with wealth. We need wealth and more of it but do we ever think that wealth creation is a collective-endeavour? However in most cases, the reward for this joint effort inequality as the principal challenge of our time and called for a policy of establishing promise zones in impoverished communities. However instead of a shining revival of the local economy the policy is dark, almost medieval in its inspiration. This brings us to the crucial point. Inarguably, the Nigerian state emerged as a product of British colonial design, primarily for the purpose of material resources, rather than deliberate attempt to foster political integration and economic emancipation of the indigenous populace (Uranta&Ibiamu, 2011). The union of the Northern and Southern Nigeria without due cognizance to the socio-cultural relationships of the people culminated into federalism in the country.

Federalism is a form of government where the component units of a political organization participates in sharing powers and functions in a cooperative manner, though the combined forces of ethnic pluralism and cultural diversity among others may tend to pull their people apart (Tamuno, 1999). This statement is a replete of Marshal (as cited in Uranta, &Ibiamu, 2011) that federalism magnifies national power at the expense of the state power even though critics are of the view that the constitution is a compact of sovereign states, not an ordinance of people. Fiscal federalism others see as resources control or what Omo Omoruyi prefer to call local control over local resources is variously conceptualized (Olasupo,&Erhun, 2008). It is the existence in one country of more than one level of government with each having different taxing powers and expenditure responsibilities (Temitayo, 1999). Fiscal federalism is the allocation of tax powers and expenditure responsibilities among the levels of government in a federation. For Bisi Akande, former governor of Osun state, it is seen as derivation while Olu Falae sees it as deregulation. Ariyo (1990) succinctly talks of social fiscal federalism putting the modification of institutions and indigenous culture to order. This order condition the prerequisite for socio-cultural and geographical contiguity of the Nigerian state. The attempt to solve the twain problem of tax jurisdiction and revenue allocation is a pronouncement for equity and efficiency. So, powerdistribution and divisions between the levels of government such that federal/state financial relationships around who impose what kind of tax, and who takes what kind of shares of revenues raised by the governments. The guiding theory for resources allocation in Nigeria in recent times has been based on population independent revenue, derivation, need, national interest, minimum responsibilities, population and balanced development, equality of access to development opportunities, national minimum standard, absorptive capacity, independent revenue and fiscal efficiency. Okhonmina (2008) opined that since that time the south- south region has struggled to have adequate federal allocation from the oil resource that has had profound negative impact on the local environment. And those federal elites have employed the political tool to manipulate resource

allocation in Nigeria so much so that it is counterproductive to the growth and development of the Nigerian federation and has been irresponsible to the socio-economic and political aspirations of the Niger Delta. So the resource control option, as historically valid is logical and tenable seeking the potency for transformation. The reason that manipulating resources breeds inequality so inequality is a system of a grower disorder. It is a consequence of an unjust philosophy of human interaction and of the economic machinery that distorts conceptualization (Brian, 2014). It is likened to the farmer growing that which we eat for our humble sustenance as an essential service but his reward is not proportionate to his value. In the face of externalities the people are being jobbed and the dignity of meaningful labour is being slaughtered on the profane alter of financialism's domination of our economic lives. Hence Hayek (2004) contended that those who value liberty should prefer social pressure directed against deviant behaviour to outright bans; meaning simply, behaviour of which many people disapprove but which does not violate anyone else's right to life or property. Gene (2004) noted that negotiating between parties affected allows them to use the particular circumstances of time and place with which they alone are familiar to arrive at a solution. It is therefore only when people demonstrate their preferences by exchanging can we say with any certainty that both parties felt that they would be better off in the subsequent state than in the prior one (Rothbard, 1997).

### **Theoretical Framework**

This study is anchored on social contract theory. This is because it underpins the objective of the study.

### **Social Contract Theory**

The social contract theory of Thomas Hobbes is the foundation of this research (1588-1679). Man in his natural form is evil, wicked, greedy, obstinate, egoistic, harsh, untruthful, and detrimental to his fellow human, according to Ibanichuka, Nwaiwu, and Dordum (2016). Men must agree to live together, relinquish the right they previously enjoyed in the state of nature, construct a social contract to which this right will be submitted, and appoint or elect a sovereign enforcement mechanism to enforce the contract as a way out of this unbearable life in the state of nature. According to Rankin, Stanton, McGowan, Ferlauto, and Tilling (2012), the term "social contract" refers not only to the interaction of government, law, property rights, and the economy, but also to society's implicit and explicit expectations of business and government. In other words, because they are granted permission to operate by society, they must be accountable to it. The social contract can be revoked, according to Rankin et al (2012), if accountability cannot be legitimized by performance or communication. This study is supported by the social contract theory, which assumes that the right granted to the government requires that the shared resources be distributed evenly to the contributing parties. Fiscal federalism is based on this principle.

## **4. Fundamental Challenges of Nigeria's Fiscal Federalism**

The federal arrangement was imposed by the British colonialist and in retrospect, negates the theory of fiscal federalism. There is structure imbalance amongst the regions of Nigeria. The North is large and big enough to swallow the East and West. Such structural definition creates a high level of injustice, suspicion, imbalance amongst the federating regions.

Until the military struck in January 1966, each of the regions had its own constitution. The regions exercised vast powers over the resources within their individual territories, as the constitutions of the federation decentralized functions. While the exclusive list spelt out the limited of the central

administration, the concurrent list defined the functions for the federal and state governments, even as states had their statutory powers contained in the residual list.

Accordingly, before 1959, the regional government had rights to 100 percent mining rents and royalties. But following the Raismum Commission of 1959, the revenue from mining rents and royalties began to be based on mineral regions enjoying 50% of the income with 20% for the center. This is brazen lack of equitable, fair and just allocation formula which may be described as robbing Peter to Pay Paul.

Robbing selected Peter to pay collective Paul is Rudyard Kipling's adaptation of the used to criticize the concepts on income redistribution and collectivism. A federal system is expected to enhance stability in both political and economic distribution of resources. Nigeria is a mono product economy that derives its foreign exchange from Crude Oil. Thus, over 80 percent of Nigeria's foreign earnings through Crude Oil is from the Niger Delta, yet only 13% derivation is returned to the region despite the environmental hazards that accompanies Crude Oil exploration.

In developed nations, wherever mineral deposit is discovered, it belongs to that locality but hereafter pay royalty to the Federal or Central government as the case of Texas in the United States of America.

The Value Added Tax is a consumption tax levied on the supply of goods and services and is charged at 7.5 percent of the tax base. The Value Added Tax Act empowers the Federal Inland Revenue Service as its administrative body. Under this arrangement, even states that contribute nothing to the total revenue generated across the federation still receive humongous allocations. This has led to several criticism of the current revenue allocation and distribution system over the years. Some states contribute next to nothing, yet get allocations that are much more than what they put in. Meanwhile, states generating the lion share of the national revenue get peanuts. In many cases, Sharia states in Nigeria got more revenue from Non-Sharia states where alcohol was actually sold and consumed. People are benefiting from what they consider to be illegal and banned in their states.

Revenue sharing system is necessary to encourage even development across the states in the country, but the lopsided fiscal federalism has made most state governments rely solely on federation account allocations as against exploring other internally generated revenue for their states.

## 5. Conclusion and Recommendations

The theory of fiscal federalism assumes that a federal system of government can be efficient and effective at solving problems governments face today, such as distribution of income, allocation for resources, and economic stability. Because states and localities are not equal in their income, federal government intervention is needed.

Drawbacks of federalism

1. Economic disparities across states
2. Race to the bottom
3. Stark economic differences
4. Quality of life vary across states

The issue of fiscal federalism and the share of the country's resources has been a complex one among the multiethnic nations of the country, Nigeria. The fact that communities surrendered their sovereignty to become one of a confederating unit is not an impetus for more advantageous group to trample on their God given wealth. Being traumatized under a central system of share of resources that derogates their opportunity and right to ownership and development negligence, accompanied with unemployment and inequality, the people continue to remain poor and thus subservient to the

aristocratic and opportunist rulers who continue to implement uncompromising resource sharing formula. In this regard therefore, and to complement existential downtrodden minorities agitate for equitable distribution thought resource control and management

- 1) Federal government allocation must be reduced from 52.68% to 40% and some of its responsibilities must devolved to states and local governments whose percentage allocation must be reviewed to 30% each to allow for purposeful governance
- 2) Local governments should be autonomous without sharing from the joint account of the state government. This will enhance grassroot development
- 3) The system should not begrudge the minorities their wealth particularly where that wealth is commensurate with the value of their need as a people.
- 4) The people's socio-economic system and the dignity of labour of the people of Nigeria should not be jobbed or being slaughtered on the profane alters of financialisms domination of their economic lives in the ambit of fiscal federalism.
- 5) The New World Order is one of riches, so no longer should Nigerians be contented with promises that can be excinded at any moment that detour from the most vital issues affecting the country.
- 6) The whole economy needs substantial restructuring and recalibration of the relative values and wealth allocated to the real sector compared with the financial sector.
- 7) And because the preponderance of empirical evidence suggests that an economy be stronger and more resilient, extreme riches and poverty should be mitigated.



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