FEDERALISM AND CENTRALIZATION IN NIGERIA

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Federalism and Centralization in Nigeria

By

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Abstract

The following thesis addresses two research questions in relation to federalism in Nigeria. First, why, despite the international trend towards decentralization, does Nigeria remain centralized? Second, what affects has this centralization had on the evolution of federalism in the country? The following research proposes that three variables have reinforced centralization in Nigeria; 1) the nations historical-colonial origins 2) the oil economy 3) the constraints of decentralization and economic reform in federal states. All three variables show centralization to be over-determined, in that, all documented variables point to the same conclusion. The affects of this centralization, as predicted by the political economy of federalism literature, includes transfer dependence, budgetary deficits at the central and sub-national level, macroeconomic instability, public service decay, and resistance to public sector reforms. As a whole, this thesis will conclude that the centralization of Nigerian federalism is both a historical disposition and a rational preference for contemporary actors and institutions.

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Introduction

Since its official territorial consolidation in 1914, Nigeria has been in a perpetual process of integration and unification. With over two-hundred and fifty ethnic groups, integration through federalism was and still remains Nigeria's most viable institutional means to attain unity in diversity. And given the accommodative and pluralistic essence of federalism as a political process and an institutional result, Nigeria's federal foundations, in theory, appear both rational and efficient (Duchacek, 1970). Yet, as this paper will show, political and economic centralization remains a consistent constraint on the evolution of Nigerian federalism.

This thesis will focus on Nigerian federalism, in particular its oil-based economy, fiscal federalism, and the role of sub-national governments. Within the larger framework, I wish to address the centralization – decentralization debate that exists in the comparative federalism literature. My research questions are as follows: a) why, despite the international trend towards decentralization, does Nigeria remain centralized? And b) what has been the impact of this centralization on the evolution of Nigerian federalism?

The following research will highlight three independent variables underlying Nigeria's centralized federal structure: 1) the nations historical-colonial origins 2) the oil economy 3) the constraints of decentralization and economic reform in federal states. The final section of the essay will outline the effects this centralization has had on Nigeria's economy and administrative structure – outcomes which have been clearly outlined in the fiscal federalism/political economy of federalism literature. Overall, my research will suggest that both oil and the nation-building requirements covering Nigeria's past and recent history have mutually reinforced centralization in Nigeria. Centralization is subsequently over-determined, in that, all documented independent variables make it the most likely outcome in the Nigerian context.

The literature surrounding the causes and origins of federalism is both abundant and theoretically varying. Despite the literature's theoretical variations, most authors rightfully assume that 'history matters', and that the origin of a particular federation can have a great impact on its future political and economic trajectory. While this paper will provide an overview of the most relevant literature, it will largely focus on how the historical origins of some federations, particularly colonial federations, are vulnerable to centralization.

The political economy of federalism also provides concepts and theories that dissect, and in some cases predict, the political and economic trajectories of particular federal states. While the political economy of federalism remains a theoretically divided study, the subject does provide some useful and widely accepted concepts that aid the analysis of the economic and political consequences of particular federal processes. This paper will concentrate its attention on the theories and concepts associated with centralization and decentralization in federal states, with particular emphasis on their respective implications for administration and fiscal federalism.

Equally significant in the political economy of federalism literature is the distinctiveness of economic reform in federal states. Many federal states face similar problems, both politically and economically, that make the transition from centralized federalism to market-preserving federalism unique and incomparable to the process in other state forms. This is largely due to the fact that sub-national actors and institutions, who respond to different incentives and interests than central actors, are often institutionalized veto-players around public policy (Rodden and Wibbels, 2002). Sub-national governments must subsequently be included in any debate and process that affects the finance and function of the state. Hence, any process of decentralization and economic reform will require the consent of a multitude of actors who may, or may not, have incentives to change.

Another variable that must be controlled to effectively understand centralization in Nigerian federalism is that of oil. There are many important consequences oil can politically and economically induce across states and it is essential to understand the role oil plays in Nigerian federalism. While the background literature will help conceptualize the various concepts and theories surrounding the political economy of oil, analytically, this paper 's chief goal is to understand the relevance of oil in relation to the centralization of Nigerian federalism.

Methodologically, applying the theories and concepts from the origins of federalism, the political economy of federalism, and the political economy of oil inevitably requires a historical analysis of the processes and variables that have motivated and shaped federalism in Nigeria. Federalism, as an institutional framework for coordinating the whole and its parts, is a perpetual process of "unfinished business" that can only be understood by conceptualizing the historical evolution of particular federal frameworks (Duchacek, 1970). In the case of Nigeria, the federal arrangements of the "present" can only be explained by analyzing the colonial structures, along with the intense conflicts and processes that have shaped these structures over time. Thus, methodologically, this paper will utilize a historical-institutional approach to adequately survey the historical evolution of Nigerian federalism.

Yet, as the literature on the political economy of oil and the political economy of federalism will highlight, institutions are not always simply products of the past. Rather, as rational-choice institutionalism highlights, political actors and institutions with rational and self-interested motives often make decisions irrespective of the constraints of history. Individual preferences, in this case, can "motor" the evolution of institutions over time and the study of political and economic outcomes should reflect this methodological conviction (Katznelson and Weingast, 2005). Thus, to answer our second research problem of what impact centralization has had on the evolution of Nigerian federalism, this paper will methodologically utilize a rational-choice institutional approach.

This paper is by no means the first to unify historical-institutionalism and rational-choice institutionalism to answer a set of research problems, nor is it the first to analyze how contemporary preferences and outcomes are shaped by the past (Mahoney, 2005; Kaztneson and Weingast, 2005; Weingast, 2005). What is unique to the following research is its conviction that decisions made in colonial and post-colonial Nigeria have situated and reinforced particular preferences and outcomes that continue to shape the evolution of Nigeria's federal structures. Centralization, as this paper will conclude, is both a historical disposition and a rational preference for contemporary actors and institutions.

As a whole, this paper is surely not the first to bring forth a discussion on centralization in Nigerian federalism (Oyovbaire, 1985; Suberu, 2001; Kalu, 2008; Ejobowah, 2005; Idemundia and Ite, 2006). Similarly, many authors have also cited the historical evolution of Nigeria as being important in shaping the present day federal framework (Suberu, 2001; Kalu, 2008; Bakarr Bah, 2005; Rotberg, 2004). Likewise, the affects oil has had on the Nigerian state has also been previously studied by a number of authors from multiple disciplines (Watts, 1987; Ikein and Briggs-Anigboh, 1998; Pearson, 1970; Zartman, 1983; Panter-Brick, 1978). Despite such a vast assortment of literature, what makes this paper important is its contemporary conceptualization of the two research problems. By synthesizing and coordinating variables from an assortment of sub-fields in comparative federalism and political economy, this paper will analyze centralization with a broad theoretical and conceptual scope, allowing the research to sufficiently address the multiple variables and processes that have been consequential in the evolution of Nigerian federalism.

This thesis will be arranged in three chapters. Chapter one will introduce the necessary concepts and theories from the relevant literature. This will include a discussion of the origins of federalism, the political economy of federalism and the political economy of oil. Chapter two will outline the theoretical and methodological direction of the research problems. Chapter three will apply the concepts and theories to Nigerian federalism. This will include the historical-institutional survey of the federation and the rational-choice analysis of the political and economic affects centralization has had on the evolution of federalism in the country.

Chapter One: Background Literature

<u>**(1.1.) The Causes and Origins of Federal States**</u>

Much has been written on the origins of federalism in various states. For example, Alberto Diaz-Cayeros cites a "federal – fiscal compromise" as the main facilitator of the federal bargain in Latin America (Diaz – Cayeros, 2006). William Riker sees federalism originating from "bargains aimed at achieving military defense against a common enemy" (Rodden, 2004). Some see federalism originating as "successful attempts by state builders to replace territorial cleavages with functional cleavages" (Eaton, 2008). Others, in the Rikerian tradition, cite the economic advantages of forging the "incentive for a larger and more open market" under federal designs (Hueghlin and Fenna, 2006)

Of course, not all federations originate from compromise and bargain. While the study of American federalism has contributed to the study of federal origins abroad, it does not shed light on federations that did not voluntarily come together out of common interest. Rather, as Alfred Stepan points out, "as comparativists, we must recognize that some of the most important federations in the world emerged from a completely different historical and political logic" (Stepan, 2004). Many federations are in fact not bargains, but products of the "vagaries of conquest and colonialism" (Rodden, 2004).

It is out of this framework that Alfred Stepan posits three concepts for classifying the origins of federalism. "Coming together" federalism would satisfy the Rikerian models of American federalism, as well as Canadian federalism, in that, previously sovereign units are consolidating together out of shared interest. "Holding together" federalism, on the other hand, refers to federations that face wide cleavages within society, which induces the central state to consolidate the territory with a "consensual parliamentary decision to attempt to hold together a unitary state by creating a multi-national federal system" (Stepan, 2004). Finally, "Putting Together" federalism refers to a "heavily coercive effort by a centralizing power to put together a multi-national state, some units of which had been independent states" (Stepan, 2004). It is the latter two ideal types that this paper will utilize in the Nigerian context.

In the case of some post-colonial federations, it is also probable that the "Putting together" and "Holding together" typologies are the most relevant, as colonialism inevitably fostered the conglomeration of a variety of different ethnic groups into single territorial units. In Africa, many boundaries, and subsequently states, were constructed irrespective of ethnic and religious homogeneity. "State-nations", in this respect, replace the conventional nation-state, as national territories are being constructed from "above" by colonial administrators (Hughes, 2004), (Duchacek, 1970).

For Hueghlin and Fenna, this "late-state formation" had two implications. First, some form of federalism was necessitated, as it was "the only option for political accommodation within the inherited territory" (Hueghlin and Fenna, 2006). Second, regionalism became a challenge to national development, as federal governments became arenas for competitive struggles between regional actors. Without a "true federalist compromise", the political and economic status of the federation inevitably "oscillated between extreme regionalism and authoritarian centralism" (Hueghlin and Fenna, 2006).

Concerning colonial institutions, it is both accepted and assumed that institutions evolved to suit the economic preferences of the imperial power in question. This is inherent in the territorial impositions from 'above' discussed earlier. However, assuming that the origins of a federation will affect its future trajectory, we also have to expect some form of institutional path-dependence. In some sense, the territorial impositions of imperialism left post-colonial states bound to multiple nationalities, which constrains and conditions any future arrangement the central state may have with its subordinate parts. Politically, this means that "once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchment of certain institutions obstruct an easy reversal of the initial choice" (Subrahmanyam, 2006). Path dependency, in this respect, is an attached phenomenon to post-colonial states (Subrahmanyam, 2006). By imposing a state and creating nations out of otherwise heterogeneous societies, European powers pre-conditioned all future power relations the state would have with society. Centralization became the only means through which many post-colonial federations could consolidate and strengthen the national whole. Conceptually, this implies that our analysis of Nigerian federalism assumes that "institutional arrangements cannot be understood in isolation from the political and social setting in which they are embedded" (Thelen, 1999).

As a whole, the literature surrounding the causes and origins of federalism provides a number of concepts that not only help explain the institutional discrepancies that exist across federations, but it also highlights how the origins of particular federal states can affect future institutional outcomes. This again has obvious methodological implications. Federalism is not simply a static concept, but rather, an evolutionary process of bargain and negotiation, and one must not neglect the obvious functional characteristics of institutions within a federation (Duchacek, 1970; Thelen, 1999). Rational-choice institutionalism, holding that self-interested actors use and construct institutions for coordinated action, has often been utilized when analyzing the political and economic affects of federalism (Thelen, 1999). As rational choice institutionalism aspires to explain particular political and economic 'outcomes', the following study must shift its attention to the political economy of federalism.

(1.2.) The Political Economy of Federalism

As noted above, the literature around the political economy of federalism is divergent in both theory and practice. Since William Riker's explorations of American federalism in the 1960's, the study of federalism has evolved into a subject concerned with everything from "market preserving" federal structures to political and economic policies that enhance federal "sustenance" and durability (Wibbels, 2005; Ejobowah, 2005). As a generalized whole, "the new political economists argue that what functions are assigned to each level of government and the form of financing accompanying these functions help to explain the success of federalism" (Ejobowah, 2005). Hence, like its public finance counterpart, the new federalism has developed a "logic of assignment", or essentially "a set of propositions about how the division of policy responsibilities *ought* to be structured between the respective levels of government" (Hueglin and Fenna, 2006). In a sense, a union of sorts has formed between Wallace E. Oates' *Fiscal Federalism* and the more contemporary New Public Management prescriptions seen today. This "new" political economy of federalism and market reform has in turn influenced the perceptions of the World Bank and the federations in the developing world that interact with it (Ejobowah, 2005).

Being aligned with the assumptions of rational/public choice methodology, the new political economy of federalism is market-oriented, emphasizing the competition between units and an increased efficacy and efficiency of public services through decentralized administration. Decentralization and centralization are thereby used dichotomously to compare and contrast federations. The level of each concept in a given federation can be used to describe "the character and dynamic of power allocation" within that federation (Hueglin and Fenna, 2006). While the political economy of federalism literature will use concepts such as market-preserving and market-distorting to conceptualize federations, it is in many ways reconfiguring the same decentralized-centralized dichotomy used in comparative federalism and public administration.

Decentralization, as a static concept, has been defined by a number of authors from a wide variety of disciplines. Most authors, however, will typically denote it as a transfer of power, resources, or administrative capacity from the center to a sub-national level (Agrawal and Ostrom, 2001; Hueglin and Fenna, 2006; Rodden, 2004). Numerous types of decentralization can be defined, however, for classification purposes, two spectrums can be highlighted; political and administrative. Political decentralization would refer to the transference of decision making powers from the center to the sub-centers, while administrative decentralization refers to the transference of administrative functions from the center to its parts (Loughlin, 2008). The concept thereby refers to the "de-layering" of centralized administration, followed by the empowerment of sub-unit managers to make autonomous, and implicitly more responsive, policy decisions (Larbi, 2006). However, the concept can also refer to a number of institutional processes that deliberately implement a "planned transfer of resources away from the central state institutions to peripheral institutions" (Olowu, 2006). For example, decentralization can include the privatization or corporatization of public services. It can also describe the processes of *devolution*, whereby, political and economic autonomy is shifted to the sub-national units, conferring "self-governing capacities on local communities" (Olowu, 2006). Similarly, Robert Barr describes devolution as a "transfer of decision making authority and financial capacity to elected sub-national governments", which facilitates a shift in political and economic power from the whole to its more responsive parts (Barr, 2006).

This conceptualization is juxtaposed to centralization, which broadly refers to the "concentration of formal power within a single political authority", or a process in which the central state commands and controls authority (Gellar, 1990; Hooghe and Marks, 2003). Under Loughlin's decentralization typology, political centralization would indicate a concentration of decision-making power at the central level, while administrative centralization would refer to the concentration of administrative functions in the central sphere.

The affects of centralization are all too familiar to developing states. Up until the 1980's and 1990's, most post-colonial African states had maintained heavily centralized institutions as a means to guide and pursue rapid political and economic development (Wunsch, 1990). Central planning and state-led development had become the accepted paradigm for developing federations in the nineteenth and twentieth-century, evident in federations as diverse as India, Nigeria, and Mexico. In many cases, the centralization of policy functions was simply required, as local and sub-national units grossly lacked the proper "infrastructural capacity" to effectively deliver services (Ziblatt, 2006). However, by the 1980's, massive debts, seemingly uncontrollable inflation, and huge government deficits began to paralyze centralized states. As one author summarizes, "Weak infrastructural power at the sub-national level has prompted highly centralized patterns of governance in much of Asia, Africa and Latin America. Frustration with centralism has generated in turn a pronounced trend towards the decentralization of resources and authority to sub-national governments" (Eaton, 2008).

This trend towards decentralization is an imperative foundation to the political economy of federalism. The realities of the post-welfare state, and the sense of 'overload' apparent in over-centralized states, has produced an array of literature on the effectiveness of decentralizing administration in federations. For example, many authors have argued that decentralization enhances both democracy and governance by making sub-national actors more accountable to local interests (Gomez, 2006; Wunsch, 1990; Martinez-Vazquez and Mcnab, 2006; Lijphart, 2002). Hence, as one author concludes, "fiscal decentralization and democratic governance can be viewed as two complementary processes", whereby, governance provides channels for local constituents to influence the sub-national institutions that deliver their services (Vazquez and Mcnab, 2006).

There exist numerous examples of federations that have embraced and institutionalized decentralization. For example, Colombian federalism has undergone dramatic decentralization since the 1980's and 1990's, with increased fiscal capacity and incentive structures being devolved to sub-national units (Bird and Fiszbein, 1998). Federalism in India has also undergone similar changes, whereby, states have gradually been given more economic independence in relation to the foreign capital and investment (Singh and Srinivasan, 2006). The decentralization of administrative tasks has also been cited as improving services in Tanzania, Kenya, Uganda, and Brazil (Larbi, 2006; Olowu, 2006; Smoke, 2006). Hence, as two authors conclude, "each country does what it does for its own particular reasons, but when so many countries in so many different circumstances do somewhat similar things, there is likely to be more at work than meets the local eye" (Bird and Vaillancourt, 1998)

The failures of centralization have also been conceptualized and theorized by many. Broadly speaking, administrative centralization is said to produce an "inefficient, ineffective, costly, and unresponsive" system of governance which is largely detached from the intricate necessities of sub-national and local units (Larbi, 2006). Centrally managed administration is inevitably too detached from "changing human needs and motivations to be able to sustain a complex and diverse economy" (Olowu, 1990).

Fiscal centralization, or the concentration of public revenue and collection at the central level, is one example of such centralized administration. Fiscal centralization is seen as an obstruction to fiscal sustainability, in that, sub-national institutions become dependent upon the central government for financial stability, and subsequently, the delivery of services. This not only produces the inefficiencies noted above, but it also produces a state of "transfer dependence", leaving little incentive for sub-national units to reform economically (Asadurian, Nnadozie, Wantchekon, 2006).[1] Transfer dependence, as a consequence of fiscal centralization, refers to a relationship whereby sub-national institutions lack internally generated revenue and are subsequently guaranteed payments from the central government on a regular basis to administer their required functions (Hueglin and Fenna, 2006). In economic federalism, the consequences of this dependence on central revenue are important in validating the decentralization theorem.

Transfer dependence inevitably serves as a systemic "obstacle to entrepreneurial sub-national leaders", in that, policy, no matter bad or good, is fiscally rewarded (Wibbels, 2005). The incentive in this system is not to pursue and maximize internal revenue, but rather to maximize transfers from the central government. Such "lazy

[1] See Kent Eaton's Review Article "Federalism in Europe and Latin America: Conceptualization, Causes, and Consequences", *World Politics*, 60 (July 2008), pp. 688 - 689

monopolies" inevitably receive political benefits from such transfers, however, "the result is likely to be chronic overspending", or essentially, unsustainable deficits that further deteriorate a state's capacity (Hirschman, 1970; Wibbels, 2005).

Sub-national spending in a transfer-dependent system, in this respect, is often executed irrespective of both demand and sustainability. As the state is annually guaranteed its 'piece of the pie' from the central account, no matter its political and economic performance, there is no institutional incentive for the sub-national authority to seek alternative sources of revenue. In some cases, a state may simply be too important to national stability to allow it to fiscally fail, inciting the "too big to fail phenomena", whereby, the state is again guaranteed fiscal upkeep via the center because of its national significance (Rodden, 2002; Ejobowah, 2005). In either case, sub-national regimes in transfer-dependent systems will exhibit little to no progress in their internally generated revenue (IGR), as the incentive to compete for resources outside the central account are non-existent (Hueglin and Fenna, 2006). The consequences are well illustrated by Eric Wibbels, as he writes

> Such transfers encourage regional politicians to compete for resources from the common pool of national revenues, and the fiscal system itself becomes the subject of intense intergovernmental bargaining. The very ground rules of the federal system become the subject of political gamesmanship. One central implication is that regional government resistance to market reforms will mount as their dependence on transfers increases, which will vary both across regions within federations and across federations themselves (Wibbels, 2005)

The central government, in this respect, is a sphere to be lobbied by sub-national governments. This politicization of functional revenues is inevitably problematic, as "politically motivated rescue packages for friends at the regional level" could be disastrous for the macroeconomic status of the federation as a whole (Wibbels, 2005)

Fiscal and public sector expansion is also practically inevitable within such a system, hence, "the momentum for downsizing and devolution is also supported by the presumption that overexpansion and excessive centralization are inherent in the political process" (Musgrave, 1997).

It should also be noted that if sub-national government's lack internally generated revenue, it's very likely they are spending more than they tax. Given that one of the pillars of fiscal federalism is that there is "geographic variance in demand for publicly provided goods", the implications for fiscal federalism and the location-based theory are immense (Musgrave, 1997).

Tiebout's location theory is quite simple; "the benefits of public goods and services are consumed jointly, but differ in their spatial range. Their provision should therefore be decided upon and paid for by the residents of the area that benefits" (Musgrave, 1997). If fiscal production does not match public consumption, as evident in a transfer-dependent system, "the delivery of services will become mixed with distributional considerations", again resulting in big budgets and poorly crafted budget functions (Musgrave, 1997). Central transfers, in this respect, become "resource distorting" when like sub-national units "must be treated differently in different geographical areas as a result of the transfer" (Buchanan, 1952). Hence, when production ceases to match consumption and sub-units are financially dependent on the center, the fiscal costs of sub-national spending are externalized across the federation as a whole. More directly, "regional voters, politicians, and representatives at the national level all receive fiscal and/or political benefits from transfer systems, while imposing the costs on others in federations" (Wibbels, 2005). In this paper's analysis of centralization in Nigeria, this externalization of costs will be of importance.

All these concepts and theories surrounding fiscal centralization are also dissected and analyzed within the literature surrounding *competitive federalism*. Broadly speaking, competitive federalism can be defined as a "view that a system of multiple jurisdictions creates the potential for individuals and firms to defect from a particular regime whose policies they dislike" (Hueglin and Fenna, 2006). It can also denote a federal framework in which "state and local officials determine their own policies in part based on competition with surrounding communities" (Volden, 2002). In either case, the goal of competitive federalism is "aimed at providing the right services at low cost, and at designing efficient and equitable tax systems" (Musgrave, 1997). Competition within federalism can also be divided into two subfields; Vertical competition and horizontal competition. Horizontal competition refers to "competition among governments at the same level or with similar responsibilities", or inevitably inter-jurisdicitional competition, while vertical competition refers to competition that involves different levels of government with different types of responsibilities (Shah, 2006).

The costs and benefits of horizontal competition within a federation have been documented by many. The most fruitful analysis is provided by Anwar Shah (2006), who cites four main benefits, all of which share conceptual allegiance to the fiscal federalism tradition. First, as documented in Tiebout's location theory, horizontal competition will bring services in line with local preferences, allowing voters to "vote with their feet" and force sub-national authorities to provide more responsive and competitive policies. Second, horizontal competition will subsequently bring about bottom-up accountability, in that, sub-national government's will be more inclined to "retain the loyalty of their citizens", who could migrate to a more politically and economically attractive region under a competitive framework if its local sub-unit does not implement adequate policy. Third, horizontal competition could loosen the grip that monopolies and corrupt officials have on public services by again enforcing local autonomy and fiscal accountability. Hence, the adverse incentive structures that operate in an uncompetitive system will be reversed. Fourth, horizontal competition reinforces fiscal competition between sub-national governments, which in turn, forces sub-national actors to offer competitive taxation to foreign and domestic businesses.

Like the literature on transfer-dependence, horizontal competition also highlights the importance of political and economic incentives within a federation. Incentives can come in the form of block grants for meeting particular initiatives, or an increase in autonomy for sub-national authorities in relation to foreign investment. In either case, incentives are expected to be maximized under a decentralized structure, as "stronger incentives for effort stem from increased autonomy from central control" (Rodden, 2005).

Hence, some authors simply cite interjurisdictional competition as another manifestation of decentralized governance (Bartley, Andersson and Laerhoven, 2008). Incentives, in this respect, are integral to breaking away from the hazards of centralized federalism. This is evident as one author remarks, "without appropriate incentives – understanding that they (actors) face demands from a variety of different stakeholders – these actors are likely to neglect or even subvert their new responsibilities, thus frustrating reform efforts. The idea that institutional incentives are crucial and complex in multilevel systems resonates with broader critiques of the literature on federalism and economic performance cross nationally" (Bartley, Andersson and Laerhoven, 2008).

The uniqueness of economic reform within federal systems has also been highlighted by a number of different authors in the political economy of federalism literature (Wallack and Srinivasan, 2006; Wibbels, 2005; Rodden and Wibbels, 2002). Reform, in this case, is a characterization of the structural adjustment policies many federations have undertaken since the 1980's. This includes the privatization and devolution of public services and hard constraints on government spending. Federally, it includes the processes of decentralization discussed above.

As documented in the introduction, the uniqueness of economic reform in federations stems from a combination of variables. First, administratively, federalism inevitably increases the number of veto players around policy, particularly at the regional and/or sub-national level (Wallack and Srinivasan, 2006). As a result, sub-national actors and institutions must be consulted and are subsequently important in "shaping economic reform processes" (Wibbels, 2005). Second, the very logic of federalism holds that sub-national actors respond to different interests and incentives than national actors, albeit regional and local interests. Such regional and/or local input subsequently checks the power of the central authority. In these circumstances, however, its likely national and sub-national interests will differ, and at times, directly oppose. Hence, its understandable that "federalism can pose major challenges to the coordination of economic policy challenges" (Wibbels, 2005).

Many federations thus face political and economic problems with "distinctly federal roots" (Wibbels, 2005). In some cases, these problems may be a result of conflicting interests between national and sub-national actors. For example, in 2000 states in India openly blocked the privatization of state-owned electricity companies (Wibbels, 2005). For Wibbels, such resistance to public sector reforms at the sub-national level is existent because "consistent with the institutional design of federalism, regional decision makers have responded to their own electoral incentives and in doing so have often eschewed the austerity and political uncertainty associated with major economic initiatives" (Wibbels, 2005). It was also well documented that the power of sub-national governments in Brazil "limited the central government's options with respect to fiscal adjustments" during the reforms in the late 1990's (Rezende and Afonso, 2006).

Some cases highlight the necessity of fiscal reform at the sub-national level. As alluded to in the literature surrounding transfer dependence, soft budget constraints at the sub-national level can have disastrous economic outcomes. In Argentina, fiscal deficits at the sub-national level produced the federation's economic collapse in 2001. State debt at the regional level in Brazil produced similar outcomes in the late 1990's. In both cases, the macroeconomic consequences of loose budgets at the sub-national level were immense. The logic of such behavior at the sub-national level was simple; "with little electoral responsibility for macroeconomic performance and various institutions that foster overspending, sub-national governments sometimes extract resources from the center with little concern for the potential impact on the federation as a whole" (Rodden and Wibbels, 2002).

Institutionally constraining such sub-national spending inevitably requires fiscal reform. Paradoxically, any such reform requires the consent of sub-national governments, the very actors who foster overspending in the first place. And given that states that overspend are often doing so with centrally transferred finances, it becomes clear as to why sub-national governments would be against reforming such loose fiscal rules. To state it bluntly, who would want to stop spending money that is not theirs when they face no consequences for doing so?

Other cases highlight how change-resistant national governments constrain reformist sub-national actors. This is exemplified in Russian federalism, as economic reform has been guided by the Putin regime with increased political centralization (Berglof, Kunov, Shvets, and Yudaeva, 2003).[2] In Russia, the central government obviously instituted a number of economic reforms from the early 1990's onwards, including a reduction in government deficits and an increased openness to the private sector. However, economic reform in the post-Yeltsin era has also accompanied the fiscal and political disempowerment of sub-national governments and institutions. This process is best explained by Donna Bahry, as she writes

The federal government also imposed some other, less obvious constraints. The centers inability to create an effective market infrastructure, with clear and stable property rights, effective legal regulation, and consistent rules for trade and foreign investment, limited the opportunities for sovereignty minded regions to attract direct foreign investment or develop substantial foreign trade ties for all the most lucrative products (such as oil, gas, diamonds etc). The most lucrative commodities, in turn, were subject to various federal controls, from quotas and licensing requirements to pipeline access. The regions were thus left with limited prospects for developing an external economic base to counter federal power (Bahry, 2005)

All cases within the literature on federalism and economic reform highlight the relevance and intensity of intergovernmental conflict in shaping the economic reform process. The experiences of federations as diverse as India, Brazil, and Argentina also all highlight the problems in transitioning from a centralized federation to a market-

[2] This paper also intends to highlight a similar case in Nigerian federalism

preserving model. Hence, the fact that economic reform, and subsequently decentralization, is extraordinarily difficult in a federal setting has also been well documented.

As a whole, the political economy federalism provides concepts and theories that can help explain why Nigeria remains centralized, as well as highlight the political and economic affects of centralized federalism. Yet, to explain and analyze centralization in Nigeria, our research requires more analytical tools outside the comparative federalism framework. Nigeria is one of the largest oil producing states in the world, and to not include its accompanying affects would be counterproductive to the study of Nigerian federalism. Hence, the following section will discuss the role of oil in Nigeria.

(1.3.) The Political and Economic Effects of Oil

It is no secret today that most oil producing developing states have "suffered from economic deterioration and political decay" (Karl, 1997). It is also no secret that many of these states, despite their internal variances, all navigated and sustained similar "trajectories" because of the massive influx of petro-capital (Karl, 1997). In this respect, "it should not be surprising that states dependent on the same revenue source resemble each other in specific ways" (Karl, 1999).

Similarly, while post-colonial federations are vulnerable to political path-dependence, many high/high capacity commodity-producing states are also subject to economic path-dependence. Given that "the development of a particular industry or economy may be affected by the decision to invest in one form of technology over another", economic choices are again constrained by the high cost inputs already devoted to the industry in question (Subrahmanyam, 2006). For the public sector, such inputs include the innumerable government agencies established to monitor and regulate the sector in question (Shafer, 1994). For the private sector, it includes the established sector-specific firms and technologies operating in congruence with the state. For oil-producing states, the costs of diversification and exit are thus immense. Hence, "the high barriers to change arising from their leading sector produces inertia: both organized interests and state bureaucrats tend to fight to maintain the status quo and to prevent modifications that might eclipse their standard operating procedures" (Karl, 1997).

Another common characteristic of oil-producing, developing states was their willingness, to varying degrees, to nationalize and gain managerial control of the sector in question (Shafer, 1994; Ascher, 1999; Karl, 1997). Entrenching the state in a high/high capacity sector is of course normally justified on the basis of revenue expansion, and subsequently, its implication for revenue distribution. Nationalization also allows governments to subsidize, and under-price, both costs and outputs throughout the industry (Ascher, 1999). For oil-producing states, typical examples are state-owned oil companies, such as Petroleos Mexicanos (PEMEX), Venezuela's Petroleos de Venezuela (PDVSA), and the Nigerian National Petroleum Corporation (NNPC). Many of these state-owned companies went on to institute politically popular price ceilings on outputs, which more often than not included artificially low gasoline prices to stimulate industrialization (Ascher, 1999). Other's simply constrained multi-national actors and companies, favoring "domestic expansion in oil exploration and production", which further entrenched the state in the sector while producing an abundance of central government finance (Ascher, 1999). The results, in many cases, were however disastrous. Not only did oil become over-exploited because of its under-pricing and seemingly endless supply, but government subsidies inevitably grew with the onset of inflation, paradoxically making domestic fuel consumption a losing venture for the government (Ascher, 1999; Karl, 1997). And when governments began to decrease and cut these subsidies to control their expanding deficits, output congruently declined, discouraging future productivity and harming "the sector's long-run revenue potential" (Shafer, 1994).

The nature and consequence of the misuse of oil revenue by states has also been well navigated. The pseudo-mythic 'Resource Curse' proposes both political and economic explanations as to how states spend oil revenues and why such spending has so many negative consequences. While this research is mainly concerned with highlighting the effects oil revenue can induce in regard to centralization, a brief analysis of the resource curse will be helpful in framing the common characteristics of oil-producing states in the developing world and documenting how these characteristics figure into Nigerian federalism.

The concept of the resource curse has been explored and evaluated in an assortment of disciplines and literature. Subsequently, three common characteristics of the curse have been identified by political scientists and economics alike; rents and rent-seeking, commodity market volatility, and the "Dutch Disease".[3]

Resource rents are said to produce a "rentier-state", whereby, resource revenue is utilized by the state at the expense of taxation to produce an apparatus of monopolized distribution (Karl, 1997). Rent-seeking in the oil industry can mold attractive opportunities for state officials in affairs of contracting and construction, facilitating the

[3] These are the theoretical attributes utilized by Sala-i-Martin & Subramanian in "Addressing the Resource Curse: An Illustration from Nigeria" (2008). The significance of these characteristics are also noted in Michael Ross' "The Political Economy of the Resource Curse" (1999)

"petrolization" of both politics and state institutions (Watts, 1987; Karl, 1997). Under this "petro-state", actors and institutions inevitably become disillusioned with the initial sense of irrational optimism, guarding the organized status quo at the expense of progressive, democratic policy (Karl, 1997).

Like governments in a centralized fiscal system, petro-state bureaucracies and institutions will maximize budgets in an effort to maintain the flow of organizational rents. For Karl, this unconstrained rent-seeking and spending contains a "self-perpetuating dynamic; the greater the budget, the more clients, and vice versa" (Karl, 1997). And with the flow of rents into public institutions comes the intertwining of economic and political rationality, leaving political actors to rely on the "progressive substitution of public spending for statecraft" (Karl, 1997). The state, not the private sector, becomes the most dominant economic organization in society. The consequences, or the curse, are apparent with institutional decay, organized corruption, bad economic management, and un-democratic regimes which consume the state and control its revenue.

The volatility of markets, particularly commodity markets, is also undoubtedly a problem faced by all resource-rich states. With oil prices, the great boom and bust in the 1970's and 1980's makes evident how volatile and erratic oil prices can be in the international economy. Similar fluctuations have been apparent in 2008 and 2009. The affects of this volatility, however, is expected to vary from state to state, depending on how attached a particular domestic economy is to a particular commodity. If an economy is diversified enough to withstand the shocks, as was Indonesia, one can expect a more limited affect. However, if an economy has become dependent on one particular resource, like Nigeria, economic decline is expected to be detrimental to a state's capacity. Thus, to understand the varying affects resource dependence has on states requires a discussion of the third attribute of the resource curse.

Getting its title from the decline of the manufacturing sector upon the discovery of oil in the Netherlands in the 1960's, the Dutch Disease is more or less related to the issues of fluctuating commodity markets. As oil exports grow, one can expect an appreciation of the state's real exchange rate. Import demand rises as foreign exchange grows rapidly and the currency appreciates, leaving non-oil exports and many domestic producers completely uncompetitive. The aggressive inflow of "petro-capital" leads to a boom in non-tradables, such as the civil service, which only furthers the plight of domestic producers (Watts, 2004; Collier, 2008). Capital and labor inevitably gravitate to the oil sector, which completely crushes the non-oil sector, creating an economic system that wholly depends on, and fluctuates with, the resource in question. In the case of oil, the entire economy becomes attached to the boom and bust cycle. With the bust comes economic decay. And if the state has become wholly reliant on oil to prop-up its institutions and services, state-capacity is expected to wither with the bust.

All three manifestations of the resource curse explored above have been documented in Nigeria. For example, both Watts and Karl cite Nigeria as a prime example of a rentier, petro-state (Watts, 2004; Karl, 1997). Both authors also assume that politically and economically self-interested, organized networks are the forces that shape and direct the petro-state. The reasons *why* these elite actors consume the state is assumed to be the rational advancement of economic and political self-interest, i.e; money and power. Hence, Karl cites the prevalence of using oil revenue to foster the "private incomes" of military elites, at one point discounting other explanations as simply "other factors" in shaping the Nigerian state (Karl, 1997). Similarly, Watts claims that struggles over the petro-state are fueled by "the desire to gain access" to rents and petro-revenue (Watts, 2004). Hence, for both authors, the petro-state is an end in itself and there exist no underlying variables of relevance for understanding *why* this apparatus has been molded in the first place.

Dutch Disease and the economic affects of resource dependency have also been applied to Nigeria. For example, Collier claims that over zealous public spending is what caused Dutch Disease in Nigeria (Collier, 2008). Similarly, Nyatepe-Coo cites government policy towards import-demand as the facilitator of Dutch Disease (Nyatepe-Coo, 1994). Both authors also neglect the distinct history of Nigeria, again leaving the reader to assume that the Dutch Disease and an over-exposure to oil price fluctuations are simply inherent features of the corrupt and poorly managed Petro state. And according to much of the literature above, this corruption and mismanagement are simply by-products of the assumed self-interested networks that make up the petro-state apparatus.

This paper by no means contests the observations made by the above authors, nor does it dispute the analytical convenience of the resource curse in dissecting the political economy of Nigeria. However, the conceptual framework of the resource curse does underestimate the historically distinct processes that have shaped and motivated the political and economic centralization of Nigeria since its inception. This has, in turn, made the underlying structures of Nigerian federalism practically incomprehensible to anyone who seeks to understand *why* it remains centralized. While oil is undoubtedly of great significance to understanding this centralization, it should not be analyzed as the sole independent variable, or subsequently, the only element capable of inducing centralization in Nigeria. To ask *why* Nigeria remains centralized, incompetent economic policy making, greed, or oil should not be the only variables utilized in our analysis.

Overall, federal or not, oil-producing developing states have felt the burdens of the above affects. Dependency on oil-revenue to politically and economically prop up the state leaves all administrative bodies fragile. In federal systems, being overly-dependent on any one source of revenue has already been shown to be of consequence for sub-national incentive structures. Hence, if a federal government becomes dependent on oil and subjects its subordinates to the same dependence via revenue allocation, we would also expect that federation to exhibit the consequences of transfer dependence highlighted earlier. Similarly, by entrenching and institutionalizing the central government in the oil sector, many oil-producing states were extremely vulnerable to fiscal centralization, as the center became the most powerful sphere both fiscally and administratively. And again, once the initial decision is made to economically entrench the central state in a high/high capacity sector, the likelihood that it will exit and decentralize the sector is very slim.

Chapter Two:

Theoretical and Methodological Framework

Theoretically, this research suggests that three variables have mutually reinforced centralization in Nigeria; 1) the nations historical-colonial origins 2) the oil economy and 3) the constraints of decentralization and economic reform in federal states. Nigeria, consequentially, continues to exhibit the predicted affects and burdens of centralized federalism: transfer dependence, budgetary deficits at the central and sub-national level, macroeconomic instability, public service decay, resistance to public sector reforms, and un-competitive federalism.

The three independent variables utilized in the this research can be summarized as follows

> **(1.) Historical-Colonial:** Nigeria was "put together" by Great Britain, which conditioned all future arrangements between the center and its parts. After the civil war, the military began to centralize to "hold together" the country. Centralization was a response to the ethnic and religious regionalism that threatened the nation.
>
> **(2.) Oil-Economy:** Oil has been conducive to centralization in oil-producing states throughout the world. Once a state becomes economically attached to a high/high capacity commodity, there is no turning back. Centralization becomes irreversible.
>
> **(3.) Constraints of Decentralization and Economic Reform:** Decentralizing and devolving a centralized federation is extremely difficult because administratively, federalism increases the number of veto players around policy, particularly at the regional and/or sub-national level. Any process of decentralization and economic reform will require the consent of a multitude of actors who may, or may not, have incentives to change.

By utilizing all of the above independent variables as tools for the case study, my research affirms multiple-causation on the dependent variable, which in this case is centralization in Nigerian federalism. Methodologically, this implies that my research is inherently asserting a case which exhibits a "plurality of causes", or inevitably a case in which "the same outcome can be caused by combinations of different independent variables" (King, Keohane and Verba, 1994). It is not the goal of my research to suggest whether or not the same outcomes would be apparent if one of the three independent variables were removed. While the counterfactual could be argued for each respective independent variable, such analysis would be strictly normative and inevitably detached from the realities of contemporary Nigerian federalism. Hence, my paper presents a "focused and relevant description" of a case that appears to exhibit problems encountered in a number of sub-disciplines within comparative politics and comparative federalism (King, Keohane, and Verba, 1994).

For the rational-choice theorist, centralization is an inherent consequence of Nigeria being a "petro-state" (Karl, 1997). Similarly, the concepts utilized in the political economy of federalism and economic reform all assume actors and institutions to be driven by rational and self-interested motives, hence, their allegiance to the public choice discipline. Yet, as alluded to in the opening section on the origins of federalism, history has been known to have profound consequences on decision makers.

As some authors point out, "from historical-institutionalism, we adopt an interest in how the legacies of past policies condition the present" (Bartley, Andersson, Jagger, and Laerhoven, 2008). While there exists a divide in the literature as to how institutions evolve in relation to the actors that navigate them over time, this research hopes to move beyond the dichotomous 'structure versus agency' paradigm in its institutional analysis. In this sense, the following research can be traced to what Thelen calls the "border crossers", where the different schools of institutionalism, both rational choice and historical, are brought together to explain a specific question (Thelen, 1999). Hence, the following case study of Nigerian federalism will continue in the methodological unity of rational-choice institutionalism and historical-institutionalism (Katznelson and Weingast, 2005).

This research assumes actors in the Nigerian context to be rational and self-interested, as prescribed by the public choice school. These rational actors are in turn expected to maximize their interests *within* a constrained historical-institutional environment. As the history of Nigeria will highlight, the operative historical-institutional constraints are politically and ideologically influential to local, sub-national, and national level policy makers. While one can imagine a scenario where self-interested preferences may outweigh historical constraints, a scenario can also be envisioned where core, rational interests correspond to and coordinate with historical-political variables (Mahoney, 2005). Hence, as one author proposes, "when ideological principles and other core interests (for example, personal political interests) clash, actors will frequently forgo the former to pursue the latter. Of course, when ideological principles and core interests are consistent, it is easy for actors to behave consistently with their ideology" (Mahoney, 2005).

Theoretically, this implies that "induced preferences may be invoked forcefully by the logic of strategic interaction among actors within circumscribed institutional contexts" (Katznelson and Weingast, 2005). Such 'institutional contexts' refer to the "shadow of the old regime" and the rules and norms that were institutionalized by these regimes (Bartley, Andersson, Jagger, and Laerhoven, 2008).

Chapter Three: Application and Analysis

(3.1) The Historical-Institutional Evolution of Nigerian Federalism

Nigeria, like many Africa states, is a colonial creation. In some sense, Nigeria, as a geographic entity, has no binding, historical and social essence. Rather, the very foundation of Nigeria is based solely on the territorial and institutional conceptions of colonial Britain. Conceptualizing Nigeria as a "state-nation" also finds resonance in other post-colonial African states, where, unlike Europe, the developing state is making the nation based upon the geographic and demographic boundaries founded by colonial administrators (Hughes, 2004). Nigeria, in this case, is also a clear example of 'Putting Together' federalism, in that beginning in the late 19^{th} century, formerly autonomous communities were territorially consolidated by Great Britain for administration and revenue, irrespective of the degree of social cohesiveness.

Prior to the arrival of the British, Nigeria was composed of numerous communities, chiefdoms, and city states. Many of these systems were governed either through the Sokoto Caliphate of the North, or the Benin and Yoruba Empires of the South. While these systems did maintain some degree of autonomy and interact with one another economically, there remained many ungoverned areas, such as the Jos Plateau in Nigeria's Middle Belt region, and the valleys of Niger and Benue (Oyovbaire, 1985). There also existed numerous village republics, such as the Igbo and Gwari, which were independent of the Caliphate and the Southern Empires. In both cases, before the British and Portuguese landed in what is modern day Nigeria, there existed multiple forms of governance with distinct ethnic processes and relationships. There existed no unifying institutional or governmental structure that bound together all the states and communities of modern-day Nigeria.

Between the late 19^{th} and early 20^{th} century, Great Britain consolidated its rule in Nigeria through the economic integration carried out by the Royal Niger Company. Upon establishing rule in Lagos in 1861, the British mapped out a process for the commercialization of Nigerian agriculture (Oluwasanmi, 1966). This would also mark the beginnings of wage labor and direct taxation, along with a rail service to link Lagos and the Northern territories. This would in turn economically integrate the developed South and underdeveloped North.[4] In doing so, Great Britain strengthened its ties across the country, establishing indirect rule in the North and South West through Native Administrations (NA) (Ojo, 1998). In the Middle Belt region, direct rule was established, as colonial warrant chiefs were instituted. By 1900, the contemporary boundaries of Nigeria had been established. The North and South of the territory were subsequently amalgamated in 1914 under the leadership of than British governor general Frederick Lugard.

From 1914 onwards, the British would conceptualize Nigeria in terms of North and South. This would divide the Northern Hausa/Fulani, who practice Islam, from the Southern Yoruba and Igbo majority, who practice Christianity and other indigenous faiths. In many ways, the origin of the North-South division was based more upon religion than ethnicity, as the British were very careful not to extend Christian missionary education into the former Islamic caliphate. In 1938, the South was ethnically divided into East and West regions, with the Yoruba being the majority of the West and the Igbo the majority of the East. Hence, the tripartite, ethno-regional structure was instituted with the three largest ethnic groups being recognized regionally. This system was formalized and institutionalized with the Richards Constitution of 1946, and subsequently furthered with the Macpherson Constitution in 1951. In turn, it was this system that brought Nigeria to independence.[5]

Upon independence, the first constitution called for a federation of the three regions, all operating under a parliamentary system. The central house of representatives

[4] The Delta regions, and subsequently the East and West, had been integrated into the international economy well before the North. This is in part due to its coastal benefits, as well its rich and plentiful palm oil industry.

[5]See figure two in Appendix

was partitioned by population, hence, the North was given the largest regional representation based upon the 1953 census figures prepared by the British. It is important to note that the NPC (Northern People's Congress) would take the most seats in parliament at independence, with Hausa Abubakar Balewa becoming Nigeria's first prime minister. The institutions existent at independence inevitably allowed the NPC to dictate and "project its regional dominance" in the federal arena due to it's geographic and demographic size (Suberu, 2001). This not only conditioned contention at the federal level, but also perpetuated conflict between the ethno-regional units and the federal government. The political arena had become a sphere through which the three largest ethnic groups could compete for resources and power, making institutionalized conflict inevitable.

Federally, the first constitution harnessed a weak central government with strong ethno-regional structures, producing a "fragile system of communal competition" which "failed to emphasize Nigerian identity" (Rotberg, 2004; Bakarr Bah, 2005). By granting regions 50% of their derived mineral revenues, the federation's sub-national units had also become relatively economically autonomous. The derivation principle would also guide the fiscal arrangements for each sub-national government in relation to the federal authority (Ejobowah, 2005). Thus, as one author notes, "When national politics was dominated by the powerful three regional governments in the 1950s and early 1960s, each wanted to derive maximum benefits from the natural resources located in the geographic area it controlled; hence, the regions pushed for a great emphasis on the derivation principle" (Phillips, 1991)

By also granting each region its own constitution with independent judiciaries and police forces, a system of "structural imbalances" was created, crafting a federal framework that inevitably facilitated attempts at secession (Bakarr Bah, 2005). While the federal government maintained the provision for Peace, Order and Good Government, along with emergency powers, the decentralization of the country in the first constitution would be one of the strongest factors in the democratic deterioration of the first republic.

Ironically, the economic benefits of the tripartite federation were the total opposite. Between 1950 and 1959, agricultural exports grew from £78.6 million/year to £139.4 million (Oluwasanmi, 1966). Local autonomy allowed the palm oil industry to flourish in the east, while rubber and cotton rapidly developed in the North and West regions (Ejobowah, 2005; Oluwasanmi, 1966). Most importantly, the British and Nigerian governments had come to rely on peasant farmers to further commercialize the territory's agriculture. The peasant had become the "dominant vehicles of modern economic expansion", and Nigeria had become an economically "intense, competitive, and vibrant" federation (Ejobowah, 2005; Oluwasanmi, 1966). The economic significance of oil had yet to be realized.

Despite its promising economic development, the institutionalization of ethnicity at the sub-national and federal level left the country in continuous political conflict. In 1962, with the fracturing of the Yoruba-based Action Group and subsequently the Western Region, the federal government declared a state of emergency, suspending the region's constitution and legislature. This led to the division of Western Region into the Midwest region, instituting a four-region structure. This division was supported both by the Igbo dominated NCNC and the Hausa/Fulani NPC. While both the NCNC and NPC claimed the creation of Midwest Region was based on the need for accommodation of ethnic minorities[6], it was largely perceived as a means to fracture the Yoruba electorate and disassemble the AG and its leader Chief Awolowo. Whatever the case, the creation of Midwest region not only facilitated future ethnic rivalry at the federal level, but also began a long, turbulent history of minority claims for more territorial autonomy.

In 1962, the issue of population and census figures also became a sphere for inter-ethnic conflict. The first post-independence census would not only reconfigure regional representation in the House of Representative, but would also determine the size of the different ethnic groups. And given that the size of ones ethnic group often determined the degree to which that group is represented, territorially and institutionally, it was inevitable that the census would be ethnically politicized.

It should be noted that the census figures eventually revealed in 1963 were not widely accepted, particularly by the Igbo East. Such suspicion was also apparent in the 1953 figures documented by the British, which declared the Northern Hausa to constitute 55% of Nigeria's population. The census of 1963 simply re-politicized population counts, a scenario that had been apparent with census taking in Nigeria since the early 20th century. In many respects, as Larry Diamond notes, the 1963 census produced not simply ethno-regional conflict, but ethnic rivalry at the community level. The message with the creation of the Midwest region, and the politicization of the census, had been simple; "power and resources depended on numbers" (Diamond, 1983). However, the 1963 census figures would be accepted by the federal government without the support of the Igbo East, as both the fractured West and newly created Midwest aligned with the NPC to

[6] This includes the Ijaw, Itsekri, and some middle belt minorities

approve the numbers by vote. The tension these census figures facilitated between the Hausa/Fulani and Igbo would explode into civil conflict in 1966.

The official end of the First Republic, and thus decentralized federalism, is normally associated with Nigeria's first military coup, which witnessed Igbo military officers, led by General Ironsi, take control of the federal government in 1966. Ironsi claimed to be ridding Nigeria of its extensive regional and ethnic loyalties. However, Ironsi's rule produced mass rioting and violence between the Hausa/Fulani and Igbo, resulting in the overthrow of Ironsi six months later by Yakubo Gowon, a military officer of Angas descent, an ethnic group from the Middle Belt region. During Ironsi's removal, inter-ethnic violence between Hausa/Fulani's and Igbo's left thousands dead. This inevitably mobilized the Eastern region, which was now led by an Ironsi appointee, General Ojukwu. The 1966 military coup and counter coup were directly motivated by ethnicity. It became apparent that the institutions designed for Nigeria at independence were simply ill equipped to deal with inter-ethnic conflict. In many respects, the military began justifying its rule by the notion that the centralization of command in Nigeria was the only means to dismantle ethnic rivalry. Such views would significantly affect future governmental structures.

However, as noted above, the Ironsi appointee, Igbo General Ojukwu, still controlled the Eastern Region after the counter-coup in 1966. While General Gowon had convinced the Hausa/Fulani to accept a federal formation that did not allow regional entities to dictate central government proceedings, Ojukwu and the entire Eastern Region remained embittered over the killings of Igbos in the North following the Ironsi coup. Despite the warnings of the Gowon-led military government, General Ojukwu was given the mandate by the Eastern regional legislature to secede from Nigeria on the twenty-seventh of May, 1967. Ojukuwu declared the Eastern Region to be the Independent Republic of Biafra. That very same day, Gowon declared a state of emergency in the federation. In doing so, the Gowon administration abolished the four region structure, decreeing the creation of a twelve state federation. The ethnically driven civil war, which lasted from 1967 into 1970, subsequently began.

The decree of the twelve-state Federal Republic in 1967 marked the end of regional structures in Nigeria, which have never returned. The decree also completely redefined territoriality in Nigeria, transforming the politics of ethnic identity throughout the federation.

The Eastern Region was divided into three separate states. Six states were created in the North and six states in the South. While six out of twelve states were predominantly populated by former ethnic minorities, there still existed deep ethnic division within these new states. For example, the Ijaw and Itsekri still contested their absorption into Mid-West state, while the Igalas still sought autonomy from Kwara state. In this respect, Gowon's decree had politicized many ethnic groups that had not been institutionally accommodated before the 1966 coups.[7]

Since the civil war, Nigerian federalism has never been the same. Between 1967 and the brief return to democracy in 1979, the Supreme Military Council would completely reassemble Nigerian federalism, mostly by decree. The centralization of Nigerian federalism by the military would lay the evolutionary grounds for 'Holding Together' federalism, a direct response to the conflicts arising from the nation building

[7]See figures three and eight in Appendix

process. Centralization was the only means to subdue ethno-regional conflict and consolidate the territorial whole. While one could point to the later Babingida and Abacha regimes as sources of centralization in their own right, their regimes were merely continuations of the same ideological principles that motivated the military in the mid-1960's. If anything, the most lasting affect of the multiple military regimes that followed the Second Republic of 1979 was their perpetuation, and further entrenchment of, the 'Holding Together' state introduced in the 1970's.

Revenues in the 1970's were thus nationalized in the Federation Account, thereby transferring the budgetary and financial powers of the sub-national units to the central government. This also effectively dispelled the use of the derivation principle as a means of distributing resource profits. Equity, need, and population became the new vocabulary in Nigeria's post-civil war fiscal environment. In the 1970's, the central authority would also begin to regulate and abolish sub-national taxation, including commodity export duties and personal income tax (Suberu, 2001). Similarly, the delivery of services, such as housing, education, and health care were all transferred to the central government (Olowu, 1990). Hence, as one author notes, "Changes in the nature of federal financial relations were among the most striking features of nearly fourteen years of military rule in Nigeria" (Rupley, 1981).

While fiscal centralization would have been nearly impossible in the early 1960's, 1969 would see the beginnings of an oil boom that would last well into the 1970's. For the Supreme Military Council, oil would be treated as a national resource, whereby all revenues accruing from its exploitation would go to the Federation Account. These were then to be distributed *equally* across states.[8] Oil was now the instrument by which national economic and territorial consolidation could be furthered. In this manner, oil "assisted the military in centralizing power" by providing the state with a *means* to institutionally, economically, and territorially consolidate Nigeria (Olowu, 1990). This was institutionalized with the Petroleum Decree (Decree No. 51, 1969), with the central government regulating the "importation, storage, sale, and distribution" of oil (Akinsanya, 1983). Similarly, Decree No. 18 in 1971 created the Nigerian National Oil Corporation (NNOC), later to become the Nigerian National Petroleum Corporation (NNPC), which partly nationalized the oil industry and subsequently increased the federal government's share of crude oil to be sold internationally (Onoh, 1983).

State creation also continued to be utilized as a means to accommodate ethnic minorities, and in some cases, divide them. In 1976, seven more states were added to Gowon's twelve-state federation, which would include the division of North Eastern State and Western State into three states each, and Benue-Plateau, East Central, and North West into two states each (Suberu, 2001).[9] In 1976, the central government also created a system of 301 Local Governments, all funded by the federal authority. This number would increase to 774 by 1996. In 1987, Akwa Ibom and Katsina were also created, and finally 1996 would witness the creation of six additional states. This would bring the total to thirty-six states, with 774 local government areas.[10] This entire process of state and local creation has inevitably led to the "pullulation of smaller and weaker units of constituent governments, the proliferation of narrower administrative-territorial

[8]Suberu's *Federalism and Ethnic Conflict in Nigeria* (2001) provides a good overview of the history of revenue sharing in Nigeria
[9]See figure four in Appendix
[10]See figures five, six and seven in Appendix

identities, and the consolidation of centralized federal power" (Suberu, 2001). The long term effect of the re-definition of territory in Nigeria has thus reinforced the centralization of the state.

The entire process of centralization undertaken by the military after the civil war would be constitutionally recognized in 1979. The 1979 constitution that marked the beginning of the Second Republic would also be the blueprint for the 1999 constitution, which is what governs Nigeria to this day. The affects of this institutionalized centralization since the civil war have been diverse, yet in many respects, continuous.

One of the most significant additions to the 1979 constitution, and subsequently the 1999 constitution, was the Federal Character Principle (Suberu, 2001). As the constitution states, the Principle served the "distinctive desire of the peoples of Nigeria to promote national unity, foster national loyalty, and give every citizen of Nigeria a sense of belonging to the nation" (Akande, 1982). This would affect everything from political parties and political participation, to the armed forces and the civil service.

Given that political parties were the vehicles of inter-ethnic struggle in the first republic, the 1979 constitution placed strict limits on party registration. Here, under the Federal Character Principle, parties had to maintain membership and representation in two-thirds of Nigeria's states. In doing so, the central government was nationalizing the political process and altering the "functionality" of political parties in Nigeria (Oyovbaire, 1985). Similarly, the composition of the executive had to maintain the same attributes. In this sense, support from one ethnic group could not propel any candidate to power. Leadership and political participation were now national, de-institutionalizing ethnicity and de-legitimizing it as a source of mobilization.

The Federal Character Principle also completely nationalized the military and police services. This not only allowed the executive to appoint Nigeria's chief of police and state police commissioners, but it also abolished the local police systems established in the First Republic. In doing so, force and coercion would no longer be ethnically motivated, as states were prohibited from funding and operating their own security apparatus. While this would later produce security problems of its own, it is important to note the conceptual significance of this constitutional clause. Coercive force was no longer considered a regional and ethnic function. The central Nigerian state would transform the armed forces into a multi-ethnic, national force, again de-legitimizing ethnicity as a source of coercion and law enforcement. Law and order was thereby enforced from the center, not from the fragmented particulars.

If anything, the 1979 and 1999 constitutions symbolized the commitment of the Nigerian authorities to national unity beyond ethnicity. While ethnicity was undoubtedly recognized as a source of diversity and multicultural identity in 1979, it was completely banished from government and the public service. To mobilize and participate, functional interests were required. This would supposedly facilitate inter-ethnic cooperation, grounded in common social and economic interest.

The military's response to territorial fragmentation in the late 1960's was by no means unique to the developing world. Military juntas and authoritarian regimes throughout the world have long justified the centralization of the state as the only means to consolidate a divided nation. What is unique to the centralization undertaken by the military in Nigeria is the fact that the "holding together" federalism instituted by the military was a direct response to Nigeria's "putting together" origin. And to revert back to the literature around political path-dependence, "once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchment of certain institutions obstruct an easy reversal of the initial choice" (Subrahmanyam, 2006). Hence, when the "holding together", centralized framework was institutionalized in 1979, it created a mirage of new actors and institutions that would naturally reject any future policy that attempted to reduce their fiscal and administrative scope. Centralization became irreversible.

Thus far this research has established the historical-institutional roots of centralization in Nigeria. However, as previously documented, institutions are not simply products of the past. Actors with rational motives will shape political and economic processes, and Nigerian federalism is no different. While the 'Holding Together' institutions left behind by the military inevitably constrain the interests and motivations of present political and economic actors, these present actors and institutions still have rational motives that dictate their political and economic behavior. Hence, the following section will now revert to the concepts of the political economy of federalism and the political economy of oil to examine the second and third independent variables. In doing so, the following section will also articulate how centralization has affected Nigerian federalism politically and economically.

(3.2) The Political and Economic Effects of Centralization in Nigeria

Fiscal centralization has inevitably produced transfer dependence in Nigeria. In the early 1960's, the relatively autonomous regions had generated upwards to 40% of their revenues internally. By the 1980's, the internal revenues of states had been reduced to just 13% (Ojowu, 1990). By 1990, the average rate of fiscal dependence for states on the central government had risen to 80.98% (Asadurian, Nnadozie, Wantchekon, 2006). Hence, between 1983 and 1995 the central government's share of pubic spending increased by 22% (Suberu, 2001). It is no surprise that Northern states, such as Kano, Niger, Bauchi and Borno, have all been dependent on the central government for over 90% of revenue, particularly in the 1990's (Asadurian, Nnadozie, Wantchekon, 2006). Similarly, between 2001 and 2005, Local governments also received 89% of their finances from the federal government (Ekbo and Englama, 2008). As of 2009, thirteen states generated less than 10% of their own revenue and only Lagos State managed to generate over 50% of its own revenues (Orogun and Ezigbo, 2009). Consequentially, as of 2009, the national average of internally generated revenue at the sub-national level sits around 12% (Aiyenimelo, 2009). The lack of internally-generated revenue has left states and local governments incapable of meeting even their smallest constitutional responsibilities. In this sense, even the most basic "operational revenues" at the sub-national level require federal sustenance (Suberu, 2001).

As documented in the literature on federalism and economic reform, one central implication of transfer dependence is that "regional government resistance to market reforms will mount as their dependence on transfers increases" (Wibbels, 2005). The extreme degrees of transfer dependence apparent in Nigeria has led sub-national units to do just that. The most dependent Northern states, such as Kano, have directly opposed the devolution of resource revenue via the derivation principle seen in the early 1960's (Suberu, 2001). They have similarly rejected fiscal reform, particularly the principles of internal revenue generation (Ejobowah, 2005; Suberu, 2001). The logic of such anti-reformism is simple; without the revenues generated from central transfers, many of these states would institutionally deteriorate (Ejobowah, 2005). Because of transfer dependence, non-oil bearing states now have a vested economic interest in maintaining the ineffective system of fiscal centralization. Without such unconditional transfers, sub-national actors and institutions would not be able to maximize public sector spending for electoral reward, nor would they be able to continue the longstanding practice of clientelism.

The case of transfer dependence in Nigeria also confirms the significance of this paper's third independent variable, in that, shifting from a centralized, market-distorting system to a decentralized, market-preserving system is shown to be an extremely difficult process. Many state and local governments in Nigeria have no incentive to boost internal revenue and internalize costs, hence they have no incentive to change the present, over-centralized fiscal system. This is most visible with the lack of growth in Internal Revenue Generation throughout the federation. Naturally, the status quo of fiscal centralization is politically acceptable to the actors that benefit the most from it.

With the bulk of government finance coming from the Federation Account, spending at both the central and sub-national levels also continue to go unchecked. Consequentially, domestic debt rose from $8.6 billion in 1999 to over $13 billion in 2006, the very years the PDP-led central government was supposedly reforming the governmental spending process (Okogu and Kwaako, 2008).[11] Similarly, external debt in the 1980's and 1990's at one point equaled 70% of Nigeria's export earnings (Guseh and Oritsejafor, 2007). In fact, when the military under General Babangida resumed control of the country in 1985, Nigeria's debt equaled upwards to 66% of its total GDP

[11]All US dollar equivalents listed are based on US/Naira exchange rate on 1 April of the year being documented. April 1st was chosen arbitrarily as exact dates are unavailable.

(Asadurian, Nnadozie, Wantchekon, 2006). By the early 1990's, government deficits alone, both central and sub-national, had reached 8% of total GDP (Lewis and Stein, 1997). Subsequently, between 1991 and 1993, the CBN's financing of government expenditures increased by 359%! (Lewis and Stein, 1997). While the Obansanjo administration was able to dramatically reduce its external debt between 1999 and 2006, the central government continues to seek finance from the international community (Gillies, 2007). This includes a N21.5 billion loan for commercial agriculture projects from the World Bank in 2009, equal to $143 million USD, as well as an estimated N1.6 trillion loan to cover budgetary deficits in 2009, equal to $10 billion USD (Leadership, 2009; Onu, 2009). The central governments external debt has thus seen yearly increases since 2006, again during the supposed years of fiscal reform under the PDP-led central government (Editorial, 2010). As of 2009, Nigeria's total domestic debt equaled $21 billion, a substantial increase from the $13 billion recorded in 2006 (Akintola, 2010; Chinwo, 2010). Under the 2009 budget, the central government is also expected to run a deficit of upwards to $5.5 billion USD, or N836.6 Billion, equal to 5.7% of the country's GDP (Aderinokun, 2009). Aggregate government expenditure is expected to increase by 31% in 2010 (Uzuegbu, 2009)

Budgetary deficits have also become a normality at the sub-national level. Between 2001 and 2005, again during the supposed years of fiscal reform, state government deficits averaged 5% of total annual revenue, revenue which was by and large financed by the central government (Ekpo and Englama, 2008). Local governments during the same time period also sustained a deficit. As of 2009, total deficits at the sub-national level equaled nearly N800 billion, equal to $5.4 billion USD (Esu, 2009).

Famous are the stories of unconstrained spending at the state level in Nigerian federalism. For example, as of 2009, the Ondo state government was in debt by upwards to N117 billion, equal to $781 million USD, which the present government projects will take about ten years to erase (Sowole, 2009). The Benue state government is expected to run a deficit of upwards to N2.4 billion in 2009, equal to $1.6 million USD, after the 2008 budget allocated nearly N900 million, or $6 million USD, to a state-television project that is still under construction (Nwakaudu, 2009). As of 2009, Lagos, Oyo and Kaduna states also remain *externally* indebted well over $100 million USD each (Onurah, Ogbodo, and Daka, 2009). Likewise, between 2007 and 2008, only eleven states actually reduced their external debt stock while twenty-six states increased their foreign debt (Debt Management Office, 2007; Debt Management Office, 2008). As of 2009, total foreign debt held by state governments equaled $1.7 billion dollars, leading the Debt Management Office to comment that "There is no state in the country that is not indebted" (Ahmed, 2009).

Such unconstrained spending at the sub-national level is a direct consequence of fiscal centralization and the transfer dependence it induces. Again, to revert back to the literature on federalism and economic reform, "with little electoral responsibility for macroeconomic performance and various institutions that foster overspending, sub-national governments sometimes extract resources from the center with little concern for the potential impact on the federation as a whole" (Rodden and Wibbels, 2002). Sub-national government's in contemporary Nigerian federalism, like those seen in Argentina and Brazil throughout the 1990's, do not generate revenue internally. Hence, they predictably spend well beyond their means, as such spending faces no political repercussion. Again, to state it bluntly, *who would want to stop spending money that isn't theirs when they face no consequences for doing so?*

The macroeconomic consequences of such unconstrained spending have naturally been immense. As forewarned in the political economy of federalism literature, deficits at the sub-national level have been externalized across the entire federation, tapping government revenue and forcing the central government and the central bank to continuously pump money into indebted government institutions. This has had negative implications for monetary policy, the exchange rate, and the business climate as a whole. With such unsustainable spending, the Naira continues to be erratic and volatile, perpetuating consistent bouts of inflation. Hence, between 1999 and 2006, inflation remained in the double digits, peaking as high as 25% in 2005 (Adam and Goderis, 2008). As of 2009, the rate continues to hover around 15%. While 2007 and 2008 witnessed a rise in private-sector credit growth, the business climate continues to be lamented for its lack of stability, particularly noticeable in the oil industry and the banking and manufacturing sectors (Lawal, Salimonu, and Smith, 2009; Norbrook, 2009; Abdulaziz, 2009). The inability of "successive Nigerian governments to sustain a conducive environment for operational efficiency" has inevitably constrained an economy that was once projected to be the 11th largest in the world by 2050 (Editorial, 2009; Lawal, Salimonu, and Smith 2009).

This process is further complicated when considering the notion that most of this central government finance derives from oil revenue. With upwards to 80% of government revenue accruing from oil, public finances throughout the federation have become attached to the volatility of oil prices.

As predicted by the political economy of federalism literature, fiscal centralization has also hampered the delivery of basic public services. The "lazy monopolies" foretold by Hirschman have proliferated throughout the Nigerian public service. For example, since its inception in 1972, the monopoly held by the Nigerian Electric Power Authority (NEPA), now known as the Power Holding Company of Nigeria (PHCN), has led to a "widening gap between demand and supply" (Olukoju, 2004). Continuous power outages and erratic supply in urban centers remains a chronic problem (Lawal, 2007; Iriekpen, 2009). Despite the subsidies and shares held by the federal government, the company had actually accrued a debt of up to N4 billion, or $42 million USD by 1999 (Dare, 2002). As of 2010, this debt has increased to the range of N459 billion, equal to $3 billion USD (Ezigbo, 2010). It is now estimated that the federal government will have to spend upwards to N177 billion, or $1.18 billion USD, in subsidies between 2009 and 2012 to maintain delivery across the country (Vanguard, 2009). Despite being a pillar of reform for both the Obansanjo and Yar'Adua regimes, the PHCN remains a monolith in the Nigerian power sector (Iriekpen, 2009). And despite calls for further decentralization in the power sector, the PHCN still continues to fight "the tide of change" that is privatization (Maduako, 2009). Thus, not only does the PHCN highlight the predicted failures of centralized service delivery, but it also highlights the obstacles that exist in the decentralization process.

Similar deterioration has also been documented in the Nigerian police force (Olowu, 1990; Ejobowah, 2005; Walker, 2009).[12] Often projected as the "world's most corrupt police force", the service remains a manifestation of past military administrations

[12] The BBC's Andrew Walker produced a series of very informative articles on the police services in Nigeria in 2009.

(Obaji Ori, 2009). By centralizing the police force, the federal government sought to eliminate sub-national coercive powers that had facilitated armed conflict in 1967. However, its affect has been dramatic. In some cases, security has completely deteriorated and local militias have risen in response. Local vigilantes have practically prospered under the centralization of police services, seen with the rise of groups such as the Bakassi Boys, O'odua People's Congress, and countless other groups mobilized with unemployed youth (Pratten, 2008). Many of these groups, however, are simply providing a defense against theft, robbery, and violence which often goes without persecution because of the weak and deteriorating Nigerian police service (Pratten, 2008).

As of 2009, reforming the inefficient national-police force in favor of more sub-national authority in domestic security remains stalled (Akoni, 2009; Obaji Ori, 2009). Likewise, while the Yar'Adua administration continues to promote reform, the obstacles are immense, as institutionalized interests within the security services continue to resist changes to the present system (Timothy, 2008; Obaji Ori, 2009). As a result, security remains fragile in both the North and South of the country. The Nigerian police force thus not only demonstrates the failures of centralized service delivery, but it also shows the constraints that act upon the decentralization process.

The Nigerian Ports Authority (NPA) also continues to hamper shipping services. While its partial-privatization under the Obansanjo regime has led to increased investment in the shipping industry, the NPA continues to constrain the development and competitiveness of shipping, and subsequently trade, in Nigeria (Oji and Agu, 2008). For example, between 1980 and 2002, Nigeria's share of total shipping traffic in Africa dropped from 19% to 5% (Cameron, 2003). Likewise, a World Bank report in 2006 showed Nigeria's import documentation requirements to be grossly excessive in comparison to ports around the world (World Bank, 2006; Oji and Agu, 2008). Its also been estimated that between 2001 and 2002, stevedoring costs in Lagos were 267% higher than in other West African ports! (Oji and Agu, 2008). It also should come as no surprise that in 2009, the NPA's former chairman Olabude George, who is also the former PDP leader, was prosecuted for illegally awarding and splitting contracts to the tune of N84 million during the partial privatization process, equal to $530 thousand dollars (Abdulah and Adejuwon, 2009).

Devolving the NPA and reforming the shipping industry, however, inevitably faces its obstacles. As predicted in the federalism and reform literature, organized interests at the sub-national level continue to resist the full privatization of shipping authority. While decentralizing the NPA would save the central government billions, "privatization is not politically acceptable to different stakeholders, especially the organized private sector" (Oji and Agu, 2008). The NPA is not only an example of the inefficiencies that often characterize centralized service delivery, but it is also a clear illustration of the constraints and obstacles that exist in transitioning from a centralized federation to a decentralized, market-oriented structure.

Similar centralized inefficiencies have been seen in the oil industry. Unlike NEPA and the NPA, however, the centralization of oil has had both micro and macro economic consequences. As expected, Oil began to consume the economy during the boom of the 1970's. Between 1970 and 1998, Nigeria would be completely dependent on oil exports, never falling below 91.2% of its total. From 1970 to 1979, oil accounted for nearly 98% of Nigeria's total exports (Asadurian, Nnadozie, Wantchekon, 2006). Hence, "the concurrence of the oil boom and fiscal centralization bred a transfer dependent system lacking appropriate accountability and proper incentive structures" (Asadurian, Nnadozie, Wantchekon, 2006).

The period between 1970 and 1979 also marked the beginning of the post-civil-war boom, which witnessed the creation of a large civil service and a vast array of public services to lead the new, unified and centralized Nigeria out of underdevelopment (Olowu, 1990). This entire process of enhancing the state's reach would be funded by the central state via its collected oil revenue. Thus, state capacity in Nigeria became dependent upon the price and stability of oil as a source of revenue. While this undoubtedly contributed to the rapid penetration of the state into society during the 1970's, it would also subsequently be the demise of the Nigerian state with the collapse of projected oil prices in the 1980's. The massive, centralized-state apparatus constructed in the 1970's, subsequently, began to deteriorate in the 1980's.

In partially nationalizing and centralizing the oil sector in the late 1960's, the central government also inevitably constructed an array of sectoral distortions that continue to plague the economy to this today. As seen in Indonesia in the 1970's, Nigeria's subsidization of domestic petroleum has led to intense over-consumption, facilitating a black market for smugglers who can make millions selling cheap petroleum products abroad (Ascher, 1999; Walker, 2008). Such smuggling has been estimated as consuming nearly 10% of Nigeria's daily oil output (Carroll, 2003). Gas flaring also continues go unchecked, which the World Bank predicts consumes nearly 40% of all gas in the country, an estimated loss of $2.5 billion USD yearly (Walker, 2009; Muhammad and Shosanya, 2009). While the Yar'Adua administration continues to press for the decentralization of petroleum prices, it inevitably faces obstacles from both organized labor and other actors and institutions that benefit from the costly, centralized price-ceilings on petrol (Aminu and Amanze-Nwachuku, 2009; Komolafe and Ahiuma-Young, 2009; Editorial, 2009). Hence, the centralization of petroleum pricing and distribution not only highlights the failures of centralized service delivery, but it also highlights the constraints that act upon the decentralization process.

As an independent variable, oil has had two important implications. First, by entrenching itself in the production and distribution of oil, the federal government gave itself enough finance to both perpetuate and further entrench centralization well into the 1990's. Oil, in this respect, is again a means by which to centralize, as "the growth of the federal budget from petrodollars made the competing local governments increasingly dependent on transfers from a vastly enlarged federal pool" (Karl, 1997). Second, by institutionalizing the center's place in sector, the state inevitably created an abundance of public and private interests that benefited from such centralization, making the costs of reversal and/or diversification extremely high. And as predicted by the political economy of oil, once the initial decision is made to economically entrench the central state in a high/high capacity sector, the likelihood that it will exit and decentralize the sector is very slim.

As of 2009, debate around the decentralization and privatization of the Nigerian National Petroleum Corporation (NNPC) also continues to take place. While the company has been lamented for its inefficiencies for nearly two decades, it still remains a state-owned monolith in the Nigerian oil industry. The corporation continues to receive generous government subsidies, while at the same time it is granted the privilege of direct access to funds from the federation account (Ekpo and Englama, 2008).[13] Yet, as of 2009, the corporation continues to be abused politically, fuel scarcity is still apparent, and refineries remain inoperable (Igbikiowubo, 2009; Folasade-Koyi, Lazarus, and Oham, 2009; Ojeifo, 2009). As of 2008, the state-owned oil company was in debt to the tune of N17 billion, equal to $144 million USD, and was later probed for discrepancies and misappropriations in its accounts (Nduwugwe, 2008; Da Costa, 2009). Similarly, the company has long been a haven for corruption and unauthorized spending, which subsequently facilitates undercapitalization and declines in output (Ascher, 1999). Despite such blatant centralized inefficiencies, the NNPC, under the guise of the central government, has already declared its stakes in the nationally-significant Trans-Sahara pipeline project (Muhammad and Umar, 2009). Likewise, the oil-sector reform bill that has been at the forefront of the Yar'Adua administration's agenda since 2008 continues to be resisted by multiple sets of interests, including state governments and Delta politicians from the South who claim the restructuring and reform of the NNPC is "against the region" (Folasade-Koyi and Gbemudu, 2009). The National Assembly is also expected to filibust the bill upon its submission in the fall of 2009 (Lawal, Salimonu, and Smith, 2009). Again, this a clear example of how sub-national interests and institutions can have adverse affects on the federation as a whole. While slowly decentralizing and incentivizing the NNPC would save the central government over N640 billion in yearly subsidies alone, equal to $4.2 billion USD a year, sub-national actors and institutions in the South-South region are quite naturally objecting to policies that would implicitly bring job losses to their respective states. Again, the NNPC not only highlights the

[13] In 2008, the NNPC received an estimated N640 billion subsidy from the government

predicted failures of centralized federalism, but it also shows the obstacles that exist in the decentralization process.

The affects of relying on oil for national maintenance and consolidation would also inevitably be disastrous. Agriculture, which had employed up to 70% of all Nigerians leading into independence, went from accounting for 42% of all exports in the late 1960's, to just 3% in 1985 (Oluwasanmi, 1966; Nyatepe-Coo, 1994). In this same period, the production of cocoa dropped by 43%, while the production of groundnuts and cotton dropped by 65% respectively (Nyatepe-Coo, 1994). By 2005, agriculture accounted for just 0.2% of all exports. Nigeria is evidently a classic case of the 'Dutch Disease'.

Dutch Disease in Nigeria, like many of the state's problems, has been policy induced (Collier, 2008; Asadurian, Nnadozie, Wantchekon, 2006; Lewis, 1994). For example, both massive public sector spending and the governments lack of action towards import demand in the 1970's has been linked to the deterioration of non-oil sectors in the economy (Collier, 2008; Nyatepe-Coo, 1994). In many respects, the institutionalization of centralized federalism created a system that was simply irresponsive to local demand. In the case of agriculture, policy was being made that simply did not account for the diverse practices of production that exist across the country (Oluwasanmi, 1966).[14] As one author points out, the political/military elites throughout the 1970's and on into the 1990's also no longer depended on the "surpluses generated by peasant producers" (Watts, 1987). Hence, "as producer incentives disappeared", so did the agricultural sector (Watts and Lubeck, 1983). While it is

[14]Oluwasanmi's *Agriculture and Nigerian Economic Development* provides a sound overview of the diverse rules and practices different ethnic groups have in relation to land, property rights and labor.

impossible to draw a causal link between the centralization of Nigerian federalism and the Dutch Disease, it should be noted that the country's institutional framework was responsible for many of the problems facing the agricultural sector from the 1970's on into the 1980's. For example, by abolishing the regional marketing board system in 1973, the central government relinquished all power sub-national authorities had in relation to agriculture, subsequently depriving sub-national governments of their biggest source of internal revenue (Oyovbaire, 1985). Likewise, by subsidizing and fixing the prices of food crops in the early 1970's, the central government completely distorted the sector, facilitating declines in both labor and productivity (Oyovbaire, 1985; Ogbonnaya, 2010). The central government essentially crafted a federal framework in the 1970's that was incapable of socially and economically responding to the decline of agriculture (Suberu, 2001; Rimmer, 1978).

The unresponsiveness predicted by the political economy of federalism school is thus quite clear in the case of agriculture. Again, centrally managed administration is inevitably too detached from "changing human needs and motivations to be able to sustain a complex and diverse economy" (Olowu, 1990). And as noted above, the diversity and intricate peculiarities of land and agriculture for different groups in Nigeria makes any broad, centralized policy seem miscalculated and estranged from local realities. Theoretically, it should thus not come as a surprise that the recent improvements in agricultural exports throughout the federation have come at a time when the central government is embracing the decentralization of agriculture (Mailafia, 2008; Kwaka, Adenikinju, Mousley and Owusu-Gyamfi, 2008). For example, sub-national governments are now able to promote foreign investment in agriculture, independent of the constraints of central planning (Osagie, 2009; Sanni, 2009).[15] Similarly, the Yar-Adua administration continues to promote land reforms which will significantly devolve decision making over property. This is being promoted as a means to "make land a much more easily convertible asset that can be used with less hindrance to raise capital" (This Day, 2009).

The centralization of Nigeria has also institutionalized an endemic of corruption that continues today. Tales of fraud, misappropriation of funds, and the disappearance of state transfers have plagued Nigeria's international reputation for years. Between 1999 and 2003, Transparency International ranked Nigeria the most corrupt country in the world (Guseh and Oritsejafor, 2007). In 2008, former president Olusegun Obansanjo was accused of paying £25 million to a non-existent company (BBC, 2008).[16] Likewise, former Vice-President Atiku Abubakar may also be facing charges in regards to illegally rewarded energy contracts. These are just a few examples of how corrupt Nigeria has become. Again, as with the Dutch Disease, it is impossible to directly link corruption to the centralization of the state. However, the 'Holding Together', centralized institutions that were strengthened after the civil war have been conducive to its manifestation, in that, corruption and the misappropriation of public revenue simply remain institutionally insulated from adequate and legitimate oversight. In this respect, "the blessing of oil in Nigeria is that it brings in lots of money. The curse is that it concentrates that money in few hands" (Watts and Lubeck, 1983). By strengthening institutions without the proper channels for political and economic accountability, Nigeria has effectively perpetuated a centralized state apparatus that rewards bad governance. Public spending, no matter how

[15] The website tradeinvestnigeria.com is a forum for foreign investment opportunities throughout Nigeria. The website is promoted by Africa Investment Publishing and can also be accessed via journal.
[16] http://news.bbc.co.uk/2/hi/africa/7304028.stm

deleterious in the long run, is politically rewarding in the short run, and centralization only further entrenches this cycle.

Overall, the effects that centralization has had on Nigerian federalism corresponds to the experiences of many other developing federations. For example, as in contemporary Russian federalism, the Nigerian central government continues to negatively affect foreign investment because of its entrenchment in the economy. While the shipping, petroleum, and power sectors could attract billions of dollars in investment and advance the quality of service delivery, the central state continues to obstruct any such investments because of its role in relation to the private sector. Hence, as one author remarks in reference to Nigeria, "high debt profile and the loss-making business of the state-owned utility monopolies are major impediments to ready access to finance from financial institutions" (Talapragada and Adebusuyi, 2008). Similarly, as experienced in Indian federalism, the decentralization and privatization of state-owned companies has proven to be a slow and difficult task, largely due to the fact that many of these companies have political and economic interests of their own that, more often than not, do not correspond to the interests of the federation as a whole. Likewise, as documented above, the behavior of sub-national governments appears to be much like those seen in Argentina and Brazil in the 1990's, in that, not only do they continue to overspend because of their dependence on central financing, but many continue to constrain the decentralization process because of this very dependence.

Conclusions

In the end, this paper's reasons for methodologically unifying both rational-choice and historical institutionalism is clear in its ability to help us explain both why Nigeria remains centralized and how it has affected the evolution of its federal framework. For example, while transfer dependence is a historical facet of the years of fiscal centralization undertaken in the 1970's, it has nevertheless reinforced behavior at the sub-national level that is consistent with the assumptions of rational-choice individualism, that being of course their tendencies to overspend for political gain when they face no costs for doing so. Similarly, while the NPA, NNPC, PHCN and the police services are all historical products of the centralization of service delivery undertaken by the military after the civil war, they too have been shown to have their own interests that cannot be explained solely with historical analysis. Likewise, while the quasi-nationalization of the oil sector by the central government in the 1970's would entrench the state in the economy and pre-condition all economic activity in the future, it has nevertheless facilitated such behaviors as over-consumption, smuggling and rent seeking, that can only be explained with the assumptions of the rational-choice framework.

As for the three independent variables examined in this research, all have been shown to have mutually reinforced centralization to this day. The first independent variable, the historical-colonial, highlighted the premise that Nigeria's 'Putting Together' origins conditioned all future relations between the central government and its subordinates. 'Holding Together', centralized federalism was the state's only means to consolidate and build the Nigerian nation and prevent any future territorial fragmentation. This 'Holding Together' federalism was institutionalized in the 1979 constitution, and subsequently the 1999 constitution. The second independent variable, the oil-economy, reinforced centralization by fiscally propping up the 'Holding Together', centralized institutions that were constructed after the civil war. By immersing the state in the oil sector, the federal government gave itself enough wealth and financial capacity to both perpetuate and further entrench centralization well into the 1990's. The third independent variable, the constraints of decentralization and economic reform, highlights the notion that moving away from the present centralized, market-distorting model requires the consent of many actors and institutions, who in many ways, have no incentive to change the current system. Sub-national governments, state-owned companies, rent-seeking bureaucrats, and the private sector all continue to constrain decentralization because they continue to benefit from the over-centralized status quo. Hence, despite the international trend to do the contrary, Nigeria remains centralized.

As predicted by the political economy of federalism school, the effects of this centralization on the evolution of Nigerian federalism are thus obvious. Not only has fiscal centralization induced transfer dependence, but it has produced an array of actors, institutions and interests that benefit from its fiscal distortions. Public sector spending, to no surprise, remains uncontrollable, and this will continue to harm the fiscal, monetary, and macroeconomic well-being of the federation. Similarly, by entrenching the central government in shipping, power, policing, and petroleum services, the state has undermined basic service delivery. These services have not only become ineffective and inefficient, but they continue to cost the government billions of Naira yearly. Likewise, in centralizing and becoming overly dependent on the oil-sector as a source of revenue, the central government attached the entire federation to the volatility of oil prices.

In documenting why Nigerian federalism remains centralized and highlighting its accompanying affects, my research hopes to add to the contemporary literature in two ways. First, as Erik Wibbels points out, there exists little analysis into the affects that federal processes can have on decentralization and economic reform, particularly in developing federations. Hence, my analysis of the effects of centralization in Nigerian federalism is both timely and relevant. Second, this research hopes to add to the expanding literature around the new political economy of federalism. As conceptualized earlier, more and more analysis is highlighting the "distinctly federal roots" of the political and economic challenges facing federations (Wibbels, 2005). And given it is the conviction of this research that centralization has negatively affected the political and economic evolution of Nigerian federalism, the paper appears quite applicable to contemporary debates.

Overall, despite a weak attempt to privatize the exorbitant number of centrally-controlled services and organizations in 1986, Nigeria remains politically and economically centralized to this day (Obi, 2007).[17] Although the central state continues to gradually implement public sector reforms into the 21st century, the process remains constrained by a number of actors from both the public and private sector. And as this paper has shown, there exist three main variables that explain why this is so. However, the long term impact of institutional deprivation at the sub-national and local level remains to be seen.

Like many of the countries in the developing world, the recession that began in 2008 will undoubtedly affect the rate of foreign investment into Nigeria. Accompanying this decline in investment is the dramatic drop in the world's oil prices in late 2008. As a result, in early 2009, the Nigerian Stock Exchange (NSE) All Share Index witnessed a dramatic 37% decline, the worst of eighty-nine benchmark indexes covered by

[17] Cyril Obi's "The Nigerian Private Sector under Adjustment and Crisis: 1985 – 1993" provides a good overview of the privatization process in the early 1990's

Bloomberg (Edwards, 2009). It has also been estimated that the NSE has fallen by nearly 67% from its pre-crisis levels (Edwards, 2009). All these processes are expected to have dramatic affects upon the economy and the state's ability to provide even the most basic services.

At the beginning of 2009, the central government openly declared that the state had dramatically run short of foreign reserves. Similarly, the Naira continues to flucuate with oil prices as the central authorities have failed to adequately diversify the economy beyond the oil sector. An intense bout of inflation is practically inevitable (Faturoti and Yusuf, 2009).

All funds saved by the central authority in the excess crude account have also been depleted, as the $20 billion savings recorded in 2009 has been depleted to just $3 billion in 2010 (Abubakar and Ahmed, 2010). Some states have also failed to receive billions of dollars in transfer revenue since January 2009 (Gabriel, Ujah, Akoni, 2009). Likewise, as of April 2010, speculation continues to surround the ability of states of to pay the salaries of sub-national civil servants (Abubakar and Ahmed, 2010). Consequentially, as of March 2009, the central government is expected to run a budget deficit of up to N836.6 billion, or $5.5 billion dollars, which does not include the potential funds that will be spent on a banking stimulus package of upwards of N955 billion, equal to nearly $6.2 billion dollars (Nwojil, 2009; Komolafe and Henry, 2009). This is all occurring despite the warnings issued by former Central Bank Governor Chukwuma C. Soludo in early 2009 in regards to the rapid depletion of the excess crude account. Similar predictions have been made by the Benue state minister of finance, Remi Babalola, who has recently urged states "to explore sources of revenue outside of the federation account" (Gabril, Ujah, Akoni, 2009). The same finance minister has also called for "an urgent paradigm shift" in fiscal relations, claiming that "any continued dependence on the federation account allocation as a means of funding a state's expenditure is unrealistic" (Gabril, Ujah, Akoni, 2009). In 2010, a government official was also quoted as stating that "unless states aggressively embark on harnessing their internally generated revenue and relying less on revenue from the federation account, they may also not be able to execute any capital projects for the rest of the year" (Abubakar and Ahmed, 2010).

The lack of state capacity apparent since Nigeria's inception, and subsequent centralization, has pushed the country to the brink. The recent financial meltdown will only exacerbate these trends. The consequences explored in the previous section can only be expected to grow in intensity and magnitude.

Despite calls for greater state entrepreneurism, the rational and historical roots of centralization continue to plague the country in the future. The emphasis on institutional integration and centralized administration, as a means to subdue ethnic hostility and hold the state together, has produced an economically unsustainable federation that will continue to neglect the intricate particularities of sub-national units. Similarly, the entrenchment of the central government in sub-national finance, as well as the oil, shipping, and power sectors, has produced multiple actors and institutions that benefit from these fiscal and economic distortions.

In conclusion, the experiences of Nigerian federalism make evident the realities of the 21st century post-welfare state. While centralization remains a political facet of Nigerian history, its deleterious affects on federalism have been explained. Despite the prospects of devolution highlighted above by Minister Babalola, history continues to manifest itself in the political and economic instability of the state. Whether decentralization and devolution is a realistic prospect remains to be seen. However, given the country's tumultuous and violent federal history, such reforms may continue to be opposed. And if the political economy of federalism view is correct, such opposition will continue to perpetuate the inefficiencies this research has documented.

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Appendix

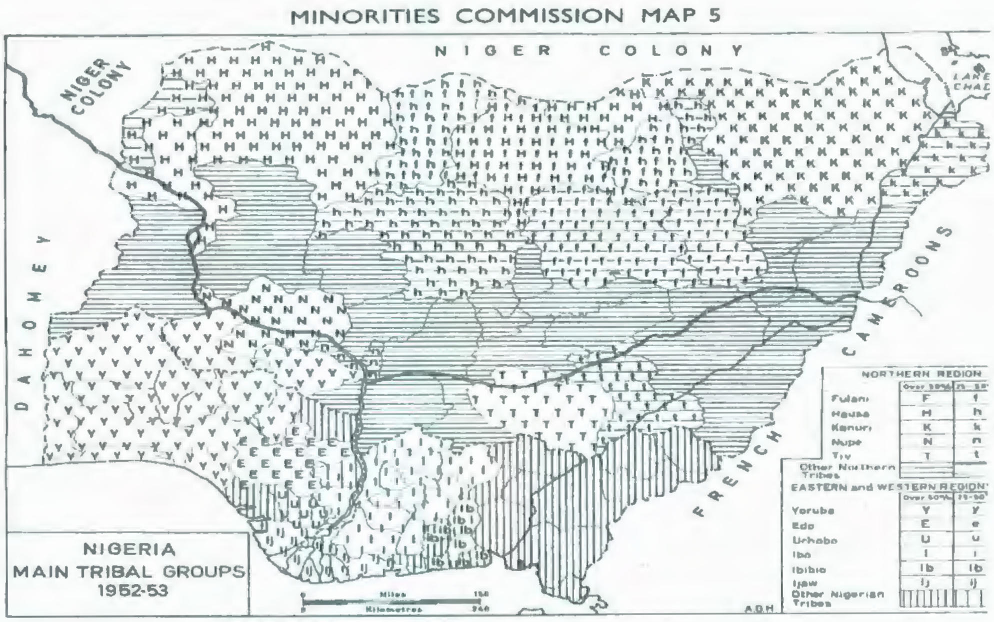

Figure one: Map of Nigeria's ethnic groups produced by the Willink Commission in 1958.
Source: Urhobo Historical Society, www.waado.org

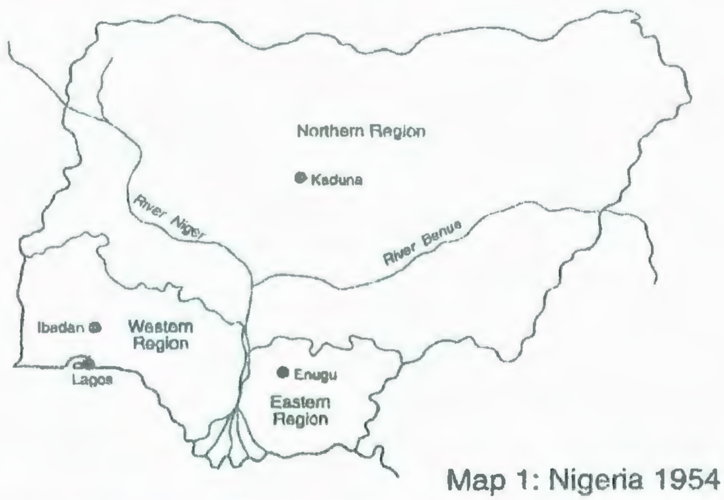

Figure two: Tripartite structure institutionalized with the 1946 Richards Constitution
Source: Urhobo Historical Society, reproduced from Wilberforce Conference on Nigerian Federalism (1997)

Figure three: Twelve-state federation decreed by the Gowon Administration in 1967
Source: Urhobo Historical Society, reproduced from 1997 Wilberforce conference on Nigerian Federalism (1997)

Figure four: Nineteen-state structure created by Mohammed administration in 1976 (addition of seven states)
Source: "States of Nigeria" (2010) Wikipedia, Wikimedia Foundation Inc.

Figure five: Two new states plus Federal Capital Territory created in 1987
Source: "States of Nigeria" (2010) Wikipedia, Wikimedia Foundation Inc.

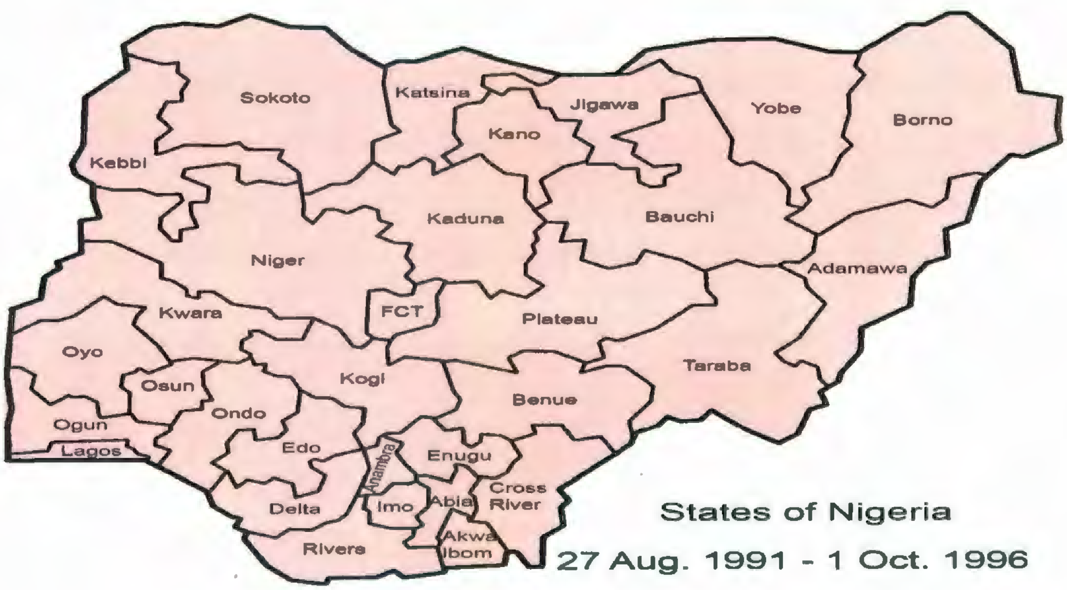

Figure six: Eight new states created by Babangida administration
Source: "States of Nigeria" (2010) Wikipedia, Wikimedia Foundation Inc.

Map 3: Nigeria 1997

Figure seven: Thirty-Six state federation completed by the Abacha administration in 1996
Source: Urhobo Historical Society, reproduced from Wilberforce conference on Nigerian Federalism (1997)

State	Year Created	Preceding State
Abia State	1991	Imo State
Adamawa State	1991	Gongola State
Akwa Ibom State	1987	Cross River State
Anambra State	1991	Anambara State (old)
Bauchi State	1976	North-Eastern State
Bayelsa State	1996	Rivers State
Benue State	1976	Benue-Plateau State
Borno State	1976	North-Eastern State
Cross-River State	1967	Eastern Region
Delta State	1991	Bendel State
Ebonyi State	1996	Enugu State and Abia State
Edo State	1991	Bendel State
Ekiti State	1996	Ondo State
Enugu State	1991	Anambara State (old)
Gombe State	1996	Bauchi State
Imo State	1976	East-Central State
Jigawa State	1991	Kano State
Kaduna State	1967	Northern Region
Kano State	1967	Northern Region
Katsina State	1987	Kaduna State
Kebbi State	1991	Sokoto State
Kogi State	1991	Kwara State / Benue State
Kwara State	1967	Northern Region
Lagos State	1967	Federal Territory of Lagos
Nasarawa	1996	Plateau State
Niger State	1976	North-Western State
Ogun State	1976	Western State
Ondo State	1976	Western State

Osun State	1991	Oyo State
Oyo State	1976	Western State
Plateau State	1976	Benue-Plateau State
Rivers State	1967	Eastern Region
Sokoto State	1976	North-Western State
Taraba State	1991	Gongola State
Yobe State	1991	Borno State
Zamfara State	1996	Sokoto State
Abuja Federal Capital Territory	1976	Benue-Plateau / North-Central / North West

Figure eight: List of states by year created and preceding state of origin
Source: "List of Nigerian States by Date of Statehood" (2009) Wikipedia, Wikimedia Foundation Inc.