

**The New Political Economy of Federal Preservation: Insights from the
Nigerian Federal Practice**

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Within the last decade, rational choice theorists have been making arguments about the institutional features of federalism that lead to system persistence or collapse. They draw on the early economic theories of Hayek, Musgrave, Oates, and Tiebout by emphasizing competition and efficiency but go beyond to explain ways that federal governance relates with the market to provide for its own survival. This essay spells out and examines the veracity of the arguments by drawing on case information from Nigeria. Its main thesis is that the arguments of the new political economy are meaningful in some ways but the emphasis on market efficiency creates practical difficulties for governance.

The 1990s and early 21st century have witnessed a surge of interest in federalism as a viable system for conflict-prone societies, especially those in the developing world. Philosophers and social scientists have presented federalism as an optimal arrangement for responding to ethnic diversity. Numerous conferences have been held on this subject in academics and policy-making levels within the last few years. The World Bank and the IMF are not left out either: both have been pressing for it under a much broader decentralization project. The general argument is that the system grants internal self-determination to territorially concentrated groups; makes for institutional expression of pluralism; and enhances political participation, equality, accountability, and efficient and equitable provision of services (Ebel and Vaillancourt 2001; Inman and Rubinfeld 1997; Kymlicka 1995; Simeon 2001; World Bank 1997).

But federalism is also known to have grave downsides: it threatens macroeconomic stability, institutionalizes discriminatory treatment of citizens, breeds competition among groups and emboldens them to ask for more powers, which ends in

separation (Ghai 2000; Kymlicka 1998; Schmitter 2000; World Bank 1997; 1999; 2002). In fact, the system has not performed well in the developing world. In Asia, Indonesia and Pakistan went federal at various times after independence but quickly deserted it, while the Malaysian federation led to the exit of Singapore in 1965. In Africa, Kenya and Uganda adopted the system after independence but soon abandoned it too. In the case of Uganda it directly resulted in the political instability of the late 1960s and in the civil war that ensued in the next decade.

Despite the dismal record, there is increasing interest in the developing world for federalism. Ethiopia adopted it in 1995, Uganda and Kenya have been debating it within the last few years, Sri Lanka and Philippines are inching close to federalizing, while Cyprus and Iraq have been tinkering with the idea in their political discourse. Can federalism be sustained even though it has proved illusory in the past? In all the previous failed cases, there were written rules and constitutions about limits of authority but these were not enough to keep the tiers of government within their bounds. How can federalism be durable if adopted? What is required for the system to preserve itself?

In one of his most famous works, the late William Riker (1964) addressed the above questions by developing a thesis about decentralized institutional devices that keep the national government from overawing the lower tiers and centralizing political institutions that keep the lower tiers from overruling the national level. His arguments proved to be a depiction of the structures of American federalism that could not validly be stretched to other countries. Within the last decade and half, new economic theories have been emerging to provide fresh answers to the questions. They draw on the early economic theories of federalism (by Hayek, Musgrave, Oates, and Tiebout) by

emphasizing competition and efficiency. However, they go beyond to explain ways that federal governance relates with the market to provide for its own survival. This paper summarizes the new arguments with a view to pulling out the conditions for federal preservation. It proceeds to marshal the Nigerian case information to interrogate the conditions. There are good reasons for the Nigerian case study: the country ranks among the most ethnically diverse and complex; it is consistent in sticking to federalism even if nominally; it has been debating how best to operate a successful system; and it has been attempting to establish property rights and effective markets within the last few years.

My thesis is this: some of the arguments of the new political economy of federal durability and breakdown are convincing in some respects and are, in fact, meaningful for the Nigerian political context. However, the emphasis on market economics creates practical difficulties for governance, especially where the peculiarities of the country require that priority be given to political considerations.

The Theory of Federal Preservation

In his 1964 seminal work, Riker conceptualized federalism as a bargain defined by three features: a) at least “two levels of government rule the same land and people;” b) each level has its autonomous sphere of authority; and, c) the autonomy of each sphere is constitutionally guaranteed and protected (1964:11). Riker’s definition remains valid, what is problematic is his argument about federal maintenance. More contemporary theories provide fresh insights into the durability and success of federalism. While different in some respects, various strands of the theory are united by their discussion of

the conditions under which federalism enhances the market and how the enhancement reinforces system self-restrictions.

The new political economy argue that what functions are assigned to each level of government and the accompanying financing of these functions help to explain the success of federalism. The prescriptions of these theories regarding functional and tax assignments are no different from those presented in traditional economic theory of federalism.¹ What is new is the emphasis on hard constraint on the borrowing habits of, and the non-sharing of federal revenues with, subnational governments (Mackinnon 1997; Mckinnon and Nechyba 1997; Peterson 1995; Qian and Weingast 1997). Hard budget constraint, it is argued, commits subnational governments to efficient allocation of resources and to jurisdictional competition. In turn, local jurisdictional competition limits predatory behavior of subnational governments (Qian and Weingast 1997). Local prosperity that follows ultimately constrains the market obstructing impulses of the national government (Mackinnon 1997; Mckinnon and Nechyba 1997; Peterson 1995; Rodden and Wibbels 2002; Weingast 1995). Hard budget constraint and efficiency are even used as criteria for denying subnational governments taxation rights to rich natural resources such as oil. Where natural resources are assigned to subnational governments, the affected jurisdictions might waste the revenue by spending on low economic value project, or they may attract labour and capital uneconomically by providing more services and lower taxation than other jurisdictions (McLure 1997).

¹ Following Oates (1972), they argue that services that generate externalities should be assigned to the national government, while those that have varying local taste, and require either local information or policy experimentation should be assigned to subnational governments. On financial responsibilities, they also follow traditional theory by arguing for a restriction of subnational governments to resident-based taxation, and to geographically immobile tax bases (McKinnon and Nechyba 1997; Peterson 1995).

The new political economy of federalism gives importance to the autonomy of subnational governments to set local economic policies. Hard budget constraints in combination with local policy choices induce jurisdictional competition, efficiency and prosperity. In turn economic prosperity generates social consensus about limits on the national government's authority. Such consensus acts as a coordinating device that enables citizens to react in concert against transgressions by those in power. Weingast illustrates by discussing the emergence of limited government in England during the 17th and 18th centuries. According to him, the freedom of local jurisdictions to make economic policies was fundamental to the rise of the industrial revolution and that the offences of the late Stuarts produced an overlapping social consensus about the bounds of state power. Similar examples are given of the United States from the late 19th to late 20th century, and of modern day China where spectacular economic success of decentralization compelled both national and local governments to credibly commit themselves to respecting local autonomy. These countries are described as having "market-preserving federalism" (Weingast 1995: 3; Montinola, Qian, and Weingast 1996: 53).

Furthermore, the new political economy argues that legal rules and norms that regulate federal arrangements as well as independent judicial institutions are required to restrain national and subnational authorities from infringing on federal bargain. However, these cannot be relied upon to prevent the national government from power aggrandizement. They must be combined with national power fragmentation² through

² Ferejohn, Bednar, and Eskridge (1997: 27 and 32) point to power unification in a Westminster system. In that system, the ineffective senate is fused with the executive and the latter with parliament.

structural separation of the arms of government including the division of the legislature into two chambers (Ferejohn, Bednar, and Eskridge 1997).³

On balance, the emerging theories regard economic prosperity generated by local freedom as a key factor that unites citizens on the limits of state power and also forces political actors at the national and local levels to keep within their respective spheres. Most fundamental is an explicit bargain that fragments national power, guarantees the independence of the judiciary, and gives juridical protection to local autonomy. From the theories, we can summarize the probable conditions for a sustainable federal system as:

- a) A hard budget constraint on subnational governments (McKinnon 1997; Peterson 1995; Weingast 1995).
- b) The authority of subnational governments to regulate their domestic economies but without the power to restrict the movement of goods and services cross jurisdictions. And, the assignment of monetary policy and common market regulation to the central government.
- c) An explicit agreement on federal arrangement to make for juridical federal restrictions and a clean separation of national power including independent courts (Ferejohn, Bednar, Eskridge, Jr. 1997, Weingast 1995).

³ To illustrate, they compare Britain, Canada and the United States. Post 1688 Britain is said to have had a structural, not juridical, federalism on account of power fragmentation between the Crown, the Lords, and the Commons and the use of veto powers by each of these arms of government. Without juridical protection, local autonomy was eroded following the emergence of disciplined parties in the 1830s. In Canada legal rules and juridical safeguards placed limits on federal power up till 1949. Once the Privy Council was removed the Canadian Supreme Court became deferential to the national parliament as a result the provinces lost their capacity to check Ottawa's encroachment into their jurisdiction (p. 29). In the United States, there is a hybrid of (Canadian) juridical and

The Nigerian Federal Experience

The course of Nigeria's political history has been shaped to a significant extent by the country's ethnic, religious, and linguistic diversity. Although an accurate count of ethnolinguistic groups has not been accomplished, anthropologists estimate the number to be over 350 with virtually every one of them having distinct territorial space, a distinctive indigenous political system, and unique cultural life. None of the groups is large enough to claim a majority, but the three largest—the Hausa-Fulani, Igbo, Yoruba—account for about 67 percent of the total population.

During the 1950s, nationalists, under the supervision of the British, laid the foundation for Nigerian federalism by negotiating a tri-regional arrangement that paid limited attention to ethnocultural difference. By 1960 when the country attained independence, the three regions enjoyed a great deal of powers: they had the residual list of subjects, their own constitutions, their own sources of revenue, and also posted diplomatic envoys to the United Kingdom (Nigeria 1960: Second Schedule, Third Schedule, and Fourth Schedule). In addition, the national government could not alter the boundary of any of the regions without its consent. This federal depth was due to the fact that the constitution was negotiated by regional leaders who, according to Peter Ekeh (1999: 73), “picked out what functions they valued most and left for the federal center the services that were conventional for a sovereign national government to assume.”

In addition to constitutional autonomy, the fiscal arrangement emphasized the derivation principle—central collection and return of revenue to the region of origin. The combination of local autonomy and the derivation system of revenue sharing unleashed

(British) structural support and this has accounted for the success of federalism in the country (Ferejohn, Bednar, Eskridge 1997: 17-50).

the economic potentials of the regions. The East specialized in palm produce, the North excelled in the production of cotton, groundnut, and beef, while the West specialized in cocoa and rubber. There was also a race for manpower development,⁴ as the regions tried to fill positions within their institutions and at the national level. Nigerian federalism of the 1950s and early years of independence was intense, competitive, and vibrant.

However, the system was also unstable for three reasons. First, each of the three regions was closely identified with its majority ethnic group, which became the main, but not exclusive, controller of power. This gave rise to minorities' demands for recognition in separate states. Second, and related to the first, was a party system that was highly ethnoregionalized. Third, there was an "egregious imbalance" in the size of the constituent regions, as the North more than doubled the combined size of the East and West and actually used its size and population to control the federal government (Richard Sklar 1999: 3). All of these, in combination, transformed political competition into what Crawford Young has called "a three-player ethnic game," inherently unstable.⁵

While the difficulties posed real threats to federal stability, Nigeria also had the Westminster system in which power was unified at the national level and the Senate was ineffective at blocking or delaying legislation inimical to any region. Worse still, there was no mechanism for limiting the ability of any of the regions to use its control of the national government to extend its powers over rivals.⁶ The competitive but unstable

⁴ To accelerate the production of qualified manpower, the East established and funded the University of Nigeria in Nsukka, the North the Ahmadu Bello University in Zaria, and the West the University of Ife in Ife.

⁵ Here I draw on Crawford Young's comments on an earlier version of this paper.

⁶ In his discussion of the durability of federalism in the United States, Weingast (1995) notes that the balance rule negotiated in the early 19th century empowered the North and the South to veto national policy thereby limiting the ability of either regions to crush the other. That was not the case with Nigeria of the early 1960s.

federalism began to fall apart when northern political actors used their control of the Federal Government to introduce a quota system of regional representation in the army, and to reduce the strength of the Western Region by breaking the unit into two in 1963. Attempts by the regions to eliminate each other led to resistance that culminated in the military coup of 1966 and Biafra's attempted secession/civil war of 1967-70. In the four decades that followed, Nigeria remained federal only in name.

A number of factors converged to reinforce nominal federalism in Nigeria. The most important, for purposes of this paper, are the political inclusion and state-led development strategies. The former was designed to correct the structural imbalance in the size of the regions and to avoid fears of ethnic domination that were believed to have led to the civil war. The strategy had two elements: creating several states and local governments and distributing national revenue among them. The former element entailed successive division of the country into a greater number of equal-sized states (twelve in 1967, nineteen in 1976, twenty-one in 1987, thirty in 1990, and thirty-six 1996) to account for ethnic ties but without explicit acknowledgement of ethnicity in state formation. State boundaries were formally geographic, but they followed group and sub-group lines very closely with the effect that each of the major groups was divided into several smaller states while minorities were recognized in several smaller homogenous or heterogeneous states. Also 301 local governments were created in 1976 and increased successively to 499 in 1989, 589 in 1991, and 774 in 1997 to further respond to diversity at the local level.

The second element of the inclusion strategy entailed equal sharing of resources among the subnational governments. For the national government to appear objective,

impartial, and fair to all constituent units, it embarked on a policy of equal access to foreign earnings. It first declared proprietary right over oil, which displaced agricultural export as the most important source of foreign exchange, in 1969. With the appropriation, the principle of returning revenue to the point of origin was diminished (to 45 percent in 1970, 20 percent in 1975 and 10 percent in 1980 and 1.4 percent in 1983) and replaced with the equality of state principle (Ejobowah 2000). Local governments were not left out in the transfer payments. In 1976 they were removed from state control and granted statutory right to share in the Federation Account.

The political capture of the central bank (via intergovernmental transfer of oil revenue) induced intense competition for federal attention, erased incentives to generate independent sources of revenue, generated a culture of dependence on the centre, and stifled local enterprise. The states found themselves in a condition of economic paralysis and decay, perhaps evidenced by nationwide declining trends in economic indicators. Per capita income fell from an all time high of \$870 in 1982 (when international oil prices were very favorable) to \$260 in 1998 while the national poverty rate in 2003 was 70%. With an external debt of \$33 billion that more than equals its GNP of \$29.2 billion (1999), the country is listed among the world's heavily indebted poor countries (Imevbore undated; Nigeria 2003; World Bank 1999). Evidently, the sharing of oil revenue has been a curse to Nigerian federalism.

The other important factor that reinforced nominal federalism was the adoption of the First and Second National Development Plans that heralded statist development. With these plans the Federal Government became dominant in the market, and also took over some of the responsibilities of the state governments, including universities. The Third

National Development Plan of 1975-80 enlarged the takeover to include roads, airports, urban flyovers etc. For example, under the 1975-1980 plan, the Federal Government constructed 31,000 km of trunk A roads (being federal roads), but took over 16,000 km of trunk B roads from the states (Okigbo 1989: 121).

In 1986, the national government responded to a World Bank/International Monetary Fund's policy advice by implementing market-oriented reform. One crucial aspect of the reform was the divestiture of public enterprises. The federal level alone controlled about 600 public enterprises that accounted for 5,000 managerial board appointments. A phased privatization of these enterprises commenced in 1988 following the establishment of the Technical Committee on Privatization and Commercialization (TCPC). By 1993 when phase one ended, 88 public enterprises had been fully or partially sold (Anya, undated). The second phase, which commenced in 1999 under the Bureau of Public Enterprises (a successor to the TCPC), entails the sale of big state companies such as the Nigeria Ports Authority, Nigerian Railway Corporations, Nigerian Telecommunication Company, Ajaokuta Steel, fertilizer companies, and refineries. In January 2004, President Olusegun Obasanjo who was reelected the previous year announced in the National Assembly that his regime has been successful with privatization, especially with regards to the telecommunication sector, and that the sale of the country's refineries and National Electric Power Authority will be accelerated.⁷

Paradoxically, the commitment to establishing property rights and effective markets has not been accompanied with significant devolution of power to subnational governments. In 18th century England and contemporary China, the freedom of local governments to set their economic policies and the induced competition among

jurisdictions accounted for the triumph of the market economy (Weingast 1995, Ferejohn, Bednar and Eskridge 1997). This is not the case in Nigeria, where market reforms have proceeded alongside central resistance to subnational claims for devolution of fiscal jurisdiction and policing services. Whereas a commitment to market reforms would require fiscal devolution that eliminates financial dependence of the subnational governments and induces horizontal competition for efficient service delivery, the national government chose not to whittle its power. Between 1999 and 2003, violent conflicts associated with autonomy claims resulted in over 10,000 deaths and over 300,000 displaced persons (Institute for Peace and Conflict Resolution 2003).

The reluctance of the centre to commit to market preserving federalism has to do with the difficulties that such reform might pose for governance. First, the existing states are not financially viable and may not survive in the short run. Of all the thirty-six states, only Lagos is self-sustaining and this is on account of an efficient tax system and a strict regime of accounting (*BusinessDay*, 30 September 2002). Most of the remaining states are not like Lagos State that is an industrial and commercial city-state; rather, they are non-industrialised with majority of the people operating outside the formal sector. In the short term fiscal devolution would either set these states crumbling or drive most of them into heavy borrowings. The outcome of the latter would be the Brazilian type of financial crisis that could compromise national stability. It is no coincidence that arguments for retrenching the centre have not received support across the country, especially from the non-oil bearing states.

Second, devolution would require that the oil-bearing states have right to resources within their domain but pay taxes to the centre, as actually practiced in

⁷ See *Afrol News*, January 6, 2004, www.afrol.com/articles/10689

decentralized federal polities. In this case, the national government has to abandon its post-civil war policy of distributing the benefits of oil equally among all groups and sections of the country. The difficulty here is that, in the short run, the non-oil states would be in real financial distress as noted earlier on and, the centre, with its right to offshore oil reserves, would have no choice but to bailout these states. In effect, there will be a return to the status quo ante with this group of states while the oil states possess financial power and independence. This would be asymmetrical federalism, Nigerian style.

Furthermore, an arrangement by which the centre has to wait on the oil states to pay taxes is one that the federal government considers dangerous, as there is no guarantee that the states will fulfil their obligations. Bruce Berman (2004) has argued that the near absence of trust is a fundamental problem in the economy and institutions of contemporary Africa. The abstract and collaborative trust that underlies contracts and makes transactions possible in the modern world is somewhat weak in the African setting. This is especially true of Nigeria and is evidenced by the prevalence of the cash-and-carry syndrome. Given the problem of trust, the federal level might consider it too risky to ground its financial operations on taxes the states may not pay when due. Martin Dent (2000) has revealed that within the current system of central fiscal control, the states rarely get their allocations from Abuja on time and that they have appointed liaison officers to reside in the federal capital where they can chase up payments due them from the ministry of finance. The national government is well aware of what would befall it if the states are given control of resources, and it is not likely to travel that road. Indeed,

recent actions of the national government indicate that fiscal devolution is not an issue to be considered in the immediate future.

Third, a credible commitment to market preserving federalism would require that subnational governments provide, in their respective domains, basic security so important for economic enterprise. This would entail abandoning the central controlled unified police service that has been in place since independence. In 1957, the departing British colonial officials set up a commission to investigate allegations by ethnic minorities that ruling parties in the internally self-governing regions were using the local police to arrest, detain and lash political opponents on trump up charges. The commission ascertained these claims in its various public hearings. Consequently, it noted that there would be danger after independence if the police came under the control of regional governments. The Commission recommended the adoption of “one Nigerian Police Force,” not exclusively federal, but ultimately under the instruction of the centre (Nigeria 1958: 93). It was a delicate arrangement that required senior police officers in the regions to meet the wishes of the regional authorities.

Arguments for the devolution of policing services have not generated the enthusiasm of the centre because of problems that could arise. It is feared that such arrangement would provide a blank cheque for the governors and other high-ranking officials to deploy power on opponents and subvert the rule of law. After reviewing the role of the police in the maintenance of law and order, the Committee on Law and Order of the 1994 Constitutional Conference concluded that the unified police formation that has been in place since independence should remain (Nigeria 1995: 111-112). This recommendation was upheld by the conference. Similarly, in a major colloquium on

federalism organized by the Citizens Forum on Constitutional Reforms in June 2000, one of the panels examined claims for state police and concluded that the governors are power-driven and that it would be terrifying to bring the police under their control. The Niki Tobi-chaired Constitution Debate Coordinating Committee that produced the 1999 Constitution did not consider the issue.

It is also feared that devolution of policing services would produce immediate anarchy rather than security. In their current form the subnational governments are so weak that they are unable to perform basic functions of government. The weakness is evidenced in their inability to pay workers salaries for months, to provide basic infrastructure, and to support educational institutions like the universities and colleges they established within the last two decades. It is unreasonable to presume that the states would treat their own police forces differently. A downward transfer of services, if it occurs, will yield a loose band of armed men and women roaming the towns and countryside.

The Implication for the New Political Economy of Federalism

The Nigerian federal experience has implications, both positive and negative, for the new theory of federalism. According to the theory, a fiscal arrangement in which subnational governments receive transfer payments and credits from the central government carries a price: it eliminates incentives to local competition and prosperity, and enhances rather than restrains centralizing tendencies that may lead to federalism's perdition. The successful establishment and preservation of federalism, therefore, requires that the borrowing capacity of subnational governments be restrained and intergovernmental

transfers be avoided. The Nigerian experience proves just that. During the first five years of independence, the country had competitive federalism that was robust with subnational autonomy and power. The vitality of the system rested mainly on a fiscal arrangement that emphasized revenue-sharing on an origin basis. The abandonment of this arrangement in the early 1970s for one that emphasized equal sharing of oil proceeds in the central bank also saw the triumph of nominal federalism.

Though Nigerian federalism collapsed in 1966 when the fiscal arrangement required the regions to depend on revenues generated within their domains, this does not contradict the argument of the new political economy of federalism. Rather some of the conditions that gave rise to federal breakdown in 1966—power aggrandizement—validate the theoretical claim that power fragmentation is necessary to prevent rulers from overstepping their constitutional limits. Surely the adoption of the Westminster system that fuses executive and legislative powers made it possible for regional parties that dominated parliament to use all three arms of government to eliminate their rivals and annex their territories. Definitely, the fusion of power hastened the collapse of federalism and the outbreak of the Biafran civil war.

However, the empirical case questions some of the theoretical arguments on federal sustenance. The theory emphasizes devolution and hard budget constraints that commit subnational governments to fiscal discipline and competition. Charles MacLure, Jr. (1997) draws on the relationship between hard budget constraints and economic efficiency to make arguments for the assignment of rich natural resources to the national government. The empirical Nigerian case indicates that federal governance is not merely a matter of committing to market efficiency; rather other political considerations may

override the central government's commitment to fiscal devolution and 'no transfer payment' policy.

Where a federation is multiethnic and ethnicity has political salience, the central government may not be able to commit to market economics that require cutting off intergovernmental transfers to jurisdictions in need of bailouts, especially if the jurisdictions are many and are in the position to threaten national stability. Furthermore, where most of the jurisdictions in a federation (whether multiethnic or not) have weak resource base and are not in the position to go it alone, it is difficult for the centre to put an end to subsidies. 'Saying no' to these entities would drive them into immediate financial crisis and political failure that might affect the entire federation. Jonathan Rodden (2002: 674), citing John Wildasin, has referred to the political influence of these jurisdictions and the negative externalities that their failure generate as "the too big to fail phenomenon." In the two cases noted above, the practical obligation to maintain financial and political stability has to trump the demands of good economics.

This leads to the main conclusion of the theoretical argument that economic prosperity generated by local freedom commits political actors to respect federal restrictions. The theory does not explain how countries that are struggling with federalism can get to this point. Ostensibly the conclusion is drawn from empirical studies of 18th century Britain and modern day China. In Britain, local autonomy was an outcome of the violent political revolutions of the 17th century that made for the division of national power between the Crown, the Lords, and the Commons (North and Weingast 1989; Ferejohn, Bednar and Eskridge 1997). In the case of China, political devolution was not carried out in a swoop across the country; when it commenced in 1978,

devolution was limited to a few coastal provinces that literally served as laboratories for policy experimentation. Both cases cannot be replicated elsewhere. Indeed, the Nigerian experience indicates that nationwide devolution is fraught with difficulties, and that doing it at once would spell immediate disaster. Paradoxically, Ferejohn, Bednar, and Eskridge (1997: 12 fn 23) note that “a theory of federalism . . . must explain how subnational institutions can actually be provided with decision making powers in certain domains. Without such an account, federalism is just another word for decentralization.” Yet their theory does not explain how the devolution road can be traveled.

Finally, the new political economy implicitly argues for a uniform federal system, contrary to established knowledge about the varieties that exist in the world (Watts 2001). Federations in Western Europe and the Canadian one have their distinctive national qualities and they rank among the wealthiest economies. Yet, in the new political economy, the requirements for federal preservation—freedom of subnational governments to make domestic economic policies, hard budget constraints, structural separation of national power, and juridical rules—translate into the American model that is presidential and in which transfer payments or equalization grants are little or non-existent. Indeed, McKinnon (1997) is direct when he compares the efficiency and prosperity of the formerly depressed American South with the poor regions of Canada, Italy, and Germany that are depended on intergovernmental transfers. Similarly, Ferejohn, Bednar, and Eskridge (1997) present the American system as the most robust and resilient of the three cases they studied.⁸ But as Kincaid (2001) has argued, it is difficult to present firm conclusions on the advantages and disadvantages of a particular model given the varieties that exist today.

Summary and Conclusion

The new political economy of federalism provides refreshing ideas about federal sustenance by discussing the functions and appropriate financial powers that should be assigned to each level of government. Insightful is its argument for subnational governments' responsibility over domestic economic policy and for blocking their access to the central bank and to unlimited credit. The freedom to make domestic economic policy combines with hard budget constraints to induce jurisdictional competition that serves as disciplinary measure against inappropriate market intervention by local officials. The resultant market efficiency and economic prosperity also provide incentives for subnational governments and citizens to act in concert against the national authorities should the latter attempt to encroach on local freedom.

Refreshing is the argument that the Westminster system of government fuses power that enables the national level to invade local jurisdictions. This understanding leads to a rejection of the Westminster system for the Presidential system of government in which power is structurally separated and checked.

The Nigerian federal experience confirmed some of these arguments. The country's fiscal arrangement of the late 1950s and early 1960s that required each region to depend on revenue derived from its jurisdiction made for competition, diversified economic production, and local assertiveness. However, the parliamentary system that was inherited from the British enabled those in control of the central government to aggrandize power at the expense of rivals in the regions. The arguments of the new political economy give a refreshing insight to the breakdown of Nigerian federalism

⁸ The other two are Canada and post-1688 Britain. See fn. 3.

during the second half of the 1960s. The insistence on hard budget constraints also helps to understand the persistence of federal failure in the country.

However the Nigerian experience also shows that the arguments of the new political economy are not problems free. The case information indicates that federal governance is not all about commitment to the market, that the distinctive features of a country might require that the requirements of good economics be subordinated to political considerations. Furthermore, a commitment to the market preserving aspects of federalism would generate a system that is not country specific. States that adopt the prescriptive arguments will end up operating a system that actually reflects what prevails in the United States.

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