

from 55% in 1971 to 80% in 1984. Similarly, the share of the total transfers in the total expenditure of the states ranged mainly from 50% in 1958 to 84% in 1987.

9. It was, however, noted that since statutory transfers are non-discretionary transfers, and since the same overwhelmingly dominated the federal transfers to the states, the share of the federal transfers in the total revenue or expenditure of the states may not be taken as an erosion of the states fiscal autonomy. The reason being that the states are vested with a great deal of independence in the use-end of the transfers.
10. Our analysis also shows that whereas the Divisible Federal Current Receipts are the main determinants of statutory transfers to the states, the Federal Current Budget Position as reflected by the Revenue-Expenditure Ratio is one of the prime determinants of Federal Grants and Federal Loans to the states. It has also been observed that whereas the Federal Capital Receipts was one of the main determinants of Federal Loans, it played no significant role in explaining the size of the Federal Grants. On the other hand, whereas the States' Capital Outlay influenced the quantum of Federal Grants, it proved to be a weak explainer in the variation of Federal Loans to the states.
11. Our analysis of vertical fiscal imbalance shows that its degree under the "traditional" and "redefined" concepts of the Independent Revenue of the governments was higher in the former and lower in the latter case.
12. Under the traditional concept of independent revenue, all the methods of transfers played crucial role in vertical fiscal equalization with statutory transfers taking the lions share. In some cases, it reduced the vertical inequality by more than 100% which in effect implied a reversal of the phenomenon. That is, it corrected the federal-favoured vertical imbalance and created a states-favoured vertical fiscal imbalance.
13. Under the redefined concept of independent revenue, it is observed that the vertical fiscal disequity in Nigeria is relatively low contrary to the impression created by the

traditional method. Infact, in some cases it is a states' favoured phenomenon whereby the states revenue is greater than their expenditure, and vice versa for the centre. In other words, the redefined concept has helped to expose the fact that any attempt at measuring the centre-state fiscal disparity that relies exclusively on the traditional concept would invariably come up with conclusions that exaggerate the degree of the problem.

14. It has also been observed that federal grants and federal loans proved quite active in vertical fiscal equalisation during 1968-86. Their role under the redefined concept could generally be likened to that of statutory transfers under the traditional approach. Thus, in some years, they equally reversed the vertical fiscal disequilibrium. Hence, it could be said that the traditional definition of the independent revenue of the governments obscures the equalization impact of federal grants and loans.
15. It was also noted under the redefined concept of independent revenue that federal transfers (federal grants and loans) generated the problem of negative equalization, which in other words entails an intensification of inequalities between the revenues and expenditures of the centre and the states.
16. Our investigation also revealed that horizontal imbalances were present in Nigeria during the period under study, and its degree was relatively high. Thus, it was observed that the disparity in the fiscal capacity of the federating units (as reflected in per capita total independent revenue) was high. Similarly, it is also noted that the variations in per capita expenditure of the federating units were high. Hence, the level of provision of public services varied much across the states of the federation, thereby affecting the economic welfare of its subjects across the states.
17. The federal transfers to the regions and states generally showed variations, though over time these tended towards equality. Nevertheless, in most of the years, the richer states also received higher per capita federal transfers, and the poorer got lower.

18. The persistence of fiscal imbalances amongst the states and the regressive impact of federal transfers could be explained by the fact that these transfers were not allocated (discriminated adequately) on the basis of the financial weakness or relative backwardness of the states -- which would generally make larger per capita amount available to the vulnerable states. The problem of horizontal fiscal imbalances was heavily mitigated through the three methods of fiscal adjustment, that is, statutory transfers, federal grants and federal loans.
19. It has, however, been noted that while the aggregate statutory transfers showed a considerably high degree of equalization on the inter-states' fiscal disparity, its component of Non-Distributable Pool Account was mostly unequalizing. And hence it increased the inequality in the revenue of the states in most of the years.
20. The results also show that the imbalance in the per capita expenditure of the regions in Socio-economic services is determined mainly by the inequality in per capita Distributable Pool Component of statutory transfers, and that of federal loans. The disparity in the per capita total independent revenue, as expected, also helped to explain the variation in some of the expenditure heads.

II. POLICY IMPLICATIONS OF THE FINDINGS AND SUGGESTIONS

Having highlighted the major findings of this academic exercise, it suffices the need to examine the their policy implications :

As has been observed earlier, the problem of "divergence" between the revenue and expenditure of the Centre and the States paraphrased as vertical fiscal imbalance exists in Nigeria at a high degree. This has been primarily caused by the centralization of fiscal powers. And has inevitably made Nigerian Regions and States heavily dependent on federal transfers in order to discharge their Constitutional obligations.

But, is revenue centralization (and its corollary of vertical fiscal imbalance) really bad for Nigeria ?

To answer this question one has to consider that Nigeria, is a highly heterogeneous federal polity with a high degree of inter-jurisdictional disparity. The disharmony in socio-cultural orientations have always been a source of political instability in the country. In the face of such heterogeneity and critical level of fiscal and regional inequality, there is no doubt that some states would like to pull out of the federation (if they think that their interests are threatened or that the same is not taken care of adequately) if they have the opportunity to do so. In that case centralization of revenue becomes a way of depriving the states the fiscal powers that would have been subservient to federal disintegration on the one hand, and on the other hand it is the major way through which redistributive justice could be achieved.

Therefore, the transformation of Nigerian federal polity into a centralised federation over the years is welcomed as that is the only way the federation can survive while pursuing the goal of inter-jurisdictional redistribution, or fiscal and regional equalization. Hence, the idea is endorsed that revenue centralization and vertical fiscal imbalances are highly desirable in the Nigerian federal polity. However, with the goal of vertical fiscal equalization in mind it is suggested that the mechanism of federal transfers should be designed in such a way that the states are independent in the use-end of the transfers, i.e., the statutory transfers should dominate the capital transfers (Federal Grants and Loans) as the latter transfer systems are generally conditional transfers which impose a limit on the fiscal autonomy of the federating units. This, however, does not mean that Federal Grants and Loans should be eliminated from the federal transfers mechanism as has been the case in Nigeria in some of the years covered under this study. It could be pertinent to point out that through federal grants and loans, the centre can reallocate resources amongst the states, and hence, achieve the goal of redistributive justice by making higher investment in the poorer regions than in the richer ones. By so doing, it would be correcting the inherent economic imbalance amongst the states which would in the long run lead to the equalization of socio-economic services. Thus, in a revenue devolution system where federal grants and federal loans are non-existent, federal transfers may fail in achieving its objective of inter-state balance in

growth and development. In the light of this, it is, thus, evident that the Nigerian resource devolution system which has abhorred capital transfers (grants and loans since 1987) in favour of statutory transfers may not be the best approach of revenue devolution, although it may lead to vertical equalization.

It is, therefore, suggested that the Nigerian system of resource devolution be redesigned to accommodate all the three methods of transfers -- statutory transfers, federal grants and federal loans. In doing so, however, care should be taken so that the capital transfers do not dominate the statutory transfers as that would imply an erosion of the states' autonomy on the use-end of the transfers, so that the federal transfers generally aim at equalizing present level of socio-economic services and the states potential to maintain these services.

To bring about relative equality in the fiscal capacity of the states, Nigeria should follow the Indian system where Income Tax is centralized and divisible. The present system where the federal and states have overlapping powers in Income tax, and where the respective states retain the revenue collection from the same, may not be suitable for Nigeria considering the high degree of inter-state disparity in development -- although it may be suitable for a federation like U.S.A. (where the system is also practiced) because of the low degree of disparity in development and industrialization across the states there. An alternative to centralization of Income Tax would be to reduce the inter-state imbalance in industrialization and development. This approach, however, would involve a considerable diversion of federal investment to the poor states, and since these states are concentrated in one region of the country, this measure would not be politically acceptable.

Coming to the issue of horizontal devolution of federal transfers, it could be said that neither the principles nor the respective weightage attached to them seem pragmatic, considering the nature of the Nigerian federation.

The principles (Derivation, Population, Equality-of-State etc.) used in the horizontal allocation of resources in Nigeria are very ambiguous and highly objectionable, especially

on equity grounds. Hence, whatever has been achieved in the horizontal equalization seem to have come by accident rather than through a well-tailored approach of horizontal equalization. Such an approach generally includes per capita states Domestic Product and other explicit indicators of backwardness. These, are, however, absent in the Nigerian system. Therefore, it is suggested that an ideal formula of horizontal resource devolution in Nigeria should be "multi-factor" formula that includes States' Domestic Product among other realistic factors such as population with low weightage, independent revenue effort defined in relation to the States' Domestic Product etc.

It may also be pointed out that the system of devolving the statutory transfers and capital transfers on the basis of the same principles with more or less the same weightage may be found wanting. For one thing, this may suggest that the states that need statutory transfers most are also the states which are in most need of federal grants and loans. This may not always be the case. For, another, the states may not distinguish statutory transfers from capital transfers, and thus, may go to the extent of using the latter to finance their current expenditure. This, has been observed in Nigeria during the 1970's.

And finally, it is suggested that the Distributable Pool Component of the Statutory transfers should be made more discriminatory in favour of the poorer states as our regression analysis suggests that the variation of the states inter se in this revenue variable, is the principal determinant of the imbalance amongst the states in their provision of socio-economic services to their citizens.

III. POSSIBLE AREAS OF FURTHER RESEARCH

Having highlighted the major findings of this study and their policy implications, it is deemed necessary to indicate other possible areas of research.

Firstly, the theory of federal finance requires that federal transfers should not serve as a disincentive for the independent revenue effort of the states. This would be the case because if the centre makes transfers to the states ignoring their tax effort in relation to their

tax potential it may encourage fiscal irresponsibility on the parts of the states. Thus, an inquiry into the impact of federal transfers on the independent revenue effort of the Nigerian states could be an area of further research.

Secondly, in our examination of the determinants of the regional inequality in expenditure on socio-economic services, the variables chosen were : General Administration, Health Services, Other Social Services (Community Development and Rural Sanitation), and Economic Services. It is suggested that these "explanatory" variables could be broadened to include, Education, Social Security, Housing, etc depending on the availability of data. Such wide range of indicators would throw a clearer picture on the variations amongst the states in the basic amenities that affect the welfare-level of their citizens.

Thirdly, another area of possible research is an investigation into the impact of capital transfers (Federal Grants and Loans) on the economic development of the states in Nigeria. This "issue" mainly springs from the fact that Grants and Loans are non-statutory (discretionary) transfers which mainly serve to correct the imbalance in the level of development amongst the regions or states in a federation. This would, therefore, involve an inquiry into the impact of Federal Grants and Loans on some economic indicators like : Income, Poverty, Unemployment, Agricultural, Industrial, Infrastructure, Social and Resource Allocation indicators.

Fourthly, it could also be examined whether or not federal transfers to the states stimulate (or otherwise) the expenditure of the states.

And lastly, depending on the availability of data, or the ability of a researcher to generate the same, the present work could be updated with a profile of the states or regions based on their per capita States Domestic Product as this gives a better picture of the socio-economic profile of the states..