

CHAPTER FOUR

VERTICAL DIVISION OF RESOURCE AND RESPONSIBILITY IN NIGERIA - AN EMPIRICAL ANALYSIS

I. INTRODUCTION

The distribution of resources and responsibilities between the federal and the federating units is crucial in the life of every federation. This is much so, because, while it determines the nature and imposes a limit on the federal fiscal crisis, it also defines the actual legislative and executive autonomy of the various tiers of decision-making.

In essence, therefore, the basic issue swings over from quantitative division to qualitative distribution - quantitative division implying the number of taxes which each of the governments have right over, and qualitative distribution connoting the nature and revenue potential of these revenue heads. The issue of distribution of responsibility refers to that of expenditure participation of the two governments. Hence, the following issues and related ones are examined in the subsequent sections.

II ISSUES EXAMINED

1. The vertical division of resource bases between the centre and the states is generally believed to be the cause of vertical fiscal imbalances in every federation. This is so because most of the more elastic revenue heads are allotted to the Centre whereas the states have powers over the less elastic ones. Hence, we intend to examine the buoyancy of the resource bases of the centre and the states in Nigeria. This is done in terms of revenue yield or collection from the major resource heads. The intention here is to find out whether the generalization of centralization of more elastic resource bases which is observed in other federations also holds correct for Nigeria.
2. An attempt has also been made to examine the vertical fiscal disparities. Here, the objective is to ascertain the extent of the pretransfers disparity between the

revenues and expenditures of the centre and the states. Hence we will see whether or not Nigeria does show tendencies towards revenue centralization and expenditure decentralization.

III. THEORETICAL BACKGROUND FOR THE VERTICAL DIVISION OF RESOURCE AND RESPONSIBILITY.

Before we empirically examine the above issues, a brief discussion of the theoretical issues relating to the vertical division of resource and responsibility and of government receipts, is deemed essential. Theory and practice of federalism clearly indicate that it is impossible to think of federalism without disparity in the revenue and expenditures of the Federal and State governments. Thus most writers (implicitly or explicitly) agree that federalism is synonymous with vertical imbalance - hence Wildavsky observed that federalism means inequality.¹ This inequality originates from the Federal Constitution on the basis of which federalism operates. On the one hand it assigns to the Central Government an exclusive or concurrent legislative and executive powers over the more productive and more elastic resource basis, and to the States, exclusive powers over the residual resources bases which are normally, less productive and less elastic, whereas, on the other hand the expenditure powers of both the Centre and the States are to great extent concurrent. Infact it has been argued that since the state governments are the decision authorities that are closer to the people there is every tendency that their expenditure participation would be more expensive and more expansive.² Thus vertical fiscal imbalance is immanent in the federal system itself. But the principles of both federalism and good government requires that each tier of decision-making should have resources which approximately commensurates with its expenditure obligations.³ As such, the only way to mitigate a revenue-expenditure disequilibrium between the Centre and the States is through a fiscal adjustment exercise, either by transfer of resources from the Centre to the States in the form

1. Wildavsky Aron, "Federalism Means Inequality : Political Geometry, Political Sociology and Political Culture", in The Cost of Federalism, edited by Golembewski, R.T., and Wildavsky A.
2. See for instance Wheare, K.C., Federal Government, Oxford University Press, London, 1953, p. 117, Also see Chandrasekhar, S, Andhra State Finances, Andhra University, Waltair, 1983.
3. Howard C, The Federal Fiscal Imbalance, Paper presented to Minerals. Outlook Seminar, May 2, 1984. Proceedings Published by Australia Mining Industry Council, Canberra, May 1984.

of statutory transfers, federal grants and federal loans, or through the reassignment of expenditure obligations so that each tiers of authority performs such responsibilities that commensurate its resources. The second alternative here is difficult to apply - infact it is not feasible and hence is not being used in any federation. Thus fiscal parity between revenues and expenditures of the Centre and the States is generally sought through resource transfer from the Centre to the States.

As noted above, imbalance between the revenue of the Centre and States, that is, revenue centralization, could occur in a federal set-up due to two reasons. Firstly, as a result of centralization of major resource bases, and secondly consequent upon concurrent powers of the Centre and the States over some other resource bases.⁴ This phenomenon- revenue centralization, exists virtually in all major federal nations - USA, Australia, Canada, Germany and India. It is believed that the same is the case with Nigeria. In USA it is observed that centralization of revenue is as a result of both centralization of the major resource bases and overlapping of powers of the Centre and States in some other resource bases.⁵ This is also the case in Australia⁶ and to a certain extent in Canada.⁷ However, in Germany⁸ and India⁹ centralization of revenue is purely as a result of centralization of major resource bases. The constitutional division of tax powers in Nigeria follows the pattern of India which avoids tax overlapping.¹⁰

In order to ascertain the degree of revenue centralization and expenditure decentralization in a federal set-up, three approaches are followed :

4. - Lakdawala, D.T., Union-State Financial Relations in India, Lalwani Publishers, 1967.
5. For details see, ACIR, Significant Features of Fiscal Federalism, Washington, 1989. Also see Due, J.F. and Friedlaender A.F, Government Finance (Economics of Public Sector), Richard D. Irwin Inc. Homewood, Illinois, 1977 Chapter 8.
6. See Howard, C. *ibid*.
7. For details see Fiscal Provisions in Canadian Constitution. Also see Chelliah et al, Trends and Issues in Indian Federal Finance, NIPFP-Allied Publishers Private Ltd., New Delhi, 1981. pp.136.
8. See the Constitution of Federal Republic of Germany. Also see Chelliah et al, *ibid*.
9. See Sections 268 to 274 of the Indian Constitution. Also see the Reports of the Various Finance Commissions, Chelliah et al, *ibid*, and Sudarsana R., Grant-in-Aid and Econmic Development in India, Chugh Publications, Allahabad, 1986.
10. For details see the 1963 and 1989 Federal Constitution of Nigeria. Also see the Report of the Presidential (Okigbo) Commission on Revenue Allocation, 1980.

1. To ascertain the relative share of each tier of government in the aggregate revenue of the federation. If Centre's share is larger than states', then revenue centralization exists.
2. To examine the relative distribution of total expenditure of the federation between the two tiers of government. If centres share is larger than states, then revenue centralization exists.
3. And lastly, to examine the own revenue of each tier of government from its own sources before transfers as a percentage of its expenditure. If this ratio assumes value equal to or greater than one for the centre and less than one for the states, it indicates revenue centralization and expenditure decentralization.

In USA, the relative share of the Federal and States in the total revenue of the Federation is around 62% and 38% respectively between 1970 and 1977. In Canada the relative shares stood at around 51% for the Centre and 49% for the provinces in 1976. In Australia, the share of the Centre is around 83% while that of the States is around 17% between 1951 and 1971. As for Germany, the share of the Centre and the states in the total revenues of the federation was around 54% and 46% respectively between 1969 and 1971; while the share of the centre and the states was around 70% and 30% respectively for India between 1951 and 1976.¹¹

As for expenditure distribution, the share of federal government in USA, Australia, Germany and India is around 56% 48%, 53% and 47% respectively. The corresponding figures for the States are 44%, 52%, 47% and 53% respectively. Here, one, thus, observes that expenditure decentralization is in vogue in all these major federations.

Coming to the issue of own revenue as a percentage of own expenditure before transfers, it has also been noted that for the federal governments the shares were around 102% to 113% for USA, between 1970 and 1977, and 116% for Canada in 1976. The

11. See, ACIR, *ibid*, Chelliah et al, *ibid*, and Thimmaiah, G. Federal Fiscal System of Australia and India: A study in Comparative Relevance, New Delhi : Associated Publishing House, 1976.

percentage for their states were around 83% and 75% respectively during the same period. In India, the states own revenue as percentage of their own expenditure was around 68% in 1976 (Chelliah et al, 1981). From this, it is therefore observed that whereas the federal government in all the major federations are able to finance their Own expenditure from their Own sources, the same is not the case with the States. Thus, they have to depend on federal transfers in order to discharge some of their constitutional responsibilities. This way, it could be said that their fiscal autonomy is limited to the extent they are able to finance their expenditures from their own sources, and hence their fiscal independence could be measured in terms of the extent they depend on the centre for assistance. This dependence is quite high in Australia, Germany, India and Nigeria and less so in USA and Canada.

IV. RECEIPTS OF THE GOVERNMENTS

Before we empirically examine the above issue a brief discussion on government receipts is essential.

The receipts of the Centre and the states are divided into two categories, viz, the current receipts and the capital receipts. The current receipts of the governments are those revenues that are of recurrent nature. That is, receipts from the Current Account resource bases as reflected in the governments Current Budget - which are generally spent on the administration and maintenance of government machineries and equipments. These receipts are divided into two viz : the tax receipts and non-tax receipts. The tax receipts of the Federal government of Nigeria are broadly composed of revenues from (i) Direct Taxes : Petroleum profit Tax, company Income Tax, Personal Income Tax, Stamp duties, Capital Gain Tax etc., (ii) Indirect Taxes : Import Duties, Export Duties, Excise Duties, etc. The non-tax receipts of the federal government are mainly derived from Mining Rents and Royalties, Interests, Licences Fees, Earnings and Sales, Rent on Government Property etc. On the other hand, the Tax revenue of the States are generated from (i) Direct Taxes : Personal Income Tax, Gift Tax, Estate Duties, Property Tax, Stamp Duties and (ii) Indirect

Taxes : Sales and Purchase Taxes, Football Pools and Other Betting Taxes, Motor vehicle tax and Entertainment tax. The non-tax revenue of States mainly come from Mining Rents and Royalties; Land Registration and Survey Fees, Marketing and Trading Licence and Fees, Motor Park Duties, Land Ground Rent Fees, etc.

The Capital receipts of the governments are defined as those receipts which are of non-recurrent nature. That is those revenues that are spent with a view at "creating or disposing of assets of the long term nature, involving a period of more than a year"¹³. Capital receipts of the governments consist of short and long term borrowings, debt recoveries, unrequitable and requitable grants, current account saving etc. The Capital receipts which exclude the Current Account savings is regarded as the autonomous Capital receipts of the governments in this work.

IV.1. TOTAL RECEIPTS OF THE FEDERAL AND STATE GOVERNMENTS OF NIGERIA (CURRENT AND CAPITAL) BEFORE TRANSFERS : TRENDS

The total revenues of the federal and state governments before federal transfers are shown in table 4.01. Here it is noted that these receipts rose tremendously over the period covered in this study. Thus, one observes from column 2 of Table 4.01 that the total receipts of the federal before transfers rose overwhelmingly (with fluctuations) from N130.21 million in 1956 to N39470.00 million in 1988. The trend was stable and increasing over the periods. Thus from the figure of N130.21 million in 1956, it rose to N469.06 million in 1967, and from N423.23 million in 1968 it rose without a decline to N11803.66 million in 1979. The 1980 figure was N16403.80 million, rose with slight fluctuations to N39470.00 million in 1988. Similarly, the total receipts of the States before transfers rose from a mere N26.36 million in 1956 to N7031.60 million in 1988 (see column 3 of table 4.01). The trend of the receipts was quite definite. Thus from the figure of N26.36 million in 1956, it rose with slight fluctuations to N88.37 million in 1967. It stood at N61.94 million in 1968, and from this it

13. Rede, L.A. *Gujarat State Finances*. A Key Paper to the 24th Gujarat Economic Conference, Department of Economics, The M.S. University of Baroda, April, 1993. pp.4.

TABLE 4.01
TOTAL RECEIPTS AND TOTAL EXPENDITURES OF THE GOVERNMENTS OF NIGERIA
(FEDERAL AND STATES), 1956-88

(AMOUNT IN MILLIONS OF NAIRA)

Year	REVENUE					EXPENDITURE				
	Federal	States	Total	Federal (2 as % of 4)	States (3 as % of 4)	Federal	States	Total	Federal (7 as % of 9)	States (8 as % of 9)
1	2	3	4	5	6	7	8	9	10	11
1956	130.21	26.36	156.57	83.16	16.84	94.46	84.06	178.52	52.91	47.09
1957	152.12	98.50	250.62	60.70	39.30	90.07	116.46	206.53	43.61	56.39
1958	153.31	41.00	194.31	78.90	21.10	110.60	108.38	219.00	50.51	49.49
1959	166.08	33.85	199.93	83.07	16.93	124.13	108.64	232.77	53.33	46.67
1960	199.50	35.52	235.02	84.89	15.11	141.75	146.77	228.52	49.13	50.87
1961	287.53	39.51	327.04	87.92	12.08	140.34	161.61	301.95	46.48	53.52
1962	268.21	59.84	328.05	81.76	18.24	171.22	189.74	360.96	47.43	52.57
1963	286.28	53.16	339.44	84.34	15.66	185.49	192.10	377.59	49.12	50.88
1964	330.86	52.95	383.81	86.20	13.80	234.85	189.86	424.71	55.30	44.70
1965	328.86	60.92	389.78	84.37	15.63	231.91	239.29	471.20	49.22	50.78
1966	400.69	64.57	465.26	86.12	12.88	267.01	259.04	526.05	50.75	49.25
1967	469.06	88.37	557.43	84.15	15.85	236.41	267.31	503.72	46.93	53.07
1968	423.23	61.94	485.17	87.23	12.77	437.32	172.02	609.34	71.77	28.23
1969	542.19	69.78	611.97	88.60	11.40	473.21	175.87	649.08	72.90	27.10
1970	857.82	103.03	960.85	89.28	10.72	731.75	266.89	998.64	73.27	26.73
1971	910.48	273.34	1183.82	76.91	23.09	558.47	204.86	863.33	64.69	35.31
1972	1424.66	244.54	1669.20	85.35	14.65	685.78	415.97	1101.75	62.24	37.76
1973	1717.41	235.28	1952.69	89.95	12.05	894.26	550.43	1444.69	61.90	38.10
1974	2390.53	323.86	2714.39	88.07	11.93	2107.41	709.80	2817.21	74.80	25.20
1975	5534.84	448.81	5983.65	92.50	7.50	2986.58	1951.42	4938.00	60.48	39.52
1976	7083.95	471.10	7565.05	93.77	6.23	4281.00	2630.16	6911.16	61.94	38.06
1977	9720.23	807.10	10527.33	92.33	7.67	4710.48	3380.50	8090.98	58.22	41.78
1978	10646.80	1229.18	11875.98	89.65	10.35	6092.80	3906.06	9998.86	60.93	39.07
1979	11803.66	819.80	12623.46	93.51	6.49	7549.48	4060.94	1610.42	65.02	34.98
1980	16403.80	2504.96	18908.76	86.75	13.25	13865.40	10258.60	4124.00	57.48	42.52
1981	15028.10	2881.80	17909.90	83.91	16.09	10444.00	13231.30	3675.30	44.11	55.89
1982	15414.30	3135.40	18549.70	83.10	16.90	12649.20	12441.68	5090.88	50.41	49.59
1983	19431.10	4072.00	23503.10	82.67	17.33	11911.96	12715.82	4627.78	48.37	51.63
1984	15768.40	1639.90	17408.30	90.58	9.42	9822.20	6440.31	5262.51	60.40	39.60
1985	17929.00	2653.60	20020.60	89.55	10.45	13514.60	8573.53	2088.13	61.18	38.82
1986	13509.30	2653.90	16163.20	93.58	16.42	16489.81	7721.10	4210.91	68.11	31.89
1987	34271.90	5693.90	39965.80	85.75	14.25	22606.74	11936.62	4543.36	65.44	34.56
1988	39470.00	7031.60	46483.60	84.91	15.09	28418.72	13446.26	1864.98	67.88	32.12
Average				85.50	14.50				57.77	42.23

Source (1) Federal Office of Statistics Lagos, (2) Central Bank of Nigeria (3) Official Gazettes of Federal and States Governments (4) A Adedeji; Nigerian Federal Finance, 1969

Note (1) Upto 1967 the States were referred to as Regions (2) Figures for 1968-70 excludes the Eastern Region as they were not available due to the civil war.

(2) The source above refers to columns 2 to 4 and 7 to 9 Columns 5,6,10,11 have been generated from the same.

(3) One Naira equals around Rs. 15 and \$ 1.40 during the period studied

(4) All figures are at Current prices.

(5) Federal total expenditure excludes statutory transfers, federal grants and federal loans to the states and comprises of both current and capital expenditures

(6) Receipts of the federal and states are before federal transfers and comprises of both Current and Capital receipts.

increased sharply with slight fluctuation to N819.80 million in 1979. It rose to N2504.96 the following year, 1980, and to N7031.60 with fluctuations, in 1988. The above quantum increases implied significant compounded annual average growth rates.¹⁴ For the federal, this was 18.91% for the entire period, 1956-88, 11.27% for the first period, 1956-67, 31.96% for the second phase, 1968-79 and 10.25% for the third phase, 1980-88, (see column 3 of Appendix table IV.02). For the states, the growth rates for the entire, first, second and third periods stood at 18.83%, 10.61%, 24.02% and 12.12% respectively, (see column 4 of Appendix table IV.03). Thus, except for the third period, the federal revenues grew faster than those of the states during these periods. This reflects that the federal revenues bases are more elastic than those of the states.

On the issue of relative distribution of the total receipts of the federation, column 5 of table 4.01 indicates that the federal share for the period 1956-88 ranged between 81.76% in 1962 and 93.77% in 1976 (with the exception of the three years 1957, 1958 and 1971 when its shares stood at 60.70%, 78.90% and 76.91% respectively). With these exceptions, the shares of the Centre varied from 81.76% in 1962 to 87.92% in 1961 between 1956 and 1967, from 85.35% in 1972 to 93.77% in 1976 between 1968 and 1979, and from 82.67% in 1983 to 90.58% in 1984 between 1980 and 1988. On the other hand, the States' share in the total revenue stood at 39.30% (1957), 21.10% (1958) and 23.04% (1971), while their relative share ranged between 6.23% in 1976 and 18.24% in 1962 for the period 1956 to 1988. It was between 12.08% in 1961 and 18.24% in 1962, 6.23% in 1976 and 14.65% in 1972, and 9.42% in 1984 and 17.33% in 1983, for the first, second and third periods respectively (see columns 5 and 6 of the same table 4.01).

The above impression clearly indicates a situation of revenue centralization in the Nigerian federal polity. And as noted above, this fiscal centralization was highest during the period 1968-79 when the share of the federal revenue ranged between 85.35% and 93.77%. It therefore shows that Nigerian states exist in an atmosphere of grave pre-transfers revenue deprivation. This, in other words, reflects revenue dependence of the States on the Centre, and hence establishes the need for federal transfers.

14. All references to growth rate in this chapter show Compounded annual average growth rate. See Note 3 of Appendix table IV.03 for method of calculation.

It may also be noted that the revenue concentration is higher in the current account where the pre-transfers share of the centre in the total revenue of the federation varied between 83.39% in 1967 and 97.26% in 1975, (see Appendix table IV.01). In the Capital Account, the federal shares varied (with few exceptions between 53.56% in 1974 and 94.72%) in 1984 (see Appendix table IV.02). This sort of centralists bias does not augur well for a federation as the same makes the states short of fiscal and monetary resources. Hence, their ability to discharge their constitutional obligations depends to a great extent on the fiscal transfers from the Centre. And the Centre in most cases sets the rules and guidelines.¹⁵ This thereby implies that fiscal centralization limits the fiscal autonomy of the lower-level governments. Nevertheless, "the concentration of financial and monetary powers in the hands of the centre has been used as a lever for enforcing a unitary discipline and for discouraging polycentric urges".¹⁶ The relevance of this goal particularly applies to Nigeria where regional loyalty seem to overwhelm nationalism.

Again, centralization of fiscal powers "...has been necessitated by a number of factors, the most important of which is the need to give the federal authority adequate fiscal powers to meet the responsibilities and obligations posed by the goals of public finance".¹⁷ Some of these goals are stabilization, redistribution and balanced growth and development. Hence, fiscal centralization in a federal set-up may not be seen (as such) as bad feature of fiscal operation. And thus, one can say that vertical fiscal imbalance is a necessary evil.

IV.2. REVENUE CENTRALIZATION - AN EXPLANATION

The term Revenue Centralization generally implies the concentration of revenue in the hands of the federal authority vis-a-vis the states. That is, (as noted in section III.2.1.3 of chapter two, page 30 on the issue of Revenue Concentration Ratio), a situation where the share of the federal revenue in the total revenue of the federation is greater than the share

15. See Ashok Mitra, "Will Growth and Centralized Fiscal Arrangement Do ?", in Centre-State Budgetary Transfers ed. by Gulati I.S., Oxford University Press, Bombay, 1987. pp. 27.

16. Ashok Mitra, *ibid.* pp. 29.

17. A. Adedeji, Nigerian Federal Finance, Hutchinson Educational Ltd., London, 1969. pp. 153.

of the states in the total revenue of the federation (i.e. when former is greater than 50%). Hence the revenue ratio as shown in equation 15 of chapter two ($RCR = R_f/R_s$, where R_f = federal revenue, and R_s = state revenue) is greater than unity.

The centralization of revenue in Nigeria is caused by the centralization of current receipts which accounted for 71% to 93% of the total federal receipts in most of the years covered in this study. Hence we have investigated here, an explanation for the concentration of current revenue as this would explain the concentration of the aggregate revenue in the hands of the centre. An explanation for this is borne in tables 4.02 (a), 4.02(b) 4.02(c), 4.03(a), 4.03(b) and 4.03(c).

TABLE 4.02(a)
REVENUE YIELD OF THE CENTRE AND STATE GOVERNMENTS
OF NIGERIA BY MAJOR RESOURCE BASES, 1959-67

(AMOUNT IN MILLIONS OF NAIRA)

Year	FEDERAL				STATES			
	Customs and Excise	Income Tax	Interests	Earnings and Sales **	Personal Income Tax	Mining Rents and Royalties	Earnings and Sales@	Others@@
1	2	3	4	5	6	7	8	9
1959	55.63	11.52	5.74	7.13	8.54	1.03	5.44	2.59
1960	57.57	11.08	6.23	8.78	8.47	0.47	7.14	3.54
1961	75.11	13.02	7.41	20.18	9.70	0.49	8.14	1.35
1962	82.28	16.39	7.78	5.89	11.10	2.79	8.55	5.50
1963	175.45	14.73	7.82	5.72	15.72	4.63	7.21	7.97
1964	182.82	14.88	6.98	4.60	16.16	2.37	5.82	8.39
1965	237.27	15.62	6.53	6.09	19.76	9.66	7.29	7.52
1966	250.15	23.56	6.15	11.51	22.12	12.09	8.95	9.98
1967	245.81	31.99	8.08	7.02	16.70	17.09	9.59	11.32
Growth Rates	17.95	12.02	3.87	-0.17	7.74	36.63	6.50	17.81

Source : (1) Federal Office of Statistics; Lagos.
(2) Central Bank of Nigeria.
(3) Official Gazettes of the States Governments.

Note : (1) * Comprises of Corporate and Individual Income Taxes.
(2) ** Includes Profits.
(3) @ Includes Interests and Rents om Governments Property.
(4) @@ Comprises of transfers from Public Corporation and Motor Vehicle Tax.
(5) All figures are at Current Prices.
(6) The revenue heads noted above are current account resource bases.

TABLE 4.02(b)
REVENUE YIELD OF THE CENTRE AND STATE GOVERNMENTS
OF NIGERIA BY MAJOR RESOURCE BASES, 1971-79
(AMOUNT IN MILLIONS OF NAIRA)

Year	FEDERAL				STATES			
	Customs and Excise	Income Tax	Rents and Royalties	Interest and Dividend	Income Tax	Compulsory Fees, Fines & Penalties	Indirect Taxes	Others**
1	2	3	4	5	6	7	8	9
1971	407.69	189.23	72.73	18.78	43.27	14.77	11.83	12.25
1972	518.20	562.19	163.59	29.12	48.92	17.79	13.10	11.42
1973	486.71	629.64	199.44	33.00	60.61	20.91	16.03	15.18
1974	512.22	1215.82	336.79	61.47	65.32	25.63	25.59	12.41
1975	524.92	3140.34	898.44	564.62	85.62	27.20	18.51	15.09
1976	840.17	3417.08	1068.69	459.63	107.67	41.87	21.86	20.43
1977	943.74	4076.14	1278.48	553.07	138.19	44.95	26.64	18.63
1978	1698.30	3946.41	1140.10	523.62	199.23	50.20	26.52	18.70
1979	1143.90	5742.12	3716.70	274.63	239.16	49.39	28.97	19.88
Growth Rates	12.15	46.11	54.82	34.73	20.92	14.35	10.46	05.53

Source : Same as per table 4.02(a).

- (1)* Comprises of Individual Income Tax, Corporate Income Tax and Petroleum Profit Tax.
- (2)** Made up of Unfunded Employers Welfare Benefits, Interests, Dividends and Rents on Governments Property.
- (3) The type of taxes covered under the centre and states have different titles in this period than during the earlier one, 1959-67.
- (4) See notes 5 and 6 of table 4.02(a)

TABLE 4.02(c)
REVENUE YIELD OF THE CENTRE AND STATE GOVERNMENTS
OF NIGERIA BY MAJOR RESOURCE BASES, 1980-88
(AMOUNT IN MILLIONS OF NAIRA)

Year	FEDERAL				STATES			
	Petroleum Profit Tax	Mining Rents & Royalties	Customs and Excise	Company Tax	Personal Income Tax	Compulsory Fees, Fine and Penalties	Indirect Taxes	Interest and Dividend
1	2	3	4	5	6	7	8	9
1980	8564.30	3789.50	1813.50	579.20	917.10	89.70	86.10	16.90
1981	6325.80	2238.60	2325.80	508.20	725.80	101.70	75.60	15.20
1982	4846.40	2986.50	2336.00	734.00	920.80	100.30	75.90	20.14
1983	3746.40	3039.30	1985.20	1122.70	996.50	130.60	106.60	16.10
1984	4761.40	3448.30	1612.70	804.50	966.30	103.80	102.40	17.20
1985	6711.00	4204.10	2063.30	1023.60	1125.70	148.10	109.60	13.50
1986	4811.00	3002.50	1728.20	1092.10	1316.10	201.20	122.10	23.40
1987	12504.00	6242.20	3540.80	1210.80	1507.20	180.40	96.80	22.50
1988	12496.50	8435.60	4264.10	1569.20	1519.60	167.90	100.70	34.20
Growth Rate	4.29	9.30	9.97	11.71	6.32	1.68	7.21	8.15

Source : Same as per Table 4.02(a).

Note : See note (5) and (6) of table 4.02(a)

The first three tables cited here show that the Federal resource bases are not only highly productive,¹⁸ but also more elastic¹⁹ than those of the States. The absolute figures and growth rates of these major resource bases of the two governments show this clearly. That is, the federal revenue heads are generally higher and equally grow at comparatively higher rates. In contrast, however, the revenue yield of the States resource bases are very small and also grow at a comparatively low rates.

Thus, from table 4.02(a) (which shows the Revenue yield of the federal and state governments from major resource bases for the period 1959-67), it is observed that the federal major resource bases, Customs and Excise, and Income Tax increased substantially. This way, while the former rose from N55.63 million in 1959 to N245.81 million in 1967, marking a per annum compounded growth rate of 17.95%, the latter rose from N11.52 million to N31.99 million in the same period - a compounded annual average growth rate of 12.02%. The other two main resource bases of the federal government during this period, Interests, and Earnings and Sales did not show any substantial increases. While the former rose marginally from N5.74 million in 1959 to N8.08 million in 1967, reflecting an annual compounded average growth rate of 3.87%, the latter declined by -00.17% per annum average growth rate, from N7.13 million in 1959 to N7.02 million in 1967, (see columns 4 and 5 of table 4.02(a)). This thereby implies that these two resources bases of the Centre -- Interests, and Earning & Sales -- were not as resourceful as the other revenue heads -- during this period. From columns 6 to 9 of the same table, it is noted that the yield from the States major resource bases are very small when compared with those of the Centre. Thus, whereas the Personal Income Tax was N8.54 million in 1959, it rose to N16.70 million in 1967 (growth rate of 7.74%) while the absolute figures in respect of the Mining Rents and Royalties rose

18. The productiveness of the Federal resource bases over those of the states reflects the tendency of the former yielding higher absolute revenue than the latter. This arises from the fact that the federal resource heads are more broad-based and hence possess higher capacity in revenue yielding than the states resource bases.

19. This word is used in two senses here. The first connotes the generative capacity of the resource bases of the Federal and the State governments - that is, their respective growth potentiality over a period of time. The second sense in which the word is used is indicative of the capacity of the respective resource bases of the Federal and the States to increase their revenue yield through broadening their base in the form of new taxes or through additional taxes (surcharges).

from N1.03 million in 1959 to N17.09 million in 1967, a growth rate of 36.63%. The revenue yield from Earnings and Sales of the States rose from N5.44 million in 1959 to N9.59 million in 1959, a growth rate of 6.50% compounded annually while the "Others" revenue heads (column 9 of table 4.02(a)) rose from N2.59 million to N11.32 million in the same period marking an annual average compounded growth rate of 17.81%.

From the above analysis it is thus obvious that the revenue yields from the major resource bases of the States are in no way comparable to that of the Centre. Hence, although two of the States major resource bases, Mining Rents and Royalties and "Others revenue" recorded substantial annual average growth rates of 36.63% and 17.81% (the former being double and the latter comparable to the growth rate of the Centre's Customs and Excise growth rate of 17.95%), their absolute values as noted above are definitely not comparable.

The above observation is also corroborated by an examination of the revenue yield of the Governments by their respective major resource bases for the period 1971-79 as depicted in table 4.02(b). It has to be pointed out, however, that type of the resource bases covered under the Centre and the states have different title in this period from the earlier one, 1959-67. From this table it is noted that the respective major resource bases of the Federal generally recorded higher absolute increases as well as in percentage growth terms. Thus apart from Customs and Excise which grew at a relatively lower compounded annual average growth rate of 12.15% (as compared to earlier periods), the other resource bases recorded substantially high growth rates. The federal Income Tax grew by 46.11%, Rents and Royalties by 54.82% and Interests and Dividends by 34.73%. In contrast, however, the major resource bases of the States, Income Tax, Complusary Fees, Fines, Penelties, Indirect Taxes, and Others grew by compounded annual average growth rates of 20.92% 14.35%, 10.46% and 5.53% respectively. This way, it is observed that between 1971 and 1979, Customs and Excise increases from N407.69 million to N1143.90 million while the federal Income Tax rose from N189.23 million to N5742.12 million. The increase was from N72.73 million to N3716.70 million for Rents and Royalties and from N18.78 million to N274.63 million for Interest and Dividends. (see columns 2 to 5 of table 4.02(b)).

In a sharp contrast, however, the major resource bases of the States, Income Tax rose from its meager size of N43.27 million in 1971 to N239.16 million in 1979. The increase in respect to Compulsory Fees, Fines & Penalties was from N14.77 million to N49.39 million in the same period. For Indirect Taxes and "Others", the increase was from N11.83 million to N28.97 million and from N12.25 million to N19.88 million respectively during the same period. (See columns 6 to 9 of table 4.02(c)). Growth rates of states taxes in this period were higher than earlier period.

Table 4.02(c) which shows the revenue yield of the Federal and States' from their respective major resource bases for the period 1980-88, endorses the above observation. That is, it also shows that while the size of the revenue accrual from the federal major resource bases is quite enormous vis-a-vis those of the states, their respective growth rates are comparatively higher.

Thus, the major resource bases of the federal government, Petroleum Profit Tax rose from N8564.30 million in 1980 to N12496.50 in 1988, Mining Rents and Royalties increased from N3789.50 million to N8435.60, Customs and Excise rose from N1813.50 million to N4264.10 million, and Company Tax from N579.20 to N1569.20 in the same period. This is reflected in growth rates of 4.29%, 9.30%, 9.97% and 11.71% respectively, (See columns 2 to 5 of table 4.02(c)). On the other hand, the major resource bases of the States, Personal Income Tax, Compulsory Fees, Fines & Penalties, Indirect Taxes and Interests & Dividends registered growth rates of 6.32%, 1.68%, 7.21% and 8.15% respectively. These growth rates were generally lower than those recorded by the Federal major resource bases. Thus, for the period 1980-88, the revenue yield from the States Personal Income Tax rose from N917.10 million to N1519.60 million, and from N89.70 million to N167.90 for Compulsory Fees, Fines and Penalties. The increase was from N86.10 million to N100.70 million for Indirect Taxes and from N16.90 million to N34.20 million for Interest and Dividends.

The above observations, therefore show that the domination of the Federal revenue over the States revenue in the aggregate revenue of the federatives is inevitable. Hence

strong implication of revenue centralization. This issue is further buttressed by tables 4.03(a) to 4.03(c).

Table 4.03(a) shows the federal major resource base Customs and Excise as percentages of states major resource base, income tax, and federal and states' aggregate current receipts respectively. Column 2 of this table shows that the Federal major resource base - Customs and Excise (between 1959 and 1967) was 651.41% of States major resources base, (Income Tax), 186.55% of total Current Receipts of the States (column 3), and 35.97% of Total Current Receipts of the Federal (column 4) in 1959. It rose with fluctuations to 1471.92%, 389.12% and 77.89% respectively for 1967. The average²⁰ figures for the period of nine years are 988.61%, 321.41% and 59.10% respectively.

TABLE 4.03(a)

THE MAJOR RESOURCE BASE OF THE FEDERAL GOVERNMENT AS A PERCENTAGE OF THE MAJOR RESOURCE BASE OF THE STATES, TOTAL OWN CURRENT REVENUE OF THE STATES AND TOTAL CURRENT REVENUE OF THE FEDERAL GOVERNMENT, 1959-67

Year	Federal major resource base as a % of States major resource base	Federal major resource base as a % of States Own current Receipts	Federal major resource base as a % of Federal Current Receipts
1	2	3	4
1959	651.41	186.55	35.97
1960	679.69	182.88	32.41
1961	774.33	241.20	33.57
1962	741.26	194.98	35.94
1963	1115.97	399.07	76.09
1964	1131.31	401.45	73.37
1965	1200.76	459.47	89.97
1966	1130.88	437.94	77.89
1967	1471.92	389.12	77.45

Source : Calculated with data from table 4.01 and 4.02(a).

Note : (1) The Federal major resource base is Customs and Excise.
 (2) The States major resource base is Individual Income Tax.
 (3) Federal Current receipts here imply the pre- transfers Current receipts.

20. A simple average method has been used in deriving these figures. That is $\bar{X} = \sum X/N$,

Where, \bar{X} is the average of the observations, X is the variable (observations) and N the number of the observation. The same applies to all references in regards to relative division (that is average share) of revenue and expenditure between the centre and the states in this chapter.

TABLE 4.03(b)
THE MAJOR RESOURCE BASE OF THE FEDERAL GOVERNMENT AS A PERCENTAGE
OF THE MAJOR RESOURCE BASE OF THE STATES, TOTAL OWN CURRENT
REVENUE OF THE STATES AND TOTAL CURRENT REVENUE
OF THE FEDERAL GOVERNMENT, 1971-79

Year	Federal major resource base as a % of States major resource base	Federal major resource base as a % of States Own current Receipts	Federal major resource base as a % of Federal Current Receipts
1	2	3	4
1971	437.32	231.70	26.05
1972	1149.20	610.28	43.36
1973	1038.84	559.13	45.50
1974	1861.33	944.40	56.14
1975	3667.76	2162.62	60.96
1976	3173.66	1589.71	58.54
1977	2949.66	1178.76	58.14
1978	1980.83	857.95	53.54
1979	2400.95	1104.21	52.62

Source : Calculated with data from table 4.02(b).

- Note : (1) Federal major resource base is Income Tax comprising of Personal Income, Corporate Income and Petroleum Profit Taxes.
(2) The States major resource base is Individual Income Tax.
(3) See Note (3) of table 4.03(a)

TABLE 4.03(c)
THE MAJOR RESOURCE BASE OF THE FEDERAL GOVERNMENT AS A PERCENTAGE
OF THE MAJOR RESOURCE BASE OF THE STATES, TOTAL OWN CURRENT
REVENUE OF THE STATES AND TOTAL CURRENT REVENUE
OF THE FEDERAL GOVERNMENT, 1980-88

Year	Federal major resource base as a % of States major resource base	Federal major resource base as a % of States Own current Receipts	Federal major resource base as a % of Federal Current Receipts
1	2	3	4
1980	933.85	645.05	56.22
1981	871.56	602.92	52.81
1982	526.32	368.32	41.25
1983	376.01	273.32	34.23
1984	492.75	344.70	42.77
1985	596.62	432.65	45.95
1986	365.55	258.57	39.11
1987	829.62	639.75	49.82
1988	785.15	582.67	45.76

Source : Calculated with data from table 4.02(c).

- Note : (1) Federal major resource base is Petroleum Profit Tax.
(2) States major resource base is Individual Income Tax.
(3) See Note (3) of table 4.03(a).

For the second phase, 1971 - 1979, as table 4.03(b) (column 2) shows the Federal major resource base, Income tax was 437.32% of States major resource base, (Income Tax) in 1971. It soared to 3667.76% in 1975 and dropped to 2400.95% in 1979. Its average for this period was 2073.28%. As a percentage of Total Current Receipts of the States, (column 3) the Federal major resource base for 1971, 1975 and 1979 were 231.70%, 2162.62% and 1104.21% respectively. The average for the period was 1026.53%. As a proportion of Total Current Receipts of the Federal government, [column 4, Table 4.03(b)] it was 26.05% in 1971 and climbed to 60.96% in 1975, and came down to 52.62% in 1979. It averaged 50.54% for this period. This shows a fall over earlier period average while the first two variables showed rise. Hence it could be deduced that during this period the major resource base of the became highly elastic unlike the states. This phenomenon had a definite tendency towards widening the revenue gap between the Centre and the states.

The third period seem to present a somewhat different picture - different in the sense that the three variables registered trends that were downwards. Thus from table 4.03 (c) [See Column 2] it is seen that the Federal major resource base as a percentage of States major resource base, States Total Current Receipts and Federal Total Current Receipts, as 933.85%, 645.05% and 56.22% respectively for 1980, dropped to 492.75%, 344.70% and 42.77% respectively in 1984. The figures were lowest in 1986 when they registered 365.55%, 258.57% and 39.11% respectively. By 1988, they recovered upto the tune of 784.15%, 582.67% and 45.76% respectively which, nevertheless, were less than 1980 figures. The averages for the period are 641.94%, 459.80% and 45.32% respectively. This trend, however, does not spell the States in a better position. It is nothing but a circumstantial phenomenon that sprang up consequent upon re-categorization and re-definition of the Federal revenue bases. That is, whereas the federal major resource base in the period 1971-79 was made up of three major direct taxes, Individual Income Tax, Corporate Income Tax and Petroleum Profit Tax, the federal major resource base for the period, 1980-88 was composed only of the Petroleum Profit Tax.

Therefore, we can draw a conclusion that the centralization of revenue in Nigeria originates from the centralization of major resource bases and not due to an overlapping (or con-current) fiscal powers of the Centre over the states'.

V. TOTAL EXPENDITURE OF THE FEDERAL AND STATE GOVERNMENTS OF NIGERIA

In this section of the study we have analysed the aggregate expenditure of the Centre and the States. The total expenditure of the governments comprises of the Current and Capital expenditures respectively.

The Current expenditure of the governments are the running expenditures. That is, all the expenditures on "upkeep and maintenance" of government organs, machines and equipments. In other words, they are expenditures on services and non-durable goods - assets the life time of which is less than one year. The Current expenditures in Nigeria are Categorised mainly as follows :

1. Personal Emoluments - wages and salaries.
2. Maintenance of (a) Roads and bridges (b) Plant and machinery.
3. Interests on External and Internal debts.
4. Subsidies to Public Institution and Coperations.
5. Pensions and Gratuities.
6. Expenditure on goods and services
7. Social Assistance Grant - payments to individuals and households in the form of scholarships, assistance to refugees, relief to destitutes and assistance to pilgrims.
8. Unrequited Currrent transfers abroad - a non-obligatory government contribution to Institution and Agencies abroad.

Thus the Federal Current expenditure as defined above does not include the Statutory transfers from the Centre to the States. The aggregate expenditure of the Federal and State governments respectively on the above headings constitute their respective Current expenditures.

The term Capital expenditures connotes expenditures that create assets of permanent nature, or disposes obligations or liabilities of long term nature. The Capital expenditures of the governments of Nigeria are broadly classified into six, viz :

1. **Capital formation :** Expenditure under this item represents outlay on the fixed assets, that is, expenditure on durable goods the life span of which is at least one year - such as cars, machines and equipments for Government departments. The definition here excludes expenditure on fixed assets in the nature of investment for the production of goods and services.
2. **Investments :** These are developmental expenditures of long term nature which go into the creation of assets and construction of socio-economic over-heads for the production of goods and services. Some of the expenditure heads here include Road Construction, Construction of Dams and Power Plants, Government Investment in State Owned Enterprises (SOE's) etc.
3. **Capital transfers :** This includes unrequited financial transfers to public institutions designed only for investment purposes.
4. **Loans to public corporations and institutions.**
5. **Loan Repayments**
6. **Capital Expenditures unspecified.**

The respective aggregate expenditures of the federal and state governments in the above expenditure heads constitute the Capital expenditures of the governments.

Columns 7 to 11 of table 4.01 depict the respective overall expenditure (Current plus Capital) of the Centre and the States. From column 7, it is observed that the total expenditure of the federal government grew tremendously with some fluctuations - from N94.46 million in 1956 to N236.41 million in 1967. By 1968, it had jumped to N437.32 million from which it leapt with slight fluctuations to N7549.48 million in 1979. In 1980 the figure stood at N13865.40 million and thereafter increased with fluctuations to N28418.72 million in 1988. This implied compounded annual average growth rate of 18.88% for the entire period, and 7.94%, 26.79% and 8.30% for the first, second and third periods respectively (See Appendix table IV.04).

For the States, column 8 of table 4.01 shows that the growth of their aggregate expenditure was also tremendous. Thus from N84.06 million in 1956, it rose with fluctuations to N267.31 million in 1967. It declined to N172.02 million in 1968 and thereafter rose continuously to N4060.94 million in 1979. The figure stood at N10258.60 million in 1980 - from which it rose with fluctuations to N13446.26 million in 1988. This reflects growth rates of 16.62%, 10.12%, 30.14% and 3.45% for the entire, first, second and third periods respectively. (see column 5 of Appendix table IV.4).

It may be pertinent to note that the growth rates of the states expenditure were higher than that of the Centre in the first and second phase. It was less than it only in the third phase. This thereby implies that the expenditure of the states are generally more elastic than those of the Centre.

On the issue of the level of involvement of each of the two tiers of governments in the total expenditure, columns 10 and 11 of table 4.01 show that the shares of the two governments did not differ significantly. The share of the Federal and States in the total expenditure during the first phase ranged from 43.61% to 55.30%, and 44.70% to 56.39% respectively. Thus, their average shares stood at 49.56% for the Federal and 50.44% for the States during this period. It is quite interesting to note that the States had a larger participation in the overall expenditure obligations during this period. In an unimaginable

contrast, however, the States share dropped sharply during the succeeding (Second) phase, 1968-79, - below 30% in some cases. This left them with an average of 34.32% (it ranged between 25.20% and 41.78%) during this period whereas the Centre bore the big chunk of 65.68% on the average. It ranged between 58.22% and 74.80%. The third phase, 1980-88, saw stimulated expenditure of the States, with their share ranging between 31.89% and 55.89%, with the average during this period rising to 41.85% while the Centre shouldered the remaining 58.15% within a range of 44.11% to 68.11%. For the entire period, the Federal share averaged 57.77%. It was 42.23% for the States.

In general, we observe from the above that although the States participation in the aggregate expenditures of the federation is quite sizeable, the domination of the Centre in the same is undoubted. This is especially so during the second and third phases of the study. This therefore entails that a reasonable degree of expenditure Centralization exists in the Nigerian federation. However, when the distribution of the expenditures between the Centre and the States is analysed vis-a-vis the distribution of revenue (as noted earlier) one would say that the expenditures are decentralized. That is to say that whereas the share of the centre in the aggregate revenue of the federation is in excess of its expenditure share, the states' share of revenue, on the other hand is by far less than their expenditure share.

VI. THE DEGREE OF FISCAL INDEPENDENCE OF THE FEDERAL AND STATE GOVERNMENTS OF NIGERIA

The foregoing analysis shows that there is disequilibrium between revenue and expenditure of the Federal and State Governments. Thus, in Nigeria, as in many other federations, there is a dichotomy between the revenue and expenditure of the Centre the the states respectively. The degrees are very critical in the case of Nigeria as the analysis shows. This way, it is observed that whereas the Federal controlled an average of 85.50% of the total receipts between 1956 and 1988 (see table 4.01, column 5), it shouldered only 57.77% of the total expenditure during the same period (see column 10 of the table). On the other hand, the state which an average share of revenue of 14.50% shouldered an

expenditure share which averaged 42.23% during the same period (see column as 8 and 11 of table 4.01). The implication of this trend is a grave situation of fiscal dependence of the States on the Federal authority.

As pointed out in section II.01 of this chapter, one of the methods of ascertaining the existence of revenue centralization or decentralisation, and hence of the degree of fiscal independence or dependence of the governments - is by expressing own receipts as proportions of own expenditures. The term own "receipts" in the current Account implies receipts of the respective tiers of governments from their own resource bases. That is their independent tax and non tax receipts in the Current Account before Statutory transfers. In the Capital Account, it implies all Capital receipts of the governments (excluding the Current Account surpluses) before Federal Grants and Loans to the States.

If for a particular level of government this proportion is equal or greater than 100.00, in a particular Account, it implies that that level of government is able (on its own) to finance its responsibilities. In that case that tier of government is said to be enjoying a fiscal viability or fiscal autonomy. Conversely, if for a particular tier of government these proportions is less than 100.00, in a particular Account, it implies that level of government is unable to finance its expenditure from its own sources in that Account. Such tier of government is therefore fiscally independent only to the extent it can finance its expenditure in that particular Account from its own sources, and fiscally dependent to the extent it relies on the other tier of government for transfers in order to meet up with its expenditure obligations. This gap between the revenue and expenditure of such level of government (usually the states) is called the "dependence ratio" and the same is generally taken as a measure of vertical fiscal imbalance.

In table 4.04 we present the Revenue-Expenditure proportions for the Federal and State governments of Nigeria for Current, Capital and total (Current plus Capital) Accounts. This has been done with a view to find out the degree of fiscal independence or dependence of Nigerian governments. From column 2 of this table it is observed that except for few years

this ratio is above 100% for the federal government indicating fiscal independence. The ratio of Federal Current receipts to its Current expenditure (in percentage) was very high. During the period of study, 1956 to 1988, it ranged from 136.02% in 1988 to 409.55% in 1977, the exceptions being the three years of the civil war, 1968, 1969 and 1970 when it was relatively low at 104.05%, 93.57% and 82.85% respectively, and 1975 when it was extraordinarily high at 734.03%. During the first period 1956-67, the figure varied between 172.07% in 1964 and 274.80% in 1961, and in the second 1968-79, between 176.13% in 1971 and 409.55% in 1977 (with the exception of the four years 1968-70 and 1975 as noted above), and between 136.02% in 1988 and 239.05% in 1980 during the third, 1980-88. This therefore shows that the federal government in Nigeria is fiscally independent. The above observation also implies that Nigeria has high degree of revenue centralization which was highest in the second period - precisely between 1971 and 1979. This was followed by the first period. It was lowest in the third period. This phenomenon, of aggregate Federal Current receipts exceeding its current expenditure is, however, present in most federations,^{20A} like India, Australia and Canada.

In a contrast to the above, column 3 of table 4.04 indicates that the States' own current revenue as percentage of their Current expenditure was very small. It ranged between 16.61% in 1981 to 45.17% in 1969 for the entire period of the study, 1956-88. The variation was from 26.10% in 1956 to 38.83% in 1959 between 1956 and 1967, from 18.90% in 1976 to 45.17% in 1969 between 1968 and 1979, and from 16.61% in 1981 to 28.42% in 1986 between 1980 and 1988. This works out to an average of 27.80%, 32.85%, 28.59% and 20.03% for the entire, first, second and third periods respectively. The implication of this, therefore, is that the Nigerian States do not enjoy a reasonable degree of financial autonomy as they have to depend on the Central revenue for around 72% of their Current expenditure (for the entire period), which reached as high as 80% on the average during the third period. Thus, one notes that in the absence of statutory transfers, the Current expenditure obligations of the States will suffer. This gives further credence to the fact that whereas

20A. See ACIR, *Ibid.* Also see Chelliah et al., *ibid* pp. 38- 40, 132 and 141.

TABLE 4.04
FEDERAL AND STATES OWN REVENUES AS PERCENTAGE OF THEIR
EXPENDITURE IN NIGERIA, 1956-88

Year	Own Federal Current Receipts as % of its Current Expenditure	States Own Current Receipts as % of their Current Expenditure	Own Federal Capital Receipts as % of its Capital Expenditure	States Own Capital Receipts as % of their Capital Expenditure	Own Federal Total Receipts (Current Plus Capital) as % of its Total Expenditure (Current Plus Capital)	States Own Total Receipts (Current plus Capital) as % of their Total Expenditure (Current plus Capital)
1	2	3	4	5	6	7
1956	205.31	26.10	28.59	55.05	137.85	31.36
1957	272.47	35.25	28.69	189.43	168.89	84.58
1958	232.62	34.12	22.99	47.45	138.62	37.84
1959	220.91	38.83	21.13	12.66	133.80	31.16
1960	220.40	31.73	35.75	8.49	140.74	21.20
1961	274.80	28.36	108.26	16.16	204.88	24.45
1962	211.22	33.65	62.48	27.42	156.65	31.53
1963	192.65	32.61	85.34	16.06	154.34	27.67
1964	172.07	34.24	90.73	13.03	140.88	27.89
1965	176.52	31.56	78.93	12.26	141.81	75.46
1966	194.39	30.78	78.14	10.14	150.07	24.92
1967	222.05	36.96	162.26	26.14	175.47	33.06
1968	104.05	33.77	84.08	40.09	96.78	36.01
1969	93.57	45.17	154.90	27.75	114.58	39.68
1970	82.85	33.14	205.27	59.94	117.23	38.60
1971	176.13	33.10	126.07	329.73	163.03	89.66
1972	273.20	29.80	60.65	142.61	207.74	58.79
1973	225.21	29.81	119.23	71.03	192.05	42.74
1974	283.15	30.18	16.76	68.88	113.43	45.63
1975	734.03	19.82	16.78	24.91	185.32	23.00
1976	406.72	18.90	44.17	17.16	165.71	17.91
1977	409.55	20.50	90.35	27.23	206.35	23.88
1978	215.04	23.27	122.92	39.87	174.74	31.47
1979	342.38	25.67	20.43	14.73	150.35	20.19
1980	239.05	25.48	15.61	23.32	118.30	24.42
1981	220.67	16.61	60.79	26.06	143.89	21.54
1982	229.01	21.90	48.75	78.74	121.86	25.20
1983	198.10	20.85	132.85	44.96	163.12	32.02
1984	170.13	23.90	141.39	39.09	160.54	25.46
1985	194.50	21.29	55.33	44.81	132.66	24.40
1986	154.49	28.42	14.16	67.59	81.93	34.37
1987	154.61	20.81	143.93	147.09	151.60	47.70
1988	136.02	21.34	145.79	143.31	138.89	52.16

Source : Calculated with data from tables 4.01 and Appendix tables IV-01, and IV-02.

Current revenues are centralized in Nigeria Current expenditures, on the other are decentralized. It is interesting, thus, to know that the States Current revenue as percentage of their Current expenditure is very low in Nigeria when compared with other major federations. As noted above, it was around 17-45% between 1956 and 1988. It is around 45-60% in Australia, 65-72% in Canada 83-86% in USA and 57-68% in India, (see Chelliah R.J. et al 1981).

Column 4 of table 4.04 shows the Federal autonomous Capital receipts as percentages of its Capital expenditure. Here we note that the ratio fluctuated heavily and in most cases remained less than 100.00%. Infact between 1956 and 1967 it did not reach the parity except in 1961 and 1967 when it stood at 108.26% and 162.26% respectively. In some cases, it was less than 30%. This thereby implies that the Centre had to depend on its Current Account surpluses in order to meet up with the Capital expenditure. As for the States, column 5 of the table indicates that they were unable to finance their own Capital expenditure from the Own Capital revenue sources. Thus, the States Own Capital receipts as percentage of their total Capital expenditure ranged between 8.49% in 1960, and 71.03% in 1973 (except in 1957, 1971, 1972, 1987 and 1988 when the figures stood at 189.43%, 329.73%, 142.61% 147.09% and 143.31% respectively). With these exceptions, the proportions ranged from 8.49% in 1960 to 55.05% in 1956, from 14.73% in 1979 to 71.03% in 1973, and from 23.32% in 1980 to 67.59% in 1986 respectively in the first, second and third phases. The States as has been observed earlier are unable to generate sufficient resources on their own Current Account, hence the question of pre-transfers surpluses do not arise. Obviously, they have to depend on Central Capital transfers (Grants and Loans), and post-transfers Current Account surpluses to finance their Capital expenditure. This confirms our earlier conclusion that Nigerian States lack financial autonomy and are heavily dependent on Centre.

Now, from columns 6 and 7 we can observe the total receipts (Current plus Capital) as percentages of total expenditure (Current plus Capital) of the Federal and States respectively. From column 6 it is noted that throughout the period of the study, the

pretransfers aggregate receipts of the Centre exceeded its aggregate expenditure with the exception of 1968 (one of the years of civil war), and 1986 (when there was decline in the oil revenue). Thus the federal total receipts as a proportion of its total expenditure ranged from 113.43% in 1974 to 207.74% in 1972 for the entire period of the study. It varied from 133.80% in 1959 to 204.88% in 1961 for the first period, from 113.43 in 1974 to 207.74% in 1972 for the second period (except in 1968 as noted above when it stood at 96.78), and from 118.30% in 1980 to 163.12% in 1983 for the third period (with the exception of 1986 when the figure stood at 81.93%). The above impression, thus implies centralization of revenue in the aggregate Account as the Centre is able (on its own) to generate revenues from its own sources over and above its total expenditure requirement. In contrast, however, column 7 of the table shows that the states are not fiscally viable, and hence lack the financial independence. This stems from the fact that they depend heavily on the Centre in order to discharge a big chunk of their expenditure obligations. Thus, as this column indicates, the states aggregate revenues as a percentage of their aggregate expenditure ranged from 17.91% in 1976 to 39.68% in 1969, during the thirty-three years of this study, except in 1957, 1971, 1972, 1973, 1974, 1987 and 1988 when the proportion stood quite high at 84.58%, 89.66%, 58.79%, 42.74%, 45.63%, 47.70% and 52.16% respectively (though less than 100%). Thus, on the average, the states could finance only 35.12% of their total expenditure for the period, 1956- 88. This average stood at 33.68% between 1956 and 1967, 38.96% between 1968 and 1979, and 31.92% between 1980 and 1988. This, in effect, implies that during these four periods, the states depended on the Centre to finance an average expenditure of 64.88%, 66.32%, 61.04% and 68.08% respectively. This, again, shows that revenue centralization and expenditure decentralization is in vogue in the Nigerian federation. It is pertinent to note here that the financial dependence of the States on the Centre is perhaps higher in Nigeria than in any other major federation as pointed out earlier.

It may be said that although an ideal division of functions and resource bases between the Centre and the states requires that the revenues of any tier of government should correspond to its responsibilities, or vice versa. In practice, this has not happened in any of

the existing federations of the world²¹. And hence, vertical fiscal imbalance is a common feature in all federation. "The asymmetry between functions and resources often leads to the lower level of government to transfer some of its functions to the federal government, to borrow to a self-defeating level, to accept financial assistance from the federal government, or less frequently, to raise taxes to such a level that they begin to have a dis-incentive effect on output, saving and investment."²² Thus the practice of fiscal federalism with existence of vertical fiscal imbalances requires that it be corrected through federal transfers to the states in the form of statutory allocation, federal grants and loans.

However, when these transfers assume a high magnitude, there is the danger that fiscal irresponsibility may emerge on the part of the recipient governments as they have no responsibility in the generation of those revenues. Hence, in federal finance (just like in other financial systems), the freedom of spending money should carry with it the responsibility of generating it.²³

21. See A. Adedeji, *ibid.* pp. 144

22. A. Adedeji, *ibid.* pp. 144

23. Also see Adarkar, B.P. The Principles and Problems of Federal Finance, P.S. King and Sons Ltd., London, p. 219.

APPENDIX IV.01
CURRENT RECEIPTS AND EXPENDITURE OF THE GOVERNMENTS
(FEDERAL AND STATES) OF NIGERIA, 1956-88

(AMOUNT IN MILLIONS OF NAIRA)

Year	REVENUE					EXPENDITURE				
	Federal	States	Total	Federal (2 as % of 4)	States (3 as % of 4)	Federal	States	Total	Federal (7 as % of 9)	States (8 as % of 9)
1	2	3	4	5	6	7	8	9	10	11
1956	119.90	17.96	137.86	86.97	13.03	58.40	68.80	127.20	45.91	54.09
1957	141.14	27.92	169.06	83.49	16.51	51.80	79.20	131.00	39.54	60.46
1958	141.90	26.68	168.58	84.17	15.83	61.00	78.20	139.20	43.82	56.18
1959	154.64	29.82	184.46	83.83	16.17	70.00	76.80	146.80	47.68	52.32
1960	177.64	31.48	209.12	84.95	15.05	80.60	99.20	179.80	44.83	55.17
1961	223.72	31.14	254.86	87.78	12.22	81.40	109.80	191.20	42.57	57.43
1962	228.96	42.20	271.16	84.44	15.56	108.40	125.40	233.80	46.36	53.64
1963	231.56	43.96	174.52	83.99	16.01	120.20	134.80	255.00	47.14	52.86
1964	249.16	45.54	294.70	84.55	15.45	144.80	133.00	277.80	52.12	47.88
1965	263.72	51.64	315.36	83.63	16.37	149.40	163.60	313.00	47.73	52.27
1966	321.14	57.12	378.26	84.90	15.10	165.20	185.60	350.80	47.09	52.91
1967	317.36	63.17	380.53	83.39	16.61	142.92	170.90	313.82	45.54	54.46
1968	289.32	37.50	326.82	88.53	11.47	278.05	111.06	389.11	72.96	27.04
1969	291.12	54.40	345.52	84.26	15.74	311.12	120.44	431.56	72.09	27.91
1970	436.00	70.40	506.47	86.10	13.90	526.25	212.45	738.70	71.24	28.76
1971	726.29	81.67	807.96	89.89	11.11	412.37	246.73	659.10	62.57	37.43
1972	1296.56	92.12	1388.68	93.37	6.63	474.58	309.09	783.67	60.56	39.44
1973	1383.81	112.61	1496.42	92.47	7.53	614.46	377.74	992.20	61.93	38.07
1974	2165.53	127.74	2294.27	94.39	5.61	764.81	426.53	1191.34	64.20	35.80
1975	5151.44	145.21	5296.65	97.26	2.74	701.80	732.76	1433.94	48.90	51.10
1976	5836.85	214.95	6051.80	96.45	3.55	1435.10	1137.47	2572.57	55.78	44.22
1977	7011.03	345.80	7356.83	95.30	4.70	1711.88	1686.59	3398.47	50.37	49.63
1978	7371.10	459.98	7831.08	94.13	5.87	3427.80	1976.82	5404.62	63.42	36.58
1979	10912.40	520.02	11432.42	95.45	4.55	3187.20	2025.94	5213.14	61.14	38.86
1980	15234.00	1327.70	16561.70	91.98	8.02	6372.80	5209.90	11582.70	55.02	44.98
1981	11978.90	1049.20	13028.10	91.95	8.05	5428.30	6317.80	11746.10	46.21	53.79
1982	11748.80	1409.20	13158.10	89.29	10.71	5130.20	6435.88	11566.08	44.36	55.64
1983	10947.40	1423.30	12370.70	88.87	11.13	5526.16	6824.92	12351.08	44.74	55.26
1984	11133.70	1381.30	12515.00	88.96	11.04	6544.30	5778.81	12323.11	53.11	46.89
1985	14606.10	1584.10	16190.20	90.22	9.78	7509.40	7440.93	14950.33	50.23	49.77
1986	12302.00	1860.60	14162.60	86.86	13.14	7963.01	6547.40	14510.41	54.88	45.12
1987	25099.80	1954.50	27054.30	92.78	7.22	16234.24	9394.32	25628.56	63.34	36.66
1988	27310.80	2144.70	29455.50	92.92	7.28	20078.62	10048.62	30127.48	66.65	33.35
Average				89.02	10.98				53.76	46.24

Source (1) Federal Office of Statistics Lagos (2) Central Bank of Nigeria (3) Official Gazettes of Federal and State Governments. (4) A Adedeji; Nigerian Federal Finance, 1969

Note (1) Upto 1967 the States were referred to as Regions (2) Figures for 1968-70 excludes the Eastern Region as they were not available due to the civil war. (3) The source above refers to columns 2 to 4 and 7 to 9 while columns 5,6,10 and 11 have been calculated from the same. (4) One Naira Equals around Rs 15 and \$ 1.40 during the period studied (5) All figures are at current prices (6) Federal current expenditure excludes statutory transfers to the states (7) The current receipts of the centre and states are before statutory transfers

APPENDIX IV.02
CAPITAL RECEIPTS AND EXPENDITURE OF THE GOVERNMENTS OF NIGERIA
(FEDERAL AND STATES), 1956-88

(AMOUNT IN MILLIONS OF NAIRA)

Year	REVENUE					EXPENDITURE				
	Federal	States	Total	Federal (2 as % of 4)	States (3 as % of 4)	Federal	States	Total	Federal (7 as % of 9)	States (8 as % of 9)
1	2	3	4	5	6	7	8	9	10	11
1956	10.31	8.40	18.71	55.10	44.90	36.06	15.26	51.32	69.99	30.01
1957	10.98	70.58	81.56	13.46	86.54	38.27	37.26	75.53	50.67	49.33
1958	11.41	74.32	25.73	44.91	55.09	49.62	30.18	79.80	62.18	37.82
1959	11.44	4.03	15.47	73.95	26.05	54.13	31.85	85.97	62.96	37.04
1960	21.86	4.04	25.90	84.40	15.60	61.15	47.57	108.72	56.25	43.75
1961	63.81	8.37	72.18	88.40	11.60	58.94	51.81	110.75	53.22	46.78
1962	39.25	17.64	56.89	68.99	31.01	62.82	64.34	127.16	49.40	50.60
1963	55.72	9.20	64.92	85.83	14.17	65.29	57.30	122.59	53.26	46.77
1964	81.70	7.41	89.11	91.68	8.32	90.05	56.86	146.91	61.30	38.70
1965	65.14	9.28	74.42	87.53	12.47	82.53	75.69	158.22	52.16	47.84
1966	79.55	7.45	87.00	91.44	8.56	101.81	73.44	175.25	58.09	41.91
1967	151.70	25.20	176.90	85.75	14.25	93.49	96.41	189.90	49.23	50.77
1968	133.91	24.44	158.35	84.57	15.43	159.27	40.96	220.23	72.32	27.68
1969	251.07	15.38	266.45	94.23	5.77	162.09	55.43	217.52	74.52	25.48
1970	421.82	32.63	454.45	92.82	7.18	205.50	54.44	259.94	79.06	20.94
1971	184.19	191.67	375.86	49.00	51.00	146.10	58.13	204.23	71.54	28.46
1972	128.10	152.42	280.52	45.67	54.33	211.20	106.88	318.08	66.40	33.60
1973	333.60	122.67	456.27	73.11	26.89	279.80	172.69	452.49	61.84	38.16
1974	225.00	195.12	420.12	53.56	46.44	1342.60	283.27	1625.87	82.58	17.42
1975	383.40	303.60	687.00	55.81	44.19	2285.40	1218.66	3504.06	65.22	34.78
1976	1257.10	256.15	1513.25	83.07	16.93	2845.90	1492.69	4338.59	65.60	34.40
1977	2709.20	461.30	3170.50	85.45	14.55	2998.60	1693.91	4692.51	63.90	36.10
1978	3275.70	769.20	4044.90	80.98	19.02	2665.00	1929.24	4594.24	58.01	42.00
1979	891.26	299.78	1191.04	74.83	25.17	4362.28	2035.00	6337.28	68.84	31.16
1980	1169.80	1177.26	2347.06	49.84	50.16	7492.60	5048.70	12541.30	59.74	40.26
1981	3049.20	1801.40	4850.60	62.86	37.14	5015.70	6913.50	11929.20	42.05	58.00
1982	3665.50	1126.10	4391.60	67.99	32.01	7519.00	6005.80	13524.80	55.59	44.41
1983	8483.70	2648.70	11132.40	76.21	23.79	6385.80	5890.90	12276.70	52.02	47.98
1984	4634.70	258.60	4893.30	94.72	5.28	3277.90	661.50	3939.40	83.21	16.79
1985	3322.90	507.50	3830.40	86.75	13.25	6005.20	1132.60	7137.80	84.13	15.87
1986	1207.30	793.30	2000.60	60.35	39.65	8526.80	1173.70	9700.50	87.90	12.10
1987	9172.10	3739.40	12911.50	71.04	28.96	6372.50	2542.30	8914.80	71.48	28.52
1988	12159.20	4868.90	17028.10	71.41	28.59	8340.10	3397.40	11737.50	71.06	28.94
Average				79.29	27.71				63.56	36.44

Source : Same as per Appendix table IV.01.

- Note
- (1) Capital Receipts of Federal and State Governments excludes Current Account (+) or (-) and includes Loans. See Appendix Table IV 05 for Capital Receipts of the Governments which includes (+) or (-) of Current Account.
 - (2) Federal capital expenditure excludes loans-on-lent to the states and Federal Grant to the states.
 - (3) See notes (1) to (4) of Appendix table IV 01

APPENDIX TABLE IV.03
GROWTH RATES OF RECEIPTS OF THE GOVERNMENTS OF NIGERIA
(FEDERAL AND STATES) 1956-88

Period	Account	Federal	States	Total
1	2	3	4	5
1956-88	Current Account	17.90	15.60	17.65
	Capital Account*	23.90	21.26	22.93
	Total (Current & Capital)	18.91	18.83	18.83
1956-67	Current Account	08.45	11.05	08.83
	Capital Account*	25.12	09.59	20.59
	Total (Current & Capital)	11.27	10.61	11.61
1968-79	Current Account	35.33	24.50	34.48
	Capital Account*	17.11	23.23	18.31
	Total (Current & Capital)	31.96	24.02	31.20
1980-88	Current Account	06.70	05.47	06.61
	Capital Account*	29.71	17.09	24.63
	Total (Current & Capital)	10.25	12.12	10.51

Source : Calculated with data from Table 4.01 and Appendix tables IV-01 and IV-02.

Note :

- (1) * Excludes Current Account (+) or (-)
- (2) See section III of this chapter for the definition of current receipts and capital receipts.
- (3) Calculation based on compounded annual average growth rate with the formula $Y = a(1+r)^t$

Where

- Y = Current year (last year of the period for which the calculation is being made) figure of the particular revenue variable.
- a = Base year (first year of the period for which the calculation is being made) figure of the particular revenue variable.
- r = Growth rate
- t = Time

APPENDIX TABLE IV.04
GROWTH RATES OF EXPENDITURE OF THE GOVERNMENTS OF NIGERIA
(FEDERAL AND STATES) 1956-88

Period	Account	Total Expenditure (Federal & States)	Federal Expenditure	States Expenditure
1	2	3	4	5
1956-88	Current Account	18.02	19.36	16.30
	Capital Account	17.89	17.93	17.80
	Total (Current & Capital)	17.98	18.88	16.62
1956-67	Current Account	07.82	07.74	07.88
	Capital Account	11.52	08.26	16.60
	Total (Current & Capital)	09.07	07.94	10.12
1968-79	Current Account	24.14	22.54	27.38
	Capital Account	32.31	31.76	33.96
	Total (Current & Capital)	27.84	26.79	30.14
1980-88	Current Account	11.21	13.60	7.75
	Capital Account	-00.42	01.20	-03.54
	Total (Current & Capital)	06.49	08.30	03.45

Source : Calculated with data from Table 4.01 and Appendix tables IV-01 and IV-02.

Note : See note (3) of Appendix table IV-05 for the method of calculation.

APPENDIX IV-05
CAPITAL RECEIPTS OF THE GOVERNMENTS (FEDERAL AND STATES) OF NIGERIA BEFORE
AND AFTER CAPITAL TRANSFERS, 1956 - 88

(AMOUNT IN MILLIONS OF NAIRA)

Year	Federal	States	Total	Federal (2 as % of 4)	States (3 as % of 4)
1	2	3	4	5	6
1956	25.67	3.70	29.37	87.40	12.60
1957	47.96	71.66	119.62	40.09	59.91
1958	37.79	17.32	55.02	68.68	31.32
1959	37.90	15.23	53.13	71.33	28.67
1960	48.48	6.74	55.22	87.79	12.21
1961	127.21	8.63	135.84	93.65	06.35
1962	71.73	22.52	94.25	76.11	23.89
1963	72.16	12.28	84.44	85.46	14.54
1964	90.28	15.73	106.01	85.16	14.84
1965	52.54	24.24	76.78	68.43	31.57
1966	102.95	11.51	114.46	89.94	10.06
1967	190.08	53.53	243.61	78.03	21.97
1968	61.68	34.27	95.95	64.28	35.72
1969	149.95	30.46	180.41	83.12	16.88
1970	149.57	72.58	222.15	67.33	32.67
1971	199.50	325.22	524.72	38.02	61.98
1972	636.00	249.53	885.53	71.82	28.18
1973	770.48	190.01	960.49	80.22	19.78
1974	1233.57	289.48	1523.05	80.99	19.01
1975	3907.27	642.44	4549.71	78.26	21.74
1976	4710.53	281.95	4992.48	66.08	33.92
1977	6509.80	619.06	7128.86	91.32	08.68
1978	5382.09	1089.27	6471.36	83.17	16.83
1979	6979.30	431.02	7410.32	94.18	05.82
1980	5545.78	1780.28	7326.06	75.70	24.30
1981	4641.50	1491.10	6132.60	75.69	24.31
1982	5658.02	1553.70	7211.72	78.46	21.54
1983	9699.92	1716.60	11416.52	84.96	15.04
1984	4706.09	379.10	5085.19	92.55	07.45
1985	4457.57	612.70	5070.27	87.92	12.08
1986	1022.50	630.30	1652.80	61.86	38.14
1987	8040.94	6296.30	14337.24	56.08	43.92
1988	8014.72	8341.40	16356.12	49.00	51.00

Source . Calculated with the available data as per source for table 4 01.

Note . Capital Receipts of Federal and State Governments includes (+) or (-) in Current Account.