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A COMPARATIVE ANALYSIS OF THE PRACTICE OF FISCAL FEDERALISM IN NIGERIAN AND AUSTRALIAN FEDERATIONS

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This paper comparatively interrogates the development and practice of Intergovernmental fiscal relations in Nigeria and Australia. Nigeria and Australia are two federal countries, that are huge and multi cultural in nature, and are engaged in the struggle to build National unity on the basis of their federal constitutions. For the Australia Commonwealth, having survived till date the tumultuous periods in its growth as a federation, its practice of federalism seems to have stood the test of time. Fiscal challenges that arose within the Australian federation have provided a frame within which important principles have been constructed, tested and institutionalized. These principles can therefore contribute a great deal to the comprehension of related issues and solving problems in other federal systems. This essay identifies lessons from the Australian model and implications of this for the Nigerian state. Much more importantly, an evolving federation like Nigeria can learn valuable lessons from the older Australian federation. The unscrambling of these enduring principles is the corpus of this study.

Nigeria: The Historic

Nigeria is a federal country with a constitutional distribution of powers and functions among the central, state and local governments. Federalism was formally adopted in Nigeria in 1954 under the Lyttelton constitution when, the country was reorganized into three quasi self governing and administrative regions[1]. Before 1954, the Nigerian state was administered by the British external colonial order largely as a unitary state. The British adopted federalism for Nigeria as a pragmatic response to the fissiparous propensity inherent in Nigeria's pluralistic society[2] and secondly as a tool needed to handle the varied tasks which a modern government is expected to carry out. Some of these roles are more efficiently handled at lower levels such as states and local governments. Consequently, the successive federal establishments have had to set up fiscal commissions at different intervals to handle multi layered government financing and deal with the counterpart issues of inter governmental fiscal relations so that each layer of government in the Nigerian federation would have sufficient wherewithal to fulfill assigned functions[3]. Till date, Nigeria has had four ad hoc colonial fiscal commissions, three post colonial ad hoc commissions and one permanent fiscal commission known as Revenue Mobilization Allocation and Fiscal Commission. (RMAFC).

A Historical Overview of the Strains and Travails of Nigeria's Federal Finance

The problem of revenue distribution has been a structural challenge with Nigeria from inception. In the colonial era even though equity was not at the epicenter of Nigeria's Fiscal federalism, the principles for the allocation of national revenues evolved by the colonial commissions placed emphasis on national integration, fiscal efficiency and cohesion. These principles ironically bred interregional disunity as much as it accelerated uneven development among the three regions in Nigeria. Much more importantly, the colonial strategy of divide and rule made revenue allocation to challenge a „winner take all" affair as each new formula always favored the critic.

Cumulatively, the stress and strain exerted on the polity by the regional elites during the colonial period weakened the Nigerian state (as evidenced in the Post colonial era) and made revenue sharing issue an unsettled affair in financial administration of Nigeria.

Nigeria became a sovereign state on October 1st 1960. The Independence and Republican constitutions dictated the tone and tenor of financial relations; however, inequality pervaded all facets of financial administration in Nigeria both vertical and horizontal. The authoritative allocation of funds among the federating units was hindered by the system of regionalism. This engendered unhealthy ethnic competition for scarce federal economic resources. Given the misappropriation of federal power by the Northern Peoples Congress (NPC) between 1960 and 1966, the party used political power in its custody to marshal and reroute federal revenues, infrastructure, and federal patronage to her ethnic home land.[4] This scenario provoked resentment against the ruling party and its hegemonist tendency. This tension was one of the fundamental causes of the calamity that overwhelmed the Nigerian state at that period, and led to political instability and eventual demise of the first republic in 1966.

THE TWO MILITARY INTERREGNA AND THE MANAGEMENT OF NIGERIAN FEDERAL FINANCE 1966--1978 AND 1983 –1999

With the coup of 1966 military rule was inaugurated in Nigeria in January 1966. Consequently, there was a paradigm shift in financial administration in Nigeria. Nigeria's federal finance moved from fiscal federalism to fiscal centralism. Here the successive military regimes used military decrees to centralize the collection and control of buoyant and robust sources of National revenues. The military also created extra statutory accounts and employed highly politicized principles of population and interstate equity to reallocate funds at the expense of more balanced principles of derivation and internal revenue generation effort. The implications of these are that the actions feathered the nests of the military ruling class and in addition disproportionately shifted revenues from the oil rich minority southern states to the less productive states of northern Nigeria, most of which coincidentally produced these military rulers.[5] This process has legitimized the warped and iniquitous nature of Nigerian fiscal federalism. Consequently, agitations for reform and even secession have been endemic in the resource rich states and these now threaten the integrity and very survival of the Nigerian federation. To this extent, the necessity for reforms is emphasized and the Australian model offers a viable and credible option for Nigeria.

Insights from Fiscal Federalism in Australia and Nigeria

The federation of Australia came into existence on January 1, 1901. It was the outcome of a series of inter-colonial negotiations and referenda that went on for 30 years in the six ratifying colonies. The colonies federated in order to mutually enjoy the benefits of internal free trade, a customs union and common external tariff against outsiders.[6] In addition, the amalgamation was meant to also give effect to political diversity, rather than ethno-cultural diversity. The leading idea at the time was that federalism would also enable the people of each state to govern themselves in most matters, while having a share in a national government through which they could govern the affairs of the continent as a whole. The Australian central government is known as the Commonwealth and the subunits are known as the states. The existing colonies that transformed into states at federation in 1901 were New South Wales, Victoria, Queen Island, Western Australia, South Australia and Tasmania. They were joined later by two territories known as Australian Capital Territory

(A.C.T) and the Northern Territory.[7] The states and territories are extremely heterogeneous by population and land area but the most homogenous of any federation by per-capita income.[8]

In Nigeria there were no inter regional negotiations as the British foisted on the Nigerian peoples an un-negotiated union. The three original regions that evolved during the colonial era negotiated the Nigerian independence agreement of 1960. A curious aspect of the Nigerian federal experiment unlike that of Australia centres on the continual division of the sub units time and again into smaller bits. Nigeria today has thirty-six states as sub units of the federation.

Australia practises cooperative federalism which denotes harmony, mutual assistance and common endeavour in which all tiers of government are effectively integrated. The integration engendered by this cooperative federalism has been an effective platform for enforcing the dependence of the states and territories on extensive fiscal transfers from the Commonwealth.[9] The Australian constitution sets out the powers of the commonwealth government. However, the history of Australian Federalism is that of gradual growth of central power which has resulted in the Commonwealth control of major direct and indirect taxes. This has resulted in a very high degree of vertical fiscal imbalance which has also been identified as the worst financial feature of Australian federalism. The resulting imbalance has left states heavily dependent on financial grants from the Federal government.[10] In fact, states and territories rely on transfer payments from the centre which amounts to about 40% of their revenue[11]. This imbalance is historical and it is rooted in the constitutional division of powers and responsibilities between the Commonwealth and state governments at federation.

Customs and Excise powers in Australia were relinquished to Commonwealth at federation. The meaning "excise" was not specific in the constitution. The judiciary was left to interpret what was to be included under the term "excise" and hence, in effect, of determining the distribution of tax powers. The high court thus determined the relative strength of states on excise taxes in relation to the Commonwealth in a way that diminished the role of states and soothed the desire of the central government. Land mark judgments that exemplify this fact were made in the 1920s and 1930s. Specific cases were the John Fairfax and Sons Limited versus Newsouthwales (1927), Attorney .General ,New Southwales versus Home Bush Flour Mills Limited (1937), and Mathews versus Chicory Marketing Board (1938). In all of these instances the court ruled in favour of the Commonwealth. The other tax exclusively controlled by the Commonwealth is the income taxes which the centre took over in 1942[12]. Through these tax regimes, the centre has effectively centralized power over national income. In contrast to tax powers, most expenditure responsibilities remained in spirit, at least, decentralized. This effectively gave states responsibility in spending on such big assignments as education, health and roads[13].

For Nigeria, the judiciary has played minimal role in shaping the balance of legislative power between the Federal and state governments. Only in two instances, in Nigeria's fourth republic did the Supreme Court argue in favour of the Federal government. These were in cases between the federal government and oil producing states (on revenue matters) on one hand and with non littoral states on the other hand. However, military rule before this period had dramatically and fundamentally favoured the Federal government in revenue matters. Decrees unilaterally promulgated by the Federal Military Government (FMG) shifted legislative and fiscal powers from the states to the centre. Such Decrees included decree no 3 of 1968 (Central Bank of Nigeria Act of 1968) through which the centre absorbed state functions. This asserted the supremacy of the Federal government over the marketing boards. The other is the income tax management (Uniform Taxation Provisions) Decree 7 of 24th, February 1975, through which the centre absorbed states" taxation powers and Decree No. 1 of 1984 which gave FMG power to make laws for the peace, order and good governance of Nigeria or any part thereof with respect to any matter whatsoever.[14]

Moreover, the control and administration of customs and excise taxes have remained the exclusive preserve of the Nigerian government while she shares personal income tax with the state governments[15].

Transfers to Correct Vertical Fiscal Imbalance

With-the heavy expenditure assignments given to states in Australia, the Federal government resorted to interventionist policies. The centre engaged in huge financial transfers from the centre to the states. These transfers are known as special grants. They were given so that states can function averagely at a reasonable standard. These special grants went into general state revenue and specific purpose grants otherwise known as conditional grants. Through these conditional grants, the central government influenced the expenditure decisions of states[16] so that the states would help in the overall attainment of set national economic objectives. A plausible reason why the center's intervention in states" assignments had been so prevalent cannot be divorced from the welfarian conception of the state at the period. As the welfare state developed, the Commonwealth wished more and more to intervene in policy areas that were constitutionally meant for states. The scope to do so by constitutional amendment being severely restricted, recourse had to be made to conditional grants known in Australia as special purpose grants.

These special grants of Australia were akin to Federal grants received by Nigerian states but without their extensive matching conditions in the Nigerian case. These funds were politicized in Nigeria by the ruling parties at various periods. Oil and Minerals Producing Areas Development Commission (OMPADEC) (a body statutorily charged with managing funds used for infrastructural development in Nigeria's oil bearing communities) got federal funds that were not conditional as the oil states were not really required to drop counterpart fund. For instance, funds released by the Federal government to defunct (OMPADEC) from 1992[17] and the funds released also to Petroleum Trust Fund (PTF) to build infrastructures in states were meant to mitigate the effect of vertical fiscal imbalance between the centre and subunits in the federation. Their impact had however been minimal.

The Goods and Service Tax (G.S.T) is the other tax that the Australian central government had used since 1999 to, in some way, bridge the vertical fiscal imbalance in Australia. It was put in place by the central government because of protests from states over funds. The proceeds of G.S.T, wholly collected by the central government are also wholly remitted to the states to further carry out their expenditure responsibilities.

The functional equivalent of G.S.T in Nigeria is the Value Added Tax (V.A.T). V.A.T is a tax on the supply of goods and services which is borne by the final consumer but collected at each stage of the production and distribution chain. It was adopted in Nigeria in 1994 as a veritable source of revenue for the three tiers of government. VAT is 5% charges on all goods and services which is centrally collected and administered by Federal Inland Revenue Services. Unlike Australia's central government which remitted G.S.T proceeds wholly to the states, Nigeria's central government in the period under study took 35% and allocated 40% and 25% respectively to states and local governments[18].

VAT which replaced sales tax in Nigeria was meant to expand the financial base for revenue generation for the three levels of government. It would have been much more expedient and effective if the central government also returned the VAT proceeds wholly to states and local government and also down played the equality of states principle inherent in VAT sharing which carried a weight of 40%.[19] The present arrangement could become counterproductive if not made dynamic. According to Bola Tinubu, a former governor of

Lagos State, equity was not infused into the sharing of VAT proceeds and the present sharing arrangement is not justifiable. In the whole of the Nigerian federation, the highest amount of VAT is generated from Lagos State (the commercial hub of the country) but in terms of devolution of VAT proceeds from the federal government to Lagos, the compensation does not reflect the level of contribution.[20]

Horizontal Fiscal Equalization

In Australia, Federal grants for the express purpose of equalizing state fiscal disparities have a long history dating back to the early days of federation when they were given on ad-hoc basis and for a limited term of years.[21] A more rational, normative and permanent basis was pioneered in the early 1930"s by the Commonwealth Grants Commission (CGC) largely under the inspiration of L.S Giblin whose proposal led to the formation of the body.[22]

The grants commission attempted fiscal equalization through special grants paid to less populous or financially weaker states.[23] In pursuit of its conception of horizontal fiscal equalization, the grants commission developed a very detailed set of procedures for equalizing both revenue capacity and expenditure disabilities of states. In the equalization effort, the Grants Commission took into account differences in states" revenue-raising capacity and differences in costs of providing comparable services. This is very much unlike Canada"s revenue equalization system which reflected only differences in revenue-raising capacity. Also the standard used as criteria in the Australian system is based on the performance of the two states judged to have the highest fiscal capacity (New South Wales and Victoria) unlike Canada"s system which is based on national standard average of five provinces.

It is worth noting that because Australian states must make applications for the special grants not all states with below the average fiscal capacity necessarily receive grants. The performance of those states which are neither standard states nor claimant states is not taken into account in determining the level of grants. Furthermore, Australian special grants are residual grants intended to enable claimant states to achieve budgetary equilibrium. Much more importantly, there is no systematic attempt to distribute the quantitatively much more important financial assistance grants, which all six states receive in accordance with differences in revenue raising capacity and costs of providing services.[24] The special grant a claimant state receives is the amount of its per-capita budget differential multiplied by its population.[25] This reveals that population (need principle) plays a pivotal role in the allocation of special grants. The Commonwealth Grants Commission has designed the grants formula in such a way that claimant states do not benefit from levels of expenditure higher than those justified by their relative needs.[26] This has had the overall effect of ensuring that states do not expend funds beyond their relative needs and revenue generating capacity.[27] For Nigeria, the equalization component in its horizontal revenue sharing portfolio has already made null and void the absorptive capacity element in the same arrangement. This is why some states have so much that the excess funds are either embezzled by politicians and government officials or better still wasted on white elephant projects.

In Australia, there are also the specific purpose grants, substantive and independent of any equalization objective. The specific purpose grants were given to claimant states as assistance in meeting debt charges. This has been a tool in also controlling the direction of state governments" expenditures.[28]

The C.G.C is about the most egalitarian of all bodies that regulate inter- governmental fiscal relations in all federations. It is totally depoliticised, unlike "Conference system" in Canada and "Finance Commission" in India.[29] The C.G.C has the sole responsibility to manage intergovernmental fiscal relations in Australia. It investigates and applies for special grants for states whenever the need arises. It also reviews the relative share of income tax revenue to states to ensure equitable distribution.[30]

The Nigerian federation started out with ad-hoc committees as regulators of fiscal relations among the tiers of government. Subsequently however, in 1988 a permanent commission to regulate intergovernmental fiscal relations was set up. It was known as National Revenue Mobilization Allocation and Fiscal Commission (RMAFC).[31] The RMAFC, being an agency of the federal government is not an egalitarian body. It is subject to government's political influence as its directors are appointed by the government of the day. This contrasts with what obtains in Australia where the post of the administrative head of C.G.C is publicly advertised on fixed term appointment.[32]

Another body in Australia that administers and regulates intergovernmental fiscal relations is the Loans Council. The Council is the body that authorizes both internal and external borrowing by the government. It is dominated by the central government which has two votes and a casting vote as against one vote each for the seven states in the federation.[33] This means that the centre has effective control on loans taken by the states.

In Nigeria no such body as the Loan council existed during the period for this study. In theory the Federal government is allowed to borrow from abroad but in practice states have gone into direct negotiations with external bodies for loans with the Federal government acting as their guarantor. The Federal government which ought to regulate external borrowing in this regard has been complacent with-this responsibility as far back as the first republic. Since states obtain loans externally without Federal government's approval. Both Federal and states" external debts had rose steadily especially since 1980. In fact, most of the debt incurred by states was unnecessary as they were used to finance many "uneconomic" projects. Given the short-term nature of these loans, states had difficulties servicing them. Accordingly, the Federal government was increasingly compelled to rescue them under an arrangement that such payments would be charged to such states"[34] shares of the central revenue. However, the subsequent large deductions made by the Federal government (in retrieving the loans given out) from the states" shares of the federation account have also continued to increase vertical fiscal imbalance and weaken the financial positions of most state governments.

Natural Resources

The Australian constitution is silent on ownership of natural resources and this gives the states title to the resources within their borders and the right to tax them. But the Federal government also has wide ranging revenue powers, including leasing offshore drilling rights, export duties on coal, levies on natural gas, crude oil, and company income tax. Whatever revenues she gets from this off shore ventures, it shares with the contiguous states.[35] It also collects 10% royalty on offshore minerals, 60% of which it passes to the states. Interestingly though, sub-national governments in Australia have considerable latitude as in Canada, which they use to levy taxes on natural resources despite geographic unevenness of this tax base.

The disparities in states" revenues from natural resources are mitigated by the extensive allocation of Federal grants to the states.[36] Australia has the most equalizing federalist system in the world because in its equalization efforts it takes into account states" revenue raising capacity and differences in cost of providing comparable services unlike Canada which only takes into account, differences in revenue raising capacity of the provinces.

Implication for Nigeria

Australia has considerable taxing instruments – which she uses to levy taxes on natural resources. Nigeria's central government ought to hands off ownership of these natural oil resources and relinquish it to states and use her power of taxation to levy taxes on these resources and redistribute its benefits.

As a result of the design of revenue allocation system in Australia, though centralized, none of the states or territories feels alienated. On the contrary the process has engendered unity and a good sense of belonging. The equitable nature of the system has encouraged nation building while secession by any unit is inconceivable.

One final unique feature of Australian fiscal federalism is its insistence on comparing like with like. In all states, the quality of public services enjoyed by remote rural dwellers is below that enjoyed by city dwellers. The comparability exercise is not designed to produce equality of access and of services for all citizens of Australia but only to ensure that a rural citizen of Northern territory has comparable outcomes to a rural in New South Wales and an urban citizen of Northern territory to an urban citizen in New South Wales.[37] One effect of this is that it may lead to rural-urban migration but this will in effect be ineffectual on state finances since it is the centre that collects income tax and redistributes same according to established principles. For Nigeria, this unique feature can help in checking the abuse of the equality factor in horizontal revenue distribution and ensure the efficient and judicious use of scarce federal funds. The cost of providing public services in more urbanized states differ remarkably from cost of same services in relatively rural states thus absorptive capacity should be of utmost consideration in horizontal revenue sharing.

Significant Differences in Political economy and constitutional Contexts

The Australian economy is a diversified economy with multiple streams of income for the central government. Interestingly too Australia possesses strong policy coordination through the various grants portfolio and transparency it exhibits. This is very much unlike the Nigerian state which is the most oil dependent of all established federations with poor policy coordination and weak accounting procedure. The wider implication of this is that it poses issues of political responsibility and fairness; since only four states actually produce the oil. The monocultural nature of the economy is another source of major tension between its producing and non producing states. This has led to crises and an underdevelopment of alternative revenue sources because it is easier to tax oil than citizens. This again has longer term implications for the Nigerian economy as it would create problems of stability in public finances. Much more importantly, the Nigerian economy is tied to a resource whose value swings widely and which would deplete over time as oil is a wasting asset.

Furthermore, the Australian federation operates the parliamentary system of government which is suited for a federal country. It ensures accountability of the executives to the legislature. This is more so, because legislative and executive branches of government are fused within federal legislature with executives chosen from within and responsible to the legislatures. The power structure is rather diffused and the Prime Minister cannot, in most instances, act unilaterally. This contrasts with presidential federalism that Nigeria adopted. This type of federalism accumulates rather than delegate powers. Furthermore, the Australian federation has never experienced military rule. Authoritarian military rule is foreign to its tradition of governance. It not only has a strong culture of liberal democracy but also firmly established traditions of civilian control over the military. To this extent the Australian federation has embraced the built-in values of federalism which are the combination of shared rule through a common government, the overriding rule of constitutional law, respect and tolerance for minorities, respect for the rule of law and the need for negotiation atimes (via the court) in order to achieve democratic consensus.

In Nigeria, military rule excessively centralized administrative and fiscal structures of government. Thus federal-state relations became not a question of partnership but rather of the superior giving orders to the subordinate.

Australia has also succeeded well in managing intergovernmental relations because of the rather relatively homogeneous nature of its per capita income. All the states contribute relatively the same amount of revenue to the central purse. Also, Australia has the most egalitarian machinery for inter governmental relations – that is the C.G.C. It is immune from political influences of government and other state powers. To this extent it has utilized the equalization concept maximally to share national resources equitably between the centre and the states on one hand and among the states on the other hand. Also, intergovernmental meetings have been helpful for Australia. The Council of Australian Government's (COAG) has been an effective platform, not only in the area of policy coordination and negotiations at high levels but also in detailed information gathering and exchange regarding implementation. Nigeria can also re-orientate and retool her intergovernmental meetings modelling it after the Australian brand. The rule of law has in no doubt also helped the Australian state in maintaining sanity and stability in its inter governmental relations as well. This is especially so because the sub national units have always obeyed court orders in matters of revenue jurisdiction.

For Nigeria, inter governmental fiscal relations has been less successful because her principles for sharing revenues are unscientific, not pragmatic and undynamic. A case in point is the equalization principle which is highly politicized. Across board, all states get particular lump sums irrespective of their need and absorptive capacity. Also Nigeria has also not been flexible with the administration of national revenues. While most federations are moving from centralization to decentralization of fiscal powers, Nigeria has moved in the opposite direction.

Conclusion

Ultimately, federalism and federal finance require pragmatic approaches and they also represent robust techniques for accommodating the circumstances and needs of the particular society in question. The Australian federation as discussed has developed its peculiar form of fiscal federalism reflecting the typical character of its society and its political culture. However, lessons from this comparative exercise also show that there are basic tenets that underpin the practice of fiscal federalism universally and which can be functional in Nigeria if meticulously applied. Some of these tenets include constitutionalism – the rule of law – of the citizenry imbibing the spirit of equality before the law. Among other things this spirit could check the intervention of the military in governance and other constitutional breaches. Other tenets are accountability of the leadership to the masses (electorate), transparency in government expenditure and revenue sharing among the federating units. One other basic ingredient is the cooperative principle. Cooperative federalism like that of Australia can be used as an effective platform for engendering harmony, mutual assistance and common endeavour especially in a multi ethnically segmented society like Nigeria. Through this process as well, the administrators of the federation could become creative with horizontal fiscal transfers. It could be using the scientific equalization formulae of Australia to arrive at a national standard average – all in the attempt to ensure that all federating units possess enough resources with which to provide relatively comparable levels of social services for all citizens of the federation. The Nigerian government should engage in non-politicized interventionist policies, of giving specific purpose grants to needy states to tackle specific challenges. Derivation in Nigeria has been based on simple percentage and not on need. This has resulted not only in wide disparities horizontally but also left the genuinely needy areas lacking. To this extent derivation should be based on pragmatic legitimate needs. For instance, oil spillage, erosion and desertification are genuine environmental challenges that the centre can assist with counterpart funding unlike land mass and terrain which is "political" in nature.

Australia's principle of comparing like with like also has a lesson for Nigeria. In Nigeria this would translate to mean and to ensure that no federating unit's level of expenditure is so much beyond its revenue generating capacity. This would enforce fiscal discipline, check wastage, corruption and above all ensure social equity. To ensure the workability of all these initiatives, Nigeria's statutory revenue administrative body must be independent of government influence like the Commonwealth Grants Commission of Australia.

On a final note every reform initiative starts and ends with leadership which is a critical factor in governance. In the Australian federation I have examined, leadership has attained the level of statesmanship, transcending parochial interests. Their statesmanlike approach to politics guarantees the serving of the interest of all citizens of the federation irrespective of ideological leaning, gender and political party affiliation. In the same vein, the practice of fiscal federalism in Nigeria would be enriched if Nigerian politicians imbibe the statesmanlike approach to politics.

The ultimate challenge to Nigeria is to evolve its own federal system to suit its own circumstances, ensure the welfare of every Nigerian and strengthen the desire to stay together.

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