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Fiscal Federalism and Economic Development: The Experiences of Nigeria and China

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Abstract

The study of federal systems, federalism, the nature and management of relationships between or among federating units is a subject of interest for contemporary politics and governance. The desire to compare provides an opportunity to establish the working of concepts in different political environments. Fiscal federalism is an important part of the workings of a federal system. This work takes a cursory look on the concept of federalism and dwells on the concept of fiscal federalism. It undertakes a comparative study of fiscal federalism in Nigeria and China with a view to understanding how well each of these counties has applied fiscal federalism as a tool for steering economic development. It observes that fiscal federalism can be used as a means to steering and instigating economic development through the adoption of strategic principles. Conversely, it can be used as a mere tool for sharing money as the case has been inNigeria. It concludes that the philosophy behind the adoption of fiscal federalism is paramount in determining if it triggers economic development or drains the resources of a federation, as the case in Nigeria aptly demonstrates. The paper maintains that political ideology influences the conception and use of fiscal federalism and the principles and that to maximally drive fiscal federalism as a tool for engineering economic development, it must be driven by political ideology, which will form and drive its content. Data for this paper are largely derivable from secondary sources while logical induction forms the method of data analysis.The paper concludes that, for Nigeria to maximisethe benefits of fiscal federalism for economic development as China has done, fundamental changes in the country's federal system is imminently desirable. Theurgent need to jettison certain fiscal principles that have slowed the pace of economic development in Nigeria and embrace those similar to China is, therefore, inevitably imperative.

Keywords: *Fiscal federalism, Federalism, Economic Development, Nigeria and China*

1.1 Introduction

Fiscal federalism, is primarily concerned with how much fiscal responsibility and autonomy is allocated to or reserved for the different levels of government in a federal arrangement; the national or central government and any other level or levels of government in the union. It deals with the associated powers for taxation and revenue generation by the subunits vis-s-vis the central government. The expenditure limits and items each level of government is responsible for and other issues of concern are all ingredients of fiscal federalism. Principles of fiscal federalismif used righty, would steer a society to development. Any discussion on fiscal federalism, ordinarily, presupposes the existence of a federal system of government, which gives rise to at least two levels of government with often distinct but sometimes overlapping spheres of influence and resource appropriation.

Ajayi (1997) has opined that understanding federalism adequately enhances understanding of fiscal federalism as the latter derives largely from the former. Thus, fiscal federalism is a subset of federalism.Federalism clearly refers to any political system that allows the existence of at least two levels of government with coordinate jurisdiction.There are usually the centre and the component units existing on their own with clearly defined powers and responsibilities in the grundnum. There are very wide variety and number of political arrangements which consider themselves as falling into federal states. A cursory examination shows that they do not all have same similarities.They differ in significant ways but inspite of these differences they are each federal systems in their own right. Ray (2015) notes that two contending approaches to the study of federalism exist namely, the traditional and modern. The traditional approach is represented by A.V. Dicey.K.C. Wheare and the “Federalists”, while the modern approach is represented by scholars like William Livingstone, Karl Deutsh, William Riker,AmitaiEtzioni, Carl Fredrich, A.H. Birch, A.W. Macmahon, R.I. Watts and others. The views of the traditional school empathise the rigidity in division between the centre and the components units, the fact that there are institutional and constitutional devices safeguarding the different spheres of control between the central authority and the other level authorities. On the other hand, the modern view, is more dynamic, not insisting on the rigidity of boundaries between levels of authorities but a dynamism that provides for functionality identifying and using enabling social and economic forces which contribute to integration. Using them positively and identifying those that impede integration in a variety of situations,this approach is more progressive and able to accommodate issues of contention and hence will give rise to a better and more harmonious relationship within the levels or centres of authority.

There can been several possible methods of organising co-existence among entities within the same political and geographical region or proximity, for whom a collective arrangement would better serve their individual and corporate objectives in terms of economics, political, military and diplomatic relationships. They could settle for a unitary system also. Akindele and Olaopa (2002) explain that federalism is derived from the Latin word "foedus" meaning covenant. The essentials include the existence of a covenant among the members as sovereignty resides constitutionally within the central governing authority and the other federating units.

Sagay (2008) conceptualised federalism as a constitutional arrangementwhere powers of federal and component units in a country are shared in a manner that allows each exercise responsibilities separately and independently in their own domains. Livingstone (1985) notes the basic requirements for federalism as follows:

i) A careful description of each level of government in a written constitution – in other wordsdistribution of powers.

ii) An agency with the power to review the acts of the two governments and determine when theyhave exceeded their assigned spheres. In other words, judicial review as a convenient, if not always necessary means, as in the USA, Australia, Switzerland and Germany.

iii) Not only a comparatively inflexible mechanism of formal amendments of the constitution, but a joint and shared participation in the process of amendment by the federal and the regionalgovernments, as in the USA, Switzerland and occasionally in India.

iv) Equal representation of the states or regions in the upper house of the national legislature as in the USA, the USSR and Australia.

Duchacek (1970) elicited a seemingly more encompassing criteria hence the following questions have become yardsticks:

i) Has the central authority exclusive control over diplomacy and defense as befits a nation state in its relation with other nation states ?

ii) Is the federal union constitutionally immune against dissolution by secession?

iii) Is the exercise of central authority one that touches directly all citizens different from respective approvalsof federating units including their resources?

iv) Who has the ultimate control over amendments to the federal constitution?

v) Are the component units immune to elimination of their identity (antedating or postdating the union) and authority?

vi) Is the collective sharing in federal rule-making adequately secured by equal representation of unequal units in a bicameral system? What are the constitutional provisions for collective sharing in the executive and judicial rule-implementation?

vii) Are there two independent sets of courts, one interpreting and adjudicating the federal laws and the other the state laws?

viii) Is there a judicial authority in the central authority but standing above it and the component units to determine their respective rights?

ix) Have the component units retained all the powers that the constitution has not given the central authority? And are these retained powers significant, or marginal?

x) Is the territorial division of authority clear and unambiguous?

The theory around fiscal federalism assumes that a federal system of government can be efficient and effective at solving problems governments face today, such as just distribution of income, efficient and effective allocation of resources, and economic stability.Akindele and Olaopa(2002) observe thatfiscal federalism clearly defines a system that allows strict allocation of powers to tax and expend funds between tiers of governments as enshrined in its constitution. For Ozo-Eson (2005) fiscal federalism involves the constitutionally defined responsibilities different tiers of government in such a manner that each functions within its jurisdiction without undue interferences in matters of public sector functions and finances.Sharma (1995), in his own submission, states that fiscal federalism epitomises laid-down principles which define financial relations between the federating units and the centre while fiscal decentralisation includes a process of applying such principles.

Musgrave (1959) and Oates (1972)opine that the theory of fiscal federalism mainly addresses the division of governmental powers in the areas of public services and finances among different tiers of government. Tella (1999) asserts that fiscal federalism denotes fiscal relationsbetween the centre and the other federating units. Ewetan(2011) sees fiscal federalin terms a federating unit providing services beneficial directly to its own people with a view to achieving cost-effectiveness. Sylvester and Ade (2017) lend credence to the concept of fiscal federalism when they affirm that there exist principles that shape fiscal relations and sustain same by way of superlative administrative efficiency and fiscal independence that aims at achieving financial independence for the federating units.These principles include: Independence and Responsibility, Adequacy and Elasticity, Administrative Economy and Efficiency, Accountability, Uniformity and Fiscal Access.

There is no gainsaying that the principles of fiscal federalism if rightly applied should steer any society to the path of economic development. The questions this paper is set to answer, therefore, include: Is fiscal federalism synonymous with development? Is this the case with China and Nigeria? Therefore, it is on the above premise, that this paper undertakes a comparative analysis of Nigeria and China's fiscal federalism with a view to ascertaining whether the principles of Nigeria's fiscal federalism have promoted the much-needed economic development of both the centre and the federating units as comparable to China.

1.2 The Nature and Modus Operandi of Nigeria's Fiscal Federalism

Nigeria, as a country, has had historical travelsof changes in principles and innovations on her path to achieving fiscal federalism. Ijaiya (1999) sees Nigeria's fiscal federalism in terms of controlling and distributing resources generated from the federating states.In Nigeria, there has always the controversy of how resources mainly generated from certain states are to be shared with or without much to put back into those states. South South States are major victims when it comes to the issue of revenue sharing formula.

Babalola (2015) no less agrees with the above narrative when he affirms that Nigeria's fiscal federalism is characteristic unnecessary bickering when it comes to sharing the resources accruable to the federation account among the different states of the country including local government councils. It is common knowledge that disparity and injustice in revenue allocation sharing in Nigeria, over time, have been the bane of the country's federalism. There appears to be no ideal federalism all over the world that is free from rancour and acrimony in terms of fiscal allocation of revenues. What happens all over the world is that countries adopt what is peculiar to them as individual circumstances vary from country to country. As long as what they have address their peculiar circumstances in terms of economic development of the federating units, then they go on with it bearing in mind the need to constantly modify on needs-basis. For some of these countries like the United States of America, Australia, Canada, Germany, Russia and China to mention but a few, which are usually regarded as ideal and close-knit federations, revenue sharing principles need and of equalization become more prominent than loose federations like Nigeria. Those loose federations rely mainly on derivation principles in sharing revenues that are centrally collected among states and local governments from where these revenues are generated in addition to the statutory fiscal transfers they get from the federation account. Most South South States in Nigeria benefit maximally from this and often times have no evidence of economic development from it. Nigeria's fiscal federalism appears to have been structures to achieve overall stability in terms of national unity and economic development (Babalola, 2015).

It is important to emphasise the relationship between political context and the formulation and implementation of policies. There is a causal relationship between the political environment and the nature of policies, therefore a proper understanding a federation's fiscal system requires an understanding of the political context within which the fiscal system operates. The political factor determines the observed difference in policy formulation, implementation and outcomes in different countries including Nigeria and China in comparative terms.

Ewetan (2011) observes that since 1946, Nigeria has been travelling the road of fiscal federalism. Phillipson Commission of 1946 and Chicks Commission of 1964 were the earliest in the country. They focussed on allocating revenues equitably to the regional governments at the time. Each effort either reaffirmed existing principles or introduced new ones that came up with other principles. For Phillipson Commission,it was the use of *derivation* and *even development* as criteria for revenue distribution. For instance, each region was allocated share of federally collected revenues as follows:North 46 per cent;West 30 per cent and East 24 per cent. For its part,the Hick-Phillipson Commission (1950)not onlyrecommended need, derivation, independent revenue or fiscal autonomy but added national interest. The Chicks Commission (1954) retained the principle of derivation. TheRaisman Commission (1957) whilst recommending a Distributable Pool Account (DPA), reviewed regional shares provided for by the Phillipson Commission. It prescribed a reduction for the North from 46% to 40%; a reduction for the West from 30% to 24%, for the Eastan increase from 24% to 31%; and it also made provision for the Southern Cameroun at 5%, considering that the Southern Cameroons had become a part of Nigeria.Next was The Binns Commission (1964). This commission made a u-turn as it were, by rejecting the principles of need and derivation, which had been in use over the years. In its place, it suggested regional financial responsibility and percentage division while reviewing the regional percentages. It increased that of the North from 40% to 42%, East reduced from 31% to 30%, West reduced from 24% to 20% and 8% to the mid-west.

Following a political and administrative change which brought about creation of 12 states in May, 1967, the Constitutional (Financial Provisions) Decree No. 15 of 1967 was promulgated with different share for each region. It thus became East Central, 17.5 per cent; Lagos, 2 per cent; Mid-West, 8 per cent; the six Northern states, 7 per cent; South Eastern, 7.5 per cent; Rivers, 5 per cent; West, 18 per cent. The negatives associated with the Decree 15 of 1967 include the fact that it jettisoned very important principles which had become accustomed to the people of Nigeria, such asconsumption, population, derivation, among others. On the heels of the Decree 15 of 1967 came Dina Commission in 1969 which, unlike Decree 15 of 1967 recommended balanced development and basic need in allocation system of the states joint account and national minimum standards. No doubt, Decree 15 of 1967 was a watershed of some sort as it was the first military decree making promulgations on revenue allocation in Nigeria. The subsequent revenue allocation decrees reviewed its provisions. Between 1970 and 1975,efforts were made to reallocate revenues to states on a more equitable basis. In 1977, theAboyade Technical Committee made a recommendation of*a national minimum standard for national integration*with the following distribution among the three levels of government: Federal

Government 57%, State Governments 30%, Local Governments 10% and a special fund 3%. In addition,it enunciated principles such as *equality of access to development opportunities* 25%, *absorptive capacity* 21%, *fiscal efficiency* 15% and *independent revenue effort* 18%.

ThePius Okigbo six-man Revenue Allocation Commission was set up by the Federal of Nigeria Governmentin 1979. Its recommendations were population - 40%, equality -40%, social development -15%, and internal revenue effort -5%. In terms of allocation to the three tiers of government it provided 53% to the Federal, 30% to States, 10% to Local Governments and 7% to a Special Fund.It is also important to note that the 1979 Constitution had four important consequences on revenue sharing.

- First, the federal government ceased to monopolise the retention of fast growing revenues such as company income tax and petroleum profit tax.
- Second, the proportionate share of each level of government was fixed and made more certain.
- Third, the local governments hitherto regarded as arms of their respective state governments were recognised as an independent revenue sharing unit in the federation.
- Finally, the derivation criterion almost disappeared as an important principle for revenue sharing.

There were further modifications to the revenue allocation formula in 1984. The 1984 Allocation of Revenue Act made some modification on the revenue allocation formula as follows: federal government 50 %; states30 %; local governments15 %, Oil producing areas and ecological fund 5%. The narrative so far clearly shows that the major driving force and the rallying cry have been sharing and not generating. The struggle so far from 1946 has been to determine who gets the larger share and this philosophy continued with the Danjuma Commission of 1988, which recommended percentages for government as follows: Federal government -50%, States -30%, Local Government - 15%, and Special Fund -5%.The history of fiscal federalism in Nigeria demonstrates clearly that, due to the philosophy of sharing which drives the process, revenue allocation has been a very topical issue between the centre and the other tiers of government.

The long list of principles and counter principles demonstrates that fiscal federalism in Nigeria has been approached from a non-developmental prism. No doubt the country has not been able to arrive at an amicable and developmental set of principles. The struggle among the key actors has been to satisfy their interests without a rational consideration for issues of development. The formulae used so far has led to laziness among the levels of government and failed to stir an appetite for revenue generation by the states and local governments. The Federal and State governments rely wholly on the monthly allocation from the federation account. The implication of this revenue allocation dependence is that it limits the capacities of states and local governments to provide public goods needed to promote and sustain governance. The federal government takes the lion's share of centrally collected revenue based on the current formula and other retained revenue, leaving the state and local governments with small shares compared to their assigned functions.

According to Ewetan (2011),the Aboyade Presidential Commission on Revenue Allocation (1977) noted that federal superiority vis-à-vis the states and the huge autonomous increases in revenue accruing to the Federal Military Government brought about an arbitrary fusion of the responsibilities of federal government which usually is a matter of constitutional debates and agreement. In addition to legislative measures, executive actions over a number of matters such as the universal primary education, agriculture, higher education, roads, the setting up of ministries of water resources, housing, urban development, environment, and social development youths and sports illustrate the development of this system.

Okunrounwu (1999) observes that the fiscal measures adopted deviatedsignificantly from what *true fiscal federalism* represents in Nigeria. This trend became noticeable in the 1970s andlater continued and has resulted in huge federal budgets with some deficits in fiscal operations over time. Sarah,et.al, (2003) notes that another issue is the continuous overbearing revenue influence of the federal government over the other tiers of government in sharing revenues accruable from the federation account. Given that the federal government has always had more than what the revenue-sharing formula stipulated. The key concerns have been:
Firstly, giving each level of government required power to raise adequate revenue for the performance of its constitutional duties and to have control over its finance. Value Added Tax as being introduced as a replacement of states' sales tax and enforced by the federal government is one key area of concern.Secondly, there have been concerns overequitable allocation of centrally collected revenues by the federal government among all the other tiers of government. Thirdly, managing the impact of non-jurisdictional problems such as imbalance in population, size of land area, resource endowments and levels of development.Fourthly, the creation of more states over the years has further complicated the issues of fair revenue allocation between the units. Fifthly, the over-bearing nature of the federal government over the states and local governments. The net effect of these concerns has been an increasing deficit between the revenue requirements of states and local governments, with the allocation of functions between the tiers of government in the 1999 Constitution into exclusive list (on which only the federal government can act); the concurrent list(which contains responsibilities shared by both federal and stategovernments) and the residual list(which is reserved for the state governments).

Akpan (2011) notes that“the federal government has responsibility for functions whose benefits extend nationwide, such asdefence, foreign trade, immigration, currency among others”(p. 169). In addition, the federal government has responsibility for railways, electricity among others, while both federal and state governments have responsibility for subjects which spill over to state boundaries. On the other hand, local governments have responsibility for subjects limited to their localities like primary education, marketsand cemeteries etc. It is also noteworthy that the most productive income-elastic taxes are allocated to the federal government. This has made the center financially stronger than the states and local governments. The net effect of this skewed practices is a very strong center with an ever increasing fiscal dependence on the center by the states and local governments.

Arowolo (2011) contends that:

> over-dependence on oil revenue has impacted negatively and posed seriouschallenges to the issues of fiscal federalism in the country. It has created the leech syndrome whereby the states have becomeeconomic appendage of the federal government and eroded the fiscal autonomy of the federating units. Thus, it hascreated a master servantrelationship in which the subnational governments areat the mercy of the federal government and as long as states and local governmentscontinue to depend on the federal government for theireconomic development and survival, the wrangling and controversy surrounding the issue of revenueallocation will remain persistent and a recurrent problem in Nigerianfiscal federalism. (p. 15)

From the foregoing, it is deduced that fiscal federalism has had a troubled history in Nigeria. The main issues includethe over bearing influence of the federal government in revenue sharingfrom the federation account, the lion share being received by the federal government, a culture of resource consumption rather than generation, lack of commitment to income generation, laziness of the different levels of government, lack of fiscal discipline, over dependence on oil revenue and self-centered agitations for revenue by the regions and states, giving rise to conflict over sharing principle and severe federal and state relations.

Sylvester and Ade (2017) opine that in Nigeria, revenue allocation is taken as the distribution of national revenues among the various subnational governments with a view to reflecting the structure of fiscal federalism.What cannot be glossed over is the gaping imbalances between the levels of government. To cure this ailment, the use of transfers has been introduced in the literature on fiscal federalism aimed at compensating the disadvantaged levels of government, but unfortunately the use of this mechanism has not been visible in Nigeria.

Generally, there is transfer of revenue to the lower level, which can be conditional orunconditional.A conditional transferinvolves certain conditions, which the lower level government must meet and also comply with in the disbursement of the funds. An unconditional transferis usually a transfer of funds without spendinginstructions or conditions (Usman, 2011). Suberu (2001), on other hand, explains that fiscal transfers to state governments are unconditional and are also constitutionally guaranteed in Nigeria whereas grants to constituent governments in many other federations are meant to supplement independently generated revenue and also to assist financially weaker units. Babalola (2015), in lending credence to the above, states that grants are part of the numerous but primary ways state governments raise revenues in Nigeria and as a consequence, states have come to rely heavily on the federal government for their financial needs. For instance, most states in Nigeria at the inception of recession in 2016 depended largely on the federal government for bail funds, an indication that the country's fiscal federalism, over time, has not promoted economic development of the component units. Again, the minimum wage recently approved by the federal government has caused some states to drag their feet in meeting labour demands in their states for full implementation due to either lack of funds or/and initiatives to create wealth for their people. This dependence is at the heart of intergovernmental financial relations in the country. Indeed, this practice has led to fiscal and financial indiscipline, where funds are received without commensurate responsibility or accountability for their uses. More importantly, Babalola (2015)states that"the political aspect of fiscal federalism therefore focuses on how functions are shared among the different tiers of government in a federation. As noted earlier, a genuine fiscal federal system must ensure that the division of revenue between central and federating governments corresponds with the distribution of constitutional functions"(p. 56). Sadly, this has not been the case in Nigeria.

Suberu (2001) further asserts that:

> the federating governments should be assigned those taxes that have a local impact, since they are closer to the people. Additionally, they should be allowed to handle such taxes that do not endanger national macroeconomic policy, that are relatively inexpensive to administer and that have relatively stable yields. Since the introduction of the federal constitution, Nigeria has consistently assigned the most lucrative sources of revenue,such as customs and excise duties, personal income taxes, company taxes and mining taxes, to the central government, while the less important sources go to the state governments. The underlying assumption that underpins this financial arrangement is that the functions assigned to the central government require more funds than those assigned to the state governments. It may be argued, however, that this arrangement fails to take into consideration the fact that such subjects as health care and education assigned to state governments also require a lot of funding.(pp.47-57)

One critical milestone in Nigeria's fiscal federalism is the establishment of the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) in 1999. The Commission established under section 153 (1) of the Constitution of the Federal Republic of Nigeria 1999 and the Act; the intent was to provide an enduring arrangement for managing the resource mobilisation and fiscal allocation in the country. Its membership composition reflects the Federal Character. The enabling law empowers the Commission to regulate the principles and criteria for sharing federally collected revenues between the federal government and the states and local governments.

Sagay (2008) adds that, in principle, it is assumed that the tax sharing powers between the various tiers of government are designed to guarantee the equitable distribution of the nation's wealth inthe spirit of true fiscal federalism. Analysing the roles of RMAFC vis-à-vis the politics ofrevenue allocation in Nigeria, according to Sagay, RMAFC has sustained the notion of fiscal imbalance in the country. While the Commission proposed a draft new sharing formula of 41.3% to federal government, 31% to State governments, 16% to Local governments and 11.7 % to Special Funds, this proposal did not see the light of day, as the Supreme Court made a pronouncement on resource control in April 2002. However in 2008, the fiscal body made a new proposal for revenue sharing table before the National Assembly. However, under the current revenue sharing formula, each month, the Federal Government takes the major share of 52.68% from the federation account, the 36 states get 26.72 % while the 774 local government councils get 20.6% and 13% goes for derivation, whichis skewed in favourof the Federal Government. This has not helped in addressing the much-needed economic development challenges of the various components of the states and local governments in the country.

1.3 The Nature and Modus Operandi of China's Fiscal Federalism

Cao, Qian and Weinsgast (1997) did not mince words when they stated that China had a double-digit growth two decades when its agrarian economic reform began in the late 1970s and proceeded to market reform in the 1980s as the country made giant strides in transforming its economy. Today, China's economy is one of the largest in the world, competing closely, if not surpassing that of the United States of America. There is no gainsaying that China is a unitary country with strong federalist features. These include provinces, autonomous regions, and municipalities which are directly under China's central government and further divided into counties and autonomous counties, townships, nationality townships and towns.Bahl andWallich (1992)observe that China has a five-tiered administrative structure with some level of complexities unlike in Nigeria. Intergovernmental fiscal relations in China, however, have undergone substantial changes in the last twenty-five years.Montinola, Qian and Weingast (1996) observe thatChina is implementing a special kind of federalism,styled the *Market-preserving federalism.*To understand this China's federalism, there is a need to identify its principal characteristics. The market-preserving federalism encompasses a set of conditions that governs the allocation of authorities and responsibilities among different levels of government with each level of government clearly delineated and autonomous unlike in Nigeria in the areas of economy, and revenue sharingin such a manner that the centre cannot unilaterally alter the sharing formulae. This model appears to be in tune with an ideal system that promotes economic development of the component units.

For Martinez, Qian, Wang, Zhang andHeng-Fu (2014), the major reform of public finances implemented in 1994 shifted a large share of fiscal revenues from local governments to the central government. Following the 1994 reform, local governments were left with 46 percent of revenues and responsibility for 77 percent of public expenditures. This overall revenue shortfall at the local government level motivated local governments to exploit new revenue sources, many of which were outside of the general budget. Successive fiscal reforms in China, which began in early 80s, produced the current system of intergovernmental fiscal relations as against a centralised system begun in 1949 when it formally came into existence.Prior to 1949, the major revenue source for government was profits from State Operated Enterprises (SOEs), which accounted at the end of the 1970s for nearly half of total government revenues. Martinez, Qian, Wang, Zhang andHeng-Fu (2014)assert that China began fiscal reforms in 1984 with the adoption of “Fiscal Responsibility System" (FRS) reform. This gave the sub-national governments some leverage to incentivisethe collection of taxes because it provided them,ownership fiscal resources by local governments.In addition, the lack of strict tax laws in combination with a decentralised tax administration and control afforded the sub-national governments tax-raising powers within their own domain.

This led to a decrease or slowing down of the growth of budget revenues for the local areas.There were negotiations and bargains between the central government and each one of the provincial governments. This process led to an aggregate decrease of the central governments share in total fiscal revenues accompanied by the decrease of the central government’s share of fiscal revenues in GDP.The trend toward lower tax collections was of less importance to subnational governments because extra-budgetary account provided an alternative way to finance their expenditures with the added benefit of notrunning the risk of an eventual claw back by the central government. Lacking formal taxing powers and funding transfers from higher levels increasingly unreliable, sub-national governments energetically pursued o-budget revenue expansion.

Martinez, Qian, Wang, Zhang andHeng-Fu (2014)insist that in 1988, the central government introduced several fiscal contracting modules to address the problems that had arisen with the FRS and improve the performance of the fiscal system, under the name of the “Fiscal Contracting System" (FCS) reform. The major modules in this new system included:

i.Fixed grants: For provinces whose expenditures were larger than their base amount of revenues, the central government would provide them with fixed grants. Sixteen provinces adopted this module.

ii.Fixed remittance: Provincial governments would remit a fixed amount to the central government. Three provincial governments adopted this module.

iii.Increasing remittance: Provincial governments would remit to the central government a fixed amount plus yearly increasing amounts at a fixed growth rate (as contracted between the central and local governments.

iv.Fixed sharing rate. Total revenue is shared by the central government and sub-national governments at a fixed sharing rate.

v.Increasing sharing rate. Total revenue is shared by the central government and sub-national governments at annual increasing sharing rates, as negotiated between the two levels.

vi.Fixedrevenue sharing formulae between the central government and sub-national governments. FCS led to the fiscal decentralisation ofresources.

Martinez,Qian, Wang, Zhang and Heng-Fu (2014)note that:

> in1994 China's government introduced the Tax Sharing System (TSS) reformwith the two major goals of increasing the share of governmentexpenditurein total GDP and the share of central budgetary revenues in total budgetaryrevenue. This reform introduced clear and stable assignments of taxrevenues between the central andprovincial governments,and createdseparate tax administration services at both levels of government. TheTSS reformed the value added tax (VAT) as the major government revenuesource, and set up a uniform tax-sharing system. The share arrangementsfor VAT were 75 percent for the central government and 25 percent forthe sub-national governments. The central government own taxesandall shared taxes were collected by the newly created National Tax Services(NTSs), which operated in all provinces. The new system provided forseparate local (sub-national) tax services (LTSs) for the collection of thetaxes assigned to localgovernments. The headquarters of the NTSs,the State Administration of Taxation,was empowered to supervise localtax services and prohibit theuse of tax exemptions by localgovernments. Several subsequentpolicy changes supplemented the TSS reform. The most importantof these were1.the Rural Tax-for-FeeReform. The Tax-for-Fee Reform was first experimentedwith in easternAnhui province in1994 and, two years later, in 50 selected countries inseven other major agricultural provinces. The central governmentextended the experiment to the whole of Anhui province in 2000 in abid to standardize the tax burdens on farmers and eliminate thegrowing arbitrary administrative fees being charged to them.2.the abolishment of the agriculture taxes Reform, which had theobjective of reducing the tax burden on farmers. (pp.8-9)

To boost agriculture, payments considered excessive financial burdens on farmers were reduced through Tax-for-Fee reform, to a total of 20 provinces, comprising 620 million farmers, or three quarters of the country's total. Fifteen (15) charges were also lowered on the country's 900 million, abolishment of agriculture taxes, which was assigned to local governments, particularly county and lower level governments, starting in 2006. Corporate and individual income taxes reforms in 2001 placedcorporate income and individual income taxes shared between the central and sub-national governments at 50/50 sharing ratios. The share of the central government was increased to 60 percent in 2002. Instructively, the increasewas based on the need to increase the pool of available funds for redistribution and equalisation of poorer central and western provinces. This demonstrates a direct correlation between policy objectives and the adjustment of fiscal principles to deliver same. The clarity of revenue assignments between the central government and local governments served to ignite the desire of sub-national governments to increase their budgetary revenues. In line with the increase in the revenues, on the part of the central government, was a matching increase in responsibilities to pursue national objectives. This also increased the capacity of the central government to pursue the national objectives in the areas of large-scale infrastructure projects, fiscal resources in all spheres as well asstabilisingmacroeconomic policies in the country. The main responsibilities for some basic public services such as basic education and health care are concentrated at the county and below levels of governments, while some other public services such as social security are concentrated at the provincial and prefecture levels of governments.

There is no gainsaying that education was constituted the basic responsibility of sub-national governments. Vocational education is usually left for private market institutions in China. Central government plans basic education, makes policy, sets up special education funds for subsidising basic education in poor minority areas and teachers' (or normal) education. It is the responsibility of the Provincial government to formulatelong term development plan mainly to address basic education issues while providing critical help to counties where necessary with a view to meeting recurrent expenditures in education. The cities or districts and counties have the responsibilities to implement and finance compulsory and basiceducation programmes. The central government is responsible for public health care. The central government also has responsibility for designing the overall plan for rural public health care, the provincial governments have responsibility for planning for the implementation in their domains, as the county (city) governments take the overall responsibility for ruralpublic health care delivery and this has been the situationsince January 2003in China. The subnational governments take care of social security. Capital investment in infrastructure is the shared responsibility of the central government and sub-national governments, both levels playing equally important roles. Among sub-national governments, the higher the level of government, the more the responsibilities.Responsibilities in agriculture developmentrest at the sub-national level but the central government takes charge of the overall policy formulation nationwide.

Montinola, Qian and Weingast (1996) affirm that the most important implication of market-preserving federalism is the induced competition among jurisdictions, which produces a number of salutary effects. These include:

(i) First, no government has a monopoly of regulatory authority over the entire economy. Any subnational government that seeks to use its authority for purposes of monopolisation or other political ends is at a considerable disadvantage because it cannot impose its will on the entire economy. When a particular jurisdiction imposes an onerous restriction on its firms, the latter face a competitive disadvantage relative to competing firms from other jurisdictions that are not bound by the restriction. Producers outside the particular jurisdiction are not bound by these rules, and, hence, their costs will be lower and they will outsell those firms bound by the restriction.

(ii) Second, competition among jurisdictions extends to factors of production, such as capital and labor. Jurisdictions are thus induced to provide a hospitable environment for factors, typically through the provision of local, public goods, such as establishing a basis for secure rights of factor owners, the provision of infrastructure, utilities, access to markets, and so on. Those jurisdictions that fail to provide these goods find that factors move to other jurisdictions. Local economicactivity and tax revenue decline as a consequence.

(iii) Third, the hard budget constraint invariably means that local authorities are prone to bankruptcy. This provides them with incentives for proper fiscal management. Local enterprises, local politicians, and citizens in particular areas hardly want their government to spend more money than is prudent. Bankruptcy would greatly hinder the ability of local governments to finance needed public goods, such as those needed to attract foreign capital and lower business costs.

(iv) Finally, market-preserving federalism provides the political foundations for markets. By placing the authority over markets in the hands of lower governments, it fosters local economic prosperity. By keeping the central government out of this activity, it prevents massive intervention of political goals that distort markets for other purposes. Once established, markets are difficult to alter since national political forces are deflected from this issue and, at the local level, it is hard for a group with any particular goal to capture the lion's share of the local governments. In turn, the implication is that some governments are always likely to retain their pro-market focus.

Essentially, Montinola, Qian and Weingast (1996) reiterate that market-preserving federalism, diminishes the prevalence of rent-seeking and patronage systems, as people in different political jurisdictions are likely to have markedly different interests, expectations, and capabilities, therefore, they will choose a range of policies to promote their goals. As the results of these experiments and policies become known, individuals and policymakers will update their expectations about the effects of various policies. Thus, decentralisation under market preserving federalism results in an important degree of feedback, which would not be present under a unitary system that imposes a single national experiment over all regions. Competition exists among different layers of authorities and this incentivises the replacement of poorly chosen strategies. To this end, some jurisdictions are better at promoting markets, generating wealth, and caring for the needs of their citizens, hence their policies are likely to be imitated by others that have been less successful. There is no uniformity among jurisdictions for several reasons. First, individuals and firms will sort themselves into jurisdictions, to the extent, for example, that they require different types of public goods. Second, resources and access to markets imply that a variety of economic and political differences will survive.

1.4 Comparing the Nature and Modus Operandi of Nigeria and China's Fiscal Federalism

In China, following the 1994 reform, local governments were left with 46 percent of revenues and responsibility for 77 percent of public expenditures. This overall revenue shortfall at the local government level, with fiscal policy support, motivated local governments to exploit new revenue sources, many of which were outside of the general budget. In Nigeria, there has been an ever-increasing share of revenues going to the federal government without corresponding policy and institutional arrangement to support drive at the local and states levels to encourage resource generation at the lower levels. As part of the reforms in fiscal federalism, the central government of China took over responsibility for providing basic education services in rural areas because of the worsening service conditions, especially in poor rural areas. Some new initiatives, especially the Decision to Strengthen Rural Education, issued by the State Council in September 2003,saw the expansion of the expenditure responsibilities of the central government on basic education. This freed the lower level governments of the burden of providing this service and thus concentrating their resources in other service areas.

The reverse is the case in Nigeria. The federal government has effectively abandoned education to the states and local governments. With education left at the behest of states, they have made a mess of the situation. There are different standards in the states, practices and laws are reviewed for the purpose of generating revenue to the coffers of government without commensurate value to the educational system, quality and standards.Consequently, educational standards are falling. There are schools that state governments cannot afford to be shown on national TV as being in their states. Due to the drive for productivity by lower jurisdictions, competition among these jurisdictions extends to factors of production, such as capital and labour as obtainable in China. Jurisdictions are thus induced to provide a hospitable environment for factors, typically through the provision of local, public goods, such as establishing a basis to secure rights of factor owners. This situation creates local production centres and encourages positive competition, which leads to more productivity in the economy.

The presence of a political and economic vision to protect resource generation and close monitoring by the institutions ensures the different levels of government are committed to delivering. Whereas in Nigeria, there are no such policy direction and supporting structures to derive the society towards a fixed set of political and economic goals which the fiscal federalism principles are wired to deliver.

China's market-preserving federalism is backed up with fiscal federalism which provides the political foundations for markets. By placing the authority over markets in the hands of lower governments, it fosters local economic prosperity. By keeping the central government out of this activity, it prevents massive intervention of political goals that distort markets for other purposes. The opposite is the case in Nigeria. The fiscal federalism principles give the central government authority over lucrative aspects of the economy such as oil and gas, thereby limiting the possibility of securing favourable economic benefits for the states, assuming, but not conceding, that the various state or local governments will seek genuine developmental objectives for their states. In China the fiscal federalism principles do not give huge handouts to the lower units. There is a hard budget constraint, meaning that local authorities are susceptible to bankruptcy. This provides them with incentives for proper fiscal management. Local enterprises, local politicians, and citizens in particular areas hardly want their governments to spend more money than is prudent, as they face the risk of going bankrupt. That fear keeps them on their toes, they are thus encouraged, for their own survival, to be productive.

The reverse is the case in Nigeria. The states and local governments can afford not to invest for profit but sit and wait for allocations every month. They are sure they will receive funds. This breeds laziness. Rather than invest to cater for their increasing needs they struggle for increased allocation from the federation account and also impose more taxes on individuals and businesses, embark on accelerated revenue drive to increase internally generated revenues which serves as discouragement for existing and potential investors. Without the needed investment there will be no economic activities to boost the local economy.

In China,as part of the principles of fiscal federalism, there are targeted transfers to compensate for gaps. These include:
(a)Revenue returned: This was designed to close the fiscal gaps resulting from the 1994 reform with a view to ensuring that provinceshave nominal revenues that are lower than those in 1993.(b) Transfer for minority regionsin support of their development: This usually comes from dual sources - directly from the central budget with a yearly growth rate and indirectly from the 80% of the central government VAT revenue surplusesgenerated in the minority regions.
(c)Transfers for increasing wage expenditure of public employees:This was designed to support central and western provinces to meet the requirements of the central government in an effort to make up for wage standards of their employees.
(d)Transfer for rural fee-to-tax reform and transfer for abandoning the agriculture tax: This is aimed at compensating, in part, at the provincial level in view of the fiscal gap resulting from rural fee-to-tax reform and that of abandoning the agriculture tax.

To a large extent, all these go a long way in boosting the local economies in China unlike what obtains in Nigeria. Indeed, Nigeria has a long way to go as far as the drive for economic development is concerned through the instrumentality of fiscal federalism. In effect, Nigeria’s fiscal federalism, over time, has not been able to drive the much-needed economic development the country yearns for unlike is obtainable in China.

1.5 Conclusion and Recommendations

The foregoing gamut of literature demonstrates clearly that Nigeria and China have had completely different outcomes in the application of fiscal federalism.It is a tale of benefits for China and a tale of woes for Nigeria. It is clear that the Chinese have employed fiscal federalism as an enabler or lever for their political and economic objectives. They have carried out targeted reforms and adopted principles of fiscal federalism which work in tandem with a clear vision for economic development. There is an overarching philosophical and economic agenda which they sought to achieve with their fiscal federalism. China have used fiscal federalism to engender and stimulate creativity and production. Their fiscal federalism has opened up the local economies, brought about healthy competition in revenue generation among parallel levels of government. They have adopted creative principles into their fiscal federalism to address push and pull factors in their economy side by side moderating negative competition and channelling energies towards economic growth and development. The philosophy behind their fiscal federalism is to drive production, accumulate and steer up resourcefulness among the units, protect gains and restrict wastages. The driving force is what every unit can contribute.

On the contrary, the philosophy behind the principles of fiscal federalism in Nigeria is that of sharing and consumption. There has been no clear policy direction and disciplined application of principles designed to generate resources at the state and local governments. There are no incentives for states and local governments to be focussed on resource generation. Principles of fiscal federalism which only dole out funds to the constituent units has been the case since independence. This has created 'financial dependency syndrome' among the federal, State and local governments, fondly described as 'feeding bottle federalism'. The environment created by the nature of Nigeria'sfiscal federalism also accounts for the nature of the country's politics where politicians pay cash to secure political offices with an assurance of funds from the federation account. This is why there is an ever increasing number of political office seekers,as political offices serve as a sure means of amassing wealth.

Inspite of the fact that Nigeria started well with fiscal federalism in 1946, the successive principles adopted have been geared towards *Distribution and Consumption* as against *Generation and Production*. The struggle for an ever increasing share of the federal revenues by federal, state and local governments without a commensurate push to produce or generate value is counter-productive. The adoption of fiscal federalism without compelling and commensurateeconomic development alongside strong institutions in Nigeria, has no doubt, entrenched a culture of grabbing public funds considered national cake by the certain privileged few. There are not enough controls in the system to checkmate and prevent misuse of shared funds. Corruption has been the bane of Nigeria's fiscal federalism.

For Nigeria to record economic growth and development,there is the urgent need to change the current principles of fiscal federalism in operation with a view to introducing principles that will stimulate productivity at the various levels of government - federal, state and local governments. There must be a stop to the 'hand-out'or 'bail-out' fiscal principle or grant with a view to building institutional capacity to drive development as obtainable in China. The country needs economic booster policies to encourage productivity and savings as obtainable in China. Nigeria has no choice than to move from a resource sharing and consuming society to a resource generating and producing society. And this has become imperative to reflect in Nigeria's fiscal federalism through the unbundling and unblocking of road-blocks in the country's 1999 Constitution (as amended).

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