

**CHAPTER 8**

**FISCAL POLITICS IN “ETHNICALLY-MINED,”**

**DEVELOPING, FEDERAL STATES:**

**CENTRAL STRATEGIES AND SECESSIONIST VIOLENCE**

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Does fiscal power sharing exacerbate or alleviate tensions in ethnically divided states?<sup>1</sup> Do particular patterns of central fiscal policy associated with power sharing—including fiscal decentralization, fiscal proportionality, and fiscal appeasement—affect the likelihood of violent bids for secession? Many experts on power sharing would include fiscal decentralization and proportionality rules in their toolbox of devices for avoiding ethnic conflict. In this chapter, we study four noted cases, hoping to understand better whether or not such devices truly belong there.

The four cases—India, Pakistan, Nigeria, and the former Yugoslavia—are ethnically divided in a specific way. Between 1945 and the early 1990s, the world contained 10 federal states in which (for at least part of the period) at least one ethnic group was both a majority within one of the constituent units and a minority within the federation as a whole (see Table 8.1).<sup>2</sup> We call such groups “local-majority/countrywide-minority ethnicities” or simply “majority/minority ethnicities,” and the states that contain them “ethnically-mined federations,” since the

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<sup>2</sup>We use a relatively broad and loose concept of ethnicity in this chapter, encompassing religious, linguistic, and racial distinctions, and decide which of these seems most salient in particular cases.

demographic facts would seem to plant a mine in their foundations. In other countries, an embittered minority might hope to carve out an independent territory for itself through civil war. But in ethnically-mined federations, a majority/minority ethnicity could possibly split off one of the country's subunits, using the state's own internal architecture to dismember it. Such states should reveal the politics of secession in particularly vivid form.

Our focus is not on the aftermath of civil wars and the immediate problem of restoring peace, but on the longer-term challenge of consolidating a non-violent order. Two of our four countries were formed from a civil war (India and Pakistan in 1947), one disintegrated in one (Yugoslavia), and all experienced secessionist violence along the way, as well as periods of relative calm. Violence varied not only over time, but also across regions: in each, some groups sought to secede, while others remained loyal to the center. We consider how this record of unrest and quiescence fits with the history of fiscal institutions and policies.

Available data on fiscal systems are sketchy at best, far from exhaustive, and not fully comparable. We do not attempt to reconstruct all fiscal flows systematically, but limit ourselves to relatively straightforward observations that accord with the work of country specialists, on whose careful efforts our analysis relies. We were also forced to adopt an imperfect approach to operationalizing our dependent variable, secessionist violence. By "secessionist violence" we mean acts of force causing bodily harm to others aimed at making possible the creation of an independent political unit. Lacking systematic data to quantify this cross-nationally, we do not attempt to do so.<sup>3</sup> Rather, we present brief historical narratives for each country, emphasizing moments when major ethnic violence coincided with articulated demands for secession. We leave it ultimately to the reader to agree or disagree with our characterizations. Our aim here is to open a conversation about the relevant historical events.

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<sup>3</sup>We did consider various sources of data, but could not find any that appeared both sufficiently reliable and focused specifically on what we call "secessionist violence".

We focus on three fiscal strategies used by central governments—fiscal decentralization (or centralization), proportional distribution, and appeasement. To preview our tentative conclusions, these cases offer little reason to place faith in fiscal power sharing as a means of reducing ethnic conflict. It is not at all clear that either decentralizing state resources or distributing them proportionally among ethnic groups will help. The opposite may be true. We found little evidence in these four cases that the degree of fiscal decentralization affected the extent of secessionist violence. In a number of cases, central policies of fiscal appeasement—disproportionately favoring “local-majority/countrywide-minority regions”—seemed to reduce such violence. It is also possible that mere proportionality might have been enough. Yet, there were a few counterexamples, where even generous aid apparently failed to induce more moderate politics.

In the next section, we discuss several arguments about how fiscal factors influence the incidence of secessionist violence. In the following four sections, we try to evaluate how closely the patterns of fiscal policy and secessionist violence in each of our four countries fit these hypotheses. The final section summarizes our findings across countries.

### **Fiscal Politics and Secession**

How might fiscal power sharing affect the level of secessionist violence? To answer this requires both a definition of fiscal power sharing and a theory of what causes secessionist violence. By “fiscal power sharing,” we mean the way in which fiscal resources are extracted from and redistributed to the ethnic groups within a state. Strategies include decentralization, proportionality, and appeasement. By fiscal decentralization, we mean reducing the scale of central redistribution and allocating a large proportion of fiscal resources directly to subnational governments. More precisely, we measure the degree of fiscal decentralization as the proportion

of aggregate subnational government expenditures that is financed from non-central sources.<sup>4</sup>

Whereas this strategy refers to the *scale* of central redistribution, the other two focus on the *pattern*. Fiscal proportionality means allocation of central fiscal resources to majority/minority regions in proportion to their share of the country's total population. Fiscal appeasement means allocation of central fiscal resources to favor the regions most likely to secede.

How fiscal *decentralization* affects secessionist violence will depend on the true motives of those demanding secession. Such demands may be either sincere or strategic. In the first case, those demanding secession—often called nationalists—believe they would be better off in a separate state. By contrast, strategic demands are made by those who only pretend to desire actual secession as a means to some other end. There are three common motives. Some strategic secessionists—“autonomists”—hope, by threatening secession, to win greater authority to set local policies within the existing state. Other strategic secessionists—“opportunists”—hope, by threatening secession, to extort a greater share of central resources. A third set—“local ethnic entrepreneurs”—attack the center, politicize ethnic difference, and demand independence as a way of rallying local support. Of course, in reality, motives are often mixed. Why do such demands turn violent? Sincere secessionists might simply believe that the expected benefits of fighting for independence outweigh the expected costs. Strategic secessionists might push conflicts to the point of violence if they do not bear the costs of violence themselves, if they believe violence will convince the center to give them what they want, or if backing down would undermine their local popularity (Fearon 1994).<sup>5</sup>

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<sup>4</sup>We refer to the degree of fiscal decentralization of a particular subnational government—as opposed to the state-wide aggregate—as that government's “subnational fiscal autonomy”.

<sup>5</sup>The more puzzling question is why a central government would *not* accommodate and preempt violence in such circumstances. In many cases, it would seem rational to appease. Violence might nevertheless occur in settings where (1) information is asymmetric and violence conveys information, (2) contracts between regional and central leaders (for central benefits in return for no secession) are not enforceable, (3) central leaders are self-interested and do not bear the dead-weight costs of violence, (4) central leaders suffer personal political costs if they back down, or (5) central leaders have been listening to the advocates of proportional allocation.

Fiscal decentralization should affect secessionist violence differently, depending on the nature of the secessionists. If demands are sincere, then fiscal policies should have little or no effect. If demands are made by strategic autonomists, fiscal decentralization may help to satisfy them. If education, say, is fiscally assigned to regional governments, then regionally-concentrated ethnic communities can set syllabi and levels of education financing to suit their tastes.<sup>6</sup> If demands are pressed by opportunists, fiscal decentralization might reduce the size of central funding pools over which the opportunists compete. This might lower the incentive to make secessionist demands, although there are no guarantees. If the “secessionists” are local ethnic entrepreneurs, however, fiscal decentralization may give them greater resources to press their demands, without reducing their incentive to do so. Fiscal decentralization may also reduce the leverage of unity-oriented central politicians over the local secessionists. Thus, depending on what one assumes about the motives of ethnic politicians, one might derive opposite hypotheses about whether fiscal decentralization reduces or increases secessionist conflict. We treat it as an empirical question which logic applies more often.

Given the degree of fiscal decentralization, countries differ in the *pattern* of central fiscal redistribution. In most states, some regions receive larger central transfers, loans, and other aid than others. How might this affect secessionist unrest and violence? Scholars in the consociational school have argued that “proportionality in... the allocation of public funds” is an essential element of successful power-sharing arrangements between ethnic groups (Lijphart 1977; 1993, 188-9).<sup>7</sup> By “proportionality,” scholars usually mean allocation of central fiscal

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<sup>6</sup>This is an application of the famous argument of Oates (1972). Of course, any education policy that the region enacts could in theory be mandated by the central government, so decentralization is not necessary for differentiated policies (see Breton 2000). However, centralization will leave regions vulnerable to change. If fiscal decentralization is hard to reverse, this will render the center’s commitment to respecting subnational desires more credible (Przeworski et al. 1995). There are no guarantees that fiscal decentralization will lead to a better match of local tastes and public goods. As Bardhan and Mookerjee (2000) and Tanzi (1995) note, local governments are often captured by local elites, who may not share the tastes of the local majority.

<sup>7</sup>However, Lijphart adds that: “A possible variant of strict proportionality is deliberate minority overrepresentation.” On such strategies, see below.

resources to regions or ethnic communities in proportion to their share in the population. The underlying argument seems to be that allocations proportional to population are a natural compromise position, most likely to be acceptable to leaders of the competing ethnic segments and to seem self-evidently just to their members.

Some suggest, by contrast, that the most effective strategy to preempt secession is to design central transfers to appease the most likely separatist regions. Some regions are more likely to demand secession (sincerely) because their benefits from union are low. Increasing the benefits by providing larger central transfers may alter the calculus. Certain regional leaders may demand secession (strategically) because the local population is primed to support an anti-center appeal (Treisman 1999b). Giving such leaders resources to buy local support in other ways may persuade them to put away the ethnic card.<sup>8</sup> In ethnically-mined federations, the majority/minority regions will tend to have the greatest separatist potential, so this implies that secessionist violence should be lower when these regions are preemptively appeased.<sup>9</sup>

In sum, the existing literature suggests several hypotheses about how fiscal politics might affect secessionist unrest and violence in ethnically-mined federations.

***Hypothesis 1:*** There will be *less* secessionist violence if fiscal decentralization is greater.

*(The decentralization hypothesis)*

***Hypothesis 1':*** There will be *more* secessionist violence if fiscal decentralization is greater. *(The central-control hypothesis)*

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<sup>8</sup>Treisman (1999a) argues that in Russia in the early 1990s, central policy directed disproportionate fiscal benefits to regions with the greatest demonstrated resolve to threaten the constitutional order, and that this helped to reduce subsequent secessionist demands.

<sup>9</sup>However, asymmetric “over”-accommodation of minority regions is sometimes thought to exacerbate tensions because of the perceived unfairness. Regardless of justice, a strategy of rewarding regions or groups thought to have greater separatist potential might encourage others to seek a reputation for anti-center activism. For a more detailed analysis, see Treisman (2002).

**Hypothesis 2:** There will be *more* secessionist violence in majority/minority regions that receive less than their proportionate share of transfers and tax shares. (*The proportionality hypothesis*)

**Hypothesis 2':** There will be *less* secessionist violence if transfers and tax shares are allocated disproportionately to regions with greater separatist potential (majority/minority regions). (*The appeasement hypothesis*)

Note that the proportionality hypothesis and the appeasement hypothesis are related.

Discrimination against a given regional unit is simultaneously a failure of proportionality and a failure of appeasement. However, the appeasement hypothesis is stronger: it contends that proportional allocations to the regions with greatest secessionist potential are not enough. To distinguish these empirically, we need to look for cases in which proportional allocations are associated with secessionist violence.

## India

Since independence in 1947, India has been a federally-structured, parliamentary democracy.<sup>10</sup> The population of 1.01 billion (as of the 2000 census) is today divided among 26 states, six centrally administered union territories, and the federal capital of Delhi. India constitutes a religious and linguistic mosaic. As of the early 1990s, 82.4 percent of Indians were Hindu, 11.7 percent Muslim, 2.3 percent Christian, and 2.0 percent Sikh. The constitution recognizes 15 major languages, the most widespread of which—Hindi—is spoken by 31.3 percent of the population.

The Congress Party, which evolved from the Indian National Congress of Gandhi and Nehru, dominated politics through most of the post-independence period, winning a comfortable majority in all elections up to 1989, except for a protest vote against Indira Gandhi's emergency

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<sup>10</sup>With the possible exception of 1975-77, when Prime Minister Indira Gandhi imposed emergency rule.

rule in 1977. From 1989, it has been challenged by the Janata Dal and Bharatiya Janata Parties at the center and by a number of rising regional parties in the states.

If religion is taken as a marker of ethnicity, six Indian states qualify as local-majority/countrywide-minority regions. In the northern, mountainous Jammu and Kashmir, Muslims were 64 percent of the total population as of the early 1990s. Sikhs made up 63 percent of the population of neighboring Punjab state. The four North-East border states of Meghalaya, Mizoram, Sikkim, and Nagaland have Christian majorities (Census of India, 1991). If, on the other hand, ethnicity is defined by language, then as of the 1991 census only six of the 24 states had Hindi-speaking majorities (Bihar, Haryana, Himachal Pradesh, Madhya Pradesh, Rajasthan, and Uttar Pradesh). Since this would put almost all states in the majority/minority category, and since language has been less politicized than religion in India, we focus here on the latter.

### *India's fiscal politics*

In India most taxes are levied and collected by the central government; revenues from some of these are fully assigned to the states and others are shared with the states.<sup>11</sup> There are three main channels of center-state financial transfers.<sup>12</sup> First, the Constitution requires the President to appoint a Finance Commission every five years, which determines what shares of income tax and central excises will go to each state, and also establishes levels of grants-in-aid. These transfers are intended mainly to meet fiscal needs of the states and correct for spillovers. Second, a Planning Commission, first established in 1950, makes recommendations for additional grants and loans, aimed mainly at supporting development and helping to finance projects in the

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<sup>11</sup>Fully central taxes include customs duties, corporation tax, most excises, and property taxes (except on agricultural land). The central government must share revenue from income tax (on non-agricultural incomes) with the states, and may share excises. Fully state taxes that are centrally collected include estate duties (except on agricultural land) and sales taxes on subjects of interstate commerce. The states levy, collect, and retain taxes on agricultural income, estate and property taxes on agricultural land or buildings, taxes on mineral rights, excises on alcohol and narcotics, and sales taxes (except on interstate commerce) (Singh 1987).

<sup>12</sup>See, for instance, Rao (1998), Thimmaiah (1985), Gulati and George (1988), and Gandhi (1999).

states' plans. These transfers are determined annually, and sometimes within the year. Third, since the nationalization of banks in 1969 much of the distribution of commercial credit has been indirectly controlled by the central government. In addition, loans from the Life Insurance Corporation, the Agricultural Refinance and Development Corporation, and the Rural Electrification Corporation support development. These are often considered a third channel of "institutional finance," flowing from center to states.

How great is the fiscal autonomy of the (religious) majority/minority states in India relative to other states? How has their fiscal autonomy changed over time? Answering these questions is difficult given the very limited fiscal data available. Answers may differ depending on whether one focuses on states' current or total (current and capital) expenditures. The ratio of the states' "own current revenues"—that is, revenues raised locally—to their current expenditures fell from 68.9 percent in 1955-6 to 57.1 percent in 1994-5 (Rao 1998, 90). However, the ratio of the states' own current revenues to *total* expenditure remained relatively stable—48.5 percent in 1955-6 and 48.9 percent in 1994-5. Lacking data for total expenditure for individual states, we present figures for own current revenues as a share of own current expenditures. We were able to calculate this ratio for local-majority/countrywide-minority states in three periods: 1961-65, 1990-93, and 1996-99 (Table 8.2). Among the majority/minority states, Punjab was the most fiscally autonomous throughout this period, while the other five states had extremely low fiscal autonomy, relying on external sources to finance 80 percent or more of their current spending in the 1990s. The degree of fiscal autonomy appears to have dropped for Punjab (slightly) and Jammu and Kashmir (a lot) between the 1960s and the 1990s. The level stayed about the same during this period for Nagaland.

What about the pattern of central fiscal redistribution? While reasonably comprehensive figures were available for Finance Commission and Plan transfers (Table 8.3), we could only find estimates of institutional finance flows for the period 1969-76 (Table 8.4), so the picture we can offer is incomplete. We were also unable to find any data for Mizoram.

What do these figures suggest? The level of combined Finance Commission and Plan assistance for Punjab started higher than that of the median region in the late 1950s and early 1960s. In the late 1960s, however, it dropped below that of the median region, and fell further and further behind until the early 1980s (the last period for which data on plan transfers and loans were available). Whereas in the late 1950s, Punjab received 2.5 times as much as the median region in central government aid via these channels, in the early 1980s the state received only 86 percent of the median state's allocation. Finance Commission transfers continued to drop relative to the median in the late 1980s, but recovered somewhat in the 1990s.

During the one period for which data were available (1969-76), Punjab received a very high level of institutional capital flows, mostly in the form of credit from the centrally controlled commercial banks. This, if included with the other transfers, would have left Punjab considerably better off than the average region during this period. However, the impact of commercial bank lending on demands for secession may be different from that of central grants or tax devolution. Commercial bank loans are supposed to be repaid: the opportunity to renege on such loans in the event of secession might make such a choice more rather than less attractive. The large credits to Punjab probably reflected a policy of support for agriculture; after 1969, banks were required to make 40 percent of loans to this sector.

Finance Commission and Plan transfers to Jammu and Kashmir were consistently much higher than the median. The trend was clearly upward for both series from the late 1950s. However, Plan transfers fell quite sharply in the early 1980s and Finance Commission transfers—after increasing dramatically in the late 1980s—also fell in the early 1990s. Institutional financial flows were somewhat below the median in the early 1970s. One other relevant point is that the share of loans in central aid increased in the 1970s, so that by the 1980s a large share of current spending was going towards debt service (Prakash 2000, 2053).

Nagaland showed a similar pattern of Finance Commission and Plan aid to that of Jammu and Kashmir: an increasing trend in both, with a drop in Plan transfers in the early 1980s and then

in Finance Commission transfers in the early 1990s. The main difference from Jammu and Kashmir was that Nagaland's level of transfers per capita was consistently far higher than the former's very high level. From the mid-1960s to the early 1980s, Nagaland had the highest level of transfers of any state for which data were available. And Nagaland even had institutional financial flows in the early 1970s that were above the median—and above those of Jammu and Kashmir. The only data available for Meghalaya and Sikkim were for Finance Commission Transfers from the early or late 1970s. These showed a pattern similar to that of Nagaland and Jammu and Kashmir with levels somewhere between the two and far above the median.

### *Secessionist violence in India*

In Punjab, major violent unrest occurred during the 1980s (Das Gupta 1995, 290). “Extensive violence connected with a militant separatist movement for a Sikh homeland claimed more than twenty thousand lives between 1981 and 1992.” The violence died down after 1992, as “resident Sikhs ... gradually opted for normalcy, and the electoral institutions registered increased effectiveness through several elections at the state and local levels from 1992 to 1994.” Before the 1980s, secessionist voices were largely marginalized. The exclusively Sikh Akali Dal party was repeatedly defeated in the five state assembly elections before 1985 by the Congress Party, which appealed to lower class and caste Sikhs. The Akali Dal party during this period collaborated with the Congress Party and even the Hindu Jana Sangh Party.

In the early 1980s, the older Akali Dal party elites were challenged by younger activists from the dominant Jat Sikh caste who were “confessionally purist, socially exclusionary, politically militant, and increasingly well-armed” (Das Gupta 1995, 291). These separatist insurgents made armed sanctuaries out of Sikh temples, including the Golden Temple in Amritsar, until the Indian military forced them to leave in 1984. This military action led to the assassination of Indira Gandhi by her Sikh bodyguards and waves of militant and counter-militant violence, most of the victims of which were poor Sikhs. In the midst of the crisis, an Akali Dal

government was elected in Punjab in 1985. But by 1992 the mood had changed, and the Congress Party was returned to power in the state assembly election of that year.

If the 1980s were the decade of violence in Punjab, the 1990s could claim this distinction in Kashmir. Unlike all other cases in India, the Kashmir problem has been deeply influenced by external intervention. Pakistan, which claims the territory, has fought three wars against India—in 1947, 1965, and 1971. By the late 1980s, the end of the Afghanistan war had left Islamic guerrillas in Pakistan searching for new targets, and weapons and militants infiltrated across the border into Kashmir. Tensions between India and Pakistan over the future of Kashmir escalated dangerously in 2002, creating the possibility of a nuclear war.

Given Pakistan's interest in stirring up unrest, it is surprising how *little* secessionist violence Kashmir has seen until recently. The 1965 Pakistan invasion did not receive significant support in the region. In the late 1980s, however, a growing Islamic coalition began to challenge the state's established, increasingly corrupt Muslim leadership. Protests broke out over a rigged election in 1987,<sup>13</sup> and Kashmir activists organized a boycott of the 1989 election. Protests escalated after this, and the Delhi government imposed central rule, backed by military force. Since 1989, thousands of civilians have been killed in confrontations between militants and Indian security forces (Prakash 2000).

The territories that became Nagaland and Mizoram saw periodic secessionist violence during the post-independence period. Violence first broke out in Nagaland, then an area within Assam, in the 1950s. The demands of separatists from the Naga tribe were supported by the population, which engaged in a tax revolt and campaign of sabotage (Das Gupta 1995, 289; Encarta 2001). In response, the Indian government created the state of Nagaland in 1963. However, violent opposition continued and continues today, organized by guerrilla bands that retreated into Burma or China to regroup.

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<sup>13</sup>The ruling party of Farooq Abdullah was disqualified by the Indian government on the grounds of corruption.

In Mizoram, an insurgency lasted from the 1950s to 1986, when the Mizo leader, Laldenga, negotiated an agreement with the central government upgrading the territory's status to that of a state, and emerged as the new state's chief minister. Peace has been maintained since then, and Mizoram is viewed by some Indian leaders as an example of successful negotiation to end secessionist challenges (Mehta 2001). Meghalaya, which became a state in 1972, did not experience any significant secessionist violence. Sikkim was annexed by India in 1975. We could not find references to any secessionist violence within the state.

### ***Impact of Indian fiscal policy on secessionist violence***

To what extent does this experience fit our hypotheses? The impact of fiscal decentralization on secessionist violence is unclear. Secessionist violence occurred in one state with high (Punjab), one with low (Jammu and Kashmir), and one with very low fiscal autonomy (Nagaland). The time trend might be important: violence flared up in Jammu and Kashmir after the state's dependence on central resources increased. It appears that the same may have been true for Punjab, but we lacked data from the 1980s to check. Overall, there seems to be no clear evidence that the level of fiscal decentralization mattered one way or the other. The evidence supports neither the decentralization hypothesis nor the central-control hypothesis.

The pattern of fiscal distribution appears more closely related to the incidence of violence. The major outburst in Punjab occurred after Finance Commission and Plan allocations had been falling progressively further below the median for a decade. Jammu and Kashmir also seems to provide evidence of an inverse relationship between fiscal appeasement and secessionist violence. The relative lack of violent uprisings in the province until the 1980s—despite support for militants from across the border and even several Pakistani invasions—fits with the pattern of increasingly generous Finance Commission and Plan transfers through the late 1970s. The sharp drop in Plan allocations (and slight drop in combined transfers) in the early 1980s may have helped prepare the ground for the protests of 1989. And the major decrease in Finance

Commission transfers in the early 1990s—if not offset by an increase in Plan transfers—would help to explain the flare-up of violence during that decade. The proportionality and appeasement hypotheses both receive some support, although the evidence does not distinguish between them.

From the appeasement perspective, the very generous aid provided to Sikkim and Meghalaya could help to explain their quiescence through the late 1980s. But the drop in the 1990s, pushing both beneath the median level of combined Finance Commission and Plan transfers by the end of the decade, might have been expected to provoke some increase in violence. Either the appeasement hypothesis fails in these cases, or some violent incidents lie ahead. Finally, the very high level of central support for Nagaland alongside continuing secessionist violence seems to contradict the appeasement hypothesis.

In short, the proportionality hypothesis and the appeasement hypothesis do a good job of explaining the two major cases of secessionist violence in Indian post-war history. But there is one exception and some other anomalies. The decentralization and central-control hypotheses do not fit the Indian pattern of events.

### **Pakistan**

After the British left in 1947, the newly created Pakistan consisted of two non-contiguous areas, West and East Pakistan. In the East, Bengalis were in the majority, while Punjabis were in the majority in the West. East Pakistan had 54.2 percent of the country's population, while West Pakistan had better economic assets, and controlled the civil service and the military. Because of the West's control over fiscal policy, and more generally over the economic and political systems, we have chosen to classify Bengali East Pakistan as the majority/minority state. Since the end of the 1971 war and partition, Pakistan has been composed of 4 major sub-units<sup>14</sup>: Punjab (majority

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<sup>14</sup>It also included the smaller tribal areas, northern areas and the federal capital. The ethnic composition (circa 1996) was 56 per cent Punjabi; 17 per cent Sindhi; 16 per cent Pakhtuns; 6 per cent Muhajir, 3 per cent Baluchi, 2 per cent other.

Punjabi, the dominant ethnicity nationwide), Baluchistan (multi-ethnic), Sindh (majority/minority Sindhi), and the North West Frontier Province (majority/minority Pakhtuns).

After the 1947 partition of India and Pakistan, a government of Mohammed Ali Jinnah's Muslim League assumed power. The civil service, allied with the military—which was dominated by the Punjabis and to a lesser extent Pakhtuns—played a central role in the transition period. The 1956 constitution, drafted by an indirectly elected constituent assembly, reorganized the federation under the so called “one unit rule,” which replaced the existing five provinces with only two states, East and West Pakistan, and set up a unicameral legislature with equal representation for each subunit. The new constitution provided little autonomy to the provinces and gave the indirectly elected president the power to oversee all national expenditures, and to veto provincial bills (S. Ahmed 1997).

As the first national elections approached, the military staged a coup in October 1958. The military government further centralized power by enacting a new constitution in 1962, which gave the executive the power to appoint and dismiss provincial governors, who in turn were responsible for hiring and firing the provincial cabinets. In 1969, as part of a democratization plan that included the first national elections, the “one unit rule” was abolished and the five provinces of Punjab, Sindh, Baluchistan, the Northwest Frontier (NWFP), and East Pakistan were re-established.

During the 1970 election campaign, the opposition in East Pakistan proposed radical administrative and economic reforms. The election results favored East Pakistan's Awami League, which won the right to form a government. This outcome threatened the role of the army, which feared losing defense funds, as well as the political and economic privileges of those ethnic groups over-represented in the army, the civil service, and business. When the military, with the support of the Pakistan People's Party (PPP), decided to postpone the transfer of power, this triggered widespread unrest in the East. The military increased coercive measures and sent troops

to repress opposition. The civil war between the East and the West led to the Indo-Pakistan War of 1971, after which the Bengali-led party declared independence and Bangladesh was born.

After the secession of East Pakistan, power in the West was transferred to a civilian government under Zulfikar Ali Bhutto of the PPP, who enjoyed military support. In this new Pakistan, the Punjabis, who dominated civil and military bureaucracies, became the largest ethnic group. As differences increased between the center and the provinces, the Bhutto government dismissed the provincial administrations of NWFP and Baluchistan. After the 1977 election, opposition forces claimed electoral fraud and began mounting anti-government protests. In July, a military coup deposed Bhutto and General Zia ul-Haq established an authoritarian regime. The government arrested and executed Bhutto for murder, suspended the constitution, introduced an Islamic penal code, and began to further concentrate power in the hands of the federal government. President Zia and several of his commanders were killed in a plane crash in 1988.

Elections were held that year, resulting again in victory for the PPP, this time led by Benazir Bhutto (the daughter of the earlier PM). The President dismissed her in 1990, accusing her of corruption, and appointed instead a prime minister from the Islamic Democratic Alliance party. As unrest around Sindh became widespread, the government lost military backing and fell in July 1993. The PPP won a slim majority of votes in the October 1993 elections but soon after, in November 1996, the military intervened again. In 1997, the Pakistan Muslim League, under Nawaz Sharif, won a sweeping election victory. Finally, in October 1999, Nawaz Sharif was ousted from power by yet another military coup after attempting to fire his army chief of staff, General Pervez Musharraf, who became Pakistan's new president.

### ***Pakistan's fiscal policies before partition in 1971***

Very limited data exist on public finances and tax structures for the first post-independence decade (Pash and Fatima 1999). During this period, state power was centralized

and the provinces had little financial autonomy. The increasing role and build-up of the Punjabi-dominated military establishment diverted significant resources to national defense.

Center-provincial financial arrangements under the 1962 Constitution followed the “one-unit rule” established in the 1956 Constitution that established juridical equality between East and West Pakistan. To make up for the inelasticity of the two provinces’ independent tax sources, the 1962 constitution entitled them to a share in the proceeds of certain federal taxes (Wheeler 1970, 183). A National Finance Commission (NFC), established by the Constitution and appointed by the president, was in charge of making recommendations for the distribution of shared taxes and grants-in-aid, as well as the principles governing borrowing by governments. Divisible pool revenues were allocated on the basis of population, 54 percent to the East and 46 percent to the West. Sales tax proceeds were allocated 70 percent based on population and 30 percent based on incidence. Before 1962, 62.5 of revenues from export duties on jute, a main source of foreign exchange, went to East Pakistan, the major producer. In 1962, the system was changed to allocate all export duties to the province of collection, but in 1964-65 this was modified again to reflect exclusively population proportions (Wheeler 1970, 184). During the first post-independence years, customs duties were the main revenue source (71 percent of total taxes in 1949-50) but their share declined continuously through the 1950s and 1960s, with a corresponding rise in the share of excises (Pasha and Fatima 1999).

Table 8.5 shows the total revenues received by the two regions, the share of provincial revenues contributed by their share of central taxes, and the share from central government grants-in-aid from 1950-51 to 1970-71. An additional major source of finance came from the annual development programs. These funds were part of central planning policies designed to foster regional development, and according to the constitution were supposed to ensure greater equality between the two provinces and between different areas within each. The levels and distribution of these funds appear in Table 8.6.

How high was fiscal autonomy? East Pakistan relied on central transfers more than West Pakistan. Between 1962 and 1968, central government transfers—taxes and grants-in-aid—rose to equal more than half of total revenues in the East. In 1968-71, the share dropped to about 45 percent. The share of central resources in revenues of the Western government varied between about 19 and 43 percent of the total.<sup>15</sup>

Did the pattern of central transfers tend to favor the local-majority/countrywide-minority region? In fact, East Pakistan was not favored over the West, as can be seen in the last two rows of Table 8.5. On average, the share of central taxes distributed to the two provinces was roughly equal. Since the population of the East was 54.2 percent of the total, the East's share of distributed central taxes was less than its population share in every year (for which we have data) from 1958 to 1971. Until 1970-71, right before the East's secession, the share of grants-in-aid going to the East was far below that going to the West, although the East's share rose over time. East Pakistan also received a smaller share of development grants than its population share (Table 8.6).

Several authors have offered evidence of what seemed to be skewed government economic policy favoring the West over the East. S. Ahmed (1997, 93) has argued:

The Punjabi-Muhajir central bureaucracy, responsible for formulating economic planning and for disbursing developmental expenditures to the provinces, adopted policies that favored their ethnic constituents in urban Sindh and Punjab. While one of the main sources of foreign exchange, for example, was the sale of East Bengal's jute, the proceeds were spent on developing the industry of the west wing, based in Karachi, as well as the agricultural infrastructure of central Punjab.

In regard to differences in regional development, Stern and Falcon (1970, 5) wrote:

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<sup>15</sup>Decisionmaking autonomy was lower than these numbers would suggest. Provincial governors were centrally appointed, giving the federal government leverage over finance and development expenditures.

The physical separation of the two provinces and the continued domination of the central government by West Pakistanis have led to charges that the widening of the income differences stems not only from economic causes but from deliberate policy. The use of scarce foreign exchange earned by the East Pakistan to finance rapid growth in West Pakistan, and the fact that the preponderate share of investment resources was allocated to West Pakistan have exacerbated this issue.

Oman Noman (1990, 41) wrote about the economic policies of the military government:

Bengali resentment was fueled by the growing disparity between the two regions. At the time of Ayub's coup, there was a difference of 30 per cent in per capita incomes of the two regions. By the end of the second five-year plan (1965), the disparity of per capita income had risen to 45 per cent. By the time of Ayub's departure, the gap had risen to 61 per cent. Although there is considerable controversy over the precise magnitude of inter-regional resource transfer, there is no dispute about the relative decline of East Pakistan under the Ayub regime.

### ***Secessionist violence in Pakistan prior to 1971***

Incidents of ethnic and separatist violence in Pakistan before 1971 fall into two groups: those within the borders of West Pakistan, particularly involving the center against the Sindhis, the Pakhtuns, and the Baluchis; and the separatist unrest that emerged in East Pakistan, the majority/minority state in question.

Within the West, conflicts appeared to increase after the imposition of the "one unit" rule. In the Northwest, the predominantly Pakhtun party Khudai Khidmatgar (KK) had opposed the division of Pakistan from India, and many Pakhtun nationalists had called for the formation of a separate state in Northwest Frontier Province and Pakhtun-inhabited regions of Baluchistan. After independence, the KK's successor, the National Awami Party (NAP), became more moderate in its demands and restricted its aims to greater autonomy. The government responded by

centralizing control over the NWFP by means of co-opted chief ministers, and using force, particularly in tribal areas that experienced the greatest unrest (Ahmed 1997).

In Baluchistan, intermittent armed conflict between the army and Baluch tribal groups ended in 1969 with a ceasefire and the repeal of the “one unit” rule (Noman 1990, 66). A rebellion in Baluchistan served as the pretext for the military coup of October 1958, but the main motivation of the Western leadership appeared to be its fear of losing to the East Bengalis in the upcoming elections (Ahmed 1997, 96). In Sindh, the apparent control of Punjabis and Mohajirs over the political and economic system prompted ethnic tensions. Nationalist mobilizations increased following the announcement of government plans to eliminate Sindhi as a medium of instruction in schools (Pattanaik 1998).

Demands for greater regional autonomy in East Pakistan were common from the time of independence, and grew particularly intense after the imposition of the “one unit” rule. In 1954, the center intervened to dissolve the increasingly confrontational local assembly. Opposition to the military regime of General Ayub grew throughout the 1960s (Noman 1990, 32). In December 1968, the political parties of East Pakistan called a successful general strike. As protests mounted, the military decided to remove the sitting executive, Ayub, and replaced him with Army Commander-in-Chief, Yahya Khan.

In 1971, after the army refused to transfer power to the Bengali dominated coalition, the civil war began. The West first launched a military offensive against the East. But soon after, the Bengalis, with crucial help from India, were able to win independence.

### ***Impact of Pakistan’s fiscal policy on secession violence prior to 1971***

How does Pakistan’s experience prior to 1971 relate to our hypotheses? Fiscal autonomy was quite low in East Pakistan and also in the former provinces subsumed by the “one unit” rule until 1969. The East’s dependence on central grants and tax shares increased between the late 1950s and early 1960s, from about 35 to 59 percent of total revenues, and then dropped to 44

percent by 1969. Thus, the period of gradually growing secessionist unrest in the late 1960s coincided with a period of increasing fiscal autonomy. The slow increase in unrest in the East became a full-fledged separatist movement after the military's decision not to honor electoral results. Several authors have associated the period since 1956, after the withdrawal of political and financial autonomy from the former provinces of West Pakistan, with greater nationalist unrest (S. Ahmed 1997, Pattanaik 1998). This might suggest an association of lower fiscal autonomy with greater unrest. Thus, overall, there seems to be no clear relationship to support either the decentralization hypothesis or the central-control hypothesis.

The pattern of central transfers to East and West Pakistan did not follow population proportions and benefited the West. We found a consensus in the literature on Pakistan that perceived unfairness of the revenue allocation mechanism contributed to secessionist unrest in the East. Disproportionate allocations favoring the dominant region may well have helped to prompt the autonomy demands, political conflicts, and violence that culminated in the civil war. This pattern is consistent with both the proportionality hypothesis and the appeasement hypothesis (an absence of appeasement contributed to civil war), but does not permit us to distinguish between these hypotheses.

### ***Pakistan's fiscal policies after partition in 1971***

After East Pakistan's secession, differences between Punjab and the other provinces within rump Pakistan became contentious. The period between the civil war and the early 1990s has been seen as one of overwhelming federal dominance of public finance (Sato 1994). Federal taxes and excises were allocated to the provinces according to recommendations of the NFC, made in 1974 and not revised until 1991.

Allocations from excise duties and royalties on natural gas went to the two provinces of origin, Baluchistan and Sindh, and continued after the 1991 revisions. The federal government kept 20 percent of divisible pool revenues, while the provinces shared the other 80 percent.

Provincial shares from federal taxes and excises, excluding special grants and subventions, are shown in Table 8.7. Under the 1974 NFC award, 96 percent of these federal transfers were distributed according to population; the share decreased to 75 percent with the 1991 award (IPS 1992, 53).

During the 1970s and 1980s the provinces' own resources became inadequate to meet their increasing expenditures, and the central government began making discretionary grants to fund their current account deficits (IPS 1992). These "revenue-deficit" grants financed about 30 percent of provincial governments' current expenditure between 1977 and 1979. In addition, specific subventions were allocated to the NWFP and Baluchistan as block grants, along with grants for the maintenance of strategic roads.<sup>16</sup> Table 8.8 details provincial current revenues from 1970 to 1989, including development grants. Table 8.9 shows the distribution of central grants, including revenue deficit, foreign aid, and development grants.

How high was fiscal autonomy? As of the early 1970s, all provinces were relatively dependent on federal allocations: Punjab and Sindh financed a little more than half of total revenues from own taxes and other local sources, while the NWFP's and Baluchistan's own revenues came to respectively 42 and 33 percent of the total. For all provinces, fiscal autonomy dropped precipitously over time. The proportion of the provinces' own revenues in total revenues fell from 53 to 19 percent for Punjab between the early 1970s and late 1980s; from 58 to 14 percent for Sindh; from 42 to 8 percent for NWFP; and from 33 to 4 percent for Baluchistan.

Did the pattern of transfers tend to favor local-majority/countrywide-minority regions relative to others? Shares from federal taxes correlated roughly with population throughout the 1970s and 1980s (Sato 1994; Table 8.8). The data on central grants tell a different story. The share of central grants in provincial current revenues increased rapidly for all four provinces. But

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<sup>16</sup>The central government also provided grants and loans to help finance the provincial development programs. Although discretionary, these funds appear to have been shared more or less according to the distribution of population (Sato 1994). Another smaller set of special development programs included a grant for underdeveloped regions like Baluchistan as well as discretionary funds for projects recommended by members of the National Assembly.

the total increase was greatest in Baluchistan and NWFP, followed by Sindh, and Punjab. The pattern does suggest appeasement of non-dominant provinces, although the problematic, ethnically-mixed Baluchistan was favored even more than the two provinces with a single non-Punjab dominant ethnicity. The NWFP and Baluchistan also received subventions and grants for the maintenance of strategic roads, as well as all the allocations from excise duties and royalties on natural gas.

Considering the shares of total grants (Table 8.9), Punjab received considerably smaller shares of each than its population. NWFP received larger shares of the largest grant category—revenue-deficit grants—and of development grants than its share of Pakistan's population. Sindh also received disproportionate development grants, but less in other categories than its population would merit. Baluchistan consistently received a much larger share than its population for all three categories of grant.<sup>17</sup>

In short, the data suggest a clear attempt by the government to appease NWFP and Baluchistan with discretionary grants. But the absolute level of these changed over time in ways that are difficult to assess.

### ***Secessionist violence in Pakistan after 1971***

During the 1971-77 civilian government of Zulfikar Ali Bhutto, himself of Sindhi origin, separatist unrest was mainly confined to Baluchistan and parts of the NWFP. The 1970 local elections had resulted in victories for the pro-autonomy National Awami Party in both the NWFP and Baluchistan, and in 1972 NAP leaders became chief ministers in both provinces for the first time. In 1972, Bhutto dismissed both assemblies and sent troops to Baluchistan, officially to control tribal unrest. The military intervention grew and federal officials accused the provincial

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<sup>17</sup>However, the time trend is also interesting. NWFP, after receiving very large shares of grants in the early 1980s, tended to lose ground afterward. Baluchistan also received extremely large deficit grants in 1979-83, before seeing a reduction afterwards; its development grants peaked at a very high level in 1983-5. Sindh's trend in these two categories was opposite: a drop to a very low level of deficit grants in 1979-83, followed by a significant increase; and a very big increase in development grants after 1983.

government of supporting secessionist dissidents. The military's counter-insurgency battle continued until at least 1975. The violence seems to have been mostly concentrated in Baluchistan rather than the NWFP.

In Sindh, which had remained relatively calm during 1972-79, nationalist conflict increased with the return of the military. In autumn 1983 a "full-scale rural uprising" developed, mostly in certain rural areas of the province's interior. The movement began with a series of unauthorized demonstrations, but later developed into a large-scale uprising that threatened the economic prosperity of Punjab. At this point, the president decided to send army divisions to quash the uprising (Rakisits 1988). According to one observer:

As Sindh dissent spread, the military launched anti-insurgency operations in the Sindhi countryside; hundreds were killed and thousands were arrested and tried by summary military courts, run by military administrators. When force alone did not contain Sindhi dissent or weaken the PPP's base, the military adopted discriminatory policies aimed at excluding the politically suspect Sindhis from the state apparatus (Ahmed 1997, 108)

Unrest was also noted in Sindh in the early 1990s. In NWFP, agitation for an independent Pakhtunistan had died down by the late 1980s; but a violent revolt in the mid-1990s erupted over the demand that Islamic law be implemented in the province (Weiss 1999).

### ***Impact of Pakistan's fiscal policy on secessionist violence after 1971***

The relationship between fiscal autonomy and secessionist violence in Pakistan since 1971 is unclear. Fiscal autonomy decreased dramatically for all regions in the 1970s and 1980s. The 1970s witnessed major unrest in Baluchistan and the NWFP, and the 1980s saw similar unrest in Sindh. However, the unrest in Baluchistan and parts of the NWFP in the early 1970s seems to have preceded the noted drop in fiscal autonomy; it actually coincided with greater, but still limited, financial independence associated with the end of the one unit rule. Although financial dependence increased for all provinces in the 1970s and 1980s, when the Sindhi

rebellion occurred in 1983 Sindh had the largest internal revenue base, close to one third of total revenue. Neither the decentralization hypothesis nor the central-control hypothesis can account for these patterns.

The experience of Pakistan seems to offer qualified support for the notion that either proportional treatment or appeasement of minority/majority states decreases separatist unrest. After the military came to power, grants, which had until then been a relatively small proportion of revenues, increased dramatically; these were directed disproportionately at the problematic provinces of NWFP and Baluchistan. Beginning in 1979, the government adopted a new policy which combined a reduced military presence with more development resources for these provinces. While grants in 1979-81 made up 15 and 19 percent of revenues in Punjab and Sindh, they jumped to 42 and 73 percent of revenues in NWFP and Baluchistan. These two provinces' shares of total deficit grants during this period were respectively 2.7 and 8.7 times their shares in the population. It is notable that the unrest of the 1970s in these two provinces mostly died down in the 1980s. The Soviet invasion of Afghanistan—and the subsequent influx of refugees into the NWFP—may also have helped cool the desires of Pakistani Pakhtuns for merging with their Northern neighbor (Noman 1990, 198).

The experience of Sindh also fits the proportionality and appeasement hypotheses. Although fiscal mechanisms do not seem to have been used to benefit Sindh disproportionately, there appears to be a consensus that the Sindhi benefited from government policies during the Bhutto administration (S. Ahmed 1997, Burki 1980).<sup>18</sup> (It is not clear if these benefits reached the Sindhi rural population, or if they were directed towards the non-Sindhi urban centers.) The advent of the military government in 1979 reduced the influence of Sindhi politicians and administrators in federal decision-making. Making matters worse, grants to Sindh were reduced quite sharply in the early 1980s—from 18.8 percent of total provincial current revenues in 1979-

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<sup>18</sup>The new government after the war changed language policies and put in place some quotas for employment and other preference based policies.

81 to 11.5 percent in 1981-3, a larger drop of the share than in any other province. Sindh's share in deficit grants dropped to just 5 percent in 1981-3, compared to a population share of 23 percent.

This was followed by the Sindhi rural violence of 1983. The local leaders of the PPP, which had been in power until 1979, led the rebellion in many districts. Demands for a separate Sindhi nation-state were common during the 1983 rebellion (Noman 1990, 195). As noted, the government responded with military force. But it also attempted some financial appeasement, deciding to significantly increase development funds allocated to the province's interior, where Bhutto's support was strongest (Rakisits 1988, 87). Total grants jumped to 44 percent of current revenues in 1985-7. Sindh's share of deficit grants rose from 5 to 20 percent of the total in 1985-7; and its share of development grants jumped from 28 to 48 percent of the total in 1983-5. This may have helped stabilize the situation in the late 1980s.

### **Nigeria**

Nigeria became independent in 1960, inheriting from the British a federal structure with three major sub-units—the Hausa-Fulani-dominated North, the Yoruba-dominated West, and the Igbo-dominated East. The mostly-Muslim Northern region included about three quarters of the country's territory and over half the population. Nigeria's socioeconomic center lay in the more modernized South, which was largely Christian and animist. From the 1960s, the economy began to depend increasingly on oil production, largely concentrated within the Midwest and East. Other ethnic groups of different sizes are clustered around the three major ones, accounting at independence for about one third of each region's population (Suberu 1996).

Since independence, the country's constituent regions have been subdivided repeatedly. A Mid-Western region was carved out of the West in 1963. In 1967, the military regime in power divided the four existing regions into 12, precipitating a civil war. In 1975, the number was

increased to 19. It grew again in 1987 to 21, then to 30 in 1991, and 36 in 1996. This complicates the determination of which states are majority/minority units in a given period.<sup>19</sup>

Brief periods of democracy have alternated with longer ones of military rule. The First Republic lasted from independence until 1966. Political parties were organized regionally and represented the major ethnic groups. For the first few years, a Northern and Eastern alliance dominated the federal government. This government declared a state of emergency and took over the administration of the Western region in 1962. The North-East coalition broke down soon after, with the Northern party retaining power and both parties courting competing Yoruba factions from the West. In 1965, local elections were held in the West. When it became clear they had been rigged in favor of the North's regional partner, the region "erupted into popular rebellion" (Diamond 1995, 427). The federal government was about to intervene when the Prime Minister and other political leaders were killed in a coup in January 1966 led by a group of mainly Igbo officers.<sup>20</sup> The coup was defeated by other army factions, and the chief of the armed forces, an Igbo who had refused to join the plotters, became head of the new military government. When it proceeded to abolish the autonomy of the regions and appointed military governors indigenous to their respective regions, this provoked a second coup, led this time by Northern officers.

The second coup was followed by massacres of Igbo in the North, and an exodus of more than one million Igbos to the Eastern Region (Diamond 1995, 428). To counter secessionist threats from the East, the federal government divided the Eastern Region into three states as part of a restructuring of the country into a 12-state federation. Under the new scheme the Igbo were a majority in only one state. On May 31, 1967, three days after this announcement, the government of the Eastern Region declared independence in a new state christened "Biafra". A week later, a

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<sup>19</sup>To decide this, we have combined information offered by Osaghae (1986) and Graf (1988) about the dominant regional ethnicity.

<sup>20</sup>It seems they were mainly concerned with ethnic issues inside the military and within the federation at large. The Igbo, over-represented and with better education than the northern majority, were hurt by the imposition of a quota system for recruitment in 1962. (Diamond 1995, p.427).

civil war broke out, which lasted until January 1970, when the federal government prevailed and forced the Igbo back into the federation.

The post-war period of military rule witnessed an oil-fueled economic boom and a flowering of corruption. Government policies appear to have further alienated the Igbo despite a federal campaign for national reconciliation. In July 1975, reform-minded officers overthrew the previous military government in a bloodless coup, and reorganized the 12-state federation into 19 states, ten in the North and nine in the East and West. They also drafted a new presidential constitution and prepared the way for a return to electoral politics, which took place in October 1979.

The return to democratic government coincided with a sharp drop in world oil prices, reducing oil revenues from \$24 billion in 1980 to \$10 billion in 1983 (Diamond 1995, 438). When brazen vote-rigging, mostly by the incumbent Northern-based National Party of Nigeria, marred the 1983 elections, violent protest erupted, killing more than 100 people in the predominantly Yoruba states (Diamond 1995, 440). Three months later, the military staged another coup. Military rule, under Generals Buhari, Babanginda and Abacha, lasted until May 1999, when Olusegun Obasanjo, a military ruler from the late 1970s, was elected president. The number of states had grown to 36.

### *Nigeria's fiscal politics*

Under the revenue system adopted after independence, taxes were either federal, regional, or mixed. Part of the regional share in these taxes was allocated on a derivation basis—i.e. returned to the region in which it originated; the rest went into a distributable pool (DPA), and was allocated to regions according to a formula.

The DPA represented the main channel of center-regions fiscal distribution. The allocation shares prior to the 1966 coup were: Northern Region 42 percent, Eastern Region 33 percent, Western region 19 percent (25 percent before 1963), Midwestern Region 6 percent (since

1963). The shares of an enlarged DPA, agreed upon before the coup, and implemented the first two years afterward were: Northern Region 42 percent, Eastern Region 30 percent, Western Region 20 percent, and Midwestern Region 8 percent.<sup>21</sup> From 1971, the shares were changed, giving the combined North 51.8 percent and the combined West just 12.7 percent. The formulas for DPA allocation were based in part on equality of the states, so the creation of more states in the North than elsewhere increased its aggregate share. The federal government also provided grants and loans. Federal grants came to about 4 percent of total state revenues in 1968 (Offensend 1976). After the civil war, however, these apparently increased. Loans came to be distributed according to the DPA formula (Offensend 1976).

How great was the fiscal autonomy of local-majority/countrywide-minority regions during the post-independence period? As Table 8.10 shows, in the early 1960s all regions were heavily dependent on the central government. Table 8.11 shows the degree of fiscal decentralization for all states in the 1970-92 period. There were clear waves of centralization under the military regimes (1970-78 and 1986-92) and decentralization under the democratic Second Republic (1978-84). But throughout, the average state financed no more than one third of its expenditures with its own revenues. We have also reviewed figures for individual states for four years of the Second Republic (1980-83). These reveal a great deal of cross-state variation: while Lagos financed about 41 percent of its expenditures independently in 1983, the figure for Gongola State in the North was only 3.7 percent.

To what extent did central policy discriminate in favor of or against the majority/minority regions? Table 8.12 presents data on total statutory allocations (tax shares allocated from DPA plus those based on derivation) in the pre-civil war period. The West, East, and Midwest appear to have received shares of appropriations larger than their population shares (except perhaps for the East in 1967/8 when the civil war had broken out). The North, by contrast, received a little

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<sup>21</sup>In addition the regions were to receive a new annual grant to be shared as follows: Northern Region: 53.3 per cent; Western Region: 16.0 per cent; Midwestern Region: 9.3 per cent; Eastern Region: 21.3 per cent.

more than a third of appropriations, although its population was probably greater than half the total. However, the time trends are also worth noting. Appropriations for both the North and the East (the two members of the ruling coalition) increased somewhat up until about 1964 or 1965, before falling back again. The share of appropriations to the Western region fell precipitously—from 40 percent of the total in 1960, to about 21 percent in 1966/7. In part, this represented a drop in total allocations to the original Western region; in part, it reflected the loss to the West from the creation of the Mid-Western Region.

We next have figures for statutory appropriations between 1970 and 1975, the years in which the oil boom took off. Between 1970 and 1974, oil revenues increased from 26 to 82 percent of total government revenues. The federal government aimed to capture part of the oil-producing states' windfall profits for itself and the non-oil-producing states. It asserted the sole right to rents and royalties from offshore oil, and reduced the share of revenues from on-shore oil allocated on the basis of derivation from 50 to 20 percent of the total. Despite this, we see the oil-producing Rivers and Midwestern States' shares of total appropriations more than doubling. The Lagos and East-Central majority/minority regions had roughly stable allocations. But the Yoruba Western State suffered a sharp decline in its share, from 17.5 to 7.1 percent of the total, although absolute values muted some of the cut in shares. With the return of democratic rule in 1979, seven of the now 19 states were majority/minority regions.

Table 8.14 shows total statutory and non-statutory allocations (including central grants and loans as well as tax redistribution). With a few minor exceptions, the shares of each majority/minority state in 1979-85 look quite stable. The Western Oyo state suffered a sharp drop in 1985 but we lacked data to see if this was just a one-year irregularity. The oil-producing Mid-Western Bendel State lost about one third of its allocation between 1980 and 1985. This may have been because of the falling price of oil rather than explicit government policy. Though these figures are not directly comparable with those in Table 8.13, the trend of the early 1970s toward a much larger share for the oil-producing state appears to have been reversed.

### *Secessionist violence in Nigeria*

Throughout the post-independence period, ethnic unrest has broken out periodically among smaller ethnic groups. One of the first cases involved the Tiv, a minority in the Hausa-Fulani-dominated Northern Region. About 2,000 people died and thousands more were imprisoned during one uprising in 1964 (Nnoli 1995). Since these groups did not constitute majority/minority ethnicities, we do not consider them in this paper. Another major conflict engulfed the Western Region in the early 1960s but stemmed mainly from fights among competing Yoruba factions and did not appear to be explicitly related to secession.<sup>22</sup>

The first major threat of secession came in 1963 and was associated with the census, which became politicized because of its implications for the allocation of federal resources and parliamentary seats. When, amid widespread allegations of fraud, census numbers were reported that favored the North, followed by the West, political leaders in the Eastern Region protested vigorously and threatened to secede. Violence appears to have been common, although we lack precise measures. After the 1966 coup, the government's decree centralizing power led to massacres of Igbos in the North and the already-noted exodus to the East (Nnoli 1995). The military governor of the Eastern Region began to expel immigrants from the North and West. The civil war broke out in mid-1967 and lasted two and a half years.<sup>23</sup>

For all the post-civil-war Nigerian regime's problems, the country does not seem to have suffered significantly from violent secession threats. Ethnic conflicts continued, but rarely had a secessionist character. Many ethnic minorities continued to agitate for a separate state in the

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<sup>22</sup>As noted, electoral fraud during the Western regional elections of 1965 precipitated an uprising that rendered the region ungovernable for months, with widespread factional killings. The federal government intervened and suspended the constitution in the West (Nnoli, 1995, p.108).

<sup>23</sup>Early 1966 also saw the beginning of a violent campaign for the creation of a separate Delta People's Republic out of a portion of the Eastern Region. This small secessionist movement lost most of its appeal after the military government reorganized the federation the following year and created the new Rivers State.

federation but the two main majority/minority ethnic groups of the pre-war era, the Igbos and Yoruba, did not embark on any visible attempt to separate.

### ***Impact of Nigeria's fiscal policies on secessionist violence***

Little evidence relates the degree of fiscal autonomy to the incidence of secessionist violence in Nigeria. All states were highly dependent on federal financial aid in the 1960s when an ethnically-based civil war for secession broke out. This might seem to support Hypothesis 1. However, the states appear to have been even more dependent on federal aid in later decades, with no major secessionist incidents arising. The decentralization hypothesis is not confirmed. The generally low level of secessionism since the early 1970s may confirm the central-control hypothesis.

What about the pattern of central redistribution? Consider first the period leading up to the civil war. Both the East and the West seem to have received larger DPA shares per capita than the North (reflecting their greater wealth, and the partial influence of the derivation principle). From the appeasement perspective, the sharp drop in the West's share of appropriations should stimulate secessionist unrest. As discussed, serious, violent unrest did occur in the Yoruba West during this period, directed largely against the perceived abuses of the Hausa-Fulani-dominated central government. But it did not appear to follow a secessionist track.

The East's allocation share in 1960-66 conflicts with the appeasement hypothesis. However, a broader view of the context would be more supportive. The incident that provoked the Biafran declaration of independence was precisely the central government's announced decision to split the East into three states. Of these, the Igbo would dominate only one—and they would lose control over the East's major oil reserves, located in the new Rivers State. Given the remaining importance of the derivation principle in allocating revenues, this would represent a

major revenue loss to the Igbo elites.<sup>24</sup> The declaration of independence might be seen as a forward-looking response to a deliberate central refusal to appease the Igbo. This is a qualified success for the appeasement hypothesis.

Thus, the evidence from this period is not easy to interpret. It is possible to see some confirmation of the importance of fiscal appeasement. This would fit with the apparent consensus in the literature on fiscal federalism in Nigeria, which emphasizes the centrality of revenue allocation in the conflicts between different regions of the country during the pre-civil war era (Ikein and Briggs-Anigboh 1998; Adebayo 1993; Suberu 1999; Rothchild 1970). In the 1970-75 period, the appeasement view might explain the lack of secessionist violence in the Midwest. In the West, shares dropped sharply but the absolute value of funds transferred also increased markedly with the boom in oil revenues, reducing the impact of a reduction in shares. The relative stability of allocation shares in 1979-85 would be consistent with an appeasement hypothesis—as well as with the hypothesis that fiscal allocations did not matter. The fall in the share of the oil-producing Midwestern Bendel State should have increased secessionist pressures although we should note that Bendel continued to benefit from oil and was still better off than most other states.

In short, fiscal autonomy does not seem to explain much about the pattern of secessionist violence in Nigeria. Fiscal short-changing of the Western region in the early 1960s may have helped create conditions for the ethnic and political violence that broke out there, although this violence did not take a secessionist turn. The central attempt to rob Igbo elites of their main resources by carving out the Rivers State—certainly the opposite of an appeasement strategy—seems to have precipitated the civil war of 1967. But appeasement policies are not so clearly related to the relative lack of secessionist violence in the period since 1970. A more plausible

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<sup>24</sup>Rothchild (1970, 522) provides evidence that Eastern demands for secession were strengthened by the sense among Eastern elites that they were being despoiled of their oil revenues by the federal government. In 1966-7, of £29 million pounds in total oil revenues, £17.7 million went to the federal government, while £8.2 million went to the East.

explanation is the center's success at disorienting potentially secessionist ethnic minority elites by continually redrawing the administrative map, in the process undermining some and empowering others. The division of the Yoruba among many states—and the isolation of the Igbo elite in a small, resource-poor region—seems to have been effective at rendering secessionist projects unappealing. It may be that Nigeria's experience indicates not the irrelevance of central appeasement, but the possibility of using other mechanisms—in this case, re-engineering administrative divisions—to achieve the same ends. It may also be the case that more secessionist unrest lies in store, for instance in the Bendel.

On the surface, the experience would also seem to give some support to the proportionality hypothesis—proportionality (plus the perceived costs of a secession attempt) may have been enough to contain new secessionist violence. Distribution of tax resources has largely de-emphasized the derivation principle, and emphasized allocation proportional to population. Simultaneously, the incidence of secessionist violence appears to have fallen.

### **Yugoslavia**

After the end of the Second World War, Yugoslavia was organized as a federation of six republics (Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Montenegro, and Macedonia) and two autonomous provinces (Vojvodina and Kosovo, both within Serbia). Serbs constituted the largest ethnic group nationwide (about 36 percent as of the 1981 census) and the largest ethnicity in Serbia and Vojvodina. Bosnia-Herzegovina was multi-ethnic, with Muslim, Serb, and Croat minorities. Slovenia, Croatia, Montenegro, Macedonia, and Kosovo all represented local-majority/countrywide-minority regions.

To incorporate these diverse populations, Tito organized the country after the war as a socialist federation. A North-South divide separated the more economically developed regions of Slovenia, Croatia, and Vojvodina from the less developed Southern Serbia, Montenegro, Macedonia, and Kosovo. The communist party tried throughout the post-war era to reduce these

interregional inequalities. Foreign aid and loans were channeled to increase industrial growth in poorer regions. Liberalizing economic reforms and Western-oriented trade were introduced in the 1960s, and in 1965 considerable political power was devolved to the members of the federation. Yet, despite the initial growth this fostered, the gap between Northern and Southern regions increased (Plestina 1992, 82).

Reforms after 1967 increased the republics' autonomy. The two provinces within Serbia (Vojvodina and Kosovo) gained full control over their parliaments, budgets, and judicial systems. Each republic's party controlled its own cadres, and republic-level elections and party congresses preceded federal congresses (Woodward 1995). In Croatia, the liberal faction of the party pressed for greater control over its finances in the early 1970s. While republican governments were economically independent, they nevertheless depended on federal funds, particularly those of the most underdeveloped members of the federations.

By the late 1970s and early 1980s, a mounting economic crisis—with rising foreign debt, unemployment, and strikes—was complicating inter-republic relations. In May 1980, Tito died. A deep economic recession and conflicts between Albanians and Serbs in Kosovo—where the economic situation was particularly severe—followed (Plestina 1992, 114). The federal government attempted to recentralize some of the powers it had devolved, such as control over foreign exchange operations, in order to meet conditions for an IMF loan. This angered Slovenia and Croatia, the main exporters. Both republics protested federal tax levels and what they perceived to be a waste of funds redistributed to the country's less developed South. At the same time, the Serb leader, Slobodan Milosevic, fought a strike in Kosovo using force.

In 1988, relations between Serbia and Slovenia began to deteriorate rapidly. Late in 1989 the Slovenian leadership amended the constitution to assert their republic's economic and political sovereignty and its right to secede (Burg 1993). Serbia and Slovenia broke economic relations. In early 1990, electoral victories of independence-oriented coalitions in Slovenia and Croatia and former communists in Serbia deepened divisions. In December 1990, a referendum in

Slovenia revealed overwhelming support for independence. The Yugoslav defense minister threatened force to preserve the federation, but by the end of 1990 Croatia had also enacted a new sovereign constitution. In June 1991, Slovenia and Croatia declared independence. The military sent troops into both, starting a war that later spread to Bosnia and Kosovo.

### *Yugoslavia's fiscal politics*

In the fiscal system that emerged from the decentralizing reforms of the early 1960s, most taxes were collected by the republics, which made annually-negotiated contributions to the federal budget (Bookman 1992). Until the late 1980s, such contributions accounted for a large fraction of federal revenues. But sizable flows also went in the opposite direction, in the form of federal investments, subsidies, loans, and grants. Subsidies and grants to republics came in two forms: disbursements of the Federal Fund (FF) and budgetary grants. The Federal Fund, established in 1965, received a uniform percentage of the social product of the social sector of each region (total social product included the social, industrial, and agricultural sectors). Between 1960 and the early 1980s, this percentage ranged between 1.85 and 1.97 percent. Money from the Fund was allocated to the less developed regions of Bosnia-Herzegovina, Kosovo, Macedonia, and Montenegro, and administered locally. The federal budget allocated transfers for social services.

Regional contributions to the Federal Fund are shown in Table 8.15, and distributions to underdeveloped regions in Table 8.16. In the 1980s, decreases in FF disbursements and other resources meant that for the 1980-88 period total investment in the less developed regions was falling by an average of 10.7 percent per year (Plestina 1992, 121).

However, Federal Fund transfers and budgetary grants were just two of several channels of redistribution (Milhajek 1993; Kraft and Vodopivec 1992; Kraft 1992; Dubravcic 1993). Kraft and Vodopivec identified a number—taxes and subsidies, extension of credits at negative real interest rates, investment funds, the inflation tax, implicit taxation through price regulation—and

estimated the size of total flows for 1986 (see Table 8.17). Adding up all flows, they found that Slovenia lost by far the most per capita from redistribution, while Montenegro and Kosovo were the biggest winners. Croatia and Serbia both came out about even.

Several circumstances worsened Slovenia's situation in the late 1980s. The republic ended up contributing a larger relative share to the Federal Fund (its share rose from about 16 to 24 percent between 1984 and 1989). In the late 1980s, the central bank was issuing money at inflationary rates, in large part to provide concessionary loans to support agriculture and exports. Despite Croatia and Slovenia's leading export position, they received smaller shares of these loans than their share in GNP. Serbia, by contrast, got a larger share of loans than its share in GNP (see Table 8.18).

In sum, we do not have data to assess the level of fiscal autonomy precisely, but it appears to have been relatively high in the more developed provinces. Fiscal redistribution seems to have advantaged the poorer southern republics at the expense of Slovenia and Croatia in particular. In the late 1980s, the more developed republics reduced contributions to the Federal Fund. But the pattern of disbursement of inflationary central bank loans and losses due to administrative pricing seem to have continued to hurt Slovenia and Croatia.

### ***Secessionist violence in Yugoslavia***

Three periods of secessionist violence stand out: the Croatian crisis of 1970-1, the conflicts in Kosovo during the 1980s, and the struggle for independence, leading to civil war, in Croatia and Slovenia in 1989-91. The problems in Croatia began as a protest over economic grievances, specifically about the handling of foreign exchange. The nationalist demands escalated, and following a student strike in November 1971 troops were sent into the province. The opposition leadership was arrested, and the liberals were purged from the Communist party. In Kosovo, the unrest began in March 1981 with a series of student strikes protesting the deteriorating economic situation. In following months, the strikes spread to coal miners and other

businesses (Plestina 1992). Dozens were reportedly killed and as many as 1,000 injured during the demonstrations that followed (Irwin 1984). Yugoslavia declared its first state of emergency since World War II, sent federal forces to control the unrest, and sealed off the province for two months in the summer of 1981. (We discussed the unrest in Croatia and Slovenia in the late 1980s in the Background section.)

### ***Impact of Yugoslavia's fiscal policies on secessionist violence***

We lacked precise data to assess the fiscal decentralization and central-control hypotheses. However, the reforms of the 1960s which increased republics' fiscal autonomy preceded the various cases of ethnic unrest mentioned. Fiscal autonomy was undoubtedly higher in Slovenia and Croatia than in most other republics and provinces; this did not save them from major secessionist unrest in the 1970s (Croatia) and late 1980s (both). These patterns would seem to be consistent with the central-control hypothesis.

A fuller accounting of all financial flows over time would be needed for reliable conclusions about the role of fiscal appeasement in Yugoslavia. However, the tentative conclusions we draw tend generally to fit both the proportionality and the appeasement hypotheses. The Croatian crisis in the early 1970s was prompted by the republic's demand for greater control over the foreign exchange the republic earned. Croatia was among the regions least favored by interregional redistribution of development funds. The growth of sentiment favoring independence in the two northern republics in the late 1980s also seems to have been fueled by central policies that favored Southern republics at their expense (for example, the disproportionate flow of inflationary central bank loans to Serbia) (Treisman 1999a).

However, the Kosovo crisis does not fit. Kosovo was among the regions most favored by redistribution of development aid, and its share in federal fiscal transfers increased throughout the late 1970s and early 1980s. This aid did not succeed in fostering economic development, and

economic grievances prompted the strikes. Thus, in Yugoslavia a central policy of fiscal appeasement was not always effective at containing unrest.

### Conclusion

This chapter requires more than the usual caveats. Our characterizations of the history of secessionist violence may overemphasize or underemphasize certain incidents. We did not attempt to quantify our dependent variable. We also interpreted our main hypotheses in a somewhat ad hoc manner, looking for evidence both cross-sectionally (was a particular region favored over others at time  $t$ ?) and longitudinally (was a region's treatment improving or worsening?), rather than committing ourselves to one or the other perspective. Were we able to control for contextual factors and non-fiscal causes, we might reach more confident conclusions. For example, does appeasement work because it "buys off" government elites? Are increased transfers to the general public also required? Must fiscal aid increase the level or quality of public goods and services? Must it fuel economic growth? More precise hypotheses might find stronger statistical support.

But our goal here was to open a conversation with those expert in different parts of the story we examine, and to illustrate the rewards of exploring what we believe has been a neglected subject in political science—the fiscal sociology of developing countries. The chapter represents a plausibility probe rather than a true test of competing hypotheses. In this spirit, we offer a few tentative conclusions to those considering including fiscal arrangements in the design of power-sharing institutions.

In the four cases we examined, we did not find any evidence that the degree of fiscal decentralization to ethnic minority regions affected the frequency of secessionist violence. Secessionist unrest broke out in some states with high levels of fiscal autonomy (Indian Punjab), in some with medium levels (East Pakistan), and in some with minimal levels (Nagaland). Cases occurred during periods when fiscal autonomy was increasing (Croatia, East Pakistan) and

decreasing (Kashmir). A high level of dependence on central fiscal transfers was neither necessary nor sufficient to provoke secessionist unrest. The same was true of a high level of fiscal independence. More systematic examination with better data and a large number of cases might turn up some correlations, but based on this exploration we doubt that they would be strong. For the moment we conclude that neither the decentralization hypothesis nor the central-control hypothesis successfully explains the pattern of secessionist violence.

We did find some stronger—although far from unequivocal—support for the appeasement hypothesis in all four countries. In some cases, a strategy of fiscal appeasement seemed clearly to reduce secessionist tensions; conversely, in some other cases fiscal discrimination appeared to exacerbate a crisis. The Pakistani leadership's fiscal neglect of East Pakistan in the 1950s and 1960s laid the ground for the secession of Bangladesh. The Yugoslav federal government's disregard for economic interests of Slovenia and Croatia in the late 1980s hastened that country's disintegration. Flareups of secessionist unrest in India's Punjab and Jammu and Kashmir in the 1980s and 1990s respectively may also have been fueled by decreasing central aid in preceding years. Increases in central fiscal aid may have helped stabilize ethnic unrest in post-1971 Pakistan.

However, there were also a few counterexamples in which either appeasement failed to prevent conflict or the lack of appeasement did not provoke it. In Nagaland and Kosovo secessionist violence occurred *despite* fiscal support. And Nigeria's Yoruba-dominated West in the early 1970s and its Edo-dominated Bendel State in the early 1980s remained quiet despite central neglect. In general, Nigeria suggests the need to view fiscal appeasement as just one of several possibly effective central strategies for dealing with ethnic demands in a federal state. The particular instability we study in "ethnically-mined federations" stems from the control by a local-majority/countrywide-minority ethnicity of a subunit within the federal state. Instead of appeasing such a unit with fiscal aid, central governments could try—as did successive Nigerian regimes—to engineer their way out of the crisis. By redrawing regional boundaries, central

officials can eliminate majority/minority states, or at least reduce their size and disorient their leadership. Such policies can, of course, backfire, as in the Biafran civil war.

Is proportionality—rather than appeasement—sufficient to stabilize ethnic tensions? Determining this is extremely difficult because of the rareness of cases in which perfect proportionality is achieved. In Nigeria after the civil war, relative ethnic stability might be attributed to fiscal proportionality. However, given the radical constitutional engineering occurring simultaneously, the role fiscal policy played is unclear.

Our reading of this mixed and complicated evidence is that central fiscal appeasement can at times preempt or contain crises in ethnically-mined federations. But, like any tool, its effectiveness will depend on how—and in what context—it is used. Deeper understanding, in our opinion, will require more context-rich theories; a better attempt to control for other important factors; a search for more precise and reliable data; a more detailed examination of the mechanisms by which central fiscal aid influences public service provision, economic performance, and public opinion; and rigorous thinking about how fiscal strategies interact with the redrawing of internal administrative boundaries. Meanwhile, examination of these cases offers meager support for those tempted to include fiscal decentralization or proportionality as elements of civil war settlements.

**Table 8.1: “Ethnically-Mined” Federations, 1945-90**

	<u>Majority/minority states</u>	<u>Majority/minority ethnicity</u>
<b>India</b>	Jammu and Kashmir Punjab Meghalaya Mizoram Sikkim Nagaland	Muslim Sikh Christian Christian Christian Christian
<b>Pakistan</b>		
1. 1947-71	East Pakistan	Bengali
2. 1971-90	Sindh NWFP	Sindhi Pakhtun
<b>Nigeria</b>	<i>As of 1960:</i> Eastern Region Western Region <i>Later years: see tables in text.</i>	Igbo Yoruba
<b>Switzerland</b>	Geneva, Jura, Neuchâtel, Vaud, Valais, and Fribourg; Ticino	French Italian
<b>Canada</b>	Quebec	Québécois French
<b>Spain</b>	Galicia Catalonia Basque Country Walloon Region	Galician Catalan Basque French
<b>Belgium</b>		
<b>USSR</b>	Belarus Ukraine Moldova Lithuania Latvia Estonia Azerbaijan Armenia Georgia Uzbekistan Tajikistan Turkmenistan Kyrgyzia Slovenia Croatia Montenegro Macedonia Kosovo Slovak Republic	Belarusan Ukrainian Romanian Lithuanian Latvian Estonian Azeri Armenian Georgian Uzbek Tajik Turkmen Kyrgyz Slovene Croat Montenegrin Macedonian Albanian Slovak
<b>Yugoslavia</b>		
<b>Czechoslovakia</b>		

Note: “ethnically -mined” federations are those in which the ethnic majority in at least one state or province is in the ethnic minority nationwide. Several additional states joined this category in the 1990s: Russia and Bosnia became independent states and so qualified; Ethiopia adopted a federal structure in its 1994 constitution.

Sources: Library of Congress Country Studies; CIA World Factbook; Thomas S. Szayna, *Identifying Potential Ethnic Conflict: Application of a Process Model*, Santa Monica: Rand Corporation, 2000.

**Table 8.2. Own Current Revenues of State as Percentage of Its Current Expenditures**

	Average		
	1961-5*	1990-3	1996-9
Meghalaya		16.83	17.39
Sikkim		20.23	13.95
Nagaland	2.83	8.51	5.00
Mizoram		7.40	6.25
J & K	51.10	16.21	12.99
Punjab	82.66	67.42	67.41
All states (16 in 1961-5; 25 in 1990s)	67.16	56.17	54.24

\* Nagaland just 1964-5.

Sources: Government of India, *Report of the Finance Commission 1965*, *Report of the Eleventh Finance Commission***Table 8.3: Center-Region Transfers in India (R's per capita)**

<b>Planning Commission Transfers and Loans</b>									
	First Plan	Second Plan	Third Plan	Ann. Plans	Fourth Plan	Fifth Plan	Sixth Plan		
	1951-56	1956-61	1961-66	1966-69	1969-74	1974-79	1980-85		
Meghalaya									
Sikkim									
Nagaland			280.51	420.33	790.06	1595.86	357.85		
J & K	30.21	56.19	76.41	153.88	352.02	1131.04	644.43		
Punjab	151.73	84.59	111.49	72.09	65.65	115.26	86.34		
<i>Median</i>	<i>21.98</i>	<i>27.81</i>	<i>63.01</i>	<i>39.68</i>	<i>63.93</i>	<i>94.49</i>	<i>88.26</i>		
<b>Finance Commission Transfers (tax-shares and grants)</b>									
	II FC	III FC	IV FC	V FC	VI FC	VII FC	VIII FC	IX FC	X FC
	1957-62	1962-66	1966-69	1969-74	1974-79	1979-84	1984-89	1989-94	1994-99
Meghalaya					748.03	1008.65	2858.62	1447.34	1787.68
Sikkim						1474	3301.35	1227.25	1531.74
Nagaland			18.23	2164.08	1562.98	2188.23	3341.53	6806.03	4378.35
J & K		71.76	61.08	185.62	231.42	436.62	625.02	1870.08	1088.8
Punjab		51.13	29.05	28.32	65.8	114.09	259.93	384.86	135.25
<i>Median</i>		<i>26.48</i>	<i>32.08</i>	<i>64.7</i>	<i>76.1</i>	<i>162.73</i>	<i>315.69</i>	<i>585.25</i>	<i>150.87</i>
<b>Planning Commission + Finance Commission Assistance (note the slight divergence in dates)</b>									
Meghalaya									
Sikkim									
Nagaland			298.74	2584.41	2353.04	3784.09	3699.38		
J & K		127.95	137.49	339.5	583.44	1567.66	1269.45		
Punjab		135.72	140.54	100.41	131.45	229.35	346.27		
<i>Median</i>		<i>54.29</i>	<i>95.09</i>	<i>104.38</i>	<i>140.03</i>	<i>257.22</i>	<i>403.95</i>		

Sources: G. Thimmaiah, *Burning Issues in Centre-State Financial Relations*, New Delhi: Ashish Publishing House, 1985; calculations from P. Jegadish Gandhi, ed., *New Facets of Financial Federalism*, New Delhi: Deep & Deep Publications, 1999

**Table 8.4: Institutional Financial Flows, 1969-76 (Rupees per capita)**

	Commercial Banks				Term lending to industry	ARDC	Total	
	Credit	Investment	Total	LIC			REC	Institutional
Meghalaya	37	64	101	66	6		13	186
Sikkim								
Nagaland	25	145	170	60	21	2	7	260
J & K	73	35	108	15	9	2	18	152
Punjab	346	47	393	32	18	28	11	482
<i>all states</i>	121	32	153	22	25	9	6	217

Sources: I.S. Gulati and K.K. George. 1988. *Essays in Federal Financial Relations*, New Delhi: Oxford and IBH Publishing Co., pp.114-5

**Table 8.5: Pakistan, Total Revenue and Share from Central Government, by Region, 1950-71**

	1950-51	1958-59	1962-63	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71
<b>East Pakistan</b>									
Total Revenue (in 10 millions of Rs.)	18.2	52.28	74.52	117.94	130.42	141.52	146.27	162.51	178.91
Share from central taxes (%)	36.7	32.8	49.5	45.68	47.31	40.48	39.09	38.18	38.96
Share from Central Government grant-in-aid (%)	0	2.12	9.19	5.95	4.21	11.73	6.78	5.87	6.19
<b>West Pakistan</b>									
Total Revenue (in 10 millions of Rs.)	35.98	88.09	134.93	178.36	179.98	182.71	197.37	218.48	187.77
Share from central taxes (%)	16.6	22.1	26.23	29.79	33.73	29.86	28.75	28.23	34.44
Share from Central Government grant-in-aid (%)	2.81	5.56	16.48	10.82	8.36	12.71	8.1	7.03	3.81
Since the end of "One Unit"					NWFP	Punjab	Sindh	Baluchistan	
Share from central taxes in west (%)					48.36	33.32	28.05	49.24	
<b>East Pakistan's Share of Total</b>									
Central Taxes allocated to Provinces (%)	52.8	46.8	51.0	50.3	50.4	51.2	50.2	50.1	51.5
<b>East Pakistan's Share of Total Central G-in-A (%)</b>	0.0	18.5	23.6	26.7	26.7	41.7	38.3	38.3	60.7

Note: East Pakistan's share of population c.54%.

a Budget estimates for 1969-70 and 1970-71, actual figures for prior years.

Sources: total revenues and share from central taxes from 1950 to 1963 comes from Wheeler (1970, p. 186); all other data from the Pakistan Economic Survey, issues 1969-70 and 1970-71, published by the Ministry of Finance of Pakistan.

**Table 8.6: Pakistan, Allocation of Central Government Development Programs, 1960-61 to 1969-70**

Region	1960-61 to 1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
Total (in 10 millions of Rs.)	1,403.0	342.0	513.7	570.0	640.7	500.5
East (%)	36.6	43.0	44.8	46.2	46.3	46.2
West (%)	40.4	40.9	37.0	37.2	37.3	38.0
Center (%)	23.0	16.1	18.2	16.6	16.5	15.9

Source: *Pakistan Economic Survey*, series from 1964-65 to 1969-70, published by the Ministry of Finance, Pakistan.

**Table 8.7: Federal Transfers to Provinces in Pakistan since the 1970s (% of total)**

Province	1974 Award	1991 Award	Population (1981)
Punjab	55.6	45.2	57.9
Sindh	23.9	22.4	23.3
NWFP	13.0	19.2	13.5
Baluchistan	7.5	13.2	5.3

Source: Sato (1994)

**Table 8.8: Composition of Provincial Current Revenues, 1970-1989, (all columns % of total provincial current revenues)**

Province	Year	Provincial Share of Federal Taxes and Excises	Provincial Tax Revenues	Provincial Non-Tax Revenues	Revenue-Deficit Grants	Development Grants			Total Grants
						Total	Foreign-Aid Grants	Federal Development Grants	
Punjab	1970/73	42.8	30.5	22.9	0.3				0.3
	1979/81	54.9	16.9	13.2	1.9	12.8	0.8	12	14.7
	1981/83	60.4	16	14.9	3.3	5.4	0.5	4.9	8.7
	1983/85	49.8	15.2	14	20	0.8	0.3	0.5	20.8
	1985/87	35.6	11.1	12.3	35.7	5.1	0.2	4.9	40.8
	1987/89	32.9	9.2	9.4	31.6	16.7	0.3	16.5	48.3
Sindh	1970/73	38.8	36	21.8	0.4				0.4
	1979/81	46.6	21.8	9.6	5.5	13.3	1.6	11.7	18.8
	1981/83	52	20.2	12.3	3.3	8.2	0.8	7.4	11.5
	1983/85	45.6	16.3	9.4	20.8	4.9	0.4	4.5	25.7
	1985/87	34.5	10.4	9.5	36.1	7.7	0.3	7.5	43.8
	1987/89	30	7.7	6.3	34.7	19.4	0.2	19.2	54.1
NWFP	1970/73	51.3	18.5	23.5	6.8				6.8
	1979/81	40.2	6.8	10	26.6	15.4	1.2	14.2	42
	1981/83	40.1	6.5	9.1	36.1	7.1	0.5	6.7	43.2
	1983/85	34.3	6.9	8.2	48.7	5	0.4	4.7	53.7
	1985/87	25.9	5.1	5.6	59.5	2.7	0.2	2.5	62.2
	1987/89	21.6	3.6	4.7	54.1	14.6	0.15	14.5	68.7
Baluchistan	1970/73	53.7	13.9	18.8	13.6				13.6
	1979/81	20.1	1.9	5.6	57.9	15.1	2.8	12.3	73
	1981/83	20.1	1.4	3.5	59.4	14.7	2.5	12.2	74.1
	1983/85	23.4	2.1	4.1	57.6	11.3	1	10.3	68.9
	1985/87	18.3	2.1	3.4	67	8.6	0.9	7.7	75.6
	1987/89	15.1	1.4	2.9	57.5	22.5	0.9	21.6	80

a. Averages

Source: Hiroshi Sato (1994)

**Table 8.9: Pakistan, Allocation of Central Grants to Provinces, 1976-89, (% of total)**

		<u>1976/79</u>	<u>1979/81</u>	<u>1981/83</u>	<u>1983/85</u>	<u>1985/87</u>	<u>1987/89</u>
Revenue-deficit grants	Punjab	30.0	8.5	11.7	34.5	42.8	40.1
	Sindh	13.7	9.5	5.1	17.2	20.0	21.4
	NWFP	27.9	35.9	42.6	28.5	22.7	23.9
	Baluchistan	28.4	46.3	40.6	19.7	14.4	14.4
Foreign-aid grants	Punjab		33.2	35.5	42.9	39.7	39.4
	Sindh		29.3	24.8	21.5	19.9	15.2
	NWFP		15.1	10.3	11.9	10.6	12.9
	Baluchistan		22.3	29.3	23.6	29.7	32.4
Development grants	Punjab		50.5	36.8	9.7	45.7	46.7
	Sindh		22.4	27.6	46.7	33.1	27.6
	NWFP		17.7	15.5	1.6	8.3	14.0
	Baluchistan		9.4	20.2	42.0	13.1	12.1

Source: Adapted from Sato (1994)

**Table 8.10: Statutory Appropriations from the Federal Government (% of each state's total revenues)**

	<u>1959/60</u>	<u>1960/61</u>	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>
<b>Eastern</b>	63.00	63.17	59.44	61.63			
<b>Northern</b>		77.81	74.19	71.82	70.62	73.62	73.27
<b>Western</b>				69.28	69.10	68.50	64.57

Source: From official estimates of each regional government presented in Adebayo (1993).

Note: statutory appropriations include DPA funds and tax-share allocated on derivation basis.

**Table 8.11: The Fiscal Position of State Governments in Nigeria, 1970-1992**

<u>Year</u>	<u>Total Revenue (Nm*)</u>	<u>Independent Revenue (%)</u>	<u>Revenue from Federal Sources (%)</u>	<u>Total Expenditure (Nm*)</u>	<u>Independent Revenue as % of Total Expenditure</u>
1970	232.2	29.3	70.7	247.5	27.5
1972	454.2	26.4	73.6	593.0	20.2
1974	503.2	35.7	64.3	953.0	20.7
1976	2,139.8	19.7	80.3	2,223.4	13.2
1978	2,575.9	8.2	91.8	3,201.1	6.6
1980	5,456.3	24.3	75.7	7,234.4	18.4
1982	4,335.4	25.1	74.9	10,680.5	12.3
1984	4,160.3	33.2	66.8	4,776.2	28.9
1986	4,704.4	39.5	60.5	5,774.7	32.2
1988	10,360.1	21.0	79.0	10,778.5	20.2
1990	19,116.5	14.3	85.7	18,105.5	15.1
1992	31,870.5	16.3	83.7	35,586.0	14.7

\*millions of Naira

Source: Data from the Central Bank of Nigeria reported in Anyanwu (1997, table 10e).

**Table 8.12: Total Statutory Appropriations to Nigerian State Governments, Regional Shares, 1960-1968, (% of national total)**

Region/States	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	Memo: est. pop. share
Northern	33.56	34.93	34.16	36.43	38.53	36.19	35.43	33.55	53 to 56
Eastern	26.00	29.79	29.83	28.18	28.34	30.82	29.94	23.12	21 to 24
Western	40.44	35.28	36.01						20 to 26
<i>Western</i>				28.88	23.19	22.14	21.14	28.65	16 to 20
<i>Mid-Western</i>				6.51	9.94	10.85	13.49	14.68	4 to 6
	100	100	100	100	100	100	100	100	

Source: Adebayo (1994)

Note: Population share estimates include the upper and lower bounds from censuses taken in postwar period. While the absolute population figures from these censuses were the subject of extreme controversy,

**Table 8.13: Post-War Statutory Appropriations to the 12 State Governments in Nigeria, Regional Shares, 1970-75 (% of total)**

Original Region	States	Majority/Minority make-up <sup>1</sup>	1970/71	1971/72	1972/73	1973/74	1974/75
Northern	North-Western	~	6.7	7.1	7.2	6.1	5.0
	North-Central	~	5.9	6.0	6.1	5.1	4.3
	North-Eastern	~	8.5	8.5	8.6	7.3	6.1
	Kano	~	8.5	7.9	8.1	6.2	5.2
	Benue-Plateau	~	6.0	6.1	6.2	5.4	4.5
	Kwara	~	<u>4.7</u>	<u>4.9</u>	<u>4.9</u>	<u>4.2</u>	<u>3.5</u>
	Total		40.3	40.5	41.1	34.3	28.6
Eastern	East-Central	M/M-Igbo	9.0	9.4	9.8	10.0	8.7
	South-Eastern	~	7.2	5.8	6.5	6.2	4.2
	Rivers	~	<u>7.9</u>	<u>10.1</u>	<u>9.5</u>	<u>13.1</u>	<u>19.6</u>
	Total		24.1	25.3	25.8	29.3	32.5
Western	Lagos	M/M-Yoruba	4.9	4.8	4.3	3.6	3.9
	Western	M/M-Yoruba	<u>17.5</u>	<u>15.8</u>	<u>14.3</u>	<u>9.3</u>	<u>7.1</u>
	Total		22.4	20.6	18.6	12.9	11.0
	Mid-Western	M/M-Edo	13.4	13.6	14.5	23.5	28.0
	Total (%)		100.0	100.0	100.0	100.0	100.0
	Total (Nm*)		286.0	326.6	321.8	361.9	833.4

\*millions of Naira

1. In regard to the difficult issue of state ethnic make-up, we have classified as majority/minority states those that both Osaghae (1986) and Graf (1998) specifically identify as such. The ethnic identity of the majority is shown in the column.

Source: Adebayo (1993).

**Table 8.14: Statutory and Non-Statutory Allocations of Revenue to the 19 State Governments, including Local Government Areas, Regional Shares, 1979-85 (% of total)**

<u>Original Region</u>	<u>States</u>	<u>Majority/Minority make-up<sup>1</sup></u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Northern (Hausa-Fulani)	Niger	~	3.3	3.2	3.7	3.2	3.2	2.9	3.0
	Kano	~	6.9	6.7	6.9	7.7	7.5	8.0	8.3
	Bauchi	~	4.2	4	4.6	4.5	4.4	4.5	4.5
	Kaduna	~	5.7	5.6	5.9	6.2	6	6.3	6.5
	Sokoto	~	5.7	5.5	6.4	6.5	6.4	6.3	6.5
	Gongola	~	4.2	4.3	4.8	4.7	4.6	4.5	4.6
	Borno	~	4.6	4.7	5.5	5.1	5.0	5.2	5.2
	Benue	~	4.7	4.8	4.6	4.6	4.5	4.4	4.3
	Plateau	~	4.1	3.9	4.3	4.0	3.9	3.6	7.2
	Kwara	~	<u>3.8</u>	<u>3.8</u>	<u>4.2</u>	<u>3.8</u>	<u>3.7</u>	<u>3.7</u>	<u>3.8</u>
	Total		47.2	46.5	50.9	50.3	49.2	49.4	53.9
Eastern	Anambra	M/M-Igbo	5.6	5.4	5.3	5.7	5.6	5.6	5.6
	Imo	M/M-Igbo	6.5	6.6	5.9	6.0	6.0	5.4	5.7
	Cross River	~	5.6	5.5	5.2	5.5	5.4	5.4	5.2
	Rivers	~	<u>8.1</u>	<u>8.9</u>	<u>7.0</u>	<u>6.3</u>	<u>6.1</u>	<u>6.2</u>	<u>5.6</u>
	Total		25.8	26.4	23.4	23.5	23.1	22.6	22.1
Western	Ogun	M/M-Yoruba	3.4	3.4	3.6	3.6	3.5	3.7	3.5
	Ondo	M/M-Yoruba	4.5	4.4	4.6	4.9	4.8	4.4	4.4
	Oyo	M/M-Yoruba	6.7	6.6	6.6	7.1	6.9	7	4.4
	Lagos	M/M-Yoruba	<u>3.5</u>	<u>3.5</u>	<u>3.4</u>	<u>4.2</u>	<u>4.1</u>	<u>4</u>	<u>4.2</u>
	Total		18.1	17.9	18.2	19.8	19.3	19.1	16.5
Mid-Western	Bendel	M/M-Edo	8.8	9.3	7.3	6.6	6.5	6.7	6.3
	Total (%)				100.0	100.0	100.0	100.0	100.0
	Total (Nm*)		2,903.5	3,812.9	4,910.6	4,258.4	4,236.7	3,926.6	4,671.7

\*millions of Naira

Sources: CBN, ARSA, 1981-1985.

**Table 8.15: Participation of Yugoslav Republics in Federal Fund (%)**

Republics/provinces	Population		Contributions to Federal Fund			
	1971	1980	1960	1965	1971	1982
Serbia proper	25.5	25.4	24.5	24.3	24.4	27.4
Croatia	21.5	20.9	28.0	27.2	27.4	23.6
Vojvodina	9.5	9	10.6	11.1	10.9	11.4
Slovenia	8.4	8.2	16.8	16.5	16.9	12.7
Bosnia-Herzegovina	18.3	18.6	12.8	12.2	11.3	15.1
Macedonia	8.1	8.3	4.4	5.0	5.4	5.6
Kosovo	6.1	7	1.4	1.8	1.8	1.9
Montenegro	<u>2.6</u>	<u>2.6</u>	<u>1.5</u>	<u>1.9</u>	<u>1.9</u>	<u>2.3</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Population figures from *Yugoslavia, 1945-1985, Statistical Review*, Federal Statistical Office, 1986; data for 1960-71 calculated from *Yugoslavia: Development with Decentralization*, World Bank, 1975; shares for 1982 from Bookman (1992).

**Table 8.16: Distribution of Federation Resources to Underdeveloped Republics and Kosovo (%)**

Republics/Prov.	1966-70		1971-75		1976-80		1981-84	
	Federation Fund	Total Federation Resources						
Bosnia-Herzegovina	30.7	31.7	32.4	31.4	30.6	28.7	26.4	26.0
Macedonia	26.2	29.0	22.9	20.7	21.6	17.6	20.2	16.5
Kosovo	30.0	25.3	33.3	33.6	37.0	40.8	44.3	47.0
Montenegro	13.1	14.1	11.4	14.3	10.8	13.0	9.1	10.5

Source: *Yugoslavia, 1945-1985, Statistical Review*, Federal Statistical Office, 1986

**Table 8.17: Estimated Interrepublican Redistribution in Yugoslavia 1986 (from Kraft 1992 and Kraft and Vodopivec 1992). (percent of Yugoslav GSP)**

Yugo- million residents)	(1) Disburse- ments from the Fed-	(2) Net Subsid- ies inc. gains/ losses eral Fund <sup>1</sup>	(3) Estimated loss due to admin. pricing on money p1	Total Transfers (1+2+3) p2	Total Transfers per 10 million residents (% slav GSP per 10				
	Bosnia	0.4	2.3	-0.5	-0.3	2.2 to 2.4	4.9 to 5.4		
Montenegro	0.1	0.7	-0.2	-0.1	.6 to .7	9.4 to 11.0			
Macedonia	0.2	0.8	-0.6	-0.4	.4 to .6	1.9 to 2.8			
Kosovo	0.6	1.2	-0.3	-0.2	1.5 to 1.6	7.7 to 8.3			
Slovenia		-0.9	-0.9	-0.3	-1.8 to -1.2	-9.2 to -6.2			
Croatia		1.1	-1.3	-0.5	-.2 to .6	-0.4 to +1.3			
Serbia (incl. Vojv.)		1.2	-1.6	-1.7	-.4 to -.5	-0.5 to -0.6			
Yugoslav Total	1.2	6.8	-5.4	-2.4	2.6 to 5.6	1.1 to 2.4			
Memo: republic GSP as % of Yugoslav GSP, 1986		Bos 13.5	Mn 2.0	Ma 5.7	Ko 2.3	Slov 18.1	Cro 24.7	Serb 23.4	S+V 33.7

Sources: Kraft (1992); Kraft and Vodopivec (1992); Yugoslav Federal Statistical Agency, *Statistički Godisnjak Jugoslavije 1988* (Belgrade: 1988, p.469); Yugoslav Federal Statistical Agency, *Statistički Godisnjak Jugoslavije, 1990* (Belgrade: 1990, p.496).

Note: p1 and p2 represent two different assumptions about the degree of price distortion. <sup>1</sup> Federal Fund for the Crediting of the Development of the Less-Developed Regions.

**Table 8.18: Access to Concessionary Loans and Money Creation of Three Yugoslav Republics, 1987**

	Croatia	Slovenia	Serbia
% of increase in concessionary loans for agriculture	23.6	6.1	57.0
% of increase in concessionary loans for exports	33.5	17.9	29.0
Share in total money creation	19.7	7.5	38.8
Share in GNP	25.3	16.8	37.3

Source: Dubravcic (1993, p.266).

**Table 8.19: Summary of Results**

Country _Maj/min region	Fiscal dec- entralization	Central transfers	Secessionist violence
<b>India</b>			
Punjab	High	Started high, dropped by 1960s, still lower by 1980s <sup>a</sup>	1981-92
J & K	Low	High, but probably falling in 1980s and 1990s	From 1989
Meghalaya	Low	Very high	No
Sikkim	Low	Very high	No
Nagaland	Low	Very high and increasing; maybe lower in 1980s, 90s	Periodic 1950s to present
Mizoram	Low	n.a.	Periodic 1950s-1986
<b>Pakistan</b>			
<i>Pre-1971</i>			
East	High	Low (until 1970-1), but grants rising	1960s leading to 1971 civil war
Post-1971			
<i>Sindh</i>	Quite low	Moderate, but increasing. Fell 1981-3, then rose.	1983, died down in late 1980s
NWFP	Low	High, increasing	1970s, died down in 1980s
<b>Nigeria</b>			
<i>1960s</i>			
East	Low	High, increasing till 1965, then falling	1966-7
West	Low	High, falling sharply	Violence, but not secessionist
<i>Early 1970s</i>			
East-Central	n.a.	Stable	No clear cases
Lagos (West)	n.a.	Moderate fall	No clear cases
Western	n.a.	Sharp fall	No clear cases
Mid-Western	n.a.	Sharp increase	No clear cases
<i>Early 1980s</i>			
Anambra (East)	n.a.	Stable	No clear cases
Imo (East)	n.a.	Slight fall	No clear cases
Ogun (West)	n.a.	Stable	No clear cases
Ondo (West)	n.a.	Stable	No clear cases
Oyo (West)	n.a.	Stable (drop in 1985)	No clear cases
Lagos (West)	n.a.	Increase	No clear cases
Bendel (Mid-W)	n.a.	Drop	No clear cases
<b>Yugoslavia</b>			
Slovenia	Prob. high	Very low, worsening in late 1980s	1989-91
Croatia	Prob. high	Low, worsening in late 1980s	1970-1, 1989-91
Macedonia	Prob. lower	High, falling 1970-84	No
Montenegro	Prob. lower	High, falling 1975-84	No
Kosovo	Prob. lower	High, increasing	1980s

<sup>a</sup> not including bank credit