Fiscal Federalism and Wage-Related Industrial Unrest in the Public Service in Nigeria

By Uzoh, Bonaventure Chigozie
Nnamdi Azikiwe University, Nigeria

Abstract- Wage-related industrial conflicts which manifest mainly in the form of strike actions have become recurring decimals in the public service in Nigeria. The frequency of these conflicts has become worrisome as a result of their disruptive tendencies in the country’s industrial relations system. These conflicts that most often degenerate to industrial unrest have been partly attributed to absence of fiscal federalism in Nigeria, a situation that has ensured that the component units of the Federation do not have autonomy with respect to the control of resources located in their domains. The federating units have to always collect their fiscal allocation on monthly basis from the centre. Wage-related issues are also domiciled in the exclusive legislative list where only the Federal Government has prerogative. The fallout of all these is that today many of the federating units find it difficult to pay the National Minimum wage, salaries and wages of workers, and also meeting up with other financial commitments to workers. This situation frequently leads to industrial unrest in the country’s public service. The paper therefore interrogates the relationship between absence of fiscal federalism in Nigeria and the frequent industrial unrest in the public service. The paper also makes recommendations that could prove helpful in ameliorating the situation.

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1. Introduction

The massive and sweeping industrial unrest that greeted the National Minimum Wage Act (2011) as a result of the inability of many state governments to pay has raised more questions about the nature of Nigeria’s fiscal federalism. Questions have been asked about the rationale behind the Federal Government determining wages for the employees of other tiers of government. The argument has been that the process of wage determination should be such that wages can reflect the differing cost of living between different geographic areas as well as differences in the ability to pay of the different levels of governments that constitute the Nigeria Federation (Aiyede, 2002; Fabiyi, 2011). This suggests that wages should not be uniform across the Federation, since some states and local governments are richer than others. The current revenue allocation formula in the country which allows the Federal Government to take as much as 52.68 percent of the centrally collected revenue in the federation account leaving the states and local councils with 26.72 percent and 20.60 percent respectively has been seriously criticized (Fabiyi, 2011; Solowe, 2011). It is widely believed that this situation has created glaring imbalance in the financial resources of the three tiers of government and reduces the ability of the second and third tiers of government from meeting their financial responsibilities to the masses, which include payment of ‘living wages’ (Fabiyi, 2011). This situation has been identified as part of the problem with wage determination in the Public Service that generates industrial unrest. When workers are not satisfied with their wages, it is always a problem, but it is even a bigger problem when the wages are not paid as at when due or not paid at all.

According to Folasade-Koyi (2011), absence of laws consistent with the principle of derivation which include moving wage-related issues from the exclusive list so that the various tiers of government can legislate on what they can pay is strongly linked to the frequent wage-related industrial unrest in the Public Service. The logic of central planning and imposition of the military command structure on a supposedly federal system moved Nigeria from a decentralized collective bargaining system to a situation where public sector pay was nationally determined and made uniform across all levels of government in the 1970s (Adesina, 1995; Aiyede, 2002). This was attended with a centralization of revenue powers and adjustment of the Revenue Allocation Formula in favour of the centre (Aiyede, 2002). The paper therefore sets out to examine the link between absence of fiscal federalism and wage-related industrial unrest in the public service in Nigeria.

II. Clarification of Concepts

Some important concepts used in this paper are hereby clarified to remove any ambiguity about their meaning in the context of this work. The concepts are as follows;

Federalism; this refers to the existence in one country of more than one level of government, each with different expenditure responsibilities and taxing powers. It is a kind of non-centralization of power and authority. It is about equality and equity, justice and fair play among constituent units and between the units and the central government (Ejeh and Orokpo, 2014). According to Oladele (2014), federalism is a system of government with in-built mechanisms that allow the various

Author: Department of Sociology/anthropology Nnamdi Azikiwe University, Awka- Nigeria. e-mail: chigozie2002us@yahoo.com

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component constituent-state governments certain spheres of operation which are not necessarily mutually exclusive but which in the main, assures them of specific powers in terms of the legislation and control or adjudication over this sphere. However, in Nigeria, due to its peculiar evolution, the federal system tends to emphasize not cooperation but competition between the constituent units and the centre and amongst the constituent units themselves.

**Fiscal Federalism:** The term fiscal federalism itself is rooted in a political arrangement called federalism and refers to the financial relationships among existing tiers of government. In other types of political structure it is known as intergovernmental fiscal relations. Sometimes, both terms are used interchangeably (Ejeh and Orokpo, 2014). Fiscal federalism is part of broader public finance discipline. The term was introduced by the German-born American economist Richard Musgrave in 1959. Fiscal federalism deals with the division of government functions and financial relations among levels of government (Kapucu, 2013). Fiscal federalism is a subfield of public economics concerned with understanding what functions and instruments are best centralized and which is best placed in the sphere of decentralized areas of government. It is therefore the system of revenue generation, allocation and redistribution within a federal system. It is that aspect of federalism that concerns the financial and attendant functions and responsibilities of component units within a federal structure (Oladele, 2014). The theory of fiscal federalism assumes that a federal system of government can be efficient and effective at solving problems governments face today, such as just distribution of income, efficient and effective allocation of resources, and economic stability (Kapucu, 2013).

**Wage:** Employers usually see wage as all costs incurred for the recruitment and use of labour in their enterprises. These include direct wages, fringe benefits, social security benefits paid to the employees and other costs incurred for occupational safety and health and human resource development. Employers are therefore concerned with the total cost of labour. Workers on their own see wages as the direct payment received for work done (Kessler, 1995; 2000).

Duncan (1989) and Poole and Jenkins (1998) posit that workers are concerned with the immediate quantum of disposable income, although they recognize that fringe benefits associated with terms and conditions of employment and all other benefits in cash or kind are also part of wages. The types and quantum of fringe benefits vary with countries. It is determined through government intervention with legislation and collective bargaining between employers and trade unions. It is therefore a result of tripartite consultation and agreement (Milkovitch and Newman, 1990).

According to Armstrong (1999), the main components of payment systems include; basic pay, productivity incentives, social security, fringe benefits such as medical benefits, paid leave and allowances. Some of the allowances include rent in lieu of quarters, basic amenities for electricity, water, transport, subsidies for education of children, and Domestic Assistants (Armstrong, 1999; Bratton, 1999).

**Industrial unrest:** is a generic term that covers all forms of industrial actions undertaken by workers and employers to express their dissatisfaction in the workplace (Anugwom, 2007). Although, strike is the most popular form of the manifestations of industrial unrest in any society, there are other forms, which do not attract much notice or public attention. Yet this latter category accounts for a significant proportion of labour-management dispute (Fashoyin, 2005). The other forms through which industrial unrest manifests itself are mainly used by workers and their unions as pressure methods on the employers to win their demands (Fashoyin, 2005). The types of action in this category include, work-to-rule, over time ban, lock-in/out, and intimidation (Fashoyin, 2005).

Work-to-rule aims at the restriction of output through deliberate reduction in the pace of work. In Nigeria, for instance, Work-to-rule (popularly referred to as 'go slow') actions have featured prominently in labour-management relations for a long time, although they became a regular instrument of union bargaining strategy following the no-strike provision of the wartime legislation (Yesufu, 1984; Ubeku, 1986; Fashoyin, 2005).

The overtime ban is a union strategy, which seeks to impose additional costs on the employer if more production is needed. Overtime ban is an effective means of securing the employer’s concession. Where, however, the union embarks on overtime ban, this has a disruptive effect on efficiency (Fashoyin, 2005). In Nigeria, for instance, this strategy is used in the banking industry where normal work usually continues for several hours after the close of banking services to the public (Yesufu, 1984; Fashoyin, 2005).

Lock-in/out is an action in which employees physically ‘take over’ the company premises, either by locking-in or locking-out the management staff, thus denying them access to or exit from the premises (Fashoyin, 2005). Unlike the first two forms, this action is often an indication of extremely unhealthy labour relations, which sometimes suggests excessive use of union power. In many cases, union leaderships do not sanction this strategy (Fashoyin, 2005).

Intimidation aims at putting the employer in a bad light by doing things, which are embarrassing or antithetical to normal work behaviour. This form of industrial action is a more recent phenomenon and now commonly used in public-oriented organizations.
(Ubeku, 1986; Fashoyin, 2005). This form of industrial action is used to induce the employer to negotiate. In quite a number of cases, the foregoing forms of industrial action have been used to induce the employer to negotiate. In quite a number of cases too, the foregoing forms of industrial action have also been as effective as the strike (Ubeku, 1986; Fashoyin, 2005).

Strike action is the most common form of industrial unrest in Nigeria and remains the most used instrument by organized labour in Nigeria for pushing through their demands from employers (Yesufu, 1984). Strike indicates a breakdown of cordial relationship between labour and management and is usually the one aspect of industrial relations that invites the most negative commentary. Yet the strike, distasteful as it is, performs various useful functions for the two sides of industry (Ubeku, 1986). When a union calls out its members on strike, it is in the belief that the strike will exert pressure on the employer (and sometimes indirectly on government) to take a desired action, such as conceding a demand for improvement in terms of employment, or ameliorating an unsatisfactory working condition. All strikes, whether orthodox or political, fit into this description (Yesufu, 1984; Fashoyin, 2005). In many cases, non-strike actions serve as the first phase of an action package that ultimately ends up in a strike.

There are also cases where workers have been locked out of the company premises by management. Lockout is actually the employers’ counterpart of the strike. The company gates are locked, thereby preventing workers from entering company premises (Fashoyin, 2005). Lockouts are not common occurrence in labour-management relations in Nigeria. In fact, it appears that most lockouts that occur are preceded by strike action or other forms of industrial action. Oftentimes, when workers embark on an action and the management or the third party intervention has failed to resolve it, they might find it expedient to lock out the workers, either to reduce overhead costs or to safeguard lives and properties. For this reason, it is not usually easy to separate the two phenomena in labour-management relations (Fashoyin, 2005).

Yesufu (1984: 26) observes that industrial unrest can also manifest in the form of covert or unorganized action. In his own words “the signs of unorganized discontent that result from each individual taking whatever step he can in pursuit of his own happiness are; a high rate of labour turnover, absenteeism, and general inefficiency and unwillingness to work”.

Public Service refers to service provided by government to people living within its jurisdiction, either directly (through the public sector) or by financing provision of services. In other words, service provided or supported by government or its agencies (Wikipedia, 2014). Service performed for the benefit of the public, especially by a non-governmental organization. Public service also refers to the business of supplying an essential commodity, such as water or electricity, or a service, such as communication, to the public.

III. Fiscal Federalism and Wage-Related Industrial Unrest in the Public Service in Nigeria: A Theoretical Review

The incessant wage-instigated industrial unrests in Nigeria’s public service have been largely attributed to the absence of fiscal federalism (Ademiluyi, 2011). It has been argued that Nigeria was better governed and on the path of an economic medium power before the brutal termination of the first republic by the military on January 15, 1966 (Ademiluyi, 2011). According to Otobo (1992), with the introduction of the federal principles in the administration of the country by the Macpherson Constitution of 1951, which continued from the first Republic, regional governments and their employees dealt with wage issues at the regional levels. Regional governments for this purpose established Wage Review Commissions and wage levels differed from region to region reflecting the budgets disparities among the various governments, an arrangement that helped to keep wage-related industrial unrest at the lowest level (Otobo, 1992).

Aiyede (2002) argues that it was the logic of central planning and the imposition of the military command structure on a federal system that made public sector pay uniform across all levels of government by the 1970s. The military abused the Federal Government’s leadership and policy shaping roles through the arbitrary usurpation of the power to perform certain federation functions such as restructuring of the internal boundaries of the federation, determination of the revenue jurisdiction and the adjustment of the revenue allocation formula (Otobo, 1992; Adesina, 1995; Aiyede, 2002).

According to Yesufu (1984), in the first republic, there was fiscal federalism principle under which federating units (regions) owned, controlled and developed the natural resources, which were located in their land. As a result of this, the resources of the country during the First Republic were distributed based on the derivation principle. Based on the principle, 50 percent of the revenue from minerals was given to the region from where the minerals were extracted. Another 30 percent was put in a distributable pool, which was divided among all the regions including the producing region. Only 20 percent went to the federal government. Under this arrangement, wage levels were based on the budget of each and therefore were not uniform across the different regions that made up the federation (Yesufu, 1984; Otobo, 1992; Aiyede, 2002). But the principle of derivation in resource allocation in Nigeria
has been consciously and systematically obliterated by successive regimes resulting in drastic change in the derivation principle. The derivation principle has been reduced from 100 percent in 1953 to 50 percent in 1960, 45 percent in 1970, and 20 percent in 1975, two percent in 1982 to three in 1992 and 13 percent till date (Ojo, 2010).

Nyemuru-Roberts (2005) opines that the most common source of friction in a federation as is the case in Nigeria is the distribution of fiscal resources. When equitably distributed, it can to a large extent foster national integration. When it is not equitably done however it can engender political altercations and contestations, which destabilize the political economy and tend to undermine the efficacy of federalism in fostering political accommodation and economic development. According to Aluko (1976), this negatively affects the capacity of the component units of the entity from living up to their basic responsibilities including payment of wages of employees thereby instigating frequent industrial unrests in the public service.

Adebayo (2001) and Ojo (2010) argue that the development of fiscal federalism in Nigeria since the intervention of the military in politics vis-à-vis the state tax autonomy has been in the opposite direction. Right now, the Federal Government collects most of the buoyant taxes and allocates the revenue to lower levels of government through the federation account for them to carry out their expenditure responsibilities (Aiyede, 2002). Fiscal autonomy derived from coordinate and independent fiscal powers of the state has been lost. While between 1954 and 1966, this used to be the major principle of fiscal federalism in Nigeria, now most of the autonomous tax powers of the states have been removed (Adebayo, 2001; Ojo, 2010). The cumulative impact of this erosion of the tax autonomy of the states is that they have been excessively dependent on the Federal Government. Thus, in Nigeria, it is fiscal unitarism and not fiscal federalism. This fiscal unitarism imposed through federal government’s hegemony is a sure source of conflict and anti-democratic culture and of resource mismanagement and corruption (Adebayo, 2001). This has also significantly limited the capacity of governments of the federating units (states) from effectively performing their duties, which include paying wages to workers in their employment.

The responsibilities of the states have not only increased but the number of states has also multiplied. The revenue allocation system was thus affected by the distorted intergovernmental relations system in which the states were reduced to administrative units of the national government (Adesina, 1995; Esajere, 2001). This state of affairs in the federation has serious implications for the state governments’ ability to pay wages of their employees and may explain why we now have frequent industrial unrest in the public service over wage-related issues.

The theoretical thrust of the paper is the theory of fiscal federalism. The basic foundations for the initial theory of fiscal federalism were laid by Kenneth Arrow, Richard Musgrave, and Paul Samuelson’s two important papers (1954, 1955) on the theory of public goods. Musgrave’s book (1959) on public finance provided the framework for what became accepted as the proper role of the state in the economy. The theory was later referred to as “Decentralization Theorem”.

Under this framework, three roles were identified for the government sector. These were the roles of government in correcting various forms of market failure, ensuring an equitable distribution of income and seeking to maintain stability in the macro-economy at full employment and stable prices (Musgrave, 1959). Thus, the government was expected to step in where the market mechanism failed due to various types of public goods characteristics. Governments and their officials were seen as the custodians of public interest who would seek to maximize social welfare based on their benevolence or the need to ensure electoral success in democracies.

Each tier of government is seen as seeking to maximize the social welfare of the citizens within its jurisdiction. This multi-layered quest becomes very important where public good exist, the consumption of which is not national in character, but localized. In such circumstances, local outputs targeted at local demands by respective local jurisdictions clearly provide higher social welfare than the central provision. This principle which Oats (1999) has formalized into the “Decentralization Theorem” constitutes the basic foundation of what may be referred to as the first generation theory of fiscal decentralization (Bird, 2009). The theory focused on situations where different levels of government provided efficient levels of output of public goods “for those goods whose special patterns of benefits were encompassed by the geographical scope of the jurisdictions” (Oates, 1999:5). Such situation came to be known as “perfect mapping” or “fiscal equivalence” (Olson, 1996).

It was also recognized that given the multiplicity of local public goods with varying geographical patterns of consumption, there was hardly any level of government that could produce a perfect mapping for all public goods. Therefore, it was recognized that there would be local public goods with inter-jurisdictional spills-overs. For example, a road may confer public goods characteristics, the benefits of which are enjoyed beyond the local jurisdiction. The local authority may then under-provide for such good (Arowolo, 2011). To avoid this, the theory then resorts to situations whereby the central government is required to provide matching grants to the lower level government so that it can internalize the full benefits.

Based on the foregoing, the role of government in maximizing social welfare through public goods
provision came to be assigned to the lower tiers of government. The other two roles of income distribution and stabilization were however, regarded as suitable for the central government (Arowolo, 2011).

Following from the preceding, the role assignment which flows from the basic theory of fiscal federalism can be summarized. The central government is expected to ensure equitable distribution of income, maintain macroeconomic stability and provide public goods that are national in character. Decentralized levels of government on the other hand are expected to concentrate on the provision of local public goods with the central government providing targeted grants in cases where there jurisdictional spill-overs associated with local public goods (Arowolo, 2011).

Once the assignment of roles had been carried out, the next step in the theoretical framework was to determine the appropriate taxing framework. In addressing this tax assignment problem, attention was paid to the need to avoid distortions resulting from decentralized taxation of mobile tax bases. Following from the assignment of functions, taxes that matched more effectively the assigned functions were also assigned to the relevant tier of government. For example, progressive income tax is suited to the functions of income redistribution and macroeconomic stabilization and is therefore assigned to the central government (Arowolo, 2011). On the other hand, property taxes and user fees were deemed more appropriate for the local governments. Benefit taxes are also prescribed for centralized governments based on the conclusion that such taxes promote economic efficiency when dealing with mobile economic units, be they individuals or firms (Arowolo, 2011).

The final element of this basic theory that is worthy of note is the need for fiscal equalization. This is in the form of lump sum transfers from the central government to decentralized governments. The arguments for equalization were mainly two. The first which is on efficiency grounds saw equalization as a way of rectifying distorted migration patterns. The second is to provide assistance to poorer regions or jurisdictions. Equalization has been important in a number of federations (Arowolo, 2011).

This basic theory of fiscal federalism helps us to have a better understanding of the workings of Nigeria’s fiscal federalism which is obviously a cause for deep concern because there has been dissatisfaction and violent agitation arising from fiscal federalism and the adopted revenue allocation formula. The centralism and the age-long hegemony of the Federal Government as well as the protracted period of the interregnum rule of the Military are some of the factors that contribute to the constant conflicts associated with fiscal federalism in Nigeria (Arowolo, 2011).

Revenue sharing among the component units of Nigerian federation has from the inception been replete with agitations, controversies and outright rejections due to the nature of the politics that is involved in it. The process of revenue sharing is inundated with conflicting criteria that were, often times, rejected by majority of states in Nigeria (Arowolo, 2011).

The revenue allocation formula in Nigeria inevitably encourages parasitic governance where states become relaxed and endlessly expectant of the monthly ritual of allocation from the Federal Government. The implication of this is that while it limits the capacity of component states to provide public goods needed to promote and sustain governance which of course includes payment of wages to workers in the public service, it also reduces the Internally Generated Revenue (IGR) of each state, thus making the states perpetually dependent on the Federal government. As long as states continue to depend on the Federal Government for their economic development and survival, the controversy surrounding the issue of revenue allocation will remain persistent and a recurrent problem in Nigerian fiscal federalism.

In Nigeria, several attempts have been made in the direction of achieving a harmonious sharing formula of its national economic resources among the component units of the federation. In spite of all these efforts, there are still inherent challenging issues that are posing serious problems to the Nigerian federalism (Arowolo, 2011). This explains why today some states in the Nigerian federation are still not able to pay the National Minimum Wage of 18,000 Naira and the story does not end there because payment of monthly salaries of workers in the public service has become an issue. The monthly allocation the component states of the Nigerian federation get from the federation account is hardly enough to properly take care of their individual responsibilities including payment of wages which explains the high frequency of wage-related industrial unrest occasioned by the inability of the states to meet the expectations of workers in the public service mainly with regards to their welfare.

IV. The Way Out

It is absolutely imperative for the government at the centre to take the issue of federalism in Nigeria more seriously especially now that the review of the constitution is on-going. Genuine federalism also ensures fiscal federalism and allows the constituent units of the federation to control their resources, negotiate, and determine wages of their employees based on their financial capacities. There is therefore the urgent need to review the constitution especially as it relates to federalism. As it is now the Federal Government enjoys unlimited power and too many responsibilities in the exclusive legislative list. The constitution should be amended to divest the Federal Government of its powers that are becoming increasingly alien in modern day federal practices.
Moreover, fiscal decentralization has become fashionable regardless of levels of development of societies. This is because nations are beginning to devolve powers so as to improve the performance of the public sector. It is also imperative that the government at the centre turn back significant portions of federal authority to the states for a wide range of other responsibilities including wage and labour-related issues. The idea and hope is that states and local governments, being closer to the people, will be more responsive to the particular preferences of their constituents and will be able to find new and better ways to provide these services.

Furthermore, the readjustment of the tax revenue sharing power of the federation in an equitable manner among the component units which presently is in favour of the Federal Government is something that needs to be done urgently. A situation where the government at the centre appropriates all the revenue coming from the most lucrative taxes and then try to give the component units of the federation paltry sums from it does not in any way auger well for the federation. The adoption of the principle of derivation is capable of giving the component units of the federation paltry sums coming from the most lucrative taxes and then try to give the component units of the federation paltry sums from it does not in any way auger well for the federation. The adoption of the principle of derivation is capable of motivating the states to work harder so as to contribute optimally to federation account.

V. Conclusion

The dynamics of federalism makes it imperative for nations operating federal system of government to review periodically and come out with equitable and workable tax system and revenue allocation principle in such federation. Unfortunately, it is not so in the Nigerian federal system, instead the government at the centre takes a greater percentage of the revenue accruing in the federation account leaving the states and local governments with what is remaining which is hardly enough to take care of their responsibilities which include payment of wages to workers in the public service. All the attempts to rectify this anomaly have so far yielded no positive results and has become a situation that puts a question mark on the brand of federalism practiced in Nigeria. This situation has remained like this mainly because it serves the interests of some powerful groups within the federation.

The incessant wage-related industrial unrest plaguing the public service in Nigeria has been strongly attributed to absence of fiscal federalism which is also an inevitable consequence of absence of genuine federalism. As a result of the lopsided nature of revenue allocation in the Nigerian federalism, the government at the centre takes more than 50 percent of revenue in the federation account monthly leaving the 36 states, the federal capital territory, and 774 local government councils with less than 50 percent. This is obviously an aberration that needs to be redressed urgently.

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