

THE RESOURCE CURSE MAGNITUDE IN FEDERAL STATES: A STUDY OF RUSSIA AND NIGERIA

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Abstract

This study analyzes the political factors that mediate the resource curse magnitude at the national level in two federal states, Nigeria and Russia. The study asks: what are the political determinants of the resource curse in federal states? As this research project suggests, fiscal decentralization in respect to oil revenues in a federal state can be considered as an institutional mechanism that could diminish the resource curse effects at the national level. However, the level of fiscal decentralization depends on the formal rules of federalism. The comparative analysis of Nigeria and Russia reveals that in the case of unclear constitutional guarantees for regional governments in respect to fiscal autonomy and legislative voids in respect to taxation, the federal center captures oil rents through its legislative prerogatives at the federal level. The argument this study makes and empirically tests is that fuzzy constitutional guarantees increase the power imbalance between regional and federal political actors in favor of the latter, exposing the federation to fiscal centralization over time and, thus, the resource curse at the federal level. The study concludes that countries with fuzzy constitutional rules undergo fiscal centralization as a result of oil dependency, which in turns leads to the emergence of *rentier state* effects at the national level.

Table of Contents

LIST OF TABLES AND CHARTS IV

I. INTRODUCTION	1
II. POLITICAL IMPLICATIONS OF THE RESOURCE CURSE IN OIL EXPORTING COUNTRIES	7
§ 2.1. The specificity of oil sector	7
§2.2. The magnitude of the resource curse at the national level	9
III. OIL ABUNDANCE IN FEDERAL STATES: THEORETICAL FRAMEWORK	14
§3.1. Institutional particularities of federal states	14
§3.2. Federal bargaining over oil revenues distribution	16
IV. THE OUTCOME OF THE FEDERAL BARGAINING OVER OIL REVENUES ALLOCATION	19
§4.1. Clear, non-fuzzy formal rules of the game	19
§4.2. Methodology	23
§4.3. Data	25
V. COMPARATIVE ANALYSIS OF RUSSIA AND NIGERIA	27
§5.1. Fuzzy constitutional guarantees for regional governments: Russia and Nigeria	27
5.1.1. The specificity of a federal structure	27
5.1.2. The specificity of the oil sector in Russia and Nigeria	29
5.1.3. Initial rules of the game in Nigeria	32
5.1.4. Oil revenues management in Nigeria after the oil boom of the 1970's	33
5.1.5. Initial rules of the game in Russia	36
5.1.6. Oil revenues management in Russia after 2000	40
§5.2. The resource curse magnitude in Russia and Nigeria	43
5.2.1. The spending effect	43
5.2.2. The taxation effect	45
5.2.3. The repression effect	46
5.2.4. The modernization effect	48
VI. CONCLUSION	51

APPENDIX	55
BIBLIOGRAPHY	57

List of Tables and Charts

Chart 1	Oil exports in Nigeria, 1970-1977
Chart 2	Export of mineral resources in Russia, 1998-2011
Chart 3	The number of bureaucrats in Russia, 1998-2012
Chart 4	Corruption Perceptions Index Score, 1996-2012
Chart 5	Military expenditures in Russia and Nigeria (in US\$), 1992-2012
Chart 6	Freedom of the Press in Russia and Nigeria, 1996-2012
Table 1	Fiscal Review Commissions in Nigeria, 1977 – 1988

I. INTRODUCTION

How might abundance in natural resources lead to a low economic development and decline of democracy? As some researches have shown, increasing dependence on the export of “point-source” natural resources, such as oil, minerals or plantation crops, is associated with weak public institutions and slower growth (Isham et al., 2004). The recent study of Tsui (2010: 111) reveals that “on average, discovering 100 billion barrels pushes a country’s democracy level almost 20 percentage points below the existing trend”. This research aims to investigate the factors that influence the magnitude of the resource curse in oil exporting federal states. Due to the fact that the oil sector produces highly concentrated rents, political actors in a state are characterized by rent-seeking behavior and aim to save control over external rents and the distribution of revenues in the long run. As soon as oil revenues in a state with fuzzy institutional arrangements increase, political actors will have incentives to “capture” oil rents rather than invest in other sectors (Shafer, 1994). In oil exporting countries the stake may become so high that it gives incentives to penetrate the state (Shafer, 1994: 14). As a result, natural resource abundance leads to weak political institutions and underdeveloped social and economic structure.

However, the question is how political actors in a state resolve the conflict of oil revenues sharing. This question seems particularly pertinent in the case of decentralized political systems, such as federal states, with a big number of political actors and complex procedures of checks and balances between the center and regions. Based on Riker’s idea that federal states are an ongoing political process regarding the distribution of political, fiscal and administrative powers between different levels of government (Filippov 2005: 95), it is worth investigating what happens to federal politics and the relationship between the federal and

regional levels once oil exports start becoming a reliable and significant source of public revenues.

The existing literature and its gaps

According to the resource curse literature, there are a lot of effects of oil exports on state policies (Tornell and Lane, 1999; Auty, 2001; Ross, 2001). Previous studies revealed that the effects of oil exports can be voracity, state repression, and downward pressures on taxation levels (Tornell and Lane, 1999; Auty, 2001; Ross, 2001). For instance, the voracity effect means that state expenditures grow faster than the amount of rent produced (Tornell and Lane, 1999). In some cases resource revenues are used by the government in order to purchase the loyalty of the population through low levels of taxation (Ross, 2001). Additionally, the state can use oil revenues for creating additional jobs in the army and police (Ross, 2001).

However, researchers have paid less attention to political factors that mediate the emergence of the resource curse and its magnitude. This question is especially interesting in the case of federal states, where political power is dispersed between at least two levels of government. According to the classical definition of federalism introduced by William Riker (1964: 11), a country is federal if there are “(1) two levels of government that rule the same land and people, (2), each level has at least one area of action in which it is autonomous, and (3) there is some guarantee (even if merely a statement in the constitution) of the autonomy of each government in its own sphere”. In other words, the federal structure of a state implies autonomy of regional authorities in decision-making processes (on some specific issues) from the central government. For this reason, federalism likely has political implications for controlling oil revenues. Therefore this research project is relevant for several reasons. First of all, the outcome of the research will contribute to the growing knowledge on natural resource governance and provide evidence on the management of natural resource revenues in federal

states, notably Russia and Nigeria. Second, the results of the research will be useful for building an analytical framework in order to understand fiscal management policies in oil exporting federal countries. This research will refine our understanding of political factors that mediate the emergence of the resource curse and its magnitude at the national level.

Thesis Statement

The question that this research project addresses is: **what are the formal rules of federalism that influence the bargaining process over oil revenues management? How do these rules affect the magnitude of the resource curse at the federal level, if at all?**

The research focuses on some of the political determinants of the resource curse in federal nations. It investigates how increasing dependence on oil exports influences incentives of political actors in a federal state to "capture" oil revenues and what the political factors that mediate the emergence of the resource curse at the national level are. Assuming that federalism is “a form of political conflict between individuals with different interests regarding the principles of government organization and institutional design” (Filippov, 2005: 97), I analyze how bargaining between different levels of government in federal states over oil revenues distribution influences the magnitude of the resource curse at the national level. The result of the bargaining will eventually determine social and political outcomes. Thus, it is important to identify under which circumstances the magnitude of the resource curse can be diminished and under which conditions does the resource curse expand in federal states. In order to achieve this aim and answer the research questions, I:

- a) define the main features of the oil sector and show how oil wealth shapes political actors' behavior in federal bargaining and the institutional structure of a state;
- b) explain how federalism mediates the relationship between oil reliance and the magnitude of the resource curse;

- c) define factors that influence the outcome of the federal bargaining over oil revenues allocation;
- d) conduct a study of Russia and Nigeria.

Case selection

One of the main oil exporters in the world are Russia and Nigeria. According to the World Bank Development Indicators, the fuel export (as the % of merchandise exports) in Nigeria in 2012 was 89%, in Russia - 70% (World Bank, 2014). These federal states experience negative social and political outcomes of oil dependency at the federal level (Ross, 2003; Sutela, 2012). According to the report from The Economist Intelligence Unit, both Nigeria and Russia in 2012 were characterized as authoritarian regimes. Russia and Nigeria have different historical paths as well as initial institutional arrangements and political structures, but they have shared similar patterns as regards fiscal centralization over time in the presence of oil windfalls and also similar patterns as regards the magnitude of the resource curse. I conduct a study of these federal states in order to show how the same mechanism, namely, fuzzy constitutional guarantees for regional governments in respect to taxation prior to oil windfall led to fiscal centralization of oil revenues.

Hypothesis

According to the theory of federalism, the result of bargaining at the initial stage of federation formation is the ratification of a federal constitution, which defines the institutional (for the purposes of this paper's argument, the fiscal and administrative) structure of a federal state. Based on the idea of institutional bargaining between federal and regional actors over oil revenues distribution, there may be several outcomes of a political game. Depending on how explicit the formal rules of the game are (i.e. those specified in the federal constitution) between federal and subnational governments, one can expect either fiscal centralization or fiscal decentralization over time as a result of oil revenues. Thus, the differentiation should be

made between clear and fuzzy *constitutional guarantees for regional governments* in respect to taxation, i.e. clear or fuzzy constitutional guarantees pertaining to the degree of fiscal autonomy. Each of these possible outcomes has a direct impact on the resource curse magnitude at the national level. The hypothesis that guides this study is the following:

H: If constitutional guarantees for regional governments in respect to taxation (whether fiscal centralization or decentralization) are not explicitly specified in the constitution prior to increasing dependency on oil exports, there will be a high probability that the federal state will “capture” oil rents by formalizing new rules of federalism in its own interest. This, in turn, will lead to a *rentier state* that is both politically and economically centralized.

Structure of the Thesis

Chapter II highlights theoretical reflections about the resource curse effects and the influence of oil abundance on political actors’ behavior. This chapter also identifies the role of formal rules of federalism for the nature of bargaining between federal and regional authorities and the outcomes of this bargaining process. I discuss how the federal bargaining between central and regional actors can, in theory, lead to different institutional arrangements in oil exporting states, with implications for fiscal control and, thus, the emergence of the resource curse at the federal level. Chapter III formulates the theoretical model to be tested in the study, namely the outcome of the federal bargaining over oil revenues allocation in the case of fuzzy constitutional guarantees regarding regional governments’ power, especially in the field of taxation. Chapter IV presents the methods employed in the empirical analysis and includes the data description section. Chapter V presents the empirical links between the formal rules of federalism specified in Russian and Nigerian constitutions and the degree of fiscal decentralization/ centralization before and after the oil booms in these two countries and discusses how over-time fiscal centralization translates into significant resource curse effects

at the federal level. The concluding remarks and additional implications are presented in chapter VI.

II. Political Implications of the Resource Curse in Oil Exporting Countries

This chapter provides a theoretical conceptualization of the resource curse in oil exporting countries. I start by defining the main features of the oil sector and show how increasing oil dependency changes interests and behavior of political actors. To summarize, the resource curse literature posits that political actors become rent-seeking and aim to save control over external rents in the long run. In the second section I discuss the main social, political and economic effects of oil abundance at the national level. I also provide several proxies for the measurement of the resource curse magnitude.

§ 2.1. The specificity of oil sector

The influence of oil revenues¹ on the behavior of political actors was elaborated in different studies (Ross, 1999). In the book “Winners and Losers How Sectors Shape the Developmental Prospects of States”, Shafer (1994) shows how sectors define state capacity to formulate and implement restructuring policies. Shafer (1994) uses the framework of sectoral analysis and considers oil as a high/ high sector. The main characteristics of this sector are the following: (1) low shares of people employed; (2) usually a limited number of companies; and (3) highly concentrated rents. Due to the fact that high/high sectors produce highly concentrated rents, political actors in a state will exhibit rent-seeking behavior and aim to save control over the distribution of revenues in the long run. Shafer (1994: 14) argues that “factor inflexibility and weak state institutions bar leaders from defining a national interest – restructuring – that is autonomous of sectoral interests”. This means that as soon as oil

¹ For the sake of the clarity in this paper I refer to oil and oil revenues when analyze negative effects of natural resource abundance. However, I acknowledge that the export structure in both Russia and Nigeria includes different types of mineral resources, not just crude oil.

revenues in a state with fuzzy institutional arrangements increase, political actors will have incentives to “capture” oil revenues rather than invest in other sectors. One way to “capture” oil rents in a federal state is to change the formal rules of the game in favor of the central government. Fiscal centralization in a federation will allow central authorities to take control over oil revenues management (See chapter IV below).

In one of the earliest works about the resource curse, “The Paradox of Plenty: Oil Booms and Petro – States”, Terry Lynn Karl (1997) shows that political actors in petro-states tend to centralize the control over oil revenues for their own benefit, a similar argument to that formulated by Shafer (1994). The negative effects of oil abundance are more significant if oil exploitation coincides with state-building processes because when political institutions are fuzzy or even not established, there are more possibilities for different actors to penetrate the state. By contrast, in a state with strong political institutions established prior to oil windfalls there are fewer chances for different political actors to “capture” oil rents since the formal rules of the game in place prior to oil rents will determine how revenues generated from export sector should be managed (See chapter IV below).

According to Karl (1997: 44), fiscal reliance on petrodollars leads to disappointing political and economic outcomes. In oil exporting countries, the petroleum industry becomes the most developed because over-reliance on oil revenues creates dependence of a government on this single commodity. Thus, the implementation process of structural reforms in petro-states can be delayed, while public expenditures can be increased without resorting to taxation. In the short run, this can create an illusion of economic development and permit political authorities to stay in power longer than in the absence of an oil-driven economic boom. At the same time, the population in oil exporting countries is also benefit from oil revenues because the level of consumption and the amount of imports increase.

To sum up, negative effects of oil abundance are associated with increasing dependency on oil revenues. In the long run fiscal reliance on oil revenues diminishes incentives of political actors to provide diversification and restructuring policies. Thus, one of the main problems that oil exporting countries face is how to limit incentives of political actors as well as bureaucrats to “capture” the state and become rent-seeking over time. In the next section I discuss the resource curse effects.

§2.2. *The magnitude of the resource curse at the national level*

The political effects of natural resource abundance are well expressed by the concept of the *rentier state*. In a rentier state, natural resource revenues make political actors myopic instead of willing to promoting sustained economic development. It should be mentioned that political actors here are defined in broad terms. Depending on who can extract oil rents generated by exploiting natural resources endowments, it can be individuals, central government, but also regional government. For instance, in cases when central government retains the right to manage oil revenues and collect rents through royalties or taxes, the negative effects of resources abundance will be visible at the national level. As already hinted at, the main outcome from the dependence on oil revenues is political.

Political outcomes from the dependence on oil revenues are connected with the lack of democracy and of political accountability in a state. According to the literature, there are several proxies for the measurement of the resource curse magnitude at the national level (Auty, 2001, Ross, 2001). Michael Ross is one of the first political economists who statistically investigated the channels through which oil abundance hinders democracy and leads to disappointing social outcomes in a state (Ross, 2001). In order to test the effects of oil exports, Ross analyses the “rentier effect”, the “repression effect” and the “modernization effect” (Ross, 2001).

a) The Rentier Effect

Ross (2001) shows that the “rentier effect” of the resource curse can be revealed through several channels. The first is known as the “taxation effect”, which means that governments in oil exporting countries have sufficient amounts of external rent that allows them to decrease the level of taxation. This eventually leads to a situation where the public is “less likely to demand accountability from - and representation in - their government” (Ross, 2001: 332). While in resource-scarce countries governments are more accountable for the use of tax monies, which consequently leads to pressures for democratization, in oil-abundant states government is less dependent on the level of taxation and, thus, less likely to be held accountable for spending and budget management to a population (Ross, 2001). Thus, the government purchases the loyalty of population by using lower levels of taxation. This, in turn, makes the population less interested to hold government accountable and demand better policies.

The second effect subsumed under the rentier effect is the so-called “spending effect”, i.e. when government spends more on patronage and this “in turn dampens latent pressures for democratization” (Ross, 2001: 333). It was found that in resource abundant countries governments spend on patronage networks in order to gain political support. It should be also noted that governments in petro-states tend to generate political support through spending on different social and other programs (Ross, 2008: 15). However, it does not imply that revenues from the oil sector will be invested in long-term sustainable development projects (e.g. spending on education or human capital formation), but rather will be used for “buying” citizens’ loyalty through social subsidies or an increase in income levels. As a result, oil sector revenues tend to increase public expenditures on redistributive policies (Ross, 2008: 17).

b) The Repression Effect

In resource-rich countries political actors have been found to spend oil revenues on military forces, creating additional jobs in the army, police and internal security in order to save the control over oil revenues in the long run (Ross, 2001; Robinson, 2006). Central authorities block the democratic aspirations and mobilization of the population by using different coercion methods, such as repression. As a result, oil abundance tends to lead to authoritarian political regimes where the population is excluded from the decision-making process.

c) The Modernization Effect

Ross (2001: 336) shows that external oil rents provide the possibility for a government to delay social and cultural changes, e.g. the increase of spending in education, human capital investment, and higher levels of urbanization, which, in the long perspective, is hurtful towards development and democracy. Developing this idea further, Isham et al. (2004: 8) conclude that “resource abundance simultaneously ‘strengthens states’ and ‘weakens societies’, and thus yields—or at least perpetuates—low levels of development”. External rents received by the government from oil exports are redistributed to the population in a form of large public expenditures in public goods for consumption (price subsidies on fuel, foodstuff etc.) rather than investment (e.g. into education and other social infrastructure), and this increases states’ “dependence through expenditures” (Mahdavy, 1970). This redistribution of oil revenues leads to the increase in prices of locally produced inputs, labor or land. As a result, the domestic economy fails to diversify because the inputs from local economies are not significant and there are no incentives for the state to overcome the problem of negative economic incentives.

However, the resource curse magnitude at the national level is determined by the institutional capacity of a state and by the configuration of different actors in society. The recent study of Robinson et al. (2006: 3) reveals that in oil-rich countries politicians aim to

over-extract natural resources and use them in order to influence the outcomes of the next elections. In other words, political actors are interested in trying to “capture” oil revenues and extract as many rents as possible instead of investing oil-related revenues into restructuring policies. However, this process does not happen in a state with a strong institutional context with high levels of accountability (Robinson et al., 2006). To sum up, the extent to which politicians can manipulate social and political outcomes as well as to “capture” external rents depends on the formal rules of the game. Thus, the main question that still needs addressing is the following: what are the political factors that determine the magnitude of the resource curse? It is worth mentioning that point-source natural resources “are more susceptible to state capture than diffuse resources” (Isham, 2004). Thus, the case of oil exporting countries is especially interesting to investigate.

An important consideration in explaining the institutional factors shaping the magnitude of the resource curse is, arguably, the issue of how political actors in a state resolve the conflict of oil revenues sharing. This question seems particularly pertinent in the case of federal states with a big number of political actors and complex procedures of checks and balances between different levels of government. For this reason, it is worth investigating what happens to federal politics and the relationship between federal level and state level political actors once oil exports start becoming a reliable and significant source of public revenues.

As this literature review shows, the political outcomes from the dependence on oil revenues are associated with the lack of democracy in a state. The magnitude of the resource curse at the national level can be revealed through several channels: the taxation effect, military effect, spending effect and modernization effect. At the same time, it is determined by the institutional capacity of a state, which means that strong political institutions mediate

the emergence of the resource curse. Thus, the main question that researches should address is what the political determinants of the resource curse are.

III. Oil Abundance in Federal States: Theoretical Framework

This chapter focuses on defining the main features of a federal system. I show how federalism might mediate the relationship between oil reliance and the magnitude of the resource curse at the federal level. While in the case of centralized political systems one can speak about the resource curse at the national level, in decentralized, federal states the negative effects of natural resource abundance may be seen at the regional, but not necessarily at the national level. Federalism is defined as an ongoing process of institutional bargaining between political actors of different levels of governance in a state. The most important role in this bargaining process is played by constitutional guarantees for federal and regional governments. In short, this chapter argues that the decentralized nature of a federal state should make the bargaining process over oil revenues distribution more complex than that in centralized political systems. The purpose of this chapter is to attempt to theoretically model how federalism might mediate the distribution of oil revenues between different levels of government, thus affecting the magnitude of the resource curse at the national level.

§3.1. Institutional particularities of federal states

According to the classical definition of federalism introduced by Riker (1964: 11), a country is federal if there are “(1) two levels of government that rule the same land and people, (2) each level has at least one area of action in which it is autonomous, and (3) there is some guarantee (even though merely a statement in the constitution) of the autonomy of each government in its own sphere”. Thus, a federal state is a polity where political power is dispersed between (at least) two levels of government and each of the levels has some portion of legislative, administrative or fiscal responsibilities that are guaranteed by the constitution.

Applying the principle of methodological individualism to institutional analysis, Riker argues that federalism is a result of institutional bargaining between politicians (Filippov,

2005: 95). As Riker (1964: 7) and Filippov (2005) both argue, the whole bargaining process aims to define "who will get what, when and how". Riker argues that rational regional actors would not agree to accept constitutional provisions that would be in favor of the central government. Although there are a lot of issues upon which political actors can bargain one of the most important is the allocation of government autonomy between the two levels (Filippov, 2005). The result of the bargaining is the constitutional structure of a federal state that defines the separation of powers between different levels of government. Thus, the outcome of the game is predicted by the promulgated version of the constitution.

The significant role of a well-designed constitution in maintaining relations between federal center and regional governments (Riker, 1964) can be explained by the fact that a federation is an unstable structure. While the central government is interested in a high centralization of the decision-making process, regional governments are interested in saving their political and economic autonomy within the federal structure. Moreover, Watts (1998) argues that the special characteristic of federal systems is the existence of incentives for regional governments to be united and, at the same time, to safeguard their autonomy from the federal center. Thus, a key feature of federal states is the distribution of constitutional powers between different levels of government and the on-going struggle to maintain relative control and autonomy in decision-making process (Watts, 1998: 124).

Filippov (2004) suggests that key constraints of this federal bargaining 'game' are the constitutional constraints. Filippov defines them as *level one* constraints, and argues that they empower the state, "restrict the dimensionality of constitutional negotiation" and, thus, provide jurisdictional boundaries (Filippov, 2004: 294). As a result, constitutional constraints help to establish the general principles of government structure, but also define what different levels of government can legitimately negotiate about and with what possible outcomes. The crucial thing is that the federal constitution determines the institutional structure that

successfully directs individual self-interest (Filippov, 2004: 36). In other words, constitutional provisions – as institutions more generally do (North, 1990) – put constraints on and, thus, direct the set of possible actions of political actors after the adoption of the constitution. That is why "a constitutionally mandated allocation of jurisdictional responsibilities, including long lists of exclusive and joint jurisdictions, is commonly seen as an essential part of federal design" (Filippov, 2004: 68).

To sum up, clear constitutional guarantees for regional and federal governments define the initial power balance between political actors. As the theory suggests, this initial power allocation has a direct impact on the identities of future winners and losers of the federal game. Thus, from all political factors that mediate the emergence of the resource curse and its magnitude in this research I analyze the formal rules of federalism. More specifically, I consider how they influence the outcome of a federal bargaining over oil revenues distribution (See chapter IV).

§3.2. Federal bargaining over oil revenues distribution

One would expect significant conflicts over the control of oil-related revenues in oil exporting federal states. This will be further exacerbated by the particular character of the oil extractive industry, discussed earlier (see Chapter II). As Fearon (2005: 483) mentions, "resource wealth increases the values of controlling the state, making conflicts more likely". Thus, one would expect the augmentation of political conflict in federal states as a result of oil revenue increases and, similarly, one would expect greater political conflict in federal oil-rich nations as compared to the nature of political conflict in centralized oil-rich nations.

If central government seeks to achieve greater control over oil revenues management, oil-producing regions will consider unacceptable their respective limited share of oil revenues. The federal bargaining between central and regional authorities in this case will be about the

type of fiscal policies in the federation, particularly about those that directly shape the allocation and distribution of oil revenues (Omotoso, 2010). However, the ability of oil-rich regions to succeed in this bargaining process depends on the initial constitutional constraints on federal bargaining. In a situation where subnational governments have a high degree of political and fiscal autonomy that is specified in the constitution prior to oil boom, there are high probabilities for a high degree of fiscal decentralization as soon as oil exports increase. Clearly defined constitutional guarantees for regional governments will help regional actors to bargain with the federal center over oil revenues distribution since their fiscal rights and political autonomy are guaranteed by the constitution, a political and legal leverage in favor of regional authorities. As soon as oil exports increase, regional actors will try to maintain their fiscal power. At the same time, it will not be easier for a federal center to "capture" oil revenues because any attempt to limit regional rights will be considered unconstitutional and, thus, illegal. However, in the absence of constitutional guarantees for regional authorities prior to oil windfall, there is a high probability that, as soon as oil brings external rents, the federal center will try and succeed in capturing these. The absence of constitutional guarantees would, in this case, act as political and legal leverage in favor of the federal government. As a result, the absence of constitutional guarantees for fiscal decentralization will lead to a greater political and financial centralization. In this case, one can expect the formation of what has been described as a *rentier state*. These two different outcomes (either fiscal decentralization or fiscal centralization in the presence of oil windfalls) of the federal bargaining between the central and regional governments will determine whether the magnitude of the resource curse at the national level will be high or low. Over-time fiscal centralization will lead to a pronounced resource curse and the emergence of a *rentier state*. However, the maintenance of regional control over oil revenues, while leading to resource

curse effects at the regional level, will not spill over into national-level resource curse effects and the consequent development of a *rentier state*.

We see how the formal rules of federalism influence the level of fiscal centralization in oil abundant states. In the case of fuzzy constitutional guarantees for regional governments prior to oil boom one would expect further fiscal centralization over time. As a result, it would lead to a high magnitude of the resource curse at the national level.

IV. The Outcome of the Federal Bargaining Over Oil Revenues Allocation

Based on the idea of institutional bargaining between federal and regional actors over oil revenues distribution, there are several outcomes of the political game. As noted earlier, constitutional guarantees for regional fiscal autonomy will matter for the outcome of federal bargaining, including over revenues and rents from oil. However, the absence of constitutional guarantees for regions' fiscal autonomy does not necessarily mean fiscal centralization: it might also mean fuzzy, underdeveloped constitutional rules around regions' and the federal governments' fiscal responsibilities or fuzziness as regards rules of federal bargaining in respect to taxation, including revenues from oil. This thesis makes the argument that more important than constitutional rules that centralize fiscal authority is the absence of clear constitutional guarantees regarding taxation in federal states, e.g. Russia and Nigeria.

To put it differently, the theoretical argument put forth in this thesis is the following. Depending on how explicit the formal rules of the game are between federal and subnational governments (in respect especially to taxation), one can expect either fiscal centralization or fiscal decentralization over time as a result of oil revenues. Thus, the differentiation should be made between clear and fuzzy *constitutional guarantees for regional governments* in respect to taxation. The argument is that each of these possible situations – clear constitutional guarantees or fuzzy ones – has a direct impact on the magnitude of the resource curse at the national level. Let us first consider the different possibilities.

§4.1. Clear, non-fuzzy formal rules of the game:

A) *fiscal centralization* prior to oil windfall → *fiscal centralization* after oil boom,

B) *fiscal decentralization* prior to oil windfall → *fiscal decentralization* after oil boom.

In a federal state where constitutional guarantees are explicitly specified, there are two possible outcomes. If there is a high level of fiscal centralization prior to oil windfall, one can expect a high level of fiscal centralization as soon as oil starts to bring rents. However, one should notice that federal states are usually decentralized and regions have some degree of fiscal autonomy. For instance, both Russia during 1990's and Nigeria in 1960 enjoyed some degree of decentralization and can be put into this category. By contrast, if there is a high degree of fiscal decentralization that is constitutionally guaranteed to regional governments prior to oil windfalls, one can expect the same level of decentralization as soon as oil export increases. One of the oil-exporting federations that have successfully avoided the negative resource curse effects at the national level is Canada (Cairns, 1992). The Constitutional Act of 1867 stated that provinces have total control over natural resources endowments on their territory (Cairns, 1992). As soon as oil started to bring external rents, provinces strengthened their fiscal power over natural resource assets. Thus, Canada perfectly illustrates the fiscal decentralization → fiscal decentralization scenario.

Another case is fuzzy constitutional guarantees for regional governments in respect to fiscal decentralization. Since oil abundance creates incentives to change the rules of the game in order to get total control over revenues, political actors can manipulate constitutional fuzziness. The main question is who will win under fuzzy rules of the game? Theoretically, two processes are possible:

Fuzzy formal rules of the game:

- A)* some degree of *fiscal centralization* or rather *fiscal decentralization* prior to oil windfall → *fiscal centralization* after oil boom,
- B) some degree of *fiscal centralization* or rather *fiscal decentralization* prior to oil windfall → *fiscal decentralization* after oil boom

Before I will start the analysis of outcomes, it is important to note that the case of fuzzy constitutional guarantees for regional governments in respect to taxation is very difficult to operationalize. First of all, since the formal rules of the federal game are unclear, each level of government can exploit the constitutional fuzziness informally. Thus, in order to reveal the actual degree of fiscal decentralization/centralization in a state with fuzzy constitutional arrangements, one has to look at each specific case in historical perspective. The informal bargaining over oil revenues distribution can eventually lead to a further formalization of the rules, either in favor of the federal center or regional governments. Thus, the case of fuzzy formal rules of the game is especially interesting for investigation.

There are two main outcomes of the federal bargaining over oil revenues distribution. One can expect that regional governments can exploit the fuzziness of constitutional guarantees in the bargaining process. At the same time, empirical evidence suggests that this is unlikely. For example, pressures of Kurdish and Shi'a groups in Iraq to decentralize oil revenues were met with opposite pressures from the oil-poor, but powerful Sunni groups (Brancati, 2004). In such cases, oil-rich regions have incentives to disintegrate from the federation as soon as oil starts to bring rents. As was mentioned earlier, oil is concentrated on a specific territory. It means that only some regions in a federation are oil-rich, while others are (oil-)poor. Both the federal center and the regions without natural resource endowments are interested in the centralization of taxation of oil revenues. Thus, the federal center has more possibilities to succeed in the bargaining process over oil revenues distribution because pressures for fiscal decentralization from oil-rich regions will be met by stronger pressures for fiscal centralization from the federal government *and* oil-poor regions. As a result, we should expect greater political and economic centralization and, over time, weakened or even irrelevant federal bargaining between regional and federal authorities (at least in respect to

taxation and fiscal responsibilities). Thus, I suppose that the scenario B is unlikely to happen and exclude it from my analysis.

In the research I investigate those cases where fuzzy rules of the game allowed federal center to “capture” oil rents and won in the institutional bargaining. My central point is that under fuzzy constitutional guarantees of fiscal autonomy for regional governments, the federal center has more chances to “capture” oil revenues. I assume that fuzzy constitutional guarantees make the formal rules of the game broader and increase the power imbalances between regional and federal political actors in favor of the central government. It is more likely that the political outcome of the federal bargaining in the case of fuzzy constitutional guarantees of regional governments will be fiscal centralization and the ‘capturing’ of oil revenues by the federal center. Under this scenario, one would expect the emergence of *rentier state* effects at the national level, that is, myopic behavior of political actors, low transparency of revenues’ management and low accountability etc. At the same time, regions will be dependent on federal transfers from the center; they will have no incentives to promote restructuring policies at the domestic level. Therefore, the hypothesis that guides this study is the following:

H: If constitutional guarantees for regional governments in respect to taxation (whether fiscal centralization or decentralization) are not explicitly specified in the constitution prior to increasing dependency on oil exports, there will be a high probability that the federal state will “capture” oil rents by formalizing new rules of federalism in its own interest. This, in turn, will lead to a *rentier state* that is both politically and economically centralized.

The *independent variable* in this study is the formal rules of the game, namely, regional responsibilities and power in respect to taxation specified in the federal constitution prior to oil windfalls. The *intermediate variable* is the level of fiscal decentralization in a

federal state that results from the nature of constitutional guarantees as regards taxation. The *dependent variable* is the magnitude of the resource curse at the federal level, conceptualized by Ross' (2001) indicators: the taxation effect, repression effect, spending effect and modernization effect.

§4.2. Methodology

In this research I conduct a study of Russia and Nigeria. These federal countries have different historical paths as well as initial political structures, but they have shared similar patterns as regards fiscal centralization over time in the presence of oil windfalls and also similar patterns as regards the magnitude of the resource curse (Gboyega et al., 2011; Sutela, 2012; Victor et al., 2012). Both Nigeria and Russia are examples of a federal state with fuzzy constitutional guarantees for regional governments in respect to fiscal authority prior to their oil booms (see chapter V below). According to the scenarios, they represent the case **A)***: some degree of *fiscal centralization* or rather *fiscal decentralization* prior to oil windfall → *fiscal centralization* after oil boom.

At the same time, these countries have different types of constitutional fuzziness. While Nigeria is an example of what might be called a case of quasi-fiscal decentralization prior to increasing dependency on oil exports (the 1963 constitution), Russia has had no specified constitutional guarantees for fiscal and political autonomy of subnational units (the 1993 constitution). However, before oil started to bring external rents, regional governments were strong political actors that influenced the decision-making process at the federal level during 1990's. I compare these two similar cases in order to validate the theoretical model proposed. The application to Nigeria reveals that the federal center took control over oil revenues distribution by introducing several versions of federal constitutions between 1960 and 1999 which, over time, eliminated any provisions for fiscal autonomy to (oil-rich)

regions. Russia is another case where informal rules of the game dominated before oil started to bring rents in the 2000's, but where constitutional fuzziness was exploited by the federal state under Putin's presidencies, leading to increasing fiscal centralization.

The history of the oil sector in contemporary Russia dates back to the Soviet Union. Under Brezhnev and during the 1970's and 1980's, the oil industry became the driver of economic development (Victor et al., 2012). Oil revenues were collected by the central government and the whole process of oil management was controlled by the center. Oil-rich regions did not have fiscal rights over oil revenues distribution. However, after the collapse of the USSR in 1991, the central government became a weak political actor, unable to control oil-rich regions due to information asymmetry and the destruction of the All-Union ministries of the Soviet system. This institutional vacuum and the lack of a strong federal government gave regional actors opportunity to capture oil rents and take control over tax revenues during 1990's. At the same time, oil-rich regions tried to colonize regional institutions and exploit the fuzziness of the rules informally. They did not change constitutional provisions in favor of regional authorities' fiscal control. The Russian constitution of 1993 stated a strong federal center, and did not specify fiscal responsibilities of regional governments. As soon as president Putin came to power and oil started generating increasing external rents during the 2000's, the federal center started to formalize the rules of the game in respect to taxation by introducing several federal laws. The Budgetary Code of the Russian Federation was legislated in 2000 and several amendments in the sphere of tax policy stated the transition to full enrollment of VAT (value added tax) in the revenues of the federal budget (Trounin, 2001). Central government changed some federal laws and introduced reforms, e.g. the abolition of gubernatorial elections in 2004, which that limited regional power and provided opportunities for further recentralization (see chapter V).

I analyze the period when oil started to generate external rents until the formal rules of the game were modified in favor of the federal center, i.e. until fiscal centralization was enacted. In this study I look at the changes to the regulation and practice of fiscal authority between federal and regional governments in order to show how bargaining has been shaped by the formal rules of the game. In Nigeria this period begins in 1973, that is, the first oil boom, and continues until the ratification of the most recent federal constitution of 1999. Thus, I start with the analysis of the formal rules of the game that were specified in the federal constitution of 1963, prior to oil windfall. In contemporary Russia, oil started to bring huge amounts of external rents during Vladimir Putin's first presidency in 2000 (Rutland, 2008). The constitution that specifies the formal rules of the game between regions and the federal center dates back to 1993. Thus, I start with the analysis of this constitution and look at other federal laws (since the federal constitution did not change) that determine regional powers' bargaining position during these 20 years, i.e. between 1993-2013.

§4.3. Data

In this study I use primary and secondary data. I look at constitutional rules pertaining to fiscal autonomy that regions can exploit in the bargaining process over oil revenues distribution. In the case of Nigeria I analyze several constitutions: the 1960 constitution, the 1963 constitution, the 1979 constitution and the 1999 constitution. In the case of Russia I analyze the 1993 constitution. Since both countries are cases of fuzzy constitutional guarantees for regional governments in respect to taxation, I also rely on the analysis of federal laws on taxation and regions' representation in federal decision-making (for a complete list, see *Appendix*).

I use secondary data to estimate the magnitude of the national-level resource curse over time: World Bank Development Indicators (World Bank, 2014), Freedom House Index

(Freedom House, 2014), Revenue Watch Institute Database (Revenue Watch Institute) and the World Factbook - CIA.

Data analysis procedure

I use content analysis as a research method. According to Holsti (1969: 64), content analysis is “any technique for making inferences by objectively and systematically identifying specified characteristics of messages”. I systematically choose those documents that meet certain criteria. First of all, I analyze laws and decrees that specify the fiscal and political autonomy of regional governments. In my analysis I consider taxation responsibilities between regions and the federal center also. I read constitutions and other pieces of legislation and select only those chapters that are dedicated to the fiscal autonomy of regional units. I also look at the specifics of regional power by checking the constitutional guarantees and responsibilities of regional authorities. I use content analysis in order to make inferences about fiscal decentralization in respect to oil revenues in Nigeria and Russia.

V. Comparative Analysis of Russia and Nigeria

In this chapter I analyze fiscal relations between regions and the federal center over oil revenues distribution in Nigeria and Russia. I compare these two similar cases in order to validate the theoretical model proposed in chapter IV. In the first section I analyze the initial rules of the game that were specified in the federal constitutions prior to the oil booms. I show how fuzzy rules of the federal game have led to greater fiscal centralization of oil revenues as soon as oil started bringing rents. In the second section I analyze how increasing fiscal centralization has led to *rentier state* effects at the national level in both countries.

§5.1. Fuzzy constitutional guarantees for regional governments: Russia and Nigeria

Both Nigeria and Russia are multiethnic federal states. However, the historical development of these countries has different trajectories: Russia appeared after the dissolution of the USSR in 1991, while Nigeria became an independent country after decolonization in 1960. Thus, it is important to define the differences and peculiarities of both cases. This background overview helps to discover the initial power (im)balance between oil-rich regions and central authorities.

5.1.1. The specificity of a federal structure

The Nigerian federal system is the oldest on the African continent. People of the future Nigeria were artificially united under British colonial rule in 1914 (Horowitz, 1985: 603). Initially, Nigeria included three parts, namely the Northern, Western and Eastern part. Each had its own dominant ethnic group: the Hausa-Fulani in the North, the Yoruba in the West, and the Igbo in the Eastern part (Horowitz, 1985). Ethnic and political conflicts between ethnic groups made the process of unification very complicated. The first step

towards the federalization of Nigerian territory was the adoption of the Lyttleton constitution in 1954. From that time Nigeria became a federal state. This brief application to the historical development of contemporary Nigeria reveals that at the beginning of the state-building process only three regions existed. According to the 1960 constitution, the federation included Northern Nigeria, Western Nigeria and Eastern Nigeria. Thus, the Niger Delta, the oil production region of contemporary Nigeria, did not exist as a territorial unit during the 1960's. Oil resources were located in the Eastern part where the Igbo dominated. This becomes relevant for understanding the bargaining process over oil revenues distribution after the oil boom of 1973. Secondly, from the beginning Nigeria had a decentralized political system where ethnic groups were in constant conflict with each other. Thus, fiscal policies in Nigeria were affected by ethnic cleavages. Contemporary Nigeria consists of 36 states and the federal capital territory (1999 constitution).

Russia became a sovereign state after the collapse of the USSR². According to the 1993 constitution, the only post-Soviet constitution of the Russian Federation, Russia consists of Republics, territories (*kray*), regions (*oblast*), cities of federal importance, an autonomous region and autonomous areas (*okrug*) (1993 constitution, Article 5). It should be noted that there is a big difference between oblasts and okrugs in Russia. Although both oblast and okrug are equal subjects of the Russian Federation (1993 constitution), okrugs are parts of oblasts and, therefore, have the same legislation as the latter. Thus, in many cases okrugs and oblasts have the same budget system. These facts about the territorial structure of Russia are relevant for understanding the bargaining process over oil revenues distribution during the 1990's and 2000's.

² During the Soviet period, this state was the Russian Soviet Federative Socialist Republic. The Russian Federation inherited the territorial structure of the RSFSR, specified in the constitution of 1978. The main difference, however, is that the constitution of 1993 stated the equal status of all the regions (*subjects of federation*). In contrast, in the constitution of the RSFSR of 1978 there was no notion of the *subject of federation* and regions had different statuses. For instance, Republics were more important and had greater powers than territories and regions.

5.1.2. The specificity of the oil sector in Russia and Nigeria

Contemporary Nigeria and Russia are highly dependent on oil revenues (Sutela, 2012; Gboyega et al., 2011, see Charts 1, 2 below). For instance, Pekka Sutela says that if one wants to explain Russian economic growth, one should know that in the long run “a ten dollar permanent increase in the oil price leads to a 2.4 percent increase in GDP” (Sutela, 2012: 149). The same experience is shared by Nigeria, where oil constituted almost 65% of government revenues and 96% of export revenues in 2012 (EIA, 2012)³. However, each country has its own story of oil sector development. Oil was discovered in Nigeria in 1956. In the 1960’s, Nigeria started to export oil and in the 1970’s it became heavily reliant on oil revenues after the oil crises (Victor et al., 2012). The first oil boom was in 1970-1975. During these years oil as a source of revenue became especially attractive to political actors.

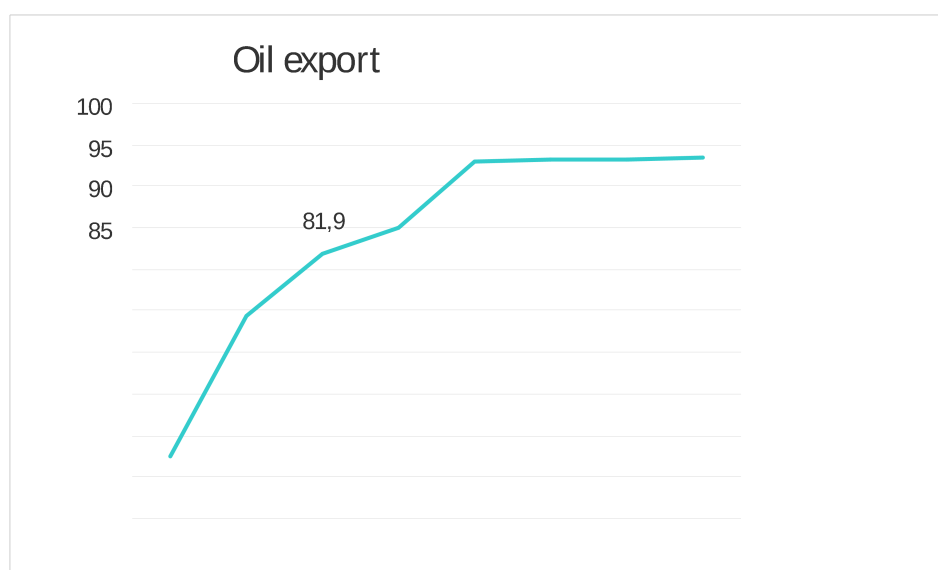


Chart 1. **Oil exports in Nigeria, 1970-1977.** Source: Pinto, 1987: 425.

As Chart 1 shows, already in 1974 oil exports constituted 92.9% of total exports in Nigeria. Oil production remains concentrated in the Niger Delta, comprising Abia, Akwa Ibom, Bayelsa, Cross River, Delta, Edo, Imo, Ondo, and Rivers states (Gboyega et al., 2011).

³ In the Russian Federation oil constituted almost 52% of federal budget revenues and over 70% of total exports (EIA, 2012).

All these states have equal status, rights and responsibilities within the Nigerian federal system. The Nigerian National Petroleum Corporation (NNPC) was founded in 1977 and united the Nigerian National Oil Corporation and the Federal Ministry of Mines and Steel (Victor et al., 2012). NNPC asserts control over foreign oil companies in Nigeria and manages the joint venture between the federal center and these companies (Victor et al., 2012).

The development of the oil industry in Russia dates back to Soviet times. During the 1970's, the oil sector was under centralized state control. Thus, oil-rich regions did not have any fiscal rights over oil revenues. At the same time, the whole system of oil management was horizontally organized, i.e. the different All-Union ministries were responsible for different tasks: extraction (*Minnefteprom*), distribution (*Gossnab*), and export (*Soyuzneft ekhsport*) (Lane, 1999: 38). After the dissolution of the USSR in 1991, the All-Union ministries were closed. The lack of coordination mechanisms between oil-rich regions and the federal center as well as the institutional vacuum during the 1990's created opportunities for regional leaders for privatization and taking control over natural resource assets at the regional level. Thus, although the oil sector was in the hands of central authorities in the 1970's and 1980's, during the 1990's the system was politically and economically decentralized. The first oil boom in post-Soviet Russia happened in the early 2000's. During this period world oil prices started to increase and generated external rents (Victor et al., 2012). As a result, they made the control over oil assets especially attractive.

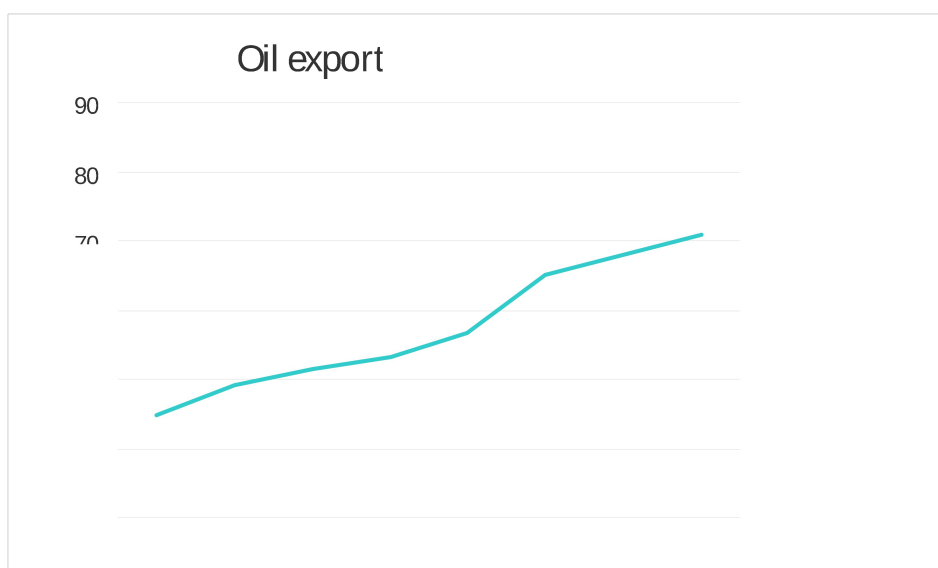


Chart 2. **Export of mineral resources in Russia, 1998-2011 (% of total export).** Source: the Atlas of Economic Complexity, 2014.

As Chart 2 shows, already in 2000 the export of mineral resources constituted 51.32% of total exports. Nowadays, oil-rich regions in Russia can be classified into two groups: Republics (for example, Tatarstan Republic) and regions (for instance, Arkhangelsk oblast). At the same time, oblasts can also include oil-rich okrugs. For instance, Tiumen oblast includes two autonomous okrugs, Khanty-Mansi and Yamal-Nenets (№17, Appendix). According to the EIA analysis (2012), Russia's oil production regions are Western Siberia, Urals-Volga, Krasnoyarsk, Sakhalin, Komi Republic, Arkhangelsk, Irkutsk, Yakutiya, North Caucasus, and Kaliningrad.

To sum up, although both federal states are dependent on oil revenues, they have different institutional systems, territorial organization and historical development of oil sector. While in Nigeria the bargaining over oil revenues distribution began in 1967, in Russia it was delayed until the 1990's, when regional political actors had a chance to capture natural resources endowments in the context of a weak federal government. In the next section I analyze the formal rules of the game in Russia and Nigeria prior to oil boom.

5.1.3. Initial rules of the game in Nigeria

Russia and Nigeria present scenario A)*: some degree of *fiscal decentralization* prior to oil windfall → *fiscal centralization* after the oil boom. The analysis of the formal rules of the game in both states helps to identify the nature of regional power in the bargaining process over taxation and revenue allocation responsibilities.

The 1963 constitution of Nigeria stated nominal centralization, coupled with significant fiscal redistribution of oil revenues. According to the constitution,

“All revenues or other moneys raised or received by the Federation (not being revenues or other moneys payable under this Constitution or any Act of Parliament into some other public fund of the Federation established for a specific purpose) shall be paid into and form one Consolidated Revenue Fund” (the 1963 constitution, Article 123).

At the same time, oil-rich regions were particularly favored fiscally. According to the constitution,

“There shall be paid by the Federation to each Region a sum equal to fifty percent of - (a) the proceeds of any royalty received by the Federation in respect of any minerals extracted in that Region; and (b) any mining rents derived by the Federation during that year from within that Region” (1963 constitution, Article 143).

This mechanism of fiscal redistribution can be considered as a fiscal (albeit not political) equivalent of fiscal decentralization because the results – in terms of regions' share of oil revenues – would be similar as under fiscal decentralization. On the other hand, this nominal fiscal centralization in Nigeria politically undermined regions' bargaining power, making the implementation of the fiscal redistribution of oil revenues highly unlikely. It should be noted that the 1963 constitution gave prerogatives to the federal center. First of all, it did not specify regional rights, either in the political or economic sphere⁴. On the contrary,

⁴Only the exclusive and the concurrent legislative lists were specified in the 1963 Constitution.

it stated that mines and minerals, including oil fields and oil mining, are in the exclusive jurisdiction of the federal center. Thus, the constitutional fuzziness can be expressed by two things: 1) quasi-fiscal decentralization, 2) the lack of explicitly specified regional rights.

In 1963 Nigeria had only four regions (Northern Nigeria, Eastern Nigeria, Western Nigeria and Mid-Western Nigeria) and the Federal territory (№ 12, Appendix). Thus, oil-rich regions during that time were only Eastern Nigeria and Mid-Western Nigeria. From a theoretical point of view, one would expect that these two regions would have had high chances of succeeding in the bargaining process since they only had two other potential regional adversaries who would oppose regions' control of oil revenues. However, the lack of political rights at the regional level gave the federal center political and administrative resources to reorganize the federal structure of Nigeria in a way that favored the federal center. This was achieved through successive territorial fragmentation efforts of the federal center, leading to 19 states by 1979.

5.1.4. Oil revenues management in Nigeria after the oil boom of the 1970's

Conflicts over oil revenues distribution appeared in Nigeria soon after oil exports became an important source of economic development. The first conflict happened during 1967-1970. The oil-rich eastern region where the Igbo dominated started to demand a greater control over oil rents (Horowitz, 1985). The reaction of the federal center was to split the country into 12 states and diminish the influence of the Igbo in the oil-rich region (Victor et al., 2012). The next federal constitution of 1979 stated that Nigeria consists of 19 states and a Federal Capital Territory (№ 13, Appendix). In order to save the control over oil revenues, the federal center created new jurisdictions in the oil-rich region. In other words, political actors from the federal center gave other non-dominant ethnic groups in the region some degree of autonomy in order to undermine the coalition between rebel groups pressing for greater fiscal

control over oil revenues. As a result, they created loyal states that were fiscally and politically dependent on the federal center, thus having a stake in supporting the federal center's and not regions' fiscal control over oil revenues. A similar process takes place in the Russian case (see section 5.1.6). Consequently, this process of territorial divisions created a complex patronage system in Nigeria (Khan, 1994). As was predicted by theory, oil-rich regions in Nigeria had no other option but to seek secession. However, the federal center has so far been strong enough to defeat such movements (Horowitz, 1985).

In addition to this process of territorial fragmentation, the 1979 constitution dropped the Finance Chapter of the earlier, 1963 constitution, where fiscal redistribution of oil revenues between oil-rich regions and the federal center had been specified. Regions that initially had the constitutional right to a significant portion of oil revenues lost their fiscal rights in the aftermath of the oil boom. The 1979 constitution sanctified equal fiscal status of oil-rich and non-oil regions in the Nigerian federation. Additionally, the 1979 constitution made the federal center the sole recipient of oil revenues and rents, and, more importantly, delegated the responsibility for fiscal law making to the federal center. As a result, from a highly decentralized political system in the 1960's in which fiscal control over oil revenues were underdeveloped, Nigeria became a centralized country by the end of the 1970's with clear fiscal responsibilities and control over oil revenues in favor of the federal center. We see how the absence of clear constitutional guarantees for regional governments in the 1963 Constitution was exploited by the federal center in 1979. Since, over 15 commissions appointed by the President were organized in order to solve the ongoing conflicts over revenue allocation formulae. Table 1 below presents the most important commissions.

Aboyade Technical Committee, 1977	Federal Government - 57%,	State governments - 30%	Local governments - 10% and 3% - special fund
Okigbo Committee, 1980	Federal Government – 53%	State governments – 30%	Local governments – 10% and 7% - special fund
Danjuma Commission, 1988	Federal Government – 50%	State governments – 30%	Local governments – 15% and 5% - special fund

Table 1. **Fiscal Review Commissions in Nigeria 1977 – 1988.** Author's calculations based on data from Omotoso, 2010.

The presidential commissions on oil revenue allocation formulae consistently proposed decisions in favor of the federal center. We see that the percentage of state governments' revenues remained the same during the years discussed. However, these amounts were smaller than the shares in 1963. If in the 1960's regions retained 50% of oil revenues, in 1970 this amount decreased to 45% and in 1982 to 24% (№ 1, Appendix). The analysis of the Petroleum Tax Decree 13 of 1970 and the 1975 Amendment Decree to Decree 13 of 1970 also reveals that the federal center gained control over overwhelming proportions of oil revenues from off-shore companies (№ 11, Appendix).

In contemporary Nigeria there are 36 states and only 9 of them are oil-rich (1999 constitution). The representatives from these 9 states have only 82 seats out of the 360 seats in the House of Representatives and 27 seats out of 109 in the Senate (Gboyega et al., 2011). Although conflicts, sometimes even violent, between the federal center and the Niger Delta region exist, it is very difficult for oil-rich states to change the legislation on revenue allocation formulae at the central level due to minority status in parliament. As was predicted by the theory, only oil-rich states are interested in greater fiscal decentralization, while oil-poor states, which are usually dependent on federal transfers and grants, are interested in fiscal centralization and redistribution. Thus, conflicts over oil revenues distribution are

constant in Nigeria. Contemporary Nigeria is a highly centralized federal country now. The federal center takes control and collects most of the taxes, including VAT (value added tax), while oil-rich regions get only 13% of rents generated on their territory (Gboyega et al., 2011:13).

The analysis of the Nigerian case reveals that unclear constitutional guarantees for regional governments in respect to taxation and the lack of explicitly specified regional rights in the 1963 constitution allowed the federal center to “capture” oil revenues soon after the first oil boom. Central authorities changed the federal structure in a way that undermined the collective action potential of oil-rich regions according to the *dividet et impera* (divide and conquer) principle. At the same time, constitutional fuzziness also allowed the federal center to remove the Finance Chapter from the constitution. As a result, the federal center changed the rules of the game in its own interest on several occasions. Although there were constitutional stipulations of mechanisms of significant fiscal redistribution of oil revenues in the 1963 constitution, politically they were difficult to implement. The formal rules of federalism specified in the 1963 constitution were rewritten several times so that regional authorities lost their autonomy and fiscal control of oil revenues. The case of Nigeria clearly illustrates our theoretical argument, namely that the federal center exploited constitutional fuzziness and implemented fiscal centralization soon after the oil boom.

5.1.5. Initial rules of the game in Russia

Russia became a federal state in 1993. Due to the fact that the Soviet system collapsed, the new central government in Moscow was weak and could not control regional political actors (Starodubtsev, 2010). As Lane (1999: 18) suggested, the federal center started the “loans-for-shares” program to generate revenues because tax collection was unsuccessful during this period. At the same time, the Republics of Russia, such as Tatarstan Republic, had

incentives to gain greater fiscal and political rights within the federation and fought with the federal center for more privileged positions. As was mentioned earlier, Republics had a higher status than territories and regions, even oil-rich regions during Soviet times. More than that, they had natural resource endowments on their territory. Thus, soon after the dissolution of the USSR, Tatarstan Republic, Bashkortostan Republic and Sakha Republic stopped paying taxes to the federal center altogether (Trounin, 2001). The Republics aimed to ensure their fiscal rights and accumulate resources from tax revenues for their budget exclusively. Thus, Russian Republics, although not regions also, had a high degree of fiscal and political decentralization before oil dependency increased in the early 2000's (Filippov, 2005). At the same time, however, these political and fiscal responsibilities were not specified in the 1993 constitution. Russia presents an example of a constitutionally highly centralized federal country, but also strong de facto regionalism, both fiscally and politically.

According to the 1993 constitution, there is bias in favor of the federal center's power since only the extensive constitutional list of exclusive and joint jurisdictional authority is written (1993 constitution, Article 71, 72). At the same time,

“Outside the limits of authority of the Russian Federation and the powers of the Russian Federation on issues under joint jurisdiction of the Russian Federation and the subjects of the Russian Federation, the subjects of the Russian Federation shall possess full state power”

(1993 constitution, Article 73).

It should also be mentioned that “The system of taxes paid to the federal budget and the general principles of taxation and dues in the Russian Federation shall be fixed by federal law” (1993 constitution, Article 75). This means that regions cannot determine their tax rate at the subnational level and are not autonomous from the federal center in their principles of taxation. Like in the Nigerian case, the 1993 constitution does not specify regional rights in the fiscal and political sphere. It, however, gives prerogatives to the President and to the

federal center to initiate and pass fiscal policy as well as other legislation relevant for political representation and federal bargaining. These pieces of legislation, however, did not follow the adoption of the 1993 constitution, leaving regions' fiscal rights non-specified by federal law.

At the same time, however, during the 1990's, conflicts between the federal center and regional governments were partially regulated by so-called power-sharing treaties. Thus, although the 1993 constitution stated the equal status of the regions, power-sharing treaties allowed some regions to gain more fiscal autonomy than others (Trounin, 2001). Moreover, the federal center used these treaties to negotiate fiscal relations with oil-rich regions. The first power-sharing treaty was signed between Moscow and Tatarstan Republic in 1994. This treaty stated that Tatarstan Republic has a right to design its own foreign policy and to determine the share of taxes the republic will return to the federal budget (№ 9, Appendix). According to this Treaty, Tatarstan Republic gained total control over oil assets on its territory. It is notable that not only Republics, but regions and territories also signed power-sharing treaties with the federal center. For instance, in 1996 treaties were passed with Kaliningrad, Sverdlovsk, and Orenburg oblasts and Krasnodar Krai (Lapidus, 1998). Thus, all Russian regions gained a high degree of political and fiscal decentralization during 1990's. Moreover, they had substantial power to exercise significant control over formulating the details of these treaties, acting as the more powerful political actors vis-à-vis the federal center. At the same time, only some of them (like Tatarstan) participated in the bargaining process with the federal center. It is for this reason that as soon as the federal center started renationalization and recentralization in 2000, most Russian regions gave up their power very easily.

While the power-sharing treaty diminished conflicts in the case of Tatarstan Republic, it intensified conflicts between oblast and okrugs in the case of the oil-rich Tiumen oblast. As I mentioned earlier, this oblast has two autonomous oil abundant okrugs, Khanty-Mansi and

Yamal-Nenets. According to the 1993 constitution, these okrugs are part of the oblast and have the same legislative system, regulated by federal law (1993 constitution, Article 66). At the same time, Article 5 of the 1993 constitution states that okrugs and oblasts are equal subjects of the federation. For this reason, during 1990's both okrugs and oblasts signed power-sharing treaties with the federal center. In the long run, however, this only intensified the conflict over oil revenues management at the sub-national level, favoring the federal center.

Therefore, we see a contradiction between the formal rules of the game that are specified in the 1993 constitution and informal bargaining over fiscal decentralization during the 1990's. As was mentioned earlier, the constitution did not explicitly define regional rights. At the same time it stipulated that the federal budget and taxation are exclusive jurisdictions of the federal center. However, the analysis of the power-sharing treaties revealed that regions could gain and exercise a significant degree of decentralized fiscal control. Secondly, fuzzy constitutional provisions regarding the relationship between oblast and its okrugs also had direct implications for the relationship between the federal center and regions. The intensification of the conflict between the *okrugs* and *oblasts* was due to fuzzy constitutional provisions regarding the division of authority between different levels of government in the 1993 constitution. As was suggested in the analysis of Nigeria, a similar strategy was used by the central authorities in Nigeria during the 1970's and 1980's, where the federal center divided the country into an increasing number of regional territorial units in order to exacerbate collective action problems among oil-rich regions and between oil-rich regions and the rest by changing the incentives of an increasing number of regional actors.

In many cases, this constitutional fuzziness allowed the federal center to capture oil rents after 2000. The first thing that incumbent president Vladimir Putin did when he came to power was the modification or, in some cases, the abolishment of power-sharing treaties

(Starodubtsev, 2010). Like in the case of Nigeria, the main problem of tax collection in Russia during the 1990's was about "the change in the amount of federal taxes collected in the regions that actually goes to Moscow before being distributed by the government" (Lane, 1999: 133). Thus, regions were interested in saving a greater portion of federal taxes (on mineral resources, oil export, VAT) in regional coffers. As in Nigeria, soon after oil became a reliable and substantial source of external rents, the federal center started recentralizing the country and diminishing regional powers through federal legislation. As we can see, initial fuzzy constitutional guarantees in 1993 were the key explanatory factor for (1) regional infighting; (2) the center's opportunity to start legislating in the area of taxation and political representation of regions nationally, tipping the power balance in favor of the federal center.

5.1.6. Oil revenues management in Russia after 2000

When Putin came to power in 2000, the federal center had limited legal grounds to control oil revenues. The process of oil revenues distribution within oil-rich regions was non-transparent for central authorities due to the reasons mentioned earlier. Moreover, there was legal basis for this state of affairs in the form of power-sharing treaties often formulated by regional powers. Thus, the main decision of the federal center as soon as oil started to bring huge amounts of external rents was to renationalize the oil sector. Constitutional fuzziness allowed federal political actors to redefine the rules of the game in their favor. A first step in this direction was the unification of the tax system on the territory of Russia in 2000 (№2, Appendix). At the same time, the lack of well-defined regional responsibilities in the 1993 constitution allowed the federal center to implement fiscal centralization over time. During the first two Putin presidencies, several federal laws were initiated that limited regional capacities in the bargaining process. Not least, power-sharing treaties between regions and the federal center were also modified. For instance, in 2007 Tatarstan Republic lost its fiscal and

political power, especially in the sphere of oil revenues management and collection. Strictly speaking, Tatarstan Republic became like any other subject of Russia. Among the most important measures in the area of tax policy and the distribution of tax revenues between different levels of government was the transition to a full enrolment of value added tax (VAT) in the revenues of the federal budget (Trounin, 2001). In addition, several federal laws were initiated during this time that limited regions' powers. First was the adoption of the amendment that allowed the federal center to dismiss regional executive leaders from their offices (Gel'man, 2001). Second was the abolition of Republics' special budget status, i.e. that of Bashkortostan and Tatarstan. The Budgetary Code of Russia introduced in 2000 aimed to unify the tax system. The law stated, for instance, that Republics have to finance a part of federal programs implemented on their territory. In accordance with the Budgetary Code of Russia, Bashkortostan Republic, for instance, had to transfer 50% of all the revenues collected on the territory to the federal budget (Trounin, 2001).

During the same period, i.e. at the beginning of the first Putin presidency, these measures were criticized by the upper house of parliament⁵ (Starodubstev, 2010). Regional leaders, especially from oil-rich regions, opposed the idea of fiscal centralization. For this reason, except tax reforms, Putin also aimed to reduce opposition from regional leaders with an interest in maintaining strong regional autonomy, especially in the field of taxation. The emergence of an authoritarian regime (Sutela, 2012) in Russia began with the implementation of antifederalist policies. Firstly, Putin, through presidential decrees, introduced the reform that changed the composition of the upper house of parliament and diminished the influence of regional actors at the federal level (№ 4, Appendix). During this time another federal law

⁵The Federal Council (the upper house of parliament) is reserved for the representation of the subjects of the federation. Each subject of federation has 2 senators. The 1993 Constitution does not specify whether regional representatives should be elected or appointed. Initially the regional governor and the leader of the regional legislature were senators in the Federal Council. However, after the reform in 2000, governors and regional parliaments have to send their representatives. From that time the Federal Council became loyal to the federal center.

was adopted, which allowed the President to dismiss the heads of regional governments (№ 5, Appendix). In 2000, through another presidential decree, seven federal districts⁶ on the territory of Russia were created. According to some political experts, the president appointed his own agents into these Federal Districts in order to control regional actors (Starodubstev, 2010). In 2004 gubernatorial elections⁷ were abolished altogether (Sutela, 2012). Since these changes, the loyalty of regional leaders to the federal center became unavoidable and substantial. Thus, this series of laws regulating taxation and formal political bargaining between regions and the federal center introduced by Putin during 2000 allowed the federal center to severely undermine regions' powers, especially as regards political representation and taxation. In the absence of financial and political decentralization, regions are totally dependent on federal transfers.

As we can see, constitutional fuzziness allowed the Russian federal center to change the rules of the game in favor of the central government. Thus, although Russia has not changed its constitution since 1993, regional authorities lost their fiscal control over oil revenues soon after 2000, when Vladimir Putin came to power (Sutela, 2012). Fuzzy constitutional guarantees for regional governments helped the federal center initiate federal laws that further centralized the tax and political systems. As a result, reforms led to the creation of regions that are fiscally and politically dependent on the federal center. Contemporary Russia, like Nigeria, is a case of fiscal centralization as a direct result of fuzzy constitutional rules regarding the taxation of oil-related revenues and rents in the context of oil dependency.

§5.2. The resource curse magnitude in Russia and Nigeria

⁶Federal Districts (groupings of the subjects of federation) are not territorial units of the country but a new governmental organization. They were created in order to improve the governance and accountability between the federal center and regional authorities. However, in reality they serve to control regional elites since the representative of the President is the leader of the Federal District.

⁷ Gubernatorial elections are elections of a regional governor.

As this research shows, in oil exporting countries political actors have incentives to capture oil revenues and rents. However, the ability of regional governments to succeed in the bargaining process over oil revenues distribution depends on how explicit the formal rules of the game. This research investigates how fiscal centralization of oil revenues as a result of fuzzy constitutional guarantees for regional governments in respect to taxation prior to oil boom leads to a high magnitude of the resource curse at the national level (not just regionally). Fiscal centralization gives the federal center sole responsibility and power over oil revenues management. This eventually leads to a *rentier state* that is both politically and economically centralized. Thus, fiscal centralization as a result of oil dependency undermines the federal bargaining by destroying the basic principles of federalism. As a result, the entire country is cursed.

In order to illustrate the resource curse magnitude at the national level in Russia and Nigeria in this section I analyze the *rentier state* effects conceptualized by Ross' (2001) indicators: the taxation effect, repression effect, spending effect and modernization effect. Although, I cannot demonstrate that these effects are directly caused by oil dependency, I expect that they happened because of oil revenues and overall fiscal centralization since the theory tells us that this is because of oil. Below I trace each of the resource curse effects separately.

5.2.1. The spending effect

Both Russia and Nigeria are characterized as highly corrupt states (Freedom House, 2014). In both cases central authorities spend oil revenues on patronage networks in order to get political support. In the case of Russia, the federal center tends to overspend on the bureaucratic apparatus, relying on oil revenues to fund the expansion of the bureaucracy. As

Table 4 indicates, the number of bureaucrats and other officials has been higher than in the Soviet Union (RIA Novosti, 2014).

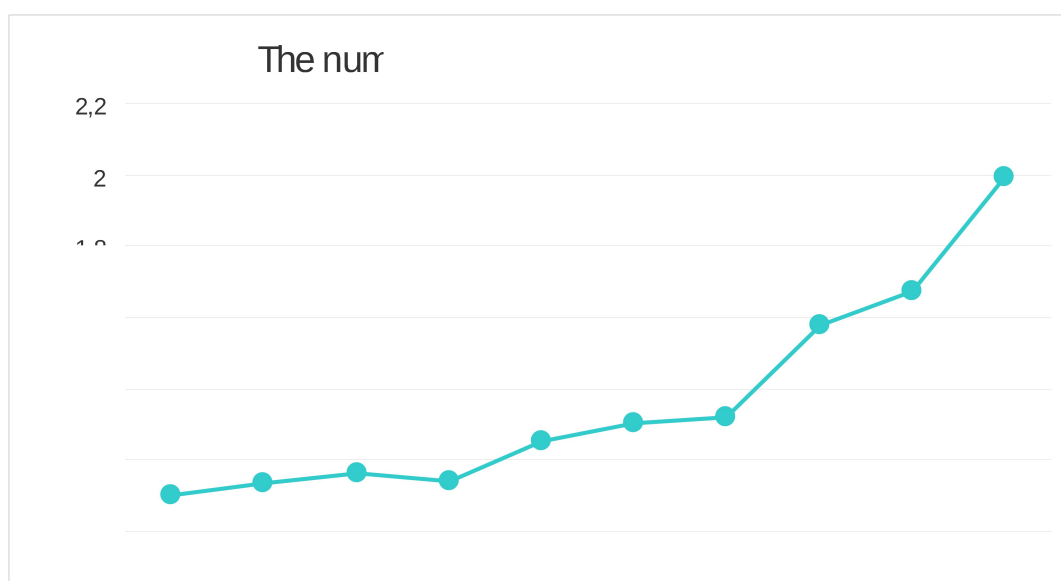


Chart 3. **The number of bureaucrats in Russia, 1998-2011.** Author's calculations based on data from Federal State Statistics Service, 2014.

As Chart 3 indicates, the number of bureaucrats started increasing soon after the oil boom, since it gave central authorities incentives and resources to capture political power in Russia. For example, the creation of the Federal Districts in 2000, a new administrative body, was one of Putin's measures to control regional actors and generate political support and loyalty.

In Nigeria there is an extensive patronage system where the federal center informally redistributes a part of oil rents to regional leaders in order to secure loyalty and win elections (Khan, 1994). This system implies that political power is divided between lobby groups. Thus, corruption among the political elites in Nigeria is very high. I assume that extensive patronage system in Nigeria is driven by oil revenues because oil dependency is increasing every year. At the same time, the economic structure of Nigeria is not diversified. I use the Corruption Perception Index to illustrate the spending effect.

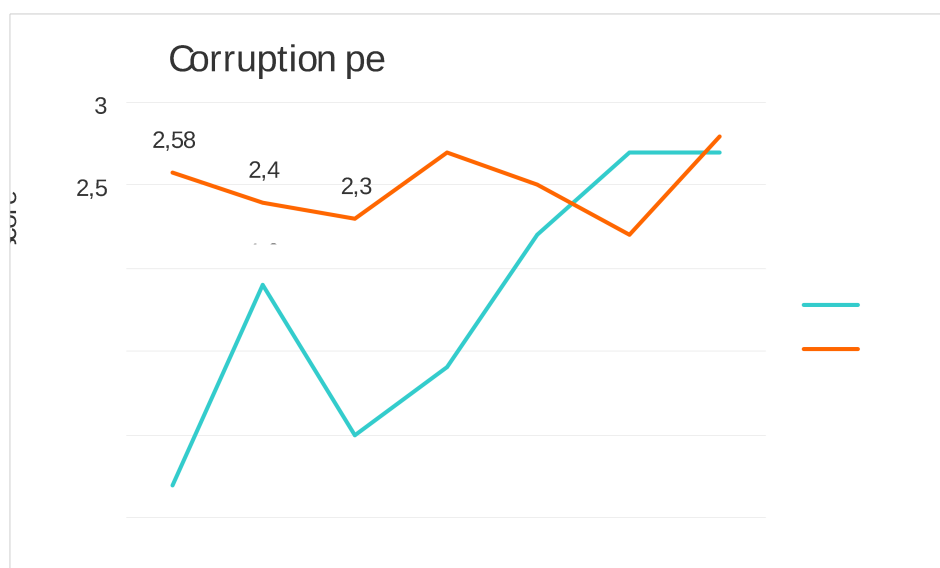


Chart 4. **Corruption Perceptions Index Score, 1996-2012.** Author's calculations based on data from Transparency International, 2014, (0 -highly corrupt, 9 – highly clean).

The Chart 4 shows that both federations are highly corrupt. However, we see some improvements in the Nigerian case since international organizations conduct programs in order to improve accountability and oil management. In the case of Russia we do not see any changes since 1996 because central authorities can always extract rents from oil export. Thus, they have no incentives to decrease the level of corruption. We trace the spending effect in both cases.

5.2.2. The taxation effect

In both federations we can see the taxation effect outlined by Ross (2001) as well. Let us consider individual income tax rates. In Russia it constitutes only 13% of gross earnings. In the case of Nigeria, it is 24% and comparing to other countries it is also relatively small. For instance, in oil-rich democratic Norway the individual income tax rate is 47, 8%, in Germany it is 45% (Trading Economics, 2014, KPMG, 2014). However, there are examples of other oil-dependent non-democratic states where personal income tax does not even exist. For example, in Saudi Arabia personal income tax is 0% (Trading Economics, 2014). Thus, we

see that in both Nigeria and Russia, governments use external rents to decrease the level of general taxation, most visible in the level of income tax. Low tax levels create a vicious cycle of disinterested electorates and political elites whose policies are not conducive to long-run economic growth. In both cases central authorities purchase the loyalty of the population by relying on low levels of general taxation.

5.2.3. The repression effect

In both countries central government tends to spend a part of oil revenues on military forces, creating additional jobs in the army. As the theory suggests, political actors aim to save control over oil rents in the long run. In the case of Nigeria we can see how different military groups aimed to take control over oil assets. Nigeria had several military regimes (1966-1979, 1984-1999) and also a civil war during 1967-1970 (Gboyega et al., 2011). In the case of Russia we see that the central government spends 4, 4% of GDP on the military apparatus, that is a significant share of the national budget compare to India - 2,5 % of GDP or China - 2% of GDP (SIPRI, 2012). According to SIPRI⁸, Russia is one of the few countries that has increased military expenditures during the crisis period. Russia's military expenditures in real terms are higher than those of France, Japan, India, and Germany and can be only compared to expenditures of the USA and China. While many other big nations are cutting military expenditures, Russia has increased them. To illustrate, in 2012 Russia increased its defense spending by 15.7% compared to 2011.

⁸ SIPRI – Stockholm International Peace Research Institute, 2014

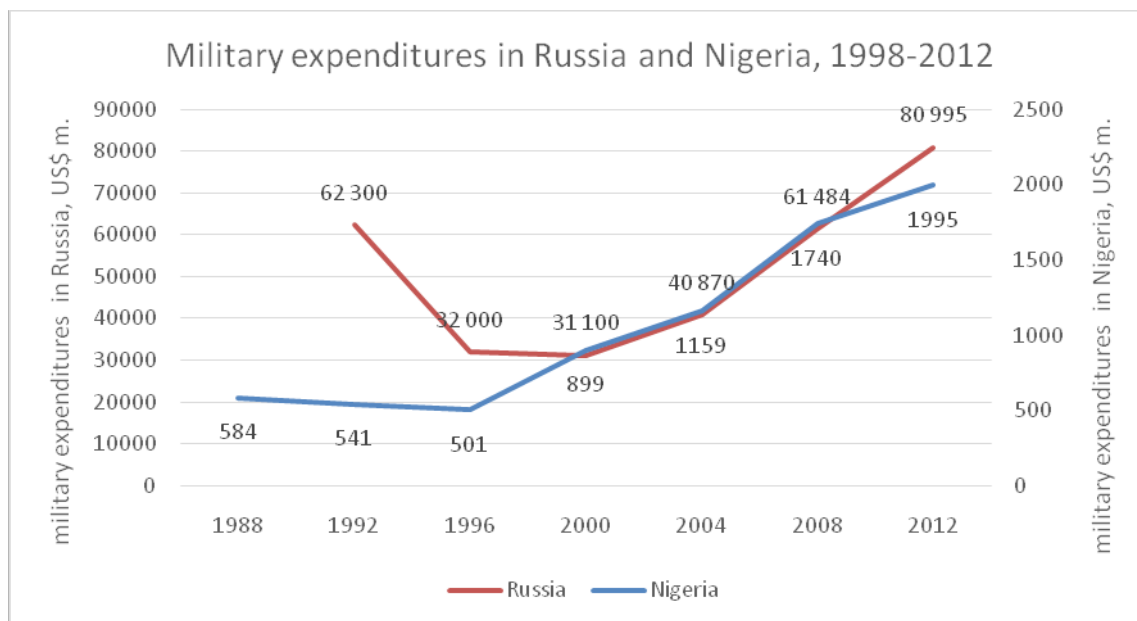


Chart 5. **Military expenditures in Russia and Nigeria, in constant (2011) US\$ m., 1992-2012.** Source: SIPRI, 2014.

At the same time, in both cases central government uses different types of repressive measures in order to block democratic and civic aspirations of citizens. In Russia several federal laws were implemented in 2006, 2011 and 2012 that limited the development of the non-governmental sector and increased the influence of the police (see especially № 3, 6, 7, Appendix). The law on NGO, adopted in 2012, states that any non-governmental organization financed from abroad is considered a foreign agent, the implications of which are total control by the Federal Security Service, restrictions on political activity. In contemporary Russia, these repressive measures are even stronger than in early 2000's as the central government has initiated national inspection campaigns of NGOs. As a result, many civil organizations and institutions have been closed (RIA Novosti, 2014). As the representative from the Revenue Watch Institute says, this law violates fundamental rights and through threats and humiliation aims to silence independent organizations (Human Rights Watch, 2014). In Nigeria military governments did not recognize NGO sector and tried to limit its influence during the oil boom of 1970's. As a result of repression, in 1980's a lot of human rights organizations appeared (Iheme, 2014). However, these organizations were under a strict

control of the central authorities. The federal center initiated restrictive laws and even violent measures to block democratic aspirations and refused to legally recognize NGOs (Iheme, 2014).

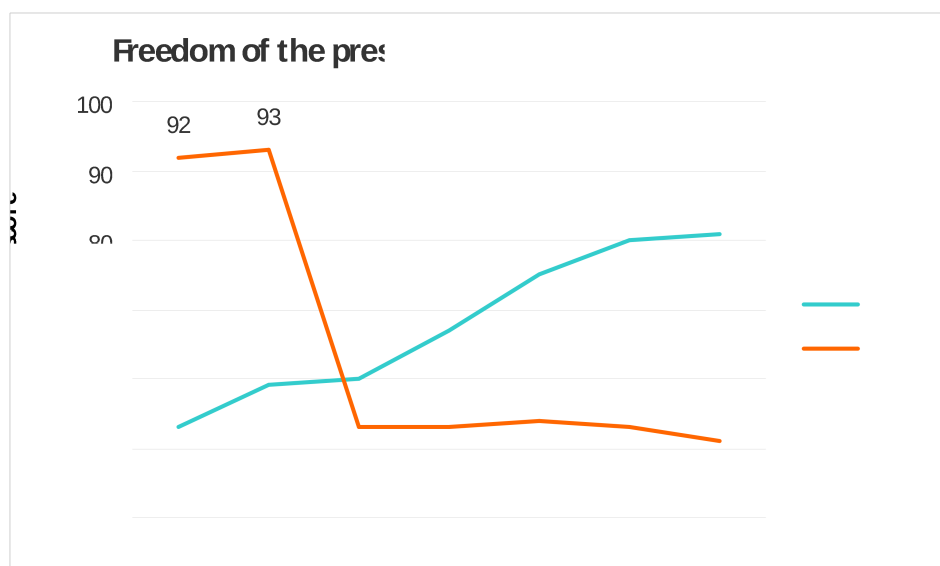


Chart 6. **Freedom of the Press in Russia and Nigeria, 1996-2012.** Author's calculations based on data from Freedom House, 2014, description: 0-30 (free), 31-60 (partly free), 61-100 (not free).

As Chart 6 shows, both countries are unfree. However, it should be noted that Nigeria in this perspective is more democratic than Russia. The political regime in Russia has become increasingly more repressive over time, whereas the opposite has happened in Nigeria. I assume that in Nigeria international organizations, such as the Revenue Watch Institute, play a significant role in the development of civic society and NGO sector. Contemporary Nigeria is a more promising case than Russia. We can say that the repression effect also exist in Nigeria and Russia, but to different extents and with different over-time changes.

5.2.4. The modernization effect

As Ross (2001) also states, this resource curse effect is difficult to operationalize. I do not find suitable indicators for measuring it since both federations spend a part of oil revenues on education, infrastructure and modernization programs (Gboyega et al., 2011; Sutela, 2012).

However, it should be noted that the quality of such programs is low, and outcomes are relatively small (Gboyega et al., 2011; Sutela, 2012). In many cases huge public expenditures produce results not commensurate with investments because the political system is highly corrupt. Thus, it seems like marginal modernization is possible under weak institutional conditions. In Nigeria the education sector attracts substantial funding from the federal center. However, social indicators have not changed (Gboyega et al., 2011). As the data on Nigeria shows, some improvements were made in education during the 2000's (Nigeria 2006 MDGs Report). For instance, the share of "primary school students that reach grade five increased from 71 percent in 2000 to 78 percent in 2005" (Nigeria 2006 MDGs Report). However, the quality of teaching remains low since the adult literacy rate is not more than 60% (Gboyega et al., 2011). In the case of Russia we also see a similar effect. Although central authorities have initiated different modernization programs, results are disappointing (Sutela, 2012). Although in a public discourse Russia is truly sovereign, it borrows all technologies from abroad. For this reason, Russia has a catch up trajectory of development. At the same time, the Russian system of education has worsened since the end of the 1990's (RIA Novosti, 2014). To sum up, the modernization effect of oil abundance is partly evident in both countries. However, it is difficult to find suitable measures to trace it in the long run.

The analysis of fiscal relations over oil revenues distribution in Russia and Nigeria revealed that fuzzy constitutional guarantees for regional autonomy in respect to taxation allowed federal centers to "capture" oil revenues after the oil boom. In both countries increasing oil dependency led to greater fiscal centralization. The analysis of political outcomes from the dependence on oil revenues reveals that both Nigeria and Russia have a high magnitude resource curse at the national level. As this research shows, *rentier state* effects appeared when the federal center started to gain unfettered control over oil rents. In both cases the central government became rent-seeking over time and aimed to save control

over oil rents in the long run. As a result, it created a highly centralized federation where regions are totally dependent on the center's decisions. The argument of this paper, namely that fiscal decentralization as a result of an oil boom leads to strong resource curse effects seems to be demonstrated by both Nigeria as well as Russia.

VI. CONCLUSION

This thesis engages with the question: what are the formal rules of federalism that influence the bargaining process over oil revenues management? How do these rules affect the magnitude of the resource curse at the federal level, if at all? The aim of this research was to analyze political institutional factors that mediate the emergence of the resource curse and its magnitude at the national level in federal states.

As the theory of federalism suggests, clear constitutional guarantees for regional and federal authorities define the initial power balance between political actors at different levels of government and have a direct impact on who the future winners and losers of the federal game will be. Thus, among all political factors that can mediate the emergence of the resource curse and its magnitude, this study analyses the formal rules of federalism that are specified in the constitution and their influence on the political game around the taxation of oil rents and revenues. Based on the idea of institutional bargaining between the federal center and regional actors over oil revenues distribution, I empirically engage with the scenario of fuzzy constitutional rules around oil revenues taxation, over-time fiscal centralization and the appearance of the resource curse at the federal level.

In short, the argument put forth and tested is that depending on how explicit the formal rules of the game are, one can expect either fiscal centralization or fiscal decentralization of oil revenues over time. Central government seeks to achieve greater control over oil revenues management, while oil-producing regions, on the contrary, demand greater financial autonomy or seek secession from the federation. However, the ability of oil-rich regions to succeed in this bargaining process depends on the initial constitutional constraints on federal bargaining. Clearly defined constitutional guarantees for regional governments help regional actors to bargain with the federal center over oil revenues distribution since their fiscal rights

and political autonomy are guaranteed by the constitution in clear terms. However, in the absence of constitutional guarantees for regional authorities prior to oil windfall, there is a high probability that, as soon as oil starts bringing external rents, the federal center will succeed in capturing these. As a result, the absence of constitutional guarantees for fiscal decentralization will lead to greater political and financial centralization. In this case, one can expect the formation of what has been described as a *rentier state*. I argue that initial *fiscal decentralization of oil revenues* leads to stronger federalism and weak fiscal centralization over time. By contrast, the initial *fiscal centralization of oil revenues* leads to further fiscal and administrative centralization in the presence of oil rents. These two different outcomes of federal bargaining between the central and regional governments determine whether the magnitude of the resource curse at the national level will be high or low. Over-time fiscal centralization will lead to the emergence of a *rentier state* at the national level. In contrast, the maintenance of regional control over oil revenues and rents, while leading to resource curse effects at the regional level, will not spill over into national-level resource curse effects and the consequent development of a *rentier state*.

This study analyzes the case of fuzzy formal rules of federalism and investigates how this constitutional fuzziness allows the federal center to capture oil rents and win in the institutional bargaining process, exposing the federal state to the effects of the resource curse. I assumed that in the case of fuzzy constitutional guarantees for regional governments in respect to fiscal authority the political outcome of the game would be fiscal centralization of oil revenues over time. Under this scenario I expected the emergence of rentier state effects at the federal level. In order to illustrate the theoretical argument, I conducted a comparative study of Russia and Nigeria. These federal states have shared similar patterns of fiscal centralization over time in the presence of oil windfalls and also similar patterns as regards the magnitude of the resource curse. Both Nigeria and Russia are examples of federal states

with fuzzy initial constitutional guarantees regarding regional governments in respect to fiscal authority prior to their oil booms although these federations exhibit different types of constitutional fuzziness. While Nigeria is an example of what might be called a case of quasi-fiscal decentralization prior to increasing dependency on oil exports, Russia has had no specified constitutional guarantees for fiscal and political autonomy of regions. However, before oil started to bring substantial external rents, regional governments were strong political actors that influenced the decision-making process at the federal level during 1990's.

The analysis of the Nigerian case revealed that unclear constitutional guarantees for regional governments in respect to taxation and the lack of explicitly specified regional rights in the 1963 Constitution allowed the federal center to “capture” oil revenues soon after the first oil boom. Central authorities changed the federal structure in a way that undermined the collective action potential of oil-rich regions, according to the divide and conquer principle. At the same time, constitutional fuzziness allowed the federal center to remove the Finance Chapter from the initial constitution that stipulated significant redistribution of oil revenues to oil-exporting regions of the federation. In short, the federal center changed the rules of the game in its own interest through successive waves of constitutional amendments that politically fragmented the Nigerian federation.

Russia is another case where the absence of clear formal rules of the political bargaining game dominated before oil started to bring external rents in the 2000's, but where constitutional fuzziness was exploited by the federal state under Putin's presidencies, leading to increasing fiscal centralization and, consequently, to the resource curse at the federal level. The institutional vacuum and the lack of a strong federal government during the 1990's gave regional actors incentives and opportunity to capture oil rents and take control over tax revenues during this period. At the same time, oil-rich regions tried to colonize regional institutions and exploit the fuzziness of the rules informally. They did not, however, change

constitutional provisions in favor of regional authorities' fiscal control. This constitutional fuzziness, coupled with legislative void in taxation especially, allowed the federal center to change the rules of the game in favor of the central government after 2000. As soon as Putin came to power and oil started generating increasing external rents during the 2000's, the federal center initiated a process of recentralization first in respect to taxation by introducing several federal laws, then also in respect to regions' representation in federal government. Although Russia has not changed its Constitution since 1993, regional authorities lost their fiscal power over oil revenues soon after 2000 as a result of constitutional fuzziness. The increasing fiscal centralization and subsequent political weakening of regions at the federal level led to the creation of regions that are completely dependent on the central government.

This paper shows that both Nigeria and Russia have a high magnitude of the resource curse at the federal level due to the fact that unclear constitutional guarantees before the onset of oil revenues created the opportunity for central government to capture oil revenues and rents. The lack of fiscal rights for regional governments and increasing oil dependency lead to further centralization of political and fiscal power during the oil booms. As a result, the basic principles of federalism were undermined in the detriment of regions. Thus, fiscal centralization of oil revenues over time led to *rentier state* effects at the national level in both federations. Unlike many studies that confirm the emergence of the resource curse at the regional level in fiscally decentralized states, this research shows that fiscal centralization and federal control of oil dollars can be considered as an institutional arrangement that enhances the negative resource curse effects at the national level despite the checks and balances that federalism often entails between different levels of government. This research furthers our understanding of the resource curse at the national level in federal oil-rich nations, particularly in those where federalism is insufficiently institutionalized.

APPENDIX

№ 1. Allocation of Revenue, Federation Account, etc. Act, 1982, Nigeria.

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