BEYOND THE RENTIER STATE: CRISES AND POLITICAL COALITIONS IN NIGERIA AND INDONESIA'S DIVERGENT FISCAL TRAJECTORY

A Thesis

Submitted to the Master Study Program of Political Science at the Faculty of Social Sciences in partial fulfillment of the requirements for the degree of

Master of Arts (M.A.)

Universitas
Islam Internasional
Indonesia

by:

Abdullahi Muhammad Abdullahi

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UNIVERSITAS ISLAM INTERNATIONAL INDONESIA

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ABSTRACT

Abdullahi Muhammad Abdullahi

02212420003

abdullahi.abdullahi@uiii.ac.id

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This research investigate why two resource-rich post-colonial countries which share similar structural attributes including extensive period of authoritarian governance, economic shocks such as the 1970s oil boom, the 1980s oil price collapse, and democratization in the late 1990s, ended up following sharply divergent fiscal paths. While Nigeria has remained heavily dependent on oil rents and also developed comparatively weak fiscal institutions, Indonesia on the other hand has been able to gradually diversify its revenue base and strengthen taxation as an alternative source of government revenue. Existing rentier-state and resource-curse theories popularly used to explain the behavior of resource-rich countries have provided important insights into the ramifications of resource dependence. However, these theories have failed to adequately explain puzzling divergences such as the one identified in this study. Therefore, this thesis aims to address this inadequacy by developing the Political Coalition Incentive Model (PCIM), a framework which brings insights from rational choice theory and historical institutionalism. Through the lens of this framework, I argue that economic crisis function as a critical juncture which disrupts existing rentier political arrangements, thereby creating a fiscal choice-point. However, fiscal policy decision during these periods ultimately rest on the incentives and constraints facing the ruling political coalition. Using a comparative historical analysis, the findings of this study reveal that Indonesia's patronage-technocratic coalition under Suharto responded to crisis by diversifying the economy and establishing broad-based tax system beginning with the 1983 tax reform. While Nigeria's patronage-based coalition resorted to external borrowing and diverting of oil rents to preserve existing patronage networks. These findings challenge the deterministic core of rentier state theory by proving that resource wealth alone does not determine fiscal outcomes. Rather, entrenchment or escape from rentier-trap is solely contingent on how political elites interpret and respond to crisis within the constraints of historically inherited institutions. By introducing the PCIM, this thesis provides a more plausible explanation for variation in the fiscal trajectories among resource-rich states and also advances broader debates on taxation, state capacity, and institutional change.

Keywords: *Economic Crisis, Fiscal Outcome, Indonesia, Nigeria, Political Coalition, Rentier State Theory.*

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DEDICATION

To my parents (Abdullahi Muhammad & Fatima Muhammad), my second parents (Hassan Abdulhameed and Jamila Sa'id Sa'ad), and my entire family: this thesis is as much yours as it is mine. Your sacrifices, love, prayers, and unwavering support are the foundation upon which this achievement stands.

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CHAPTER I

INTRODUCTION

"Bad times make good policy"

—Muhammad Sadli, Indonesia's Minister of Mines and Energy under Suharto.

"We are all 'City Boys' by culture. Politics is widely perceived as a means of advancing personal interests."

— Francis Onyeama, Nigeria's 2027 Presidential Aspirant.

1.1 Background of the Study

Is under-taxation an inevitable destiny of rentier states? According to Mahdavy (1970), rentier states are particular type of resource-rich states that derives substantial portion of their national revenue from "rents" (particularly oil and gas rents) paid by external actors, rather than from domestic taxation or productive activity. While oil and gas wealth can generate rapid revenue, the "resource curse" literature argues that such windfalls often distort political incentives, weaken state institutions, and undermine long-term economic development (Ross, 2001; Karl, 1997). Therefore, natural resource abundance has for a long time been viewed as both a blessing and a curse. At the center of this debate lies the question of whether such resource-rich countries inevitably move toward under-taxation and rent dependence. Rentier state theory provides a powerful explanation emphasizing that when states are able to finance themselves from external rents rather than domestic taxation, elites are faced with fewer incentives to negotiate with citizens, expand bureaucratic capacity, or build robust fiscal systems (Beblawi & Luciani, 1987). According to this framework, resource wealth buys political quietude while eliminating the foundations of representative and accountable governance.

However, decades of studies on fiscal sociology reminds us that taxation is not merely a technical revenue instrument, it is key to ensuring state capacity and public accountability because states whose large portion of revenue is derived from domestic taxes are better able to serve the public and sustain a social contract with the citizens (Moore, 2004). Scholars of state-building argue that taxation is central to developing capable and legitimate governments because societies that pay taxes demand accountability, representation, and public goods in return (Brautigam et al., 2008; Moore, 2004). As explained by Moore (2004), taxation creates a "governance bargain" that compels rulers to justify expenditures, strengthen bureaucratic institutions, and cultivate broader state-society relations. By contrast, the foundational literature on rentier-state argues that over-reliance on external rents by resource-rich countries prevents the need for taxation and also weakens demand for representation and accountability, thus, encouraging patronage and extractive politics (Mahdavy, 1970; Beblawi and Luciani, 1987). Therefore, this classic literature on rentier-state link resource abundance to low tax effort, weak fiscal institutions, and poor state-society relations.

1.2 Problem Statement

Against this backdrop, the case of Nigeria and Indonesia offers a compelling comparative puzzle. Both countries are large, postcolonial, and resource-rich countries that experienced extensive periods of authoritarianism, including major oil booms, with both countries historically recording relatively similar oil reserves in 1991 (17billion barrels and 11billion barrels respectively) (Worldometer, 2025). Both countries inherited centralized colonial tax administrations and faced similar pressures to generate revenue, build national cohesion, and stabilize complex multi-ethnic societies. In addition, both Nigeria and Indonesia witnessed political transition from authoritarian regimes to democracy almost at the same time between 1998 and 1999, yet their fiscal trajectories diverge sharply today.

Nigeria exemplifies the archetypal rentier state logic. Numerous data sources shows that for decades, Nigeria's export earnings, government budgetary revenue, and foreign-exchange inflows have been overwhelmingly dominated by earnings from the oil sector, thereby rendering oil as the main source of external receipts and also a large component of government cash flows (NEITI, 2024; Global EDGE, 2024; NISER, 2025). In the same vein, Nigeria's tax-to-GDP ratio has been lagging behind regional and global peers, with recent harmonized estimates putting Nigeria's tax-to-GDP ratio at a single digit of 8.2% in 2023, which is far below the African average and also below the East and Southeast Asian comparators (OECD, 2025). In addition, rents and royalties represented the largest share of non-tax revenues in Nigeria in 2023, amounting to 5.9% of GDP and 87.8% of non-tax revenues (OECD, 2025). Similarly, the Nigeria Institute for Social and Economic Research noted that oil revenues contributed 56% of total government income in 2025 (NISER, 2025), while Global Edge (2024) noted that the oil sector provides for 95% of Nigeria's foreign exchange earnings and 80% of its budgetary revenues. The combination of these factors constitutes a very high dependence on oil earnings and relatively low tax effort, hence illustrating the classic rentier logic at work in Nigeria.

On the other hand, Indonesia's case presents a striking counterpoint. The country has had its own history of oil dependence especially during Suharto's New Order era due to large oil reserves, where "oil and gas constituted 65% of foreign-exchange earnings in 1978/79, rising to 81.9% in 1981/82, while taxes from the oil and gas sector constituted 53% of government domestic revenue in 1978/79, rising to 70% in 1981/82" (Robison, 1986; p.376). Although Indonesia's oil reserves have declined significantly, it is still considered as a resource-rich country as it currently holds 40% of the world's total nickel reserves (IEEFA, 2024), including having the 7th largest coal reserve in the world (U.S. Energy Information Administration (EIA), 2025) among other highly sought minerals. However, recent data shows that Indonesia has shifted away from dependence on resource-rents and is gradually expanding its domestic tax base.

This is proved by the relative growth of the country's tax-to-GDP ratio, with recent harmonized estimates recording the figure at 12% in 2023 (OECD, 2025) including tax revenues which have been making up the majority of Indonesia's budget revenue (Badan Pusat Statistik, 2024). Compared to the year 1982 where income tax contributed only 2.3% to government revenue, while non-oil corporate tax contributed 10.6% (Robison, 1986; p.383), the 2024 annual report of Indonesia's Ministry of Finance noted that "tax revenue now contributes to a staggering 82.43% of the country's total income" (Faradina, 2025). In practice, Indonesia's fiscal profile illustrates a diversified revenue base in which taxes play a much larger role in government receipts than in Nigeria. Therefore, Indonesia's gradual progress underscores that resource-rich countries are not doomed to permanent rent dependence.

1.3 Research Questions

This divergence in fiscal path between Nigeria and Indonesia raises two important questions which demand plausible explanation.

1. *First, why do ostensibly similar resource-rich countries produce divergent fiscal outcomes?*

2. *Second, beyond the simple presence of resource wealth, what other mechanisms explain why some political elites choose to diversify towards taxation as an alternative revenue source, while others prefer to maintain rent-dependence?*

While acknowledging that rentier state theory has provided powerful insights with regards to the fiscal exceptionalism of resource-rich economies, I believe these two questions renders at least a part if not whole of the theory's argument as deterministic and oversimplified. Although some empirical works have observed many of these rentier dynamics at play, numerous scholars have also called into question the deterministic assumptions of the theory. For example, some works reveal a variation in which many historically resource-dependent countries display puzzling fiscal development which cannot be adequately explained by rentier logic alone (Ross, 2001; Dunning, 2008; Walker, 2023). Other studies also illustrate how some resource-rich countries remain locked in rentier-trap, while others were able to diversify their revenue source by developing stronger tax systems (Fjelstad and Moore, 2008; Van de Graaf, 2015).

Notably, resource rents inarguably play a crucial role in rentier-state dynamics, however, these cross-case differences suggest that they are not the sole determinants of fiscal outcomes. They point to the fact that historical, institutional, and political contexts surrounding revenue choices matter profoundly. Therefore, I situate my study within this debate. Rather than treating under-taxation as an unavoidable destiny of rentier states, I will look into how elites' political survival calculations in the face of economic crisis come together to shape choices about revenue sources, which later become self-reinforcing overtime.

Most studies largely attributes Nigeria's fiscal weakness to rentier state dynamics including oil dependency, elite capture, and weak institutions (Karl, 1997; Watts, 2004; Lewis, 2007; Suberu, 2001). While other literatures emphasize on administrative capacity, policy choices, or the role of crises and international conditionalities (Besley, and Persson, 2013; Moore, 2004), yet they often treat them as separate or secondary factors. In both Nigeria and Indonesia, leaders have made strategic decisions and calculations about revenue sources, legitimacy, and survival which transcends the deterministic logic of rentier state theory. I argue that these decisions were influenced by critical junctures in history which induced elites to rationally make policy decisions profoundly in the interest of their own political survival. While rentier state theory help to explain the broad tendency toward under-taxation in these types of resource-rich countries, however, it does not fully capture the mechanism that produces divergent fiscal outcomes among those resource-rich countries which appear similar on paper.

1.4. Research Objective

The objective of this research is to identify the specific historical and political conditions under which resource-rich countries intentionally decide to diversify their revenue source or remain rent-dependent. Understanding this dynamic is not just academically important, but also carries significant policy implications. Nigeria's persistent dependence on oil rents continue to hinder its state-society relations, fiscal sustainability, economic stability, and political accountability. By distinction, Indonesia's experience demonstrate that shifts in elites' incentives, deliberate reforms, and institutional adaptation can enable rentier states to escape the so called "rentier trap" through economic diversification, and broadening the tax-base which ultimately results into strong state capacity.

1.5. Research Significance

The significance of the study is threefold. First, it will go a long way in deepening our understanding of why and how some resource-rich countries remain trapped in rentier patterns, while others are able to escape the trap. Second, the study will contribute significantly to ongoing debates in fiscal sociology, comparative politics, and development studies. Third, by introducing the Political Coalition

Incentive Model (PCIM), the research will present a more comprehensive and robust model for understanding the political economic aspect of taxation in resource-rich countries.

As Peter M. Lewis noted in a similar comparative analysis on Nigeria and Indonesia:

"given their size, regional predominance (in Southeast Asia and West Africa, respectively), and significance in international energy markets, the processes of economic and political restructuring in these two countries are of considerable importance. Moreover, the comparative experiences of Indonesia and Nigeria hold lessons for other large, diverse, resource-producing states such as Russia, Brazil, or Mexico" (Lewis, 2007; p.3).

CHAPTER II

LITERATURE REVIEW

This section serves the purpose of presenting and reviewing previous research and theoretical approaches that are of relevance to the research questions. The literature review is organized into three themes. (a) an overview of the evolution of rentier state theory; (b) debates regarding taxation, state building, and institutional development; and (c) Comparative insights from related studies on Nigeria and Indonesia.

2.1 Evolution of Rentier State Theory

In 1970, Hossein Mahdavy introduced the concept of “rentier state” in his chapter titled “Patterns and Problems of Economic Development in Rentier States: The Case of Iran”, where he used the term to describe countries whose economies are heavily dependent on external rents (particularly oil revenues) rather than domestic production or taxation (Mahdavy,1970). Subsequently, Beblawi and Luciani (1987) formalized the term and defined rentier state as a state that derives most of its national income from external rents, which are then distributed by the state. These scholars argued that heavy reliance on external rents develop unique political and economic structures such as weak tax systems, fragile institutions, centralized authoritarian governance, limited citizen accountability, and patronage politics. Within such system, the state becomes the primary distributor of wealth, thereby leading to low tax effort and citizens unwillingness to engage in productive work. This system of selling material benefits such as jobs, contracts, and subsidies for loyalty eliminate the fiscal contract between citizens and the government, thereby producing a pattern of authoritarianism because by paying for political quietude through rent distribution, elites have insulated themselves from accountability and popular pressures. Therefore, the classical literature on rentier state drew on modernization and dependency theory in other to stress the political consequences of unearned income.

This argument was further deepened by Terry Lynn Karl's (1997) classic study "*The Paradox of Plenty"*, where she analyzed the consequences of oil booms in Venezuela, Nigeria, and other Petro-states. Karl argued that resource rents distort both state structures and elite behavior, thereby producing "rentier bargains" in which governments trade benefits for citizen's acquiescence. She further noted that oil dependence introduces "institutional lock-in" which makes fiscal reform difficult. This idea is what later literature came to refer to as "path dependence", though Karl frame it more as a political trap rather than a formal mechanism of institutional persistence. Although Karl (1997) treated oil as a political trap, she acknowledged some exceptions where countries like Malaysia have been able to maintain a more diversified fiscal base than expected. Also, other empirical works in the 2000s have tested these claims. For instance, Ross (2001), in his influential study "*Does Oil Hinder Democracy?",* used cross-national quantitative analysis to demonstrate that oil rents have a negative correlation with democratic outcomes. He proposed three mechanisms including repression, rent distribution, and modernization to explain how resource wealth undermines accountability. However, the analysis of Ross, just like that of Karl, treated oil dependence largely as exogenous, in the sense that it does not explain why some states diversified and adopted fiscal reforms while others did not.

Interestingly, more recent scholarship on rentier state theory have also critiqued this determinism. Thad Dunning (2008) introduced the idea that political effects of resource wealth depend on broader distributive politics and regime type. In his article titled "*Crude Democracy"*, Dunning demonstrated how natural resource wealth can under certain conditions, ironically stabilize democratic rule. This line of argument resonates with Van de Graff's (2015) claim that rentier effects are often mediated by institutional quality and political incentives, rather than being the inherent consequence of resource abundance. In the same vein, the findings of Smith (2004) suggests that regimes in oil-rich countries faces a lower risk of breakdown and anti-state protest than regimes in oil-poor countries. This line of argument directly contradicts the popular claim of rentier state and resource curse theory which argues that oil wealth result in weak institutions and political instability.

Furthermore, Basedau and Lay (2009) uncover an ambiguous conflicting effect. In their global analysis, they found that only countries with high oil rents per capita possess the leeway required to buy domestic peace through patronage and repression. They identified a U-shaped relationship between rent-dependence and conflict where moderate dependence due to limited resource wealth fuels insurgency, while extreme dependence due to large resource abundance correlates with stability. In effect, oil-rich autocracies have the tendency to often distribute patronage to security forces and loyalists in exchange for regime peace and stability which is referred to as "rentier peace". Interestingly, these findings echo Karl's (1997) "rentier bargain" model by demonstrating how resource wealth can in some cases strengthen authoritarian resilience, depending on context and scale.

Notably, Gray's (2011) work highlights the evolution of rentier state theory. He unveils how RST has undergone several phases starting from its classical model in the 1970s and 1980s which focused on wholesale rent allocation and buy-off demands, to a more recent version referred to as the "late rentier state" which emerged post 1990s, thereby integrating greater marker openness and institutional complexity. Gray (2011) demonstrates this dynamic by exemplifying how contemporary Gulf states maintain authoritarian control while liberalizing business sectors and creating limited consultative bodies, highlighting a development from the rigid 1970s and 1980s model of rentier state.

In essence, RST has developed into several sub-theories which are tailored towards different regimes. Other scholars like Malik (2017) insist that the theory should encompass all unearned state income streams, not just oil revenue. He goes further to emphasize that non-oil rents such as other forms of natural resources, subsidized finance, tariffs, and capital controls similarly entrench autocratic regimes. According to Malik, authoritarian leaders often sustain their regimes by preserving these rents which makes it easier for them to remove leaders rather than "to eliminate the rentier structures that feed associated coalitions" (Malik, 2017; p.55).

Interestingly, some scholars look at rentier state theory from a “legitimacy point of view”. Abulof (2015) examines why some rentier state regimes collapsed while others endured. His findings reveal that the social contracts in these states are “materially contingent and morally frail”, meaning that they rely heavily on shifting promises and ideology as much as oil rents. From this vantage point, understanding the stability of a rentier state requires examining both the size of rents and the non-material basis of legitimacy as well. Therefore, Abulof’s (2015) work shifted the focus from resources to moral and cultural factors by suggesting that rentier state theory must consider public beliefs and identities as much as fiscal flows. Also, scholars of institutionalism have also enriched the theory. For instance, Yamada and Hertog (2020) examine how rentier states might transform themselves. Through an “institutional upgrading” framework, they argue that oil-rich autocracies must reform clientelism into meritocratic bureaucracy in order to eventually become productive states. Therefore, elites with vested interests must undergo painful reforms before economic diversification could be achieved. Their argument implies that escaping the rentier-trap is theoretically possible. However, deep structural changes are non-negotiable.

Remarkably, there have also been a conceptual expansion of rentier state theory by scholars. A recent major reassessment of the theory comes from Scott Walker (2023), who argued that although the rentier state framework remains relevant, it has become an overly static paradigm. In his article “*Rentier State Theory 50 Years On”,* he argued that scholars have treated rentierism as a structural condition rather than a dynamic political process. He calls on researchers to re-engage with the temporal and strategic aspects of rentier governance by looking into how political actors adapt, manipulate, or resist fiscal reforms over time. Another recent attempt towards enrichment of rentier state theory is noted in Marc Lynch and Gerasimos Tsourapas (2024) work “Rentierism in Middle East Migration and Refugee Politics”, where they expanded the theory beyond natural resources to include migration governance. Lynch and Tsourapas employed RST to argue that migration governance in the Middle East and North Africa is fundamentally a political economy of rentierism, where states and non-state actors consider human mobility (both forced and voluntary) as a commodified resource to extract material aid form foreign donors and use it for political agenda. As they put it "The focus on rent extraction highlights the extent to which migrant and refugee commodification has become normalized in states' domestic and international politics" (Lynch, 2024, p. 4). The literature shows how rentierism stands as a dynamic political process which is driven by deliberate elite political strategies. This intervention opens-up the analytical space for our study to incorporate crisis and elite political survival calculations, which is precisely the direction my study intends to pursue.

In a nutshell, rentier state theory has evolved significantly, but the empirical record remains uneven. From the classical model that links oil to authoritarianism, to the contemporary literature that relates rentierism to the politics of migration, the literature on RST now recognizes a variety of conditional pathways. However, it still fails to provide plausible explanation as to how and why countries like Malaysia, Indonesia, and Botswana decided to diversify their revenue source, whereas similar resource-rich countries like Nigeria, Angola, and Venezuela remain rent-dependent. The persistence of such an anomaly suggests that rentier state theory in its classical form is insufficient to explain these cross-national variations. More recent scholarship acknowledges the fact that resource wealth interacts with politics in complex ways, and also acquiesce to how oil and other rents alter the incentives and constraints regarding taxation. However, they also come short in demonstrating how these effects are mediated by institutions and elite survival choices in the face of political and economic crisis. Therefore, the challenge here is to retain RST's core insights with regards to the political economy of rents, while incorporating a broader understanding of how institutions evolve overtime, and how political actors make rational policy decisions based on incentives and constraints.

2.2 Taxation, State-Building, and Institutional Development

While the literature on RST highlights how oil revenues can disincentivize taxation, classic state-building theories emphasize the opposite dynamic by highlighting how broad-based taxation builds strong states. The idea that states are built through the extraction of revenues from society is traced to Charles Tilly's (1985) famous work "War Making and State Making as Organized Crime", where he famously argued that “war made the state, and the state made war” (p.170). He examined how European states developed strong fiscal institutions because the rulers needed to extract resources from their people to fund wars. Therefore, this coercive relationship between taxation, state capacity, and legitimacy underpins much of the modern fiscal contract theory. Building on this foundation, Mick Moore (2004) extended the argument into a fiscal contract model. He argued that in a situation where states rely on domestic taxes, they must justify their use of funds through public goods in order to foster accountability and maintain state-society relations. Scholars of fiscal sociology argue that taxation is a political relationship where citizens support taxes if they see value in services and legal order (Levi, 1988; Besley and Persson, 2013).

In her article “*Of Rule and Revenue*”, Margaret Levi (1988) conceptualized taxation as an issue of rational compliance and credible commitment. From this line of thinking, citizens only agree to pay taxes when enforcement is credible, and they are rest assured that the state will deliver public goods. This argument resonates with Moore’s sociological view which emphasizes on strategic interactions and institutional credibility. Besley and Persson (2013) further extend this debate in their analysis of the co-evolution of fiscal capacity, state capacity, and political institutions. They argued that taxation is part of a larger cluster of development pillars which comprises of property rights, legal enforcement, and collective security. They also claim that strong fiscal institutions serve as both a cause and effect of political stability.

Overall, the existing body of scholarship highlights how tax dependence correlates with more efficient bureaucracy and state capacity, while rentierism insulates citizens from demanding for transparency and accountability. These works position the fiscal effects of rentierism in stark relief where resource-rich states can successfully buy consent, but at the cost of underdeveloped state institutions. By avoiding taxation, rentier regimes lose an important mechanism of facilitating state-society relations. Consequently, most oil-dependent governments exhibit weaker bureaucracies and persuasive patronage politics (Besley and Persson, 2013; Moore, 2004). As famously observed by Samuel P. Huntington in the “*Third Wave”,* “The lower the level of taxation, the less reason for publics to demand representation. "No taxation without representation" was a political demand; "no representation without taxation" is a political reality" (Huntington, 1991; p.65).

However, the historical record also reveals that shifts in revenue strategy are rarely linear. For example, Lieberman (2003) and Schumpeter (1954) noted that fiscal modernization typically occur through crises such as wars, state crises, or economic collapse which forces leaders to negotiate new fiscal bargains. In such circumstances, leaders are forced to reform taxation in order to either get an alternative source of revenue or restore confidence and legitimacy. An example is how the medieval kings only expanded taxes after losing wars, while Latin American dictators do so after inflation, and contemporary democrats after budget crises. In a rentier context, comparable crises such as a collapse in oil price, economic crisis or a regime change could similarly force a transition towards taxation.

Put together, the broader literature underscores how taxation and state-building are historically contingent processes, not necessarily predetermined by resource endowments. Rents can obstruct taxation, but only if regimes remain content with the status quo, while other crises-driven junctures provide the opportunity (or necessity) to renegotiate fiscal contracts. While rentier state theory highlights insulation from accountability, fiscal sociology shows the positive feedback loop of tax-based state building. However, both overlooks the nature of political coalitions, elite incentives, and temporal sequencing that sustain or obstruct this feedback. This is where critical junctures and political agency become very important, as they are able to explain how important historical events and elite strategies jointly shape fiscal outcomes.

2.3 Insights from Nigeria and Indonesia

Nigeria and Indonesia are both historically resource-rich countries that experienced extensive periods of authoritarian regime, and also transitioned to democracy within the same period. Therefore, it is puzzling how their fiscal trajectories follow entirely different paths. In the case of Nigeria, the early 1970s oil boom created a regime of transfers and patronage politics which entrenched rentierism. Scholars like Watt (2004) and Lewis (2007) adequately document how oil revenues were distributed through federal allocations, thereby settling loyalists and reinforcing ethnic and regional elites without the need for taxation. The political leaders of Nigeria often choose to preserve oil rents as the main fiscal pillar because their coalitions and patronage networks are structured along resource extraction and distribution. Therefore, Nigeria's fiscal institutions were left weak, while tax reform attempts often failed or remain stagnant. According to Suberu (2001), these elite bargains together with a centralized rentier structure created a situation where states and local governments rely entirely on federal allocations i.e. the so called "derivation principle" and "sharing formula" because oil rents has disincentivized any effort for these entities to stress over generating their own revenue. This explains why Nigeria's political leaders choose to maintain the rentier logic as implementing a broad-based tax system would threaten their patronage networks, and it also requires a lot of political capital which they were not willing to risk.

In the case of Indonesia, the situation contrasts sharply. Under Suharto's regime, oil revenues contribute to almost 70% of government budget in the early 1980s (Mishra, 1995; World Bank, 1990), but as oils prices started declining in 1981, the political regime began building a more robust bureaucratic apparatus and started to pursue diversification through the 1983 tax reform which led to the introduction of a self-assessment system and also the bureaucratic restructuring of the Directorate General of Taxes (Ahmad et al., 2017). Democratization is another factor which is highlighted by Aspinall (2010), but its explanatory power is limited because even though both Indonesia and Nigeria democratized almost at the same historical moment, only Indonesia achieved substantial growth in tax effort.

Therefore, the real turning point for Indonesia was the 1983 oil price collapse where Indonesia's elites realized that oil rents are unpredictable and insufficient for their long-term development agenda. From reformist politicians to civil servants, all agreed to fundamentally change the fiscal relations structure. This was followed by the IMF-backed reforms of 1999-2001 after the Asian Financial Crisis which led to the fall of Suharto, thereby enabling decentralization, establish successive tax laws, built professional tax agencies, and also gave local governments a stake in raising revenue. As Ahmad et al. (2017) noted, Indonesia not only computerized tax collection and expanded transparency, it also reframed taxation as part of a social contract in the new democratic government. The political leaders who once used resources from rents to suppress unrest were faced with the need for taxes in other to fulfil their democratic promises and also reduce fiscal volatility. This marked the beginning of a gradual increase in Indonesia's tax-to-GDP ratio as the economy started diversifying beyond oil rents (Sharma, 2001; Resosudarmo and Kuncoro, 2006).

Put together, these contextual differences prove that structure is not destiny. The case of Nigeria demonstrates the classic rentier-trap at work, where pre-existing colonial legacies favored unearned rents, elites favored continuity, and the 1970s oil boom led to policy retrenchment. Conversely, Indonesia's trajectory illustrates how a rentier state was able to escape the so called "resource curse" through crisis-driven reforms and institutional layering. To put it in analytical terms, Nigeria's case shows how patronage entrench resource-dependence, while Indonesia's experience exemplifies how crisis met by a technocratic driven elite can alter a country's trajectory toward a different fiscal path.

2.4 Identified Gaps and Research Contribution

Even as extensive scholarship on rentiersim and taxation exists, there still lies significant empirical and theoretical gaps which needs to be addressed. The first concern is regarding the deterministic nature of rentier state theory which treats resource wealth as structural trap that automatically weakens tax effort and democratic accountability (Beblawi and Luciani, 1987). However, scholars like Walker (2023) have argued that this view often neglects temporal and strategic dynamics. In addition, the framework fails to explain why fiscal outcomes diverge among countries with similar resource endowments. Arief (2018) also made a similar proposition which mirrors the logic of this thesis. He argued that "rather than natural resource itself, it is the quality of institutions and government policies that determines the effect of natural resource rents on the economy" (Arief, 2018; p.1). A second gap is the lack of integration between political economy and institutional theory. The literature on fiscal sociology emphasizes on the developmental importance of taxation (Moore 2004; Tilly, 1990), while rational choice and historical institutionalism focus on incentives and sequencing (Pierson, 2000; Levi, 1988). However, few studies combine these two perspectives to examine how political choices interact with historical constraints to shape countries fiscal trajectories. The third gap is that there is relatively thin comparative literature on Nigeria and Indonesia. Although numerous works have analyzed Nigeria's rentierism (Watts, 2004; Lewis 2007; Suberu, 2001)) and Indonesia's post-1998 reforms (Ahmad et al. 2017; Lewis, 2007; Sharma, 2001; Resosudarmo and Kuncoro, 2006), few studies place them in direct comparison in other to illuminate their variation in fiscal reform under similar structural conditions.

Therefore, this study aims to contribute in two important ways. First, the study will theoretically extend rentier state theory by introducing the Political Coalition Incentive Model (PCIM), which will allow for a more robust explanation as to why some rentier states remain entrenched in rent-dependence, while others choose to diversify their revenue sources. Secondly, the study will empirically compare Nigeria and Indonesia to demonstrate that resource wealth alone does not predetermine under-taxation. Rather, fiscal outcomes in rentier states are influenced by the nature of political coalitions and economic crises which serve as critical junctures that induces elites to make policy decisions which will ensure their political survival under new incentives and constraints. Put together, the body of literature reveals that persistence of under-taxation in resource-rich countries cannot be fully understood via the lens of rentier logic alone. An adequate and plausible explanation requires paying attention to the temporal dynamics of institutions and the strategic agency of political actors. By so doing, this study not only revisits, but also redefine the analytical terrain of rentier state theory.

CHAPTER III

THEORETICAL FRAMEWORK

This study seeks to explain the variation in fiscal outcome of Nigeria and Indonesia despite both countries being exposed to similar structural shocks. The classic rentier-state literature predicts both countries to have remained trapped in low-tax effort and high rent dependence. However, while the case of Nigeria inarguably conforms to this prediction, the case of Indonesia on the other hand provides us with a variation. In order to account for this divergence, I develop the Political Coalition Incentive Model (PCIM), which is a framework that brings together insights from historical institutionalism and rational choice theory, as none of the theories on their own can be able to fully explain the puzzle at hand. The PCIM predicts that the nature of the ruling political coalition present at a given critical juncture, determines whether elites will diversify towards taxation as an alternative revenue source or delve towards borrowing and continued rent dependence. In the case of this study, economic crisis serves as a critical juncture which destabilizes or reshape existing political arrangements, where elites are induced to evaluate their incentives and constraints in order to come up with an alternative revenue strategy that best ensures their political survival. Based on my unified framework, I argue that resource wealth alone does not determine fiscal outcome. Rather, fiscal policy direction in times of a destabilizing economic crises largely hinges on the nature of the ruling political coalition and how they perceive and respond to the crises within the constraints of inherited institutions. The same resource wealth can produce a different fiscal outcome, depending on the incentives and constraints faced by elites during periods of economic crises.

3.1. Historical Institutionalism and Critical Junctures

The existing scholarship on historical institutionalism argues that institutions are shaped by formative moments in history 'critical junctures', during which existing political arrangements are tampered with, thereby inducing elites to adopt new policies and strategies. These formative moments introduce what Paul Pierson (2000) refers to as 'path dependence', a scenario whereby once a new policy is institutionalized, it becomes increasing difficult or costly to reverse, as bureaucratic routines, vested interests, and policy expectations become entrenched overtime (Pierson, 2000; Mahoney & Thelen, 2009). In the case of both Nigeria and Indonesia, the 1980s oil price collapse served as a critical juncture where institutional constraints loosen, thereby presenting multiple fiscal paths. Nonetheless, critical junctures alone do not determine which policy path a particular country will opt for and why. The collapse of oil revenues in the 1980s opened up avenues sourcing alternative revenue to cushion the effect. However, elites in Nigeria and Indonesia responded in a starkly different way, thereby leaving us with a lingering question of *why?*

Historical institutionalism just helped us to identify why early events matter, but the theory doesn't provide with an explanation as why Nigeria remained locked into low-tax equilibrium, while Indonesia diversify towards taxation. This calls for the need to incorporate political agency and elite incentives in order to have a comprehensive understanding the dynamic.

3.2. Rational Choice Theory and Elite Fiscal Calculations

The prominent scholars of rational choice theory strongly holds the premise that elites always adopt strategies that best maximize their interests and prospects for survival, stability, and control (Levi, 2009; Bueno de Mesquita et al., 2003). This vantage point of view is central to contemporary taxation politics literature, which emphasizes that taxation is not simply and economic choice, but also apolitical one. This line of argument holds sway because taxation imposes direct costs on citizens, invites public scrutiny, and also provokes resistance from influential social groups. As such, political elites always try to weigh their options and adopt policies that will best ensure their political survival, coalition cohesion, and access to discretionary funds. In this case, taxation becomes a double-edged sword as it can serve as a stable long-term revenue source, but also invokes scrutiny, increased societal demands, and constraints to elites' discretion towards commandeering of public funds. Based on the premise of rational choice theory, elites will only adopt taxation when its benefits to their regime survival largely surpasses the political costs. It is in lieu of this logic I argue that taxation only becomes a viable option when elites are faced with conditions that makes rents insufficient and borrowing political or economically untenable. Conversely, in a situation where rents and external borrowing can sustain political order without igniting broader societal dissent or calls for accountability, elites will rationally avoid taxation because it presents political risks without clear survival benefits. Therefore, rational choice theory adds a dynamic component to historical institutionalism. It explains why elites choose certain fiscal paths over the other.

3.3. The Political Coalition Incentive Model: A Unified Approach

By integrating insights from rational choice theory and historical institutionalism, my Political Coalition Incentive Model predicts that fiscal divergence arises from two interacting mechanisms: 1. Severe economic crises serve as a critical juncture which generate "fiscal choice points", thereby altering the existing incentives and constraints facing elites. 2. Depending on the type of political coalition present, elites adopt a fiscal strategy that best preserves their political survival under new conditions. Where an economic crisis disrupts the rentier equilibrium and the political coalition present is a broad and reform-oriented coalition composed of technocrats, elites may be pushed toward building a strong tax system as decentralization and long-term economic development plans requires stable revenue streams and rule-based fiscal transfers. Under these conditions, taxation becomes a survival-enhancing strategy. While in a situation where such devastating economic crisis occurs, but the political coalition present are largely patronage-based and clientelist in nature, taxation is considered as politically costly as it risks provoking public resistance and disruption of patronage networks which affects coalition cohesion. Under these circumstances, elites will rationally avoid the political hazards of taxation by choosing to maintain rentierism, entrenchment of rent dependence and seeking for alternative sources of revenue that will not constrain their political discretion.

3.4 Research Hypothesis

Based on this combined theoretical logic, the Political Coalition Incentive Model argues that variation in fiscal outcomes among resource-rich states is primarily explained by the incentive structure of the ruling political coalition during periods of severe economic crisis. Therefore, the **dependent variable** is **fiscal outcome** which is conceptualized as the degree of fiscal institutional development and operationalized through a state's diversification towards taxation or entrenchment of resource dependence. While the **independent variable** is the **nature of the ruling political coalition,** which is conceptualized as the ruling political authority responsible for determining a state's fiscal strategy. Political coalitions are classified into two types: a) **patronage-based coalitions**, whose political survival depends heavily on the distribution of resource rents through clientelist networks, and b) **technocratic coalitions**, whose survival hinges on providing public goods, ensuring macroeconomic stability, and economic growth.

Therefore, the central hypothesis proposed in this thesis is that:

H1:

In resource-rich states, severe economic crises functions as a critical juncture that disrupts the existing rentier equilibrium, thereby pushing elites to transition toward taxation as a rational political survival strategy. Where an economic crisis disrupts the existing political arrangement and the political coalition present at that given period is technocratic in nature, these political elites are more likely to diversify towards taxation as an alternative source of revenue because their survival and long-term economic development agendas are hinged on predictable revenue stream, macroeconomic stability, and programmatic provision of public goods. When rents collapse and legitimacy is in question, taxation becomes necessary to build state-society relations, restore revenue stability, and ensure state capacity.

H2:

In the advent of a similar destabilizing economic crisis but the political coalition present constitutes patronage-based elites who are anchored towards access to resource rents and its distribution, these political elites are more likely to avoid transitioning towards taxation because it threatens coalition cohesion, provokes public dissent, and brings about demand for accountability and transparency which undermines elites' discretion towards spending. Instead of building tax capacity, this type of political coalition would rather prefer external loans and continued access to rents because they perceive taxation as politically *costly and threatening to patronage-based survival models, thereby leading to the entrenchment of rentierism.*

3.5 Conceptualizing Political Coalitions

I define political coalition as the set of elites whose support is needed to keep a regime in power. According to Riker (1962), rational political leaders tend to form winning coalitions just large enough to ensure winning and no larger. In modern authoritarian theory, Bueno de Mesquita et al. (2003) formalize this as the selectorate theory where leaders survive by maintaining a winning coalition of key supporters. Small winning coalitions which are common in personalist or military regimes enable leaders to stay in power by distributing private benefits to a narrow circle, while large winning coalitions which are most typical in democracies tend to oblige leaders to provide public goods and broad economic growth. Following a similar argument, North, Wallis, and Weingast (2009) argued that most states are "limited access orders" where elites sustain order and consolidate power by distributing rents. Therefore, when coalitions are built on the foundation of rents extraction and distribution, institutions and provision of public goods become weak by design (North et al, 2009). By contrast, when coalitions legitimacy rests upon performance, it creates incentives for building effective state institutions and revenue streams (Slater, 2010).

In other words, coalition incentive structures embody elites' motives for political survival. In patrimonial coalitions, loyalty is often bought with state resources. Therefore, taxation which brings demands for accountability and representation is considered as politically costly. Whereas in technocratic coalitions, elites' survival rests on economic success and regime legitimacy, which makes establishing a broader tax base and strong fiscal institutions worthwhile. The theoretical insights outlined above underlies the Political Coalition Incentive Model. They tell us to look at which elites hold power and how they keep it.

3.6 Patronage-Based Coalitions: Nigeria

Nigeria's coalitions have historically been deeply patrimonial and clientelist in all ramifications. From several military regimes to the Fourth Republic, the power of elites in Nigeria has for a long time depended on broad cross-cutting coalitions built through ethno-regional balancing and rent distribution. A classic depiction of this scenario is Richard Joseph's concept of prebendal politics, where "occupants of public office at all levels feel that their positions entitled them to unbridled access to public resources for selfish private ends" (Joseph, 2013, p.7). Simply put, public offices are treated as personal prebends and politicians serve their co-ethnics and clients. This prebendalism is a form of neopatrimonialism where loyalty flows to the patron who allocates benefits from the state treasury. In his article titled "*Patrimonialism and Military Regimes in Nigeria"*, Ikpe (2000) noted how these regimes are characterized by patron-client administrative networks and absence of separation between the public and private realms (p.146).

In addition, federalism and deep ethnic cleavages have played a significant role in deepening these clientelist incentives. For instance, Nigeria's constitutional system requires "federal character" balancing where each major ethnic or regional bloc must be rewarded with a share of power. This induces presidents and generals to assemble winning coalitions by co-opting key state governors, party elites, and military leaders from each zone (Suberu, 2001). With massive oil windfalls in the 1970s and 1980s, rents distribution was quite easy. Wealth was built on the foundation of rents extraction and distribution, institutions and provision of public goods become weak by design (North et al, 2009). By contrast, when coalitions legitimacy rests upon performance, it creates incentives for building effective state institutions and revenue streams (Slater, 2010).

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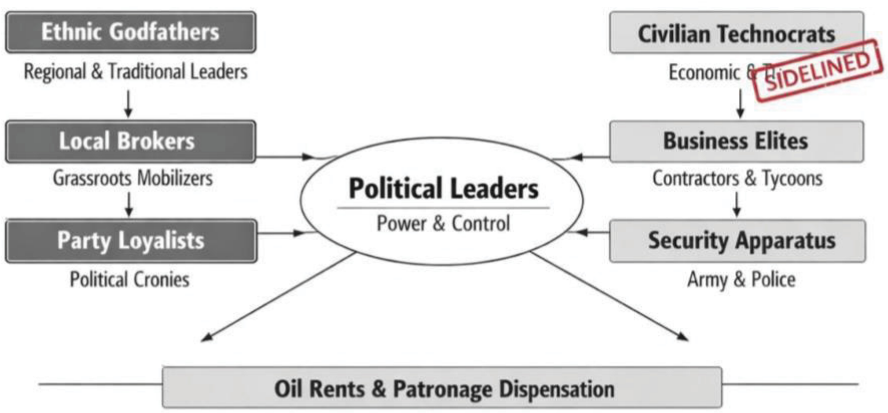
This patronage logic gives structure to Nigeria's coalitions. Ruling coalition's typically include all major tenets of power. For example, ethno-regional "godfathers" and party bosses deliver votes to the regime, traditional and local leaders legitimize politicians in their communities, security and military chiefs control dissent and ensures regime security in exchange for spoils, civilian party loyalists and bureaucrats manage the day-to-day distribution of patronage, while business cronies and contractors win government contracts and import licenses in exchange for their support. In practice, political leaders assemble a *rainbow* coalition spanning the North, South, and every major ethnic group because no single bloc can dominate Nigeria's divided polity. As Suberu (2001) highlighted, the internal coalitions of political parties in Nigeria are frequently sealed through patronage networks, with positions and resources allocated to coalition members. In the same vein, Ikpe (2000) also noted that under military regimes, even top officials "acted as if they were provincial chiefs in a decentralized political order" (p.153). Civilian technocrats have usually remained subordinate within this structure: although occasionally recruited for administrative credibility or crisis management, they rarely control the coalition's core logic because fiscal and policy decisions are ultimately filtered through prebendal, federal-balancing, and rent-sharing imperatives rather than insulated developmental planning (Lewis, 2007).

At the apex of this coalition structure sits the military head of state or an elected president, whose survival and authority hinges on continuously renewing the loyalty of the coalition's pillars rather than commanding them outrightly. For example, ethnic godfathers and traditional rulers anchor the base of the coalition pyramid, thereby converting local legitimacy and communal loyalty into votes and acquiescence, which they exchange for a share of federal largesse channeled to their zones (Suberu, 2001). Party brokers occupy the connective tissue between center and periphery by translating the president's need for a winning coalition into concrete distributive bargains with governors, who in turn take charge of the control for state-level patronage distribution, hence, serving as the president's indispensable regional lieutenants (Osaghae, 1998). Security chiefs are usually closest to the apex because the military ruler serve as the head of state, whereas if it is a civilian regime, the president non-negotiably holds the position of Commander in Chief of the Armed Forces (C-in-C). This ensures the coalition's survival against rivals and coups in exchange for privileged access to contracts and promotions. Lastly, contractor's and business elites complete the family tree by financing patronage networks while receiving licenses and public contracts in return. By contrast, civilian technocrats remain largely outside this bargaining structure. Although they are occasionally elevated for administrative competence, they hold no independent political base and are sidelined whenever their policy advice conflicts with the coalition's distributive imperatives (Lewis, 2007)

In a nutshell, Nigeria's coalitions have been and continue to be held together by personal loyalties and the promise of access to oil money, not by shared ideology or programmatic policies. Crucially, this logic provides the imperative for Nigeria's fiscal strategy because ruling coalition's survive by allocating oil rents. In a patronage dominated regime like that of Nigeria, raising taxes would be unpopular to the public and dangerous for elites who fear that fiscal reform could weaken their clientele base. Therefore, we expect taxation to remain weak and rent dependence to persist when coalitions are patronage-based.

Figure 3.1 Nigeria's Patronage-Based Political Coalitions Structure



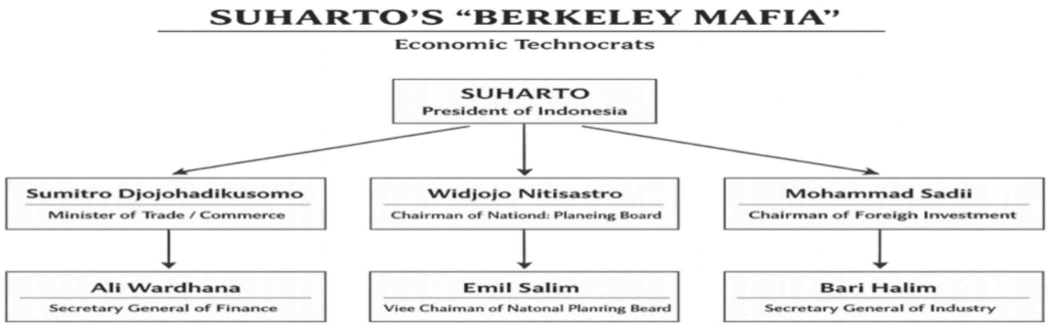
3.8 Patronage-Technocratic Coalition: Indonesia

By contrast, Suharto's New Order regime in Indonesia (1968-1998) devised a dual-structured coalition that makes up a blend of military-authoritarian control with a cadre of civilian technocrats. A key pillar of this coalition was the Golkar Party, Suharto's functional party. After the 1965 attempted coup, Suharto took-over power from President Sukarno and built a corporatist coalition where civil servants were forced into the government union Korpri, workers into the single union SPSI, businesses into the chamber KADIN, including women and press associations which were all linked to the Golkar Party. In effect, Golkar bounded state organizations, businessmen and social groups under the regime's umbrella.

Meanwhile, the military (ABRI) was able to retain its *dwifungsi* (dual function) role as both defender and political ruler. Effectively, the ABRI represented the oppressive arm of the New Order, hence rendering them indispensable coalition partners and patrons of the regime.

At the same time, Suharto co-opted civilian economic elites into his coalition. He appointed a team of U.S.-trained economists popularly known as the “Berkely Mafia”, in order to run economic policy. In 1968, Suharto’s “Development Cabinet” included Sumitro Djojohadikusomo as Minister of Trade/Commerce, Widjojo Nitisastro as Chairman of the National Planning Board, Emil Salim as the Vice Chairman of the National Planning Board, Ali Wardhana as the Secretary General of Finance, Mohammad Sadli as the Chairman of Foreign Investment, and Bari Halim as the Secretary General of Industry (Ransom, 1970). These technocrats were carefully selected and tasked with a single objective, to control fiscal and monetary policy with an eye toward stability and growth (Ransom, 1970). Throughout the 1970s and 1980s, their policies steered Indonesia toward export-oriented development and built up state capacity and in return, Suharto granted them technocratic autonomy over fiscal policy.

Figure 3.2 Orientation of Suharto’s Technocratic Core



This faction of Suharto’s coalition was developmentalist in two senses. First, Suharto’s legitimacy rested on economic performance. As such, the regime’s stated goal was rapid development and delivery of tangible growth and infrastructure. According to an article published on Indonesia Investments, “The legitimacy of Suharto's authoritarian rule lay primarily in the economic development that took place during its reign". Therefore, elites in his coalition had incentives to maintain macroeconomic stability and investment-friendly policies. In particular, they had incentives to build tax capacity because a broad tax base signals both sophistication and an alternative revenue stream for financing development projects. Second, the technocrats were relatively bureaucratically insulated as they operated under the Golkar Party even though they themselves were not elected politicians. In effect, the Golkar Party functioned more as a state-organized mass association than a typical vote-maximizing party. Under the Golkar, civil servants and military officers were expected to support the regime, while dissent was repressed. This depoliticization meant that technocrats could focus on long-term planning rather than spoils for short-term gains, hence indicating Indonesia's time-horizon advantage during Suharto's era over Nigeria's frequent coups.

Nonetheless, Suharto's coalition also rewarded loyal crony capitalist. The regime dispense patronage to generals and granted lucrative licenses and bank loans to a few well-connected elites. Richard Robison (1986) noted how Chinese conglomerates benefitted from protective policies, thereby enabling them to serve as the main social forces dominating the private sector under Suharto. In practice, this meant that major business tycoons who backed Suharto often through family ties or shared ethnicity, formed another pillar of the coalition. The military and business elites were given stakes in the economy, but only insofar as it did not disrupt growth.

Figure 3.3 Indonesia's Dual-Structured Political Coalition

Therefore, Indonesia's coalition under Suharto was a combination of routinised patronage with meritocratic technocracy. Crucially, political survival in this model depended on economic success, "a steady as she goes" development strategy (Crouch, 1979). As such, we expect Indonesia's dual structured coalition to produce strong incentives for the institutionalization of taxation.

3.9 Coalition Incentives and Expected Fiscal Outcomes

In sum, the Political Coalition Incentive Model predicts diverging fiscal strategies under moments of crisis, depending on the coalition type. Patronage-based coalitions will maximize political survival by allocating rents while crises pushes them to preserve or even expand rent extraction via oil and borrowing rather than diversifying towards taxes. Conversely, technocratic coalitions will maximize survival by demonstrating performance legitimacy as crises pushes them to source for alternative source of revenue in order to finance development plans. Therefore, where an economic crisis such as oil price collapse or debt shock creates a fiscal choice point, a patronage coalition will tend to double down on rent or external borrowing, whereas a coalition that has a technocratic core will seek for tax reforms and revenue diversification. To restate the hypothesis, controlling for crisis, coalition type (IV) determines whether a state shift towards taxation or remain rent-dependent, hence determining the fiscal outcome (DV). The flow chart below depicts the causal path from the Political Coalition Incentive Structure through crisis to the fiscal outcome, while empirical chapters assess these variables through a comparative historical analysis, examining how coalition incentives influenced fiscal policy choices during periods of economic crisis.

Figure 3.4 Argument flow

THE POLITICAL COALITION INCENTIVE MODEL (PCIM)

CRITICAL JUNCTURE

(Economic Crisis)

Question: What is the nature of the ruling political coalition present at that given time?

▼

POLITICAL COALITIONS

Coalition type shapes elite incentives regarding alternative revenue source.

▼ ▼

Patronage Coalition | **Technocratic - Coalition**

(Elite evaluates survival strategy under new conditions)

▼ ▼

| Fiscal Choice |
Avoidance of Taxation

- Taxation is politically costly
- Rents and loans preferred
- Protects elite discretion

| Fiscal choice|
Taxation as a Survival Strategy

Need predictable revenues
Build state legitimacy
Strengthen Fiscal Capacity

▼ ▼

| OUTCOME |

- Patronage Politics
- Oil Federalism
- Political Settlements
- Low tax effort

| OUTCOME |

Institutionalization of tax reforms
Decentralization
Broad-based tax system
non-oil revenue growth

▼ ▼

| Fiscal Trajectory:
Rentier Fiscal State

Fiscal Trajectory:
Tax-Based Fiscal State

CHAPTER IV

METHODOLOGY AND RESEARCH DESIGN

This study employs a comparative historical analysis to trace how Nigeria and Indonesia, two postcolonial, resource-rich states with similar structural characteristics arrived at sharply divergent fiscal outcomes. The central objective is to uncover and evaluate the causal mechanisms through which economic crisis serve as a critical juncture that produces distinct political coalitions which induces elites to make strategic fiscal policy decisions that ensures their political survival. While the analysis is qualitatively driven, the study will complement this historical narrative with descriptive statistical illustrations of tax-to-GDP ratios, resource rents-to-GDP ratio, and oil and tax revenue composition as a percentage of total government revenue. These statistical trends do not serve as inferential tools but function strictly as empirical anchors to support and corroborate the qualitative findings.

The study employs process tracing to test the hypotheses derived from the Political Coalition Incentive Model. Our aim is to develop a comprehensive mechanism-centered understanding of why two countries with comparable initial conditions produced different fiscal trajectories. Process tracing is well suited for this task because it allows for the reconstruction of sequences of decisions, shocks, and institutional developments that connect initial conditions to observed outcomes. It also enables the identification of the precise points at which new coalitions where produced, how elites faced new incentives, and how these new incentives or constraints translated into institutional choices around taxation. A most-similar systems design (MSSD) underpins the rationale behind my case selection. In other words, I am attempting to understand different outcomes in comparable political, social, and economic contexts.

Table 4.1 Case Selection and MSSD Justification

Variable	Case 1 Nigeria	Case 2 Indonesia	Different or Similar	Note
Colonial legacies	British colonial rule	Dutch colonial rule	**Similar**	
Authoritarian episodes	Military rule and prolonged authoritarian periods (e.g., 1966–1999)	Authoritarian Rule Under Suharto's New Order regime (1967–1998)	**Similar**	
Historical Dependence on Resource Rents	Heavy dependence on crude oil exports; oil rents dominate state income	Historical Reliance on oil and gas revenue	**Similar**	
Democratization	Transitioned to democratic governance in 1999.	Transitioned to Democracy in 1998.	**Similar**	
Political Coalitions	Patronage-based coalition organized around access to resource rents and its distribution.	A dual-structured coalition of patronage/technocratic elites under Suharto. The patronage coalition ensures political support, while the technocratic coalition secure legitimacy through provision of development and maintaining macro-economic stability.	**Different**	The different causal factor (X), serving as the suspected cause
Fiscal Outcome	Persistent under-taxation and continued rent-dependence; oil rents still form majority of government revenue.	Diversified towards taxes by strengthening fiscal institutions and broadening the tax base. Taxes now form majority of government revenue.	**Different**	Key Divergent Outcome (Y)

Source: Author's- derived from Skocpol and Somers (1980)

4.1 Operationalization of Variables

In this thesis, the dependent variable, which is **fiscal outcome**, is measured through several observable indicators including the composition of tax revenue and oil revenue to total government income, tax-to-GDP ratio, natural resource rents as percentage of GDP, and other broader measures of fiscal capacity. Put together, these indicators capture the extent to which a state is diversifying away from resource dependence toward taxation or remain entrenched in rentierism. While the independent variable which is **political coalition,** is operationalized based on the dominant incentive structure underlying elite political survival. For instance, patronage-based coalitions are characterized by their distribution of rents through clientelist networks, personalized political authority, and limited incentives to expand taxation. Whilst technocratic coalitions are characterized by their incorporation of professional economic technocrats into policymaking, prioritization of macroeconomic stability and long-term development, including having greater incentives to institutionalize taxation as a predictable alternative source of state revenue.

Figure 4.1 Causal Framework

4.1 Analytic Strategy

The core of my analysis uses process tracing to identify whether the causal mechanism predicted by the PCIM is observable in each case. The process tracing is carried out in three stages:

Stage 1: Identifying Critical Junctures

For both Nigeria and Indonesia, I will look into the following.

	Nigeria	Indonesia
1.	1970s oil boom	1970s oil boom
2.	1980s oil price collapse	1980s oil price collapse
3.	1986 Adoption of Structural Adjustment Program (SAP)	1983 tax reform
4.	(1999) Democratization	1997-98 Asian Financial crisis + Democratization
5.	Legacy	Legacy

I will first examine whether major shocks such as the 1970s oil boom, the 1980s oil price collapse altered existing rentier equilibrium and how the nature of political coalitions present at the time shape their choices towards a certain fiscal path over the other.

Stage 2: Mapping Elite Political Incentives

Next, the I will trace how elites interpreted these shocks and how the need to sustain patronage networks by patronage-based elites or the need to have a predictable revenue source and maintain fiscal stability by technocratic elites, influences their strategic choices regarding taxation. The goal is to determine whether during these periods' elites perceived taxation as a survival-strategy or a survival-threatening issue.

Stage 3: Assessing Path Dependence

Lastly, I will examine whether the early decisions made at those critical junctures created enduring institutional trajectories that became path-dependent through bureaucratic routines, vested interests, revenue systems, and distributive politics. This will illuminate how commitments to taxation or oil dependence became self-reinforcing over time.

4.2 Data Collection Methods

This study adopts a document-based research strategy which is consistent with the process-tracing method outlined in the previous section. Because the analysis seeks to reconstruct both the quantitative fiscal trajectories of Nigeria and Indonesia, including the qualitative political-coalition dynamics that shaped them, data collection draws on three complementary categories of sources: official statistical and government records, internationally standardized institutional data, and secondary scholarly and historical literature. No new data is generated through fieldwork or interviews as the research solely relies on documentary evidence.

Official Government Sources: Quantitative indicators used to operationalize the dependent variable, namely the tax-to-GDP ratio, composition of oil vs. non-oil revenue, and natural resource rents as share of GDP are drawn primarily from national statistical and fiscal authorities. For Nigeria, this includes the National Bureau of Statistics, the Federal Inland Revenue Service, the Central Bank of Nigeria's statistical bulletins, and the Nigeria Extractive Industries Transparency Initiative (NEITI). While for Indonesia, the equivalent sources are the Ministry of Finance, the Directorate General of Taxes, BPS-Statistics Indonesia, Bank Indonesia, and PT Pertamina's public reporting. These sources provide the empirical backbone for tracing each country's fiscal composition across the critical junctures under study.

International Institutional Sources: In order to supplement and cross-verify national statistics, which for the 1970s to 1990s period are not always internally consistent or complete, this study also draws on internationally standardized datasets, including the World Bank's Word Development Indicators (WDI), the IMF's Government Finance Statistics and historical Article IV consultation reports, and the OECD's Revenue Statistics in Asia and Africa series. Where national and international figures diverge, the analysis privileges internationally standardized series for cross-case comparability, while treating the divergence itself as a data point on the political economy of statistical reporting.

Secondary Scholarly and Historical Sources: With regards to the qualitative dimension of the analysis, tracing elite incentive structures, coalition composition, and the sequencing of political decisions around each critical juncture, relies on secondary scholarly literature, including peer-reviewed articles on Nigeria and Indonesia, as well as country-specific historiography of the periods under study. This is also supplemented by contemporaneous media archives and policy commentary, which capture the public and elite narratives surrounding fiscal reform debates as they unfolded, and also by grey literature such as think-tank and multilateral policy reports which provide retrospective institutional assessments of reform episodes.

Triangulation and Data Reliability: Given the well-documented limitations in the completeness and reliability of historical fiscal data for both countries, this study addresses potential inconsistencies through source triangulation. For example, qualitative claims are cross-checked across at least two independent sources wherever possible, while quantitative claims about elite motivation are corroborated using multiple secondary accounts rather than a single historiographical interpretation. This approach is intended to strengthen the internal validity of the process-tracing analysis, while remaining transparent about the evidentiary limits inherent in a comparative-historical analysis spanning five decades.

CHAPTER V

HISTORICAL FOUNDATIONS OF FISCAL INSTITUTIONS IN NIGERIA AND INDONESIA

In order to get a comprehensive understanding of the contemporary developments of taxation and fiscal capacity in both Nigeria and Indonesia, this endeavor calls for situating both cases within their historical institutional contexts. Crucially, it is important to note that fiscal institutions are rarely constructed abruptly. Rather, they usually emerge through gradual processes which most of the time are shaped by colonial legacies, patterns of state formation, including early development strategies. Although Nigeria and Indonesia share several structural similarities which comprises of colonial histories, natural resource wealth, large population, and extensive periods of postcolonial authoritarian regimes, the institutional foundations of their fiscal systems pathways sharply during the decades preceding the first oil boom of the early 1970s. As such, these early institutional differences have to some certain extent, played a crucial role in creating distinct constraints and incentives for political elites, which later ultimately shaped the trajectory of fiscal development in both countries.

This chapter provides an overview of the historical foundations of fiscal institutions in Nigeria and Indonesia spanning from the late colonial period through the early decades of independence. The chapter will also delve into the two critical dimensions of institutional formation which includes colonial fiscal legacies and early post-independence development strategies. Put together, these two factors established the baseline upon which later fiscal choices were determined.

5.1. Colonial Legacies and the Formation of Fiscal Structures

Colonialism played a key role in shaping the foundations of early fiscal institutions in both Nigeria and Indonesia. But nonetheless, the administrative priorities of the British and the Dutch colonial rule produced different institutional configurations which continued to shape fiscal governance in both countries even after independence. In the case of Nigeria, the British colonial powers relied heavily on indirect governance through regional authorities and traditional rulers. During this period, the state was relatively decentralized and fiscally limited because attention was more on export duties and custom duties instead of establishing a comprehensive domestic tax system. While this approach was helpful in minimizing administrative costs, it also resulted in weak fiscal bureaucracy and limited institutional capacity for revenue extraction (Forrest, 1995). The British colonial powers placed little to no emphasis on developing a centralized tax system, thereby resulting in the fragmentation of revenue collection across the various regions of the colony. In addition, indirect rule also reinforced regional fiscal autonomy in Nigeria. The British colonial fiscal administration divided the territory into three major regions which included the North, West, and the East, with each region having its own fiscal authority. As a result, the revenue systems in the country were developed unevenly and incoherently, thereby allowing regional governments to rely on local taxes and agricultural marketing boards. Diamond (1988) pointed out how this decentralized fiscal structure laid the foundation for the federal fiscal arrangements that emerged in post-independence Nigeria.

On the other hand, the Dutch colonial administration established a more centralized bureaucratic apparatus in Indonesia. Notwithstanding the fact that the Dutch colonial powers were primarily interested in resource extraction, they however also invested heavily in administrative capacity and bureaucratic control. For example, the Dutch colonial government established extensive for monitoring agricultural production and collecting revenues, especially during the 19th century Cultivation System period (Ricklefs, 1993). Although this Dutch system primarily extracted agricultural surplus instead of conventional tax systems, it also required a centralized administrative apparatus that would be capable of coordinating economic activity across the Indonesian archipelago. This institutional foundation of a centralized administration proved important after independence. Post-independence, Indonesia inherited a relatively cohesive bureaucratic structure that could be mobilized to implement economic policies and manage revenue flows. While it is important to note that the fiscal system remained limited during the early years of independence, the presence of a functioning central bureaucracy provided the foundation upon which later fiscal reforms were built (Hill, 1996).

Therefore, both countries inherited similar colonial fiscal systems which were oriented primarily towards resource extraction rather than broad-based taxation. However, Nigeria inherited a fragmented fiscal structure that was shaped by regional autonomy and limited bureaucratic capacity, while Indonesia was fortunate to have entered independence with a relatively stronger administrative apparatus. Under the Dutch rule, the Indonesian archipelago was governed as a single administrative unit, building a centralized civil service and budget system (Ricklefs, 1993; Hill, 1996). However, colonial Nigeria under the British rule relied on indirect rule and regional marketing boards. The British colonial powers collected most of their revenue through customs duties and commodity levies, while leaving province-based agencies and traditional rulers to manage local taxes. In consequence, post-independence Nigeria's federal government inherited a much weaker revenue system than that of Indonesia. In Nigeria, each region already has its own fiscal base (e.g. cocoa and groundnut boards), while in Indonesia, the new central government was able to build upon the Dutch-era Ministry of Finance and customs service (Hill, 1996). These colonial-era institutions set the stage for the later development of fiscal institutions in both countries. Indonesia had the skeleton of a unified tax bureaucracy, while Nigeria's politics remained heavily fragmented by region and ethnicity (Forrest, 1995).

5.2 Post-Independence Fiscal Trajectories

Following independence in the early 1960 and 1945 respectively, both Nigeria and Indonesia faced a common challenge of building national economies while consolidating political authority. During this period, fiscal policy became a central instrument in these efforts, however, the political contexts of these two countries produced different institutional trajectories.In Nigeria, 1960 marked the year of independence which was accompanied by the continuation of a federal political system that reinforced regional competition for resources. Political leaders heavily relied on distributive policies to maintain support among regional constituencies, while fiscal institutions were often subordinated to political considerations. During this period, government revenues were largely derived from agricultural exports such as cocoa, palm oil, and groundnuts. However, as Bevan et al., (1999) noted, these revenues were administered through marketing boards which controlled commodity prices and generated significant surpluses for the regional governments. Although the marketing boards provided an important source of revenue, they also reinforced the decentralization of fiscal authority in the sense that regional governments retained considerable control over economic resources, thereby limiting the development of a strong central fiscal state. In addition, political competition among regions is noted to have frequently translated into disputes regarding revenue allocation, further complicating efforts to construct coherent national fiscal institutions (Forrest, 1995).

In Indonesia, the early post-independence period was marked by political instability and economic mismanagement, especially during the Guided Democracy era under President Sukarno. Fiscal policy during this period was characterized by large budget deficits, monetary expansion, and weak administrative control. By the mid-1960s, the Indonesian economy was experiencing severe inflation and fiscal collapse (Hill, 1966). However, the political transition that followed the fall of Sukarno in 1965 created the conditions for significant institutional reforms in Indonesia.

Under President Suharto's New Order regime, a small circle of economic technocrats was granted considerable leeway to stabilize the economy and rebuild fiscal institutions (Lewis, 2007). These technocrats who later became known as the "Berkely Mafia" were western trained economists that used the authority granted to them by Suharto to pursue policies aimed at restoring macroeconomic stability, including fiscal discipline and improved revenue administration (Wardhana, 1998). The technocratic orientation of the New Order government facilitated the gradual strengthening of fiscal institutions. The Ministry of Finance became a key center of policy coordination, and the government began implementing reforms to stabilize the economy. Although oil revenues soon became the dominant source of government income, the institutional framework for fiscal governance in Indonesia was more centralized and coherent than in Nigeria.

By the late 1980s, both Nigeria and Indonesia had experienced periods of oil-driven economic expansion which was followed by significant fiscal stress as a result of the 1980s oil price collapse. Yet, the institutional foundations of their fiscal systems evolved in different directions. Therefore, the historical evolution of fiscal institutions in these countries reveals the importance of early institutional conditions in shaping later fiscal policy choices. Colonial administrative structures and post-independence political arrangements played a prominent role in creating distinct institutional trajectories that constrained and enabled different fiscal pathways. These divergent historical foundations set the stage for the contrasting fiscal trajectories I will examine in the following chapters. Understanding these institutional origins is essential in order to explain why and how Nigeria remained heavily dependent on resource rents and other alternative revenue sources such as external loans, while Indonesia was able to eventually pursue strategies that were aimed at relatively strengthening taxation and fiscal capacity.

Having provided an overview of the foundations of fiscal institutions in both Nigeria and Indonesia, the following two chapters will discuss in greater detail the evolution of politics, institutions, economic policy, and performance in each of the two countries at the center of our concern.

CHAPTER VI

CASE 1- NIGERIA: OIL, CRISIS, PATRONAGE, AND FISCAL COLLAPSE

Nigeria's trajectory of fiscal development cannot be fully understood without situating it within the broader political economy of oil dependence and coalition politics. Ever since the discovery of oil in the Niger Delta during the late 1950s and the subsequent oil boom of the early 1970s, the finances of Nigeria have been significantly shaped by hydrocarbon revenues. As global oil prices surged in 1973, rents from the oil sector rapidly became the dominant source of government income, thereby transforming the fiscal structure of the state and reshaping incentives facing Nigeria's political elites. By the mid-1970s, oil revenues accounted for an overwhelming share of federal income, hence, enabling the Nigerian state to expand public expenditure while simultaneously weakening the incentives for building strong tax systems (Bevan et al., 1999; Lewis, 2007). Consequently, Nigeria evolved into one of the world's prominent examples of a rentier political economy in the developing world, where the state relies primarily on externally generated rents rather than revenue generation through domestic sources like taxation or production activity.

From a political vantage point, this fiscal transformation coincided with the emergence of a patronage-based political system. Scholars of Nigerian politics have for a long time emphasized on how the distribution of oil rents became the central mechanism through which Nigeria's ruling elites maintained political support and managed opposition (Joseph, 1987; Diamond, 1988; Osaghae, 1998). Richard Joseph's concept of *prebendalism* is particularly useful here. He described it as a system in which public offices are treated as avenues for distributing state resources to supporters and ethnic constituencies (Joseph, 1987). While Peter M. Lewis further emphasized that "In the prebendal system, state officials treat their positions as personal sinecures, and politicians' appropriate public resources for personal and communal gain. This is contrasted with a more cohesive patronage system or political "machine" in which distributional politics serve longer-term strategies of political dominance and organization building" (Lewis, 2007; p.154). He further argued that "Prebendalism is distinguished by its diffuse character and by the precedence of short-term distributional pressures to sustain political compliance. These factors undermine the formation of stable institutions and work against long-term political and economic strategies" (Lewis, 2007; p. 154). In this type of system, the fiscal structure of the state is not merely an economic institution, but also a political instrument which is employed to sustain elite coalitions. Importantly, oil revenues provide the financial basis for such system, allowing successive regimes including both military and civilians alike to distribute patronage without having to go through the politically costly process of taxing citizens.

In this chapter, I examine how the interaction between resource wealth, economic crisis, and elite incentives influenced the stagnation of Nigeria's fiscal institutions beginning from the 1970s oil boom period through to the present democratic era. With the employment of a temporal sequencing approach, this chapter will trace critical periods in history and how decisions made during these periods profoundly shaped Nigeria's fiscal trajectory. Each of these critical junctures either altered or entrenched the incentives and constraints facing Nigeria's elites, however, the underlying patronage logic of the ruling coalition stubbornly persisted. Despite numerous attempts towards fiscal reform, including external pressure for economic restructuring, Nigeria failed to develop the strong fiscal institutions that characterize diversified developmental states. Therefore, the argument advanced in this chapter is that Nigeria's present weak fiscal institutions is not simply a result of resource abundance or economic mismanagement, but rather reflects the political incentives embedded in a patronage-based coalition structure that emerged during the 1970s oil boom and persisted through subsequent crises and political transitions.

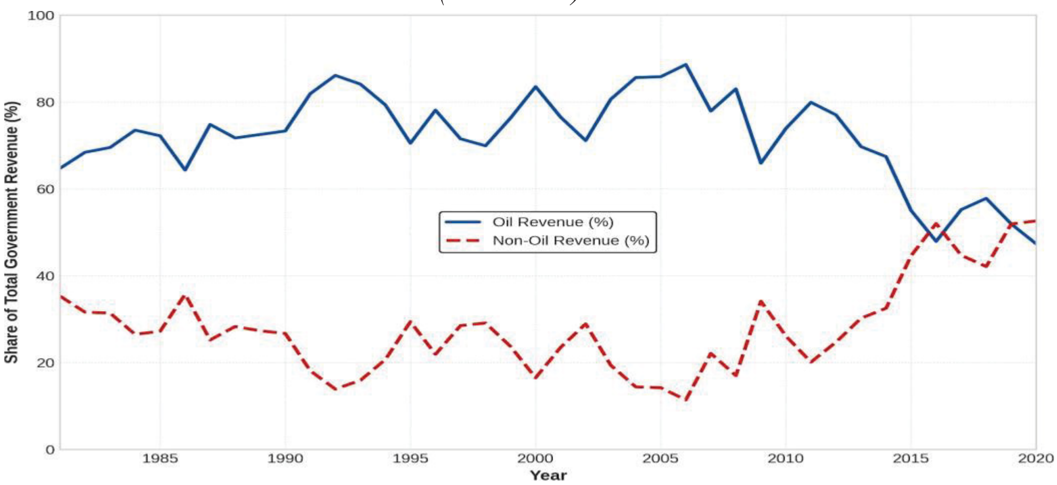
6.1 1970s: Oil Boom and the Emergence of a Rentier State

The year 1973 saw a geopolitical conflict driven specifically by an OPEC supported Arab oil embargo against Western nations supporting Isreal. This resulted in the surge of global oil prices, thereby generating massive windfalls for oil exporting countries. The event marked a historic period that ultimately transformed Nigeria's political economy alongside other oil exporting countries.

According to Lewis (1994), the surge in Nigeria's oil exports created a 'rentier state', which largely concentrates wealth and its distribution in the federal government. This allowed the central government to significantly expand its spending and subsidy programs, including free education, hospital care, wage increase such as the 1972 Udoji Commission pay rise, and a series of ambitious infrastructure projects all financed by oil revenue (Osaghae, 1995). Notably, the living standards of so many Nigerians rose appreciably, as the oil boom generated jobs, enabled higher wages, and subsidized food and fuel, thereby temporarily easing public discontent. However, these developments were used as a mask to distract the public as patrimonial politics gradually become entrenched, thereby amplifying the stakes of perpetual struggle over control of state resources (the so-called "national cake").

In a report on the Structural Adjustment and Ethnicity in Nigeria", Osaghae (1995) argued that the Nigeria's federal government's commandeering of state functions after the oil boom gave rise to the popular sharing of the national cake which triggered intense disputes over revenue allocations. As he notes, "This was the origin of the proverbial sharing of the national cake which encouraged demands for new states, heightened disagreements over resource allocation, and necessitated the adoption of distributive or sharing formulas" (Osaghae, 1995; p.43). In practical terms, this meant that oil wealth was dispersed through elaborate patron-client networks rather than a robust transformation of the state's public institutions.

Figure 6.1: Nigeria's Oil vs. Non-Oil Revenue Contribution to Total Government Revenue (1981-2020)



Source: Central Bank of Nigeria (CBN) Annual Statistical Bulletin (2023)

Table 6.1: Nigeria's Oil vs. Non-Oil Revenue Contribution to Total Government Revenue (1981-2020)

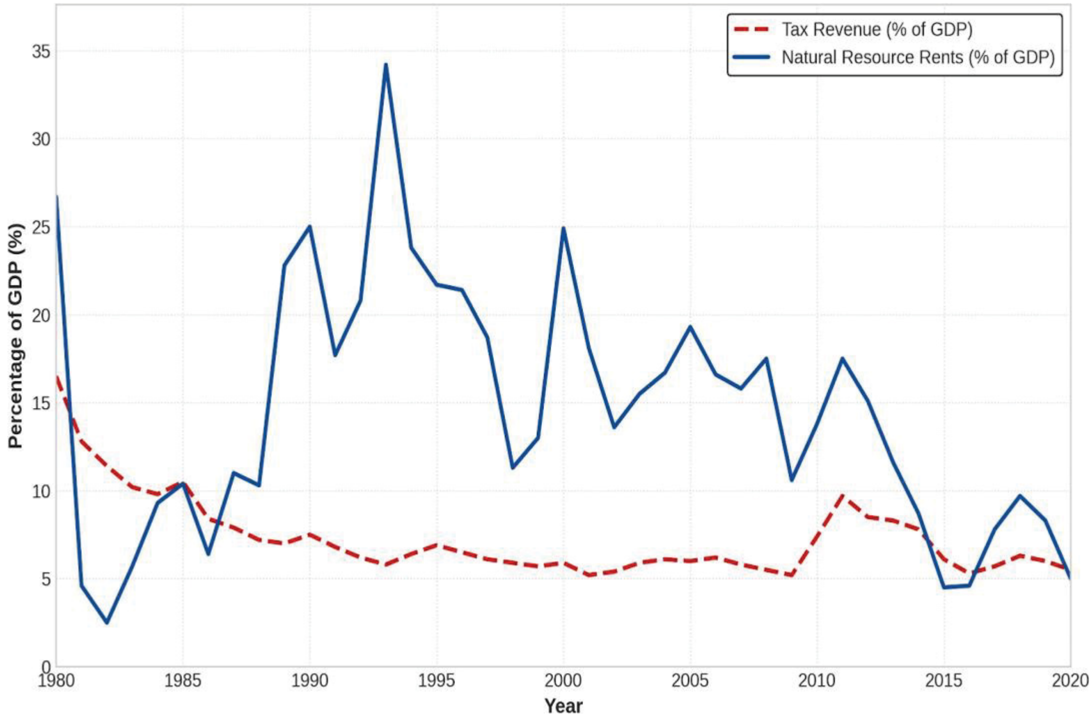
Years C	Oil Revenue		Non-Oil Revenue		Total Federally Collected Revenue
	In NGN (billions); Figures in bracket indicate percentage of total government revenue				
1981	**8.6**	**(64.7)**	**4.7**	**(35.3)**	**13.3**
1983	7.3	(69.5)	3.3	(31.4)	10.5
1985	10.9	(72.2)	4.1	(27.2)	15.1
1987	19.0	(74.8)	6.4	(25.2)	25.4
1989	39.1	(72.5)	14.7	(27.3)	53.9
1991	82.7	(81.9)	18.3	(18.1)	101.0
1993	162.1	(84.1)	30.7	(15.9)	192.8
1995	324.5	(70.5)	135.4	(29.4)	460.0
1997	416.8	(71.5)	166.0	(28.5)	582.8
1999	724.4	(76.3)	224.8	(23.7)	949.2
2001	1,707.6	(76.5)	524.1	(23.5)	2,231.6
2003	2,074.3	(80.6)	500.8	(19.4)	2,575.1
2005	4,762.4	(85.8)	785.1	(14.2)	5,547.5
2007	4,462.9	(77.9)	1,264.6	(22.1)	5,727.5
2009	3,191.9	(65.9)	1,652.7	(34.1)	4,844.6
2011	8,879.0	(79.9)	2,237.9	(20.1)	11,116.8
2013	6,809.2	(69.7)	2,950.6	(30.2)	9,759.8
2015	3,830.1	(55.0)	3,083.4	(44.6)	6,912.5
2017	4,109.7	(55.2)	3,335.1	(44.7)	7,444.8
2019	5,105.1	(51.9)	4,721.4	(51.9)	9,826.5
2020	4,155.7	(47.3)	4,616.6	(52.6)	8,772.3

Source: Central Bank of Nigeria (CBN) Annual Statistical Bulletin (2023)

In essence, the 1970s was a watershed in Nigeria's political economy. After the end of the civil war that lasted 3 years from 1967 to 1970, successive regimes including that of Yakubu Gowon and Murtala/Obasanjo oversaw a dramatic oil-revenue windfall that reshaped Nigeria's federal fiscal structure. According to an article published by World Bank, by the mid 1970s and 1980s, oil was accounting for roughly 70-80% of Nigeria's government revenue and nearly all export earnings (Pinto, 1987; see also figure 2 and Table 2). Peter Lewis (2007) noted how Nigeria effectively became a classic rentier state during this period, where the state drew its sustenance almost entirely from external oil rents. In practical terms, this meant that holding a political office became synonymous with controlling oil revenues, whereby prebendalism is employed to use state office for private or sectional gains. As Adebanwi and Obadare (2013) emphasized, "These massive oil rents fed the prebendal system the way dry brush fuels a forest fire—except that in this case, the fuel will continue to burn for decades to come" (p.ix).

This period witnessed a situation where politicians and military officers used oil rents to distribute patronage along ethnic and regional lines especially through providing public jobs, contracts, and subsidies rather than building state capacity (Perouse de Montclos, 2018). Unlike agrarian revenue or broad-based taxation, oil rents allowed the federal government of Nigeria to dispense largess directly as central allocations were pumped out to state governments and political clients, hence reinforcing patronage coalition. For example, the federal system was reconfigured between 1976-1979, creating more states and local governments partly to placate elite groups and diffuse oil revenues. To a larger extent, even infrastructure and investment projects were often chosen for political advantages rather than efficiency (Forrest, 1995; Watts & Lubeck, 1994). Meanwhile, tax policy was largely kept on the back burner as elites try to avoid difficult tax reforms because oil revenues made direct taxation unnecessary in the short run and politically costly as well. Just as Beblawi and Luciani (1987) characterized rentier states, governments with abundant external rents often see little to no incentive for developing robust and effective tax systems since rent-seeking enables them to recoup costs by extracting rents from office rather than stressing over taxing constituents.

Figure 6.2: Nigeria's Tax Revenue as % of GDP vs. Natural Resource Rents as % of GDP (1980-2020)



Source: Tax-to-GDP ratio data compiled from the International Monetary Fund (IMF) and World Bank (various years). Natural resource rents (% of GDP) data extracted from the World Bank's World Development Indicators time series.

Accordingly, quantitative data from this period underscore the rentier shift in Nigeria's political economy. A World Bank analysis by Pinto showed how Nigeria's "share of oil in gross domestic product (GDP) and exports rose sharply after 1970-73" (Pinto, 1987; p. 420). By 1980, oil revenue accounted for roughly 28% of GDP, rising up from less than 10% in 1970 and accounting for over 90% of export earnings (Pinto,1987). By contrast, non-oil tax revenues remained a tiny fraction of output as estimates from comparable oil economies suggest that Nigeria's tax-to-GDP ratio languished in the single digits (see figure 2 and 3), which is well below what is expected from a country of its income (Fenochietto & Pessino, 2013). This patronage logic is also highlighted by some scholars. As Perouse de Montclos (2018) described in his article titled *Oil Rent and Corruption: The Case of Nigeria,* "with easy money of the 1970s oil boom, corruption cases took an extraordinary scale" (p. 12). Indeed, it is inarguable that Nigeria's first oil boom generated vast corruption. Perouse de Montclos further noted an account by the then Nigeria's petroleum minister Tam David-West, who stated that:

"the country lost some $16 billion during the second Parliamentry Republic from 1979 to 1983, or 20% of its oil revenue, mainly because of fraud, the overbilling of contracts and the theft of crude oil with the complicity of agents from the national oil company, the NNPC (Nigerian National Petroleum Corporation" (Perouse de Montclos, 2018; p. 12).

During that period, numerous Nigerian media and inquiry reports documented yachts, overseas accounts, and contract kickbacks at unprecedented levels (Watts & Lubeck 1994; Ihonvbere 1993; Osaghae, 1998). The upshot was that by the late 1970s, Nigeria had expanded its public sector and elite patronage networks enormously but largely at the expense of state capacity and strong institutions. In the same vein, fiscal institutions remained weak as the Central Bank of Nigeria (CBN) and the Ministry of Finance had little power to enforce discipline on parastatals or local governments. Additionally, bureaucratic norms of accountability were undermined as every ministry and agency demanded its cut from oil revenues. This weakness is measured empirically by numerous studies. As Brian Pinto (1987) pointed out, Nigeria's tax-to-GDP ratio in the 1990s was very low and is often documented at under 10%, which is far below the developing countries average (see also *figure 3)*. Instead, oil taxes and royalties such as petroleum profit tax became the main source of revenues, however, even these sources eventually became highly volatile and subject to leakages. In essence, events of the 1970s established a foundational path where abundant oil rents created a rentier state that resulted in a patronage-based political coalition which crowded out any incentive for developing a strong broad-based tax system in Nigeria.

6.2 1980s: Oil Price Collapse, Fiscal Crisis, and Political Response

The early 1980s brought a sharp reversal. A sudden collapse in oil prices in the early 1980s exposed the fragility of Nigeria's oil-dependent fiscal structure as the state's external revenue plunged. The immediate effect was devastating as oil prices plummeted from a peak of above $35 per barrel in 1979 to below $15 in 1986, consequently slashing Nigeria's foreign earnings. Between 1980 to 1985, government revenues plummeted from roughly 24% of GDP to just around 12% (International Monetary Fund, 1996). The fiscal emergency was severe as Nigeria swung from surpluses to large deficits and inflation which led the emergence of balance-of-payments crises, including the accumulation of external debt. As Pinto (1987) noted, because oil exports virtually defined Nigeria's economy, the oil price collapse forced the country into chronic deficits and mounting debt. Faced with a crisis that met unpreparedness and weak institutions, successive governments made policy choices which were shaped by the same patronage-driven coalition logic. Instead of broadening the tax-base which would have meant broader social discipline on state power, the regimes mainly opted for temporary solutions. Notably, President Shehu Shagari's civilian government (1979-1983) imposed some austerity measures such as partial subsidy cuts but hesitated to pursue politically painful measures that would have had lasting positive impact on the economy. When Buhari's military junta overthrew Shagari from power in January 1984, it did launch a strict anti-corruption policy and tightened budgets. However, these attempts were largely new form of predation under a different color as public sector positions simply switched hands (Adebanwi & Obadare, 2013).

Upon taking over the apex seat of Nigeria's power, General Muhammadu Buhari froze wages and tightened imports, however, his main focus was purging indiscipline and cracking down on small-scale corruption, rather than restoring fiscal stability. Therefore, taxation was not something in his purview. As Montclos pointed out, "Military coups did not solve anything. The army, which were supposed to restore order, used the pretext of top secret matters to institutionalize the lack of transparency in the management of oil revenue" (Montclos, 2018; p.12). In practice, Buhari's military regime was simply a replacement of one set of patronage clients with another which mostly comprised of his fellow Northern military officers, thereby merely shrinking the number of prebendal slots but not entirely dismantling the old system.

Evidently, the fiscal numbers during that period of crisis reflect this stagnation of reform. Even though oil earnings collapsed, tax revenue still remained very low. According to World Bank data, the Nigeria's tax-to-GDP ratio hovered around 5-6% through the mid-1980s, while government finance data for 1985 indicate that tax income barely covers a quarter of government expenditures, hence requiring massive deficits funded by oil windfalls and external borrowing (World

Bank, 1994). By 1985) Nigeria's external debt ballooned as interest and amortization outlays were absorbing over 5% of GDP (Pinto, 1987). But despite all these pressures, Nigerian officials resisted imposing broad-based taxes due to fear of public dissent and political backlash. As Adebanwi and Obadare (2013) noted, taxation would have required bureaucratic discipline and accountability that could constrain elite rent-seeking, so the government rationally avoided that route as it seems politically costly. Instead, the state pivot towards external borrowing and arrears to fund expenditures. Both the civilian and subsequent military regimes drew large World Bank/IMF loans and other bilateral credits due to substantial cuts on oil revenue inflow. Consequently, by 1985, debt servicing had already become a growing fiscal burden on the state. An IMF analysis shows that trade arrears from 1982-83 were eventually recognized as new debt, thereby boosting the debt stock (International Monetary Fund, 2018). Notably, General Badamasi Babangida's military government which overthrew Buhari in 1985 acknowledged that Nigeria needed a debt relief, thereby eventually resulting in the country negotiating rescheduling. However, the underlying fiscal imbalance remained.

In the same vein, social consequences and popular discontent accompanied this period of crisis. With government revenue squeezed, public spending fell, while inflation and unemployment rose to unprecedented levels. The urban middle class which was previously buoyed by easy public sector jobs end up suffering from wage freezes and numerous subsidy cuts (Pinto, 1987). Meanwhile, the oil sector's decline undermined regional patronage networks, thereby leading to an intense competition among elites. In sum, the 1980s oil crisis revealed that Nigeria's rentier state had no solid fiscal bedrock to fall back on. A severe fiscal crisis that should have been a catalyst and provided incentive for fiscal discipline rather ended up leading to cycles of austerity, crisis, and patronage entrenchment. Pinto (1987) noted how cycles of "contractionary and expansionary policies" in the late 1980s ended up producing volatility but no institutional learning. In a nutshell, the 1980s demonstrated how patrimonial logic resists fiscal consolidation. Nigeria's ruling coalitions remained focused on controlling oil revenue, while avoiding painful tax reforms and diversification that would have provided long-term fiscal stability. Due to the severe nature of the crisis and its impact on Nigeria's economy, the IMF and

World Bank began urging Nigeria to adopt a Structural Adjustment Program (SAP) to save the collapsing economy.

6.3 The 1986 Structural Adjustment Program (SAP): Reform in a Patronage State

In July 1986, General Ibrahim Badamasi Babangida's military government officially adopted a Word Bank/IMF supported Structural Adjustment Program (SAP) to help rescue Nigeria's ailing economy. The SAP comprised of numerous reforms such as exchange rate unification, trade liberalization, subsidy removals, and fiscal tightening. Notably, these measures did lead to some macroeconomic stabilization including a GDP growth recovery which according to World Bank report, saw an average of 5% growth annually from 1986 to 1992 (World Bank, 1994). In addition, black-market premium on the naira was also eliminated as part of the broader reforms. Yet, the political context and implementation of SAP reflected continuities with the prebendal system rather than a break from it. First, Babangida's regime was in itself a coalition of military and civilian elites who had a stake and interest in preserving rents to maintain patronage networks. Babangida courted politicians from various regions through promises of patronage in reform programs such as the so called "devolution of oil wells" and inducement of politicians to support the newly adopted IMF policies which were highly unpopular both among politicians and the broader public as they view them to be a foreign intervention in the state affairs.

Therefore, although government rhetoric framed SAP as technocratic and market-oriented, its political enactment was highly contested. The World Bank report on SAP implementation noted that "Although some reforms were sustained during the 1986-92 period, others were implemented unevenly" and often compromised by political pressures (World Bank, 1994). For example, price liberalization for fuel and foodstuffs proceeded, but gasoline subsidies were only partially phased out due to continued public pressure. In the same vein, import licensing and foreign exchange controls were lifted nominally, but rationing and loopholes persisted to accommodate favored importers who have close ties to high-ranking government officials. In other words, Babangida's coalition allowed many government officials to retain their slice of rents while proclaiming reforms.

Second, with regards to fiscal institutions, the Structural Adjustment Program era only witnessed a modest progress. Notably, the government did introduce a broad-based Value-Added Tax (VAT) in 1994, attempting to stabilize the revenue even though this was after Babangida's civilian rule handover delay. However, data from the Central Bank of Nigeria shows that revenues still remained minimal compared to oil receipts throughout the 1990s. The federal government revenue tables indicate that until early 1990s, oil revenue still accounted for roughly three-quarters of the federation's total revenue (Central Bank of Nigeria, 2002). Even under the SAP reforms, non-oil taxes such as corporate and custom taxes never generated enough to replace lost oil money. Nonetheless, public expenditure only partially reduced while deficits widened as a result of years of high oil prices in the late 1980s, resulting in the proliferation of new spending projects. Therefore, the SAP yielded some fiscal discipline in principle, but was certainly not enough to shift long-standing elite incentives. Third, external debt notably continued to rise throughout this period because the government of Nigeria had to keep borrowing in order to make up for revenue shortfalls. The World Bank (1994) report noted that despite some success in growth, Nigeria's debt (net transfers) absorbed about 5% of its GDP in the late 1980s. As noted by the World Bank during that period:

> *"Nigeria ultimately secured debt reduction from its commercial bank creditors, but its debt to the Paris Club remains large. Its outstanding stock of public and publicly guaranteed debt stands at US$29 billion-roughly US$300 per capita, only slightly less than per capita income" (World Bank, 1994).*

This heavy debt burden marked the beginning of how subsequent governments became trapped and dependent on IMF/Paris Club arrangements and loans, thereby undermining fiscal autonomy. Lastly, it is important to note what the Structural Adjustment Program did not change, which is the stubborn foundation of Nigeria's political economy. The period of Babangida's administration deepened the longstanding integration of Nigerian elites into global markets through oil contracts but failed awfully in dismantling the clientelist networks that serve as the bedrock of Nigeria's political and economic challenges. Political office continued to be regarded as a source of redistribution rather than policymaking. As Watts & Lubeck (1994) argued, indigenous capitalist and politicians formed an "alliance of oil and maize" to exploit SAP funds. Consequently, the result was a structural reform that occurred only on paper, but not the transformation of Nigeria's patronage governance style. In essence, this patronage logic meant that tax reforms like the VAT and company tax adjustments were resisted by those who would lose income from such measures, especially in terms of regional allocations and cabinet portfolios.

By the early 1990s, Nigeria's economy had substantially recovered in size but still remained precariously balanced on oil rents. Politically, the coalition underpinning SAP had become fragile because Babangida's government had heavily courted southern business and foreign interests by promising deregulation which ended up alienating some military colleagues. Meanwhile, tensions and mass discontent were rising over inequality and sufferings from ongoing IMF/World Bank austerity measures. These tensions culminated in the crisis of the aborted Third Republic (1992-93) as Babangida annulled the June 1993 election which triggered massive unrest across the country. In November 1993, General Sani Abacha seized power through another military coup and took control of the government. In many ways, Abacha's coup was a vindication of the prebendal thesis. As Adebanwi and Obadare (2013 noted, "the transfer of power from civilian politicians to the military merely meant a contraction—and militarization—of the number of offices providing a prebendal platform for looting" (p. ix). In sum, the Third Republic's failure illustrated that the political incentives underlying patronage were severely deeply rooted and had not been resolved by the SAP reform program.

6.4 1990s: Transition, Interim Governments, and Democratic Fiasco

The 1990s saw continued turmoil. Babangida delayed his promised transition and General Sani Abacha eventually seized power in 1993. These regimes were rapacious as their predecessors. Abacha's rule was infamous for outright looting of oil revenues as he and his associates siphoned off an estimated $2-4 billion per year even as oil prices briefly recovered (Ribadu, 2006). By the late 1990s, Nigeria was effectively a kleptocracy as the state remained heavily dependent on oil, but the oil income was used essentially to enrich a tiny clique instead of improving governance. This further led to the deterioration of public finance. According to a report by the U.S. Department of State, government revenue as percentage of GDP was negligible during Abacha's period and debt servicing further crushed the economy. The report also noted that by 1997, Nigeria's fiscal situation was dire as "deficits at the federal level had been financed primarily by borrowing from the Central Bank of Nigeria (CBN), which held 85.1 percent of the government's domestic debt at the end of 1997" (U.S. Department of State, 2000; p.1). In other words, the central bank was monetizing deficits to keep government afloat, a typical recipe for hyperinflation. In addition, civil institutions remained weak as tax offices and customs were rife with graft in which officials frequently waive import duties to friends. Therefore, official revenues remained stuck at a few percentages of GDP. When General Sani Abacha died in a mysterious way which some deemed to be an unnatural death, the generals had no option but to quietly negotiate a return to civilian rule. However, this elite bargain did not dismantle old patrimonial structures.

In 1999, the transition to civilian rule under President Olusegun Obasanjo brought about new hopes for reforms and strengthening of government institutions. Ideally, democratic competition and pressure from civil society groups were supposed to have induced the government to build fiscal capacity by broadening taxation and improving public accountability. However, what happened was that Nigeria's post-1999 political economy showed continuity and entrenchment of earlier patronage dynamics. The new democratic order generated new political coalitions based on the ruling People's Democratic Party (PDP), but these coalitions largely inherited the same old mode of operation through patronage channels, where oil revenues and heinous public spending remained the currency of politics. The transition was made up of major parties especially the PDP which was dominated by Northern and Southern elites who had previously served in the military regimes either as high-ranking officers or civil servants. Therefore, they carefully allocated positions to keep the coalition intact. For example, the PDP adopted an unwritten agreement which ensures that the presidency would rotate between the North and South after every 8 years, hence ensuring that each regional patron got a share of power (Campbell, 2019). As such, when President Olusegun Obasanjo (Southwest) took office in 1999, he essentially allowed the inherited administrative machinery to continue virtually unchanged.

Therefore, the newly established democratic government of 1999 inherited the old rentier framework. Oil still provided the bulk of budgets which is often around 70%, while taxes funded only a sliver (Adegboyega, 2025). Early reform talks such as budget accountability and privatization were only able achieve little of the intended results. In practice, the same state governors and legislators who had dominated under the military rule, were the same set of people who continued to rule and dominate the civilian era, resulting in the entrenchment of old systems of using oil money to reward supporters and patronage networks. Revenue sharing formulas that was established from the oil boom era which allocated 13% of oil revenue to oil producing states remained in place, thereby essentially providing oil-producing regions with veto power any federal fiscal changes. As Adegboyega (2025) bluntly puts it, Nigeria's tax system "has long relied on colonial-era structures that hinder transparency and limit growth", resulting in a tax-to-GDP ratio that remained "one of the lowest globally" (see also *figure 3)*.

In a nutshell, the 1999 democratic government was a mere change of label rather than a change of substance. Patronage politics continued under civilian guise as former generals became new governors and ministers, while civilian elites also joined in practicing prebendal politics. Although democratic check and balance existed on paper, federal budgets remained opaque to corruption. Successive presidents promised to reduce corruption and diversify the revenue source through strengthening the tax institutions, however, concrete steps were very minimal. For example, President Obasanjo has occasionally appealed to patriotism but never enforced strict revenue mobilization. Instead, he relied on oil price increases to fund new programs. The result was continuity.

6.5 Legacy: Persistent Weak Fiscal Institutions

By 1999, Nigeria's fiscal state was largely the same rentier-patronage system that was built in the 1970s and 1980s. Each stage from the 1970s through 1999 ended up reinforcing Nigeria's patrimonial rentier state which yielded weak fiscal institutions. During the oil boom, coalitional imperatives allowed leaders to spend windfalls on clients rather than building broad-based tax systems or strong foreign reserves. The oil price collapse of 1980s and the Structural Adjustment Program (SAP) did not break this cycle because even as revenues plunged, elites continued to use state power to sustain their own networks (Osaghae, 1995). By the 1990s, this entitlement had become entrenched among Nigeria's elites. As Adogamhe noted, "Until 1999, Nigeria had practically institutionalized corruption as the foundation of governance. Hence institutions of society easily decayed to unprecedented proportions as opportunities were privatized by the powerful" (Adogamhe, 2009; p.237). Even with the return to civilian rule in 1999, the same patterns of patronage remained, with no lasting check on prebendalism. Importantly, this legacy shows up clearly in Nigeria's fiscal data as tax collection remained extremely low while oil rents dominated (see Figure 2 and 3). The Organization for Economic Co-operation and Development confirm this scenario as they noted that Nigeria's tax-to-GDP ratio has stayed in the single digits with no government succeeding in reversing the long-standing oil dependence (OECD, 2024).

Therefore, the present weak fiscal state of Nigeria is essentially an heir of the coalition bargains that was established under the military rule era which created a system where revenues become scarce and dependence on rents high, with minimal application of the rule of law over finance. By the end of the 20th century, Nigeria's fiscal institutions were still those of a patrimonial prebendal state. The early military era established a blueprint where oil rents serve as the flowing tap for sustaining power and regime factions. As Lewis (2007) explained, these politically driven choices have been the underlying forces behind Nigeria's stagnant revenue and governance failure. Irrespective of which regime type was in power (be it military or civilian), the defining feature was the same: a rentier elite coalition that continued to prioritize its own survival over building long-term sustainable fiscal institutions.

CHAPTER VII

CASE 2- INDONESIA: TECHNOCRATIC PATRIMONIALISM AND CRISIS-INDUCED FISCAL REFORMS

Having examined Nigeria's experience in the preceding chapter which demonstrated how a patronage-based political coalition entrenched a rentier fiscal structure, I now turn to our second case which is Indonesia. Just like Nigeria, Indonesia became an oil exporter specifically during the New Order era of a powerful authoritarian regime under Suharto. While Nigeria's oil windfall era resulted in the emergence of a highly prebendal, rent-driven state that nurtured weak institutions, Indonesia by contrast pursued a different but not entirely different path under President Suharto's *Orde Baru* (New order). However, this not-so-different pathway served as a significant factor that set Indonesia on an entirely different fiscal trajectory which is in direct contrast to that of Nigeria.

Like Nigeria, Indonesia experienced major windfalls during the 1970s oil boom, but the ruling coalition present at the time was Suharto's unique style of a military-backed patronage which comprises of powerful generals, business men, and a cadre of technocrats whom were Western-trained economists popularly known as the "Berkeley Mafia, including influential figures such as Ali Wardhana, Widjojo Nitisastro, and other technocrats who were committed to macroeconomic stability and long-term economic development. The patronage-technocratic nature of this political coalition meant that oil rents were not deployed solely for direct patronage, but also to stabilize the macroeconomy and fund growth-oriented policies. This was because the legitimacy of Suharto's authoritarian regime largely hinges on economic stability and the provision of public goods. Also, Resosudarmo and Kuncoro (2004) rightly noted that, "the regime's need for economic growth required bureaucratic values of predictability, regularity, order and rationality, features that are in direct contrast to the nature of patrimonialism, which is characterized by favoritism and arbitrariness" (p.342).

Crucially, when oil prices collapsed in the 1980s, this technocratic orientation of the regime made the elites to seek alternative revenues thereby rendering the crisis to serve as a profound critical juncture which prompted Indonesia's leaders to start implementing broad fiscal reforms such as the tax code overhaul in 1983 as a rational political survival strategy to maintain economic growth and also sustain regime legitimacy (Resosudarmo & Kuncoro, 2004). According to Wijayanto and Vidyattama (2017), "The plunge of the oil price in the 1980s prompted the Indonesian Government to fundamentally reform the tax system and replace the old colonial income tax law" (p.97). Therefore, each stage of crisis pushed the political coalition to balance patronage with state building as Suharto's regime extensively rewarded loyalists, but also try to pursue long term economic development through building institutions and industrialization (e.g. Bappenas planning and a professional tax administration) to sustain development. However, it is important to point out the caveat in Suharto's economic development agenda as they are not solely technocratic visions for the benefit of the country, but also rational political survival strategies for power consolidation. For example, Resosudarmo and Kuncoro (2004) noted that for economic reform to be implemented during Suharto's era, "it had to be persuasive enough for Soeharto; it could not contradict Soeharto's ideological belief; and it could not jeopardize political support for the regime" (p.342). Nonetheless, this compatibility of patronage and technocratic vision resulted in Indonesia's far stronger fiscal base than that of Nigeria. The country's tax-to-GDP ratio have increased over time (although still low compared to OECD standards and other southeast Asian countries), while oil's share of revenue has declined overtime, with tax revenues making up a significant amount of Indonesia's total income (Faradina, 2025).

Therefore, the purpose of this chapter is to closely trace Indonesia's fiscal trajectory from the 1970s oil boom, the 1980s oil price collapse and 1983 tax reform, to the fall of Suharto in 1998 and into the democratic transition. At each stage of the analysis, I will consider how Suharto's patronage-based but also technocrat-led political coalition forged stronger fiscal institutions, diversified the economy, and shifted towards taxation as an alternative source of revenue due to oil rents collapse. The argument put forward in this chapter echoes my hypothesis that when a severe crisis upends a rent-dependent system and the ruling coalition is reformist-technocratic in nature, elites will respond by expanding taxation as an alternative for securing a stable revenue stream because legitimacy (which sustains political survival) and long-term economic development agenda largely rely on economic stability and predictable revenue source.

7.1. 1970s: Oil Boom and Patrimonial Development

Indonesia as a country emerged from Sukarno's guided democracy in 1966 with hyperinflation and economic chaos. After a failed coup attempt which, Sukarno survived, Suharto seized opportunity of the turbulence at the time and ended up officially becoming Indonesia's new president in 1968. Suharto's regime was a patrimonial military-backed authoritarian regime in all sense consisting of military personnel, elite bureaucrats and the ruling GOLKAR party members, but also defined by economic stabilization championed by the "Berkeley Mafia" technocrats who oversaw the devaluation of the rupiah, ablolishment of multiple exchange rates, and the declaration of a balanced budget (Resosudarmo and Kuncoro, 2004).

Therefore, Indonesia in the early New Order era, specifically from 1966-1973 pursued orthodox stabilization. But by the mid 1970s, the regime embarked on an ambitious industrialization and economic development strategy which was motivated by oil revenue amassed from the 1973 windfall. 1n 1973, world oil prices quadrupled and just like Nigeria, Indonesia as an oil rich country benefitted enormously. The country's oil exports jumped from about $1billion in 1973 to over $13 billion by 1980 (Sugema, 2000). The availability of such significant windfall underwrote a massive expansion of public investment and state planning, including the five-year development plans (Repelita), which poured oil revenues into infrastructure, industry, education, health, rural development, and subsidized services. Unlike the case of Nigeria's states which remain fiscally independent even after 1960, Indonesia's unitary government went ahead to rapidly build up centralized budgeting and tax agencies (Soesastro & Basri, 1998). Importantly, the Berkeley-trained technocrats structured the economy around rational planning through a rational budget system which was re-established after Sukarno's era. Additionally, the state banking sector was used to allocate capital priority projects (Winters, 1996).

Nonetheless, despite all these stabilization and development plans, it is important to note that Suharto's regime was also deeply patrimonial. For instance, Pertamina which is the national oil company, became the vehicle for elite patronage and rent-seeking. Under the then Pertamina's CEO Ibnu Sutowo in the early 1970s, large chunks of petroleum revenue never reached the nations treasury. An official 1974 commission reported that Pertamina owed the government 55% of its profits for nine years of the eleven years and had paid little to no corporate tax (Bresnan, 1993). As he observed:

"It has long been common knowledge that a large part of Pertamina's oil revenues has not been paid into the state treasury but has remained under the control of Ibnu Sutowo who has made use of it in his own ways, either as "unconventional finance" for the armed forces and other parts of the government or for diverse purposes of Pertamina or himself. There has been no public accounting for these funds" (Bresnan, 1993).

In practical terms, oil rents were also plundered for patronage. Suharto was able to cultivate loyalty by appointing generals and cronies to lead key companies and ministries. Mackie (2010) noted in great detail how patronage became deeply entrenched during the New Order era, especially after the oil boom as abundant resources enabled Suharto to consolidate power. Similarly, Resosudarmo and Kuncoro (2004) also pinpoint the same patronage link through PERTAMINA which until the 1970s, served as the primary source of patronage for Suharto and his cronies. But after the 1970s, they observed a diversified patronage source whereby "patronage funds also came from other state agencies, such as the State Logistic Agency (BULOG), as well as from the contributions of Soeharto's business cronies, particularly Sino-Indonesians" (Resosudarmo & Kuncoro, 2004; p.343-44).

However, the unique feature of Suharto's regime lies in its ability to balance a political structure based on patron-client ties with economic development policies at the same time, a style that was deemed incompatible by many (Liddle, 1996). As Resosudarmo and Kuncoro (2004) noted, "Soeharto believed that, properly managed, a patrimonialistic system built by the combination of military and civilian bureaucratic process was not incompatible with macroeconomic liberalization" (p.353). Therefore, Suharto was able to make room for an economic development agenda that went beyond the narrow rent-seeking style we saw in Nigeria. Oil dollars were invested in various nationwide projects including new highways, ports, irrigation dams, and state-owned enterprises such as steel mills, fertilizer factories etc. But most importantly, these funds were also used to increase the nation's foreign reserve (Lewis, 2007). Pertamina itself financed massive infrastructure initiatives including steel mill, fertilizer plant, and LNG plants (Bresnan, 1993). These projects and initiatives reflect a "developmentalist patronage" in the sense that they fed the industrialization drive which underpinned the regime's legitimacy, but also bred rampant on-the-ground corruption.

Therefore, Suharto's coalition used oil wealth both for patronage and also for rapid economic growth, hence highlighting the nature of the New Order regime that was created based on Weberian patrimonialism (Crouch, 1979). Through the 1970s, Indonesia's GDP grew by around 7% per year which was higher than that of Nigeria, and per capita income also rose steadily during the same period (Ricklefs, 1993; Hill, 1996). Although the states' revenue structure remained heavily dependent on oil revenue, the very effort towards channeling rents into broad public programs created partial administrative capacity for planning and budget execution, something the Nigerian elites never paid much attention to.

7.2 The 1980s Oil Price Shock and Crisis-Induced Adjustments

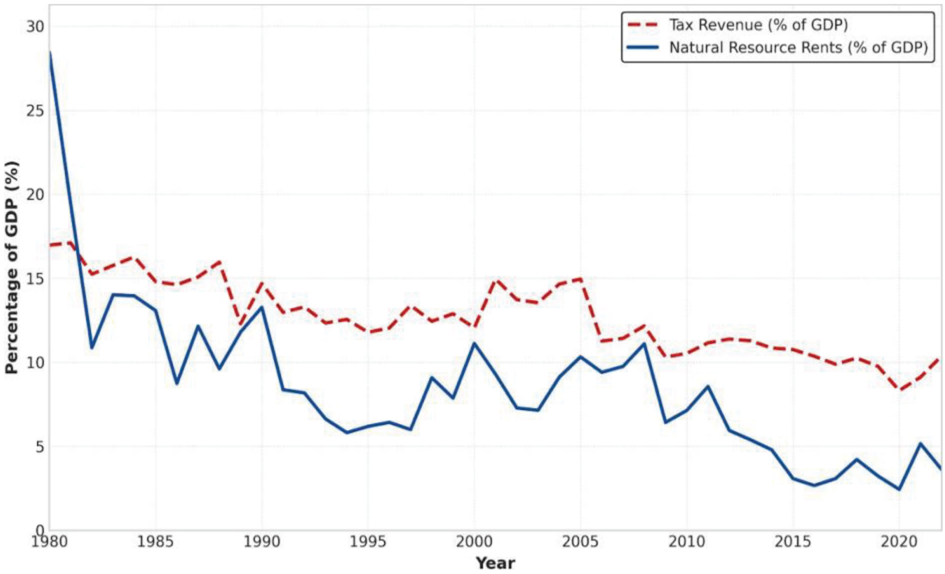
During the early 1980s, oil demand weakened as a result of global recession, high interest rates, and energy conservation after the Iranian Revolution spike in 1979. This global oil gut struck so many oil producing countries including Indonesia. By 1983, crude prices had fallen roughly 50% from their 1980 peak, resulting in the plunging of Indonesia's export earnings and deterioration of its terms of trade. During that period, government revenue especially foreign exchange plunged, resulting in a balance-of-payments and budget crisis. In the same vein, OPEC price cuts and regional recession drove oil export revenues down by over a third by mid-1982 (Ricklefs, 1993; Soesastro, 1998).

As a result of this shock, Indonesia's government windfalls virtually halved overnight, and GDP growth slowed dramatically to near zero by 1982. However, unlike Nigeria's muddled adjustments, the crisis forced Suharto's patron-technocrat regime to react swiftly in order to mitigate the impact on the economy. Anticipating the decline, the New Order technocrats had already began cutting down subsidies and diversifying the economy away from oil dependence. For example, since the year 1978, the government had reduced gasoline and fertilizer subsidies, while also boosting non-oil exports such as textiles, rubber, and wood through targeted assistance. (Haggard, 2000; Winters, 1996). It is important to note that Indonesia's response was driven by the crisis motives which Resosudarmo & Kuncoro (2004) rightly identified. They noted that "Soeharto's economic policy decisions were influenced primarily by three variables. The most important was economic crisis, which played a substantial role in changing policy" (p.342), and that the 1983-91 reforms were largely implemented as a response to a crisis caused by the fall in price of oil. Therefore, Suharto's regime was realistic to the uncertain and short-term nature of oil windfalls, hence enabling the regime to build up cushions that will reduce the oil bust effect.

When the oil prices collapsed, these measures were scaled up as the Ministry of Finance and Ministry of Planning headed by technocrats like Ali Wardhana and Widjojo Nitisastro immediately embarked on fiscal adjustment. This is because the economists were acutely aware that sustaining growth and political legitimacy now required new sources of revenue. As public spending growth was slowed, infrastructure projects were postponed, while some were scaled back, and new foreign borrowings was curtailed (Sharma, 2001). Beginning in 1982-83, Suharto's government introduced a package of adjustment measures to protect the economy. The rupiah was devalued, subsidies were cut, and trade was liberalized. Additionally, Bank

Indonesia (the national central bank) acted swiftly by tightening monetary policy to defend the rupiah. But most importantly, tax reform was radically overhauled in 1983, which saw the replacement of the colonial era tax code with Law No. 6/1983. This new law introduced a modern value-added tax (VAT) in place of the old sales tax, and the institutionalization of a system of self-assessment for income taxes. While corporate and personal income tax rates were lowered, the base line was widened as exempt sectors were reduced (Wijayanto & Vidyatamma, 2017). These reforms were conceived by the technocrats largely in the Ministry of Finance and were backed by Suharto himself, hence reflecting the regime's emphasis on fiscal modernization.

Figure 7.1: Indonesia's Tax Revenue as % of GDP vs. Natural Resource Rents as % of GDP (1980-2022)



Source: Tax-to-GDP ratio and Natural resource rents (% of GDP) data extracted from the World Bank's *World Development Indicators* time series.

The results were striking. By the mid-1980s, Indonesia had largely eliminated its budget deficit even though oil revenues have plummeted to around a half of their boom levels. The new tax regime "was successful in increasing tax revenue and in becoming the key element in supporting the Indonesian government budget and maintaining Indonesian fiscal sustainability after the oil crisis" (Wijayanto & Vidyattama, 2017; p.97-8). Within just a few years, tax-to-GDP ratio increased relatively (See Figure 6.1 showing increase after reform). This meant that as oil revenue fell, Indonesia was able to at least partly make up for this shortfall through domestic taxes. Just as Bimo Wijayanto and Vidyattama (2017) explained, "the plunge in the oil price... drove the need to increase revenue and push through the first major reform of Indonesian taxation in 1983" (p.97). However, the crisis also induced the government to accept higher public debt instead of radically cutting development spending, resulting in the significant rise of the country's foreign debt between 1984-85. But most importantly, the highlight of all this escapade was Suharto regime's ability to manage this transition while at the same time preserving his patronage network. Elite groups and bureaucratic officers who were affected by the reform "were compensated up front in order not to derail reforms" (Resosudarmo & Kuncoro, 2004; p.342). According to Mackie (2010), the regime survived this test handily and political repression eased after 1980, enabling Suharto's power to remain stable for the next 15 years. Therefore, Crouch's (1979) caution that patronage alone could not sustain stability, turned out to be premature in the case of Indonesia as Suharto was able to effectively combine a strategy of patronage and development which held the coalition through the crisis. In a nutshell, the early 1980s oil crisis served as a critical juncture that forced Indonesia's leaders to diversify revenue sources in a large scale for the first time. The technocratic coalition of Suharto used oil rents as a cushion while also institutionalizing a robust tax system, a strategy that goes in sharp contrast with Nigeria's rent dependence and neglect of taxes.

7.3 The 1983 Tax Reform and Consolidation

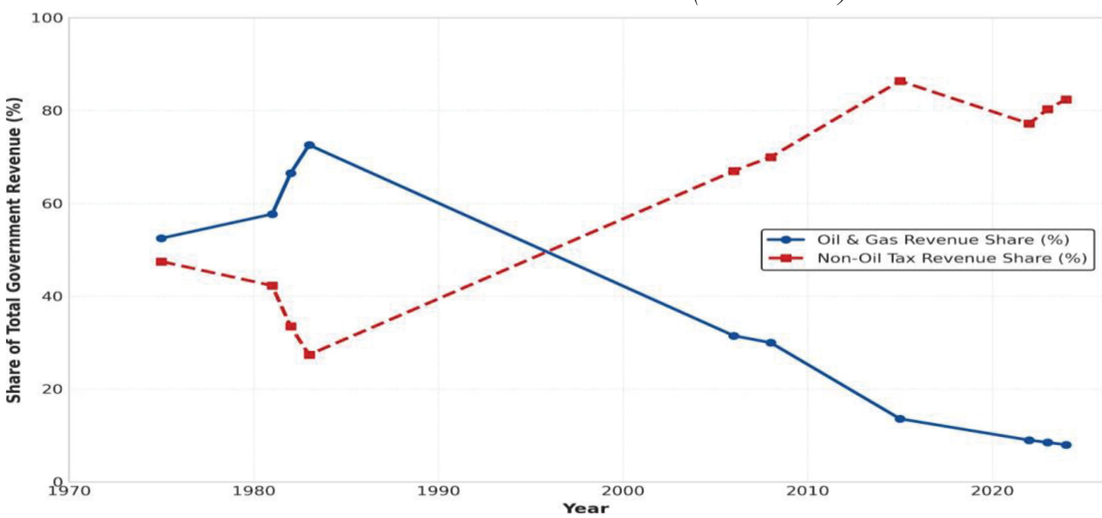
Following the emergency crisis of early 1980s, Indonesia entered a period of consolidation where the newly enlarged tax system continued to operate alongside oil revenues. However, Suharto's regime was still dominated by the GOLKAR party, including the military, while the technocrats were placed in key economic positions in order to implement further liberalization policies. For example, the foreign exchange market was fully unified during that period, while capital controls were gradually erased. Most importantly, the budget policy of Indonesia remained relatively prudent as deficits were modest and funded mostly by debts during downturns, with large surpluses often emerging in good years (thanks to both oil and taxes).

According to Hill (1996) and Bevan et al., (1999), Suharto's Indonesia during this period resembled a "developmental patrimonial state" in which the regime largely remained patron-client at its core, whilst also pursuing its economic development agenda and the building of effective state capacity. By 1985-96, fiscal outcomes in Indonesia were relatively stronger than the earlier decades.

Nonetheless, oil and gas revenues continued to fluctuate with prices, but never returned to their 1970s highs as a large percentage share of GDP (See figure 6.2). Notably, data from IndexMundi shows Indonesia's tax revenue as percentage of GDP steadily increasing in nominal terms from 14% in 1986 to 19% by the early 1990s, although the trend started to go downward relative to the country's GDP growth (IndexMundi, 2019; see also figure 6.1). This period placed Indonesia's government tax effort among one of the highest in the region, while at the same time, external debt to GDP ratio also rose to around 20-30 % by the mid-90s due to borrowing for infrastructure.

However, overall foreign lending remained within manageable levels of growth. In effect, Indonesia's budget started to make up a balanced mix of both oil and tax revenue rather than previous high dependence on oil revenue alone. Importantly, nepotism also prevailed as Suharto's New Order political elites maintained control over allocations such as state investment projects and high-level projects which were distributed to loyalists and cronies (Resosudarmo & Kuncoro, 2004). However, due to the regime's ability to deliver tangible public goods such as roads, schools, and industry, the coalition's legitimacy became hinged on ensuring state capacity and economic growth.

Figure 7.2: Indonesia's Oil & Gas Revenue vs. Non-Oil Tax Revenue Share to Total Government Revenue (1975-2024)



Sources: Triangulated from International Monetary Fund (IMF) Archival Records (1975–1983); Statistics Indonesia (BPS) Yearbooks (various years); and Ministry of Finance Republic of Indonesia (Kemenkeu) APBN Realization Reports (2022–2024)

This era represents a critical period in Indonesia's history, where patronage coexisted with economic development and relatively strong fiscal institutions. Reforms were led by technocratic ministers with full support of President Suharto, hence reflecting how his regime's political survival rested on ensuring fiscal stability. As Mackie (2010) highlighted, "reform-minded officers' aligned with the economic technocrats pushing for a Weberian 'rational, predictable' legal and administrative structure favorable to the growth of production-oriented capitalism" (p.88). In addition, the Ministry of Finance was empowered with better auditing and oversight tools as off-budget accounts were consolidated into the state budget, thereby improving transparency and efficiency (Ahmad et al., 2017). Therefore, a streamlined bureaucracy was oriented towards growth targets which were administered by the tax code.

As a result, this period saw the diversification of Indonesia's fiscal structure, with non-oil taxes funding a growing proportion of spending (See figure 6.2), but oil and gas revenues still contributed a large share. Crucially, these changes were able to be achieved without disrupting the regime's patronage base. Unlike in the case of Nigeria where the coalitions were largely anchored towards rent-seeking irrespective of the economic situation, Suharto's coalition agreed that they needed these reforms for the country's long-term development and more importantly for their political survival. Notable, Suharto himself publicly acknowledged the tax reforms as "necessary sacrifices for Indonesia's future" (Soesastro & Basri, 1998).

7.4 The 1997-98 Asian Financial Crisis and the Fall of Suharto

The next watershed was the 1997-98 Asian Financial Crisis which served as the ultimate stress test for Indonesia's fiscal stability. Although there is no single conclusion as to the sole cause of the crisis, the main trigger was pulled as a result of Bangkok's decision to un-peg the Thai Bhat from the U.S. dollar. This decision set off a series of currency devaluations and massive capital flight across the East Asian region as investor's became weary of the so-called East-Asian developmental model which some attributed as one of the causes of the crisis (Ba, 2026). Indonesia was one of the hardest-hit countries as the rupiah lost around 80% of its value in the first six months, from Rp2600/$ in the mid-1997 to over Rp14,000/$ by 1998, while the country's GDP also contracted sharply by around 13.1% in 1998 (Nasution, 2000). As the crisis deepened, overextended projects and banking sectors halted, unemployment rose to unprecedented levels, while poverty spiked to an all-time-high. The regime could no longer handle the crisis and therefore had to turn to IMF in October 1997 for assistance. The coalition's technocrats again urged the implementation of harsh reforms recommended by the IMF, but this time around, Suharto's patrimonial coalition faltered as necessary reforms will directly affect their interests. Resosudarmo and Kuncoro (2004) nicely captured this dynamic. They noted that:

"Unlike the economic reforms of 1983 – 91 and 1994–97, the IMF-sponsored reform in 1998 threatened the dominant position of the core interest group, including Soeharto himself. This reform attached a higher priority to microeconomic programmes reforming industries that had served the supporters of Soeharto very well in the past. Once it became obvious that the IMF-sponsored reform targeted the privileges of Soeharto and the core interest group, it faced strong opposition from the ruling e ĺite, particularly at the implementation stage" (Resosudarmo & Kuncoro, 2004; p.351).

The government instead, assembled an emergency policy package which pledged fiscal consolidation and banks restructuring in an attempt to restore market confidence (Sharma, 2001). Notably, the then Finance minister Mar'ie Muhammad announced deficit cuts and even postponed about $37 billion worth of mega-project spending which included new dams, highways, the ambitious Jakarta tower, and also the Menara Jakarta bridge in order to shore up finances (Sharma, 2001). These decisions reflected technocratic discipline as one could say that the regime is now trying to live within its means. However, Suharto's patronage networks are deeply entrenched to allow pure technocratic fiscal discipline. In as much as one could say that the Ministry of Finance made numerous bold decisions during this period, there weren't enough because certain unnecessary projects remain favored. For example, Sharma noted that:

"rather than postponing or dismantling inefficient profligate monopolies, such as the state-owned aircraft manufacturer Industri Resa Terbang Nusantara (IPTN), a pet project of the Suharto protege, B. J. Habibie, or the national car project owned largely by Suharto's youngest son, Hutomo (Tommy Mandala Putra), the government reaffirmed its commitment to continue to support these projects" (Sharma, 2001; p.92).

Therefore, the crisis deepened, and political survival instincts continue to kick in. In March 1998, Suharto reshuffled his cabinet, sidelined all veteran technocrats by replacing them with his military loyalists (Resosudarmo & Kuncoro, 2004). This signaled Suharto's rebellion against reforms that threatened the interest of his patronage network. In May 1998, mass protests erupted as a result of subsidy cuts and currency chaos, leading to riots in Jakarta and other cities. As Suharto's health and authority waned, he came under enormous pressure which culminated in his resignation on 21st May 1998 (Resosudarmo & Kuncoro, 2004). Importantly, the fall of Suharto was partially driven by the magnitude of the crisis, but also by its collision with the coalition structure. As Mackie (2010) noted "the catastrophic collapse of the economy after the mid-1997 'financial meltdown' (krismon) could perhaps have been handled successfully had it not been for the obvious favouritism shown by Soeharto towards his children and their economic interests" (p.95). Student's and the urban middle class whom Suharto had previously placated with development, now blamed the regime's corruption and cronyism for the upheaval (Sharma, 2001; Haggard, 2000).

When Suharto decided to sideline his technocrats, he had obviously underestimated the extent to which his legitimacy depended on the promise of stability and growth for the Indonesian economy. In effect, the 1997-98 Asian Financial Crisis later came to fulfill Crouch's prophecy that "the New Order could not survive on the basis of 'patrimonial favouritism and spoils' alone" (Mackie, 2010; p.88). Critically for our thesis, the fall of Suharto did not entirely dismantle the previous fiscal reforms of the New Order era. Rather, the transition government expanded on them. Indonesia at that point inherited a much more diversified fiscal system than in the 1970s, with tax revenues and non-oil incomes making a significant share of the government budget (World Bank, 1999).

7.5 Legacy: From Rentierism to a Mixed Fiscal State

Over the past five decades, Indonesia has been able to move away from pure resource-dependence to a more diversified economy, with taxes playing a significant role. My argument holds as crisis became a catalyst for reform when elites had technocratic incentives. However, the evidence is manifold. During the 1970s oil boom, Indonesia indeed increased its spending and patronage, but also underpinned it with competent macroeconomic management and development agendas which help sustain the regime's legitimacy (Resosudarmo & Kuncoro, 2004). The 1980s slump in global oil prices induced the landmark 1983 tax reforms that broadened the tax base and strengthened the country's fiscal institutions (Gillis, 1985), while the 1997-98 Asian Financial Crisis ended Suharto's authoritarian rule, leading to democratic transition but under a fiscal system that was already tax anchored.

Different from Nigeria's case where democratization saw the entrenchment of rentier logics, Indonesia's democracy inherited a relatively robust fiscal state. As the minister of finance recently announced, Indonesia is still focused on pushing its tax-to-GDP and has set a target of 11% by 2027 (Antara, 2026). To some extent, this statement contradicts OECD's recent harmonized data which reported Indonesia's achievement of 12.1% tax-to-GDP ratio since 2023 (OECD, 2025), hence pointing out to the complex nature to tax revenue growth calculation method across different institutions. Nonetheless, what is important for our thesis is that by being able to break away from rent-dependence towards a diversified economy, Indonesia's has proved that structure alone is not destiny and under-taxation among rentier states is not predetermined by mere resource abundance as the RST narrowly puts it. According to the recent 2024 Annual Report of Indonesia's Ministry of Finance:

"tax revenue contributes a staggering 82.43% of the country's total income. The remainder comes from sources like natural resources (oil, gas, and mining), dividends from state-owned enterprises, and other non-tax revenues. This clearly illustrates that without tax revenue, the

government would be unable to fund its many programs and responsibilities" (Ministry of Finance of the Republic of Indonesia, 2024).

Therefore, the 1970s oil boom created the conditions for a developmental state, and the 1980s shock invalidated the old patronage model, thereby inducing the coalitions technocrats to diversify revenue streams by building a tax state, while the 1997-98 crisis turmoil ended the regime as patronage interests overpowered technocratic reforms. Importantly, at each stage of the periods under our analysis, patronage elements such as corruption and nepotism persisted, but were cushioned by technocratic imperatives of stability and growth. The statistical data from IMF and World Bank consistently show the long-run decline in natural resource rents dependence and the rise of taxation (See figure 6.1). In a nutshell, Indonesia's trajectory exemplifies how rentier-states can escape the so called "rentier trap" through crisis-driven reforms, provided the political coalition responds with intentional long-term economic reforms and institutional building rather than patronage and self-enrichment alone.

CHAPTER VIII

POLITICAL COALITIONS, CRISIS, AND FISCAL TRANSFORMATION: NIGERIA AND INDONESIA IN COMPARATIVE PERSPECTIVE

In the preceding two chapters, I have documented the empirical puzzle of the two cases under study. For each case, I have drawn linkages between resource windfall, economic crisis, nature of political coalition, and how these dynamics affect fiscal trajectory over time. In this chapter, I test my hypothesis through a comparative analysis by employing the Political Coalition Incentive Model (PCIM) to see how the same resource endowment and identical economic shocks produced very different fiscal outcomes in Nigeria and Indonesia.

Despite sharing many structural features including but not limited to abundant natural resources, periods of authoritarian rule, diverse societies, and exposure to oil price shocks, the fiscal trajectories of Nigeria and Indonesia has overtime diverged sharply. Nigeria has remained a rentier state with chronically low tax-effort and high oil dependence, while Indonesia on the other hand, has gradually built a more diversified fiscal system. Neither the traditional rentier-state theory nor the generalized "resource curse" can adequately explain this divergence as both countries experienced oil booms, oil busts, and democratization at the same time, but only Indonesia's elites decided to shift policy in ways that fortified fiscal institutions.

Therefore, this chapter serves the purpose of evaluating my Political Coalition Incentive Model (PCIM), which argues that elite's survival strategies during periods of crisis determine whether a state remain rent-dependent or diversify towards taxes. Based on the PCIM, economic crises creates "fiscal choice points" which serve as moments where the existing rentier equilibrium is disrupted, however, the direction of reform depends on the nature of the ruling coalition. A coalition comprising of technocratic elites may seize such moments to diversify the economy, strengthen taxation and budget institutions, whereas a patronage-driven coalition of elites will resist institutional change by maintaining the status-quo or seeking short-term solutions. In this chapter, I begin by showing why rentier state theory cannot fully account for the Nigeria-Indonesia divergence. I then trace the periods of economic crises which serve as choice points that presented distinct policy options. Finally, I will assess how Nigeria and Indonesia's coalitions interpreted these shocks and whether their choices align with our PCIM predictions. The goal is to validate the PCIM by demonstrating how coalition incentives shaped the divergent outcomes observed.

Traveling down memory lane, the classic literature on rentier state theory (Beblawi & Luciani, 1987; Mahdavy, 1970) holds that oil wealth in itself makes taxation politically unnecessary, breeds patronage and undermines state capacity. According to this logic, both Nigeria and Indonesia as oil exporters after the 1970s oil boom will automatically be prone to under-taxation and weak fiscal institutions. Nigeria is inarguably a textbook example of the rentier argument, where oil wealth enabled elites to fund patronage without the need for tax revenue. However, the case of Indonesia largely questions this deterministic assumption. Scholars have long noted that Indonesia did not fully succumb to the so-called resource curse. Subsequent to the two major oil booms of 1973 and 1979, Indonesia acted swiftly against hyper-inflation and deep economic stagnation that afflicted most oil-dependent economies (Hill & Pasaribu, 2022). As Pasaribu (2019) and Lewis (2007) rightly pointed out, the real test of resource curse is demonstrated by how a state handles the end of an oil boom. Therefore, Indonesia's development policies and diversification towards taxation after the boom period, weakens rentier assumptions that resource-rich countries are automatically doomed to produce a tax-stunted state.

In the same vein, the "resource curse" literature (Auty, 2001; Sachs & Warner, 1995; Ross, 2015) often stresses oil windfalls distortionary effects, but also acknowledges variation across cases (Mehlum et al., 2006). Yet these approaches all typically focus on cross country patterns or static institutional attributes, rather than on how *agency* and *timing* during crises matters. They rightly predict that crises will worsen performance, but their arguments cannot explain why the 1980s oil shock triggered fiscal collapse in Nigeria but produced a different outcome in Indonesia. The literature on fiscal sociology (Yackee, 2004; Panizza, 2002) examines taxation's political support thereby suggesting that democratization tends to strengthen fiscal institutions which results in broadening the tax-base. By this logic, both Nigeria (post-1999 democratization) and Indonesia (post-1998 democratization) should eventually strengthen their fiscal institutions and broaden their tax bases. But in practice, Indonesia's tax effort was comparatively high by transition, while Nigeria's tax effort remained low even after democratization.

In a nutshell, the theories which are largely being used to explain the behavior of resource-rich states, tend to overemphasize oil rents as an independent variable without paying attention into how ruling coalition's interpret crises. My PCIM adds value by specifying that even though crises are necessary, they are not the sole determinants of reform because the key factor is the "survival calculus" of elites. When technocratic coalitions face an existential threat, they are more likely to pursue taxation and institutionalization in order to secure stable revenues. Meanwhile, patronage-based coalitions usually perceive taxation as threatening to their distributional bargains and discretionary spending (Joseph, 1987; Lewis, 2007). In the section that follows, I will demonstrate how Nigeria's crises experience produced a lock-in of the old system, while Indonesia's crises precipitated strategic shifts, consistent with the PCIM.

8.1 Crises as Fiscal Choice points

Based on the PCIM framework, major shocks such as oil price swings or debt crises serves as critical junctures that breaks the existing fiscal equilibrium. They create "punctuations" (Mahoney & Thelen, 2010) where the existing rentier-based revenue model no longer holds sway. During such periods, elites are faced with two choices. Either cling to old patterns such as diverting rents and borrowing or adopt new fiscal strategies which may include diversifying the economy, broadening taxation, and reform budgeting. The 1980s oil price collapse serve as a fiscal choice point for both Nigeria and Indonesia.

In the 1970s, Nigeria's economy was essentially a rentier economy where oil export revenues rose sharply after the 1973 and 1979 booms. According to Pinto (1987), "the share of oil in gross domestic product (GDP) and exports rose sharply after 1970-73", making fiscal revenues effectively oil dependent (p.420). By 1981, oil revenues have dominated the budget and when the international oil price plummeted in 1982-83, Nigeria's fiscal equilibrium suddenly unraveled as government revenue fell by a large margin as expected. Pinto (1987) also noted that "In all the years except those immediately following the two oil shocks, domestic absorption exceeded GDP and national disposable income" (p.420). By 1981, Nigeria's debt was rising rapidly especially after 1983 where the country's outstanding public debt grew by over tenfold, hence, outpacing Indonesia's less than fourfold increase during the same period (see table 7.1). In the same vein, Lewis (2007) noted that "Although both countries had episodes of imprudent borrowing and financial distress, Indonesia reveals better overall management of foreign obligations for much of the period under consideration" (p. 192). Table 7.1 below confirms this scenario. Due to how bigger Indonesia's economy is compared to Nigeria, the level of borrowing from public and private sector was relatively larger as expected. However, it is important to note that even in the case of Indonesia, borrowing was also mismanaged and not utilized efficiently considering the Pertamina crisis and other scandals related to controversial industrial projects (Lewis, 2007; p. 192). Nonetheless, up until the advent of the Asian Financial Crisis in 1997, Indonesia unlike Nigeria was able to carry a relatively manageable debt and also met its debt obligations without resorting to IMF of debt rescheduling arrangements (Lewis, 2007). As shown in table 8.1, Indonesia's debt to GDP ratio was far lower than that of Nigeria from the mid 1980s to the late 1990s. For both countries, the dimming of oil prospects led to mounting deficits, while debt servicing absorbed most of the budget.

However, by 1983-84, Nigeria was effectively as a fiscal precipice. Quantitative data confirms this breakdown. According to Pinto's (1987) analysis, Nigeria ran external current-account deficits in 1981-83, while IMF and World Bank data indicated that Nigeria's fiscal deficit shot up to double-digit GPD levels in the early 1980s, thereby pushing up its external debt to GDP ratio. Therefore, the choice point of either cutting spending and diversifying towards taxes or maintaining rentierism and borrowing more is crystal clear. The Babangida administration which took power in 1985, eventually agreed to IMF conditions of devaluating the naira and price liberalization but left tax policy largely untouched. Notably, the 1980s fiscal crisis pressured Nigerian elites but did not fundamentally induce them to restructure revenue sources.

Table 8.1: Nigeria and Indonesia's External Debt, 1970-2024

Year	Nigeria: % Of GDP	Nigeria: Billions Of USD	Indonesia: % Of GDP	Indonesia: Billions Of USD
1970	7	0.8	47	27.6
1975	6	1.7	36	11.5
1980	14	8.9	27	20.9
1985	66	18.6	42	36.7
1990	117	33.4	61	69.9
1995	121	34.1	62	124.4
2000	75	31.4	88	144.4
2005	17	29.1	46	132.1
2010	5	18.8	27	205.0
2015	7	32.4	36	307.7
2020	16	70.6	39	417.5
2024	43	108.8	30	421.1

Source: Lewis (2007), *World Development Indicators*

Indonesia was also affected by the 1980s oil shock which resulted in the decline of the country's oil earnings and the devaluation of the rupiah in 1983 and 1986. However, by the mid-1980s, Indonesia had already started diversifying exports and tightening budgets. Booth (1998) and Hill (1996) noted how the Indonesian government cut subsidies and investment but continued funding key rural and industrial programs. Although the issues of budget deficits emerged, they remained moderate and within the broad deficit target which says between 3-5 % of GDP by 1985, way below Nigeria's double digits. Unlike the case of Nigeria, Indonesia's elites managed the crisis through expenditure restraint and timely policy changes, including a significant devaluation in 1983 that stimulated non-oil exports. Therefore, the early 1980s shock also served as a choice point for Indonesia, but unlike Nigeria, Indonesia's technocrats steered a reform path via public spending cuts and exchange rate adjustments rather than disorder.

On the whole, both countries faced fiscal breakdowns in the same period, but the outcomes differed. The 1980s choice point led Nigeria into a spiral of debt and deficits, while Indonesia seized the opportunity to tighten policies and diversify the economy. Based on the PCIM, these contrasting choices were driven by coalition incentives which I will examine in the section that follows.

8.2 Coalition Incentives and Divergent Fiscal Strategies

The Political Coalition Incentive Model distinguishes two archetypal coalitions and their strategies during periods of economic crisis: a) Patronage-dominant coalitions, which prioritize rent distribution and discretion over resources, and b) Technocratic coalitions, which prioritize economic stability, legitimacy, and long-term growth. In Nigeria, post-independence politics produced patronage networks which were dominated by military and civilian elites from rival regions and ethnic groups (Joseph, 1987; Lewis, 2007). These elites derived their power from allocating oil rents to cronies, clients, and state institutions on a personal basis (Lewis, 2007). As such, taxation was viewed skeptically because it threatened this strategy by empowering a larger public and potentially imposing burdens on the elites themselves. Notably, even the structural adjustment programs (SAP) of the 1980s and 1990s was not able to break this pattern because borrowing, aid, and oil rents continued to underwrite the bargain (Biersteker & Lewis, 1997). As a result, Nigeria's coalition incentive was to resist broad-based taxation as long as rents and borrowing could fund patronage.

A 2018 IMF report bluntly notes that Nigeria's low non-oil revenue mobilization has sabotaged its development goals, hence reflecting how the elites pay little attention to tax reform (IMF, 2018). In fact, after the 1980s oil shock, Nigerian leaders resorted to heavy borrowing, currency debasement, and subsidized consumption to hold down social unrest, rather than diversify towards taxes (Pinto, 1987). The Nixon-era Washington consensus prescriptions were applied sporadically, but critical tax reforms never stuck due to a lack of reform coalition that has the incentive and power to force compliance (Salih & Szeftel, 1992).

By contrast, Indonesia's New Order coalition under Suharto was able to combine authoritarian patronage with a strong technocratic core. Suharto's strategy was unique in the sense that he relied on the military for security and political support and look up to his Berkely-trained technocrats for macroeconomic stability and long-term economic development goals (Robison, 1986). As Lewis notes “the new leader effectively delegated economic policy to a circle of technocrats, a strategy that became increasingly familiar in com- parable bureaucratic-authoritarian regimes in Asia and Latin America” (Lewis, 2007; p. 280). This is because the political legitimacy of Suharto’s regime was hinged on delivering public goods, growth, and economic stability. Obviously, high reliance on oil rents threatens this legitimacy due to its volatility and unpredictability. Therefore, when oil revenues began to decline after the early 1980s bust, these technocrats saw taxation as a means to diversify Indonesia’s revenue streams and secure a stable fiscal base (Soesastro, 1998, Heij, 2001). The impetus of this coalition translated into concrete policy episodes. For example, when Indonesia was facing a collapse of oil income in 1983, the technocratic finance minister Ali Wardhana spearheaded a comprehensive tax reform. He was able to replace ad hoc taxes with a modern income-tax law and also swiftly introduced a value-added tax (VAT) IN 1984 (Heij, 2001).

The VAT broadened the base to include consumption and also raised compliance through self-assessment. Notably, these reforms were politically feasible under Suharto’s authoritarianism but also required navigating elites’ interests. As Heij pointed out, “While Wardhana was the initiator of the tax reform process, the reform would not have been possible without then President Soeharto’s in-principle support” (Heij, 2001; p. 234). She described the 1981-83 tax law process as meticulously managed by government insiders and foreign advisers, thereby limiting rent-seeking and resulting in a significant boost of revenue. In the same vein, Indonesia’s selective austerity measures in the mid-190s via cutting subsidies and non-essential spending (even though selective) were concrete evidence that elites placed long-term fiscal health above short-term patronage during the crisis (Hill, 1996; Booth, 1998). After 1998, Indonesia’s post-crisis democratic government was still populated by many old-line technocrats, hence, explaining why the new government maintained fiscal consolidation. For example, a sweeping tax amnesty was offered only after strengthening enforcement, while new anti-corruption measures were introduced to protect the tax base (World Bank, 2007). The end result was visible because by the 2010s, Indonesia’s non-oil tax revenues dominated the budget, with oil and gas contributing only about 5-6% of GDP. Recently, the composition of Indonesia's tax revenue also reflects this historical legacy. A 2025 OECD report show that corporate income taxes and VAT accounted for about 62% of total tax revenue, hence, demonstrating a broad-based system that is less reliant on any single source of revenue (OECD, 2025).

On the other hand, Nigeria's revenue evolved very different as Tax-to-GDP remained at 8.2% as of 2023 according to recent harmonized OECD data, while oil still dominates the budget mix (OECD, 2025). The same OECD report notes that in 2023, Nigeria's oil royalties and fees equaled 5.9% of GDP, nearly matching total tax revenue (OECD, 2025). In other words, Nigeria still depends as much on oil rents as on all tax collections combined. Therefore, the tax structure remain skewed because a large share comes from consumption taxes and import levies, with only minor income tax yields. This is the legacy of elite choices where multiple attempts at reform such as the 1994 VAT and revampment of tax agencies in the 2000s were undermined by fraud, tax holidays, and continued patronage (IMF, 2018). Meanwhile, when crises hit during the 2014-16 oil price slump, political leaders famously delayed major cuts by resorting to new debts, fuel subsidies, and even raided pension funds (World Bank, 2019). Based on our PCIM, Nigeria's patronage coalition treated taxation as a last resort by preferring lending and squeezing the ordinary state apparatus.

On the whole, it is evident that coalition incentives shapes policy responses to economic crisis. Indonesia's technocratic core saw taxation and institutional reform as necessary survival tools, while Nigeria's patronage coalition perceived them as existential threats. The empirical patterns observed align with this mechanism. Indonesia's recurrent crises led to stepwise institutional innovation which included tax law reforms, VAT adoption, and improved customs administration which led to rising tax effort and stabilized the tax-to-GDP ratio at 12% as of 2023 (OECD, 2025). However, Nigeria's parallel crises led instead to persistent budget deficits and overwhelming debt crises, with no substantial shift in revenue strategy. According to the IMF (2018),"a broad-based and comprehensive tax reform program is needed" to break Nigeria out of its recurring rentier pattern, a recommendation has so far been only partially realized (IMF, 2018).

8.3 Path Dependence and Institutional Persistence

The Political Coalition Incentive Model (PCIM) explains why in both of the countries under study, their fiscal pattern persisted even after their transitioned to democracy. Between 1998 and 1999, both Nigeria and Indonesia transitioned to democracy, but their inherited coalitions and institutions bore the imprint of the earlier era. In Indonesia, the post-Suharto government largely retained the fiscal framework that was built by the technocrats. For example, the Ministry of Finance and the Directorate-General of Taxes kept many of the same bureaucrats and policies, albeit with new political oversight (Hadiz & Robison, 2005). It is worth noting that post-1999 decentralization efforts did complicate revenue collection, but the core reliance on VAT and income taxes remained intact (OECD, 2025). As a result of Indonesia's regime not dismantling the old technocratic networks, the positive incentives to maintain and deepen tax collection endured (Robison & Hadiz, 2004).

Therefore, a relatively strong fiscal state with institutionalized budgeting, auditing, and tax administration was handed over to the new democratic era. By contrast, Nigeria's democratization in 1999 saw a mere reconfiguration of the same patronage coalitions as previous high-ranking military officers and government officials became governors and ministers under the new democratic government. Civilian presidents continued the old pattern of exploiting oil rents and borrowing, often in collaboration with military and regional kingpins (Lewis, 2007; Diamond, 2007). Crucially, by 1999 Nigeria hasn't developed a robust fiscal bureaucracy as the Federal Inland Revenue Service (FIRS) and other agencies remained weakly staffed, while federalism fragmented revenue rights. Therefore, without a technocratic coalition that has the incentive to diversify revenue source and enforce broad taxation, the early 2000s governments continued to favor devolution of oil revenues to states via the 1999 derivation principle, rather than making substantial efforts towards tackling federal tax weakness (Suberu, 2001).

These trajectories illustrate an attribute of path dependence which resulted in the lock-in of institutional reforms and the lack of them until today. Drawing my cue from the state-capacity literature, one sees that early choices matter profoundly as bureaucratic routines and vested interests surround policies over-time (Acemoglu & Robinson, 2012; Mahoney, 2000; Mahoney & Thelen, 2010). Nigeria's inherited fiscal institutions in the early years of democratization were structurally weak and as such, the democratic governments could only operate within a limited framework (Lewis, 2007). While on the other hand, Indonesia inherited a system that is relatively stronger, so democracy was able to build on it. As North et al. (2009) argued, Indonesian elites learned during the periods of crisis to value tax revenues as a public good. However, such learning was absent or rather incomplete in the case of Nigeria. Drawing on the PCIM framework, once a coalition has decided on a revenue model during crises, it tends to reproduce that model unless another devastating crises occurs, or a different coalition emerges. Since no technocratic coalition emerged in Nigeria post-1999, its rent-dependent model persisted even into periods of high oil price volatility. Conversely, even during periods where Indonesia's leadership was dominated by populist politicians, the established fiscal institutions were able to hold, hence supporting my argument that earlier choices become self-reinforcing over time.

8.4 Theoretical Implications of the PCIM

The above comparative evidence from Nigeria and Indonesia supports the core proposition of my Political Coalition Incentive model and also suggests its broader applicability. The first proposition is one of (Crisis Dependency), where economic crises disrupt the rentier equilibria. However, crisis in itself does not automatically guarantee reforms. In both Nigeria and Indonesia, external shocks were needed to trigger any fiscal reckoning. In ordinary times, neither coalition of Nigeria or that of Indonesia gave up rent dependence voluntarily. The second proposition is that of (Coalition Incentives), in which the nature of the ruling political coalition mediates the crisis-to-policy link. Where technocratic-developmentalist elites like that of Suharto are in power, the coalition will reorient policy towards taxation and fiscal order because they view predictable revenues as essential to providing public goods, achieving long-term development agendas, economic stability, and also ensuring programmatic legitimacy. Conversely, were patronage-dominant elites being in power during crisis (as in the case of Nigeria), the coalition will basically resort to extensive borrowing and prioritize short-term distribution of rents via subsidies, even at the expense of long-term macroeconomic stability. The third and last proposition is (Path Dependence), whereby once policies become institutionalized, these choices tend to persist even through regime transitions. The post-authoritarian patterns in both Nigeria and Indonesia confirm this logic as Indonesia's new democracy inherited a tax-oriented system while Nigeria inherited an oil rent dependent system.

Boundary conditions of the model could include the level of authoritarian control and external constraints. In highly repressive regimes like that of Suharto, technocratic reforms can be implemented with little public debate, whereas in more open systems, anti-tax law forces might be able to resist change. Also, a coalition's orientation may evolve over time as in the case of Indonesia which moved from Suharto's Order Baru development idea to populism after 1998. Nonetheless, the PCIM model yields testable implications. One would predict that other oil-rich countries with strong technocratic legacies (as in Malaysia under Mahathir or Botswana's paternalistic state) would be more likely to show crisis-driven tax reforms, whereas truly prebendal systems (as in Iraq and Venezuela under Chavez) would be more likely to resist them. Future work could operationalize coalition composition in terms of military vs civilian primacy or elite's insider networks in order to test the PCIM across cases or over time. To sum it up, my analysis validates the PCIM as a useful framework by explaining the Indonesia and Nigeria divergence in causal terms rather than tautology. Indeed, crises served as critical junctures but only in Indonesia did the elite coalition translated it into a moment of fiscal strengthening, while in Nigeria, such moments were ceded to the logic of patronage. The model thus provides a nuanced theory of resource fiscal policy that brings together institutional theory with elite agency.

CHAPTER IX

CONCLUSION

9.1 Summary of Findings

This thesis set out to unravel a puzzle: why and how Nigeria and Indonesia, two resource-rich developing countries that started with similar structural conditions, end up diverging sharply in terms of their fiscal development. The two countries benefitted from the oil windfalls of the 1970s, suffered from the collapse of global oil prices in the 1980s, and also went thorough democratic transitions in the late 20th century. However, only Indonesia was able to diversify its economy and build stronger fiscal institutions centered around taxation, while Nigeria on the other hand remained heavily entrenched in oil rents dependence. Hence, resulting in having a comparatively weaker fiscal capacity.

Existing explanations rooted in rentier state theory and the resource curse literature provide important insights into the consequences of resource dependence, but they cannot adequately explain why two countries exposed to similar structural conditions produce divergent outcomes. Therefore, my thesis sought to draw attention to how political coalitions shape state responses to economic crises and how their decisions ultimately influence the long-term development or under-development of fiscal institutions. Through a comparative analysis of Nigeria and Indonesia from the 1970s to the later period after democratization, the study demonstrated that economic crises do not automatically lead to fiscal reforms. Rather, these periods of devastating economic crises serve as critical junctures which disrupt the existing rentier equilibria, thereby compelling the political elites to reassess their strategies of political survival. In this situation, the direction of institutional change largely depends on the incentive structures of the ruling coalition.

To adequately capture this dynamic, I bring together insights from historical institutionalism and rational choice theory to develop the Political Coalition Incentive Model (PCIM), which argues that during periods of crises, coalition incentives mediate the relationship between economic crises and fiscal transformation. The empirical evidence strongly supports our argument. The case of Nigeria shows how power became increasingly embedded within a patronage-based political coalition whose survival mechanism is organized around patronage distribution to political allies, loyalists, regional constituencies, and influential networks. As a result, periods of economic crises such as the 1980s collapse in global oil prices, structural adjustment periods, and the 1999 democratic transition failed to produce any sustained action towards diversifying the economy away from resource rents. Rather, Nigeria's political elites repeatedly relied on renewed oil revenues, external borrowing, and distributive politics to preserve their existing patronage arrangements. As a result, the fiscal institutions remained weak, tax effort stagnated, while state capacity continue to be constrained by entrenched political interests despite repeated episodes of economic crises.

Meanwhile, Indonesia challenged rentier assumptions by following a distinct course. Even though the New Order regime under President Suharto was inherently patrimonial, the regime was also characterized by a technocratic core which was given considerable leeway to ensure macroeconomic stability and long-term economic development of the country. The 1980s oil bust presented this technocratic core with an incentive to diversify Indonesia's revenue stream because they are aware of the fact that the regime's ultimate survival and legitimacy rests on provision of public goods and ensuring economic performance, which can only be achieved with stable revenue inflow. This dynamic led to the landmark 1983 tax reform and other broader efforts towards fiscal institutionalization. As tax base became broader and fiscal institutions became modernized and efficient, dependence on oil revenue gradually declined as more predictable revenue base gradually emerged to support Suharto's long-term development plans. Crucially, these reformed fiscal institutions survived the democratic transition and continued to shape Indonesia's fiscal trajectory. Therefore, the comparative analysis shows how economic crisis can open up opportunities for institutional change. However, whether or not these opportunities presented are taken advantage of, ultimately depends on the incentive facing the ruling political coalition.

9.2 Contributions and Policy Implications

The findings of this study contribute to several important academic debates. First, the evidence challenges the deterministic argument of rentier state theory which implicitly implies that resource wealth almost inevitably results in under-taxation and weak institutions. Indonesia's experience demonstrate that resource-rich states are capable of escaping the rentier-trap under certain political conditions. Second, the study enriches historical institutionalist and rational choice literature by demonstrating how critical junctures alone do not produce uniform outcomes. Rather, their effects are mediated through incentives and strategic calculus of political actors. Third, the study also advances fiscal sociology literature by identifying how taxation in resource-rich countries doesn't merely constitute an instrument of revenue collection, but a political choice shaped by crises and elite incentives.

Broadly speaking, the Political Coalition Incentive Model developed in this thesis, offers a comprehensive framework for understanding how the structure of political coalitions influences fiscal development across resource-rich states. By so doing, it provides a bridge between structural explanations and actor-centered approaches. Lastly, the study also carries practical policy implications. Efforts to strengthen fiscal capacity in resource-dependent developing countries are often centered across administrative reforms, technical assistance, and improvements in tax collection. While these measures are inarguably crucial, our findings point to the fact the durable fiscal reforms ultimately depend on political incentives and constraints. Tax systems become stronger when ruling coalitions are incentivized to start perceiving institutionalized taxation not as a threat, but rather as supportive of political survival, economic stability, and regime legitimacy. However, reforms are likely to remain stagnant or become sabotaged when elites' political survival depends primarily on rents distribution. Therefore, understanding these political dynamics is essential for policymakers trying to champion sustainable fiscal development.

9.3 Limitations and Directions for Future Research

Importantly, several limitations of this study are acknowledged. First, the analyses focus on two countries, which limits the extent to which its conclusions can be generalized. While Nigeria and Indonesia provide valuable comparative advantage with respect to their numerous similarities and subsequent divergence, other resource-rich states might present different political dynamics. Therefore, future research could employ broader cross-national datasets in order to test the PCIM across a wide range of cases and contexts. Second, the analysis concentrated primarily on national level; political coalitions, leaving an avenue for further investigation into the role state level political actors, civil society organizations, and international institutions in shaping fiscal outcomes.

Therefore, these limitations point toward several promising areas for future research. This could involve a comparative analysis to examine whether our PCIM can travel across other resource-rich countries like Malaysia, Angola, and the Gulf states. Scholars could also explore how contemporary challenges in energy transition policies, declining hydrocarbon demand, climate-related fiscal pressures, and digital taxation continue to reshape elite incentives and state revenue strategies. Such research endeavors will deepen our understanding of how fiscal institutions evolve under changing global conditions. Ultimately, this thesis underscores that structure is not destiny and resource wealth alone is not the sole determinant of fiscal outcome. The future of fiscal development is shaped not by the presence of natural resources alone, but by the ruling political coalitions who decide how states respond to crises when resource revenue can no longer sustain existing systems of power.

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