

## **RATIONALE FOR CHANGING OUR UNITARY POLITICAL SYSTEM INTO A FEDERAL POLITICAL SYSTEM.**

**By Dr. Jose V. Abueva**

**We propose “existing revenue generating capacity” as the basic criterion for whether a grouping of cities/provinces can become a viable federal state.**

I have not seen a paper explaining the logic of the division of the country into eleven federal states.<sup>57</sup> We have simulated the distribution of revenue to the eleven proposed states based on the formula in the PDP proposal.

We wanted to know if federal regions - given the Pimentel formula - can provide for its needs, holding its revenue effort and economic activity (from which it generates taxes) constant. Unfortunately, our simulation shows that of the eleven proposed states only the "Federal Administrative Region of Metro Manila" would not require a subsidy. It would put a big burden on the Equalization Fund.

More disturbing, it would replicate the existing system with its attendant political problems. Ten federal states would continue to be dependent on the central state. Though I have not seen a formula for redistributing tax powers to the states, a radical redistribution of revenue presumably would require this. Even if we assume that the extent of dependence would be lessened as a result, lessening dependence would depend on what incentives there are to encourage the states to collect taxes. At best, there would have to be a long enough transition period to allow the new federal states to develop the bureaucratic skills to collect taxes and more difficult still, for democratic accountability to set in.

**We would like to propose an alternative formula for crafting what the federal states will be. To lessen dependence on central government at the point of change (instead of hoping/waiting for change in the right direction), we propose existing revenue generating capacity as the main criteria for whether a grouping of cities/provinces can become a federal state.** There is a need to find out optimal political-economic subdivision before planning a transition to an asymmetric federal system. One must consider how existing political units connect with each other in terms of demographics, migration traffic, trade, and various socio-economic activities, in consideration of dispersion and location of existing government structures.

**What we propose is a city-based asymmetric federal system.**<sup>38</sup> The Philippine Institute for Development Studies (PIDS), in a policy note "Metropolitan Arrangements in the Philippines: A New Urban Development Challenge" issued on December 1998 (derived from a paper by Ruben G. Mercado and Rosario G. Manasan), identified several of these emerging "metropolitan arrangements" or conglomeration of a highly urbanized city and LGUs contiguous to it.

- **Metro BLIST** (formerly Metro Baguio) stands for Baguio, La Trinidad, Itogon, Sablan and Tuba. The area has also been identified as a major component of the North West Luzon Growth Quadrangle.
- **Metro Manila** came about as a conscious policy decision at the national level. A referendum paved the way for Presidential Decree 824 in 1975 which gave Metro Manila its present jurisdiction and created the Metro Manila Commission (MMC).
- **Metro Naga**. Naga City spearheaded the conceptualization of a Metropolitan Naga Development Program (MNDP) which provided the framework for the development of the

area composing Metro Naga and the required organizational machinery to orchestrate the development activities identified.

- **Metro Cebu**. Many infrastructure projects in Metro Cebu were carried out under the Central Visayas Regional Program. In 1997, the Regional Development Council for Central Visayas passed a resolution creating the Metro Cebu Development Council (MCDC).
- **Metro Iloilo-Guimaras** (MIG) / Iloilo-Guimaras Metropolitan Area is a metropolitan area encompassing the highly urbanized city of Iloilo City, the Regional Agro-Industrial Center of Pavia, the towns of Oton, Leganes, Santa Barbara, San Miguel and the neighboring island of Guimaras.
- **Metro Cagayan de Oro** is a product of the integrated area development (IAD) approach. Metro CDO was packaged as an SDP of which the Cagayan de Oro-Iligan Corridor (CIC) Project is a major component.
- **Metro Davao** refers to Davao City and the three provinces surrounding it: Davao del Norte, Davao del Sur and Davao Oriental. The Regional Development Council of Southern Mindanao proposed a development project encompassing all the Davao provinces calling it the Davao Integrated Development Program (DIDP).

**These seven<sup>59</sup> federal states are not all self-sufficient. Some may need grants from an Equalization Fund, but they all have proven Revenue Generation Capacity.** If cities are already doing a better job collecting taxes, what additional powers can be given to them so they not only do a better job than they are already doing, but are willing and able to incorporate adjoining, less prosperous provinces/municipalities. These additional powers should not only provide incentives to the newly created federal states, they should also serve as incentives for those provinces/municipalities which have not been granted federal state status.

Thus you not only set a transition period for implementing these changes, you also allow the formation of new states in the future. The Con-Com draft (2005) also introduced the idea of what can be called 'creeping federalism', wherein local government units would take the initiative in determining the boundaries of federal states and when they would claim federal status. You should make "federal state" status attractive enough for those not yet in the system to aspire to the status. Here the main criteria will still be revenue generating capacity, plus a mix of criteria perhaps taking off from the Aquino period "seal of good housekeeping" and the DBM's financial management standards.