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Tamayo, Adrian

University of Mindanao

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# **Assignment of powers and number of states in Federal Philippines**

## *Discussion paper on federalizing Philippines*

Adrian M. Tamayo  
University of Mindanao, Davao, Philippines

### **Abstract**

This paper argues that the number of states or regional units the Philippine should have when it will federalize the country must be limited to 5. This claim meets the Samuelsonian principle of welfare theorem where marginal social cost is equal to marginal social benefit.

The paper also argues that the states or regional governments should have the limited to earn revenue through taxing powers which will be used to spend for government operations. In this manner, efficiency is achieved and control of the federal government on the affairs of the states and regional governments is limited primarily to transfers through equalization parameters.

*Keywords: Fiscal powers, Philippine federalism, welfare analysis*

### ***Introduction***

The complexity in the determination of the number of states in a Federal Philippines lies on determining what is socially optimal. It is determining the number of powers and the fund requirement to operate the public services assigned to it. Thus, it is on the powers to be distributed to the levels of government and on how to fund the services that will be handled by the states and their local governments.

### ***Assignment of powers***

Among political scientists, the debates on the number of states drift from five (5) states, seven (7) states, to twelve (12) states. The determination of the powers, both governance and fiscal, at times describe only the surface of dynamic political theories and pragmatic approaches derived from literatures. Here, let me contribute by infusing the economics of federalism. This is to breathe economics view on the federalization process. Again, at the end of the day, it is economics.

First, let me share the principles used in assigning powers to the tiers of government. The tiers of government are the federal, state and local governments. These tiers maintain exclusive, primary and concurrent powers.

The first principle in assigning power is on the control on the geographic area that would internalize the benefits and costs of providing a public service. These are those powers which Oates (1972) and Tiebot (1956) describe as the proximity criteria of the government to its citizens, and these powers must be assigned to the State such as education, social services, public safety.

Suppose that the public good requires technology and the nature of the public service is private and rival, this power will be assigned to the state. An example of this is welfare services. When a welfare service is provided, the service becomes 'private rival' goods which means that a consumption of it will deny somebody else to use it. Quigley (1997) assigns this power primarily to the state upon support of the federal because there is a compensating variation on the welfare of the citizens.

Using the Hicksian principle (Hicks, 1943; Chipman & Moore, 1980) , citizens will be subsidized in order to achieve the same benefits after the change in the provision of service. Likewise, those who prefer the old service before need to pay for an amount, this is called equivalent variation. Example of this is a government hospital. Those who need most of the services will need to consume the optimal quantity of medical service, which is lower than private service. Those who wanted to enjoy the medical service better than the average provision need to pay higher.

Another criterion that is useful in determining assignment of power as set forth by Ribstein and Kobayashi (2006) is the exclusivity principle of consumption being limited by geography. If a public service is enjoyed by a limited geography such as street infrastructure, education, local fire protection, then these must be left to the state government. Other economists who studied federalism like Bardhan (2006) who studied the Indian federalism, University of Maryland Professor Wallace Oates, and the Scottish economists McDonald & Hallwood (2004) agree that community-specific goods be given to the state.

Suppose that the public goods being provided have spillover costs or even benefits across locations Chandra (2012) suggested that this must be assigned to the federal government given their federalism experience in India. An example of public service with spillover effects is pollution or export processing zones for job creation. Also, if the provision of the public goods has presence of free-rider, then that power must be assigned to the federal government. A free-rider in economics happens when those who benefit from the resources do not pay for it (in the form of tax). If the public goods are consumed by varied population, this has to be assigned to be with the federal government.

When production cost is zero for additional unit of public good, then it is better be left to the federal government. This means that an additional benefit afforded to another citizen accrues zero marginal cost such as provision of national defense, Berkely law professor

Daniel Rubinfeld and University of Pennsylvania Robert Inman (1997) qualify the superiority of federal government in providing these types of services.

Then given these criteria, there is no doubt that the state and local governments will have more powers than the federal government. The government is pulled nearer to the citizens. Primarily, these are the powers like education, health care, police, public works, public utilities (limited to distribution; generation will be with the federal), labor relations, dwellings, natural resources, land transportation, courts (there are also federal courts), trade and industry (inter-state commerce will be within the powers of federal), ancestral rights and cultural services, the local government. These are just few samples of the list, but for the purpose of simplicity, we will limit it with these powers to be consistent with comparable budget portfolio of the 2017 budget.

### ***Budget requirement and number of states/regional units in proposed Federal Philippines***

An initial computation based on the 2017 budget, the operational costs will be 2.122 trillion. In a five federal states, each state will operate on P424.51 billion; 7 states will operate with P303.22 billion and 12 states will have P176.88 billion to use. This is an accumulated budget; we could dig deeper to the level of population for each state in the proposed number of states. But then again, a huge government budget is always a desired condition. Having more states will mean smaller budget. We cannot make a design of government that will fail. We can make, in the initial three (3) lead states, and then add two (2) more by 2022, if it warrants by income then add two more by 2028. However, this country can only limit itself up to seven (7) states. Beyond this number will become socially inefficient, a condition where the Samuelsonian (1954, 1955) principle of the marginal social benefits is equal to the marginal social cost is not met. Simply saying, the ability of the government in providing the public services is higher than the revenue ability of the government to fund these services.

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