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‘Careful with federalism’

by Othel V. Campos – August 13, 2018

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Business groups warn lawmakers of risks, costs of new gov’t system

INFLUENTIAL business groups on Sunday called on lawmakers to carefully weigh the costs and risks associated with the proposed shift to a federal system of government.

In a joint statement, the Philippine Chamber of Commerce and Industry, The Employers Confederation of the Philippines, the Financial Executives Institute of the Philippines, The Management Association of the Philippines, the Philippine Exporters Confederation Inc., The Makati Business Club and the Cebu Business Club threw their support behind Finance Secretary Carlos Dominguez III and Economic Planning Secretary Ernesto Pernia, who have expressed reservations about the draft federal constitution prepared by the Consultative Committee (Con-Com) created by President Rodrigo Duterte.

“We, too, believe in the need to adhere to the public finance principle ‘funds follow function,’” the groups said in their statement. “Accordingly, we echo the concerns of fiscal and economic experts about the ambiguous provisions on the division of revenue and expenditure responsibilities between the proposed federal government and its federated regions.”

They said the shift to a federal form of government would cost from P72 billion to P130 billion, and result in a fiscal deficit of 6.7 percent of gross national product (GDP), which is far beyond the sustainable 3 percent target set by the country’s economic managers.

“We worry about the dire consequences that such fiscal imbalance could have on the economy and the flagship Build Build Build program of the current administration. We commend the economic managers in the Department of Finance, the Department of Budget and Management, the NEDA, the Bangko Sentral ng Pilipinas, as well as the researchers in the PIDS for their transparency in openly sharing their analysis and airing their concerns to the public,” they said.

The business groups said they support the call for a more detailed analysis of the fiscal impact of federalism to serve as basis for the deliberations in Congress.

They also encouraged a full, open, and dispassionate dialogue on the proposed shift in form of government, keeping in mind its long-term impact on future generations of Filipinos.

Senate President Pro Tempore Ralph Recto, meanwhile, said the country’s economic managers were “integral and indispensable” to the national conversation on federalism.

“You don’t shut them out of the discussions; you bring them in--because the cost of federalism is front and center of the issue,” Recto said.

Recto said those who raise revenues and manage the economy “can provide a reality check if a proposal is financially feasible and fundable.”

“Before we communicate what federalism is, can we not first calculate what its cost will be?” he added.

“Every proposal has a cost. Scratch the surface of every provision of a bill, and there is a price tag underneath. We are often told the benefits of a project but not the price,” he said.

While he himself does not often see eye to eye with the views of the economic managers on many issues, “I listen to them, value their views, and appreciate where they’re coming from.”

“Because at the end of the day, it is they who will raise the revenues in implementing proposals we politicians love to sponsor,” Recto said.

“In the case of Finance Secretary Dominguez, he must raise P10 billion a day to finance the operations, the programs of this government. And collecting this P10 billion daily quota from the people is a thankless job,” Recto said.

“That’s why when the Finance secretary says, wait, let’s see how much this is going to cost, let’s listen to him. He could be wrong, but it is to our benefit... [to] listen to him,” Recto said in a mix of English and Filipino.

Recto said every proposal, like federalism, should undergo a fiscal responsibility check. “There’s a four-way test. What is the cost to implement it? Do we have the money for it? Do we have to raise taxes or impose fees or create savings or borrow money? What is the per capita burden it will impose?”

“Running the numbers is a politics-free exercise. You cannot bend it to suit one’s position. If it is financing federalism, then the results of the studies and simulations should be the basis of how to move forward,” Recto said.