



Fixing Philippine Public Finance *Is Federalism the Answer?*

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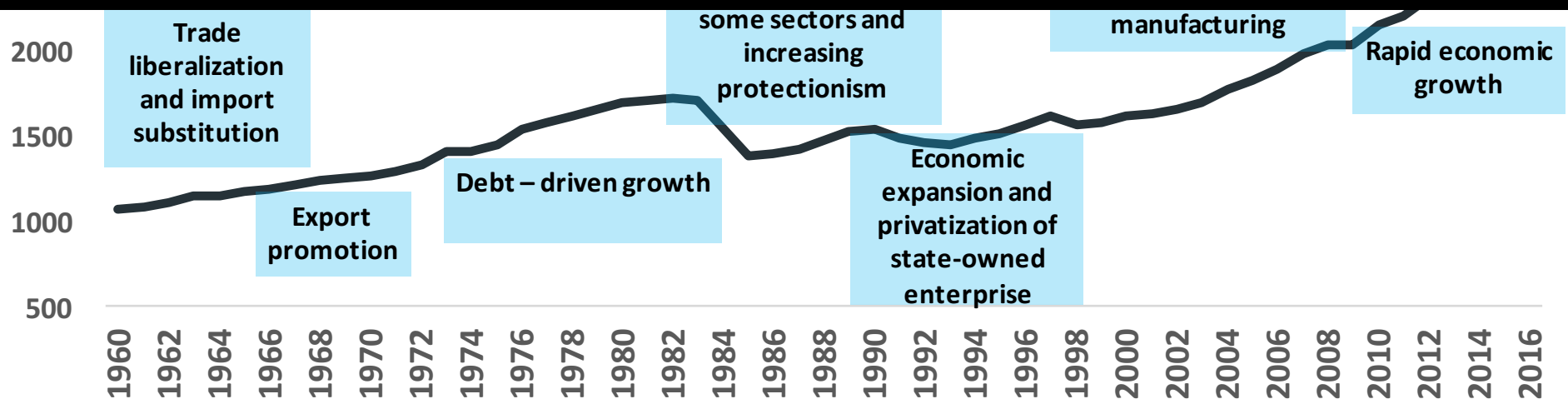
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Two lost decades...



TWO FOLD INCREASE IN THE ECONOMY, 1960 TO PRESENT



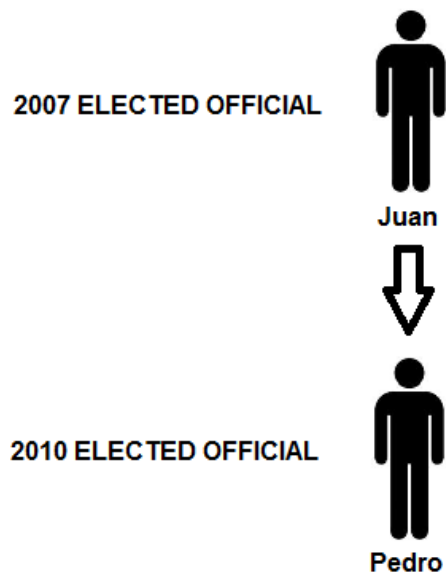
MONOPOLY + DISCRETION – ACCOUNTABILITY = CORRUPTION



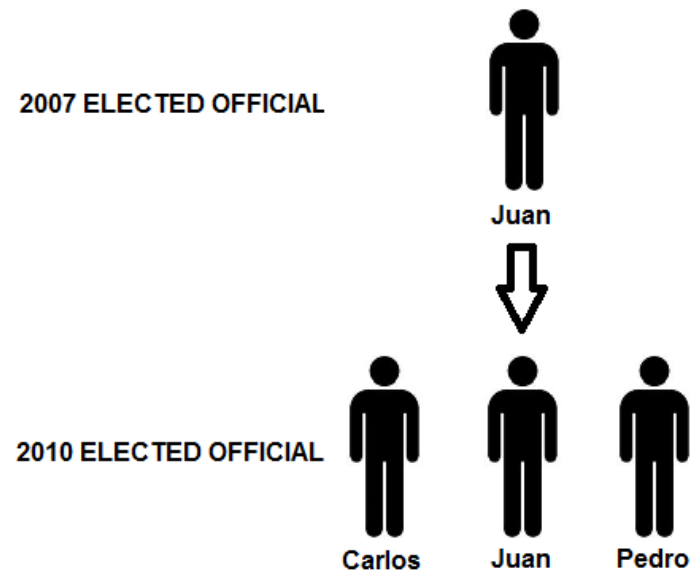
POST-MARCOS ERA:

RISE OF MINI-DICTATORSHIPS?

- THIN DYNASTY



- FAT DYNASTY



Rationale for Decentralization

- Governance **closer to the people** to increase efficiency and welfare gains.
- 1991 **Local Government Code** devolved substantial spending, taxing, and borrowing powers to local government units.
- Challenge to **match resources** (i.e. own source revenues and transfers) with expenditures at the LGU level.
- Where are we now? **IMPERIAL MANILA VS DYNASTIC COUNTRYSIDE**



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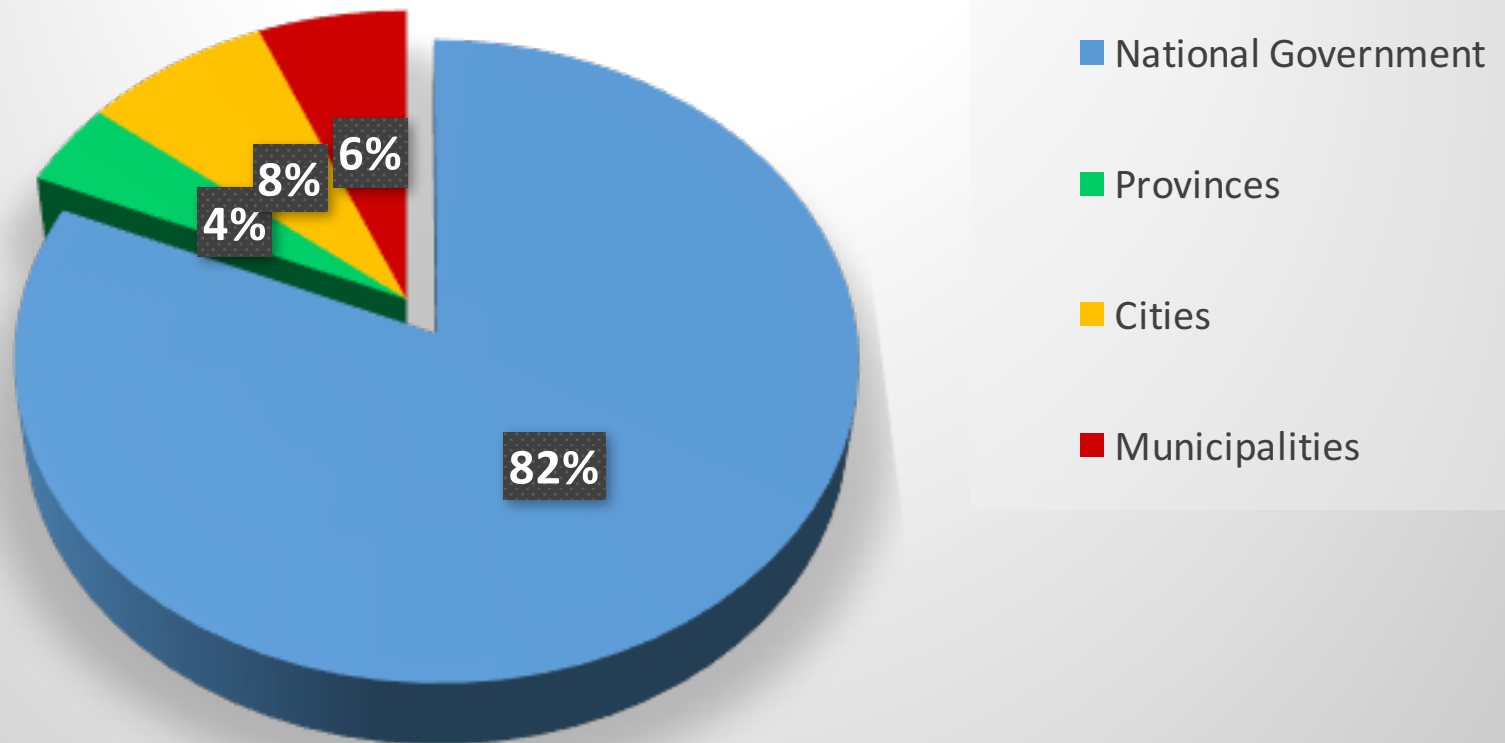
Is imperial Manila the problem?



- Beneficiary of a disproportionately larger share of public spending;
- Controls public spending allocations to the LGUs;
- Passes on unfunded mandates to the LGUs.

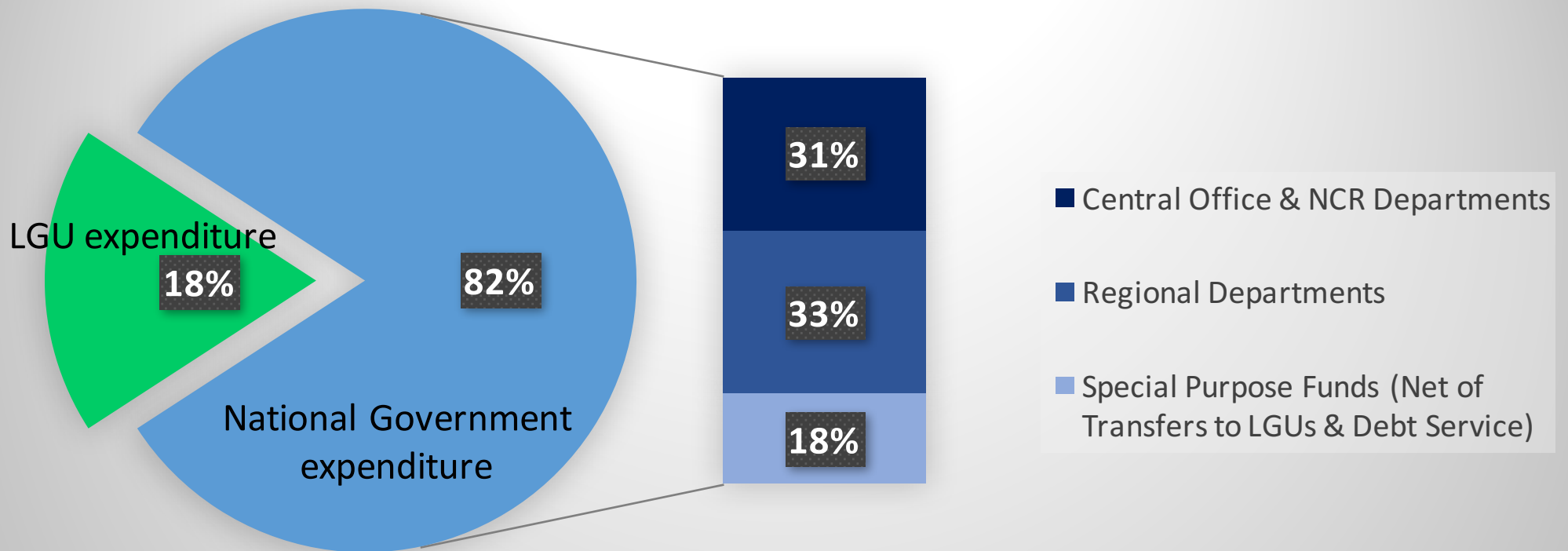
What is “imperial” about Manila?

Revenue composition, by government level (2014)



Source: Department of Budget and Management, <http://www.dbm.gov.ph/wp-content/uploads/BESF/BESF2016>

Government Expenditure breakdown (2014)

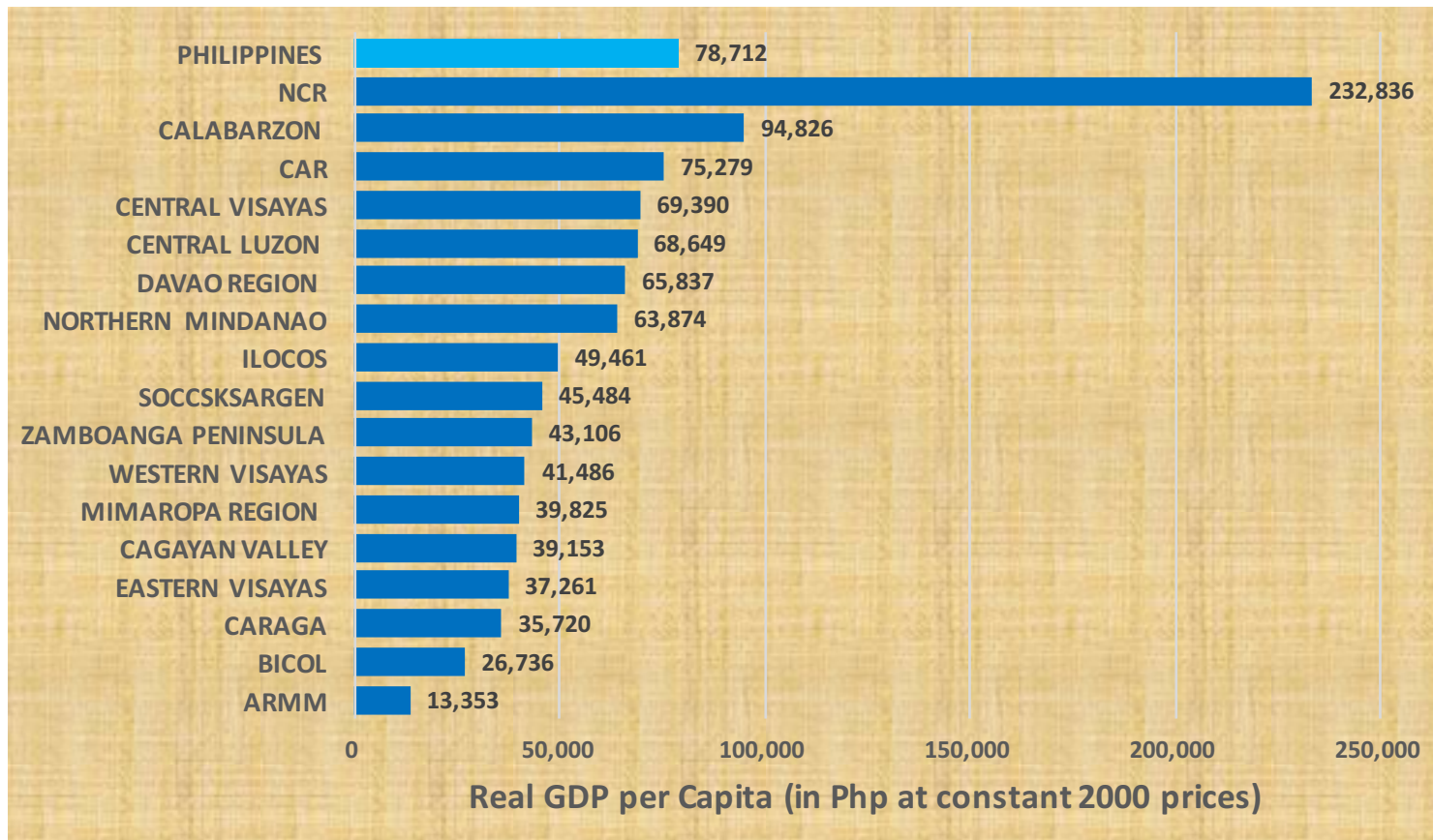


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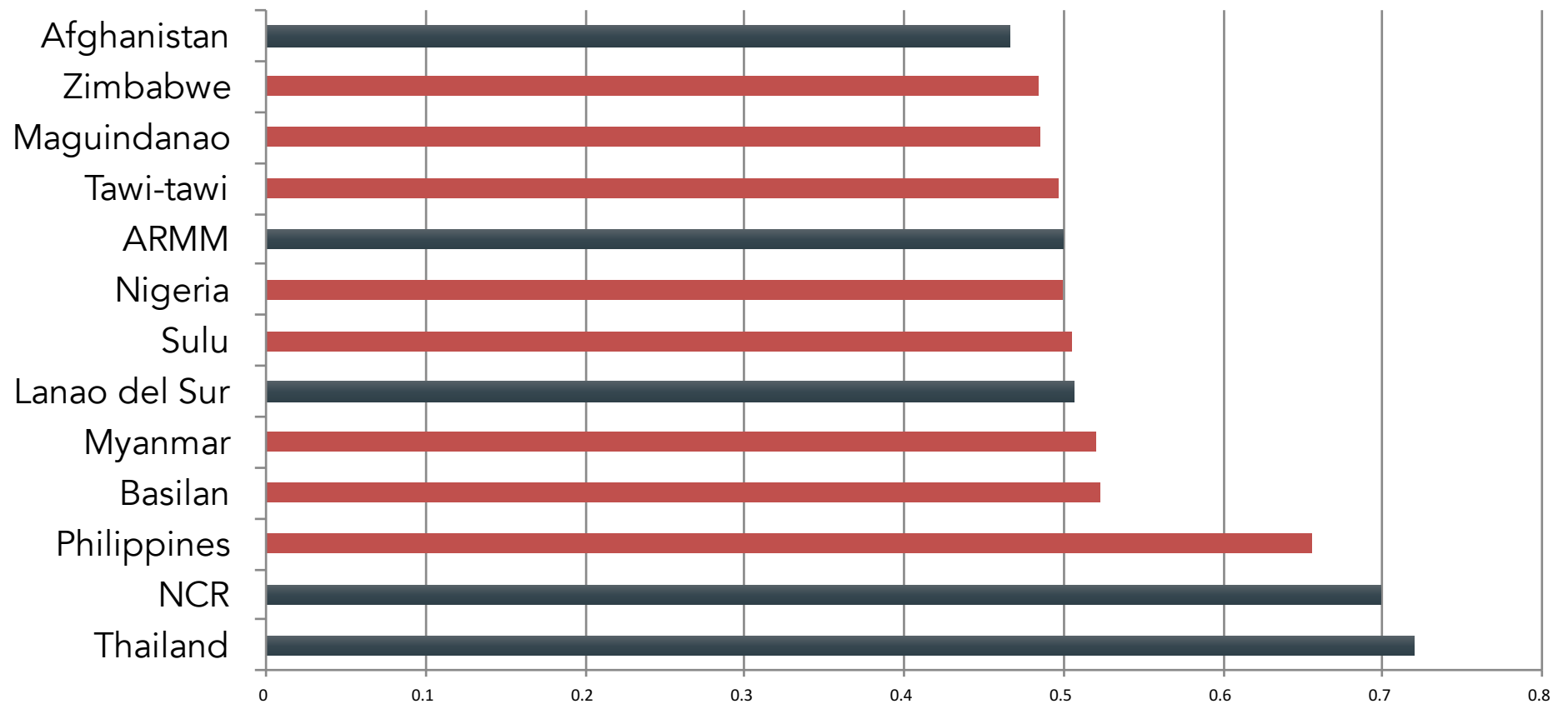
**60% of GDP
concentrated
in only 3
regions in
Luzon**

Regional Real GDP per Capita, Philippines (2016)

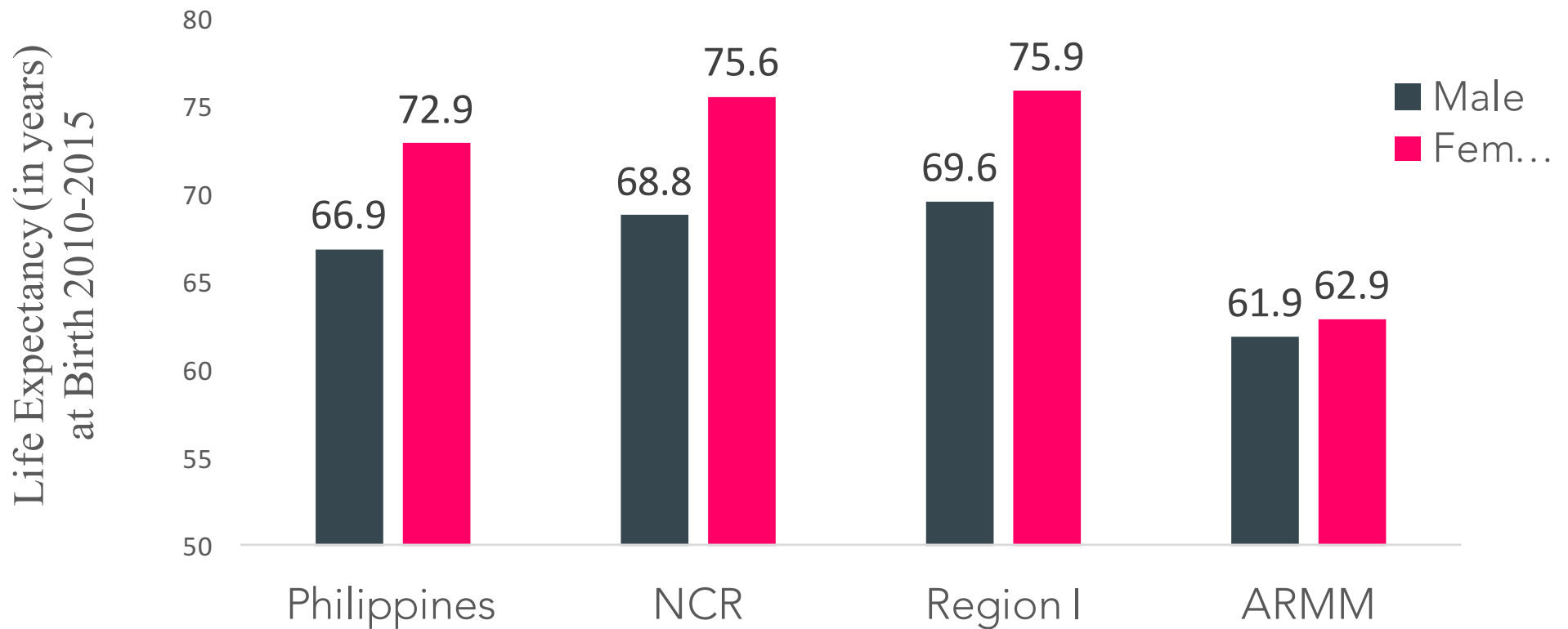


Source: Philippine Statistics Authority

Inequality in Human Development



Inequality in Life Expectancy



Seniorita Citizens



Free consultation. Discounts on medication.
Cakes on their birthday. Cash gifts.
And all the movies they want to see for free.
In Makati, life begins at 60.

Ang ganda ng buhay sa Makati



Jejomar Erwin S. Binay Jr.
Mayor

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IMBALANCED LOCAL GOVERNMENT FINANCE



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If Imperial Manila is a problem for development, then is the dynastic countryside any better?

Average Dynastic Share (2007 – 2016 Elections)

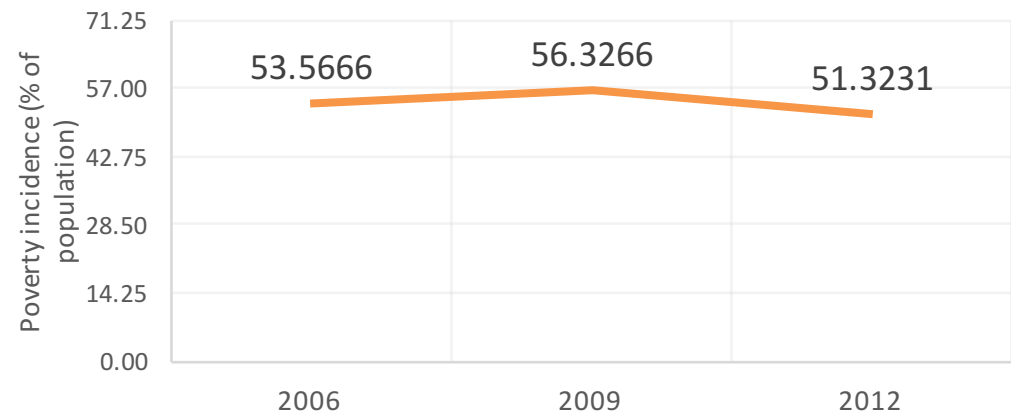
Position	Dynastic share (in %)			
	2007	2010	2013	2016
Governor	69.6	82.3	86.3	81.3
Percentage increase/decrease		12.7	3.97	-5
Vice Governor	62	70.9	75	81
Percentage increase/decrease		8.87	4.11	6.01
Representative	75.3	78.7	75.3	77.5
Percentage increase/decrease		3.44	-3.46	2.25
Mayor	57.6	67.2	67.5	68.8
Percentage increase/decrease		9.6	0.3	1.3
Vice Mayor	40.6	51.2	52.6	56.9
Percentage increase/decrease		10.6	1.4	4.3

**81% of Governors. 78% of Congressmen.
69% of Mayors. 57% of Vice Mayors.**



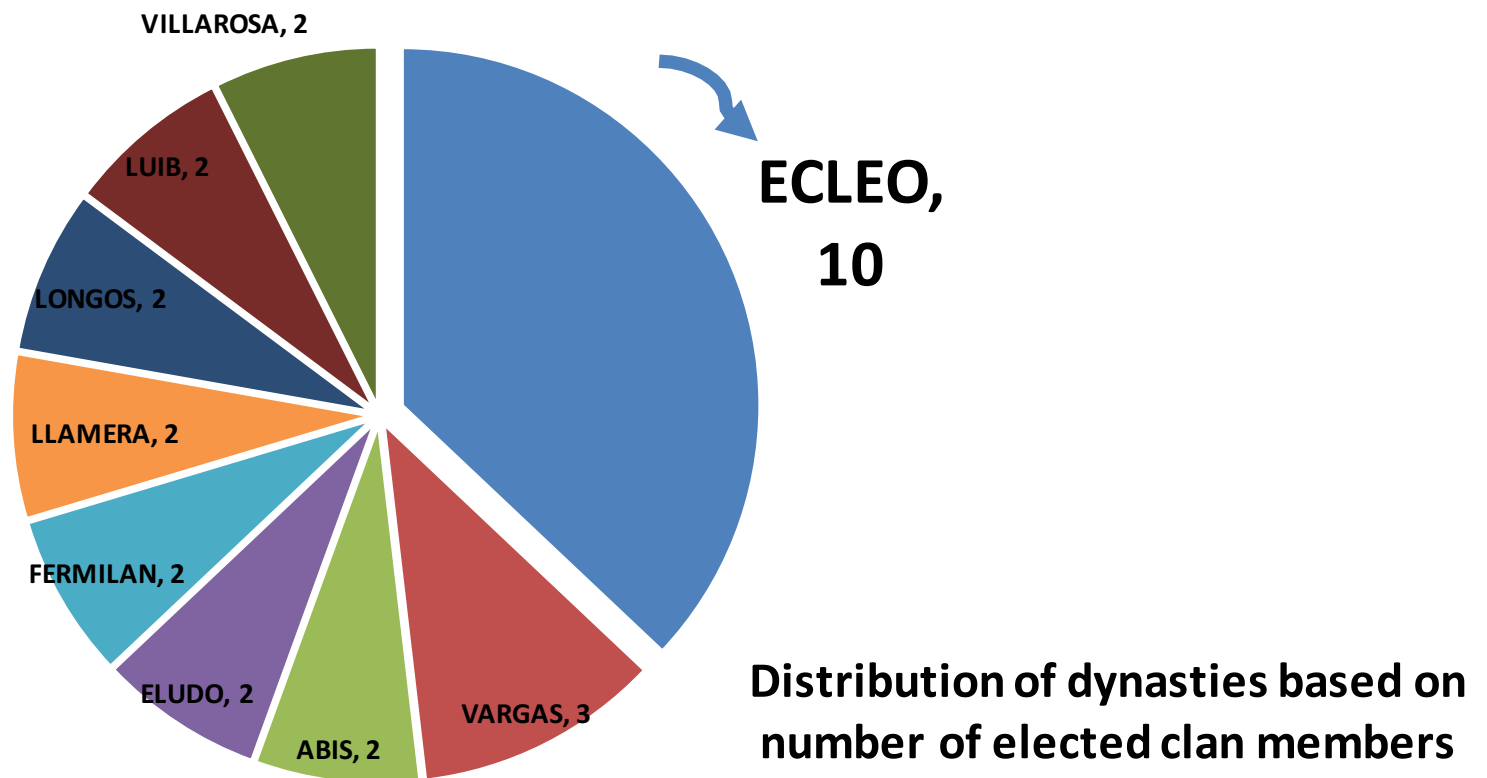
Violent political competition in Masbate.
Four Congressmen assassinated between
1989 and 2005.

Meanwhile, 1 in 2 Filipinos in Masbate live
below the poverty line...



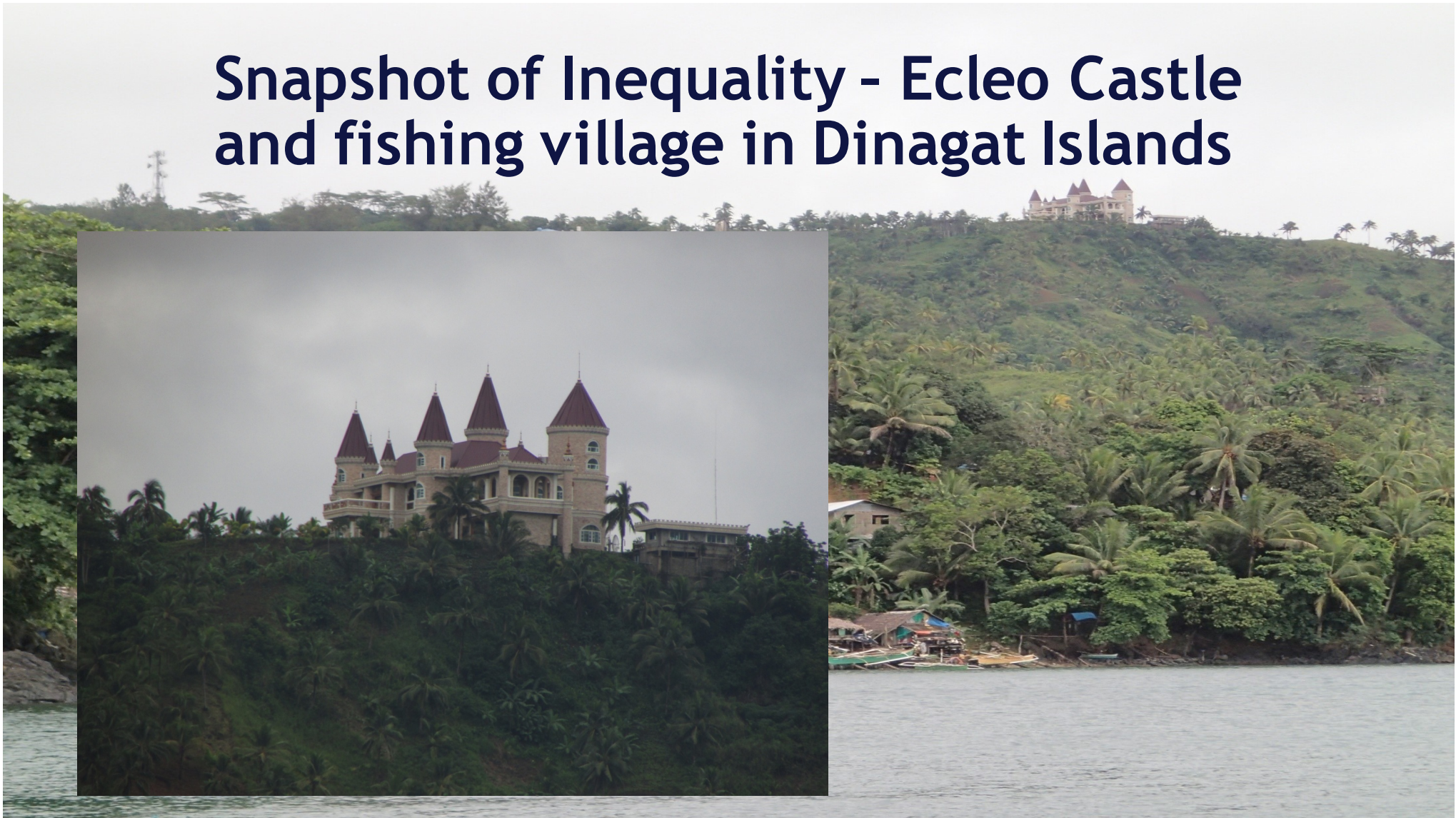
DATA SOURCE: PHILIPPINE STATISTICAL AUTHORITY
PHOTO SOURCE: ABS-CBN NEWS ONLINE

Dinagat Islands is dominated by Ecleo Clan, 2016 Election



Source: Authors' calculations based on data developed by Mendoza et al (2012;2016).

Snapshot of Inequality - Ecleo Castle and fishing village in Dinagat Islands



Political Dynasties Lead To Deeper Poverty



"Political Dynasties and Poverty: Illustration of Measurement and Initial Evidence of Linkages in the Philippines" *Oxford Development Studies* 44(2):189-201.

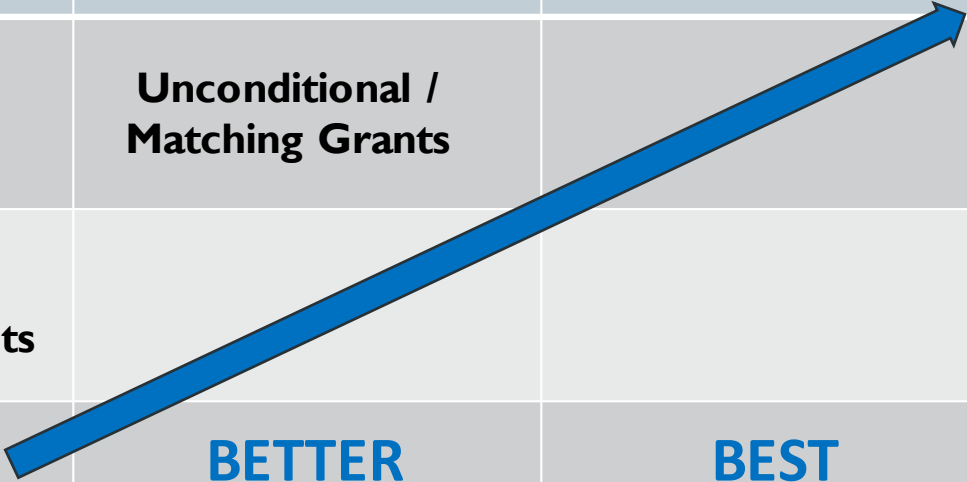
Mendoza, Beja, Venida and Yap (2016) examine the link between poverty and dynasties, using a comprehensive database of political dynasties in Philippine local government covering 2000-2013;

CONCLUSION: More fat dynasties cause greater poverty, notably outside of Metro Manila.

Aligning Resources with Accountability:

A Proposal for a Public Finance Graduation Mechanism

HIGH INCOME			Debt instruments for LGUs; Municipal Bond Markets
MIDDLE INCOME		Unconditional / Matching Grants	
LOWER INCOME	Conditional Transfers / Grants		
	POOR GOVERNANCE	BETTER GOVERNANCE	BEST GOVERNANCE



Source: Author's elaboration drawing on Llanto (2012) and Manasan (2004).



Building Inclusive Democracies in ASEAN

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