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Economic and political dynamics in Philippine development

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This paper hypothesizes that the long-term political behavior of breaking the country into finer geographical and political entities has been inimical to its sustainable long-term economic growth. The splitting of provinces and creation of new ones, legislating of more congressional districts, and further breaking up of even the lowest government levels fragment markets, raise real financial and transactions costs, bloat government's budgets and the bureaucracy, and burden the private sector. Partial evidence is explored showing this behavior in the country's long-term development history and some policy directions are suggested.

JEL classification: O11, O15, O43, J68
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1. Introduction

This paper argues that a common factor underlying both the orthodox economic and non-economic analyses of the Philippines is the country's slow fragmentation leading to units of uneconomic size. This trend is due to behavior driven by political expediency, by the need to preserve dynasties and family control of provinces and sub-provincial areas. This common feature seems to be the real binding constraint to the country's sustained economic progress. Even if one presumes that productivity rises and is sustained allowing a structural transformation of the economy, there is still the nagging question of whether there is sufficient institutional robustness for it to take root.

While the Philippines remains a development puzzle for economics, those who have studied institutions apparently see no puzzle. After a brief contextual review of the existing knowledge on economic and political dynamics of development, the next section advances a framework intersecting economic and non-economic

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dynamics. The third section provides limited evidence of the arguments behind the underlying framework. The final section draws out some implications.

In any discussion of the Philippines' long-term economic growth, there is a perennial question: Why has growth been erratic, and what would explain the inability to achieve a sustainable growth path? The numerous hypotheses may be arranged into a dichotomy of economic and non-economic causes.

Economic causes invariably start with post-war reconstruction policies that spawned import-substitution, which lasted for a protracted period. This initially spurred economic growth, until the limitations of the home market slowed it down while entrenching vested interests in protecting domestic industries at the expense of exports despite liberalization moves along the way [Power and Sicat 1971]. The liberalization that took place in the remaining decade of the 20th century was selective and did not really lead to a momentum before the onset of the Asian crisis in 1997 and the global financial crises of 2008. The prominent aberration in the aggregate performance was the economic crisis in 1985 that left the country in complete shambles even if growth restarted under a new government regime.[2] The growth of the economy was real without a shadow of being a bubble. Indeed, even the expansionary policies in the late sixties that led to a 1970 devaluation reduced unemployment and raised real output.[3]

Non-economic causes focus more on the political atmosphere, election cycle and spending, political dynasties, social structure, institutions, and bureaucracy as well as more disaggregated concerns of health (e.g., mortality, disease), education (e.g., literacy), and poverty in general. The underlying hypotheses try to explain the cycle of aggregate growth with election cycle and spending, unequal wealth and incomes, established elites who capture industries and institutions, and weak governance especially at the local levels [Kuhonta 2011]. For example, it is pointed out that, during the period when growth was accelerating amid some peace and stability, the country failed to galvanize a strong social agenda that existing political parties could promote and that could effectively fortify economic gains (Hutchcroft [1991]; Hutchcroft and Rocamora [2003]).

In analyzing the country's long-run aggregate growth, attempts have been made to link economic and political developments. Baldwin [1975] related the economic crisis to political developments such as the cycle of election spending and balance-of-payments problems. In the more recent episodes with better data series, political indicators have been employed to explain growth in general and poverty indicators in particular. Several studies have used political dynasties to

[2] A balance-of-payments crisis getting out of control (partly also due to reporting errors) may have been the initial trigger to the economic crisis but it was the adjustment to it necessitating a severe economic contraction that eventually did the country in.

[3] The notion of a bubble economy, more relevant to contemporary times, had no manifestation of any component in the long-term growth path – housing boom, credit expansion, stock price spikes, etc. [Alburo 2015].

quantify the effects of weak political institutions on growth (e.g., Balisacan and Fuwa [2003]; Solon, Fabella, and Capuno [2009]; Mendoza et al. [2016]) with the implicit argument that without competition for elected posts and with political families in effective control of government machinery the collective national interests would be far from their concerns.

And the way to test this has been through relating economic outcomes with dynasty indicators. Variants of the same variable expand the notion to the tendency of existing dynasties or the largest dynasty to further expand its reach (termed "fat" dynasties) and thus have a separate but deepening impact than simple dynasties. The econometric results of these studies validate the assertion that political dynasties have negative effects on growth (measured in these as growth in per capita expenditures instead of incomes); and that dynasties (measured as number of officials elected with relatives also elected officials in the same local government unit) may have significant effects on poverty headcount in some areas, while poverty or family incomes may enhance dynastic rule especially contributing to the expansion of incumbent dynasties.

While suggestive, the explanations of these results rely more on additional hypotheses rather than direct empirical evidence. For instance, the lack of a competitive political system is said to lead to sub-optimal policy choices and hence a poor growth record. A reason why poverty contributes to preserving a large dynasty is its exploitation of patronage politics, mastery in the skills of identifying with the poor, and teaching these skills to the next generation of politicians.

2. Intersecting framework

These efforts to provide broader reasons for the country's growth beyond the confines of economic variables, particularly exploring the political dimensions, clearly point to their importance. But the mechanisms that have been advanced for why they ultimately impact economic growth remain in the political realm, even when these are supposed to affect the way economic policies are shaped. The dichotomy thus prevails, and explanations appear to fall short of indicating where the nexus is, more so in coming up with binding constraints that cut across sectors and that can illuminate some priority directions for integrated policies.

What seems to be common across dichotomies is the recognition of a history that has played a critical role in economic behavior. While the usual starting point is post-war economic growth in terms of the behavior of economic indicators, such behavior is argued to derive from farther into the past [Kuhonta 2011]. Indeed, the retarded development of institutions, a body politic that practices rent-seeking behavior in economic terms, and a generally patrimonial state have characterized the Philippines since the Spanish occupation. Oddly enough, the Spanish authorities concentrated on the capital with little to do in the rest of the archipelago, while the American occupation focused on giving power to the periphery through electoral democracy. Unfortunately, both failed to develop capacities and, in fact, created a chasm between the elites and the masses.[4] In addition, government bureaucracy failed to develop under both occupations. Under Spain, there was limited interest in developing capacities and institutions to craft national policies across the islands and authority was more exercised in the capital; under American rule, power decentralization led provincial elites to capture elected positions and government relied on them rather than on bureaucrats.

Governance, together with its effects on the economy, is now conventionally measured along 5 dimensions (e.g., Kaufmann, Kraay, and Matruzzi [2009]): voice and accountability; political stability; government effectiveness; regulatory quality; rule of law; and control of corruption. In a comprehensive literature review, particularly in the pioneering work of North and others on institutions, and analysis of how this as constraint affects Philippine growth, de Dios [2011] finds that relative political stability consistently affected the economy particularly relative per capita *foreign* direct investment flows relative to Malaysia, Indonesia, and Thailand. Moreover, the same governance indicator directly influences changes in lending interest rates. On the other hand, corruption also directly influences investment ratios even more than the traditional economic determinants of interest rate or GDP. Since both dimensions are composites of many underlying variables, the search is then for their likely relative strengths.

This abbreviated description of a non-economic explanation of the country's sluggish economic growth over a long period of time is still compartmentalized. The expedition into a longer history adds an important dimension to the aggregate behavior: understanding its sustainability should take into account a more rooted basis. Indeed, post-war economic changes apparently reflect immediate responses that lack permanency in part because the underlying institutions were inadequate or damaged. In a sense, the center-periphery tension built up from a long history explains the narrow post-war economic performance and its concentration around Manila and surrounding areas. There is no doubt that putting history to bear on the economic aggregates makes the story more complete. However, the two remain detached and need to blend together.

What is evident from an analysis of the economic aggregates and the additional explanations using political and institutional factors is the importance of the country's history in defining an environment for its long-term behavior. And its long history under both Spanish and American colonial occupations seems essential in appreciating the role of institutions, the bureaucracy, political

[4] The commercialization of agriculture during the Spanish era allowed the elites to literally grab land and exploit the peasants, leading to dual plantation and peasant economies. Land redistribution of Americans from friar lands again allowed the elites to own vast tracts, and elections at the lowest levels of government provided the mechanism through which the elitess extracted resources from constituents and from the center. As Kuhonta [2011] notes, this created an "elitist democracy".

processes and family dynasties, economic organization, and sense of nation. But these seemed to be forced into the explanations rather than embedded into them even if they are plausible. On the other hand, putting in political indicators to the economic behavior opens up many alternative explanations for significant findings in the quantitative analysis.

The crucial question is, how are these behavioral hypotheses manifested in the economic and non-economic sphere? Or what mechanisms can be posited that bring these together? Can they be measured? What we are looking for are development binding constraints that are common to both economic and non-economic analyses and are thus multi-dimensional. Once these are identified and linked behaviorally, we can then suggest policy directions.

Although economic growth may be stimulated by a variety of triggers including international trade, a vibrant domestic economy, and policy influences, its sustainability is what is important. This in turn requires economic and non-economic factors: efficient markets, institutional development, and governance, among others.[5] A common link among these factors is essential to sustaining economic growth. Therefore, the search is for the political and social dimensions that affect the economic environment in terms of specific indicators.

First of all, it is usually accepted that political dynasties characterize the country's political system. They hamper the growth of a more functional democracy and introduce vested interests in the economy. Despite this generally accepted view, the means by which dynasties affect the economy are manifold. Either there is overwhelming acceptance for which no evidence is necessary, or these are taken for granted.

Second, for this and other reasons, the 1987 Philippine constitution imposed term limits on elected officials which was intended to open the system to more potential alternatives and eventually end dynasties. In fact, the constitution also provides that dynasties are to be prohibited "…as defined by law…". But without enacting legislation as provided for, the provision remains inutile. It is in the term limits, therefore, that there is hope for an eventual end to family control of elected positions. The term limits are for senators, congressmen, and other local officials.

Third, it remains to be seen if the term limits actually achieve their objective of loosening the dynastic hold on local politics and opening the system to more choices for the electorate. Indeed, one study [Querubin 2011] argues that term limits may even increase dynastic power; incumbents impelled run for higher office to skirt term limits then train family members for other local offices. An implicit natural limit to this dynastic expansion is the scale of the local government unit itself. Within this constraint, however, the study further illustrates specific cases

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[5] Governance variables directly affecting economic growth are first-order determinants. Since these variables are composed of many underlying factors, the task is either to directly plug them in or to hypothesize the more dominant ones.

where once one family member's term expires it brings in other family members to vie for the position while waiting out and running again after the new member's term expires.[6]

Fourth, term limits can be circumvented, and there are cases that demonstrate the circumvention. There are no quantitative indicators of how pervasive this behavior has been since the imposition of term limits. The point is that the limitation and its intent do not seem to alter the widespread practice of political dynasties. Indeed, celebrated cases of its violation in intent simply show how ineffective the provision is (see Querubin [2011] for a number of cases). What the behavioral response to the term limits reveals is the need to ascertain the real root cause of the practice behind political dynasty.

Finally, the circumvention of term limits, despite their good intentions, reflects a perpetuation of past behavior among local officials and politicians of creating political bailiwicks to entrench family dominance and control or breaking up existing local government units in order to extend the reach of families and relatives to positions of power. For example, the referred study noted that the number of congressional districts increased from 98 in 1946 to 219 by 2007.[7] What is more relevant is to understand how this pervasive behavior impinges on sustaining economic growth. We propose to establish this linkage and argue that the political dimension coupled with weak institutional development and poor governance impedes a sustainable growth rate.

We hypothesize and argue that political and other non-economic behavior, including dynastic tendencies which are manifested through the creation of additional local government units and congressional districts, lead to market inefficiency in the private and public spheres, buttress traditions and social classes, and prevent a critical development mass to evolve, which hardly help sustain economic growth. Indeed, all the evidence in related studies showing a negative impact of political variables on poverty and incomes work directly through this mechanism. These variables are identifiable.

3. Limited evidence

Several pieces of partial evidence support what is argued here. Provinces numbered 49 in 1903, and in 1946 the number remained the same.[8] In 2012, however, the number of provinces was 80.

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[6] This comes about since the provision of the term limits allows incumbents who have served the limits to re-enter the same position after one term. See Figure 1 in [Querubin 2011] for an actual term-limited incumbent waiting it out as his wife served one term, and then he returns to the same position where he reached the term limit and served again for three terms.

[7] Some of the congressional district expansion may have been legitimate. Its implications, however, are what matter. See below.

[8] The 1903 province list comes from the Philippine Census of 1903, which listed 49 provinces, of which 9 were military districts. The 1946 figure comes from [Querubin 2011]. Between 1903 and 1946, 5 of the 9 military districts were converted into regular provinces, 1 was subdivided, and 1 changed name.

Given this starting point, what we want to demonstrate are three inter-related facts. The original number of provinces changed in composition where the military district component became regular provinces, were sub-divided, and renamed. The composition of the 2012 list of provinces includes entirely new provinces; some of which were renamed apart from those that were sub-divided. The creations took place mostly in the decade of the sixties. There have also been many provinces whose areas declined between 1946 and 2012 due to sub-divisions and outright reduction in the area.[9]

Moreover, the number of barangays in the provinces increased, which effectively reduced the unit areas of the local government units. Table 1 reports the number of provinces between the reference period 1903-1946 and 2012 classified according to the original number in the reference period (49) and 2012 (80), sub-divided provinces consisting mostly of new provinces, and the approximate dates when these new provinces were created by period between 1951 up to 1991 and in more recent years.

TABLE 1. Number of provinces

	1903 to 1946	2012	Number created (period)
Original	49	46*	
Sub-divided		9	
New provinces		25	
1951 to 1960			8
1961 to 1970			14
1971 to 1980			6
1981 to 1990			-
1991-			6
Total	49	80	34

* Excludes 3 which were re-named and considered new.
Sources: 1903 population census; Querubin [2011]; and author's calculations

The table reveals that the additional provinces were all created in the post-war period, mostly in the two decades of the sixties and seventies, including the chopping up of 6 original provinces into additional 9 provinces for a total of 15 provinces and 3 original provinces with new names. For example, the 6 original provinces of Ambos Camarines, Surigao, Misamis, Mindoro, Zamboanga (military district), and Davao (military district) were sub-divided into 2 provinces each (Camarines Norte and Sur, Surigao del Norte and del Sur, Misamis Occidental and Oriental, Occidental and Oriental Mindoro), 3 provinces each (Zamboanga del Norte and del Sur and Sibugay) and 4 provinces each (Davao del Norte and del Sur, Davao Occidental and Oriental).

[9] This has to be properly documented by looking at those provinces and the underlying reasons for the size reduction.

What happened to the area of the provinces between the 2 periods? The comparison can only be made from the original number of provinces because the new provinces are additions to the aggregate size of the local government unit. Table 2 lists the 49 provinces classified according to the number which have lower geographic areas in 2012 compared to 1903-1946. Note, however, that the table only reports the *number* of provinces, not the magnitudes of area reduction, which vary widely by province.

TABLE 2. Number of provinces with area reduction

	Number	Number declined in area
Provinces common in 1903 and 2012	38	21
Provinces in 1903 sub-divided by 2012	6	6
Provinces in 1903 with name change or regular	5	
Total	49	27

Sources: Table 1; author's calculations

More than half of all provinces in 2012, which were the original provinces, saw a reduction in their geographic areas, as prominently illustrated by six which were sub-divided into nine provinces. But there were increases as well so that a finely detailed measure has to be taken in order to accurately support the argument that there was a reduction in the size of provinces. There were sharp reductions of areas for Cagayan and Quezon, and sharp increases for Bohol and Palawan. However, on average, it seems there was a reduction in provincial geographic areas.

A complementary way to see the decline in geographic area, not of provinces but of local government in general is to look at the growth of barangays in the country. The barangay is the lowest level of government and also has distinct geographic boundaries. The total number of barangays in 2012 was 42,027, which is an increase of more than 7,000 since the mid-seventies. This means 20 percent more without a proportionate increase in the number either of provinces or of municipalities. On average, then, the geographic area of government units must have fallen.

Finally, there is anecdotal evidence to highlight the behavior of creating more provinces or breaking up existing ones to accommodate family members or those whose term limits are reached. There is the well-known move by last-termer legislators from Cebu province to break the province into three—Cebu del Norte and del Sur, Cebu Occidental, and the present province—so they can run again under the new set-up. Then there is the legislative bill to split the province of Camarines Sur into two: Nueva Camarines and the existing province. Notwithstanding that the present province was already a sub-division of the original Ambos Camarines, the proposed split is a reflection of a family feud between father and son who are representative and governor of the province, respectively.

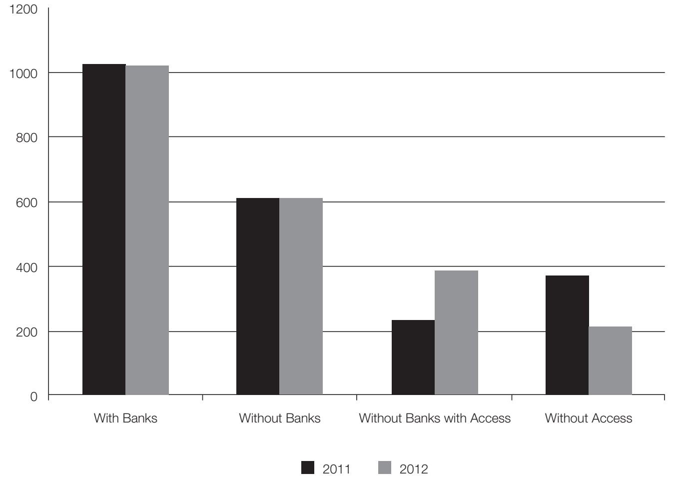
These pieces of evidence fit together as indications of political behavior aimed at propagating a family's hold on positions of power at the local levels. These are concretely shown by the large increases in the number of provinces, most of which took place in two decades, in the number of provinces which have been reduced in geographical areas, in the consequent increase in the number of the lowest local government units associated with a reduction in their sizes, and in a number of recent cases of moves by term-enders and families to break up provinces to perpetuate dynasties. What then are the implications of these in identifying the connection to inhibiting a sustainable economic growth?

The splitting of provinces, the creation of new ones, and further break-up of even the lowest government levels clearly fragment markets, raise real financial and transactions costs, bloat government budgets and the bureaucracy, and burden the private sector. This would be true for both goods and services. Imagine how sub-optimal would it be for small local governments to provide services for limited constituencies, such as a post office within a few kilometers between towns, slaughter houses, wet markets, etc.[10]

They reduce potentials for scale economies as local industries and firms have limited horizons or face connection barriers outside the shrinking province. This is manifested in the case of accessibility to banking and financial services, an important industry for inclusive growth, and the promotion of micro, small, and medium enterprises. Of the 1,634 cities and municipalities in the Philippines in 2012, 1,023 have banks, but a full 611 or a third of them do not have banks at all [Alburo 2015]. Still among those which do not have banks, more than half of them have other financial access facilities such as pawnshops. (See Figure 1.) In relation to the gross regional domestic product, there is a negative correlation between the higher values of gross regional domestic product and the number of cities and municipalities in the region without banks.[11] This kind of constraint imposed by politically motivated behavior is an additional burden to the private sector, but by and large some businesses may have adjusted to it. Some industries and establishments, for example, respond with strategic locations that capture economies of scale (e.g. location of malls, residential buildings, factories). Without the constraint of smaller geographical areas, economies of scale would be larger and not difficult to attain, encouraging innovation and entrepreneurship which are the bedrock of growth.

[10] This reference to towns instead of provinces is analogous to a province that is broken up to the extreme with small sizes like towns.

[11] The correlation between gross regional domestic product and the number of cities and municipalities within the region without any bank is -0.45 [Alburo 2015].



Source: Bangko Sentral ng Pilipinas

FIGURE 1. Number of cities and municipalities with and without banks and financial access

They also prevent production networks from naturally emerging. Breaking up production according to stages of the value chain and core competencies requires seamless amalgamation. Differing rules on licensing procedures, taxes, labor requirements, and the like as defined by different local governments insert wedges in what would otherwise be efficient networks. There may be common borders but different rules even between juxtaposed provinces. The development of what would be microcosms of international supply chain production is hindered.

They reinforce social traditions and retard modernity. Modernization of an economy also involves abandoning social and cultural mores that are inimical to market systems. Modernization requires independence, desire to accumulate, and to save and invest. These social traits accelerate upward social mobility and prevent downward social dislocation. Indeed, some longitudinal studies find evidence of social mobility across different classes (e.g. from tenant farmer to small land owner, irregularly employed to regularly employed) and that increasing GDP growth rate in combination with social behavior, education, and even number of children, among others, enhances mobility; conversely, they reduce the likelihood that those who moved up the social ladder revert back [Fuwa 1999].

They inhibit national identity and promote cultural factionalism. Sionil-Jose suggests that with this outcome of tribalism, regionalism, and family circles the "sense of nation" gets lost [Sionil-Jose 2005]. Others may even assert that a "damaged" culture of the Philippines is getting in the way of its development [Fallows 1987]. There is no international best practice in culture as every individual and society has unique traditions, rituals, and customs. It is inappropriate to have a reference point. Chopping geographical spaces into smaller units to satisfy dynastic tendencies over a long period of time potentially portends new customs and rituals. The culture of many fiestas in the Philippines, even in next barangay, town, or province—a relic of centuries-old tradition of a patron saint in every place—clearly gets in the way of a stronger collective sense of society and identity that galvanizes the nation. The political behavior of having family territory is not conducive to sustaining economic growth.

They spread government resources too thinly and preclude a critical mass of good governance from taking root. Creating new provinces, municipalities, and even local government units may ensure a family's hold on political power, but along with them the demands for additional institutions and bureaucracies escalate. The rationale for them can always be couched in grandiose terms, but there is no doubt that private interests—e.g., that of a few families—are followed using weak governance and state machinery, a clear variant of "booty" or "crony" capitalism [Hutchcroft 1998]. They also weaken further what are already weak institutions as new organizations grapple with delivering basic government services. Considering how new local governments have to institute rules for resource allocation and rules for reducing the costs of procedures to follow new rules, it is doubtful if they can keep pace with the needs in governance for economic development. While it is likely that political kingpins are certain to capture the reins of central control, what is more likely is institutional uncertainty among constituents and among those who deal with the new set-up, e.g. domestic and foreign investors. Multiply these institutional barriers by the number of breakups of provinces or the creation of new ones, and they eventually diminish the sustainability of economic growth. Stimulating economic growth through orthodox policy levers—such as macro-economic instruments of fiscal and monetary policies, trade policies, and exchange rates—may jump-start an economy, but these are not growth-sustaining. It is the behavior of economic agents and institutions that takes over and ensures that sustainability. It has been argued, for example, that substantial improvements have taken place in the Philippines after the Marcos regime, but because basic institutions and governance structures have remained, patronage politics has also persisted [Lim and Pascual 2000]. Put differently, when one behavior obviously violates with impunity a norm (e.g., limits to a new "fiefdom"), succeeding behavior violates other norms (e.g., fielding family members), and so on for economic behavior. These are consistent with the "broken-windows" theory, which suggests that signs of disorder induce other disorders, indeed linking one (political) disorder to another (economic) disorder [Keizer, Lindenberg, and Steg 2008].

4. Summary and implications

In this paper, we have endeavored to explore an intersecting framework that may explain the growth dynamics behind Philippine development. Most analyses of the country's long-term aggregate economic record show that while growth accelerated in some years, it also stagnated in other years so that its average performance has been at best mediocre and at worst dismal. In comparison with other countries in the Asian region, this record is closer to the tail end of the comparable countries and nowhere near where it was in the early decades of the post-war period. Explanations for this feeble performance follow economic orthodoxy: low investment ratios, low productivity across sectors, low savings and conversely high consumption, insufficient infrastructure, market failures, public sector inadequacies including fiscal deficits and insufficient fiscal consolidation, over-regulation in industries and sectors, among others.

On the other hand, our exploration points to a variety of non-economic explanations for the persistently slow economic track. Although institutional factors have gained increasing attention and acceptance as reflected in burgeoning theoretical and empirical literature, overall, they have yet to be fully tested. A major part of the emergence of other factors is the inability of conventional measures or the use of institutions and procedures that were successful in developed countries to explain the failure of developing countries in achieving sustained growth. Even conventional reviews often dismiss culture and social explanations for the underachievement of some countries including the Philippines [Briones 2009].

In the end, then, there is still a dichotomy in understanding the real reason that sustained growth is elusive. Indeed, conventional economic analyses have pinpointed to specific critical development constraints particularly articulated not so much in terms of national indicators but how varied are the sub-national characteristics suggesting regional and local solutions. These range from again conventional policy directions, such as accelerated infrastructure, good governance, access to more equitable opportunities (e.g. finance, land, education, health, social services, safety nets, etc.), diversified and stronger industrial base including "walking on two legs" meaning industry and services (ADB [2007]; Usui [2011])

Without addressing the common critical binding development constraint explored here as an integral part of a reform package of economic measures, however, it appears unlikely that sustained economic growth will take hold. On the other hand, there are specific measures that have to be considered in ensuring that the streak of fragmentation will stop and even reverse its long-term trend. One is a moratorium on the creation and break-up of provinces and local government units and eventually abolishing or merging some provinces, cities, municipalities, and even barangays. This will consolidate geographical areas and enhance greater ability for economies of scale to evolve, encouraging entrepreneurship, innovation, greater product diversification, and more production networks. Some countries have successfully reduced their provinces allowing agglomeration and larger seamless markets.[12] In fact, such rationalization of local governments tends to spare scarce bureaucratic capacities, increasing efficiency to service the private sector. It bears repeating, however, that by itself, this will not trigger growth nor automatically sustain a respectable growth. It must however be part and parcel of a more complete policy agenda.

Another is that the package of economic reforms that are laid out by other studies, orthodox they may be, needs to be vigorously pursued in tandem with non-economic measures. In particular, it may be necessary not only to accelerate infrastructure but to really aim for a "big push" in order to overcome new boundaries from provincial break-up and fragmentation.[13] Indeed, building a major road artery along with feeder connections and sea arteries may help consolidate areas and reduce fragmented cultural identities. Finally, institutional capacities have to be developed across different levels of the bureaucracy. ■

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A fuller version of this paper is in Alburo [2015]. That version benefited from comments by Jeffrey Williamson.

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[12] China in 1946 had 35 provinces; through a process of abolition and some consolidation into autonomous regions, the country now has only 22 provinces. While there must be a political motive behind the move, the economic impact cannot also be discounted.

[13] Infrastructure, directly and by itself, is not a solution to intersectoral distortions or labor market rigidities. However, it enables borders to become more porous and boundaries blurred. Infrastructure becomes even more effective if it is combined with reducing artificial political and geographical units.

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