



UNIVERSITY OF THE PHILIPPINES
SCHOOL OF ECONOMICS

Discussion Paper No. 0104

February 2001

**Is Local Development Good Politics?
Local Development Expenditures and the
Re-election of Governors in the Philippines
for 1992, 1995 and 1998**

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***Is Local Development Good Politics? Local Development Expenditures and the
Re-election of Governors in the Philippines in the 1990s****

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Abstract

Using a panel of incumbent provincial governors, this paper estimates the relative contributions of development spending and membership in local political clans to the likelihood of re-election of governors in the Philippines during the 1990s. The results suggest that governors, whether members of political clans or not, respond to local development needs to get re-elected. Further, it is not the presence of political clans per se, but rather the absence of effective electoral competition among clans, that seems inimical to development. Thus to ensure that local development becomes good politics, electoral reforms should be adopted to prevent capture of local governments under a fiscal decentralization program.

Key words: Local development, political clans, electoral competition, Philippines

1. Introduction

The following questions motivate this paper: Is spending on local development good politics? Specifically, are incumbent governors who put more weight on development spending likely to be re-elected? Answers to these questions are critical to the current debate on governance, especially at the local level now that many developing countries are shifting to a more decentralized government structure and that decentralization policies and experiences are now more critically examined.¹

It is usually claimed that fiscal decentralization leads to improvement in the overall efficiency of local public service provision through a better matching of the supply of and the demand for local public services.² The improved matching results from better information of local governments and their direct accountability to their constituents, two advantages local governments have over the national government. Accountability is enhanced when the local population also participates in local public decision making, through consultations and their involvement in planning or monitoring activities. Aside from its intrinsic value, the people's participation also helps minimize the risk of a costly local government mistake, owing to poor information, incompetence, indifference or corruption.

With greater fiscal autonomy and accountability under decentralization, good local governance and its desired impact on local welfare are therefore anticipated. With the improvements in local public service delivery and in the overall quality of life, the citizens' approval of their local governments will ultimately manifest

in the ballot or through *voting with their feet*. Thus, the adoption of development-oriented public programs and projects, especially when undertaken with people's participation, becomes a viable political strategy for a re-electionist local chief executive (i.e., mayor or governor).

Many, however, forewarn about the dangers of fiscal decentralization. A poorly designed or implemented decentralization program could lead, among others, to greater fiscal deficit, inter-jurisdictional externalities and costly fiscal competition, wide disparities in service provisions and increased level of corruption.³ The level of corruption is worsened when local governments are granted greater powers and fiscal resources without the requisite political and other institutional reforms that would minimize the possibility of "state capture" by vested interests. Given such condition, policy decisions will only advance the interests of the dominant political or economic groups, often to the disadvantage of the vast majority.⁴ Thus, others argue, the effective control of local "bosses", political clans and other political elite over the local government apparatus may be further entrenched under fiscal decentralization.⁵

But whether the local political elite is in fact "predatory" is an issue best resolved empirically. Such "predatory" behavior may be verified with the performance of the local official while in office, e.g., the relative levels of priorities given to basic public services or to programs and projects that help create suitable local business conditions. The hypothesis is that those officials who show "good" performances in office have better chances of getting re-elected than others, *ceteris paribus*.

Many argue however that electoral victory, especially at the local level in developing countries, is decided more by the candidate's political machinery than by her political platform or program of action. Moreover, candidates who are members of political clans are likely to have more powerful political machineries than others. It may be asked therefore whether incumbent elected officials who are members of political clans still need to adopt pro-development programs and projects to get re-elected. Local elections in the Philippines under decentralization make for an interesting case study.⁶

In this paper, a model of a re-electionist local chief executive is developed and empirically validated with a panel data of incumbent provincial governors who ran for another term of office during three election years (i.e., 1992, 1995, 1998) in the Philippines. The results show that the chances of the incumbent governor improve with the proportion of total public expenditures spent on *economic development services* (a proxy for development-oriented performance), although such chances may be reduced by the rival's political machinery (specifically the number of local political clans). Furthermore, it appears that the threat of competition from local political clans bears pressure on the incumbent governor to adopt development-oriented programs and projects, even among governors who are members of political clans. Thus, the lack of effective rivalry among political clans, perhaps more than mere clan presence, may be the critical factor behind the poor public service delivery and low levels of welfare in some local governments. The policy implication is that the gains from decentralization may

be strengthened, and its dangers minimized, when political competition is enhanced.

The rest of the paper is divided as follows: A short note on local politics in the Philippines is presented in Section 2, followed by the analytical model introduced in Section 3. The empirical and estimation issues are discussed in Section 4. The results of the empirical analysis are presented in Section 5. A concluding remark (Section 6) ends the paper.

2. A short note on local politics in the Philippines

A recurring theme in local politics in the Philippines is the dominance of the traditional political elite⁷ and, by extension, the minimal impact of elections in transforming local governments. Unlike in developed countries where members of the political elite are closely tied with established political parties, kinship or fictive ties bind the members of the traditional political elite in the Philippines. Hence, it is not uncommon among local political families to change party alliances every election, thus ensuring the demise of political parties and the persistence of political clans. Moreover, political families are often dominant economic players at the local and the national levels.⁸

Usually, the local political elite comprises several public officials who are linked together by blood or marriage and who simultaneously or successively occupy (or occupied) their government positions. Related public officials therefore constitute a political clan. Members of political clans may occupy both

elective and appointive positions in both the executive and legislative (or sometimes even judicial) branches of the government at both the national and local levels. Among the more notable and enduring political clans in the country are the Osmeñas and Duranos of Cebu, the Marcoses and Ablans of Ilocos Norte, the Aquinos and Conjuangcos of Tarlac, the Lopezes and Yulos of Negros Occidental, the Dimaporos of Lanao del Norte, and the Datumanongs and Masturas of Maguindano.⁹

Two factors may account for the predominance of clans in local politics in the Philippines. In the case of old political clans, who are mostly wealthy landowners, their political power can be traced to the feudal conditions in rural areas that enabled them to exploit their wealth for political ends. These landowning families were able to secure their hold to public offices initially because of the limited outside economic opportunities facing the local population. But the continued predominance of some of the old political clans is also partly due to their expanded spheres of control over the industrial and modern sectors of the economy.

The origin of the more recent local political clans however is based less on their initial economic resources than their ties with national authorities, especially during the Marcos administration (1966-86). During this period, a new oligarchy, called the “cronies” of Marcos, emerged and usurped the political and economic powers of the members of the old oligarchy who were opposed to Marcos.

Irrespective of the origin of the political clan, a symbiotic relationship exists however between local political clans and the national leadership. Such

relationship is sustained by the highly centralized fiscal structure of the government. The national political leader, who effectively controls the bulk of public resources and wield vast administrative powers over local governments, can elicit the support of local political figures, who are often clan members, during elections. In return, local leaders who are able to deliver the votes to successful national candidates are rewarded with favorable central fiscal transfers, “pork barrel” projects and other forms of largesse.¹⁰

In addition, the local political elite endures because of patronage, fear and coercion, and electoral fraud. The patron-client relationship, which is based on reciprocity, is commonly used to describe the relationship between the people and their local officials. In this relationship, the political supporter (client) cast his or her vote in favor of a political candidate (patron) who in turn will see to it that the personal or family welfare of the client is protected, if not promoted, even at public expense. The use of fear, coercion and electoral fraud on the other hand also helped clinched the electoral victory of some local political figures.¹¹

For these reasons, the local government is perceived to be less benevolent or efficient, since the elected local chief executive is likely to appropriate public resources or at least use them to grant favors to their allies and supporters. Because the local government is effectively captured by vested interests, it may just perform essentially re-distributive functions, rather than adopt growth-promoting policies. Matters are made worse because of weaknesses in the country’s legal system and other political institutions, thus making the system of checks and balances in government ineffective. This seems to be the case when

both national and local leaders collude to preserve their hold to power. Under the circumstances, elections therefore become less effective mechanisms for improving local welfare.

Against this backdrop, the Local Government Code was enacted in 1991 to promote greater fiscal autonomy and to advance people empowerment. To achieve greater fiscal autonomy, the share of local governments in the internal revenues of the national government was augmented, some of the expenditure responsibilities and functions of the national government were devolved to local governments, and the local governments' revenue-raising powers were expanded. Although local governments were receiving a part of the internal revenues of the national government even before 1991, their share in the national government's internal revenues (called the Internal Revenue Allotment or IRA) was significantly increased after 1991. The IRA allocation formula factors in equity considerations, population and land area, which are correlated with the locality's degree of urbanization and therefore economic development.

On the other hand, people empowerment is advanced with the required participation of the private sector and the civil society in local planning and consultative bodies. Furthermore, a term limit is now imposed: a local official may be elected to the same office for a maximum of three consecutive terms, where each term lasts for three years. However, a system of recall is also institutionalized that enables the local population to remove from office at any time any elected official who has lost the people's confidence. Under the Code, therefore, local elected officials, whether clan members or not, are forced to

become more accountable and responsive to the needs of their constituents and less dependent on the political support from national leaders.

The Code-induced changes however does not seem to diminish the electoral advantage of the traditional political elite, although a new, better-educated, and dynamic breed of leaders (from among the political clans) have been elected into office, such as the Zubiris of Bukidnon, Roxases of Capi, the Aquinos of Tarlac and the Macapagals of Pampanga.¹² But since the structure of political power is already localized in the Philippines, the fiscal decentralization program therefore is feared to lead to further entrenchment of the local political clans.

Perhaps a more interesting and policy-relevant question is whether political clans now become more development-oriented with the fiscal, administrative and political changes induced by the Code. To the extent that even clan members must show good performance to get re-elected must be taken as a positive sign concerning local politics under the fiscal decentralization program.

3. A model of incumbent's behavior

Essentially, the model developed here is one of political agency, where an incumbent official is able to extract rent from office and that election works as a disciplining device.¹³ Consider therefore an incumbent leader of a political unit concerned with wealth (W) i.e.,

$$U = W,$$

where U is the incumbent's utility function. There are only two periods - the present and the future. The incumbent governs in the present and stands for election in the next, the end of which also coincides with the incumbent's term limit.

In each period t , the incumbent decides how to allocate local public revenues Y_t between development spending (D_t) and wealth (W_t), i.e.

$$D_t = s_t Y_t,$$

where s_t is the share of development spending in period t 's public revenues, with $1 \geq s_t \geq \bar{s} > 0$. That is, the incumbent is legally or institutionally constrained to spend at least a minimum amount on local development, i.e., $\bar{s} > 0$.

In each period, the local government receives a pre-determined amount of block grant, call this Y_t^0 , from the central government. For simplicity, the total public income in the initial period is assumed to be completely exogenous, i.e., consisting of block grants (or the residual income from previous administration). However, the total public revenues in the succeeding period are also determined by the amount of development spending in the previous period. Hence, the second period's income is given by

$$Y_2 = g(s_1 Y_1^0, Y_2^0), \quad g'_1 > 0, g'_2 > 0, g''_{11} \leq 0, g''_{22} \leq 0, g''_{12} > 0.$$

At the end of the first period, the incumbent stands for re-election. The likelihood of a second term depends on her performance while in office and her election spending. Let her performance be given by the development spending in the first period ($D_1 = s_1 Y_1$). On the other hand, her election spending E is given by

$$E = e(K_O, K_R)(1 - s_1)Y_1^0, \quad e'_{K_O} < 0, e'_{K_R} > 0, e''_{K_O K_O} \geq 0, e''_{K_R K_R} \leq 0, e''_{K_O K_R} < 0$$

where e is the proportion of her first period income spent for re-election, which in turn is a function of her membership in a political clan (K_O) and the number of rival political clans (K_R). Hence, her probability of re-election is given by:

$$P = P(D, E) = P(s_1 Y_1, e(K_O, K_R)(1 - s_1)Y_1),$$

$$\text{where } P'_D > 0, P'_E > 0, P''_{DD} \leq 0, P''_{EE} \leq 0, P''_{DE} > 0.$$

The incumbent's wealth therefore comprises the present value of her “share” in the public income in each period, i.e.,

$$W = (1 - s_1)(1 - e(K_O, K_R))Y_1^0 + \mathbf{d}(1 - s_2)PY_2,$$

where \mathbf{d} is a (strictly positive) discount factor. A wealth-maximizing incumbent will therefore choose the appropriate levels of development spending in each

period and her own election spending in the first period by setting s_1 , s_2 and e .

But since a successful incumbent faces a term limit in the second period, she will set $s_2 = \bar{s}$. Hence, the problem of the incumbent reduces to

$$\text{Max}_{\{s_1, e\}} U = (1-s_1)(1-e(K_O, K_R))Y_1^0 + \mathbf{d}(1-\bar{s}) \cdot P(D, E) \cdot g(s_1 Y_1^0, Y_2^0).$$

The necessary conditions for a maximum are:

$$U'_{s_1} = -(1-e)Y_1^0 + \mathbf{d}(1-\bar{s})([P'_D Y_1 - P'_E e Y_1]Y_2 + P g'_D Y_1^0) = 0,$$

$$U'_e = -(1-s_1)Y_1^0 + \mathbf{d}(1-\bar{s})P'_E(1-s_1)Y_1 Y_2 = 0.$$

Let the solution to the above pair of equations be

$$s_1^* = s_1^*(Y_1^0, Y_2^0, \mathbf{d}, \bar{s}, K_O, K_R) \quad \text{and} \quad e^* = e^*(Y_1^0, Y_2^0, \mathbf{d}, \bar{s}, K_O, K_R). \quad \text{Plugging these in}$$

the probability of re-election function yields

$$P^* = P^*(D^*, E^*) = P^*(s_1^* Y_1^0, e^* (1-s_1^*) Y_1^0).$$

This function then can be estimated to isolate the independent effects of development spending and election spending on the chances of the incumbent to a second term in office.

4. Empirical and methodological issues

Data

To validate the analytical model, a panel data set is used containing all the provinces in the Philippines in the last three election years (1992, 1995 and 1998). The data include the characteristics of the incumbent provincial governor (name, term status, party affiliation), local fiscal performance (public expenditures and revenues), allocations from central government revenues, socioeconomic profile (average per capita income of the local population) and local political clans (number, membership).

Tables 1 and 2 contain the definitions of the variables used and their descriptive statistics respectively. The re-election outcome is a dummy variable with values 1 (if the incumbent governor is re-elected) and 0 (if the incumbent loses). Since local elected officials are allowed three terms (and that the first local elections under the 1987 Constitution was in 1989), it can be surmised therefore that the re-electionist incumbent governors in 1992 were still allowed at least one more term. During the three election-year period, about half of the incumbent were successful in their bid to remain in office.

[Insert Table 1 and Table 2 here]

As measure of development spending, the share of the *expenditures on economic development* in total expenditures is used. *Expenditures on economic development*, which is a government accounting rather than economic definition,

pertains to outlays for agricultural services, veterinary services and provincial planning, development and engineering services. On the average, only about 22 percent of the total expenditures of the provinces is allocated to economic development services. The use of expenditure outlays, rather than development outcomes like health and nutritional status, may be justified since they are more directly reflective of the local government priorities and that local officials can more readily influence the allocation of public resources than development outcomes.¹⁴

The *allocations from central government revenues* are indicated by the Internal Revenue Allotment (IRA), which is the revenue share of each local government from the total internal revenue collections of the national government. Typically, the IRA constitutes the bulk of the revenues of a local government unit. In the case of the provinces, the IRA accounts for about 81 percent of their revenues on the average during the years covered in the study. As block grants, the IRA may be spent to provide any type of local public services, including expenditures on local economic development, on infrastructures and equipment or on social services.

Data on election spending, on the other hand, are very hard to collect, made especially difficult by a poorly implemented law that prohibits excessive election spending but only encourages underreporting of campaign finances among political candidates. As a proxy for election spending, the number and composition of political clans in each province are used. The data on political clans are culled from previous studies by political scientists. Essentially, a

political clan, with its network of loyalties, favors and influences, is like a political machinery that can be used as instrument for the candidate's election spending.

Although there are many ways to define a political clan, existing information however allows only a number of options. Two definitions are used here to test the robustness of the results. According to the first definition (i.e., *political clan1*), two or more government officials constitute a clan if they are related by blood or marriage and at least one of them was a member of the Ninth House of Representatives (i.e., congressman or congresswoman in 1992).¹⁵ Aside from the congressman or congresswoman, the other members of a clan may occupy or may have occupied the same congressional office or a different public office, which can be an elective or appointive position. Following this definition, an incumbent provincial governor therefore is a clan member if he or she is related either by blood or marriage to a congressman or congresswoman elected in 1992.

Under the second definition, two or more persons related by blood or marriage constitute a political clan if they succeed to the same congressional position (i.e., *political clan2*). Following this definition, an incumbent provincial governor therefore is a clan member if he or she has at least two relatives, by blood or marriage, who held the same congressional position in succession, or at least one relative who holds or held the same congressional position the governor once held.

While the two definitions of political clans may be too restrictive since both are tagged to membership in Congress, membership in Congress however may be

a better gauge of the clan's influence and power (or political machinery). This is because congressmen or congresswomen have to win in several congressional districts, which in most cases comprise several municipalities and cities. Hence, winning a congressional seat may be more difficult than winning in a mayoralty race, but probably less than in a gubernatorial race. Nevertheless, the support of one's district is often critical to win in the gubernatorial race.

Since there is no annual listing of political clans in the country, it is simply assumed here that incumbent governors who are clan members remain as clan members during each of the election years covered in the study. This assumption builds on the observation that political clans in the Philippines have "dynastic" features (i.e., long lives if not multigenerational). Also, note that the first definition of political clan (i.e., *political clan1*) subsumes the second (*political clan2*). This can be seen in Table 2 where the reported average number of clans based on the first definition (1.65) is slightly higher than number reported based on the second definition (1.22).

The other data used are taken from the following sources: Commission on Elections (election data), Bureau of Local Government Finance (fiscal data), Philippine Information Agency and the *Philippine Human Development Report* (socioeconomic data). The latter is joint publication of the Philippine Human Development Network and the United Nations Development Programme.

Estimation issues

In the estimation of the probability of re-election function, several statistical and econometric issues are addressed. To control for possible idiosyncratic

differences of the election years, panel data regression techniques (year-fixed effects model) are used.¹⁶ The default base year is 1992, the first year of election under the Code. To test for nonlinear effects, squared terms are introduced in the regressions. Specifically, the possibilities of diminishing returns from development spending and from central block transfers are tested. Likewise, the square of the number of political clans in the province is introduced to test for the possible diminution in the effects of clan competition on the incumbent's probability of re-election.

As mentioned above, two clan definitions are used to test for the robustness of the results. The two definitions are based on the available data on political clans in the Philippines. The introduction of central block transfers and per capita income of the local population minimizes the omitted variable bias resulting from the absence of more specific socioeconomic variables in the model. Specifically, the IRA, which is correlated with the locality's degree of urbanization, partly captures other socioeconomic factors that may influence the election outcomes in the province.

The most problematic empirical issue concerns the specification of the probability of re-election function, since both its arguments (development spending and election spending) are expected to have the same negative partial effects. To identify the partial effects however would require more instruments than is currently available. In view of the limited data, the probability of re-election function is estimated in two steps. In the first step, the actual share of development spending is regressed against total expenditures (a proxy for the

province's capability) and per capita income of the local population (a proxy for local needs or demand for public services). From this regression, the *predicted* share of development spending is obtained. Hence, the predicted shares capture that part of public spending that is purely determined by local fiscal capacity and development needs.

The second step essentially involves the estimation of the probability of re-election function with central block transfers, clan variables and the *predicted* share of development spending as explanatory variables. In this case, therefore, the estimated coefficients of the *predicted* share of development spending will represent the contribution of “good performance” in office to the likelihood of re-election of the incumbent. On the other hand, estimated coefficients of the clan variables will then indicate the relative contribution of “election spending” or “political machinery” to the likelihood of a favorable election outcome. The introduction of the central government allocation (i.e., IRA) in the regression will help control for other relevant socioeconomic factors.

5. Analysis of results

Predicted shares of expenditures on economic development

As mentioned above, the *predicted* shares of development spending are first obtained and then used as one possible explanation for the likelihood of the incumbent's re-election. To derive the predicted shares, the actual shares of expenditures on economic development in the total outlays of province are

regressed against the province's total expenditures (which indicates the supply of public services) and per capita family income (which indicates the demand for public services). Note that both variables are positively correlated with the socioeconomic status of the province, that is, richer areas are likely to have richer constituents and relatively wealthy local governments.

The regression results are presented in Table 3, where it can be seen that the respective estimated coefficients of the explanatory variables are both negative and statistically significant. These results indicate that there is less demand for, and consequently lower supply of the public services included in the economic development expenditures in richer provinces or when the province becomes richer. Put another way, the estimates suggest that the need for greater expenditures for economic development is more felt among poorer provinces than among the richer ones.

[Insert Table 3 here]

Base model

After obtaining the predicted shares of economic development expenditures from the previous regression, the predicted shares are used in the estimation of the probability of re-election function. Together with the predicted shares, the first clan definition (i.e., *political clan1*) and central government revenue allocations (i.e., IRA) are used to estimate a base model, the results of which are reported in Table 4 (under the heading "Using Political Clan1").

[Insert Table 4 here]

The estimated coefficients of the *predicted* shares of development spending (54.76) and its squared amount (-144.82) are both statistically significant, although of different signs. This suggests that an increase in the share in development spending would improve, albeit at a declining rate, the chances of the incumbent governor being re-elected to another term. The results for the clan variables (Number of political clans1, Square of the number of political clans1) are also suggestive, although not statistically conclusive. The estimated coefficients of the clan variables imply that an increase in the number of political clans in the province makes it difficult for the incumbent to win an election and that a favorable election outcome is even made more difficult as the number of political clans increases. In terms of election spending, the results indicate that political candidates are engaged in a costly bidding war for votes, and that the cost increases the more bidders there are (since greater amount spending is required to improve one's chances of winning by one more percent). While these results tend to support a commonly held belief about local elections, the statistical evidence however is rather weak.

Interestingly, a U-shaped relationship between the probability of re-election of an incumbent governor and the province's Internal Revenue Allotment (IRA) is observed, although the estimated coefficients are also statistically insignificant. Since the relative sizes of the IRA are correlated with the socioeconomic status of

the province, the results therefore suggest that it is relatively more difficult for incumbent governors to win in provinces with mid-level socioeconomic status than it is for similar officials in poorer or richer provinces.

One possible explanation for this is that the number of political clans in the province may also be correlated with the socioeconomic status. That is, low-income provinces may have only one dominant political clan while high-income provinces may have many dominant political clans. In these provinces, political competition may be likened to a situation under monopoly or perfect competition where the incumbent can easily clinch electoral victory, especially if she is a clan member. In contrast, oligopoly-like political competition makes it very difficult for the incumbent in mid-income provinces where relatively fewer political clans dominate.¹⁷

Robustness test – using another clan definition

To test the robustness of the previous results, the alternative clan definition is used in succeeding empirical exercise, the results of which are reported in the last three columns of Table 4 (i.e., under “Using Political Clan2”). It may be noticed that the previous results seem robust to clan definitions. Even though the magnitudes of the estimated coefficients differ in the two regressions as expected, the differences nevertheless are not big. In this case, for example, the coefficients of the *predicted* share of development spending and its squared amount are approximately 56.52 and –151.14, respectively. The corresponding figures in the first column of Table 4 are approximately 54.76 and –144.82, respectively.

Clan membership and clan competition

Whether membership in political clans is critical to re-election, especially in areas where clan competition may be intense, is also investigated in the following regression exercises. The first set of regression examines the probability of re-election of incumbent governors who are not members of any political clan in provinces where there are political clans. The second set of regression on the other hand looks at the probability of re-election of incumbent governors who are in this case clan members in provinces where there are at least two political clans. The idea here is that the threat of clan competition may exert pressure on the incumbents to perform well in office.

The results of the first set of regressions are presented in Table 5. Unlike in the previous table, none of the explanatory variables presented here is statistically significant. The predicted share of development expenditure still has a positive, although statistically insignificant, impact on the chances of the incumbent governor to another term in office. This suggests that the impetus for good performance in office is likely to be weak in these places. Also, it could indicate that the incumbent may have a political machinery (other than clan, like a political party) or may rely on other indicators of good performance (like greater expenditures on health and social services) that help insure her political victory. Except for this notable difference, the estimated coefficients of the other explanatory variables included here however have similar signs as those found in the previous table. This again attests to the robustness of the previous results.

[Insert Table 5 here]

The results of the regression exercise limited to incumbent governors who are clan members in provinces where there are at least two political clans are shown in Table 6. The signs of the estimated coefficients are similar to those obtained in the earlier exercise. Unlike in the previous exercise, the estimated coefficients of the predicted share of development expenditures and the square of the predicted share of development expenditures however are statistically significant here. Hence, where the threat of clan competition is real, governors who are clan members differentiate themselves from their rivals by performing well in office. This result is rather strong since the sample is relatively small (21 observations). Among the provinces included in this sub-sample are Davao del Norte, Leyte, Tarlac, Batangas and Zamboanga del Norte, which are areas with many dominant political clans.¹⁷

[Insert Table 6 here]

6. Concluding remarks

Is local development good politics? Notwithstanding the data and other limitations of the study, the results suggest that development-oriented programs help improve the chances of the incumbent governor to another term in office. The results seem robust to clan definition and membership status of the incumbent official in local political clans. Put differently, local chief executives, whether

members of political clans or not, do respond to local development needs in an effort to get re-elected, if for nothing else.

Hence, contrary to a common belief borne out of the observed weaknesses in the electoral institutions, elections in the Philippines are still an effective disciplining device. Since elections make politicians accountable, if not impelling them to actually do well in office, the reason behind the imposition of the term limits may have to be evaluated. If the purpose of the term limit is to minimize the risk of “state capture” by local vested interests such as the political clans, the results indicate that it is not so much the presence of political clan *per se* that is inimical to local development. Rather, it is the absence of effective competition among political rivals, clans included, that appear to delay local development. Hence, political reforms must focus on heightening competition, rather than forcibly disqualifying clan members who are otherwise able and competent local leaders from the race.

Finally, there appears no evidence that the fiscal decentralization program helped entrench the political clans’ control over local politics. The devolution of functions and increase in the revenue shares of the provinces, which are supposed to widen the incumbent governor’s sphere of influence, do not appear to especially favor governors who are clan members over those who are not. In fact, the increase in the IRA *per se* appears to have no effect on the likelihood of re-election. On the contrary, higher outlays on the devolved functions, which promote local development, will likely improve the chances of the incumbent to a second term.

Notes

* An earlier version of this paper came out as UPSE Discussion Paper No. 0104 and was presented during the 7th International Conference of the East Asian Economics Association in Singapore in Nov. 2000 and in various seminars in the Philippines. Participants in these seminars, especially Prof. David Reisman and Prof. Ricardo Ferrer, are gratefully acknowledged for their comments and suggestions. This paper also benefited from the institutional and financial support of the Philippine Center for Policy Studies and the Ford Foundation and from the research assistance of Shiela Camingue, Pilipinas Felix, Archimedes Gatchalian and Fidelis Sadicon. The usual disclaimer applies.

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2. The classic reference is W. Oates, *Fiscal Federalism* (New York, NY: Harcourt Brace Javonovich, 1972). Also, see R. Bahl and J. Linn, *Urban Public Finance* (Washington, D.C.: The World Bank, 1992).
3. These issues are continually debated in the development literature. See, for example, the following articles: V. Tanzi, "Fiscal Federalism and Decentralization" in *Annual World Bank Conference on Development Economics*, M. Bruno and B. Pleskovic, eds., 1995; L. R. de Mello, "Fiscal Decentralization and Intergovernmental Fiscal Relations: A Cross-Country Analysis," *World*

Development 28 (2000): 365-380; J. Capuno and O. Solon, "The Impact of Devolution on Local Health Expenditures: Anecdotes and Some Estimates from the Philippines," *Philippine Review of Economics and Business* 33 (1996): 283-318; R. Proud'homme, "The Dangers of Decentralization," *The World Bank Research Observer* 10 (1995): 201-220. A handy reference to these issues is R. Boadway and D. Wildasin, *Public Sector Economics*, 2nd ed., (Boston, MA: Little Brown and Co.).

4. See P. Bardhan and D. Mookherjee, "Expenditure Decentralization and the Delivery of Public Services in Developing Countries," processed (University of California-Berkeley, Department of Economics, 1999); and W. Oates, "An Essay on Fiscal Federalism," *Journal of Economic Literature* 37 (1999): 1120-1149.

5. This possibility is raised in P. Hutchcroft, "Centralization and Decentralization in Administration and Politics: Assessing Territorial Dimensions of Authority and Power," processed (University of Wisconsin-Madison, Department of Political Science, 2000).

6. Interestingly, it is observed that provinces in the Philippines with relatively high scores in the Human Development Index (HDI) are also likely to have more established political clans, contrary to the usual view of political clans as anti-development or predatory. Proposed (and published) by the UNDP, the HDI is a summary measure of development comprising adult literacy rate, average life expectancy and average real family income. See T. Rivera, "How Fare the Clans? Poverty and Elite Reproduction in the Philippines", a paper presented during the annual conference of the Philippine Political Science Association held on July 23-

24, 1999 at the Balay Kalinaw, University of the Philippines, Diliman, Quezon City, Philippines. The various HDI scores of the provinces in the Philippines are reported in the *Philippine Human Development Report*, published by the UNDP in 1994, 1997 and 2001.

7. The continued dominance of political clans in Philippine politics is well documented. More recent studies include: Philippine Center for Investigative Journalism, *Boss: 5 Case Studies of Local Politics in the Philippines* (Manila, Philippines: PCIJ, 1995); Philippine Center for Investigative Journalism, *Patrimony: 6 Case Studies on Local Politics and the Environment in the Philippines* (Manila, Philippines: PCIJ, 1995); Philippine Center for Investigative Journalism, *Pork and other Perks: Corruption and Governance in the Philippines* (Manila, Philippines: PCIJ, 1995); and E. Gutierrez et al., *All in the Family. A Study of Elites and Power Relations in the Philippines* (Quezon City, Philippines: Institute for Popular Democracy, 1992).

8. A number of oligarchic families have been dominant political figures in the country, such as the Lopezes of Iloilo and the Cojuangcos of Tarlac. How the members of some of these local economic elite have become national leaders is discussed in A. McCoy, ed., *An Anarchy of Families. State and Family in the Philippines* (Quezon City, Philippines: Ateneo de Manila University Press, 1997).

9. Many of these families even trace their origin from the Spanish and American colonial periods. See Rivera (1999).

10. The symbiosis between local and national political leaders is a well-studied aspect of Philippine politics. The classic reference is J. Grossholtz's *Politics in the Philippines* (Boston, MA: Little Brown and Co., 1964).
11. Early studies have emphasized the patron-client relationships as the basis of political power at the local level. C. Lande's *Leaders, Factions and Parties: The Structure of Philippine Politics* (New Haven, CT: Yale University Southeast Asia Studies Program, 1965). More recent studies however note that local political leaders are more similar to the mafias in Sicily, the caciques in Latin America and the warlords in Republican China through fear, coercion or electoral fraud, a phenomenon called local "bossism". See, for example, J. McBeth, "The Boss System," *Far Eastern Economic Review* (14 September 1989) and J. Sidel, "Beyond Patron-Client Relations: Warlordism and Local Politics in the Philippines," *Kasarinlan* 4 (1989): 19-30.
12. A comprehensive documentation in the case of the members of Congress in the early 1990s is E. Gutierrez's *The Ties that Bind. A Guide to Family, Business and other Interests in the Ninth House of Representatives* (Manila, Philippines: Institute for Popular Democracy, 1994).
13. The model is in the tradition of R. Barro, "The Control of Politicians: An Economic Model," *Public Choice* 14 (1973): 19-42 and J. Ferejohn, "Incumbent Performance and Electoral Control," *Public Choice* 50 (1986): 5-26. A brief review of this class of models is provided in T. Person and G. Tabling, *Political Economics. Explaining Economic Policy* (Cambridge, MA: MIT Press, 1999).

14. Arguably, the *expenditures on social services* (i.e., health, nutrition, population) is a better measure of good performance of the incumbent governor, since these services have a more direct bearing on local welfare. While these can be easily accommodated, the focus here is on local public services that lead to higher public revenues (as the model suggests), which then can be used to improve local welfare and the overall quality of life.

15. The definitions of political clans used are largely determined by the available data. The first definition is based on Gutierrez (1994) while the second definition is based on Rivera (1999).

16. For a discussion of these issues, see W. Greene, *Econometric Analysis*, 3rd ed., (New Jersey: Prentice Hall). A more advanced treatment is found in B. Baltagi, *Econometric Analysis of Panel Data* (New York, NY: John Wiley and Sons).

17. If the IRAs are interpreted as purely fiscal transfers, the estimated coefficients support the view that fiscal inputs are less critical than outputs or outcomes in obtaining a favorable election outcome.

18. In the earlier version of this paper, the governors are grouped according to their membership in “new” (post 1972) and “old” (pre 1972) political clans to differentiate the old from the new oligarchs created under the Marcos regime. The results obtained in this exercise are qualitatively similar to the ones presented in the present paper.

TABLE 1
VARIABLE DEFINITIONS

Variable	
Re-election status	1 = if the incumbent provincial governor is re-elected; 0 = otherwise
Share of development expenditures	Share of the expenditures on economic development in the total expenditures of the province
Total expenditures	Total expenditures of the province
Per capita income	Per capita income of the local population in the province
Predicted share of development expenditures	Predicted share of the expenditures on economic development in the total expenditures
Square of the predicted share of development expenditures	The square of the predicted share of the expenditures on economic Development in total expenditures
Allocation from central government revenues	Internal Revenue Allotment of the province
Square of allocation from central government revenues	The square of Internal Revenue Allotment
Number of political clan1	Number of political clans in the province (based on Gutierrez 1994)
Square of the number of political clan1	The square of the number of political clans in the province (based on Gutierrez [1994])
Number of political clan2	Number of political clans in the province (based on Rivera [1999])
Square of the number of political clan2	The square of the number of political clans in the province (based on Rivera [1999])

TABLE 2
DESCRIPTIVE STATISTICS

Variable	<i>N</i>	Mean	Std. Deviation
Re-election status	227	0.5242291	0.5005163
Share of development expenditures	226	0.2170913	0.0959174
Total expenditures	227	1.88e+08	1.53e+08
Per capita income	225	11776.72	5427.396
Predicted share of development expenditures	221	0.2180567	0.0387345
Square of the predicted share of development expenditures	221	0.0490423	0.0154824
Allocation from central government revenues	227	1.49e+08	1.05e+08
Square of the allocation from central government revenues	227	3.32e+16	5.07e+16
Number of political clan1	237	1.64557	1.578762
Square of the number of political clan1	237	5.189873	10.33229
Number of political clan2	237	1.21519	1.484418
Square of the number of political clan2	237	3.670886	9.071358

TABLE 3

DETERMINANTS OF THE SHARE OF THE EXPENDITURES ON ECONOMIC
DEVELOPMENT TO TOTAL EXPENDITURES (ALL PROVINCES ; 1992, 1995, 1998)

(Random-effects GLS regression; year – group variable)

	Coefficient	Standard Error
Constant	0.2922294	0.0144635*
Total expenditures	-1.62e-10	4.61e-11*
Per capita income	-3.62e-06	1.30e-06*
No. of observations	220	
No. of groups	3	
R-squared: Within	0.0311	
Between	0.9792	
Overall	0.1621	
Wald chi-squared (2)	7.77**	

* Significant at the 1% level.

** Significant at the 5% level

TABLE 4

DETERMINANTS OF THE PROBABILITY OF RE-ELECTION OF INCUMBENT GOVERNORS

(ALL PROVINCES; 1992, 1995, 1998)

(Random-effects logit estimates; year – group variable)

	<u>Using Political Clan1</u>			<u>Using Political Clan2</u>		
	Coefficient	Standard Error	Odds Ratio	Coefficient	Standard Error	Odds Ratio
Constant	-4.384709	3.07575		-4.369647	3.109791	
Predicted share of development expenditures	54.76376*	31.64029	6.08e+23*	56.52379*	32.09622	3.53e+24*
Square of the predicted share of development expenditures	-144.8224*	81.84221	1.27e-63*	-151.1381*	82.88285	2.30e-66*
Number of political clan	-0.0431112	0.242473	0.9578049	-.0374001	0.227609	0.9632906
Square of the number of political clan	-0.0019856	0.0363784	0.9980164	-.0135341	0.0390663	0.9865571
Allocation from central government revenues	-4.37e-09	5.80e-09	1	-5.44e-09	5.70e-09	1
Square of the allocation from central government revenues	9.70e-18	1.01e-17	1	1.24e-17	1.05e-17	1
No. of observations	214			214		
No. of groups	3			3		
Log-likelihood	-146.352			-145.914		
Wald chi-squared (5)	3.49			4.31		

* Significant at the 10% level.

TABLE 5

DETERMINANTS OF THE PROBABILITY OF RE-ELECTION OF INCUMBENT GOVERNORS

WHO ARE NOT MEMBERS OF ANY POLITICAL CLAN IN PROVINCES WITH POLITICAL

CLANS (ALL PROVINCES; 1992, 1995, 1998)

(Random-effects logit estimates; year – group variable)

	Coefficient	Standard Error	Odds Ratio
Constant	-4.611305	3.54859	
Predicted share of development expenditures	55.93035	37.22687	1.95e+24
Square of the predicted share of development expenditures	-147.6163	96.82281	7.78e-65
Allocation from central government revenues	-3.74e-09	6.07e-09	1
Square of the allocation from central government revenues	7.61e-18	9.98e-18	1
No. of observations	145		
No. of groups	3		
Log-likelihood	-99.08		
Wald chi-squared (3)	2.44		

TABLE 6

DETERMINANTS OF THE PROBABILITY OF RE-ELECTION OF INCUMBENT GOVERNORS

WHO ARE MEMBERS OF ANY POLITICAL CLAN IN PROVINCES WITH AT LEAST TWO

POLITICAL CLANS (ALL PROVINCES ; 1992, 1995, 1998)

(Random-effects logit estimates; year – group variable)

	Coefficient	Standard Error	Odds Ratio
Constant	-62.60191	38.4985	
Predicted share of development expenditures	635.1491*	375.7855	6.95e+275*
Square of the predicted share of development expenditures	-1507.424*	882.5119	0*
Allocation from central government revenues	-3.25e-08	3.36e-08	1
Square of the allocation from central government revenues	7.81e-17	6.97e-17	
No. of observations	21		
No. of groups	3		
Log-likelihood	-12.433		
Wald chi-squared (3)	2.96		

* Significant at the 10% level.