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First PIPER Policy Forum on 20 Years of Fiscal Decentralization in the Philippines

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synthesis

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List of presenters, discussants, and panelists

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Director IV, Department of Budget and Management—Regional Office I

Dr. Agustin R. Arcenas
Associate Professor, University of the Philippines (UP) School of Economics

Dr. Arsenio M. Balisacan
Former Dean and Professor, UP School of Economics

Dr. Alex B. Brillantes
Former Dean, UP National College of Public Administration and Governance

Dr. Joseph J. Capuno
Associate Professor, UP School of Economics

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Dr. Milwida M. Guevara
Chief Executive Officer, Synergeia Foundation

Dr. Paul D. Hutchcroft
Professor, Australian National University



Re-slicing the pie of patronage: the politics of the internal revenue allotment in the Philippines, 1991-2010

Paul D. Hutchcroft*

Department of Political and Social Change, College of Asia and the Pacific,
The Australian National University

Of all the provisions of the 1991 Philippine Local Government Code, none has generated more contention than the internal revenue allotment (IRA)—through which 40 percent of national internal revenues are to be shared with local governments. The stated goal is to enable provinces, cities, municipalities, and barangays to assume the responsibilities devolved to them in the code. For all the celebrated talk of promoting local autonomy and instituting fiscal decentralization, however, the IRA is also very much a story about the enhanced access of local politicians to patronage resources. This analysis surveys the political dynamics of the IRA from its inception through the administrations of Fidel Ramos, Joseph Estrada, and Gloria Macapagal-Arroyo. Particular attention is given to three tensions as they have evolved over time: (a) between the national executive and local politicians, (b) between national legislators and local politicians, and (c) among and within categories of local politicians.

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1. Introduction

"To God be the Glory!" reads a full-page "announcement" of the Union of Local Authorities of the Philippines (ULAP) placed in the *Philippine Daily Inquirer* on 22 December 1999. Right below it, in parentheses and somewhat smaller font, reads the following statement to a second intended recipient: "(Thank you President Joseph Ejercito Estrada)". Two days earlier, at precisely 5:45 pm, the announcement explains, President Estrada had "called up Laguna Gov. Joey Lina", president of ULAP and the League of Provinces of the Philippines (LPP), "to relay the good news" that a bicameral committee had agreed "to restore the P30 billion cut" in the internal revenue allotment (IRA). ULAP was thus calling off its planned four-day work stoppage, and sending forth its "praise and [thanks] to the Lord for enlightening our leaders so that we may serve His people with greater vigor and dedication". Instead of a work stoppage—which had followed on protest marches, vigils, and the wearing of black armbands—all members of ULAP were urged to pass resolutions "thanking God first for his mercy and President Joseph Ejercito Estrada for his Excellency's wise and timely intervention". "This victory", the announcement further explains, "is not only for the country's local government units that provide frontline government services but for the millions of impoverished Filipinos who will surely benefit from the IRA cut restoration: from primary health care to social services, from agricultural services to infrastructure projects, from education to cultural promotion, from maintenance of peace and order to livelihood opportunities".

The episode that motivated this announcement, now over 12 years ago, illustrates the strong emotions and almighty rhetoric that is generated by the internal revenue allotment, a provision of the 1991 Local Government Code (LGC) that provides 40 percent of internal revenues to provinces, cities, municipalities, and barangays throughout the Philippines. Although the LGC was meant to promote local autonomy, many local government units (LGUs) remain highly dependent upon the national government for the IRA that has come forth from the LGC. From 1992 to 2003, the proportion of income (net of borrowing) derived from the IRA was an astounding 81.3 percent for provinces (as compared to 38.8 percent pre-LGC), 74.1 percent for municipalities (formerly 38.3 percent), and 47 percent for cities (formerly 33.2 percent) [Manasan 2007:296]. The degree of dependence varies based on a range of factors that are beyond this analysis, but it is commonly said that the IRA is the "lifeblood" of local governments in the Philippines.

Proposals to curb the IRA, generally in response to adverse financial conditions, are routinely met with two arguments. First, given the IRA's role

as "lifeblood", cuts will lead to dangerous reductions in service delivery at the local level. Local politicians and their supporters at the national level commonly make predictions involving such words as "chaos", "anarchy", and "disaster". Second, and in somewhat contradictory fashion, the lifeblood upon which local governments depend so heavily is widely viewed as essential to "fiscal autonomy". This autonomy is guaranteed by the 1987 Constitution and the Local Government Code, and the IRA cannot be curbed except through the provisions of the code. Of all the provisions of the LGC, none has generated more attention or more contention than the IRA.¹

2. Contention, dependence, and romanticization

This contention has been present ever since the passage of the LGC in late 1991, when the greatest fights were over proposals to reallocate national budget resources in favor of local governments.² The IRA was viewed by many national legislators as a major threat, and the code was passed, thanks to the fervent support of its key backers: (a) Senator Aquilino Pimentel and Congressman Hilario de Pedro; (b) House Speaker Ramon Mitra, who performed some highly irregular parliamentary maneuvers to get the LGC passed by the House, as he was seeking to ingratiate himself to local politicians in advance of his 1992 bid for the presidency; and (c) President Corazon Aquino and her advisers. The opposition in Congress was vociferous, particularly among congressmen who had political rivals among the governors and mayors in their districts. As Mitra's deputy, Congressman Antonio Cuenco, explained to me in an interview, "it was a natural tendency not to yield powers to these people, who would screw them". A concern was how increased revenue allotments to local governments would reduce the pork barrel monies used by congressmen to build and consolidate their local constituencies. "More money, more power", says Cuenco. "It's that simple." As Congressman de Pedro observed, "Congressmen want to be governor, mayor, and barangay captain as well as congressman". And one prominent local official, Cebu City Mayor Tomas Osmeña, recalled that congressmen cared little about the issue of decentralization in the abstract but thought primarily of their rivalries with local officials. Whenever local officials and congressmen conferred about the proposed code, Osmeña said, "the arguments were over money, control over police, and public works".

¹ A similar observation, made by Capuno [2001], has only been further confirmed across the subsequent decade.

² This analysis of the political dynamics of the passage of the LGC draws on Hutchcroft [2004].

Indeed, a paramount goal of many congressmen was to exempt the Department of Public Works and Highways (DPWH) from decentralization. As a central element of congressmen's "pork barrel" spending, it was critical to them that this most important trough of patronage remained under national control. Members of Congress are said to have found the LGC most objectionable when the local officials in their districts were bitter rivals; in some cases, reports Cuenco, congressmen "were at war with their own relatives ... [and] didn't want their brothers to have more power". In other cases, congressmen enjoyed close ties with officials in their districts, and nurtured plans to run for local office and reap the benefits of the LGC. As is now well known, the deal that was eventually hashed out provided an initial 30 percent of internal revenue collection in 1992 (the first year of its disbursement), increasing incrementally to the ultimate 40 percent level in 1994. As a percentage of the total national budget, the IRA grew from roughly 7 percent (or Php 20 billion) in 1992 to roughly 17 percent (or Php 112 billion) in 2000. In 2010, the final year examined here, it remained roughly 17 percent of the national budget (or Php 266 billion).

The focus of this analysis is a comparison of political dynamics across time, not a comparison across LGUs (whether category of LGU, region of the country, income level, etc.).³ Particular attention, employing very broad brush strokes,⁴ is paid to three tensions as they have evolved over time: (a) between the national *executive* and local politicians, as represented in the various leagues (provinces, cities, municipalities, etc.); (b) between national *legislators* (in the Senate and House) and local politicians; and (c) among and within categories of local politicians (governors, city mayors, municipals mayors, and barangay captains). My central argument is that the IRA should be viewed in two ways. First, and most conventionally, it is a resource to finance the responsibilities devolved to local governments (particularly in the realms of health, agriculture, social welfare, and

³ Variation among LGUs is a very important thing to examine but is not the focus here. As is inherent in any decentralized system, there is substantial variation from one locality to another in the way in which IRA has been used (sometimes promoting valuable development objectives, sometimes not) and in the nature of local political dynamics. For an invaluable "typology of local leaders and the bases of their power", see de Dios [2007]. In a related vein, Capuno observes that "the spread of innovation [in good governance] seems slow" as "examples of best practice are not widely imitated and even devolved services are of low quality" [2007:218-219].

⁴ This analysis is based on preliminary research, and contributes to a larger project examining the nature of territorial politics in the Philippines between 1900 and 2010.

environment and natural resources). Second, it has very significantly involved a re-slicing of the pie of patronage. For all the celebrated talk of promoting local autonomy and instituting fiscal decentralization, the IRA is also very much a story about the enhanced access of local politicians to patronage resources.

Formerly, fiscal resources from the center were disbursed in a more particularistic fashion, depending on the nature of political ties between the local politician and the national executive (headed by the president, the national politician who sits at the top of the chain of patronage). With the passage of the Local Government Code, and backed up by two key Supreme Court decisions (in July 1999 and June 2004, as discussed below), these resources have come to be allocated far more automatically; in a manner analogous to debt service payments, they are to come off the top of the budget. Whether before or after the 1991 Local Government Code, there has been dependence of local governments on the national government, but it is now dependence of a different variety. Before 1991, it was a notoriously unpredictable type of dependence, predicated on the ever-shifting nature of political alliances and rivalries. After 1991, it is a relatively more predictable type of dependence, predicated by the need to fund new responsibilities as well as on a strong sense of entitlement that is both codified and backed up by judicial rulings.

Had this argument been made in the 1990s, it is likely that many would have found it excessively cynical. At that time, it was common for local executives to be valorized and romanticized (indeed, they were rarely spoken of as local politicians, but rather as local executives). Providing resources to "local executives" was widely viewed as a deeply progressive cause, with the antiauthoritarianism spirit of the post-Marcos years nurturing a righteous battle against the evils of "imperial Manila".⁵ Today, it is not uncommon to see IRA labeled as "pork".⁶ One can note a marked shift away from the often-romanticized views of earlier years, as journalists and other analysts are now less prone to view local executives/politicians through rose-colored lenses. The example of the Ampatuan family in Maguindanao

⁵ This was based on the erroneous conflation of authoritarianism and centralization and the equally erroneous conflation of democracy and decentralization; this is a common mistake found in analysis of central-local relations, ignoring the realities of decentralized authoritarian regimes and centralized democratic regimes. See Hutchcroft [2001].

⁶ See, for example, the assertion of business columnist Conrado Banal that "to the LGU officials, the IRA is just like 'pork' to the legislators" [*Philippine Daily Inquirer*, 5 January 2012].

and the Autonomous Region in Muslim Mindanao (ARMM), even if an especially grotesque and obviously extreme case of local autonomy, has once again highlighted the reality of local authoritarian enclaves as well as the dangers of conflating "decentralized governance" with democracy.⁷

3. Historical context and framework of analysis

As I have argued elsewhere, in a chapter entitled "Dreams of redemption: localist strategies of political reform in the Philippines" [Hutchcroft 2010], the Local Government Code can be viewed as the latest of a long series of reforms that seek to redeem the Philippine political system from the bottom up. The logic of this type of reform was perhaps best articulated by Ramon Binamira, a close adviser to Ramon Magsaysay and the first presidential assistant for community development: "My idea was to ... [promote] values and clean up the government as you go up the ladder. ... Start at the barrio, then the municipalities, then the provinces, and then go to the national Senate and Congress."

At several points over the past half century in the Philippines, frustration with pervasive patronage politics has prompted a range of localist strategies of reform: barrio-level community development programs (beginning in the 1950s), laws on local autonomy and decentralization (passed in 1959, 1967, and 1991), and more recent proposals for a shift from unitary to federal government. In each case, advocates of these strategies frequently view national-level politics as a hopeless morass of corruption, and propose instead to fight patronage and redeem the country's political system by giving more attention to the local level and/or more authority to local officials. Through examination of the thoroughly interwoven character of patronage structures, from the national to the local level, I assert that a false dichotomy is often drawn between the character of national and local politics. This dichotomy is common not only in Philippine political discourse but also in much of the scholarly literature on decentralization. While localist strategies of reform in the Philippines have an important impact on the distribution of patronage, they have not proven effective in curbing the system of patronage politics as a whole. In order to develop a successful strategy for undermining the patronage system, one must first move beyond simplistic dichotomies. Because the patronage system is nationwide in scope, the most effective strategies for reform are those

⁷ On the massacre of 57 people in Maguindanao in November 2009, for which members of the Ampatuan family have been charged, see ICG [2009].

that are national in character—encompassing the entire, interconnected system of governance, as it is based in the center and extends outward to the localities.

Many countries have well-developed systems of patronage, but in comparative perspective it is important to note that patronage in the Philippines exists within a weak institutional context [Hutchcroft, forthcoming]. In Japan, the postwar system of patronage developed amid a strong national bureaucracy and a strong ruling party (recent changes to the latter notwithstanding). Thailand is an intermediate case, where the Interior Ministry has long extended the reach of Bangkok into the provinces but political parties are historically weakly institutionalized. Philippine-style patronage exists within an institutional context that is weak on both dimensions. First, the national bureaucracy that oversees local government has little supervisory capacity, and is most effective in forging ad hoc ties with local politicians on behalf of the presidential palace (as part of a historical context that has often combined tedious formal requirements for sign-offs at the center with strikingly decentralized power in the provinces). Second, political parties are generally national in scope but notoriously weak in terms of their programmatic and institutional coherence. Among the three countries, the Philippines can be classified as a “patronage-based state”. Within the polity that has evolved since the origins of the modern Philippine state in the American colonial era, important state functions have long been subcontracted to local power holders throughout the archipelago. Patronage serves as a vital territorial glue.

But the patronage basis of a state comes at the price of the quality of *governance*, as decisions about the allocation of development resources are likely to be based more on electoral considerations than technical assessments. In addition, the relative role of different levels of government (national, regional, congressional district, provincial, city, municipal, barangay) in development decision making is based not on what is optimal from the standpoint of development (e.g., at what level is a particular activity most likely to generate useful economies of scale), but rather on the ever-shifting nature of power relations across the electoral cycle. This can lead to severe underinvestment in support of vital national-level infrastructure projects (e.g., national transportation networks and port facilities), and the concurrent resourcing of microlevel projects with the most visible political impact (e.g., basketball courts whose backboards proclaim the sponsorship of a congressman or local politician, or the ubiquitous “Welcome” signs found at provincial and municipal boundaries).

While the national government often fails to deliver vital public goods, local Philippine politicians certainly know how to feed patronage resources to their constituents.

It also comes at the price of the quality of *democracy*, as it has privileged pork and patronage over policies and programs, and has nurtured authoritarian enclaves in many localities. Even when one does not find full-blown authoritarianism at the local level, the quality of democracy suffers from the prevalence of "money politics" and vote buying. When voters are given money for their votes, the social contract of democratic accountability is quite obviously undermined.

Alongside the publicly expressed goal of empowering local government authorities, the Local Government Code of 1991 has simultaneously provided new patronage resources to local politicians. At one level, the IRA is a revenue-sharing grant from the national government to local governments, intended to finance the important responsibilities that were devolved by the 1991 Local Government Code. At another level, evidence suggests that significant chunks of the IRA have come to be controlled—with substantial personal discretion—by local politicians: governors, city mayors, municipal mayors, and barangay captains. These elements can be viewed as the local analogue of the pork barrel funds that have long been enjoyed by national legislators. If the congressional pork barrel can be termed "legislators' slush fund", therefore, a significant proportion of the IRA can be viewed as "local politicians' slush fund".⁸

Further research is required in order to specify the range of practices found in local governments throughout the archipelago, but one can note frequent observations of how governors and mayors have come to lord over important chunks of their local units' IRA funds. One brief study, by Jude Esguerra, speaks of mayors as "budget dictators" able to make decisions as to which projects appropriated by local legislative councils get funded and which do not. This gives mayors considerable opportunity over the councilors, with spending ultimately decided by "who can suck up to the mayor the most effectively". Esguerra further notes the high proportion of local spending that goes toward personnel, with mayors commonly enjoying "the final word on who [gets] hired within city hall, civil service laws notwithstanding" [Esguerra 2001a]. More such studies

⁸ There can be exceptions in both cases: congressional pork barrel that is allocated according to democratic processes (as can happen within more ideologically coherent political parties), and IRA that could be allocated according to democratic processes by local legislative assemblies. In such cases, it would not be fair to use the term "slush fund".

are needed in order to further understand the various ways in which IRA funds are expended (across different localities and across different levels of local government) according to local budget practices. This empirical gap stands in sharp contrast to analysis of legislators' slush funds, where we are much more familiar with the central role of congressmen and senators in controlling (and often profiting from) the disbursement of pork barrel programs, congressional insertions, etc. (see, for example, Coronel [1998] and Coronel et al. [2007]).

The subsequent analysis of this paper will examine the politics of the IRA across four periods: from the initial implementation of the Local Government Code in 1992 to the end of the presidency of Fidel Ramos in June 1998, from the inauguration of President Joseph Estrada in July 1998 to his demise in the "People Power 2" uprising of late January 2001, from the ascension of Gloria Macapagal-Arroyo to the presidency in January 2001 through the 2004 elections, and from the disclosure of the major "Hello, Garci" electoral crisis in 2005 to the end of Arroyo's term in June 2010.

4. Establishing the IRA: 1992-1998

An early source of contention in the initial years of the IRA was the capacity of these central budgetary resources to cover the extensive functions that had been devolved from the Departments of Health, Agriculture, Social Welfare and Development, and Environment and Natural Resources to the local level. First, as summarized in a 1996 study (funded by the United States Agency for International Development [USAID] and cosponsored by the local government leagues), one-third of the provinces "continue to register negative net transfers, receiving less funds than devolved responsibilities in health, agriculture, and the environment require them to spend" [Ybañez 1996:2].⁹ Second, there was the issue of whether the actual cost of devolution be borne by the national government, or be deducted from the IRA (see Diokno [1993]). Third, there were also many complaints over "unfunded mandates"—that is, expenditures that the national government mandates without any accompanying funding to support them. This included, for example, responsibility to pay for holding barangay elections (*Philippine Daily Inquirer*, 25 May 1997; see also López [1998]). Fourth, another common complaint is related to the increasing

⁹ Ybañez further argues that the inadequacy of IRA resources relative to the "service delivery responsibilities devolved to LGU's, especially for provinces", can force governors to devote considerable effort to lobbying congressmen for pork barrel funds [1996:3].

salary costs of government personnel, given differentials between the salaries of national and local officials.

Amid these teething issues, there were many proposals for revamping the IRA through amendments to the Local Government Code. In October 1996, the four local government leagues (for provinces, cities, municipalities, and barangays) issued a joint statement urging that the IRA be increased from 40 percent to 60 percent of national-level internal revenue and that LGUs be given a share of the local E-VAT collection. "According to the LGUs", reported the *Manila Times*, "the funds for functions and personnel devolved by the national government to the local units should be separate from the IRA. They have also vowed to resist unfunded mandates" [13 October 1996]. Press reports further show considerable discussion, both at the national and local levels, of possible amendments to the formula determining allocation of funds (both between and among the four major levels of LGUs).

Through the years there have indeed been countless proposals to increase the share of local governments from 40 percent to either 50 percent or 60 percent, and to adjust the formulas that determine the levels of allocation across and within levels of government (provinces, cities, municipalities, and barangays).¹⁰ These proposals have not yet been adopted; when it comes to the content of the law on the IRA, continuity has dominated over change. As is obvious, an overall increase in the level of IRA would tend to pit local politicians against national politicians (with the important caveat that some national politicians would, due to personal belief or political calculus, have reason to support such a change). Adjustments to the formula *between* levels of LGUs would likely lead to major differences among categories of local politicians (e.g., governors and mayors, city mayors and municipal mayors, etc.). And adjustments to the formula *within* levels of LGUs (e.g., giving more attention to population vs. area, or population density vs. population, or instituting performance criteria based on success in revenue collection, or favoring the poorest of the LGUs) would likely lead to differences among governors, among city mayors, among municipal mayors, etc. In the midst of these issues, there was steady growth in the IRA throughout these initial years—from roughly 7 percent of the national budget in 1992 to more than 15 percent in 1998.

Major controversy came forth as the administration of President Fidel Ramos responded to the Asian financial crisis—in particular, the fiscal

¹⁰ The LGC divides the IRA among types of LGUs as follows: 23 percent to provinces, 23 percent to cities, 34 percent to municipalities, and 20 percent to barangays. In each of these categories, the IRA is allocated according to a distribution formula that is based 50 percent on population, 25 percent on land area, and 25 percent on equal sharing.

difficulties caused by the decline of the peso relative to the US dollar. With Administrative Order (AO) 372, issued on 27 December 1997, President Ramos called for a temporary 10 percent cut on the IRA. Local officials "howled in protest", complaining in particular that the IRA was being cut even as congressmen continued to receive their pork barrel [*Today*, 10 January 1998]. Senator Aquilino Pimentel, widely known as "the father of the Local Government Code", filed a petition with the Supreme Court in April 1998 arguing that the administrative order was a violation of the LGUs' "fiscal autonomy" [*Today*, 2 April 1998]. As we shall see, the December 1997 order was the beginning of two-and-a-half years of contention over IRA cuts, continuing into the administration of President Joseph Estrada.

5. *Atras-abante* under President Joseph Estrada: 1998-2001

With the election of Joseph Estrada to the presidency in 1998, a former mayor was now in the highest post of the land. Pointing to a Php 40 billion deficit inherited from the previous administration, incoming Budget Secretary Benjamin Diokno announced a plan to curb the pork barrel and to suspend the release of Php 8 billion in IRA [*Today*, 9 July 1998], which was equal to 10 percent of the total allotment. Senate Majority Leader Francisco Tatad fired one of the first volleys of protest: "Of all the harebrained ideas that have been fed to, and accepted by the President, this one takes the cake.... [and] is guaranteed to set aflame simultaneously at least 1,540 municipalities and 84 cities" [*Today*, 10 July 1998]. An official of the Department of the Interior and Local Governments (DILG) tried to highlight that the cuts were not new, but could rather be traced to the December 1997 administrative order of the Ramos administration. That is no excuse, argued Governor Roberto Pagdanganan, president of the League of Provinces of the Philippines. He had expected Estrada, as a former mayor, "to understand the condition of the LGUs", and called the IRA cut "a dangerous act of retrogression towards making LGUs mendicants and dependent on patronage". In his view, "It is the responsibility of the national government to manage the national budget. Why should the LGUs be penalized for the failure of the national government?" [*Today*, 15 July 1999]. The 77 governors within the League of Provinces passed a unanimous resolution opposing the cut and calling for LGUs to receive 60 percent of the revenue of the Bureau of Internal Revenue (BIR), the Bureau of Customs, and the Land Transportation Office [*Philippine Daily Inquirer*, 30 July 1998].

President Estrada, seemingly in response to these pressures, released half of the Php 8 billion that had been held back in the 1998 budget.

"[N]ext year", he further promised, "I'll make sure that there won't be any more reductions". Citing his 16 years of experience as mayor of San Juan, Estrada said he knew how important the IRA was to local governments. Tellingly, he noted that the earlier 10 percent cut had led to large-scale layoffs of casual employees [*Business World*, 12 August 1998]. Casual employment is, of course, commonly associated with the spoils system, in which politicians reward their supporters with government positions. Two months later, Estrada made an even bigger promise with regard to the 1999 budget: "I can assure the local governments that their IRA will increase by almost 40 percent." In the same speech, he urged local politicians not to make promises they could not keep [*Philippine Daily Inquirer*, 6 October 1998]. Apparently he wasn't following his own advice, as the actual increase in IRA from 1998 to 1999 was far less than what he promised (from Php 80.99 to Php 96.78 billion, a roughly 20 percent hike).

A year later, in October 1999, the Estrada administration put in place a Php 5 billion grant program called the Local Government Service Equalization Fund (LGSEF), purportedly (said a DILG official) "to democratize and equalize" the IRA for the benefit of the poorest (fifth- and sixth-class) LGUs that were struggling to deliver devolved services. The fund could be used as equity in contracting loans with the Development Bank of the Philippines [*Business World*, 13 October 1999]. Many objected to the LGSEF, however, given that its disbursement was subject to an Oversight Committee on Devolution. A 2005 report asserts that Estrada "and his son, then mayors' league president ... Jinggoy Estrada, turned the LGSEF into a pork barrel, a dole-out fund. What happened was that when LGUs ran out of funds for their projects, they had to lobby with Malacañang for assistance from the LGSEF" [*Newsbreak*, 15 August 2005].¹¹ This disbursement method was emphatically rejected by the Supreme Court nearly five years later, in June 2004 (as discussed below).

The biggest firestorm of controversy, however, came over a Senate proposal to cut Php 30 billion from the IRA, leading into the vigils, black armbands, and protest marches noted at the outset of this article. As protests mounted around the country, the *bête noire* of the local politicians was Senator John Osmeña, who, in his capacity as Senate representative to a bicameral budget committee, pressed hardest for the cuts amid arguments that local

¹¹ Meanwhile, the League of Municipalities of the Philippines (LMP), headed by the president's son Jinggoy Estrada, the mayor of San Juan, called for a 50-50 sharing of internal revenue between the national government and LGUs [*Philippine Star*, 24 October 1999].

governments had become too dependent on national revenues [*Today*, 17 December 1999]. He urged that Php 30 billion be set aside as unprogrammed funds, pending the collection of sufficient revenue to support them [*Philippine Star*, 20 December 1999].

ULAP and LPP President Joey Lina "warned that LGUs would resort to mass layoffs and will be unable to comply with the planned 10 percent salary increase for all government employees in January if their IRA is reduced" [*Philippine Star*, 18 December 1999]. Quezon City Mayor Ismael Mathay Jr. "warned of a possible streamlining of [his city's] 4,000 casual and contractual employees due to a reduced IRA" [*Philippine Daily Inquirer*, 18 December 1999]. In a public statement, ULAP accused Congress of avoiding cuts at the national level in order "to protect the pork barrel of legislators" [*Philippine Star*, 20 December 1999]. While attacking pork at the national level, in other words, local politicians were keen not to disrupt the spoils system in their own provincial capitals, city halls, and town halls.

The controversy moved to at least a temporary resolution when, as explained at the outset, ULAP announced its thanks to God and to President Estrada for the restoration of Php 30 billion cut in IRA. In fact, the bicameral committee still moved toward a Php10 billion withholding of IRA funds in the 2000 budget (one-quarter of which was subsequently released in April 2000), as well as elimination of the Php 5 billion LGSEF. As part of the budget package adopted in January 2000, local governments would also be forced to submit an annual investment program before gaining access to the 20 percent of the IRA earmarked for development projects [*Business World*, 14 February 2000; *Today*, 31 July 2000].¹² Governor Lina decried the continuance of pork barrel appropriations for Congress even as basic services and jobs would need to be cut at the local level (*Philippine Star*, 25 January 2000; *Business World*, 3 February 2000).

¹² This 20 percent development fund is indeed a primary locus of discretionary spending at the local level. The LGC mandates that 20 percent of IRA should be allocated for "local development projects that are embodied or contained in the local development plans" but such projects are not defined either in the code or its implementing rules and regulations. Although the LGC provides for local discretion in identifying projects, the DILG did—at certain points in the Ramos years—issue broad guidelines as to the types of projects that should be supported (e.g., human and ecological security, jobs, and livelihood opportunities) [Olegario 1998:2, 4 (quote at 4)]. In the analysis of investigative journalist Miriam Grace Go, some funds were diverted to intelligence activities [Go 1998]. A 1999 report of the Commission on Audit describes the 20 percent fund as "an almost unsupervised mini-pork barrel [for local officials] to dip into" [*Business World*, 23 December 1999].

In the wake of this round of conflict, beginning in late 1999 and continuing into 2000, basic concerns about local government capacities continued to be expressed at the national level. In a meeting with foreign donors, Budget Secretary Benjamin Diokno noted the "overdependence" of LGUs on national government support, the disincentives for local revenue generation, the challenge of LGUs assuming devolved functions, the lack of local capacity in development planning, and the widespread use of IRA to increase salaries at the local level [*Business World*, 28 June 2000]. Senator John Osmeña set forth the political logic as follows: "Local governments can impose taxes, but they seldom ... [do so] because they do not want to be unpopular. Thus, they rely mainly on the IRA" [*Philippine Star*, 15 May 2000].

The movement against IRA cuts also led to new calls for pressing the case of LGUs before the Supreme Court [*Today*, 17 December 1999], building on earlier actions by Senator Pimentel—in April 1998, as noted above, as well as a subsequent September 1999 position paper arguing that the IRA cuts of both Ramos and Estrada had circumvented the provisions of the LGC [*Business World*, 22 September 1999]. Local politicians received the salvation they were hoping for in a 19 July 2000 ruling of the Supreme Court. Voting 12-3, the Supreme Court nullified both AO 372 (issued by President Ramos in December 1997, instituting a 10 percent cut in IRA) as well as AO 43 (issued by President Estrada in December 1998, providing for a smaller 5 percent cut in IRA). The decision differentiated national-level cabinet officials, over whom the president has direct control, from local officials, over whom the president has supervision but not control. The latter, it explained, are directly accountable to the people who elected them. "While the President may issue advisories and seek the LGUs' cooperation in solving economic difficulties", the Supreme Court ruled, "he cannot prevent them from performing their tasks and using available resources to achieve their goals. Thus, the withholding of a portion of IRAs legally due them cannot be directed by administrative fiat". The Supreme Court noted that there are legal means of adjusting the IRA in the event of an "unmanageable public sector deficit" but these were not followed in the issuance of the two AOs [*Business World*, *Manila Times*, *Philippine Daily Inquirer*, *Philippine Star*, and *Today*, 20 July 2000].

President Estrada quickly declared himself to be "very happy about the decision" even if it contravened his own administrative order, because it clarified the fiscal autonomy that the local governments should have under the LGC [*Philippine Daily Inquirer*, 21 July 2000]. Palace advisers, meanwhile, briefly considered (but decided against) appealing the Supreme Court

decision. The toughest challenge of all went to the president's economic team, which was forced to look for alternative means of resolving ongoing fiscal problems and restoring the funds that had been withheld from the IRA in 1998 and 2000 [*Business World*, 21-22 July and 28-29 July 2000]. Major chunks of IRA were released in December 2000 and February 2001 [*Business World*, 2 February 2001], but—as examined further below—it was well into the next administration that the national government worked out a plan for the eventual back-payment of the IRA now due to the LGUs. San Juan Mayor Jinggoy Estrada, son of the president and head of the League of Municipalities of the Philippines (LMP), hailed the Supreme Court for a decision that “affirmed the fiscal autonomy of the LGUs.... We have ceased to be the beneficiary of doleouts. We have become the masters of our destiny” [*Philippine Star*, 31 August 2000].¹³

In a pre-Christmas pronouncement, President Estrada himself—now in the midst of an impeachment trial—promised the automatic release of all IRA funds in 2001. “The local chief executives”, he said, “must be the shepherds who must lead their communities toward a better future” [*Philippine Star*, 25 December 2000]. In less than a month, however, President Estrada would be forced out of the palace on corruption charges, among them allegations that he was personally profiting from his close ties to local gambling rings. Some of his most important dealings with local executives/shepherds/politicians, it seems, were more oriented toward the delivery of gambling proceeds to the palace than to the delivery of services to the people. While proclaiming the virtues of fiscal autonomy, President Estrada was seeking to centralize palace control over the lucrative proceeds of gambling syndicates that had long been deeply enmeshed in local structures of authority and power (see de Dios [2001]).

6. Arroyo, Part 1: Restoring automaticity amid continuing fiscal challenges, 2001-2004

Through the January 2001 popular uprising that has come to be known as “People Power 2”, Gloria Macapagal-Arroyo moved from the vice

¹³ In a speech he gave later in the year at the LMP national convention, the presidential son is reported to have said the following: “local governments, particularly municipal governments, are at the forefront of the fight against poverty, and ... would be like newborn babies without a biological mother breastfeeding them if left without any fiscal autonomy” [*Philippine Star*, October 3, 2000]. The reader is invited to reflect upon the degree of autonomy exercised by suckling babes.

presidency into the presidential palace. Although installed in her new post with the blessings of the Supreme Court, Arroyo lacked the legitimacy of a popular election and understood the need to enhance her legitimacy, to gain congressional allies in the May 2001 midterm elections, and to prepare for her own reelection as president in May 2004. From the beginning, this involved courting the support of local politicians, and the best way to do so was to guarantee the automaticity of the IRA.

In March 2001, former governor and ULAP head Joey Lina, whom Arroyo had named the new DILG secretary, urged President Arroyo to rescind the annual investment plans that her predecessor had required for the 20 percent of the IRA that was to be devoted to development projects.¹⁴ In a July speech to the LPP, President Arroyo vowed that "starting with the 2002 budget, the IRA will be treated as automatically appropriated", with no unprogrammed funds and the discontinuation of the LGSEF. One chunk of back payments, she vowed, would be disbursed in time for year-end Christmas bonuses to local government employees. In return, however, "President Arroyo appealed to the LGUs to remit promptly unpaid withholding taxes to the [BIR] and remit unpaid premiums to government financing institutions" [*Manila Bulletin*, 17 July 2001]. In January 2002, Lina proclaimed that the automatic release of IRA was "the fruit of what we in the DILG as well as the local government leagues and the civil society fought for and advocated all these years. We sincerely hope this will continue in the years to come so that our LGUs will experience autonomy" [*Manila Bulletin*, 18 January 2002]. The following month, in a visit to Binalonan, Pangasinan (in part to visit the mayor, Ramon Guico, a cousin who had recently become the new head of the LMP), the presidential promises continued to flow forth. President Arroyo very explicitly emphasized how she was repaying the IRA debts incurred by previous administrations since 1998: "*Hindi ko 'yun utang, utang ng nakaraang administrasyon pero binabayad pa rin sa inyo* [This is not my debt; the previous administration owes them to you but I am committed to paying all of them]" [*Manila Bulletin*, 24 February 2002, translation in original].

The political logic behind these promises, however, conflicted with ongoing fiscal difficulties at the national level. In late 2001, *Business World* reported that the president's economic team was considering the formal declaration of an "unmanageable public sector deficit" and thus reducing

¹⁴ The repeal of these orders, Esguerra [2001b] further notes, greatly increased the discretion that local chief executives enjoyed over the 20 percent of the IRA earmarked as local development funds.

the IRA according to the legal means provided in the LGC [*Business World*, 1 November 2001]. Despite additional reports that this avenue was still considered nearly a year later [*Today*, 29 August 2002], it was eventually rejected [*Manila Bulletin*, 7 September 2002]. The clash between political logic and fiscal realities led to some creative proposals, one a voluntary "monetization scheme" that came forth in discussions between ULAP and key government agencies (Department of Budget and Management, DILG, and Department of Finance) [*Business World*, 18 December 2001]. In essence, LGUs were seemingly given the choice of receiving Php 6.76 billion in unpaid IRA through (a) six equal payments between 2002 and 2007, or (b) in a single payment, albeit discounted 29.5 percent, to be disbursed immediately [*Today*, 8 February 2002; *Manila Bulletin*, 1 March 2002]. From the standpoint of a local politician, perhaps nearing term limits or perhaps unsure as to whether he or she would win in future elections, there would have been an obvious attraction to the surety of receiving a discounted sum now versus deferring the entire sum to an uncertain future [Fabros, n.d.:3].¹⁵

President Arroyo won a resounding victory in the May 2004 presidential elections, with a million-vote margin over challenger Fernando Poe Jr. Amid allegations of improper use of public funds, the palace displayed considerable dexterity in deploying its substantial patronage resources to local politicians throughout the country.¹⁶

The next major development in the politics of the IRA, a second Supreme Court ruling against executive discretion over the disbursement of IRA, came in June 2004 and was unrelated either to the recent election or to the IRA policies of the Arroyo government. Upon the petition of Hermilando Mandanas, the former three-term governor of Batangas who had just assumed a seat in Congress, the Supreme Court rejected the legal basis of the Estrada administration's LGSEF; between 1999 and 2001, this fund had drawn Php 5 billion of the IRA for disbursement by an "Oversight Committee for Devolution". Although the LGSEF was put in place in late

¹⁵ Another plan, to use borrowings from government banks to finance shortfalls in IRA, was apparently rejected before ever being implemented [*Business World*, 29 October 2002].

¹⁶ I had the opportunity to watch this process firsthand, in the days before the May 10 elections, when local political allies from all over Cebu gathered at a local state-run casino to await handouts from the Arroyo campaign. There was palpable excitement in the lobby as the local politicians awaited the arrival of a plane carrying the president and her large entourage of supporters from Manila.

1999 and discontinued by the Arroyo administration in 2002, as explained above, the Supreme Court took up the Mandanas petition to address any continuing legal ambiguity regarding issues of local autonomy. In very clear language, the majority opinion declared that "the oversight committee exercising discretion, even control, over the distribution and release of a portion of the IRA, the LGSEF, is *an anathema to and subversive of the principle of local autonomy as embodied in the Constitution*" (*Manila Bulletin*, 12 June 2004, emphasis added).

Fiscal problems, however, continued to plague the Arroyo administration, and there were reports that her economic managers were once again considering the declaration of a fiscal crisis in order to have a legal means to withhold IRA and "rechannel" pork barrel funds. The leading proponent, Rep. Joey Salceda of Albay, declared the need for a "wartime cabinet" to promote self-sacrifice (*Manila Bulletin*, 3 July 2004). This brought forth a chorus of opposition from local government officials, with Mayor Guico of the LMP warning that the cuts would "foment anarchy at the grassroots" and "hasten the collapse of many LGUs heavily dependent on the IRA". Guico added another reason for opposition to the cuts, as reported by the *Manila Bulletin*: "the strong foundation of local autonomy is being recognized by experts as one of the most crucial reasons why no political crisis in the past has ever succeeded because LGUs functioned well while Malacañang was under siege" [24 July 2004].

President Arroyo soon spoke out against the Salceda proposal when, at an oath-taking ceremony of LPP officials in the palace, she once again promised the automatic release of the IRA—despite a gaping deficit in the national budget [*Manila Bulletin*, 27 July 2004]. Just a month later, however, reports persisted that the palace was considering a proposal in which local governments would lend Php 20 billion in IRA to the national government, and then collect it again with interest after 18 months [*Manila Bulletin*, 29 August 2004]. As the deficit endured, national legislators and local politicians engaged in public disputes over the relative virtues of the congressional pork barrel and the IRA, each claiming a central role in the delivery of services and criticizing the capacity of the other to achieve this noble goal. Congressmen pointed to the weak revenue capacity of local governments, while local politicians asked why they should be punished for the failure of the national government to resolve problems in the national budget [*Manila Bulletin*, 25 and 27 August 2004]. In order to avert a repeat of the late 1999 showdown, ULAP officials gave their support to new revenue measures proposed by the palace, most of which were focused on increasing so-called

sin taxes on tobacco and alcohol. Meeting at their 8 November 2004 national conference, the local officials heard Arroyo once again give assurance that the IRA would not be cut (*Manila Bulletin*, 8 and 17 November 2004). While a revenue crisis may have been averted, a much bigger political crisis was soon on the way.

7. Arroyo, Part 2: Regime maintenance in the wake of electoral crisis, 2005-2010

With the exposure of details related to the "Hello, Garci" electoral scandal, beginning in mid-2005, the very survival of the Arroyo administration was in severe jeopardy. From that point until 2010, the administration's major objective was regime preservation. In this effort, local politicians—along with many prelates in the Church and top brass in the military—proved a critical bulwark of support for the regime. Central to Arroyo's "staying power", as one leading political analyst has argued, was "her relationship with provincial governors, city and town mayors, and village councilors, whose confidence Arroyo has maintained through her adept handling of state funds" [Abinales 2008:294]. As *Newsbreak* reported in 2006, new discretionary funds helped ensure that the LGUs would serve as "the President's last but strongest line of defense at the height of opposition efforts to oust her from office". In the face of attempts to impeach the president, ULAP "conducted propaganda offensives on her behalf". It later supported a "people's initiative" campaign in support of the Arroyo administration's efforts to amend the constitution [*Newsbreak*, 30 January 2006]. Particularly brazen were cash payments to local politicians, disbursed within the palace in late 2007 [Hutchcroft 2008].

Quite possibly related to this effort to appease particular local politicians, the Arroyo administration presided over a large increase in the number of provinces, cities, municipalities, and barangays. Especially dramatic has been the increase in the number of cities, which jumped from 85 at the end of the Ramos administration to 96 at the end of the Estrada administration—and to 122 by the time the Arroyo administration stepped down in June 2010. This has had a very negative effect on the per capita IRA received by existing cities, and undercut their former per capita advantage vis-à-vis municipalities and provinces [*Philippine Daily Inquirer*, 8 January 2008]. The League of Cities took legal action to try to restrict the number of new entrants, in particular the 2007 conversion of 16 municipalities to cities. Initially, it was the existing cities that had success in the Supreme Court,

which ruled against the conversion of the 16 units in late 2008 [*Business World*, 19 November 2008] and then refused two motions for reconsideration in mid-2009. Late that same year, however, the Supreme Court did a rather shocking about-face and ruled in favor of the 16 municipalities as they sought the coveted status of cityhood [*Philippine Daily Inquirer*, 24 December 2009]. In these cases, quite obviously, the key political fissures are not between national and local governments but, rather, among different sets of local governments and the different sets of alliances that they are able to forge at the national level.

8. Surveying major patterns of contention

As noted at the outset, this analysis has focused on three broad patterns of political contention. First, there are often tensions between the national executive and local politicians, perhaps most notably when the national executive has sought to curb IRA in order to resolve recurrent national fiscal crises. This was done outright by the Ramos and Estrada administrations, and then (in the wake of the July 2000 ruling of the Supreme Court) finessed a bit more carefully by the Arroyo administration. As the case of the Arroyo administration makes clear, the fiscal logic of pursuing budget discipline competes with the political logic of needing local politicians' support for electoral purposes, regime preservation, and constitutional revision. Local politicians, as represented by the leagues, have fought vociferously to defend what they see as the sanctity of the IRA as guaranteed in the constitution and the LGC. When revenues are insufficient, attention is commonly given to the mismanagement of the budget at the national level (about which they say they cannot be blamed) rather than to the deficient revenue generation of local governments themselves.

Second, there are often tensions between national legislators and local politicians—with the immediate caveat that many legislators have good reason to support the IRA. This support can be motivated by a number of factors, as when congressmen (a) have a personal belief in virtues of local autonomy; (b) are planning to run for local office, and hence gain personal advantages of IRA; (c) have close allies (often relatives) in local office, who will be able to avail themselves of IRA¹⁷; and/or (d) are courting

¹⁷ Because of the advantages of simultaneous access to national and local resources and networks, de Dios notes, "local political clans have typically sought to occupy both local and national government positions simultaneously—the typical combination being that of representative and provincial governor or city mayor" [2007:191].

local politicians as they seek national office, especially the presidency or vice presidency. This caveat aside, the often strong rivalries between national legislators and local politicians nurture regular disputes over control of budgetary resources—and the above analysis has touched on some of the common charges and countercharges exchanged between national legislators and local politicians. The congressional position was well summarized in a 1999 study of the Congressional Planning and Budget Office, which argued that the IRA “is primarily used to increase the salaries of local government personnel” and acts as a disincentive to local revenue generation [*Business World*, 19 October 1999]. Local politicians, on the other hand, often pair their defense of the IRA with a call for cuts in the pork barrel (see, for example, *Business World* [15 December 1999]). Given the weakly institutionalized character of Philippine politics, however, one needs an in-depth knowledge of local context (local factions, patronage networks, and familial ties) in order to understand whether there is likely to be alliance or rivalry between a national legislator and various local politicians in his or her district.

Third and finally, the IRA brings forth contention among and within different categories of local politicians (governors, city mayors, town mayors, and barangay captains). Contention over the formula can pit provinces, cities, municipalities, and barangays against each other. Opposition to creation of new cities, as in the legal battles of 2007-2009 surveyed above, pit the League of Cities of the Philippines against those trying to gain city stature (and their supporters in Congress and the judiciary). More generally, one cannot ignore the countless idiosyncratic factors of local politics—namely, the shifting sands of alliances and rivalries between provincial governor and mayors, governors and provincial councilors, mayors and barangay captains, city mayors and city councilors, municipal mayors and municipal councilors, and so on. This inevitably plays into larger patterns of politics, involving the presidential palace, senators, and district representatives. These dynamics play out within the context of weakly institutionalized and largely nonideological political parties, hence the substantial volatility that one can observe in alliances and rivalries as they stretch from the national level to local levels. While there are indeed tensions that can be understood through the usual dichotomy of “national” and “local”, these tensions are regularly cross-cut by multiple particularistic alliances that link national and local politicians and particularistic rivalries that divide local politicians from each other.

9. Conclusion

The creation of the IRA, through the Local Government Code of 1991, was formally intended to be a resource to finance the responsibilities devolved to local governments. It has indeed played this role, and in its absence local governments would have found it impossible to begin to assume the substantial responsibilities that were devolved to them in the spheres of health, agriculture, social welfare, and environment and natural resources. The stated goal was to undercut the dependence of local governments on the national government, but the most important shift has been in the *character* of that dependence: from a notoriously unpredictable dependence before 1991 to a relatively more predictable dependence after 1991. At the same time, the IRA has brought forth an important re-slicing of the pie of patronage, creating important new opportunities for discretionary spending by governors, city mayors, municipal mayors, and barangay captains. With this new source of slush funds, some local politicians have come to be known as "budget dictators". Just as congressmen are loath to give up on their pork barrel, so are local politicians loath to give up on the discretionary entitlements of their IRA. An important 2007 study highlights many dysfunctional aspects of the IRA, including (a) very substantial dependence on national government resources; (b) poor incentives for revenue generation; and (c) more inefficient spending at the local level, evidenced by higher percentages of "non-career" staff, an a priori indicator that normal recruitment procedures have been bypassed". According to a 2005 World Bank report, "non-career" staff comprise 38.6 percent of local government personnel versus 4.7 percent of central government personnel [Hill, Balisacan, and Piza 2007:36, 47].

Supporters of the LGC have commonly associated it with a fundamental shift in the character of the Philippine political system. As Aquilino Pimentel wrote in 2000, it

was by far one of the most revolutionary pieces of legislation that radically transformed the very nature of the Philippine politico-administrative system at the national and local levels.... [It] set off the process of reinventing and defining the discourse of local government in the Philippines.... [T]he implementation of devolution and autonomy has further strengthened my conviction and resolve that local autonomy is indeed the key to development in the countryside. [Pimentel 2000]

But if we focus on the most important component of the LGC, the IRA, it becomes apparent that this new source of funds operates to a significant extent according to the same old political logic. Furthermore, as de Dios concludes, "[a]ssured revenue transfers ... have not weaned local politics away from the imperative of securing *additional* resources through typical networks of patronage and vertical transactions with the center. The patronage relationship remains intact" [2007:196, emphasis added].

In order to begin to effect substantial political reform in the Philippines, one must first begin with an understanding of the highly sophisticated system of patronage in its totality—from national to local. Only then is it possible to craft changes that can address the pathologies of that system as it exists at all levels and interacts across levels. If the problem is a patronage system that extends from the presidential palace to the smallest localities at the periphery of the state, it is not adequate for reform efforts to focus merely on the lower levels of government. It is essential to move beyond dreams of redemption to carefully considered strategies of political reform that can address the pathologies of the patronage system as they exist and interact at both the national *and* the local levels of the Philippine polity.

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