



and
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Economic Development

present a seminar on

**“Slice and Dice: Institutional Persistence and
Local Government Fragmentation in the Philippines”**

by

Prince Christian Cruz

PhD Candidate

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11:30 a.m. – Room 303

Abstract

What would explain the high level of fragmentation of local government units (LGUs) in the Philippines? In 1935, there were only 51 primary LGUs (49 provinces and two cities) and 97 legislative districts. By 2016, there are already 120 primary LGUs (81 provinces, 38 cities, and one municipality) and 238 districts. Primary LGUs are the highest level of local administration and are directly under the President. The high level of fragmentation is detrimental to development as it raises financial and transaction costs and bloats administrative budgets. LGUs and districts tend to be too small to invest in public infrastructure, and too weak to face external shocks. Compared to other large countries, the Philippines has too many primary LGUs.

The paper explores the deep institutional, historical, and economic roots of subnational fragmentation. Using a basic utility maximization framework, the paper analyzes how efforts of local politicians to remain in power and increase their access to public funds led to the creation of new primary LGUs and districts. The paper finds that Philippine institutions are generally conducive to fragmentation. To keep tight control over a huge archipelagic colony, the Americans established a revenue-expenditure system that promotes divide-by-N syndrome—the feckless dissipation of centrally collected revenues to N number of subnational units. Upon gaining autonomy and independence, Philippine politicians focused on increasing the number of N units in a manner beneficial to them. The budget is treated as a ‘commons’ with local politicians acting as fiscal agents trying to channel as much funds as possible from the national coffers to their locality. Further fragmentation is encouraged by rules that are favorable to cities, to the detriment of provinces. With changes in the Constitution, the mode of fragmentation shifts with local politicians adapting to the mode that would lead to greater net rents. This implies that political reasons take precedence over economic or welfare considerations in LGU creation.

About the speaker

Prince Christian Cruz is a PhD candidate at the University of the Philippines School of Economics (UPSE). He got his BS Economics (2002), Master in Development Economics (2004), and MA Economics (2011) from the same institution. He is a recipient of the Health Policy Development Program (HPDP) Dissertation Grant.



Free and open to the public

For group attendance, please contact Ms. Gloria Lambino, UPSE Economics Research Center

Phone: 632-9205465, Email: gdlambino@econ.upd.edu.ph