The Institutional Underpinnings of Fiscal Contracts in the Philippines

Ryan Tans[1]

Working version: April 11, 2018[2]

[1] Stanford University, Center on Democracy, Development, and the Rule of Law, 616 Serra Street, Stanford, CA 94305 (email: rtans@stanford.edu).
[2] This research was supported by Fulbright, Philippine-American Education Foundation, and Third World Studies Center, UP-Diliman.

The Institutional Underpinnings of Fiscal Contracts in the Philippines

Abstract

Why do cities with similar powers of taxation differ in their ability to generate tax revenue, even after accounting for differences in the size of tax base? Approaches that view taxation as redistributing from the rich to the poor, or from political outsiders to insiders, are not well-suited to explain high rates of taxation in cases of weak state capacity, because they assume that taxpayers are coerced to pay taxes against their will. In contrast, I shift the focus away from coercion and instead highlight the role of business associations in undergirding consent to taxation. I compare two Philippine cities, Iloilo and Batangas, and find that business leaders in both cities evaluated tax ordinances in terms of distributional fairness and the credibility of mayoral promises. However, only business associations in Iloilo were able to sustain distributional consensus and enforce credible commitments, facilitating that city's higher tax revenues.

Keywords: property tax, business associations, decentralization, local politics, infrastructure, natural resources, Philippines, Iloilo, Batangas

Coercive models of taxation assume that governments have the capacity to secure compliance. However, as Levi (1989) recognized, such capacity is elusive unless taxpayers consent "quasi-voluntarily". This is especially true in the developing world, where recent trends toward decentralization have placed greater fiscal responsibility in the hands of local governments that struggle even to assess tax obligations, much less to enforce payment from unwilling citizens (Moore 2008). Despite its difficulty, securing tax compliance is important for local governments, because taxes finance spending at the margin, shape economic inequality, and affect economic efficiency (Bird 2010).

This paper argues that when taxation is delegated to weak local governments, it often falls to civil society to promote tax compliance. Approaches that view taxation as redistributing from the rich to the poor, or from political outsiders to insiders, are not well-suited to explain high rates of taxation in cases of weak state capacity, because they assume that taxpayers are coerced to pay taxes against their will. In contrast, the "fiscal contracts" approach explores the conditions under which taxpayers voluntarily comply with taxation in exchange for public services. However, this literature has mostly focused on the effects of national norms and representative institutions. I adapt the fiscal contracts approach to explain subnational variation in tax revenues by focusing on the strength of civic associations in the case of the Philippines. Specifically, this paper shows how associational strength facilitates business consent to local taxation in two Philippine cities.

Despite sharing the same powers of taxation, Philippine cities vary widely in their ability to generate tax revenue, even after accounting for differences in the size of the tax base. Local variation is even more puzzling given that electoral and legislative institutions, often cited as driving forces for taxation, are also similar across cities.

To explain this variation, I shift the focus away from state capacity and institutions and instead highlight the role of business associations in undergirding consent to taxation. I claim that businesses will consent to local taxation provided that three conditions are met: 1) they must desire better infrastructure, 2) they must sustain a consensus about how to distribute the burden of taxation, and 3) they must obtain a credible commitment from the local government about its spending priorities. Strong business associations are key to establishing the latter two conditions, thereby facilitating higher levels of taxation.

I present evidence from case studies of two Philippine cities, Iloilo and Batangas, that elaborates the link between business associations and city tax capacity. In Iloilo, multiple business associations acted together to organize support for an infrastructure drive that reshaped the city beginning in 2005. To fund this effort, business leaders negotiated with the city government to increase taxes gradually but steadily, agreeing to new tax ordinances in 2005, 2007, 2011, and 2014. In Batangas, by contrast, local businesses were so divided that they could not even articulate unified support for the construction of a new bridge after typhoons washed out two bridges, much less agree to new tax measures. When the city government tried in 2013 to increase property taxes, some local businesses simply opposed the effort because collectively they were too weak to influence the bill. As a result, property tax revenues have quintupled since 2001 in Iloilo, but they have stagnated in Batangas.

The Philippines is well-suited to research on local taxation. It the most fiscally decentralized state in Southeast Asia, and among the most decentralized states in the developing world, when measured by the share of local government spending funded through own-source revenues (Bahl and Bird 2008). Yet despite genuine fiscal autonomy, the ability to generate revenue from taxation varies widely across city governments, roughly mirroring the range of

variation across the developing world. Finally, business organization varies across cities. The Philippines has a national chamber of commerce with local chapters, local business clubs, and various ethnic and sectoral business associations.

This paper has implications for state capacity and democracy. It ascribes a novel role to civic associations in expanding state capacity in decentralized states in the developing world. Specifically, it highlights the role of business associations in facilitating tax compliance in a case of weak state capacity. Furthermore, the paper finds that elections, on their own, do not create the conditions for successful taxation. To be effective, local democracy depends on the participation of a vigorous civil society.

APPROACHES TO TAXATION

Taxation involves broad social debates about distributional fairness as well as questions about the trustworthiness of government, meaning that it poses both a collective action and a commitment problem. First, collective action often fails because individuals have an incentive to free-ride on the contributions of others (Olson 1965). This problem is particularly fraught with respect to taxation, because each taxpayer would prefer to rely on others to pay taxes that fund roads, health and education, while personally evading their own obligation. To resolve the problem, some "fair" consensus about how to distribute the burden of taxation must be negotiated and enforced (Scheve and Stasavage 2016). Second, commitment problems undermine exchanges that unfold over time (Greif 2000). When one party to a transaction pays before the other, the second party has an opportunity to "take the money and run". In the case of taxation, it is taxpayers who must pay now and trust that they will benefit later from government spending. The solution to this problem requires a system of monitoring and sanctions that "tie the hands" of the government, ensuring that officials cannot repurpose public revenue for private or political gain.

In the Philippines, these problems are acute. Economic inequality exacerbates distributional conflict along multiple cleavages. For example, wealth inequality erodes common ground between rich and poor, informality exempts many small and medium enterprises from taxation, and insecure land tenure increases uncertainty about who will benefit from public spending. Credible commitments are, if anything, even more elusive. Journalists have documented chronic misuse of public funds at all levels of government, breeding public cynicism and eroding government credibility. Taxpayers know that they will have difficulty tracking the path of funds through the budgeting process, making it easy for officials to break their promises about spending.

How do governments overcome these problems? The literature on the political economy of taxation in democracies offers four broad approaches to answering this question, but none provide clear answers about how to solve both problems at the same time. The first approach views tax policy as the outcome of class conflict (Meltzer and Richard 1981). Elections empower the poor to demand higher taxes and redistribution, while the rich resist through capital flight (Bates and Lien 1985), repression (Boix 2003), or lobbying (Frieden 1991). Scholars working in this tradition have suggested that competitive elections (Careaga and Weingast 2003) and politically weak businesses (Fairfield 2015) are keys to collection of efficient, progressive taxes such as the property tax.

This approach is built around the assumption that elections solve a collective action problem on behalf of the poor majority. Simply by voting, poor citizens can organize majority consensus in favor of redistributive tax policy. But this approach ignores the commitment problem. In practice, voters may not support redistributive taxes if they do not trust public officials to use those revenues to benefit them.

The second approach views tax policy as a source of patronage, and it is more in keeping with Philippines-style distributive politics (Hutchcroft and Rocamora 2012). In this view, elected officials reward their supporters by exempting them from tax obligations while targeting their opponents with predatory taxes (Scott 1972). This tendency is likely to be especially pronounced at the local level because officials have recourse to revenue from central transfers and presidential patronage that can substitute for taxes (Hutchcroft 2012). The logic of patronage suggests a negative relationship between tax revenues and the competitiveness of elections. Revenues will fall when competitive elections force candidates to promise tax breaks to ever more voters, and they will rise when uncompetitive elections embolden incumbents to exploit their position to squeeze local businesses.

If the class-conflict approach follows from a solution to the collective action problem, then the patronage approach follows from a solution to the commitment problem. Politicians build support by dispensing patronage among a network of clients, and the personal and communal nature of these relationships underwrites credible commitments. However, the patronage approach rejects the possibility that distributional consensus might extend beyond the limits of particular clientelist factions.

The third approach applies only among that subset of cases with access to natural resources, or "rentier states". Natural resources provide these states with an easy source of revenue that falls "like 'manna from heaven'" (Dunning 2008, 45). Rentier states can capture these revenues either by owning natural resources outright, or by taxing the fixed capital investments necessary for their extraction (especially in the case of "point-source" resources). However, resource rents are often "cursed", because, by substituting for other taxes, they hollow out the administrative capacity of

the state to tax other sectors of the economy (Ross 1999). Thus, natural resources are paradoxically associated with high revenues but limited capacity to tax.

The rentier state approach does not so much pose solutions to problems of collective action and credible commitments as it highlights cases which can evade these problems. Whereas other states must secure consent to generate revenue, rentier states can buy consent by distributing resource revenues.

The fourth and final approach assumes that citizens' willingness to pay taxes depends on the terms of a "fiscal contract" under which taxpayers agree to taxes in exchange for useful public services (Lieberman 2002, Timmons 2005). For example, studies on national political economies of taxation have proposed that economic elites submit to taxation in exchange for political representation (Ross 2004), security (Slater 2010), or racial privilege (Lieberman 2003). At the local level, fiscal capacity in America's colonies coalesced where participatory democracy compelled "officials to negotiate with their constituents about the details of sophisticated policy regimes" (Einhorn 2009: 171). This approach is especially useful in the context of the Philippines, because many local governments struggle even to assess tax obligations, let alone to compel citizens to pay. Under these conditions, the "quasi-voluntary compliance" of wealthy citizens is a necessary condition to enable local governments to emphasize efficient, progressive sources of revenue like the property tax (Levi 1989).

This approach addresses both collective action and credible commitments, but typically in isolation from one another. Studies that focus on collective action explain distributional consensus by pointing to the power of "social solidarity" (Feldman and Slemrod 2009), the extent of "moral obligation" (Lieberman 2009), and public standards of "tax fairness" (Scheve and Stasavage 2016). Meanwhile, studies that focus on the threat of opportunistic behavior by public officials

submit that representative institutions, such as parliaments (North and Weingast 1989), independent bureaucracies (Weingast 1990), political parties and labor unions (Timmons 2010) generate credibility by protecting their constituents from predatory states.

These studies are pitched at the national level, so the explanatory variables they emphasize are less suited to explain subnational variation, both longitudinal and cross-sectional. Longitudinally, sticky social norms do not easily explain short- and medium-term changes in city tax revenues. Cross-sectionally, norms operate at national, regional, and microlevels, so they are unlikely to vary across cities in a predictable way. Similarly, local representative institutions have been in place in the Philippines since 1991, when the Local Government Code was enacted, so they cannot explain change over time since then. And representative institutions vary little across space. City assemblies and bureaucratic agencies are similar throughout the country, while parties and unions are weak everywhere (Hutchcroft and Rocamora 2012).

In sum, approaches that assume taxation redistributes wealth from the rich to the poor or from political outsiders to insiders do not adequately explain the sources of taxpayer consent. The resource curse literature rightly observes that rentier states sidestep the problem of consent, but does not explain how states secure consent in the absence of resource revenues. And while the literature on fiscal contracts takes the question of consent seriously, its focus on national norms and representative institutions is not suited to explain subnational variation.

EXPLAINING BUSINESS CONSENT

In this paper, I adapt a fiscal contracts approach to subnational variation by focusing on the potential for civic associations to underwrite consent. Specifically, I contend that the strength of business associations varies across cities, and that stronger associations can sustain distributional consensus and to enforce credible commitments.

The claim that businesses can play a "civic" role is at odds with much of the literature on business politics in Southeast Asia. Many scholars characterize domestic businesses in the region as "oligarchs" and "cronies" that prey on weak and corrupt local governments. In the Philippines, there is ample evidence that a national oligarchy overwhelmed an underdeveloped, patrimonial state to secure easy loans, monopoly licenses, import quotas, and other valuable rents throughout the twentieth century (Anderson 1988, Billig 2003, Hutchcroft 1998, Kang 2002, McCoy 2009). At the local level, "bosses" built their fortunes by using political office to consolidate control over the "commanding heights" of the local economy (Sidel 1999).

Yet, while rent-seeking is indisputably common, there are two lines of critique that suggest its prevalence and effects may vary. First, some scholars contend that Southeast Asian businesses combine entrepreneurial and rent-seeking strategies, at least in some sectors (Khan and Jomo 2000). Moreover, McVey (1992) and Haggard (1998) entertain the possibility that domestic businesses are growing more entrepreneurial over time. Second, some scholars reject the conventional view of rent-seeking as inherently negative. Davidson (2015) argues that rent-seeking occurs everywhere, including in developed countries, but that its effects vary. Some rents even enhance economic efficiency (Khan 2000).

Business associations, in theory, should shape variation in the extent and effects of rent-seeking. According to Maxfield and Schneider (1997, 5), "self-policing business associations as well as encompassing firms and associations reduce, ex ante, the likelihood that collaborative relations will degenerate into collusion and rent seeking". The role of business associations is especially important in the absence of an "insulated, meritocratic bureaucracy", such as is the case in the Philippines. While Philippine business associations have struggled in practice to overcome

ethnic and sub-sectoral divisions (Doner 1992), it is likely that these challenges vary in tractability at the local level.

Three varying characteristics of business associations shape the effect of business associations on taxation. First, the interests of member businesses vary with respect to public spending. In general, commercial businesses are more likely than heavy industries to favor public spending because they disproportionately rely on public transportation infrastructure (Kuo forthcoming). These interests provide the starting point for associations' attitudes toward taxation. If member businesses require infrastructure or other public goods that cannot be provided publicly, then an association may support taxation—provided that the problems of distributional conflict and credible commitments can be resolved.

Second, business associations vary greatly in their control over selective incentives, such as training programs, permits, and preferential access to credit. These incentives provide leverage that business associations need if they are to influence members' behavior (Doner and Schneider 2000). Crucially, business associations with leverage over their members have the capacity to enforce agreements about how the costs and benefits of taxation will be distributed.

Third, business associations vary in the degree of access they have to public officials (Schneider 2004). Also a type of selective incentive, "privileged access" has special importance because it facilitates monitoring of public spending, which in turn enables credible commitments between government and businesses. According to Ostrom (1990, 45), "without monitoring, there can be no credible commitment". However, credible commitments require not only monitoring, but also a means of delivering sanctions when the commitment is broken.

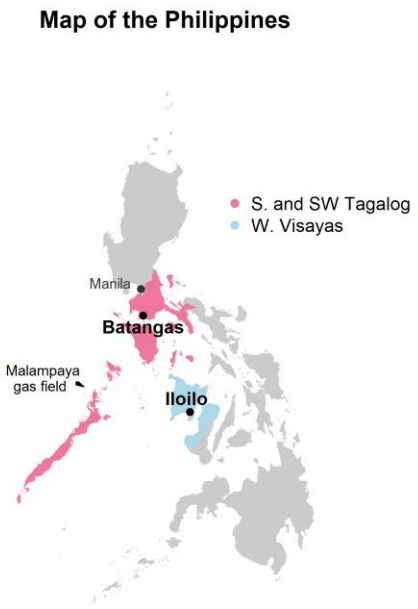
In sum, associations may support taxation if member businesses rely on public goods, especially infrastructure. However, such support will be limited unless associations can use

selective incentives to enforce distributional agreements and use privileged access to monitor public spending. In this way, strong business associations that control selective incentives and enjoy privileged access to public officials can increase the probability that businesses which rely on public infrastructure will benefit from taxation.

TWO PHILIPPINE CITIES

I develop case studies of two Philippine cities, Iloilo and Batangas, to show evidence for my argument that business associations affect the ability of cities to generate revenue from taxation. These cases provide three types of evidence. First, I compare across cities to rule out explanations that are incongruent with observed outcomes. Second, I trace the sequence of policy-making within each city to show that businesses, through their associations, directly influence tax policy, but with contrasting effects across cities. Third, I highlight public statements by business leaders to demonstrate that they evaluate proposed taxes explicitly in terms of anticipated distributional fairness and the credibility of mayoral promises about future spending.

Figure 1



Iloilo City and Batangas City are similar in many ways. Both are provincial capitals with major ports. Both are among the Philippines' twenty largest cities outside of Metro Manila, with populations of 425,000 in Iloilo and 300,000 in Batangas. Both possess public and private universities, major hospitals, and large shopping centers, making them economic and cultural hubs—Iloilo for the Western Visayas region and Batangas for the Southern and Southwestern Tagalog regions (Figure 1). And both cities host national government agency field offices, although Batangas is not formally an administrative center.

Most importantly, Iloilo and Batangas share the same powers of taxation. The Local Government Code of 1991 grants Philippine cities authority to collect property taxes, business taxes[3], and a variety of minor taxes and non-tax revenues including user fees, regulatory fees, and income from publicly owned enterprises.[4] While fiscal autonomy does have limits in the form of tax rate ceilings and provincial oversight,[5] local governments nonetheless control revenue at the margin (Manasan 2007).

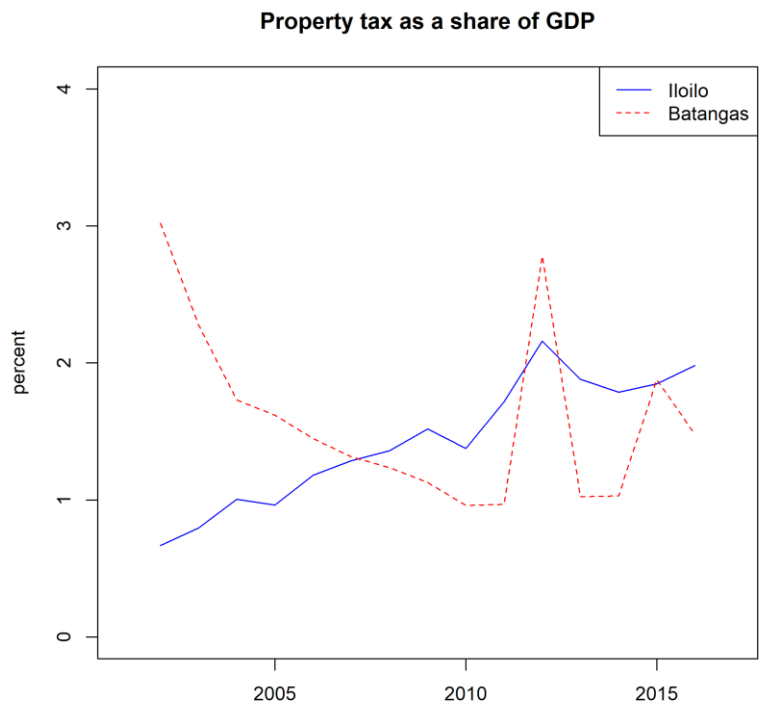
Among local revenue sources, the property tax is both the most important and the most difficult to collect, making it an acid test for local fiscal capacity. It has fewer distortionary effects because it is levied on immobile assets, and it constitutes a substantial source of untapped revenue (Bureau of Local Government Finance 2015). However, it is administratively demanding and politically unpopular. Administratively, city assessor's offices struggle to appraise fair market values and maintain records of ownership because of a dearth of sales records. Politically, the tax disproportionately affects influential elites. Thus, cities that increase property tax revenues, even

[3] According to Manasan (2007: 285, note 9), business taxes are an *ad valorem* tax "levied on the gross receipts of businesses and traders".
[4] For the complete list of local taxes and how they are assigned, see Table 9.4 in Manasan (2007: 284).
[5] Provincial governments formally review tax legislation for the majority of cities (those classified as component cities), but these powers are limited to ensuring that city legislation is consistent with the Local Government Code.

merely to keep pace with rising property values, demonstrate a high degree of administrative capacity, political will, and, most importantly, social consent.

Despite broad similarities between Iloilo and Batangas, their tax revenues contrast. In 2002, Iloilo generated revenues equal to 2% of GDP, while in Batangas the corresponding figure was 5%. But by 2016 those numbers had reversed. Iloilo's revenues had climbed above 4% of GDP, while Batangas' had slipped to 3%. Driving the trend in both cities were changes in property tax revenues (Figure 2). Property tax revenues grew steadily as a share of GDP in Iloilo but fell sharply in Batangas and bottomed out in 2010. Subsequent spikes in Batangas' property tax revenues do not indicate a true recovery, but rather payments by major companies to settle large delinquencies in response to new presidential decrees.[6]

Figure 2



[6] In 2012, the Korean Electric Power Corporation paid the city a settlement of approximately 900 million pesos (Commission on Audit 2013). In 2015, the National Power Corporation (NPC) and National Transmission Corporation (TRANSCO) both paid unspecified amounts in back taxes (Commission on Audit 2016).

Table 1: Major Iloilo City tax legislation, 2001-present

Year	*Ordinance*	*Effectivity*
2002	Revised schedule of assessment levels (affecting property tax rates)	2003
2005	Revised schedule of market values (affecting property valuation)	2006 (50%) 2008 (60%)
2007	Revised revenue code (affecting business taxes and user fees)	2008
2011	Expanded property tax exemption	2011
2011	Full implementation (100%) of 2005 schedule of market values	2012
2014	Revised schedule of assessment levels	2015

Table 2: Major Batangas City tax legislation, 2001-present

Year	*Ordinance*	*Effectivity*
2002	Revised revenue code (affecting property tax rates, business taxes and user fees)	2003
2009	Revised revenue code	2010
2013	Revised schedule of market values (affecting property valuation)	2014

Table 3: Property tax assessments, 2014 (in pesos)[7]

Type of property	**Number of parcels**	**Average tax due**	**Total tax (millions)**
Iloilo, residential	102,357	2,000	210
Batangas, residential	103,454	600	60
Iloilo, commercial	8,617	28,000	240
Batangas, commercial	3,826	30,000	110
Iloilo, industrial	550	540,000	300
Batangas, industrial	1,892	590,000	1,120

Source: Iloilo City Assessor's Office (2014); Batangas City Assessor's Office (2014)

[7] Note that property tax assessments exceed property tax revenues in both cities because collection efficiency is less than 100%.

These contrasting trends reflect deeper differences between Iloilo and Batangas in the capacity to formulate tax policy, collect taxes, and generate broad compliance. First, the city assembly in Iloilo frequently revised its tax code between 2002 and 2016, while its counterpart in Batangas rarely acted, even as revenues declined (Tables 1 and 2). Second, Iloilo collected a much higher percentage of assessed property taxes than Batangas, indicating better tax administration on the part of local government and more compliance on the part of taxpayers. In 2014, for example, Iloilo collected approximately 70% of taxes due; Batangas only 36%. Third, Iloilo's property tax base was less top-heavy than Batangas', indicating a broader base across residents (Table 3). In Batangas in 2014, industrial properties comprised 85% of total property tax collectibles but only 1.4% of all property parcels,[8] and the average homeowner owed only USD 15. In Iloilo, the average homeowner owed three times as much as her counterpart in Batangas, and industrial properties represented only 40% of the total tax base.

In sum, Iloilo and Batangas are broadly similar cities, but they contrast in their ability to generate revenue from taxation. Iloilo's city government has repeatedly passed tax ordinances over the past 15 years that expanded the tax base and increased revenues, while Batangas' over-reliance on a few large taxpayers has made it vulnerable to delinquency, and its refusal to revise the tax code has eroded revenue as a share of GDP.

Table 4: Comparing across cases

	Tax revenue	Business associations	Primary sector	Elections	Inequality
	Y	X_{1a}	X_{1b}	X_{2a}	X_{2b}
ILOILO	high	**strong**	**commercial**	uncompetitive	moderate
BATANGAS	intermediate	**weak**	**energy**	uncompetitive	moderate

[8] These figures are based on the revised property valuations enacted in 2013. The previous schedule of market values was probably even more top-heavy.

COMPARING ACROSS CASES

What explains the difference in tax capacity between Iloilo and Batangas? In this section, I compare Iloilo and Batangas on the basis of specific variables that existing approaches expect to affect taxation (Table 4). Specifically, I analyze the competitiveness of elections, the level of inequality, the strength of business associations, and the role of natural resources. I find that the first two variables do not co-vary with tax revenues as expected, so I rule out explanations that rely on these variables to account for tax capacity.[9] However, I cannot rule out all alternative explanations in this way because the cities are not perfectly similar.

Two variables, competitiveness of elections and level of inequality, are similar between Iloilo and Batangas and thus cannot explain differences between the cities. The competitiveness of elections is emphasized in both class conflict and patronage approaches as a factor that shapes the incentives of local officials. Class conflict approaches expect competitive elections to increase revenue by channeling demand for redistributive taxation, while patronage approaches expect competitive elections to decrease revenue by forcing candidates to promise tax breaks to more and more supporters. Yet, while revenues diverge between Iloilo and Batangas, elections are similarly uncompetitive. If the measure of electoral competitiveness is incumbent turnover, then both cities are perfectly uncompetitive; that is, neither city has experienced turnover in mayoral elections during the post-Marcos era.[10] While it is possible to identify more and less competitive elections in each city by comparing margin of victory, there is also no clear pattern of association between electoral margin and subsequent tax legislation (Figure 3).

[9] This method does not speak to the general validity of contending theories, but rather it allows me to rule them out as potential explanations in these particular cases.

[10] In Batangas, Eduardo Dimacuha and his immediate family members have won ten consecutive mayoral elections since 1988. In Iloilo City, the incumbent mayor has won re-election or chosen his successor in every election since the end of Marcos' martial law regime in 1986.

Figure 3: Mayoral elections by level of competitiveness and subsequent tax legislation

		Type of election	
		Competitive	*Uncompetitive*
Subsequent legislation	*New tax ordinance*	**Iloilo 2001** **Iloilo 2010** **Batangas 2001**	**Iloilo 2004** **Iloilo 2007** **Iloilo 2013** **Batangas 2007** **Batangas 2013**
	No new tax ordinance	**Batangas 2010**	**Batangas 2004**

Note: Margin of victory in competitive elections is 13% or less; margin of victory in uncompetitive elections is 32% or more.

Second, inequality is an important source of demand for redistribution in class-based approaches to taxation, yet tax revenues diverge between Iloilo and Batangas despite similar levels of inequality. Provincial inequality appears to have converged since the 1990s (Human Development Network 2013),[11] while poverty has held steady at moderate levels in both cities (Philippine Statistics Authority 2016).[12]

While Iloilo and Batangas share similarly uncompetitive elections and moderate levels of inequality, they diverge with regard to the strength of business organizations. Whereas businesses in Iloilo are highly organized and influential, their counterparts in Batangas are weak and divided. Yet, this divergence confounds the expectations of class conflict and patronage approaches. Both approaches expect business influence to have an enervating effect on taxation, because more powerful businesses can resist taxation more effectively. Yet, taxes increased in Iloilo despite its

[11] The Gini index for Batangas province increased from 0.40 in 1997 to 0.43 in 2009. Over the same period, the Gini index for Iloilo province decreased from 0.46 to 0.45. Nationally, the Gini index decreased from 0.49 to 0.46. Unfortunately, inequality figures are not available at the city level.

[12] In 2006, poverty incidence was 5 percent in Iloilo City (24th lowest among 145 cities) compared to 8 percent in Batangas City (49th). In 2012, poverty incidence was 6 percent in Iloilo (45th lowest), compared to 4 percent in Batangas (28th).

highly organized business community, and decreased in Batangas despite a quarrelsome business community that should have been vulnerable to redistributive or predatory taxation. In the following sections, I present evidence that taxation was more successful in Iloilo because of its stronger business associations, not in spite of them.

While comparing across cases can rule out explanations based on the competitiveness of elections, inequality, and business resistance, it cannot parse the effects of business associations and natural resources. The cities differ because Batangas has access to natural resources that Iloilo lacks. Batangas is the terminus of an underwater pipeline that conveys natural gas from the Malampaya off-shore field (Figure 1). Industrial development boomed after the gas discovery in the mid-1990s as major domestic manufacturers, the state-owned Philippine National Oil Company (PNOC), and multinational corporations such as Shell, Chevron, and Holcim invested in Batangas. In contrast, Iloilo has neither natural resources nor a major presence of multinational corporations. Rather, the city functions as an commercial hub for Panay Island and the Western Visayas. As a result, the city developed a homogenous business community of domestic and local firms focused on local commerce.

A rentier state explanation that emphasizes the effect of natural resource endowments on tax revenue cannot be ruled out in these two cases, but there are two possible mechanisms by which a "resource curse" might have operated in Batangas. The first is that easy revenues from the property tax on just a few huge industrial facilities substituted for other revenues and hollowed out Batangas' administrative capacity to tax more broadly. This explanation is consistent both with Batangas' initially high revenues, and with the ultimate failure of those revenues to keep pace with economic growth. However, it does not provide a clear explanation for Iloilo's steadily increasing revenues.

The second mechanism is that resource endowments undermined business organization in Batangas (but not Iliolo) by changing the composition of the business community. Natural resources attracted multinational corporations and resource-seeking enterprises, neither of which were likely to contribute very much to local business associations. The former are "pretty deficient" in terms of political engagement (Doner and Schneider 2016), while the latter tend to serve global rather than local markets. This explanation is consistent with revenue trends in both Iloilo and Batangas, but it also raises the possibility that business associations are the mere epiphenomena of larger structural forces.

In sum, a variable based comparison between Iloilo and Batangas allows me to rule out class- and patronage-based explanations for taxation that emphasize the competitiveness of elections, the level of inequality, and business resistance as explanatory variables. But the method cannot parse between a rentier state approach and my own explanation that business associations facilitate higher taxes in exchange for new infrastructure. For that, within case analysis is necessary. In the following sections, I develop case studies of tax policy in Iloilo and Batangas to show that business associations played a critical role in shaping the ability of both cities to generate tax revenue. While business leaders in both cities evaluated tax ordinances in terms of distributional fairness and the credibility of mayoral promises, only business associations in Iloilo were able to resolve the problems of distributional conflict and credible commitments.

ILOILO

Iloilo City raised property taxes in 2005, 2011, and 2014 even though businesses worried about distributional conflict and residents feared that local government would misuse new tax revenues. How did Iloilo overcome these problems? I argue that Iloilo's business community, led by Iloilo Economic Development Foundation (ILED) and Iloilo Business Club (IBC), advanced a

business-centered vision for city development which required extensive infrastructure improvements that exceeded the city's fiscal means. To realize its vision, the business community mobilized external resources, built distributional consensus among local businesses and held local officials to their promises to spend public money on infrastructure. Its political influence was sufficient to monitor public spending and to punish officials who diverted funds away from infrastructure spending, lending credibility to otherwise unconvincing official promises.

A business-centered infrastructure drive

For years, Iloilo's business organizations were vocal about their desire for better infrastructure. In particular, business leaders highlighted shortcomings in the city's power supply, water supply, drainage system, road system, and air and sea ports (R. Drilon 2012). Partly in response to these problems, ILED was founded in 2007 by a group of nationally prominent businesspeople with roots in Iloilo, including the brothers Rex and Franklin Drilon. The organization's stated goal was to attract investors to Iloilo City. While ILED, with fewer than twenty members, represented the "commanding heights" of Iloilo's economy, its sister organization Iloilo Business Club represented a much broader local membership of approximately 80 members.

Acting alone, the City of Iloilo probably could not have addressed all of the infrastructure problems identified by ILED and IBC. Yet, the condition of Iloilo's infrastructure improved dramatically between 2005 and 2015, thanks to a "massive public infrastructure development" effort (F. Drilon 2014). The drive included the construction of an international airport, a floodway five kilometers in length, an international convention center, a ferry terminal, a by-pass road, a 164 MW coal-fired power plant, the restoration of Iloilo River, and the development of greenbelts and walking trails along the river's banks. These projects were funded by benefactors ranging from

national government agencies to Japan International Cooperation Agency (JICA) to private investors to the city itself. In the case of many of these projects, ILED worked behind the scenes to facilitate collaboration among the city, national government, and individual businesspeople.

The City of Iloilo played a supporting role during the infrastructure drive by funding smaller projects that complemented the enormous national ones. In particular, the city resettled communities displaced by the projects (Mateo, August 23, 2014; *Visayan Daily Star*, April 29, 2007). Residents complained not unreasonably that relocation sites were distant and lacked access to water and power, but in general the city sided with the business community and insisted upon resettlement. Mayor Mabilog ungraciously described the city's role by saying, "While the senator [Franklin Drilon] does what needs to be done, I'm the one who has to face complainants in court" (Jimenez-David, May 26, 2015). In addition, the City's Annual Investment Plans show many small projects to improve neighborhood roads, drainage, and parks, including Iloilo's famous plazas. Despite their small scale, these projects reduced traffic and flooding and created opportunities for recreation at the neighborhood level.

In sum, the city's need for tax revenue to address infrastructure problems was measured but real, at least from the perspective of the business community. While the major projects were funded externally, the city undertook smaller projects complementary to them.

Building distributional consensus

In addition to promoting certain infrastructure projects, ILED and IBC organized consensus within the business community favorable to its vision for Iloilo. The cleavage most-threatening to their development agenda was competition between established, downtown businesses and newcomers gravitating toward the more suburban Mandurriao district, which most benefited from new development. Megaworld's business park, the Iloilo Convention Center, the

Esplanade Park, and many other new developments were located in Mandurriao, and the district threatened to eclipse downtown Iloilo as the center of business, recreation, and shopping.

Many downtown businesses were small, family operations owned by Chinese-Filipinos that have been there for generations. If not somehow compensated, it is likely that they would have resisted ILED's leadership and opposed the entry of new developers into the city. Just such a conflict arose between the vendors' association at the Iloilo Central Market and the city government when the city proposed to "revitalize" the central market by privatizing it. The rumored buyer was SM Prime Holdings, perhaps most prominent property developer in the Philippines. Afraid of being displaced from their stalls, the vender's association resisted the proposal by filing a civil case against the city government (Angelo, June 7, 2014).

In general, such conflicts were rare, however, because business leaders mitigated potential tension in two ways. First, they proceeded cautiously, preferring to support causes that generated widespread support within the business community. The original ILED platform—to reduce the cost of electricity and water, improve the roads, upgrade the ports, expand tourism—benefited everyone, including small businesses downtown and large developers in Mandurriao. Notably, ILED spent years building its credibility with less controversial river redevelopment projects, such as cleaning the river and building a new ferry terminal, before controversially proposing to redevelop the Iloilo River Wharf in 2014 (Angelo, August 8, 2014). The wharf has historically been the site of intense political contestation—its control once triggered a "war on the waterfront"—and thus its proposed redevelopment highlights ILED's growing assertiveness (McCoy 1977).

Second, ILED and IBC have attempted to compensate small, downtown businesses by attracting more visitors to City Proper. First, the annual Dinagyang Festival, funded by the city

government, attracts tens of thousands of visitors to downtown Iloilo for several days every February. The Dinagyang Foundation organizes the festival, and its trustees include Felipe Uygongco, brother of ILED Chairman Alfonso Uy. Second, the city government, with the full support of ILED and IBC, has been preserving heritage buildings downtown to attract more tourists. Third, ILED and IBC have been lobbying city officials to decorate "Chinatown" in the fashion of Singapore's Chinatown to make it more attractive and recognizable to visitors.

Ordinarily, such compensation would pose the same type of commitment problem as taxes, because larger businesses would rather not honor their promises of compensation. But in this case, small businesses have ongoing leverage against larger businesses because their cooperation is needed to make taxation work and to spread the costs of development. If larger businesses renege on their promises, smaller businesses can simply stop paying taxes. As the section on Batangas shows, it is exceedingly difficult for local governments to enforce compliance unilaterally.

Exerting political influence at City Hall

Iloilo's business community was willing to contribute financially to the city's infrastructure drive, such as when the developer Andrew Tan donated land for the Iloilo Convention Center and the tycoon Federico Lopez donated passport scanners to the new international airport (Pendon, October 24, 2012). Yet, the willingness to donate individually to specific causes does not necessarily imply the willingness to pay higher taxes. Unlike donations, taxes are obligatory and ongoing, and unlike donors, taxpayers do not decide how their money will be spent. Thus, the business community wanted assurance that the city government would spend new tax revenues on new infrastructure.

To this end, ILED exerted political influence through close personal connections with Mayor Jerry Treñas (2001 – 2010) and Mayor Jed Mabilog (2010 – 2017), active involvement in

the deliberations of the city council's committee on ways and means, and after 2010, national-level influence within the ruling Liberal Party. In theoretical terms, the ways and means committee provided the means to monitor public spending, while the Liberal Party provided the threat of punishment.

Members of ILED had personal relationships with Iloilo City's mayors. Jed Mabilog was second cousins to Senator Franklin Drilon, and Jerry Treñas worked early in his career in the law office where Franklin Drilon was a partner. Moreover, personal and family ties were reinforced by institutional connections, because both the mayor and the governor are ex officio members of ILED. In this respect, ILED functioned as a "home-grown" forum for public-private consultation, which Doner (2009: 86) argues is essential to underpin credible commitments. Yet, relationships alone were not enough to guarantee the credibility of city officials.

The controversy surrounding the city's 2014 proposal to increase property taxes exemplified how the business community wanted tangible assurance that tax dollars would be spent on infrastructure. The City Treasurer's Office initially justified the proposal by admitting that the city was experiencing fiscal distress, and the business community responded with outrage (Tingson 2014). The chairman of the Ways and Means Committee, Councilor Plaridel Nava, complained that the executive office "should have presented the benefits that the business sector and the public would get from paying higher taxes" (Sorsano, July 4, 2014). In response, Mayor Mabilog issued a list of infrastructure and services that the new revenue would fund, and presented the new justification at a crowded public hearing on July 18 (Mabilog 2014).

Businesses remained skeptical and demanded more detail about how exactly the money would be spent. Joeboy Agriam, governor of Philippine Chamber of Commerce and Industry – Iloilo, demanded, "If you want a compromise, open your books, present your financial statement

and we will see what areas in your expenditures are weak… if it is really needed, then we might help" (De los Santos and Mateo, July 19, 2014). Mayor Mabilog took Mr. Agriam at his word, and presented the city's finances to the business community despite the strenuous objections of Councilor Nava (Angelo, July 21, 2014). Yet, not even this concession satisfied local businesses, and they countered with a proposal that the mayor's executive assistant for finance dismissed as "paltry" (Angelo and Mateo, August 18, 2014).

A compromise was unattainable until senior ILED leaders arrived to negotiate in person with Mayor Mabilog. First, ILED President Narzalina Lim met Mayor Mabilog early on a Sunday morning to discuss the bill (Angelo and Mateo, August 20, 2014). A few days later, former mayor and sitting congressman Jerry Treñas flew in from Manila. As *The Daily Guardian* colorfully put it, "Mabilog and Treñas literally burned their phone lines as they negotiated with the businessmen" (De los Santos and Mateo, August 27, 2014).

In this episode, personal relationships among the city's top leaders were crucial to resolving the standoff, because they facilitated face-to-face negotiations amid growing animosity among city council, mayor, and business community. Yet, it is equally clear that business leaders expected more than mere personal assurances from Mayor Mabilog.

What businesses demanded was a credible commitment that their tax dollars would be spent on infrastructure, upheld by the ability to monitor public spending and punish wayward officials. In this respect, the city council process for deliberating tax measures, and budgeting more generally, was sufficiently transparent to enable monitoring. Despite the animosity, business leaders received many opportunities to state their position during the ways and means committee's public hearings. As a result of the process, they gained access to the city's financial records and substantively influenced the form of the new ordinance. Councilor Nava and Mayor Mabilog

proved that they were willing not only to share information with business but also to hear its concerns. The attitude of city leaders combined with the procedural requirement to hold public hearings on issues related to finance created a reasonable expectation that businesses would continue to be able to monitor public spending in the future.

If committee hearings provided the means to monitor spending, what provided the threat of punishment? The evidence is merely suggestive, but I submit that ILED had special influence within the nationally-ruling Liberal Party, in the person of Franklin Drilon, that substantiated a credible threat against Mayor Mabilog's political career. To be clear, the Liberal Party's influence over Mabilog would not have originated in conventional expectations of party discipline. Rather, the Philippines' famously undisciplined political parties excel at controlling the flow of patronage, especially presidential patronage (Quimpo 2007). Local politicians depend on personal ties to patrons in Manila for patronage appointments, pork-barrel projects, campaign finance, and candidate nominations (de Dios 2007, Rocamora 1998). As a first-term mayor lacking an independent base of patronage, Jed Mabilog would have been particularly dependent on support from Manila. And during the Liberal administration of president Benigno Aquino III, that support would have had to go through Franklin Drilon: President of the Senate, Liberal Party stalwart and brother of ILED vice chairman Rex.

In contrast, ILED should have been less able to punish Mabilog's predecessor, Jerry Treñas. Prior to 2010, Franklin Drilon, the Liberal Party, and, by extension, ILED were in the national opposition. Secretary of Justice Raul Gonzalez, whom Rex Drilon openly distrusted, still dominated Iloilo politics (R. Drilon 2012). And Treñas was reportedly close to President Gloria Macapagal Arroyo. As a result, ILED should not have had the same leverage over Jerry Treñas that they exercised over Jed Mabilog.

The Iloilo business community was cautious with Jerry Treñas regarding fiscal policy, even though he was a big proponent of infrastructure projects. Treñas' signature tax ordinance, re-appraising property values, was passed in 2005 but never fully implemented during his time in office.[13] The city council had to pass a second law to activate the first one, which it did not do until 2011. The business community insisted upon this precaution because it did not fully trust Mayor Treñas without a credible means of punishing him should he divert funds away from infrastructure spending.

BATANGAS

During the 1990s, Batangas City benefited from very high revenues that were generated by property taxes levied on a few large industrial facilities such as Shell's Tabangao oil refinery. In the 2000s, however, Batangas' revenues declined as a share of GDP (Figure 2) and its transportation infrastructure began to show signs of strain. Yet, many local businesses resisted when the city proposed legislation to shore up revenues in 2013. They did not trust the city government to spend the money well and they objected that the tax burden was not fairly distributed. Why could Batangas not overcome the problems that Iloilo solved, despite a clear need for new revenue? Its business community was too divided by ownership and political affiliation to reach a distributional consensus or to monitor public spending.

Collapsing revenues, collapsing infrastructure

Despite years of high revenues, Batangas City allowed its infrastructure to crumble. Most notably, the city's two most important bridges, both spanning the Calumpang River, collapsed within five years of one another. The Bridge of Promise, which completed a bypass road linking the Shell refinery to Manila, collapsed in 2009 during Typhoon Santi (international name Mirinae).

[13] The law took effect gradually. In 2006 and 2007, property taxes were assessed on 50% of appraised property values, and then beginning in 2008 on 60% of appraised values.

As a result, tanker trucks were forced to detour through downtown until the Bridge of Promise reopened the following year. Then, Calumpang Bridge collapsed in 2014 during Typhoon Glenda (international name Rammasun). That bridge connected the posh Pallocan district to Batangas City Proper, and losing the bridge reportedly made the trip across the river to SM Mall so inconvenient that many shoppers preferred to travel twenty miles to Lipa City instead. The city government constructed a pontoon pedestrian bridge as a temporary measure to allow commuters to walk to work until the original bridge reopened in late 2015.

Compounding the city's problems, Batangas' revenue as a share of GDP bottomed out in the year following the first bridge collapse. The city had not updated property valuations since 1994, so property tax revenue remained stagnant even as property values appreciated over time. In response, the city government passed an ordinance in 2013 intended to increase property tax revenues. The ordinance enacted an updated schedule of property valuations, based on the first "general revision" of property values conducted by the city assessor's office in 19 years. The measure increased individual property tax obligations tenfold in some cases, albeit from a very low starting point. In the aggregate, the measure was expected to increase property tax revenues by PhP 2.5 billion (USD 60 million), or 600% (Committee on Ways and Means 2013).

The text of the ordinance itself referred to new infrastructure projects as justification for the tax increase, and the city planned to use the new revenue to fund a wide variety of projects, including transportation infrastructure. Victor Reginald Dimacuha, Secretary to (and son of) the mayor, claimed that the measure was necessary to achieve the "dream of a more developed Batangas City", and would fund, among other things, projects to build 100 new high school classrooms, to renovate two public markets, to construct roads, canals and seawalls, to develop

new industrial and commercial districts, and to maintain current healthcare and scholarship programs (Dimacuha 2013).

When the tax ordinance passed in November 2013, city officials could not have known that in just eight months it would take on new urgency after the collapse of the second bridge. City officials would soon propose plans to add a third bridge to span the river, this time a suspension bridge to mitigate the threat posed by river debris. Initial estimates put the cost of the proposed bridge at 350 million pesos, or about USD 8 million (Batangas City Official Website 2015).

Dissension among businesses

Unlike in Iloilo, however, the business community in Batangas City organized vociferous resistance against the new tax measure despite the poor condition of city infrastructure. Batangas' businesses were divided among three distinct groups with diverging agendas, and their internal conflicts precluded the possibility of formulating a unified response to the tax increase. The first group comprised huge multinational corporations (MNCs), specifically Shell and the Korean Electric Power Corporation (Kepco), which appeared to rise above the fray of local politics only because they chose to lobby at the presidential palace instead of City Hall. The second group comprised local businesses supportive of the Dimacuha regime, and the third group comprised the regime's opponents.

Kepco, owner of the natural gas power plant at Ilijan, resisted property taxation by "lawyering up" and seeking the aid of the national government. For the first eleven years of its operating life, the Kepco plant was delinquent in its property taxes. During that time, it accumulated an astonishing 9.9 billion pesos (USD 500 million) in unpaid taxes. Kepco insisted that under the terms of its Build-Operate-Transfer contract, the Philippine National Power Corporation was responsible for its tax obligations. Batangas City appealed in the Court of Tax

Appeals, but in 2011 President Benigno Aquino III issued Executive Order 27 forgiving part of the tax owed by a similar "independent power producer" in neighboring Quezon province. Even though the order was only binding for Quezon province, Batangas and Kepco ultimately reached a settlement based upon it: Kepco agreed to pay approximately 900 million pesos (USD 50 million) to the city (Mauricio, April 24, 2014).[14]

In 2014, President Aquino issued a second executive order which expanded Executive Order 27 to apply to all provinces. Thus, for all property taxes due through 2014, independent power producers were assessed the tax based on 15% of the fair market value of their facilities, rather than the standard 80%. The president's order also condoned all penalties for late payment of tax. Both executive orders applied only retroactively, so they did not resolve the question of how independent power producers would be taxed in the future. Nevertheless, they demonstrated the president's support for independent power producers, and established a benchmark value of what independent power producers were willing to pay in property taxes. In the case of Kepco, property tax obligations fell from approximately 900 million pesos per year in the original assessment to 75 million pesos in 2014. Ironically, the executive orders increased Batangas City's actual revenues, because Kepco had not previously paid property taxes, but they nevertheless demonstrated the power of Kepco and the other independent power producers to overrule local governments and to choose their own tax rates.

By lobbying nationally, MNCs in Batangas distanced themselves from local politics and businesses. Meanwhile, local businesses negotiated directly with the local government over tax policy, but internal conflicts hamstrung their efforts. Two competing business associations, the Metro Batangas Business Club[15] and the Batangas Province Chamber of Commerce, both claimed

[14] The payment of the settlement appears in Figure 1 as a dramatic spike in revenue in 2012.
[15] Previously Batangas City Business Club.

to represent the business community. The former was friendly with the Dimacuha regime, while the latter was opposed. Yet, neither influenced city tax policy.

The Metro Batangas Business Club emerged as an outgrowth of the USAID INVEST program, which promoted an open business climate in three Philippine cities including Batangas (USAID 2014).[16] In September 2013, the INVEST program, the Batangas Province Chamber of Commerce, and the provincial chapter of the Filipino-Chinese Chamber of Commerce organized the first of many meetings among a core group of local businesses that would go on to found the Metro Batangas Business Club. Although the INVEST program initially worked through Batangas Province Chamber of Commerce, USAID officials and the city government pushed for a new, city-specific business organization. Then, as the new business club developed, the mayor and his allies in the business community sidelined the Batangas Province Chamber of Commerce and its outspoken president, Faustino "Ting" Caedo. Ting Caedo publicly opposed the proposed property tax increase, which was being debated at the same time that the Metro Batangas Business Club was being formed.

Ting Caedo and the Batangas Province Chamber of Commerce went on to lead the opposition against Mayor Dimacuha, while the Metro Batangas Business Club remained loyal. More importantly, this episode demonstrated the Dimacuha family's ability to meddle in the affairs of local businesses. They took advantage of the INVEST program to establish a new business association in Batangas City friendly to them. In doing so, they not only neutralized Batangas Province Chamber of Commerce, but they also sidelined Ting Caedo personally from participation in the Metro Batangas Business Club. Instead, they ensured that one of their allies would be elected chairwoman of the new organization in his place.

[16] The other two cities were Iloilo and Cagayan de Oro.

As a result, City Hall had little reason to negotiate the new tax ordinance with local businesses. Not only the Batangas Province Chamber of Commerce, but also the Metro Batangas Business Club requested relief from the tax increase in the form of reduced rates and gradual implementation, but the city government was unmoved (Batangas City Stakeholders 2013).[17] The city council pushed forward with the ordinance as proposed, and passed it on November 25, 2013.

"Reject RPT 20 Movement"

By refusing to involve local businesses in the formulation of the new tax ordinance, the city government in effect challenged businesses to take it or leave it. Opponents organized a "movement" to communicate their dissatisfaction with both the tax and the Dimacuha administration. They called their organization "Reject RPT 20 Movement" in reference to the law's formal name, Real Property Tax Ordinance No. 20. Joining Ting Caedo were prominent former officials who had fallen out of favor with the Dimacuha family, including former vice-mayor Jose Tolentino, Dimacuha's own daughter-in-law Kristine Balmes, and former Secretary of Justice Hernando Perez.

They encouraged Batangas residents to engage in civil disobedience by not paying their property taxes, and they energetically attacked the law with litigation. The group petitioned both the Batangas Provincial Council and the Department of Justice to strike down the law, arguing that the law was "excessive, inequitable, and confiscatory" (Ganzon 2014). It complained that the tax increases were so large—in some cases 2000% because the previous valuations were so far out-of-date—that they were "unconscionable", and that tax increases were largest on land owned by the mayor's political opponents (Perez 2014).

[17] The city did, however, respond favorably to a request by the giant SM City Mall to reduce the land valuation in its neighborhood (Committee on Ways and Means 2013).

The litigation did not strike down the law, but it may have sown enough doubt among Batangueños to embolden civil disobedience. In a personal interview, Victor Reginald Dimacuha, Secretary to the Mayor, expressed disappointment with the revenue generated by the tax increase, which represented only a tiny fraction of the initial estimate of PhP 2.5 billion in new revenues. In the year the law took effect, property tax revenues increased by only PhP 30 million (USD 700,000), or 7%. As a result, in March 2015 the city entered into a loan agreement with Land Bank of the Philippines to borrow 1 billion pesos (USD 22 million) for various infrastructure projects, including the new bridge (Florendo 2015).

Meanwhile, the "Reject RPT 20 Movement" became the focal point of political opposition in Batangas. The group held a rally in the Batangas plaza every Saturday for at least two years, attracting a few dozen people wearing red on a regular basis. Although the tax increase was the original impetus behind the movement, the group soon began to oppose other city development proposals, too. They rejected a proposal for a new coal power plant, and, of course, the proposal to borrow PhP 350 million to build the third bridge.

The case of Batangas City is, in many ways, a local version of the "rentier state". Easy revenues from a few large industrial facilities enabled the Dimacuha family to dominate city government while keeping taxes low on the majority of citizens. Moreover, years of easy money robbed the city of its ability to adjust to diminishing revenues. The city's attempt to increase tax revenue fell short of expectations by the difference between PhP 2.5 billion and PhP 30 million!

However, the mechanism by which resource wealth undermined Batangas' capacity to tax was not by hollowing out its tax bureaucracy, as many accounts of the rentier state would suggest. Despite years of inaction, the city assessor's office when called upon was able to produce a "general revision" of property valuations. Instead, the Batangas tax ordinance failed because the

city could not secure the consent of its taxpayers, many of whom resisted the new tax through litigation, civil disobedience, and gossip.

Batangas' resource wealth undermined its capacity to tax by disorganizing the city's business community. The giant domestic and multinational corporations that were attracted to Batangas' energy industry eschewed local political engagement. Not only did they prefer to lobby for their interests at the presidential palace, but they were also indifferent to the condition of local infrastructure, because they manufactured products for export, not for local markets.[18] Disinterest on the part of the city's largest businesses weakened local business organization, and as a result, the city lacked a suitable interlocuter to help it resolve the distributional and commitment challenges associated with taxation.

CONCLUSION

In this paper, I have argued that the key variable which explains tax policy differences in Iloilo and Batangas is the strength of their respective business associations. Iloilo successfully increased taxes because the influential associations ILED and IBC endorsed new tax ordinances in return for government participation in its business-centered vision of city development. Batangas, by contrast, struggled to implement a new tax ordinance because local businesses in that city were too divided to influence the bill, much less endorse it to property owners.

Businesses in both cities evaluated proposed tax ordinances based on their expectations about distributional fairness and the credibility of government promises about spending, but only businesses in Iloilo supported new taxes. There, business associations sustained distributional consensus by compensating downtown businesses and monitored public spending by participating vigorously in public hearings. In Batangas, by contrast, businesses so lacked consensus that they

[18] Batangas Bay has no fewer than 23 private ports, underscoring the enclave nature of its energy industry (Philippine Ports Authority n.d.).

could not even agree on the need for a new bridge after the collapse of both of the city's major bridges. Divisions within the business community likewise precluded credible commitments between business and City Hall, because businesses lacked access to fiscal policy.

The cases also demonstrate that economic structure constitutes an antecedent condition to the argument (Slater and Simmons 2010). In contrast to rival hypotheses, which act alone, antecedent conditions interact with an independent variable to produce an outcome. In Batangas and Iloilo, resource endowments affected subsequent tax revenues through their effect on business organization. Natural resources attracted domestic and multinational energy firms that undermined associational strength in Batangas, while commercial enterprise supported a homogenous business community willing to invest in local associations in Iloilo. Resource endowments thus shaped the composition of the business community and interacted with individual decisions to participate (or not) in collective action.

Will findings from Iloilo and Batangas generalize to other cities in the Philippines? Findings from controlled comparisons can travel to the extent that they refer to general variables, control for alternative explanations, and capture the range of variation characteristic of a broader population (Slater and Ziblatt 2013). By these criteria, my findings have the potential to travel, because they rely on general variables and control for alternative explanations. However, the population of cases that they represent may be limited in several ways.

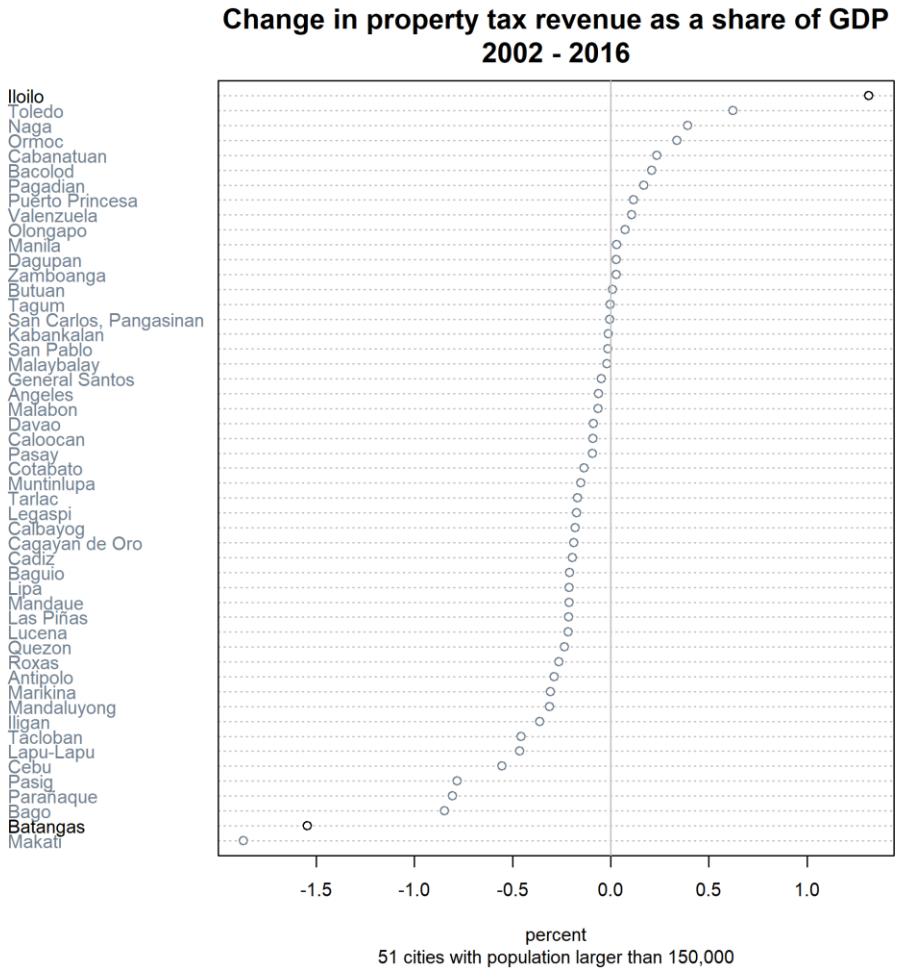
The problems of distributional conflict and credible commitments are general, applying not only to taxation, but also to many other policy sectors. Business associations, too, are widespread, and their control over selective incentives and access to government officials varies across cities. However, business associations may be but one of many possible institutional

solutions to the problems of distributional conflict and credible commitments, and other cities might conceivably develop different solutions.

The argument should travel among cities where business associations have the strength to overcome distributional conflict and underwrite credible commitments. Therefore, the argument is more likely to generalize "down" to smaller cities, where these problems are easier to solve, than "up" to larger metropolitan areas with highly fragmented interests and more severe collective action and commitment problems. Similarly, business associations should have more difficulty solving these problems in policy areas more complex than basic infrastructure, so different institutional solutions may be necessary for complex developmental tasks such as improving health and education. Finally, this argument explains change over time, so it is appropriate that Iloilo and Batangas have experienced more dramatic changes over the past decade than nearly all other similar cities in the Philippines (Figure 4). Even so, the extreme degree of change in these cases means that the argument might be less useful to explain cases in which revenues remain steady over time.

This paper demonstrates that alternative explanations based on the competitiveness of elections, inequality, and business resistance do not explain differences in the capacity to tax in Iloilo and Batangas. Decentralization is often accompanied by the hope that electoral accountability will discipline local officials to adopt economically efficient policies. Yet, in these cases, elections do not promote efficient tax policies because they do not provide the means to secure consent to taxation. Rather, civic participation—in the form of an assertive and organized business community—is necessary to sustain collective action and to underwrite credible commitments, which in turn make taxation possible.

Figure 4


Change in property tax revenue as a share of GDP
2002 - 2016
Iloilo
Toledo
Naga
Ormoc
Cabanatuan
Bacolod
Pagadian
Puerto Princesa
Valenzuela
Olongapo
Manila
Dagupan
Zamboanga
Butuan
Tagum
San Carlos, Pangasinan
Kabankalan
San Pablo
Malaybalay
General Santos
Angeles
Malabon
Davao
Caloocan
Pasay
Cotabato
Muntinlupa
Tarlac
Legaspi
Calbayog
Cagayan de Oro
Cadiz
Baguio
Lipa
Mandaue
Las Piñas
Lucena
Quezon
Roxas
Antipolo
Marikina
Mandaluyong
Iligan
Tacloban
Lapu-Lapu
Cebu
Pasig
Parañaque
Bago
Batangas
Makati
-1.5
-1.0
-0.5
0.0
0.5
1.0
percent
51 cities with population larger than 150,000

REFERENCES

Anderson, Benedict. 1988. "Cacique Democracy in the Philippines: Origins and Dreams." *New Left Review* 169: 3-31.

Angelo, Francis Allan. 2014. "Port needs rehab badly: River wharf operations slow and costly," *The Daily Guardian*, August 8.

Angelo, Francis Allan. 2014. "'Mayor was like a beggar,'" *The Daily Guardian*, July 21.

Angelo, Francis Allan. 2014. "Central Market vendors to bring cause to court," *The Daily Guardian*, June 7.

Angelo, Francis Allen, and Wenceslao Mateo. 2014. "Biz sector, City Hall haggle on RPT hike," *The Daily Guardian*, August 20.

Angelo, Francis Allen, and Wenceslao Mateo. 2014. "City Hall decries biz sector's measly offer," *The Daily Guardian*, August 18.

Bahl, Roy and Richard Bird. 2008. "Tax Policy in Developing Countries—Looking Back, and Forward." *National Tax Journal* 61(2):279-301.

Batangas City. 2015. "Calumpang Bridge Rehabilitation Delayed," Official Website of Batangas City, May 6; accessed August 25, 2016 at batangascity.gov.ph/bats2/?p=2564.

Batangas City Stakeholders. 2013. "Letter from Batangas City Stakeholders to the Office of Sangguniang Panglunsod," November 11.

Batangas City Assessor's Office. 2014. "Quarterly Report on Real Property Assessments," December 31.

Bates, Robert and Da-Hsiang Donald Lien. 1985. "A Note on Taxation, Development, and Representative Government." *Politics & Society* 14(1):53–70.

Billig, Michael. 2003. *Barons, Brokers, and Buyers: The institutions and cultures of Philippine sugar*. Honolulu: University of Hawaii Press.

Bird, Richard. 2010. "Subnational Taxation in Developing Countries: A Review of the Literature." World Bank Policy Research Working Paper 5450.

Bureau of Local Government Finance. 2015. "Cities miss up to PHP 20.3. Billion in Real Property Taxes," Tax Watch Notice, June.

Boix, Carles. 2003. *Democracy and Redistribution*. Cambridge University Press.

Careaga, Maite and Barry Weingast. 2003. "Fiscal Federalism, Good Governance, and Economic Growth in Mexico," in Rodrik, Dani, ed. *In Search of Prosperity: Analytical Narratives on Economic Growth*. Princeton: Princeton University Press: 399-435.

Commission on Audit. 2016. Annual Audit Report, Batangas City.

Commission on Audit. 2013. Annual Audit Report, Batangas City.

Committee on Ways and Means. 2013. "Committee Report regarding Proposed Schedule of Market Values of Real Properties in Batangas City," Sangguniang Panlungsod Batangas City, October 29.

Davidson, Jamie. 2015. *Indonesia's Changing Political Economy: Governing the Roads*. Cambridge University Press.

de Dios, Emmanuel. 2007. "Local Politics and Local Economy," in Arsenio Balisacan and Hal Hill, eds., *The Dynamics of Regional Development: The Philippines in East Asia*. Quezon City: Ateneo de Manila University Press: 157-203.

De los Santos, Maricyn and Wenceslao Mateo. 2014. "RPT Hike Approved: Treñas, Mabilog settle for 30% increase; Projected income at P67.141 million," *The Daily Guardian*, August 27.

De los Santos, Maricyn and Wenceslao Mateo. 2014. "'Open Your Books': Biz groups want to scrutinize City Hall finances; Mabilog to businessmen: Give a little of yourselves," *The Daily Guardian*, July 19.

Dimacuha, Victor Reginald. 2013. "On Real Property Valuation," *Puntong Ala-Eh* 14(4), December.

Doner, Richard. 2009. *The Politics of Uneven Development: Thailand's economic growth in comparative perspective*. Cambridge University Press.

Doner, Richard. 1992. "Politics and the Growth of Local Capital in Southeast Asia: Auto Industries in the Philippines and Thailand," in Ruth McVey, ed., *Southeast Asian Capitalists*. Ithaca: Cornell University Southeast Asia Program: 191-218.

Doner, Richard and Ben Ross Schneider. 2016. "The Middle-Income Trap: More Politics than Economics." *World Politics* 68(4):608-644.

Doner, Richard, and Ben Ross Schneider. 2000. "Business Associations and Economic Development: Why some associations contribute more than others," *Business and Politics* 2(3): 261-288.

Drilon, Franklin. 2014. "A Development Journey, Our Nation's Story," speech delivered at Iloilo Business Forum, Hotel Intercontinental, Makati, Philippines, March 12.

Drilon, Rex. 2012. "Should PECO's franchise be preterminated?" *The Daily Guardian*, no date.

Dunning, Thad. 2008. *Crude Democracy: Natural Resource Wealth and Political Regimes*. Cambridge University Press.

Einhorn, Robin. 2009. "Liberty, Democracy, and Capacity: Lessons from the Early American Tax Regimes," in Isaac William Martin, Ajay Mehrotra and Monica Prasad, eds., *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective*. Cambridge University Press: 155-172.

Fairfield, Tasha. 2015. *Private Wealth and Public Revenue*. Cambridge University Press.

Feldman, Naomi and Joel Slemrod. 2009. "War and Taxation: When Does Patriotism Overcome the Free-Rider Impulse?" in Isaac William Martin, Ajay Mehrotra and Monica Prasad, eds., *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective*. Cambridge University Press: 138-154.

Florendo, Vicky. 2015. "Batangas City's 3rd Calumpang Bridge: Solution to Traffic Congestion," *Sun Star People's Courier*, March 9-15.

Frieden, Jeffry. 1991. *Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965-1985*. Princeton University Press.

Ganzon, Tina. 2014. "DOJ asked to probe Batangas tax hike," *Manila Times*, February 3.

Greif, Avner. 2000. "The Fundamental Problem of Exchange: A research agenda in Historical Institutional Analysis." *European Review of Economic History* 4(3): 251-284.

Haggard, Stephan. 1998. "Business, politics and policy in East and Southeast Asia," in Henry Rowen, ed., *Behind East Asian Growth: The Political and Social Foundations of Prosperity*. London: Routledge: 78-104.

Human Development Network. 2013. "2012/2013 Philippine Human Development Report."

Hutchcroft, Paul. 2012. "Re-slicing the pie of patronage: the politics of the internal revenue allotment in the Philippines, 1991-2010." *The Philippine Review of Economics* 49(1): 109-134.

Hutchcroft, Paul. 1998. *Booty capitalism: The politics of banking in the Philippines*. Cornell University Press.

Hutchcroft, Paul and Joel Rocamora. 2012. "Patronage-Based Parties and the Democratic Deficit in the Philippines: Origins, Evolution and the Imperatives of Reform," in Richard Robison, ed., *Routledge Handbook of Southeast Asian Politics*. Routledge: 97-119.

Iloilo City Assessor's Office. 2014. "Quarterly Report on Real Property Assessments," December 31.

Jimenez-David, Rina. 2015. "Getting along in Iloilo," *Philippine Daily Inquirer*, May 26.

Kang, David. 2002. *Crony capitalism: Corruption and development in South Korea and the Philippines*. Cambridge University Press.

Khan, Mushtaq. 2000. "Rents, Efficiency and Growth," in Mushtaq Khan and Jomo, K.S. eds., *Rents, Rent-seeking and Economic Development: Theory and evidence in Asia*. Cambridge University Press: 21-69.

Khan, Mushtaq and Jomo, K.S. eds. 2000. *Rents, Rent-seeking and Economic Development: Theory and evidence in Asia*. Cambridge University Press.

Kuo, Didi. Forthcoming. *Clientelism, Capitalism, and Democracy: The Rise of Programmatic Politics in the United States and Britain*. Cambridge University Press.

Levi, Margaret. 1989. *Of Rule and Revenue*. Berkeley: University of California Press.

Lieberman, Evan. 2009. "The Politics of Demanding Sacrifice: Applying Insights from Fiscal Sociology to the Study of AIDS Policy and State Capacity," in Isaac William Martin, Ajay Mehrotra and Monica Prasad, eds., *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective*. Cambridge University Press: 101-118.

Lieberman, Evan. 2003. *Race and Regionalism in the Politics of Taxation in Brazil and South Africa*. Cambridge University Press.

Lieberman, Evan. 2002. "Taxation data as indicators of state-society relations: possibilities and pitfalls in cross-national research." *Studies in Comparative International Development* 36(4): 89-115.

Mabilog, Jed. 2014. "Justification on the need for the passage of legislation for the increase of the Real Property Tax in Iloilo City for Fiscal Year 2015," Letter to the Iloilo City Council, July 7.

Manasan, Rosario. 2007. "Decentralization and the Financing of Regional Development," in Arsenio Balisacan and Hal Hill, eds., *The Dynamics of Regional Development: The Philippines in East Asia*. Ateneo de Manila University Press: 275-315.

Mateo, Wenceslao. 2014. "Some recipients still shun relocation houses," *The Daily Guardian*, August 23.

Mauricio, Jaimee. 2014. "Ombudsman clears ex-Batangas City Mayor, 10 city councilor respondents," *US News Agency*, April 24.

McCoy, Alfred, ed. 2009. *An Anarchy of Families: State and Family in the Philippines*. Madison, WI: University of Wisconsin Press.

McCoy, Alfred. 1977. *Ylo-ilo: Factional Conflict in a Colonial Economy, Iloilo Province, Philippines, 1937-1955*. PhD dissertation, Yale University.

McVey, Ruth. 1992. "The Materialization of the Southeast Asian Entrepreneur," in Ruth McVey, ed., *Southeast Asian Capitalists*. Ithaca: Cornell University Southeast Asia Program: 7-33.

Meltzer, Allan and Scott Richard. 1981. "A rational theory of the size of government." *The Journal of Political Economy* 41:914–927.

Moore, Mick. 2008. "Between coercion and contract: competing narratives on taxation and governance," in Deborah Bräutigam, Odd-Helge Fjeldstad, and Mick Moore, eds. *Taxation and State-Building in Developing Countries*. Cambridge University Press: 34-63.

North, Douglass and Barry Weingast. 1989. "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-century England." *The Journal of Economic History* 49(4): 803-832.

Olson, Mancur. 1965. *The Logic of Collective Action*. Cambridge: Harvard University Press.

Ostrom, Eleanor. 1990. *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge University Press.

Pendon, Lydia. 2012. "Bizman answers call for airport passport scanner," *The Daily Guardian*, October 24.

Perez, Hernando. 2014. "Memorandum for the Oppositors," submitted to the Batangas Provincial Council, no date.

Philippine Ports Authority. n.d. "List of Private Ports;" accessed on February 23, 2017 at www.ppa.com.ph/?q=list-of-private-ports.

Philippine Statistics Authority. 2016. "2012 Municipal and City Level Poverty Estimates," Quezon City, May 31.

Quimpo, Nathan Gilbert. 2007. "The Philippines: Political Parties and Corruption." *Southeast Asian Affairs*: 277-294.

Rocamora, Joel. 1998. "Philippine Political Parties, Electoral System and Political Reform." United Nations Public Administration Network; accessed February 10, 2017, at unpan1.un.org/intradoc/groups/public/documents/apcity/unpan006915.pdf.

Ross, Michael. 1999. "The Political Economy of the Resource Curse," *World Politics* 51(2): 297-322.

Ross, Michael. 2004. "Does Taxation Lead to Representation?" *British Journal of Political Science* 34(2): 229–249.

Scheve, Kenneth and David Stasavage. 2016. *Taxing the Rich: A History of Fiscal Fairness in the United States and Europe*. Princeton University Press.

Schneider, Ben Ross. 2004. *Business Politics and the State in Twentieth-Century Latin America*. Cambridge University Press.

Schneider, Ben Ross and Sylvia Maxfield. 1997. "Business, the state, and economic performance in developing countries," in Sylvia Maxfield and Ben Ross Schneider, eds., *Business and the State in Developing Countries*. Ithaca: Cornell University Press: 3-35.

Scott, James. 1972. "Patron-Client Politics and Political Change in Southeast Asia." *American Political Science Review* 66(1):91-113.

Sidel, John. 1999. *Capital, Coercion, and Crime: Bossism in the Philippines*. Palo Alto: Stanford University Press.

Slater, Dan. 2010. *Ordering Power: Contentious Politics and Authoritarian Leviathans in Southeast Asia*. Cambridge University Press.

Slater, Dan and Erica Simmons. 2010. "Informative Regress: Critical antecedents in comparative politics." *Comparative Political Studies* 43(7): 886-917.

Slater, Dan and Daniel Ziblatt. 2013. "The Enduring Indispensability of the Controlled Comparison." *Comparative Political Studies* 46(10): 1301-1327.

Sorsano, Freda Mae. 2014. "'Wrong reasons' for tax hike," *Panay News*, July 4.

Timmons, Jeffrey. 2010. "Taxation and Credible Commitment: Left, Right, and Partisan Turnover." *Comparative Politics* 42(2): 207-227.

Timmons, Jeffrey. 2005. "The Fiscal Contract." *World Politics* 57:530-67.

Tingson, Katherine. 2014. "RPT General Revision," Letter to the Iloilo City Council Committee on Ways and Means, July 2.

USAID. 2014. *Investment Enabling Environment (INVEST) Project*, Final Report, December 30.

Visayan Daily Star. 2007. "Flood-control project hikes real estate prices," April 29.

Weingast, Barry. 1990. "The Role of Credible Commitments in State Finance." *Public Choice* 66(1): 89-97.