

Patrons, Bosses, and Brokers: A Theory of Local Development in the Philippines' Patronage Democracy

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July 7, 2026

Abstract

Entrenched political elites dominate Philippine local politics, yet localities governed by observationally similar elites trace out strikingly different development trajectories. I develop a principal-agent model of the fiscal relationship between constituents and local politicians in which, following Fabella [2005], contract design is embedded in a weak governance environment, so that rents and clientelist transfers emerge endogenously. The familiar figures of Philippine local politics (patrons, bosses, and brokers) arise as regions of a single parameter space, interacting with the constituents' participative capacity. With participative constituents, the optimal fiscal constitution is insulated from the politician's type; with minimally participative constituents, brokers improve while bosses degrade contract efficiency; and with passive constituents facing bossist politicians, no incentive-compatible constitution exists, generating a low-provision, low-growth trap. Twelve well-documented provincial dynasties and 25 years of provincial fiscal records illustrate each configuration of the typology. The model rationalizes stylized contrasts across Philippine provinces and implies that performance-based intergovernmental transfers can substitute for the fiscal contract that weak communities cannot write for themselves.

JEL classification: D72, D82, H77, O53

Keywords: clientelism, principal-agent model, fiscal constitution, local development

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1 Introduction

In May 1992, when Filipinos went to the polls in the first synchronized elections under the new democratic constitution, the provincial results carried familiar names. In Cavite, Juanito Remulla won a third term as governor. In Tarlac, the governorship went to Margarita Cojuangco, of the family whose hacienda dominates the province. Ilocos Sur elected Luis “Chavit” Singson, Lanao del Norte elected Abdullah Dimaporo, and in Cebu, Emilio “Lito” Osmeña vacated the capitol to run for vice president, interrupting a family dominance of Cebuano politics that dates to the American period. Democracy had been restored; the provinces belonged, as they long had, to their families.

What happened next is the puzzle that motivates this paper. Over the following 25 years, provinces governed by elites of remarkably similar description — entrenched, dynastic, sustained by patronage — traveled remarkably different roads. Cebu boomed, its governors brokering the national resources and private capital behind one of the fastest sustained expansions in the country. Cavite industrialized while its bosses grew rich on the conversion of its land. Tarlac neither surged nor collapsed; the hacienda economy delivered its stable, middling bargain. And on the Muslim frontier, provinces did not merely stagnate; their local states hollowed out. Between 2000 and 2017, the provincial government of Maguindanao raised from its own constituents roughly half a centavo of every peso it spent, and Sulu barely a third of a centavo. Everything else arrived automatically from Manila.

To the standard political economy of the predatory state, this variety is hard to see. A long tradition treats politicians as instruments of private interest rather than agents of social welfare (Geddes [1996]; Grossman [2000]; Rutten [2007]; Tullock, Seldon and Brady [2000]; Hillman [2019]), and where formal institutions are weak, the prediction is uniform: capture, underprovision, stagnation (for a survey, see Helpman [2008]; on politicians and firms, Shleifer and Vishny [1994]). The Philippines should be the theory’s home ground. It is a paradigmatic patronage democracy (Kitschelt and Wilkinson [2007]; Hicken [2011]; Stokes et al. [2013]; Hicken and Nathan [2020]; Aspinall et al. [2022]) in which dynasties dominate and persist in local office (Lande [1965]; Querubín [2016]; Cruz, Labonne and Querubín [2017]; Mendoza et al. [2016]) and local power runs on clientelist exchange or outright bossism (Scott [1972]; Sidel [1999]; Aspinall and Hicken [2020]). Yet the theory’s uniform prediction is precisely what the Philippine record refuses to deliver. The rich qualitative literature has long known better, distinguishing factions from patron-client dyads from bosses, but it offers typology without a framework that disciplines how each type arises or what each implies for development. The gap is the one North [1990] diagnosed: analyzes of the predatory politician confuse the rules of the game with the players, when it is the institutional environment that shapes what game the players can profitably play (De Dios [2007]). The central question of this paper is therefore not whether Philippine local politicians are self-interested. They are. It is why the same self-interest builds Cebu, milks Cavite, preserves Tarlac, and hollows out Maguindanao.

The answer this paper proposes begins with an idea I learned from Raul Fabella: that in weak

governance environments, the interesting action is not inside the formal contract but in the environment that decides what contracts can be written at all (Fabella [2005]). Think of the relationship between a local community and its politician as an unwritten fiscal contract. The community surrenders taxes; the politician is supposed to return public goods. Where courts and auditors are strong, this exchange is enforced from outside, and the politician's character matters little. Where they are weak, enforcement is internal to the relationship, and everything turns on two magnitudes. The first is what the constituents actually put in: whether they pay the taxes the bargain prescribes or quietly withhold them. The second is the direction of the politician's extra-political flows: what he takes from the community for himself, against what he channels back to it. These two magnitudes define the familiar figures of the Philippine provinces. The politician who returns more than he takes is a *broker*; the one who takes more than he returns is a *boss*; the one who roughly breaks even is a *patron*. And the two magnitudes feed each other. Constituents who are robbed stop paying; constituents who stop paying leave the public purse to the center's automatic transfers; a purse that fills regardless of performance rewards no performance at all. In the worst configuration, a passive citizenry facing a taking politician, the community cannot write *any* contract that would discipline its governor. It does not suffer bad government so much as the absence of the very instrument that could demand a better one. That is the trap on the frontier, and escaping it, the analysis will show, is less a matter of electing better men than of changing the terms on which the center's money arrives.

These are not hypothetical categories. Coding the dominant family of every Philippine province from the constituency-level election returns of 1992 to 2019 shows that in 30 of the 75 provinces continuously observed, a single family won at least half of all gubernatorial terms. A dozen of these dynasties are so well documented in the case-study literature that they can be classified into the three archetypes with sources attached, and the provinces' own fiscal records then trace, over 25 years, precisely the paths the theory predicts: brokers and patrons sustaining moderate fiscal constitutions, bosses on the frontier presiding over their collapse. The comparison is deliberately qualitative; provinces differ in far more than their families, and Section 7 is explicit about what it can and cannot show. The impatient reader may nonetheless wish to glance at Figure 1 now.

Formally, the paper develops a simple principal-agent model of this relationship. The local community, as principal, designs a *fiscal constitution*, a schedule relating the taxes it pays to the wealth it enjoys (Carvajal [2003]), to induce the governor, as agent, to deliver the public good that drives private-sector productivity. Because the governor's effort is unobservable, the problem is one of moral hazard.¹ Following Fabella [2005], the contracting problem is embedded in its

¹An upfront concern with this contractual setup is that it assumes the agent cannot make a counter-offer to the principal, unlike in a bilateral bargaining framework (e.g., Shleifer and Vishny [1994]). In practice the politician may hold the bargaining power, as in most patron-client relationships. The principal-agent framing with moral hazard is nevertheless the more realistic characterization, because it is the politician's informational advantage *after* the contract is signed that drives local political behavior. A bargaining framework neglects precisely this advantage. The setup may be seen as the patron-client relationship turned on its head to gain analytical leverage

socio-politico-economic environment, so that rents and transfers emerge endogenously rather than by assumption. Weak institutions enter through the two channels just described: constituents may free-ride on the fiscal constitution, paying only a fraction q of statutory taxes, and the governor may appropriate community wealth for himself (rents θL) while channeling some of it back through extra-political means (transfers K). The share of constituents who adhere to the constitution, $\delta = (K - \theta L)/\tau$, is determined within the model, so the constituents' participative capacity and the politician's type jointly condition the contract that the community can write. The model delivers five propositions. The first is an irrelevance result: with full adherence to the fiscal constitution, the optimal contract is independent of rents and transfers, and the standard second-best obtains. Weak institutions, not the agency problem per se, are the binding constraint on local development.

Away from that benchmark, a typology of local political relationships emerges naturally from the model's two parameters, and the familiar figures of Philippine local politics reappear as regions of a single parameter space rather than as distinct species — the *broker* ($K > \theta L$), the *bossist* ($K < \theta L$), and the *patron* ($K \approx \theta L$). I show that with minimally participative constituents, the politician's type governs the efficiency of the optimal contract: brokers improve on the moral hazard benchmark, bossists degrade it, and patrons approximate it. This is precisely the ordering of development outcomes across Cebu, Cavite, and Tarlac. Participation insulates — with participative constituents, the contract is largely unreceptive to the politician's type, consistent with the finding that dynastic entrenchment predicts poverty only in the country's less developed periphery (Mendoza et al. [2016]). With passive constituents, by contrast, the contract becomes extremely sensitive to the politician's type: passive communities do not merely suffer bad leaders more, they also depend on good ones more.

The final proposition concerns not the efficiency of the optimal contract but its *power*, that is, how steeply the constitution must reward improvements in community wealth to keep the governor incentivized. I show that the required power is decreasing in the politician's net transfers: the broker's extra-political generosity substitutes for formal fiscal incentives, while the bossist's rent appropriation forces the community to write an ever steeper, costlier constitution. More consequentially, a feasible constitution exists only above a threshold $\delta^*(q)$ that passive communities almost surely violate under bossist rule. Below the threshold, no incentive-compatible fiscal constitution exists at all — the community reverts to a fixed budget, the governor supplies minimal effort, and a low-provision, low-growth trap emerges. Communities with identical technology and preferences can thus sustain very different fiscal constitutions, or none at all, depending on where history has placed them in (q, δ) space.

The paper makes three contributions. First, it provides a unified formal framework for the rich but largely qualitative typologies of Philippine local politics, from Landé's factions to Scott's patron-client dyads to Sidel's bosses, so that movements between types, and their development

(Montinola [1999]).

consequences, can be analyzed as comparative statics of a single contracting problem. Recent empirical work documents precisely this heterogeneity among Philippine dynasties, some developmental and some predatory (Mendoza et al. [2023]); the model derives it rather than assumes it. Second, it extends the workhorse moral hazard model (Macho-Stadler and Pérez-Castrillo [2001]) in the direction pioneered by Fabella [2005], showing that embedding the contract in a weak governance environment changes not only the efficiency of the second-best contract but its very feasibility. Third, it carries a sharp policy implication for intergovernmental finance: because a passive community cannot write for itself the high-powered constitution its environment demands, performance-based transfer windows from the center, layered alongside the automatic Internal Revenue Allotment, effectively substitute for the missing local contract (Singh and Thomas [1989]; Shah [2010]).

The rest of the paper proceeds as follows. Section 2 sets up the base model with perfect information and derives the efficient constitution, used as a Paretian benchmark for subsequent theory-building. Section 3 introduces moral hazard and derives the second-best constitution. Section 4 embeds the contract in a weak-institutions environment in which rents and extra-political transfers arise endogenously, and derives the incentive- *and* institutionally-compatible contract. Section 5 develops the typology of local political relationships and characterizes the efficiency of the optimal contract under each. Section 6 examines the power of the optimal constitution and identifies the conditions under which no incentive-compatible constitution exists, so that a multiplicity of local development paths emerges. Section 7 takes the typology to three decades of Philippine data, coding dominant provincial dynasties from election returns and tracing each archetype’s fiscal constitution in provincial revenue records. Section 8 concludes. The Annex collects the step-by-step derivations.

2 The base model

Consider a local community with a continuum of constituents and a local chief executive, the governor. A single public good drives private-sector productivity. The framework treats the politician as an agent of the citizenry, in the tradition of political agency models (Besley [2006]).

2.1 The constituents

The constituents’ aggregate utility function $B : \mathbb{R}^+ \rightarrow \mathbb{R}$, depends on the private wealth that they keep after paying taxes. Gross wealth, however, is only a proportion p of maximum potential wealth, W_0 , that can be accumulated. The parameter p , in turn, is a random variable which depends on the level of public good, G , provided by the local government. p has the density function $f(p; G)$, with $f_G > 0$ and $f_{GG} \leq 0$. Let τ denote the lump sum tax citizens owe the local government. Thus,

$$B = B(pW_0 - \tau) \tag{1}$$

$B(\cdot)$ is assumed to be concave-increasing, with $B' > 0$ and $B'' \leq 0$.

2.2 The constitution

The constituents as a collective design the constitution. Following Carvajal [2003], a fiscal constitution is a function $\tau : \mathbb{R}^+ \rightarrow \mathbb{R}$, that defines, for each proportion of wealth of the collective, p , an amount $\tau(p)$ of taxes that the collective must pay to the local government.

The constitution $\tau(p)$ subsumes the entire institutional-legal regime of the local community. Not all constituents necessarily obey it, however. The proportion of *participative* constituents, those who duly pay their taxes, is endogenized in Section 4.

2.3 The governor

The governor is the agent “contracted” by the constituents to deliver the public good. He cares about his personal wealth, W_1 , and about the pecuniary and non-pecuniary benefits of controlling tax revenue. Delivering the public good requires effort, which is costly to him. Formally, the governor’s utility function is:

$$U_G = U(W_1 + \tau) - V(G) \quad (2)$$

$U(\cdot)$ is concave increasing, $U' > 0$ and $U'' \leq 0$, whereas the dis-utility of effort, $V(\cdot)$, is increasing and convex, $V' > 0$ and $V'' \geq 0$. The governor’s preferences are described by an additively separable function to indicate that his risk-aversion does not vary with the effort he supplies (Macho-Stadler and Pérez-Castrillo [2001]).

2.4 A Pareto efficient contract

Under perfect information, the collective decides both how much tax to pay and how much public good the governor must deliver. Tax evasion is effectively monitored, so all constituents pay their taxes in full. The collective’s problem is:

$$\begin{aligned} \max_{\{\tau(p), G\}} \quad & \Pi = \int_p B(pW_0 - \tau) f(p; G) dp \\ \text{s.t.} \quad & \int_p U(W_1 + \tau) f(p; G) dp - V(G) \geq U_0 \quad PC \end{aligned} \quad (3)$$

The constituents maximize their surplus from the relationship, subject to terms the governor will accept. The participation constraint (PC) requires that any constitution guarantee the governor at least his reservation utility U_0 , defined here as the utility he would obtain out of office.

Letting $\lambda \geq 0$ denote the shadow price of the participation constraint, the first-order conditions are given by the following equations:

$$-B'(\cdot) + \lambda U'(\cdot) = 0 \quad (4)$$

$$B(\cdot)f_G + \lambda [U(\cdot)f_G - V'(\cdot)] = 0 \quad (5)$$

From equation 4, $\lambda > 0$: the participation constraint binds, and the governor gets exactly his reservation utility. The solution therefore corresponds to a Pareto optimum in the usual sense, with one player's utility maximized subject to the other receiving at least a given level of utility. Equation 4 also implies,

$$\frac{B'(\cdot)}{U'(\cdot)} = \lambda \quad (6)$$

where λ is a constant. Under the Pareto efficient constitution, the ratio of the marginal utilities of the collective (as principal) and the governor (as agent) is constant whatever the realized outcome.

Alternatively, substituting the value of λ in equation 4 into equation 5 gives the Pareto efficiency condition:

$$\left[\frac{B}{B'} + \frac{U}{U'} \right] f_G = \frac{V'}{U'} \quad (7)$$

The left-hand side is the sum of the expected utilities derived from the provision of the local public good; the right-hand side is the ratio of the governor's marginal disutility of effort to his marginal utility of income. Pareto efficiency thus requires that the governor fully internalize the effect of public good provision on the collective.

2.5 Optimal risk-sharing constitution

Differentiating equation 4 with respect to p and solving for $\tau'(p)$ gives:

$$\tau'(p) = \frac{R_P}{R_P + R_A} W_0, \quad \frac{R_P}{R_P + R_A} \in (0, 1) \quad (8)$$

where $R_P = -B''/B'$ and $R_A = -U''/U'$ are the Arrow-Pratt measures of absolute risk-aversion of the principal and the agent. Equation 8 indicates how the constitution responds to an improvement in the wealth parameter p ; the response depends on the relative risk-aversion of the two parties. For the rest of the analysis, I assume the collective is risk-neutral in its relationship with the governor, while the governor, who alone bears the risk in the relationship, is risk-averse. With $R_P = 0$, equation 8 gives $\tau'(p) = 0$: the Paretian constitution is independent of the realized outcome, and the governor receives a fixed budget no matter the level of public good he delivers. The level of public good is pinned down by the efficiency condition in equation 7.

3 The moral hazard problem

In practice, constituents cannot easily observe how much effort the governor devotes to delivering public goods and services. What makes public office attractive to politicians is not primarily the honor and prestige it bestows, although it bestows some. It is the strategic advantage over

other players in the community, which allows the officeholder to pursue a private agenda under the guise of public service. The governor exploits this informational advantage, and the collective's problem becomes one of *moral hazard*.

Because the governor's effort is unobservable, it cannot be written into the contract: if the governor breached such a contract, no court could verify the breach. This partly explains why, despite the extensive documentation of graft and corruption in Philippine government, convictions of corrupt officials have been rare. Montinola [1999] offers a vivid illustration, a report of the Presidential Anti-Graft Committee under President Diosdado Macapagal in which the chairman wrote:

I can say without hesitation that the overall picture of the performance of this Committee is still NO HITS, NO RUNS, ALL EXPENSES!... a general view of the situation leads to the conclusion that graft and corruption have invaded all branches of the government on a nationwide and a more massive scale... after three (3) years of shaky existence, this Committee, through no faults of its own, has miserably FAILED TO SEND TO JAIL A SINGLE PUBLIC CROOK.

3.1 Incentive-compatible contract

Moral hazard enters the framework through an incentive-compatibility constraint. Once the contract is accepted, the governor chooses the effort level that maximizes his own objective, since effort is unobservable. The collective must therefore design the best constitution that satisfies both the participation constraint *and* the incentive-compatibility constraint. The collective's problem becomes:

$$\begin{aligned} \max_{\{\tau(p)\}} \Pi &= \int_p B(pW_0 - \tau) f(p; G) dp \\ s.t. \quad &\int_p U(W_1 + \tau) f(p; G) dp - V(G) \geq U_0 \quad PC \\ &\int_p U(W_1 + \tau) f_G dp - V'(G) = 0 \quad ICC \end{aligned} \tag{9}$$

Letting $\lambda \geq 0$ denote the shadow price of the participation constraint, and $\nu \geq 0$ denote the shadow price of the incentive-compatibility constraint, the first-order condition is given by the following equation:

$$-B'(\cdot) f(p; G) + \lambda U'(\cdot) f(p; G) + \nu U'(\cdot) f_G = 0 \tag{10}$$

Re-arranging terms gives the optimal condition under moral hazard (Holmström [1979]):

$$\frac{B'(\cdot)}{U'(\cdot)} = \lambda + \nu \left[\frac{f_G}{f(p; G)} \right] \tag{11}$$

The term $\left[\frac{f_G}{f(p; G)} \right]$ is called the likelihood ratio. It signifies the likelihood that a high value of the parameter p is related to a high level of public good G provided by the governor.

Remark: When $f_G = 0$, that is, when the wealth parameter is not at all affected by the level of public good provision, the likelihood ratio is zero, and the second term on the right-hand side of Equation 11 drops out. The optimal condition reverts back to the Paretian benchmark case, where $\frac{B'(\cdot)}{U'(\cdot)} = \lambda$, and the optimal constitution is one of risk-sharing, without any call for incentives.

3.2 Second-best constitution

When $f_G > 0$, by contrast, the wealth parameter depends on the level of public good the governor provides. Since G is unobservable and the constituents want more of it, the only way to incentivize the governor is to make his budget (the revenue from tax collections) depend on his performance. It must be that $\tau'(p) > 0$.

For $\tau'(p) > 0$, with the collective risk-neutral, both λ and ν must be strictly positive. The Kuhn-Tucker conditions require only that the multipliers be non-negative; three cases rule out zero values:

Case 1: If $\lambda > 0, \nu = 0$, then the optimal condition becomes $\frac{B'(\cdot)}{U'(\cdot)} = \lambda$, and the contract reverts back to the Paretian benchmark case where the governor's performance is not incentivized. Since effort is unobservable, the governor will opt to supply a less-than-optimal performance level, and the constituents' utility is not maximized.

Case 2: If $\lambda = 0, \nu > 0$, then it means the participation constraint is non-binding. The collective is paying a level of taxes that is more than necessary. The tax level can still be reduced and still make the governor agree on the contract. The contract in this scenario is still sub-optimal.

Case 3: If $\lambda = 0, \nu = 0$, then this implies that $\frac{B'(\cdot)}{U'(\cdot)} = 0$, which contradicts the initial assumptions.

Therefore, under the standard moral hazard scenario, the optimal contract between the collective and the governor requires that $\lambda > 0$ and $\nu > 0$. Differentiating Equation 11 with respect to p and solving for $\tau'(p)$ gives:²

$$\tau'(p) = \frac{R_P W_0 + \frac{\nu}{\lambda} \left[\frac{d\left(\frac{f_G}{f(p;G)}\right)}{dp} \right]}{R_P + R_A} \quad (12)$$

Equation 12 is the second-best constitution. With the collective's risk-neutrality, the governor's risk-aversion and with $\lambda > 0$ and $\nu > 0$, what would make $\tau'(p) > 0$ is a strictly positive value for the bracketed term. The bracketed term is the Monotone Likelihood Ratio Property (MLRP) (Milgrom [1981]; Macho-Stadler and Pérez-Castrillo [2001]). It is positive if a rise in the wealth parameter p makes it more likely that a higher level of public good G has been provided. As long as the MLRP is strictly positive, $\tau'(p) > 0$: the second-best fiscal constitution is strictly increasing in p , giving the governor an incentive to perform better than he would under a fixed budget

²Here and throughout, the slope is evaluated at the mean of p , where $E[f_G/f] = 0$ so that $\lambda + \nu f_G/f = \lambda$. The full derivation is in Annex A.

(for textbook treatments of the toolkit used here, see Laffont and Martimort [2002] and Bolton and Dewatripont [2005]).

This result speaks directly to the design of intergovernmental transfers in the Philippines. The bulk of local government revenue arrives as an automatic, formula-based block grant: the Internal Revenue Allotment (IRA), renamed the National Tax Allotment after the Mandanas-Garcia ruling expanded its base to all national taxes and raised local government shares by more than half beginning in 2022 (Capuno [2012]; World Bank [2021]). Because the transfer is unconditional on performance, it is the fixed-budget constitution of the benchmark model, and it gives local chief executives little incentive to perform. Diokno [2012] reached exactly this verdict twenty years into decentralization: local governments had grown *more* dependent on the IRA, service delivery showed no sharp improvement, and the missing link was the weak accountability of local authorities for their fiscal behavior. The model instead prescribes performance-contingent transfers, in the spirit of matching grants (Singh and Thomas [1989]; Shah [2010]). The Philippines has begun to experiment with exactly this instrument: the Seal of Good Local Governance and its Performance Challenge Fund condition grants on measured governance performance, although the poorest municipalities have proven least able to qualify (Diokno-Sicat, Castillo and Maddawin [2020]), a pattern to which Section 6 returns.

4 The model under weak institutions

The failures of Philippine local politics run deeper than moral hazard, however. Beyond the information asymmetry between politician and constituents lies the weakness of formal institutions. Where formal institutions are weak, private incentives dominate the collective's decisions, and the norms of political exchange extend beyond the legal realm (De Dios [2007]; on the institutional origins of the Philippine "democratic deficit," Hutchcroft and Rocamora [2003]).

The most obvious manifestation of the collective's failure is the classic free-riding problem in public goods provision, resulting in what De Dios [2007] calls "a debasement of the currency of the political exchange relative to what is prescriptive or ideal." Voters may nominally participate in the political process through voting, yet choose candidates based on "purely private, self-regarding considerations, in disregard of social or communal interest" (De Dios [2007]). As far as the constituents are concerned, the political relationship remains an abstraction, a mere formality.

In turn, the resultant indifference of the constituents to political affairs amplifies the adverse effect of information asymmetry on the behavior of local politicians. Again, as De Dios [2007] noted:

The obverse of the constituents' susceptibility to non-political considerations is the politician's own ability to appropriate benefits above and beyond the rewards of political office per se. In the prescriptive political relationship, the private reward for public office is also explicitly political in form, including official pay, perks, greater influence and authority in government

and in political organizations, social status, and the implicit pecuniary and non-pecuniary rewards upon leaving office. Again, however, where institutions are weak, such inducements are unlikely to play a large role relative to non-political benefits where these exist and are appropriate. Whether and how such benefits are realized will largely determine the type of governance that local politicians supply. The type of governance, together with initial conditions, in turn constitutes the major influence on a locality’s development trajectory.

How do these institutional considerations modify the principal-agent model under moral hazard? Two strands of formal work are close in spirit. Keefer and Vlaicu [2008] derive clientelism from politicians’ inability to make credible promises to voters at large, and Robinson and Verdier [2013] model it as an inefficient but credible form of redistribution. In both, the friction sits on the politician’s side of the exchange. The model developed below locates frictions on *both* sides: the politician can appropriate rents, and the constituents can withhold participation. The interaction of the two generates the typology of Section 5.

4.1 Participatory and free-riding constituents

Going back to the assumptions of the model, suppose now that the continuum of constituents can be participatory or passive, in the sense that a passive constituent pays only a fraction q of the agreed upon tax level τ . The parameter $0 \leq q \leq 1$ is a random variable, unobservable to the governor ex-ante but observable ex-post; the complement $1 - q$ may be viewed as the local community’s propensity for tax-evasion.³ As $q \rightarrow 0$, the collective becomes increasingly passive.

4.2 Strongmen and patrons

Let θ be the proportion of wealth appropriated by the governor from the local community, and L be the amount of appropriable wealth. Examples of L include public land, transfers from the national government, pork barrel funds, etc. The parameter θ may be viewed as the propensity of the governor to appropriate pecuniary benefits for himself, and thus, his capacity to be an entrenched politician.

Let K be the amount of transfers channeled by the governor back to the collective whom he considers his “clients” through extra-political means. The paradigmatic illustration is the Cojuangco family’s Hacienda Luisita in Tarlac, where resident farm workers have historically received a bundle of in-kind benefits outside of, and in addition to, whatever the local government formally provides: subsidized housing, schooling, access to the estate’s hospital, emergency loans, and guaranteed employment (Montinola [1999]; Sidel [1999]). Transfers K , as defined in this paper, always imply productive benefits to the collective: they augment constituents’ income, insure them against shocks, or otherwise raise their capacity to accumulate wealth. Any “transfer” that

³An alternative way of thinking about $1 - q$ is that it represents the share of the informal sector that is difficult to tax. The parameter is also close in spirit to what the compliance literature calls tax morale (Luttmer and Singhal [2014]). Weigel [2020] shows experimentally that taxation and political participation move together, supporting the model’s treatment of taxpaying and participation as a single margin.

merely rewards the politician's dense inner network of kin, financiers, and enforcers, and thus never reaches the collective, is not a transfer in this sense; it is part of the appropriated wealth already captured by θL above.

4.3 The collective's expected benefit

Following Fabella [2005], the typical expected benefit of the collective from free-riding on (rather than adhering to) its fiscal relationship with the governor is:⁴

$$E[b] = \tau(1 - q) + \theta L - K \quad (13)$$

Suppose q is uniformly distributed along the interval $[0, 1]$. Note that the collective would rather choose to be fully participatory (that is, adhere strongly to the fiscal constitution) if $E[b] \leq 0$ or if $q \geq \bar{q} \equiv \frac{\tau + (\theta L - K)}{\tau}$. Conversely, when the governor's appropriation grows so large that $E[b] > 0$ for every realization of q , adherence to the fiscal constitution collapses entirely. The political relationship then survives, if at all, only by coercion. At that extreme, a Leviathan-type governor may instead provoke the constituents to act collectively *outside* the fiscal constitution to remove him from office and restore the efficiency of the local government. The 1986 People Power revolution that ousted Ferdinand Marcos is the national archetype of such an equilibrium reversal (Montinola [1999]; Hutchcroft and Rocamora [2003]); at the local level, the recall and people's initiative provisions of the 1991 Local Government Code institutionalize precisely this collective sanction. The aspiration has deep roots: Rizal's La Liga Filipina was precisely an attempt to build, from below, the civic institutions that would make such collective action possible (Jandoc [2011]).

Given the uniform distribution of q , the probability that the collective is participatory is thus:

$$\delta = 1 - \bar{q} = 1 - \left\lceil \frac{\tau + (\theta L - K)}{\tau} \right\rceil = \frac{K - \theta L}{\tau} \quad (14)$$

Equation 14 also happens to be the proportion of the constituents who are participatory.⁵

Remarks:

- (i) $\frac{\partial \delta}{\partial K} = \frac{1}{\tau} > 0$ and a constant. Thus, the greater the amount of transfers to the collective, the greater the proportion of participatory constituents.
- (ii) $\frac{\partial \delta}{\partial \theta} = \frac{-L}{\tau} < 0$ and a constant. Thus, the greater the propensity of the governor to appropriate non-political benefits for himself, the less the proportion of participatory constituents.

⁴This expression corrects a sign inconsistency in earlier drafts, where $E[b]$ was written as $\tau(1-q) - \theta L + K$ yet the derived participation share was $\delta = (K - \theta L)/\tau$. Defining $E[b]$ as the expected benefit of *free-riding* (unpaid taxes $\tau(1-q)$, plus the grievance value of wealth appropriated by the governor θL , less the clientelist transfers K that reward compliance) delivers $\delta = (K - \theta L)/\tau$ exactly, consistent with the comparative statics and the typology below.

⁵Strictly, δ is truncated to $[0, 1]$. In what follows, δ is treated as a signed index of the net participatory pull of the local political relationship: $\delta > 0$ when transfers exceed rents ($K > \theta L$) and $\delta < 0$ when rents exceed transfers ($K < \theta L$).

The participation share δ is, in effect, the local social contract: constituents comply when the politician reciprocates. This is the mechanism that Levi [1988] describes as quasi-voluntary compliance and that Besley [2020] formalizes as the co-evolution of civic culture and fiscal capacity. Here it emerges from a single free-riding condition.

4.4 The governor's expected utility

With $\delta < 1$, the participation constraint is,

$$\int_p [\delta U(W_1 + \tau) + (1 - \delta)U(W_1 + \tau q)] f(p; G) dp - V(G) \geq U_0 \quad (15)$$

and the incentive compatibility constraint is,

$$\int_p [\delta U(W_1 + \tau) + (1 - \delta)U(W_1 + \tau q)] f_G dp - V'(G) = 0 \quad (16)$$

4.5 Incentive- *and* institutionally-compatible contract

The collective's problem is thus:⁶

$$\begin{aligned} \max_{\{\tau(p)\}} \Pi &= \int_p B(pW_0 - \tau q) f(p; G) dp \\ s.t. \quad \int_p [\delta U(W_1 + \tau) + (1 - \delta)U(W_1 + \tau q)] f(p; G) dp - V(G) &\geq U_0 \quad PC \\ \int_p [\delta U(W_1 + \tau) + (1 - \delta)U(W_1 + \tau q)] f_G dp - V'(G) &= 0 \quad ICC \end{aligned} \quad (17)$$

Letting $\lambda \geq 0$ denote the shadow price of the participation constraint, and $\nu \geq 0$ denote the shadow price of the incentive-compatibility constraint, the first-order condition is given by the following equation:

$$\begin{aligned} -qB'(\cdot)f(p; G) + \lambda \{ [\delta U'(\cdot) + q(1 - \delta)U'(\cdot)] f(p; G) \} + \\ \nu \{ [\delta U'(\cdot) + q(1 - \delta)U'(\cdot)] f_G \} = 0 \end{aligned} \quad (18)$$

Re-arranging terms gives the optimal condition:

$$\frac{B'(\cdot)}{U'(\cdot)} = \left[1 + \left(\frac{\delta(1 - q)}{q} \right) \right] \left[\lambda + \nu \left[\frac{f_G}{f(p; G)} \right] \right] \quad (19)$$

The optimal condition is thus tempered by the socio-politico-economic environment, which is em-

⁶The collective evaluates its surplus at the passive payment rate q ; the results are qualitatively unchanged if the objective is instead the δ -weighted average of participatory and passive payments, at the cost of extra algebra. Moreover, in designing the constitution the atomistic constituents treat the aggregate participation share δ as parametric. No individual constituent internalizes the effect of the tax schedule on aggregate participation. This is the free-riding problem once more, now operating at the level of constitutional design.

bodied and endogenized in the parameters q and δ , through K and θ . A multiplicity of local political relationships is possible depending on the said parameters.

Remark: When $q = 1$, the term $\left(\frac{\delta(1-q)}{q}\right)$ in equation 19 drops out. The optimal condition reverts back to that in the moral hazard scenario, where $\frac{B'(\cdot)}{U'(\cdot)} = \lambda + \nu \left(\frac{f_G}{f(p;G)}\right)$.

PROPOSITION 1: *(Irrelevance proposition) With strong formal institutions, i.e. with the constituents' full adherence to the fiscal constitution, the optimal contract is independent of either rents or political transfers. The second-best constitution is achieved.*

A word on dynamics is in order before proceeding, because the contract here is written and executed within a single period while the relationship it describes plays out over decades. Three considerations explain what the static formulation buys. First, the period has a natural institutional length. Philippine local officials serve three-year terms under a three-consecutive-term limit, and it is precisely the logic of backward induction over a known, short horizon that unravels reputational cooperation; the static problem is therefore the right model of a term-limited incumbent, not an approximation to it. Second, the relevant long-run player is not the incumbent but the family, whose horizon outlives any single officeholder (Querubín [2016]). For such an effectively infinitely-lived player, the theory of relational contracts shows that optimal self-enforcing arrangements are stationary (Levin [2003]), so the static optimum characterized below may be read as the per-period slice of the optimal relational contract, with δ serving as the one-period reduced form of the reputational feedback that a fully dynamic model would trace explicitly (Besley [2020]). Third, what repetition would add is multiplicity: folk-theorem reasoning sustains many equilibria and disciplines none. The static model's virtue is that it ties each archetype to fundamentals, the participative capacity of the community and the net direction of the politician's flows, rather than to equilibrium selection. The 25-year fiscal paths of Section 7, flat for decades at a time, are what such stationary configurations look like in data. What the static model genuinely cannot address is transitions between configurations, a limitation taken up in the conclusion.

5 Typology of local political relationships

The optimal condition in equation 19 makes clear that the local political relationship is characterized by two dimensions of the socio-politico-economic environment: the participative capacity of the constituents, summarized by q , and the net direction of the extra-political flows between the politician and the community, summarized by $\delta = (K - \theta L)/\tau$. Different combinations of the two dimensions produce different local political relationships and, as this section shows, different efficiencies of the optimal contract. It is useful, then, to name the archetypes along each dimension before characterizing the equilibria they generate.

Definitions: Types of constituents

- (i) When $q = 1/2$, the constituents are said to be *minimally participative* (MP). This is the case, for example, when the local community is dichotomized into landed and peasant classes; property rights are relatively secure for the propertied but political voice is narrowly held; and constituents attach only a mild premium on genuine governance. Much of the Philippine countryside during the late colonial period and the American occupation, when suffrage and officeholding were effectively restricted to the *principalía*, fits this description (Cullinane [2005]; Lande [1965]).
- (ii) When $1/2 < q < 1$, the constituents are said to be *participative* (P). This happens when favorable economic and social conditions have produced a differentiated social structure with a substantial middle class; property rights are highly secure; and constituents attach a high premium on genuine governance. Urbanized, economically diversified communities with dense civil society approximate this type.
- (iii) When $0 \leq q < 1/2$, the constituents are said to be passive or *non-participative* (NP). This happens in traditional and frontier communities where property rights are insecure and there is fear of expropriation, and where constituents rationally attach a premium on immediate, private, positive inducements over the distant and uncertain returns to good governance (Scott [1972]; Nowak and Snyder [1974]).

Definitions: Typology of the local politician

- (i) When $K > \theta L$, the governor is said to be a *broker*. The term is used here in the sense of the intermediaries who connect politicians and resources to constituents in Philippine machines (Stokes et al. [2013]; Cruz [2019]; Ravanilla, Haim and Hicken [2022]). The broker's base of power is his ability to channel funds into endeavors favorable to the constituents, whether national government allocations, private investment, or his own resources. His motivation is not altruism — a reputation for delivery secures his electoral position more cheaply than coercion would, and a growing local economy enlarges the very base from which his (modest) rents are drawn. The electoral premium on delivery is not hypothetical: Philippine governors who spent more on development in the 1990s were significantly more likely to be re-elected (Solon, Fabella and Capuno [2009]). He accepts a smaller share of a larger pie.
- (ii) When $K < \theta L$, the governor is said to be *bossist*. The bossist's base of power is monopolistic control over the local economy's coercive and extractive chokepoints, backed by private armies and command of the local state apparatus (Sidel [1999]). These chokepoints include land, franchises, and protected illegal but lucrative activities such as gambling, smuggling, and illegal logging. He extracts a larger share of a pie he has little interest in growing. The bossist enclave is the local analog of what Gibson [2005] calls subnational authoritarianism.
- (iii) When $K = \theta L$ (or round-about), the governor is said to be a *patron* or *clientelist*. The patron maintains the classic dyadic exchange relationship: particularistic benefits flow downward, while deference and political support flow upward (Scott [1972]; Lande [1965]; Hollnsteiner [1963]; Hicken [2011]; Aspinall et al. [2022]). What he appropriates from the community he roughly returns in transfers, so the relationship may or may not be detrimental to the community depending on the magnitudes of K and θL involved.

These types are, of course, archetypes; any actual local political relationship lies somewhere in between, and the same family may drift from one archetype to another across generations or even across a single incumbent’s career. Indeed, the striking fact about Philippine dynasties is precisely their persistence across such transitions (Querubín [2012]; Querubín [2016]), and the drift itself is well documented: Machado [1974] traces how traditional family-centered factions in the postwar rural Philippines gave way to specialized political machines as national political competition intensified. The usefulness of the labels is precisely that they permit an analysis of what happens to the efficiency of the optimal contract as the politician evolves from one archetype to another, holding the constituents’ participative capacity fixed, and vice versa. The remainder of this section conducts exactly this analysis.

5.1 Equilibrium with minimally participative constituents

Consider first the environment most characteristic of the traditional Philippine province: a minimally participative citizenry facing an entrenched local politician. This case is the natural benchmark, both because it describes the modal historical experience and because it isolates most cleanly the effect of the politician’s type.

When $q = 1/2$, equation 19 becomes,

$$\frac{B'(\cdot)}{U'(\cdot)} = [1 + \delta] \left[\lambda + \nu \left[\frac{f_G}{f(p; G)} \right] \right] \quad (20)$$

Case 1: If the governor is a *broker*, $K > \theta L$, thus $\delta > 0$, and the optimal contract achieves greater efficiency than in the standard moral hazard situation.

Case 2: If the governor is *bossist*, $K < \theta L$, thus $\delta < 0$, and the optimal contract is less efficient than in the standard moral hazard situation.

Case 3: If the governor is *clientelist*, $K = \theta L$, thus $\delta = 0$, and the optimal contract approximates the contract under moral hazard.

PROPOSITION 2: *With minimally participative constituents, the optimal contract becomes dependent on the typology of the local politician. With a broker, the contract is more efficient than in the standard moral hazard scenario. With a bossist, the contract is less efficient. And with a patron, the optimal contract under moral hazard is approximated.*

The three provincial dynasties invoked in the introduction illustrate the three cases, and each rests on a substantial case-study literature.

Cebu under the Osmeñas approximates the broker equilibrium. In his study of three generations of the family, Mojares [1993] shows that Osmeña power rested on brokerage rather than on landed monopoly or coercion: Sergio Osmeña Sr. rose by mediating between the Cebuano elite and the American colonial state, and each generation renewed the family’s position by delivering national resources and private capital to the province. The strategy culminated in the export- and property-led “Cebboom” presided over by governor Emilio “Lito” Osmeña in the late

1980s and early 1990s, and Cebu’s growth has persistently outpaced that of comparable provinces (Sidel [1999]; De Dios [2007]).

Cavite is the canonical bossist case. Sidel [1997, 1999] documents a succession of provincial bosses, from Justiniano Montano and Dominador Camerino in the early postwar decades to Juanito Remulla thereafter, whose power rested on private armies, command of the local police and election machinery, and monopoly brokerage of land conversion during the CALABARZON industrial boom, while public goods provision lagged behind the province’s locational advantages. Nor is bossism a matter of geography rather than type: within Cebu itself, Cullinane [1993] describes the Duranos of Danao, whose warlord fiefdom of guns, cement, and patronage coexisted for decades with Osmeña brokerage in the capital. The within-province contrast underscores the model’s claim that it is the politician’s type, not the locality, that drives the equilibrium.

Tarlac under the Cojuangcos approximates the patron equilibrium. Putzel [1992] documents both sides of the hacienda ledger at Hacienda Luisita: paternalistic in-kind benefits for resident workers on one side and, on the other, the family’s success in retaining effective control of the estate through successive waves of agrarian reform, including the 1989 stock distribution option that kept two-thirds of the new corporation in family hands (on the economics of Philippine land reform more generally, see Jandoc and Roumasset [2019]). The result was a stable, middling development trajectory, with neither the dynamism of Cebu nor the predation of the worst bossist enclaves (Montinola [1999]). The patron equilibrium is fragile exactly where the model says it is: when the in-kind transfers that sustain compliance eroded across Central Luzon’s haciendas in the 1930s and 1940s, the patron-client bond gave way to agrarian revolt (Kerkvliet [1977]). The ordering of development outcomes across the three provinces is exactly the ordering the proposition predicts.

5.2 Equilibrium with participative constituents

When $1/2 < q < 1$, say $q = 3/4$, equation 19 becomes,

$$\frac{B'(\cdot)}{U'(\cdot)} = \left[1 + \frac{\delta}{3}\right] \left[\lambda + \nu \left[\frac{f_G}{f(p; G)}\right]\right] \quad (21)$$

The same cases as in above apply, however, as $q \rightarrow 1$, the effect on the contract, whether favorable or detrimental, is increasingly weakened by the participative capacity of the collective.

PROPOSITION 3: *With participative constituents, the optimal contract becomes relatively unreceptive to the typology of the local politician.*

Proposition 3 rationalizes a robust empirical regularity: in the urbanized, economically diversified parts of the country, who exactly governs matters much less for development outcomes. Highly urbanized cities routinely change hands among rival dynasties and non-dynasts alike without discernible breaks in their growth trajectories. Consistent with this, Mendoza et al. [2016] find that the association between dynastic entrenchment and poverty is concentrated in the country’s less developed periphery and largely disappears in the more developed regions. These are precisely

the areas where constituents are participative in the sense of this model. Where the collective adheres to the fiscal constitution, even a rent-seeking politician faces a hard budget of tolerated behavior, and even a generous broker adds only modestly to what the formal contract already achieves.

5.3 Equilibrium with passive constituents

When $0 \leq q < 1/2$, say $q = 1/4$, equation 19 becomes,

$$\frac{B'(\cdot)}{U'(\cdot)} = [1 + 3\delta] \left[\lambda + \nu \left[\frac{f_G}{f(p; G)} \right] \right] \quad (22)$$

The same cases as in above apply, however, as $q \rightarrow 0$, the contract becomes extremely sensitive to the behavior of the local leader.

PROPOSITION 4: *With passive constituents, the optimal contract becomes extremely sensitive to the typology of the local politician.*

The starkest illustrations come from the country’s poorest and most weakly institutionalized frontier, where constituents are passive in the sense of this model. The datu-led political families of Muslim Mindanao are among the country’s oldest political formations (Beckett [1993]), and the postwar state’s expansion into the southern frontier consolidated rather than displaced them (Abinales [2000]). Maguindanao under the Ampatuans is the limiting bossist case. Lara Jr. [2014] documents how the clan converted devolved internal revenue allotments, control of local election administration, and a state-sanctioned private army into a shadow economy of rents, while the province recorded some of the worst human development indicators in the country. The equilibrium unraveled only with the 2009 Maguindanao massacre and the national intervention it provoked (Aspinall and Hicken [2020]). Consistent with this margin, Khemani [2015] finds that Philippine municipalities where vote buying is more prevalent invest systematically less in basic health services. Conversely, when a broker-type leader emerges in a comparably passive environment, outcomes can improve dramatically and quickly. This is precisely the knife-edge sensitivity the proposition describes: with q small, the term $(1 + 3\delta)$ magnifies whatever the politician happens to be, for good or ill. Passive communities do not merely suffer bad leaders more; they also depend on good ones more.

6 The power of the constitution and the multiplicity of development paths

The propositions of the previous section concern the *efficiency* of the optimal contract. A second, equally consequential question concerns its *power*: how steeply must the constitution reward improvements in the wealth parameter p in order to keep the governor incentivized, once the socio-politico-economic environment is taken into account? The question matters because it

governs whether, and how, a local community can evolve away from a low-growth equilibrium. Following Fabella [2005], who shows how the power and cost of the optimal contract adjust in a weak-enforcement environment, this section traces how the power of the fiscal constitution varies with the community's participative capacity q and the politician's type δ .⁷

It is convenient to define two moments of the constituents' payment rate. A participatory constituent pays the statutory tax in full (rate 1, with probability δ) while a passive one pays at rate q (with probability $1 - \delta$). Let

$$m \equiv \delta + q(1 - \delta), \quad n \equiv \delta + q^2(1 - \delta) \quad (23)$$

denote, respectively, the mean and the second moment of the payment rate. Note that $m = n = 1$ under full participation ($\delta = 1$ or $q = 1$), recovering the strong-institutions benchmark.

Differentiating equation 19 with respect to p , taking into account that $\delta = (K - \theta L)/\tau(p)$ itself varies along the schedule, and solving for $\tau'(p)$ gives:

$$\tau'(p) = \frac{R_P W_0 + \frac{\nu}{\lambda} \left[\frac{d\left(\frac{f_G}{f(p;G)}\right)}{dp} \right]}{qR_P + \left(\frac{n}{m}\right) R_A + \left[\frac{\delta(1-q)}{m} \right] \left(\frac{1}{\tau}\right)} \quad (24)$$

Given that the collective (as the principal) is assumed to be risk-neutral, equation 24 reduces to:

$$\tau'(p) = \frac{m \frac{\nu}{\lambda} \left[\frac{d\left(\frac{f_G}{f(p;G)}\right)}{dp} \right]}{nR_A + \frac{\delta(1-q)}{\tau}} \quad (25)$$

Two properties of equation 25 organize everything that follows. First, holding the politician's type fixed at the clientelist benchmark ($\delta = 0$, so $m = q$ and $n = q^2$), the power of the constitution is $\tau'(p) = \frac{\nu}{\lambda} \frac{d(f_G/f)}{dp} / (qR_A)$: the second-best power scaled up by $1/q$. The more passive the community, the more *leakage* each peso of statutory incentive suffers, and the steeper the nominal constitution must be to deliver the same effective incentive. Second, the denominator of equation 25 can vanish. Setting it to zero and solving for δ defines the threshold

$$\delta^*(q) \equiv \frac{-q^2 R_A}{(1 - q^2)R_A + \frac{(1-q)}{\tau}} < 0 \quad (26)$$

below which no finite, positive-powered constitution exists: as $\delta \downarrow \delta^*$ the required power explodes, and for $\delta < \delta^*$ the fiscal contract cannot be made incentive-compatible at all. In that region the community reverts to a fixed-budget constitution, the governor supplies minimal effort, and the community settles into a low-provision, low-growth equilibrium. Note that $|\delta^*(q)|$ is increasing in q : participative communities can tolerate a substantially bossist politician before the fiscal con-

⁷The expressions below correct the algebra of an earlier draft of this paper. The full derivation is in Annex C.

tract collapses, while passive communities can tolerate almost none.

Moreover, as shown in Annex C, $\tau'(p)$ in equation 25 is strictly *decreasing* in δ throughout the feasible region. The broker's extra-political transfers act as a substitute for formal fiscal incentives: participation rises with K , leakage falls, and a flatter (cheaper) constitution suffices. The bossist's rent appropriation, by contrast, forces the community to compensate with an ever higher-powered, ever costlier constitution, until at δ^* the instrument breaks entirely. This is the sense in which the model delivers a genuine *multiplicity* of constitutions and of development paths: communities with identical technology $f(p; G)$ and identical preferences can nonetheless sustain very different fiscal constitutions, or none at all, depending on where history has placed them in (q, δ) space.

PROPOSITION 5: *With the collective risk-neutral, the power of the optimal constitution (i) is strictly decreasing in δ : extra-political transfers substitute for formal fiscal incentives, while rent appropriation necessitates a higher-powered constitution; and (ii) is feasible only for $\delta > \delta^*(q) < 0$, where $|\delta^*(q)|$ is increasing in q . For $\delta < \delta^*(q)$ no incentive-compatible fiscal constitution exists, and the community is trapped in a low-provision equilibrium.*

6.1 Constitution with minimally participative constituents

When $q = 1/2$, so that $m = \frac{1+\delta}{2}$ and $n = \frac{1+3\delta}{4}$, equation 25 becomes,

$$\tau'(p) = \frac{2(1+\delta)\frac{\nu}{\lambda} \left[\frac{d\left(\frac{f_G}{f(p;G)}\right)}{dp} \right]}{(1+3\delta)R_A + \frac{2\delta}{\tau}} \quad (27)$$

Under a clientelist ($\delta = 0$), the required power is exactly twice the second-best: half of every statutory peso leaks to evasion, so the schedule must be twice as steep. Under a broker ($\delta > 0$), the denominator grows faster than the numerator and the required power falls back toward, and below, the clientelist benchmark — the broker's transfers are doing part of the incentive work that the constitution would otherwise have to do. Under a bossist ($\delta < 0$), the required power rises rapidly and becomes infeasible at $\delta^*(1/2) = -R_A/(3R_A + 2/\tau)$, which approaches $-1/3$ when $R_A\tau$ is large. A minimally participative community can thus still “afford” a moderately bossist politician, but only at the price of a steep, high-cost constitution.

6.2 Constitution with participative constituents

When $1/2 < q < 1$, say $q = 3/4$, so that $m = \frac{3+\delta}{4}$ and $n = \frac{9+7\delta}{16}$, equation 25 becomes,

$$\tau'(p) = \frac{4(3+\delta)\frac{\nu}{\lambda} \left[\frac{d\left(\frac{f_G}{f(p;G)}\right)}{dp} \right]}{(9+7\delta)R_A + \frac{4\delta}{\tau}} \quad (28)$$

The required power under a clientelist is now only 4/3 of the second-best, and the feasibility

threshold $\delta^*(3/4) = -9R_A/(7R_A + 4/\tau)$ lies well below any empirically plausible value of δ .⁸

A participative community can sustain an incentive-compatible constitution against virtually any politician type, and the constitution's power barely responds to δ . This is the power-side counterpart of Proposition 3: participation insulates the fiscal contract.

6.3 Constitution with passive constituents

When $0 \leq q < 1/2$, say $q = 1/4$, so that $m = \frac{1+3\delta}{4}$ and $n = \frac{1+15\delta}{16}$, equation 25 becomes,

$$\tau'(p) = \frac{4(1+3\delta) \frac{\tau}{\lambda} \left[\frac{d\left(\frac{f_G}{f(p;G)}\right)}{dp} \right]}{(1+15\delta)R_A + \frac{12\delta}{\tau}} \quad (29)$$

Under a clientelist, the required power is four times the second-best, already a costly instrument. And the feasibility threshold $\delta^*(1/4) = -R_A/(15R_A + 12/\tau)$, roughly $-1/15$ when $R_A\tau$ is large, is now perilously close to zero: virtually *any* bossist tendency destroys the possibility of an incentive-compatible fiscal constitution. This is the power-side counterpart of Proposition 4, and it identifies the escape routes from the low-growth trap. A passive community facing a bossist cannot fix its constitution by fiscal design alone; it can only exit the trap by (i) an increase in q , the slow accumulation of participative capacity through urbanization, education, and more secure property rights, a margin that externally induced participation programs have found difficult to engineer (Mansuri and Rao [2013]), though Philippine evidence suggests that information about local government performance can move it (Capuno and Garcia [2010]); (ii) an increase in δ , a change in the politician's type, whether through the accident of succession or through national policies that shrink the appropriable pie L and audit its use; or (iii) the substitution of external incentives for local ones, as when performance-based central government transfers confront the governor with a high-powered contract that the local community itself is too weak to write (Singh and Thomas [1989]; Shah [2010]; Gadenne [2017]). The early Philippine experience with the Seal of Good Local Governance illustrates both the promise and the bind of route (iii): grants conditioned on governance performance now exist, but the municipalities most in need of them have proven least able to qualify (Diokno-Sicat, Castillo and Maddawin [2020]). The bind is not incidental; it is Proposition 5 turned on the center's own contract. A performance threshold set above what a low- q province can reach is a null contract, no more capable of eliciting effort than the constitution the community itself could not write. The model thus dictates the design of the instrument it recommends: the incentive schedule must be feasible where the trap binds, with graduated thresholds and matching rates that rise as local capacity falls (Shah [2010]). Two further constraints discipline the prescription. Because the Mandanas-Garcia ruling constitutionally protects the automatic share, performance conditions can realistically attach only to incremental

⁸Since $\theta \leq 1$, $\delta = (K - \theta L)/\tau$ is bounded below by $-L/\tau$; for moderate appropriable wealth relative to statutory taxes, δ cannot approach $\delta^*(3/4)$.

windows above the National Tax Allotment, not to the base transfer. And because high-powered contracts on measured outputs invite effort toward the measure rather than the mission, conditionality should reward audited outcomes rather than compliance paperwork. The 1986 People Power episode and the recall provisions of the Local Government Code, discussed in Section 4, may be read as the extra-constitutional counterpart of these escape routes when all of them fail.

7 The typology in three decades of Philippine data

The typology is meant to organize facts, and this section shows that it does. I combine two sources. The first is the constituency-level record of Philippine election returns from 1992 to 2019, from which I code, for every province, the family that won the most gubernatorial terms over the period.⁹ The second is the Bureau of Local Government Finance’s Statements of Receipts and Expenditures, from which I compute each provincial government’s locally sourced revenue as a share of its total income for every available year from 1992 to 2017. This share is the empirical counterpart of the model’s fiscal constitution: it measures how much of the local public purse the community itself supplies, as opposed to what arrives automatically from the center.

The window begins in 1992 by necessity rather than by design. The archetypes are older than the restored democracy: the dynasties of Table 1 can be traced to the American period (McCoy [1993]; Cullinane [2005]), and their extractive foundations to the Spanish colonial regime itself (Cruz [2014]), and nothing in the model suggests that the logic of the fiscal contract began at EDSA. But 1992 brought the first synchronized elections under the 1987 Constitution and the first year of the Local Government Code, and it is only from that point that constituency-level returns and comparable local fiscal accounts exist. The truncation has a compensating virtue. For the entire window, every province operates under the same constitution, the same Code, and the same transfer formula, so the variation that Table 1 and Figure 1 display cannot be attributed to differences in the national rules of the game. What varies across provinces is what the model says varies: the local political relationship.

Table 1 assembles 12 provinces whose dominant dynasties can be classified from the case-study literature, with the source for each coding cited in the table itself: two brokers, four patrons, and six bossists. The coding is qualitative and deliberately conservative; provinces whose dynasties lack a documented scholarly characterization are excluded rather than guessed at. Figure 1 then traces each province’s own-source revenue share from 1992 to 2017 against the all-province median.

[Insert Table 1 and Figure 1 about here]

⁹The returns cover nine election years (1992–2013 and 2019; the 2016 round is not included in the source data). Dominance is coded on the paternal surname of winning gubernatorial candidates. In 48 of 83 provinces, a single family won four or more terms.

Three patterns stand out, and each is a proposition of the model. First, the low-provision trap of Proposition 5 is visible to the naked eye. The bossist provinces of the passive frontier, Maguindanao, Sulu, and Masbate, sustain essentially no fiscal constitution: their own-source shares sit below five percent, and for Maguindanao and Sulu below one percent, for a quarter of a century. Second, the patron provinces behave exactly as the clientelist benchmark predicts, tracking the national median at stable, moderate levels; Tarlac and La Union never stray far from it in 25 years. Third, the model separates bossism’s two faces. In the poor and passive frontier the bossist destroys the constitution outright; in Cavite and Ilocos Sur, provinces with wealthier and more mobilized constituencies, own-source shares remain high, which is the model’s prediction that bossism in such environments raises the *price* of the constitution rather than collapsing it.¹⁰ The Villafuertes of Camarines Sur, finally, illustrate the drift between archetypes that Section 5 anticipates: a classic patron dynasty under Luis Villafuerte, the family turned to conspicuous tourism-led development brokerage after 2004, and the province’s revenue path turns with it (Mendoza et al. [2023]).

The demonstration is qualitative and makes no causal claim. The archetype codings are judgments anchored in the cited scholarship, not measurements; the fiscal share is an imperfect proxy for the model’s $\tau(p)$; and no counterfactual is identified. Nor can development outcomes be traced annually at this level: official provincial income accounts begin only in 2018, and even the national accounts of the period faced serious measurement questions (Medalla and Jandoc [2008]).

The point deserves emphasis for the frontier cases in particular. Maguindanao and Sulu are not poor solely because the clans that rule them take more than they return; decades of armed conflict, land dispossession, and distance from the centers of commerce would burden any government (Abinales [2000]; Lara Jr. [2014]). But the model never treats the politician’s type as an exogenous treatment whose effect can be read off provincial outcomes. Conflict and insecurity are, in the model’s own terms, the deep determinants of the environment: they are what keep constituents passive (q low) and wealth appropriable (θL high), and it is that configuration, rather than the surname on the capitol door, that dooms the fiscal contract. The objections a critical reader will raise are therefore not rivals to the theory; they are its parameters. What the demonstration documents is the observable fiscal signature of each configuration. And the sharpest evidence that type is not reducible to geography is within-province: Osmeña brokerage and the Durano fiefdom coexisted in Cebu for decades (Cullinane [1993]), just as Jesse Robredo’s reformist Naga governed itself inside the Villafuertes’ Camarines Sur. Its purpose is the modest one appropriate to a theory paper: to show that the equilibrium objects the model isolates, the participation of constituents and the net direction of extra-political flows, organize thirty years of Philip-

¹⁰Two accounting caveats. Cebu’s 1992 share (81 percent) is inflated by one-off asset-disposition receipts of the early Ceboom period. Ilocos Sur’s post-2014 shares include tobacco excise allocations under Republic Act 7171 that are booked as local receipts; these earmarked national transfers were themselves a well-documented object of Singson-era rent contestation (Sidel [1999]).

pine provincial experience in a way that a single-type theory of the predatory politician cannot.

8 Conclusion

This paper set out to reconcile two seemingly contradictory observations about Philippine local politics: that local political relationships are pervasively clientelist or bossist, and yet that some localities governed by entrenched elites have nonetheless experienced reasonable, and occasionally dynamic, development. The reconciliation offered here is that the standard principal-agent analysis of the politician as a self-serving agent is incomplete unless it is embedded in the socio-politico-economic environment that conditions the contract between politician and constituents. Following the approach of Fabella [2005], rents and transfers were introduced endogenously into the contracting problem, so that the constituents' participative capacity (q) and the politician's net extra-political flows to the community (δ) jointly determine both the efficiency and the power of the optimal fiscal constitution.

The model delivers five results. Under full adherence to the fiscal constitution, the optimal contract is independent of rents and transfers, and the second-best is achieved (Proposition 1). Weak institutions, not agency per se, are the binding constraint. With minimally participative constituents, the politician's type governs the contract's efficiency: brokers improve on the moral hazard benchmark, bossists degrade it, and patrons approximate it (Proposition 2). Participation insulates: with participative constituents the contract is largely unreceptive to the politician's type (Proposition 3), while with passive constituents it is extremely sensitive to it (Proposition 4). Finally, the power of the constitution is decreasing in the politician's net transfers and is feasible at all only above a threshold that passive communities almost surely violate under bossist rule (Proposition 5). Hence the observed multiplicity of local development paths, including the low-provision trap.

The typology rationalizes the stylized contrasts of the Philippine local landscape as equilibria of one and the same contracting problem evaluated at different points of the institutional environment: the broker-led dynamism of Cebu under the Osmeñas, the predatory stagnation of bossist enclaves, and the stable mediocrity of hacienda patronage in Tarlac. It also carries a policy implication that is modest but sharp — because a passive community cannot write for itself the high-powered constitution its environment demands, performance-based transfer windows layered alongside the constitutionally protected automatic share can substitute for the missing local contract, disciplining the governor with an instrument the community is too weak to wield (Singh and Thomas [1989]; Shah [2010]; Bardhan and Mookherjee [2006]). The model disciplines its own prescription: the thresholds of such windows must be feasible where the trap binds, or the center's contract fails for the same reason the local one did. Strengthening participative capacity and redesigning the intergovernmental fiscal relationship are, in this model, complements rather than alternatives.

The analysis is deliberately spare — one public good, one politician, archetypes in place of the

continuum of real political relationships. It also treats the deeper determinants of participative capacity as exogenous, and it is static: the natural next step is a relational-contract formulation in which the drift between archetypes, and escape from the low-provision trap, can be studied as equilibrium paths rather than comparative statics. Its purpose is served if it demonstrates that the familiar tools of contract theory, once embedded in a weak governance environment in the manner Raul Fabella taught a generation of students at the UP School of Economics and later distilled in Fabella [2018], can organize the seemingly idiosyncratic facts of Philippine local politics into a small number of propositions about who governs well, where, and why.

Acknowledgments: I thank Raul V. Fabella for teaching me game theory and mechanism design at the University of the Philippines School of Economics, and for the guidance that shaped my early years of graduate training. This paper is written as a tribute to him.

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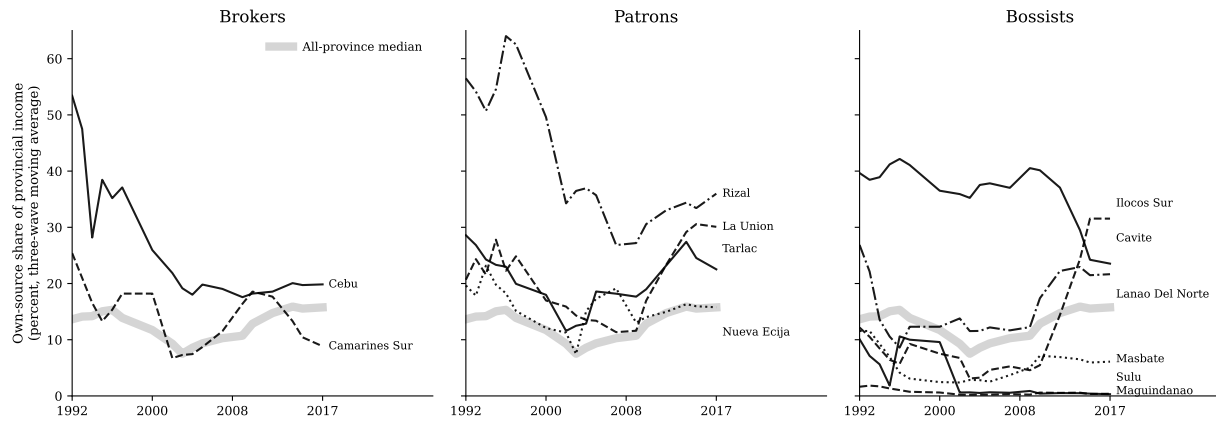
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Table 1: Dominant provincial dynasties, their archetypes, and the local fiscal constitution, 1992–2019

Province	Dominant family	Terms won ^a	Own-source revenue share (%) ^b		Sources for archetype coding
			1992	2015	
<i>Panel A. Brokers</i>					
Cebu	Osmeña / Garcia	6/9	81.1 ^c	19.9	Mojares [1993]; Sidel [1999]
Camarines Sur ^d	Villafuerte	7/9	22.9	9.4	Mendoza et al. [2023]
<i>Panel B. Patrons</i>					
Tarlac	Cojuangco / Yap	7/9	31.1	29.4	Putzel [1992]; McCoy [1993]
La Union	Ortega	6/9	23.8	28.4	Querubín [2016]
Rizal	Ynares	8/9	55.6	36.7	Coronel et al. [2004]
Nueva Ecija	Joson	5/9	12.7	15.9	Lacaba [1995]
<i>Panel C. Bossists</i>					
Cavite	Remulla	4/9	41.1	26.0	Sidel [1997, 1999]
Ilocos Sur	Singson	7/9	9.4	31.8 ^e	Sidel [1999]
Lanao del Norte	Dimaporo	9/9	34.3	24.4	Bentley [1993]; Lara Jr. [2014]
Masbate	Kho / Espinosa	6/9	11.6 ^f	5.4	Lacaba [1995]; Sidel [1999]
Maguindanao	Ampatuan	2/8 ^g	7.0	0.5	Lara Jr. [2014]; Aspinall and Hicken [2020]
Sulu	Tan	4/9	1.6	0.2	Lara Jr. [2014]

Notes: ^aGubernatorial terms won by the family out of election years observed in the constituency-level returns, 1992–2019 (nine rounds; 2016 not covered by the source data). ^bLocally sourced revenue as a share of total provincial government income, from the Bureau of Local Government Finance Statements of Receipts and Expenditures. ^cInflated by one-off asset-disposition receipts of the early Ceboom period. ^dCoded patron under Luis Villafuerte, drifting to broker after 2004; see text. ^eIncludes tobacco excise allocations (Republic Act 7171) booked as local receipts. ^fFY 1993 (the 1992 entry is blank in the source). ^gThe Ampatuans held the governorship continuously from 2001 to 2010; the 2004 round is missing from the source data. *Sources:* Author’s calculations from constituency-level election returns (1992–2019) and BLGF Statements of Receipts and Expenditures (FY 1992, 1993, 2015); archetype codings from the works cited per row.

Figure 1: The local fiscal constitution by dynasty archetype, 1992–2017



Notes: Each line traces one province's locally sourced revenue as a share of total provincial government income (percent, three-wave moving average of all available years between 1992 and 2017), grouped by the archetype coding of its dominant dynasty from Table 1. The shaded band is the median share across all provinces. The bossist provinces of the passive frontier (Maguindanao, Sulu, Masbate) sustain essentially no fiscal constitution, the low-provision trap of Proposition 5, while bossist provinces with wealthier, more mobilized constituencies (Cavite, Ilocos Sur) sustain high shares at high cost. Ilocos Sur's post-2014 rise reflects tobacco excise allocations booked as local receipts. *Sources:* Author's calculations from BLGF Statements of Receipts and Expenditures, FY 1992–2017 (18 available years).

Annex: Step-by-Step Derivations

Annex A The second-best constitution (equation 12)

The optimal condition under moral hazard, equation 11, holds at every realization p :

$$B'(pW_0 - \tau(p)) = U'(W_1 + \tau(p)) \left[\lambda + \nu \frac{f_G}{f(p; G)} \right] \quad (\text{A.1})$$

Differentiate both sides with respect to p :

$$B'' \cdot (W_0 - \tau') = U'' \tau' \left[\lambda + \nu \frac{f_G}{f} \right] + U' \nu \frac{d}{dp} \left(\frac{f_G}{f} \right) \quad (\text{A.2})$$

Divide through by $B' = U' \left[\lambda + \nu \frac{f_G}{f} \right]$ and use $R_P = -B''/B'$, $R_A = -U''/U'$:

$$-R_P (W_0 - \tau') = -R_A \tau' + \frac{\nu \frac{d}{dp} \left(\frac{f_G}{f} \right)}{\lambda + \nu \frac{f_G}{f}} \quad (\text{A.3})$$

Evaluating at the mean of p , where $E[f_G/f] = 0$ so that $\lambda + \nu f_G/f = \lambda$, and collecting terms in τ' :

$$\tau'(p) (R_P + R_A) = R_P W_0 + \frac{\nu}{\lambda} \frac{d}{dp} \left(\frac{f_G}{f} \right) \quad (\text{A.4})$$

which is equation 12. With $R_P = 0$ (risk-neutral collective), $\tau'(p) = \frac{\nu}{\lambda} \frac{d}{dp} \left(\frac{f_G}{f} \right) / R_A$, strictly positive under MLRP.

Annex B The optimal condition under weak institutions

The Lagrangian of problem 17 is, pointwise in p ,

$$\begin{aligned} \mathcal{L} = \int_p \Big\{ & B(pW_0 - \tau q) f + \lambda [\delta U(W_1 + \tau) + (1 - \delta) U(W_1 + \tau q)] f \\ & + \nu [\delta U(W_1 + \tau) + (1 - \delta) U(W_1 + \tau q)] f_G \Big\} dp - \lambda [V(G) + U_0] - \nu V'(G) \end{aligned} \quad (\text{B.1})$$

Since the atomistic constituents treat the aggregate participation share δ as parametric (see footnote to equation 17), pointwise maximization with respect to $\tau(p)$ gives

$$\begin{aligned} -qB'(\cdot) f + \lambda [\delta U'(W_1 + \tau) + q(1 - \delta) U'(W_1 + \tau q)] f + \\ \nu [\delta U'(W_1 + \tau) + q(1 - \delta) U'(W_1 + \tau q)] f_G = 0 \end{aligned} \quad (\text{B.2})$$

which is equation 18. To first order, evaluate both marginal utilities at a common representative wealth level, $U'(W_1 + \tau) \approx U'(W_1 + \tau q) \equiv U'(\cdot)$; the composite marginal utility then collapses to $[\delta + q(1 - \delta)] U'(\cdot) = m U'(\cdot)$, where m is the mean payment rate defined in equation 23. Substituting and dividing by $q U'(\cdot) f$:

$$\frac{B'(\cdot)}{U'(\cdot)} = \frac{m}{q} \left[\lambda + \nu \frac{f_G}{f} \right] = \left[1 + \frac{\delta(1 - q)}{q} \right] \left[\lambda + \nu \frac{f_G}{f} \right] \quad (\text{B.3})$$

using $\frac{m}{q} = \frac{q+\delta(1-q)}{q} = 1 + \frac{\delta(1-q)}{q}$. This is equation 19. At $q = 1$ (or $\delta = 1$), $m/q = 1$ and the moral hazard condition (equation 11) is recovered, establishing Proposition 1.

Annex C The power of the constitution (equations 24–25) and Proposition 5

Write the first-order condition B.2 as

$$qB'(pW_0 - \tau q) = C(p) \left[\lambda + \nu \frac{f_G}{f} \right], \quad C(p) \equiv \delta U'(W_1 + \tau) + q(1 - \delta)U'(W_1 + \tau q) \quad (C.1)$$

Along the schedule, $\tau = \tau(p)$ and $\delta = (K - \theta L)/\tau(p)$, so that

$$\frac{d\delta}{dp} = -\frac{\delta}{\tau} \tau'(p) \quad (C.2)$$

Differentiating $C(p)$ with respect to p , using $U'(W_1 + \tau) \approx U'(W_1 + \tau q) \equiv U'$ and $U''(W_1 + \tau) \approx U''(W_1 + \tau q) \equiv U''$ to first order, and noting that a participatory constituent's payment varies as $\tau'(p)$ at the margin while a passive constituent's varies as $q\tau'(p)$:

$$\frac{dC}{dp} = \underbrace{[\delta + q^2(1 - \delta)]}_{=n} U'' \tau' + \frac{d\delta}{dp} [U'(W_1 + \tau) - qU'(W_1 + \tau q)] = nU'' \tau' - \frac{\delta(1 - q)}{\tau} \tau' U' \quad (C.3)$$

Differentiating both sides of equation C.1 with respect to p :

$$qB''(W_0 - q\tau') = \left[nU'' \tau' - \frac{\delta(1 - q)}{\tau} \tau' U' \right] \left[\lambda + \nu \frac{f_G}{f} \right] + C \nu \frac{d}{dp} \left(\frac{f_G}{f} \right) \quad (C.4)$$

Divide through by $qB' = C \left[\lambda + \nu \frac{f_G}{f} \right] = mU' \left[\lambda + \nu \frac{f_G}{f} \right]$, evaluate at the mean of p (where $\lambda + \nu f_G/f = \lambda$), and use the Arrow-Pratt measures:

$$-R_P(W_0 - q\tau') = -\frac{n}{m} R_A \tau' - \frac{\delta(1 - q)}{m\tau} \tau' + \frac{\nu}{\lambda} \frac{d}{dp} \left(\frac{f_G}{f} \right) \quad (C.5)$$

Collecting terms in τ' :

$$\tau'(p) \left[qR_P + \frac{n}{m} R_A + \frac{\delta(1 - q)}{m} \cdot \frac{1}{\tau} \right] = R_P W_0 + \frac{\nu}{\lambda} \frac{d}{dp} \left(\frac{f_G}{f} \right) \quad (C.6)$$

which is equation 24. Setting $R_P = 0$ and multiplying numerator and denominator by m yields equation 25. Both limiting checks hold: at $q = 1$ or $\delta = 1$, $m = n = 1$ and $\delta(1 - q) = 0$, recovering the second-best power of Annex A; at $\delta = 0$, $m = q$, $n = q^2$, and $\tau'(p)$ equals the second-best power scaled by $1/q$.

Proof of Proposition 5(i). Write equation 25 as $\tau'(\delta) = mD/[nR_A + \delta(1 - q)/\tau]$ where $D \equiv \frac{\nu}{\lambda} \frac{d}{dp} \left(\frac{f_G}{f} \right) > 0$ under MLRP. The sign of $\partial\tau'/\partial\delta$ is the sign of

$$m_\delta \left[nR_A + \frac{\delta(1 - q)}{\tau} \right] - m \left[n_\delta R_A + \frac{(1 - q)}{\tau} \right] = R_A (m_\delta n - m n_\delta) + \frac{(1 - q)}{\tau} (m_\delta \delta - m) \quad (C.7)$$

where $m_\delta = 1 - q$ and $n_\delta = 1 - q^2$. Direct computation gives $m_\delta n - m n_\delta = -q(1 - q)$ and $m_\delta \delta - m = -q$, so the expression equals $-q(1 - q) [R_A + \frac{1}{\tau}] < 0$. ■

Proof of Proposition 5(ii). The denominator of equation 25 is $nR_A + \delta(1 - q)/\tau$, which equals $[q^2 + \delta(1 - q^2)] R_A + \delta(1 - q)/\tau$: linear and increasing in δ . It is positive if and only if

$$\delta > \delta^*(q) = \frac{-q^2 R_A}{(1 - q^2) R_A + \frac{(1 - q)}{\tau}} \quad (\text{C.8})$$

which is equation 26. Since the numerator $mD > 0$ requires $m > 0$, i.e. $\delta > -q/(1 - q)$, it remains to check that $\delta^*(q)$ binds first. Indeed $|\delta^*(q)| / \left| \frac{-q}{1 - q} \right| = qR_A / [(1 + q)R_A + \frac{1}{\tau}] < 1$, so $\delta^*(q) > -q/(1 - q)$ and for all $\delta > \delta^*(q)$ both numerator and denominator are positive. As $\delta \downarrow \delta^*(q)$, $\tau'(p) \rightarrow \infty$; for $\delta < \delta^*(q)$ no positive, finite power exists. Finally, $|\delta^*(q)|$ is increasing in q : its numerator $q^2 R_A$ is increasing while its denominator $(1 - q^2)R_A + (1 - q)/\tau$ is decreasing in q . ■