

THE PHILIPPINE STATE'S HEGEMONY AND FISCAL BASE, 1950-1985

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THE state has become an important element in understanding the politics of development. It has also become in recent years an important topic in the discussion of Philippine political processes.¹ This is a welcome development because the absence of a long tradition of a strong, comprehensive, secular, and central authority in the country often results in a lack of adequate emphasis on the state-building process in both theory and practice [1]. Further empirical studies will hopefully be made on the growth and attributes of the Philippine state as a political and potentially hegemonic power competing with other power centers (e.g., traditional regional elites, non-state armed groups, politicized sectarian institutions, etc.). This paper hopes to contribute to a better understanding of the Philippine state through a discussion of its fiscal base for the period 1950 to 1985.

The paper first presents a definition of the fiscal base of the state and discusses why an analysis of the state as a power center can be important in understanding Philippine politics. This is followed by a discussion of the data and method used in this paper for analyzing the fiscal base of the state. Measures of this fiscal base are then applied for a thirty-six-year time series from 1950 to 1985 and by types of presidential regimes, both "liberal democratic" and authoritarian. The discussion then turns to the growth patterns of the components of the fiscal base of the state for the entire time series and by liberal democratic and authoritarian regimes. The final section compares the Philippines with the other members of ASEAN.

I. THE POLITICS OF THE STATE

The fiscal base of the state is defined here as the amount and growth patterns of the state's extraction of resources from civil society and its capacity to extract in relation to the size and growth patterns of the national economy. A state's fiscal base can be used as a measure of the process of centralization and bureaucratization in society and the growth and/or decline of potential state hegemony over civil society. Concretely, the specific dimensions of state power vis-à-vis civil society measured in the state's fiscal base are the generation and use of increasingly accurate information about citizens and institutions from whom resources can be collected through taxes and other fees, the organizational capacity to actually

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¹ Studies on the state in the Philippines include among others [5] [15].

collect and penalize delinquents, and the increasing professionalization of collectors.

The political dimensions of the state's fiscal base are under-emphasized if that base is seen merely as an extension of Keynesian economics, as a form of tax policy.

It is a political and coercive act resting on power relations. This coerciveness is often clouded with patriotic symbolism expressed in terms such as "duties of citizens" and "nation." The political reality of the state's existence necessarily involves extracting resources in exchange for "protection of the citizens" and, to paraphrase Charles Tilly, engaging in war with internal and external power centers [3, Chap. 8].

Most discussions of Philippine politics tend to play down, if not ignore entirely, the highly political character of the state. A number of studies on land reform, for example, assert that reform is carried out for political purposes, i.e., the suppression of insurgent movements, and that this political nature is what has caused land reform to fail or what has confined it only to those areas with on-going insurgent movements [18]. This should come as no surprise because land reform in restive areas *has to be political*—the state is at war with a potential power center. A more relevant question would be: Why was the scope of land reform and the resources devoted to it so limited, when expansion of that "war" would be in the best interests of both market and state? It is also often claimed that the Philippine political elite's class composition is responsible for the state's ineffectiveness in land reform.

Upon reflection, these assertions represent a poor attempt at presenting state incapacity as a power center vis-à-vis traditional power blocs. They betray an underlying ahistorical and inaccurate assumption about the Philippine state as being truly national, centralized, and hegemonic and in control of an effective bureaucracy. Such assertions ignore the fact that many geographic areas of the country have virtually no state organization or have experienced only very uneven state presence.

The "civil society counterpart" of this assumption about the Philippine state is the tendency to see Philippine classes as national in structure and scope rather than as a conglomeration of regional elites incapable of capturing national state power and against whom national state power is weak.

Some scholars also assert that the Philippine state is in fact highly centralized and bureaucratized. M. Nawawi [10] for one, says that the educational system (at least, the curriculum) is highly centralized. However, he readily admits that the sectarian schools are more centrally organized than the secular and public schools. Those who view the Philippine state legalistically also claim it is highly centralized. Their arguments are usually based on interpretations of the Constitution and other laws which state that the Philippines is a highly centralized state that also guarantees local autonomy [12]. This approach unrealistically equates legal premises with the effectiveness of the central authority in areas such as monopoly of violence. This is recognized by the same legal analysts since they are also quick to point out that the laws are often ignored or unenforced.² It has

² See also [13].

also been suggested in connection with relations between central and local governments that the Philippine state's centralization be measured by the ratio of local to national taxes in regional and local government budgets [10]. This national-local tax ratio in local budgets will probably be high in local political units like those that M. Nawawi studied in Negros in the early 1970s. However, the use of such a measure fails to take into account the fact that when the national-local tax ratio was high in these regions, the ratio of total tax collection to GNP at the national level was very low.³ Moreover, one study has shown that the alleged highly centralized nature of the Philippine state and minuscule role of local government in politics is actually a manifestation of *local non-governmental* rule, i.e., the virtual non-existence of local government outside the local electoral machineries of national and local politicians [19]. To equate such a situation with a high level of centralization of the national state is obviously an error.

Also related to the playing down of the highly political nature of the state in the Philippines is the position that a growing or "stronger" state creates a "new center of dependency" on itself [2]. This view is unfortunate for it is oblivious to the question of whether there are any realistic alternative structures for meeting and guaranteeing large-scale social needs such as national defense and international trade. Further, "dependency" in this context can be interpreted as a form of state hegemony and it would be quite logical for the state to seek it. The unstated assumption of the "new dependency" position is that of one hegemonic power replacing another. Any hegemonic power being replaced in the smaller political units is most probably that of the highly parochial local elites. In this sense, the "new dependency" view cannot even be equated with an anti-statist populist position. Another problem with the "new dependency" position is that it conjures images of a dictatorship. This imagery was particularly acute during and after the Ferdinand E. Marcos regime. While understandable, one must keep in mind the fact that although the Marcos regime attempted to strengthen the state it failed, and the problem of state building still remains. States require moral legitimacy and one way of acquiring it is to mobilize participatory institutions, as the populists advocate. It is not too farfetched to say that those who equate a "strong" state with dictatorship have misplaced assumptions about the Philippine state's historical inability to establish hegemony. At worst, they have vested interest like Senator Aquilino Pimentel who, while still a minister in early 1987, said that the Aquino cabinet's lack of cohesiveness (i.e., the state's "weakness") was a sign of healthy democracy.

Approaching Philippine politics through a discussion of the state and its relations with other power centers cannot be overemphasized. It can change much of the perspective on Philippine political processes such as that on the relationship between the legislative and executive branches of government. This relationship translates to a large degree into power relations between local elites and bureaucracy-centered state power. The weakness of the bureaucracy can be seen to some extent by the fact that local elites can prevail over the bureaucracy in the regions rather than balance it. This weakness of the state reinforces the moral legitimacy

³ The 1970 ratio of tax collection to GNP was less than 11 per cent.

of the parochial local elites. As a result, public goods and services and due process of law in turn are transformed into something dependent on the local elites' patronage and are purveyed as favors and "*utang na loob*" (debt of gratitude) instead of basic human rights with predictable avenues of provision and rectification guaranteed by a secular state.

This is the "political matrix" of Philippine society's "patron-client" paradigm in much the same way as petty rent capitalism is clientelism's economic matrix [4]. The fundamental characteristic of the "political matrix" is its lack of a potentially hegemonic (or failed) state as an analytical variable. Advocates of the clientelist paradigm of Philippine society explain governmental weakness as being caused by the same kind of clientelist relations that pervade Philippine social and political life [11]. The problem with such a position is that it fails to ask what political structure or institution will break the cycle of weakness and clientelism and mobilize "traditional values" for "modernization" and secular political life. In the absence of any tested alternative in the present interstate system, the only institution which can do that is the state. The relevant question is then becomes how much power should the state have "to break the cycle" and how is it to be measured in the least tautological manner. The clientelist paradigm has little to say on this point, thus defaulting on a crucial political issue. Moreover, what one study [20] describes as the trend of "pervasive centralism and powerful localism" in Philippine political life even before 1972 signals the need to treat "centralism" as more than just an "independent variable." Studying Philippine politics through an approach focusing on the state itself and the growth or decline of its power is apparently a necessity. We will thus analyze the Philippine state's fiscal base as a measure of state growth.

II. DATA AND METHOD

The fiscal base of the state defined earlier is comprised of *entirely domestically* generated state income exacted through enforced collection of indirect taxes, direct taxes on corporations and persons, social security contributions, and income from state property and entrepreneurship (rent, interest payments, dividends and earnings of government institutions and quasi-businesses). Although the National Economic Development Authority (NEDA) defines "social security contributions" as "contributions" from employees and/or employers' social security arrangements for employees, its compulsory nature at certain salary levels makes it a form of tax (social tax). All these resources are part of but not equal to the total resources available for state expenditure.⁴ The fiscal base of the state is a more limited concept than government income or expenditure. Government income includes not only taxes, social security contributions, and income from state property but also overseas transfers. Government expenditure, on the other hand, includes foreign borrowing and military aid among the resources that the state spends

⁴ The data here does not include fees to courts or miscellaneous fees to the state because such fees are voluntary.

domestically. This paper uses government income and expenditure accounts compiled by NEDA [9] as basic data source but excludes data on transfers from abroad. The data of the Philippine Central Bank from the Bureau of Customs and the Bureau of International Revenue were not used because they do not include government income from property and social taxes.⁵

The use of government income account rather than expenditure accounts requires an explanation of the methodology as it pertains to the usual measurement of "big government" by means of expenditures. This measure of "big government" and its development efforts is based on the assumption that the state is a market entity. Taking this assumption at face value leads to the question: What kind of state is most effective in the market?" The answer is inevitably based on deductions from the expenditure account and its categories. This is the tautology intrinsic to the use of expenditure accounts.

This tautology is only accentuated if something prior to any reasonable effectiveness of the state in the market and civil society is being measured. *Mutatis mutandis*, an increase in state power can mean more effectiveness in the market and civil society. There is the problematic point of what level of attributes of state power allow for effectiveness in the market and civil society. The income accounts appear more useful for measuring what kind of state can be effective in the market and civil society. Moreover, "big government" as measured by expenditures is not necessarily the equivalent of a strong state.

There are also political dimensions to the state's fiscal resources that do not appear in the expenditure account. For example, it matters politically that as indirect taxes decrease, individual taxes increase at a faster rate relative to corporate taxes. One outright political aspect to the expenditure account is defense. But even here, defense expenditure accounts published by NEDA give no details on foreign military aid, the size of which indicates the impact of international alliances on state-building. Overseas borrowing is part of expenditure and augments state size or "big government" but is precluded from the definition of state fiscal base since overseas borrowing is not coerced from civil society (though its repayment is). The level of overseas borrowing is a function of interest rates in the world market, among other things, and can be measured separately. Unlike effective administration of foreign loans, ability to borrow is not necessarily a manifestation of effective state power. Finally, state income according to NEDA data actually exceeded expenditure for most years in the time series here. As a proportion of GNP for the period 1952 to 1984, expenditure averaged .110, with a median of .097, while income averaged a higher .130, with a median of .120. Deficits began to appear only some time in the mid-1970s. If the expenditure account is used as a measure of state size or power from 1950 to 1985, there will then be a period of almost two decades wherein state size will be underestimated.

The fiscal base of the state is operationalized here with the concepts of *total domestic extraction* (TDE), i.e., the total amount of extraction, and *total domestic*

⁵ Exclusion of social tax and government income from property for the time series in this study would lead to an underestimation in state income ranging from 4 to 21 per cent for any given year.

extraction effort (TDEE), i.e., the ratio of TDE to GNP at real prices. TDEE is a broader concept than tax collection effort (TCE) [8], i.e., the ratio of tax to GNP alone which excludes social tax and government income from property. What level of TDEE must be attained for the state to be considered as "becoming strong" is subject to argument and we mitigate against that contentiousness by adopting a rate of 18 per cent of GNP. This rate originally refers only to the *tax collection* ratio to GNP (or TCE) as the goal of fiscal policy suggested by Musgrave and Musgrave [8]. It is adopted here because most TDEE is collected taxes and because of the recognized difficulty in setting indices. This level of TDEE and the state power it implies, together with other state attributes means, *mutatis mutandis*, a more effective state role in civil society and the market.

The other suggested measure of the fiscal base of the state is the degree of association between GNP and TDEE growth rates as quantitatively analyzed by a bi-variate regression and by a multi-variate regression on growth rates of shares of TDEE components. The rationale for correlating GNP and TDEE growth rates is that growth in real GNP indicates value created, and since that value is computed into the GNP data, it is supposed to have been monitored and registered by the state. Thus, the use of data on these economic processes should give the state the power to calculate and collect taxes and other forms of revenue. Significant or insignificant levels of association between GNP and TDEE growth rates indicates growth, stagnation or decline in the state's fiscal base and capacity to extract resources, and ultimately in state power itself. The time lag caused by periods of investment maturity and consequent effects on consumption and GNP growth is neutralized by the length of the time series. The measures suggested here are relevant only to situations where the percentage of state income in GNP is considerably below eighteen.

The micro-level incapacities of bureaus responsible for collecting taxes are subsumed under the measures suggested above. The informal economy does not affect the correlation between GNP and TDEE growth rates so long as the state has not collected the data and levied tax on that economy. Tax incentives and amnesties conceivably affect the correlation between TDEE and GNP growth rates, thus giving the coefficients a certain bias that is actually caused by positive policy. It must be borne in mind that the Philippine experience with tax incentives since the late 1960s has mainly been with capital entering pioneer and priority industries under specific investment incentive laws. There is no consistent measure of how much tax is foregone as computed against gains from those investments. Thus, variations injected by tax incentives are indeterminate. It must also be added that capital given tax incentives to enter priority areas of investment does not comprise the bulk of investment. On the other hand, tax amnesty by its nature is a once and for all event and it is back taxes that are foregone by the state. Once amnesty is granted and the value of the property and income is registered and computed into the national income, that value is supposed to be taxed regularly. Thus, possible variances caused by amnesties and tax evasion are also subsumed in correlations of TDEE and GNP growth rates.

A point that can be raised about TDEE and GNP growth rate correlations are

cases when tax reductions are used as fiscal policy to stimulate the market. This can conceivably affect correlation coefficients. The other side of this point is that expenditure is a better measure of state growth since deficit spending is an option in fiscal policy. This point cannot be answered fully here since it will involve entering into polemics with Keynesian economics. It was pointed out earlier that the use of Philippine data on annual government income and expenditure from 1952 to 1984 indicates surpluses of a few per cent for most of the period. A counter-cyclical pattern in government income and expenditure apparently existed from the mid-1970s on. The Marcos regime adopted some Keynesian-inspired policies in the late 1970s and early 1980s. But if they were intended to arrest a contracting market, they failed economically and politically and their impact was mainly on upper and middle income groups. This failure in strategy could be attributed to certain miscalculations and misplaced assumptions about the nature of the market structure to which the Keynesian economics was applied. These miscalculations conceivably also involved assumptions about the state's capacity to be effective in such interventions.

The polemical point raised by this Keynesian consideration can therefore be held at bay by raising the same question of whether there is a certain level of fiscal resources, organizational capacity, and political power of the state (not to mention market size) to be effective with such fiscal policies, and whether the Philippine state has reached that level in the 1970s and 1980s. If the Philippine state and market were not in such a position, Keynesian inspired policies at the expense of income meant mainly foregone state resources. Income lost through failed policy is subsumed in the correlation of TDEE and GNP growth rates.

The measures of the fiscal base of the state suggested so far will be applied for the following periods at 1972 prices.

(1) From 1950 to 1985 or a period of thirty-six years (the Roxas-Quirino administration from 1946 to 1949 is not included because the national account data for those years are rather atypical).

(2) Four four-year periods from 1950 to 1965 to show how the measures fared for each presidential regime until the end of the regime of Diosdado Macapagal, one six-year presidential term and one thirteen-year term representing the liberal democratic and authoritarian phases of the regime of Ferdinand E. Marcos, respectively.

(3) Two thirteen-year periods before and after the start of authoritarianism in 1972 to show how the measures suggested in this paper fared under a liberal democratic and authoritarian dispensation of equal length of time (for fiscal purposes, 1973 is taken as the first year of authoritarianism).

The breakdown of the time series data into these shorter periods of four and thirteen years brings to the fore the problem of time lag in investments mentioned above. This time lag still would not be problematic even with shorter periods since investments during one four-year regime mature in the next four-year period and should logically be reflected in the TDEE and GNP growth rates in later regimes. It is also highly relevant to evaluate the contribution to state-building, or lack of it, of Marcos' thirteen years of authoritarianism.

- (4) Shares of TDEE components and a multi-variate regression of the growth rates of components controlling that of indirect taxes for the periods 1950–85, 1960–72, and 1973–85.
- (5) Regional comparison of Philippines state revenue efforts (SRE) with that of other ASEAN members, Asian LDC, and world averages for the period 1972–84.

III. EXTRACTION FROM CIVIL SOCIETY

Table I shows GNP, TDEE growth rates, and levels of TDEE at 1972 prices for 1950–85 (Table I.A), presidential regimes (Table I.B), and two thirteen-year periods before and after the start of authoritarianism in 1972 (Table I.C).

A. 1950–85

Table I.A shows that GNP growth rate averaged .048, 3.5 times higher than TDEE's which averaged .015 for 1950–85. TDEE thus grew very slowly throughout the entire period. The median GNP growth rate of .054 was 2.9 times higher than the .022 for TDEE. Minimum (–.14) and maximum (.290) rates show TDEE's growth as much more erratic than GNP's, which was –.070 minimum and .090 maximum.

TDEE level averaged .122 for the whole of 1950–85. The lowest TDEE level was .069 in 1950 and the highest was .162 in 1973. Table I.B shows that the highest TDEE level in 1973 was only two points below the 18 per cent ratio. TDEE level dropped to .156 in 1974, to .158 in 1975, to .144 in 1976–77 and then rose slightly to .150 in 1978–79. It dropped again to .139 in 1981 and .137 in 1982, rose to .143 in 1983, then went back down to .130 in 1984–85.

Correlation between GNP and TDEE growth rates is an indicator of the state's ability to capture a share of value generated in an expanding national economy. For the period 1950–1985 the correlation coefficient is $r = .37$ and is significant at $p < .010$ (Table I.A).

The conclusion possible at this point is that from the standpoint of its fiscal base, the Philippine state has become "stronger" relative to what it was in 1950 and doubled its size for the period of thirty-six years. An indicator of this strength is the low albeit significant correlation between GNP and TDEE growth rates. However, while there is significant correlation between the two variables, TDEE growth rate was very slow and erratic, and the state was unable to reach a TDEE-GNP ratio of .18. Thus, the Philippine state remained a weak one.

These findings can further be elaborated by examining trends of the same variables according to the shorter time series of presidential regimes.

B. Time Series by Presidential Regimes

Table I.B's breakdown of time series into four four-year, one six-year, and one thirteen-year presidential term shows a slow rate of TDEE growth but which varied with each regime. Based on the average for each regime, it took more than three decades for TDEE to increase by almost half from .091 during the Quirino administration to .147 at the end of the second Marcos term. Average TDEE grew very slowly for almost fifteen years from Quirino (.091) to Macapagal (.115). From

TABLE I
PHILIPPINE GNP AND TDEE GROWTH RATES, TDEE LEVELS, AND
CORRELATIONS OF GNP AND TDEE GROWTH RATES ACCORDING
TO PRESIDENTIAL REGIMES, 1950-85 (1972=100)

A. GNP Growth Rate, TDEE Growth Rate, and TDEE, 1950-85

	Minimum	Maximum	Average	Median
GNP growth rate	-.073	.092	.048	.054
TDEE growth rate	-.143	.290	.015	.022
TDEE	.069	.162	.122	.120
			$r = -.372$	$p < .010$

B. TDEE Levels, TDEE Growth Rates, and Correlations of GNP and TDEE Growth Rates According to Presidential Regimes, 1950-85

Regime	Year	TDEE	TDEE Growth Rate	Average		Correlation	
				TDEE	Growth Rate		
Quirino	1950	.060 (min.)	—				
	1951	.097	.290 (max.)				
	1952	.103 (max.)	.053				
	1953	.096	-.066 (min.)	.091	.075	$r = .74$	$p < .25$
Magsaysay- Garcia	1954	.098 (min.)	-.017				
	1955	.103	.051 (max.)				
	1956	.108 (max.)	.044				
	1957	.106	-.021 (min.)	.104	.023	$r = .62$	$p < .25$
Garcia	1958	.098 (min.)	-.085 (min.)				
	1959	.102	.041				
	1960	.109	.071 (max.)				
	1961	.112 (max.)	.021	.105	.044	$r = -.14$	$p > .25$
Macapagal	1962	.116	.036 (max.)				
	1963	.117	.006				
	1964	.120 (max.)	.032				
	1965	.105 (min.)	-.143 (min.)	.115	-.017	$r = -.04$	$p > .25$
Marcos (First term)	1966	.108 (min.)	.025				
	1967	.113	.047				
	1968	.116	.025				
	1969	.113	-.030 (min.)				
	1970	.124	.087 (max.)				
	1971	.129 (max.)	.039				
	1972	.127	-.015	.119	.025	$r = -.41$	$p < .25$
Marcos (Second term)	1973	.162 (max.)	.216 (max.)				
	1974	.156	-.035				
	1975	.158	.012				
	1976	.144	-.098				
	1977	.144	.0001				
	1978	.153	.061				
	1979	.156	.019				
	1980	.150	-.043				
	1981	.139	-.080				

TABLE I (Continued)

Regime	Year	TDEE	TDEE Growth Rate	Average		Correlation	
				TDEE	Growth Rate		
	1982	.137	-.013				
	1983	.143	.045				
	1984	.129 (min.)	-.110 (min.)				
	1985	.132	.024	.147	-.0003	$r = .41$	$p < .05$

C. TDEE and TDEE Growth Rates for the Two Thirteen-Year Periods before and after Authoritarianism

	1960-72 Period			1973-85 Period		
	Minimum	Maximum	Average	Minimum	Maximum	Average
TDEE	.105	.129	.116	.129	.162	.147
TDEE growth rate	-.143	.087	.015	-.110	.216	-.0003
	$r = -.28$		$p < .25$	$r = .41$		$p < .05$

Macapagal to Marcos I TDEE average rose by only .004 from .115 to .119. The highest TDEE was .162 during Marcos II and, as noted earlier, this .162 level was only for 1973, the first full year of authoritarianism. This level was never reached again for the remainder of the period under consideration. The TDEE of .132 in 1985, the last year of authoritarianism, was just slightly above the level for 1971, the last full year of liberal democracy.

In terms of average TDEE growth rate for each presidential regime in Table I.B, the Quirino administration has the highest (.075), followed by Garcia (.044), Marcos I (.025) and Magsaysay-Garcia (.023). The lowest were the Macapagal administration with a negative $-.017$ and the Marcos II authoritarian regime with a slightly negative TDEE growth rate of $-.0003$. The largest TDEE growth rate was in 1951 at .290 and 1973 at .216. These are very high residual scores and are atypical for the whole time series. The largest negative TDEE growth rate for the whole period was in 1965, the last year of the Macapagal administration, when it was $-.143$.

Correlations of GNP and TDEE growth rates in Table I.B show that the Quirino regime was one of relative coherence in the growth of domestic resources in civil society and in the state's ability to extract its share with $r = .74$ ($p < .25$). The correlation had weakened by the Magsaysay-Garcia term to $r = .62$ ($p < .25$). The correlation between GNP and TDEE growth further weakened and was disturbingly almost nil under Garcia ($-.14$, $p > .25$) and Macapagal ($-.04$, $p > .25$). The correlation of the two variables improved under Marcos I at $-.41$ ($p < .25$) but was still indicative of weak coherence. The growth of the two variables was inversely related in 1969, a presidential election year, with GNP at .051 and TDEE at $-.030$. The correlation during Marcos II was .41 ($p < .05$), suggesting a stronger fit in the two variables' growth patterns.

Allowing for a lower tolerance level of $p < .25$ for the correlation coefficients of all presidential regimes, only those during the Quirino, Magsaysay-Garcia, and Marcos I and II are significant at $p < .25$, and only Marcos II is significant at $p < .05$. (Qualifications that apply to trends during Marcos II are discussed immediately below and in Section V.) We conclude that the fiscal base of the state and its concomitant state power grew faster during those regimes. State power, measured by fiscal base, drastically retrogressed in both the Garcia and Macapagal regimes with a $p > .25$.

C. *"Liberal-democratic" and Authoritarian Regimes*

Does it matter at all whether a liberal democratic regime or an authoritarian regime was in place when it comes to the issue of establishing state hegemony as measured by extraction of resources from civil society? Table I.C above which compares two thirteen-year periods before and after the emergence of authoritarianism in 1972 can provide an answer.

The average TDEE for 1960–72 is .116 and only slightly higher for 1973–85 at .147, an increment of only three percentage points. In comparative average growth rates for the two periods, TDEE grew by a low .015 in 1960–72. The 1973–85 growth rate is a slightly negative $-.0003$. Table I.C shows correlation coefficients for GNP and TDEE growth with an r of $-.28$ ($p < .25$) for 1960–72 and .41 ($p < .05$) for 1973–85.

The answer to the question of whether or not it mattered that a liberal democratic or authoritarian regime was in place in terms of extracting from civil society is, essentially, that it mattered little.

It is noteworthy that TDEE growth for 1973–85 is $-.0003$ compared to the .015 for 1960–72 which is small but nonetheless positive. On the other hand, the coefficient of correlation of .41 for 1973–85 which, although still low, was better than the $-.28$ for 1960–72. This shows that the state's ability to extract resources during 1973–85 was better than in the previous period. At the same time, if we consider that the TDEE average growth rate was negative for the authoritarian period and that there were two unprecedentedly large negative GNP growth rates in 1984 and 1985, the picture is actually that of a state more efficiently extracting from an increasingly limited national pie. Average GNP growth for 1973–85 is .034 compared to .047 in the previous period. The period 1960–72 shows a weak state inefficiently extracting from an only modestly growing economy.

IV. THE FISCAL BASE OF THE PHILIPPINE STATE, 1950–85

A few comments can be made on the findings thus far in the context of Philippine post-World War II political history. It is undeniable that poor management, corruption, "political culture" at the "border exchange level" of agencies charged with collection (the Bureau of Customs and Bureau of Internal Revenues), and moral failure of the entire national political leadership are important factors in the poor rate of extraction from civil society. In her 1977 study, Leonor Magtolis-Briones documents patterns of mismanagement and corruption at the Bureau of

Internal Revenue [7]. The study stated that according to the then commissioner of the Bureau of Internal Revenue approximately 19 per cent of total yearly collection are actually from past tax evasion cases.

Although there is no similar study for the Bureau of Customs, an estimate by the new Commissioner of Customs in 1987 put Philippine Customs losses from graft at anywhere from 890 million pesos to 1.6 billion pesos a year in 1972 prices [6]. These amounts would be roughly equivalent to 12 per cent to 22 per cent of total indirect taxes for 1985. However, without diminishing the significance of the moral failure and "political culture" as factors, the effects of the political-economic process and power relations in the society must also have a bearing on the findings above.

It is significant that there is high TDEE growth and a relatively high correlation during the Quirino and Magsaysay-Garcia regimes (.74 and .62) with an acceptable tolerance level ($p < .25$). This means a reasonable pace of extraction from an expanding national pie and a mustering of political will, the "political culture" notwithstanding. The correlation worsens after the Magsaysay-Garcia regimes and increases again only in Marcos I and II together with the continuation of the same "political culture." There must have been, therefore, other important factors working with "political culture" that mitigate against the growth of the Philippine state's fiscal base. The Quirino regime inherited an unprecedented foreign exchange control policy that was begun in 1949. Among other things, this policy earned the ire of the traditional export sector and at the same time spawned a new urban-centered entrepreneurial class [17]. During the Magsaysay-Garcia ($r = .62$) and Garcia ($r = -.14$) regimes the powerful traditional export sector's opposition to the central government's control policy grew simultaneously with the power and wealth of the new entrepreneurial class. The trends discussed here possibly signify that as these sectors retained/increased their power, the state was growing weaker vis-à-vis these traditional and new sectors' in terms of gradually and consistently taxing the sectors' income and production processes. This pattern continues until the Macapagal regime ($r = -.04$). The added significance of the Macapagal regime was that controls were abolished and restraints on fiscal policies imposed in response to domestic political pressure, dwindling currency reserves and recommendations from international financial institutions. The last represents the direct impact of the world financial market on Philippine state building. The state weakened greatly in the face of these developments. Indications of this weakness are the negative growth rate of TDEE and the nil association of TDEE and GNP growth rates during the Macapagal presidency.

Moreover, there was underway a noticeable differentiation of local elites vying for power in the Philippines in the 1950s and 1960s [2]. This was manifested, among other ways, in the increasing cost and violence of elections. Increased non-state violence in itself is a sign of state weakness. But directly related to the fiscal base of state power is that the increasing number of power centers, like the traditional sector and the new urban-based entrepreneurs, were also largely engaged in the production process and were owners of the means of production. The state, given its weak base, was unable to establish a presence in these processes as much

as it should have. A weak state entering an arena of multiplying power centers inevitably reinforces the clientelist obstacle to its hegemony. It was at this point that the political culture variable mitigated against growth in the Philippine state's fiscal base. Consequently, the executive's ruling party, originally bereft of a rationalized state organization, had to satisfy its clients with official largesse. Ultimately, this had an impact on the state's fiscal base.

The relative strengthening of the bureaucracy through rationalization was probably an important factor for recovering the state's fiscal base during the liberal-democratic phase of the Marcos administration with an improved coefficient of correlation ($r = -.41$). The authoritarian regime's performance in increasing the state fiscal base is less than what one might expect of authoritarian control and this is partly explained by the increasing impact of world financial markets on the Philippine state. The early years of the authoritarian regime were also the first years of increased foreign borrowing by the Philippines in response to the low interest rates then prevalent in the world market. The Philippines opted for the politically facile method of raising resources by borrowing, thus sacrificing further strength in extractive capability from civil society. This was another important factor in the continuing limited size of the state fiscal base. Domestic factors such as mismanagement, moral failure of national leadership and arrested rationalization of the bureaucracy were also major factors leading to this trend.

Finally, the data here also show that TDEE growth rates *tended to decrease in every presidential election year* until 1969. Table II shows expenditure and TDEE growth rates broken down by presidential term. The presidential election years until 1972 were 1953, 1957, 1961, 1965, and 1969. In 1953 the TDEE growth rate was $-.066$ compared to $.053$ in 1952; in 1957 it was $-.021$ compared to $.044$ in 1956, in 1961 $.021$ compared to $.071$ in 1960, in 1965 $-.143$ compared to $.032$ in 1964 and in 1969, $-.030$ compared to $.025$ in 1968. While greater examination is needed to clarify this trend, non-collection of taxes and other fees from business interests could have been a form of official clientelist largesse working in place of or in combination with campaign contributions. In some election years, expenditures were increased and directed into highly visible public works projects.

The data here on TDEE cycles partly refutes a conclusion made elsewhere about pre-1972 Philippine politics which claimed that deficits occurred in Philippine government accounts because of increasing expenditure every election year from 1949 to 1969 [14].

Expenditure only grew appreciably during the re-election campaigns of Garcia in 1961 and Marcos in 1969. The Garcia expenditure grew from $.108$ in 1960 to $.131$ in 1961. Marcos's expenditure grew from $.097$ in 1968 to $.148$ in the 1969 election year. Expenditure growth rates in all other presidential election years were lower than previous years.

V. COMPONENTS OF TDEE

This section discusses changing patterns of *shares* of components of TDEE and their possible political implications. One well-known characteristic of tax collection

TABLE II
GROWTH RATE OF GOVERNMENT EXPENDITURE AND TDEE BROKEN
DOWN BY PRESIDENTIAL REGIME, 1950-69 (1972=100)

Regime	Year	Expenditure Growth Rate	TDEE Growth Rate
Quirino	1950	n.a.	
	1951	n.a.	.290
	1952	.171	.053
	1953	.020	-.066
Magsaysay-Garcia	1954	.219	.017
	1955	.031	.051
	1956	.120	.044
	1957	.056	-.021
Garcia	1958	-.033	-.085
	1959	-.070	.040
	1960	.108	.071
	1961	.131	.020
Macapagal	1962	-.023	.036
	1963	.138	.006
	1964	.064	.032
	1965	-.036	-.143
Marcos (First Term)	1966	.016	.024
	1967	.062	.047
	1968	.097	.025
	1969	.148	-.030

and/or TDEE in a developing country is the disproportionately large share of indirect taxes that are regressive and inelastic [16]. While changes in the share of indirect taxes in TDEE, *mutatis mutandis*, are indicative of changes in the production structure, it is tautological to assert that a large share of indirect taxes in state income makes a state dependent and ineffective. That would be explaining the weakness by using the characteristics of that weakness. It is however, politically relevant to show the relation between changes in the share of indirect taxes and other components of TDEE. Table III summarizes growth patterns of TDEE component shares and their multi-variate regressions with indirect taxes as the independent variable.

Table III.A shows that from 1950 to 1985 the share of indirect tax averaged .680 of TDEE. A maximum of .790 was registered during the early 1950s. Rate of decrease in the share of indirect taxes averaged only $-.009$. This average for indirect tax shares reveals a Philippine economic structure that is slow-changing and dependent during the thirty-six-year period. The lowest indirect tax share of .575 was only for one year, 1973, the first full year of authoritarianism. From a level of .644 in 1972, the share of indirect taxes dropped to .575 in 1973, but again increased to .705 in 1974 and .711 in 1975. Only in 1984 did the share of indirect taxes drop back to .644. The single maximum *positive* growth rate in indirect tax share—which should ideally be negative in a growing state and economy—was 1974's .184.

TABLE III
GROWTH PATTERNS OF TDEE COMPONENT SHARES, 1950-85 (1972=100)

A. Percent Share and Growth Rates of Shares

	Percent Share			Growth Rates of Shares		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Indirect taxes	.575	.790	.680	-.120	.184	-.009
Corporate taxes	.083	.223	.134	-.440	.448	-.022
Individual taxes	.037	.132	.087	-.670	.293	.017
Social taxes	.040*	.110	.069	-.230	.331	.006
Property income	.009	.115	.032	-.515	.532	.012

B. Regressions for 1950-85 Period

Indirect and corporate taxes	$r = -.62$	$p < .0005$
Indirect and individual taxes	$r = -.57$	$p < .0005$
Indirect and social taxes*	$r = -.16$	$p < .25$
Indirect taxes and property income	$r = -.12$	$p > .25$

* 1953-85.

Taxes on corporations averaged .134 and were the second largest TDEE share. The maximum corporate tax share was .223 and again, significantly, this was achieved only in 1973. That was a rise from the .123 of 1972, with the share going back down to .155 in 1974. By 1979, corporate tax's share of TDEE was .083 and in 1985, the last full year of the Marcos regime, it was only .102. Growth in the share was -.022. The share for individual taxes averaged .087 for the period. The highest share was .132 and that only in 1972, before the peak for indirect and corporate taxes in 1973. Average growth in individual tax share for the thirty-six-year period was .017.

These averages show that for thirty-six-year period, the indirect tax share was decreasing, albeit very slowly, the corporate tax share was growing negatively, and the growth in the individual tax share was low, but positive, at .017. The conclusion then is that in terms of extraction of resources for society, the Philippine state was more coercive and relatively more effective in a regressive way vis-à-vis unorganized individuals than against an organized and politically influential corporate sector. Ideally, growth in the indirect tax share should be negative while growth rates in corporate and individual taxes are positive. In the Philippine state, only growth in the individual income tax share was positive.

Simply comparing average corporate and individual tax growth rates probably slightly underestimates the greater coerciveness of the Philippine state towards unorganized individuals. This is so if we consider that social taxes, with an average share of .069 (.110 maximum) and growth rate of .006, are actually increments on corporate and individual taxes. Although the average social tax share is less than that of the individual, and almost half that of the corporate tax share, it is still an extension of greater coerciveness towards unorganized individuals. It must also be borne in mind that even though social contributions or social taxes are

joint security schemes between employer and employee, there are many instances where the employer, illegally, fails to pass employee contributions on to the government. Since social tax, like income tax, is automatically deducted from wages, the employee has little chance to oppose. Income from state property and enterprises, on the whole, has not been a major TDEE component. It has a recorded average TDEE share of .032 and an average growth rate of .012 for the entire period.

A multi-variate analysis of growth rates of shares of TDEE components (controlling for the growth rate of the share of indirect tax) in Table III.B shows that the r between indirect and corporate tax growth rates is $-.62$, and for individual taxes $-.57$, both significantly related. Growth rates of shares of social taxes and income from property, however, do not significantly correlate with that of indirect taxes. The difference in corporate and individual tax r values in relation to indirect tax is small, but the same high confidence interval (both $p < .0005$) still supports the contention that the state tend to be highly coercive towards unorganized individuals.

Did authoritarianism make any difference in overall TDEE component's tendencies? Table IV below summarizes shares, growth rates, and growth rate correlations of different TDEE components broken down into two thirteen-year periods.

The share of indirect taxes in TDEE remained approximately the same for the two periods: .650 during the liberal-democratic regime and .660 during the authoritarian regime. The minimum indirect tax share of TDEE was .630 and .576 respectively, a difference of only 5.4 percentage points. The maximum indirect tax shares were .670 and .710. While the percentage difference between the two figures is small, it is revealing of an aspect of the retrogression of the fiscal base of the Philippines state in that the share of indirect taxes—which should ideally be decreasing—actually increased during the thirteen years of authoritarianism from 1973 to 1985.

Average growth in the indirect tax share was $-.005$ for 1960–72 and $-.006$ for 1973–85. Again the difference is very slight when one would expect the extraordinary powers of an authoritarian executive to have brought the 1973–85 indirect tax share down from the previous thirteen years. This is not the case based on average shares alone and the state may even have become increasingly dependent on indirect taxes as the authoritarian regime wore on.

The average corporate tax share decreased to .112 for 1973–85 from .140 for 1960–72. This is also shown in the $-.030$ negative growth in corporate tax share for 1960–72, which worsened to $-.044$ for 1973–85. Again, this seems to be another sign of regression in the state fiscal base and of state inability or unwillingness to coerce the corporate sector. The average individual tax share in TDEE declined during the 1973–85 period to .101, slightly down from .107 for the liberal-democratic period. Growth in individual tax share is a negative $-.030$ during 1973–85, a large decrease from the .076 for 1960–72.

The share of social taxes also decreased from .091 for 1960–72 to .070 for 1973–85. The .050 growth in 1960–72 went down to $-.014$ during the authoritarian period. The only TDEE component share that increased for 1973–85 was income from property and entrepreneurship which went from .014 to .062.

TABLE IV
GROWTH PATTERNS OF TDEE COMPONENT SHARES, 1960-72 AND 1973-85 (1972=100)

A. 1960-72 Period

	Percent Share			Growth Rates of Shares		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Indirect taxes	.630	.670	.650	-.030	.034	-.005
Corporate taxes	.105	.180	.140	-.250	.151	-.030
Individual taxes	.051	.132	.107	-.150	.246	.076
Social taxes	.071	.110	.091	-.110	.193	.050
Property income	.010	.030	.014	-.464	.547	.052

B. 1973-85 Period

	Percent Share			Growth Rates of Shares		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Indirect taxes	.576	.710	.660	-.120	.184	-.006
Corporate taxes	.083	.223	.112	-.440	.450	-.044
Individual taxes	.070	.122	.101	-.670	.300	-.030
Social taxes	.043	.087	.070	-.460	.294	-.014
Property income	.015	.115	.062	-.420	.503	-.101

C. Regressions for 1960-72 and 1973-85 Periods

	1960-72 Period		1973-85 Period	
Indirect and corporate taxes	$r = -.21$	$p < .25$	$r = -.65$	$p < .0025$
Indirect and individual taxes	$r = -.50$	$p < .025$	$r = -.69$	$p < .0025$
Indirect and social taxes*	$r = -.31$	$p < .25$	$r = -.21$	$p < .25$
Indirect taxes and property income	$r = -.58$	$p < .010$	$r = -.54$	$p < .025$

* 1953-85.

There is no significant relation between growth in indirect and corporate tax shares for 1960-72 ($r = -.21$, $p < .25$). There is, however, a negative correlation ($-.50$) and significant relation ($p < .025$) between growth in indirect and individual tax shares for the same period. For 1973-85, there are significant relations between growth in indirect tax share on one hand and corporate tax ($p < .0025$) and individual tax ($p < .0025$) share on the other. The relation is also significant between growth in the indirect tax share and the income from property share ($p < .025$).

The picture of growth patterns of TDEE components that emerges is that of a rather unusual decline from the liberal-democratic to the authoritarian regimes, the latter exhibiting greater efficiency in regressive extraction from civil society. TDEE component shares, with the probable exception of property income, stayed at more or less the same levels (as with indirect taxes, which should ideally be decreasing) or stagnated or deteriorated (as with corporate, individual, and social taxes) during the thirteen years of authoritarianism. The earlier conclusion that the state is more effective in coercing individuals is also apparent regardless of

regime type. This coercive capability and state power grew during 1973–85 when the growth in indirect tax shares correlated significantly with growth in corporate and individual taxes and property income shares. The correlation coefficient for individual taxes, however, was slightly higher than that for corporate taxes. Thus, as during the liberal-democratic regime, state coercion was still greater on unorganized individuals than on the corporate sector. The decline seen in this conclusion differs from public finance analyses on the existence of a regressive tax system in the Philippines. Tax systems are regressive when indirect taxes such as sales, service and import taxes are collected at the same rate from all income groups. The large share of indirect taxes in Philippine TDE means an already regressive tax system. However, the analysis above also shows regressiveness in the realm of comparative *direct tax*, i.e., taxes on corporations and individuals. This dimension goes beyond that of a mere tax system and involves the political question of degree of coerciveness towards sectors legally bound to pay resources to the state.

It is worth pointing out that this relative growth in state power, while still below critical levels, peaked at certain points. In 1973, the indirect tax share reached .575, its lowest point, and corporate taxes peaked at .223. These figures could indicate a gain in relative power, if only a temporary one. It would be misleading to conclude from the unprecedented low share of indirect taxes that the Philippine economic structure was changing. From what we know so far about the events in 1973, the unprecedented levels could have been caused by the early authoritarian regime's relative efficiency in extracting current and backlogged collectibles for indirect and corporate taxes. Examining the entire time series' growth rates for collected *amounts* per component shows several years of two-digit growth, too many to be a mere statistical residual. This demonstrates an occasional relative extraction efficiency and mustering of political will power. If that explains TDEE share levels for those years, then the political will must have dissipated very quickly.

Possible explanations for the overall trends in TDEE growth rates were touched upon earlier, i.e., the inability of the state to impose its presence on the rapidly differentiating and increasing power centers in society, bureaucratic inefficiency, corruption, and moral failure of national leadership. The impact of international financial institutions and the world market was also alluded to in explaining the overly slow or declining growth of the fiscal base of the Philippine state. These factors can again be made to bear on the trends in TDEE components. The continuing predominant role of indirect taxes in TDEE and consequently the continued state reliance on regressive, and facile tax collection may possibly be one result of the further opening of the domestic market to imported inputs in production processes and consumption that begun with the abolition of controls in 1962. Further opening of the market took place in 1970 with devaluation and this trend continued into the late 1970s under authoritarianism. An added factor in the mid- to late-1970s was the increased external borrowing of the Philippine state because of low interest rates. This provided a politically easy way of increasing state resources without increasing extraction from civil society.

TABLE V
REGIONAL AND INTERNATIONAL COMPARISON OF PHILIPPINE STATE
REVENUE EFFORT, 1971-83 (1980=100)

A. International Averages of State Revenue Effort, 1971-83

ASEAN	.193
Asia	.154
LDCs	.206
World	.257

B. State Revenue Effort of the Five ASEAN Countries

Country	Minimum	Maximum	Average	Median
Philippines	.112	.146	.127	.130
Thailand	.136	.174	.151	.152
Malaysia	.189	.284	.241	.244
Singapore	.216	.332	.252	.216
Indonesia	.123	.272	.197	.199

C. Growth Rate of State Revenue Effort for the Five ASEAN Countries

Country	Minimum	Maximum	Average	Median
Philippines	-.105	.180	-.001	.018
Thailand	-.071	.116	.157	.028
Malaysia	-.123	.142	.022	.047
Singapore	.058	.116	.079	.058
Indonesia	-.208	.136	.049	.073

Source: Computed from International Monetary Fund, *International Financial Statistics Yearbook* (Washington, D.C.: International Monetary Fund), 1982 and 1986 editions.

VI. REGIONAL COMPARISON

Table V compares the Philippines with other ASEAN members and puts the growth of the state fiscal base in a regional context but for a shorter time series of 1971-83. Analysis here is based on the broader category of state revenue reported by the IMF's *International Financial Statistical Yearbook* (IFSY). Varying base years for national datasets of ASEAN members does not allow their use for a more detailed statistical examination. Nonetheless, the data in Table V can be used to show the overall tendency of state resource extraction from domestic society by ratios of state revenue to GNP or state revenue effort (SRE) instead of tax collection effort (TCE) or TDEE.

Table V.A shows an average SRE for 1971-83 of .193 for ASEAN, .154 for Asia, .206 for the LDCs, and .257 for the world. The Philippines has the lowest SRE average (.127) among ASEAN members. The .193 ASEAN average is well above the Philippine level. The minimum .112 Philippine SRE is the lowest in ASEAN, and its .146 maximum SRE is also the lowest. Thailand's average SRE

is also less than the ASEAN and international averages but its maximum is higher than Asia's. Malaysia, Singapore, and Indonesia have SRE averages that approximate or exceed ASEAN, Asian, LDC, and world averages. Singapore, not surprisingly, has the highest average SRE followed by Malaysia and Indonesia. Both its minimum and maximum SRE's are higher than those for Malaysia and Indonesia.

Table V.C gives the SRE growth rates for ASEAN members. Philippine SRE growth is a slightly negative $-.001$. The Philippine state fiscal base as measured through SRE was actually reversing slowly in the thirteen year period compared to that of other ASEAN members. It suffered a large $-.105$ negative growth rate in 1981; maximum growth of $.180$ was in 1975. While Thailand and Malaysia also had $-.071$ negative growth in 1975 and $-.012$ in 1980 respectively, the SRE average growth rates of these two countries is a high $.157$ for Thailand and $.022$ for Malaysia. Thailand had the highest average growth rate for all ASEAN members ($.157$), followed by Singapore ($.079$), Indonesia ($.049$), and Malaysia ($.022$).

VII. SUMMARY AND CONCLUSIONS

I have suggested that one attribute of state power and growth in the Philippines, namely centralization-bureaucratization, be measured through the patterns of growth in the state's fiscal base. The fiscal base of the state was defined as the amount, capacity, and growth patterns of extraction of resources from civil society by the state in relation to growth patterns of the national economy. The concept of total domestic extraction (TDE) and its ratio to GNP, which is called total domestic extraction effort (TDEE), and correlation of GNP and TDEE growth rates were suggested as possible measures of the fiscal base of the state. These measures were applied for a thirty-six-year time series from 1950 to 1985 and for each presidential regime, both liberal-democratic and authoritarian.

Among my conclusions is that the Philippine state grew and increased its power over civil society but remained weak in its centralization-bureaucratization process as shown by the very slow and even regressive TDEE growth patterns and low levels of association between TDEE and GNP growth rates. This degree of weakness varies according to presidential term. Other than the oft-mentioned "political culture," the basic context of these trends is the persistence and increase of "unsubjugated" or "sub-national" power centers (e.g., the traditional export sector, newer entrepreneurial classes, new local elites, etc. that were in competition with a still underdeveloped state organization. The abolition of controls in the 1960s and tempting low interest rates on foreign loans in the 1970s also had an important impact on the state's fiscal base. It encouraged a relatively weak state to choose the easier path of external borrowing in the 1970s. Nonetheless, there were instances of a short-lived but sufficient "mustering of political will" as evidenced by the few years of impressive growth in TDEE and its components.

The Philippine state also tends to coerce resources from unorganized individuals more than from the corporate sector. While this may be true in any successful state building process, the Philippine state fiscal base's slow and regressive growth makes the level of coercion even higher. This trend is clear from examinations of TDE component growth patterns and remained basically unchanged in both

liberal-democratic and authoritarian regimes. There has been no drastic change in the indirect tax share for total TDE for the time series.

Finally, using the broader measure of state revenue and state revenue effort (SRE) to compare the Philippine state with other ASEAN members, it became readily apparent that Philippine state growth is lowest in the region for the period 1971-83.

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