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Political dynasties, business, and poverty in the Philippines

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ABSTRACT

Despite studies finding a link between political dynasty prevalence and poverty, empirical evidence in the Philippines shows that the relationship between dynastic concentration and underdevelopment is not the same across regions. We argue that an independent economic elite and high levels of economic activity, typically found in Luzon, affect the poverty and development impact of political dynasties. Local socioeconomic contexts shape the opportunities for predatory behavior among politicians and their relationships with economic elites. Using novel survey data on business-government linkages as well as an extensive dataset on local government leadership in the Philippines spanning 2004 to 2016, we find that political dynasties exacerbate poverty in the resource-rich non-Luzon provinces but not in Luzon where there is a competitive business environment.

1. Introduction

Previous studies have tried to establish a link between the prevalence of political dynasties and underdevelopment (McCoy, 1994; Olson, 1982; Acemoglu and Robinson, 2006; Acemoglu and Robinson, 2008; Mendoza et al., 2016). On one hand, dynastic politicians may behave like 'roving bandits' by extracting wealth and resources indiscriminately as a way to optimize their own economic interests at the expense of their constituents. Roving bandits are incentivized to steal and destroy as they operate under a weak rule of law and have access to extractive industries with immediate benefits. Political dynasties, through patron-client relations and abuses of power, exhaust resources to establish economic and political dominance, weaken political competition, and undermine political accountability. On the other hand, it is also possible for politicians to behave like 'stationary bandits' by encouraging development in their political bulwark while also expanding their family's wealth and clout. Under conditions of political stability and economic opportunities, dynasties can invest in limited economic development to maintain popular support and business connections.

Political dynasties in the Philippines are exceptional in their persistence and scope. Almost 80% of Congress and well over 50% of all elected local government officials are from political families. Earlier studies in the Philippines have also established a strong dynasty-poverty link (Teehankee, 2012; Mendoza et al., 2016; Querubin, 2016). Yet these do not explain why the effect is strongest in areas farther from the national capital (non-Luzon provinces). Mendoza et al. (2016) posit that this is due to economic activity, governance practices, and civil society participation in Luzon compared to non-Luzon provinces. In Colombia, Acemoglu and Robinson (2008) find that the presence of economic elites who have no direct link to local politicians can also provide a counter-force to temper the negative development impact of political concentration. This exposes an interesting factor—the presence of independent and presumably competitive business groups—that potentially ease the effects of dynastic rule.

While economic and political inequality are prevalent in developing countries such as the Philippines, there is a need to disentangle how both features impact development. This study develops, to our knowledge, the first indicator of business-government linkages at the local level in the Philippines. While studies abroad show how economic elites encourage development, the role and mechanisms of economic elites as a countervailing force to dynasts needs further empirical investigation in the Philippines. Here, the overlap between political and economic power is rarely just a coincidence. Access to wealth is considered necessary for politicians to build reputations and sustain political power while politicians often hold onto economic interests in governance (Coronel et al., 2004). Thus, we ask the questions: How do politicians and businesses interact in the Philippines? Can political inequality, measured as the presence of political dynasties in a province, and

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economic inequality, measured as the level of economic activity and business ownership by politicians, lead to underdevelopment in Philippine provinces?

The study contributes to growing literature on dynasties in the Philippines by proposing a more nuanced dynastic indicator as well as to current policy discussions on encouraging inclusive development across regions. We diverge from previous empirical work on Philippine political dynasties which focus on clan members occupying one position across multiple electoral cycles (Tusalem and Pe-Aguirre, 2013; Mendoza et al., 2016). Instead, we focus on cases where members of the same family occupy key government positions that have discretion over local resource allocation. Monopoly over these key positions enables clans to control local public spending and warrants investigation into the implications of these positions being abused. Moreover, this study illustrates the variance in political opportunity structures that shape how politicians interact with businesses across regions using a novel survey on business-government linkages and key informant interviews at the local level. A lively and independent economic sector found in most Luzon provinces presents opportunities for dynastic politicians to behave similarly with stationary bandits that share economic gains with a wider network, while the prevalence of instability and rich natural resources in most non-Luzon provinces incentivize behavior similar to roving bandits where politicians merely extract wealth and power. Knowledge of these conditions can hopefully help direct specific policy points in reducing the excesses of political dynasties. These conditions can also guide further research into the relationships between underdevelopment, access to natural resources, investment opportunities, and political dynasties outside the country.

We proceed to five parts. First, we discuss the literature on business-government dynamics and its role in development in the Philippines. Next, we lay down the survey data, main variables, and empirical model of the study. The following section synthesizes survey responses to provide insights into the political opportunity structures presented to politicians in Luzon and outside Luzon, and how these shape business-government relations and the dynasts' potential for predatory behavior. The fifth section discusses our results. We find that business ownership by politicians leads to higher poverty incidence in Luzon while political dynasties exacerbate poverty outside Luzon. Finally, we end with an outline of areas for further research, in order to better understand the interaction of political and economic power in the Philippine countryside, with directions that are perhaps useful in other countries as well.

2. Literature review

While theories suggest that the impact of political dynasties on development is an empirical question, there is mounting international evidence that governments dominated by political dynasties are deeply associated with misgovernance. There is empirical evidence that dynasties self-perpetuate in Congress (Dal Bó et al., 2009; Rossi, 2014; Labonne et al., 2017). With political competition compromised, there is little incentive for dynastic politicians to perform well thus lowering legislative productivity (Rossi, 2014; Panao, 2016). The accumulation of power by political dynasties in local governments can also reduce local economic growth as well as deter public goods provision and good governance (Ali, 2016; Tusalem and Pe-Aguirre, 2013). Interestingly, poor economic governance still prevails despite the ability of political dynasties to 'bring home the bacon.' Tusalem and Pe-Aguirre's study in the Philippines (2013) found that there is an increase in congressional funds in jurisdictions with more political dynasties but that these provinces are also less likely to spend on health, infrastructure, and employment opportunities as well as exhibit high levels of criminality and low quality of governance. The same trend can be observed in Japan (Asako et al., 2015) and Brazil (Braganca et al., 2015).

It is possible that dynasties turn to government expansion as a means to increase rents, transferring resources to supporters and allies through government contracts and patronage. This comes at a high cost, larger and more inefficient government, given the patron-client redistribution that takes place. This might be deemed 'optimal' by a particular jurisdiction that enjoys more resource flows; but this is clearly detrimental to the overall economy and the nation once jurisdictions become dominated by the same dynastic practice. These results contrast with the notion of political dynasties as "stationary bandits" – focusing on local development and ensuring their popularity in their localities (Mendoza et al., 2019).

However, the extractive relationship between dynasties and development is not as consistent across regions. Mendoza et al. (2016) find that the prevalence of political dynasties in a given Philippine province leads to deeper poverty and underdevelopment, but only in provinces outside of Luzon island. Luzon is home to the country's political and administrative capital. According to the authors, the presence of more fully developed institutions that foster economic growth could have acted as a mitigating force to the extractive role of political dynasties. Yet we cannot discount the stark difference in the dynamics between business and government interests that drive economic activity between Luzon and non-Luzon provinces. It is possible that the difference in the impact of dynasties on poverty is explained by an imbalance in business dynamism between Luzon and non-Luzon provinces. Thus, this study reevaluates the dynasty-poverty link by adding economic variables in the analysis: the concentration of political and economic power in the hands of elites and the level of economic activity in the province.

2.1. Independent economic elites: a counterforce to corruption

Economic elites have incentives to encourage investments and economic development. Acemoglu and Robinson (2008) find that it is political rather than economic inequality that hinders development. Municipalities with higher political concentration in Cundinamarca, Colombia faced weaker development prospects while political elites wealth. They note that the presence of economic elites who are independent from local politicians can mitigate the negative implications of political concentration of power. Bates (1981) also argued that the presence of economic elites in Kenya led to better economic outcomes. In Kenya, the agricultural elite worked together to counter political leaders and implement sound policies. Meanwhile, cocoa smallholders in Ghana were unable to work together which allowed political elites to implement distortionary economic strategies and engage in patron-client practices.

Political power concentration may be more harmful when it is unchecked and unregulated. Without institutions that can monitor and hold them accountable, politicians in office can take advantage of their positions to push for discretionary policies. This is a prime example of a *predatory state* where power is usually concentrated on a single, long-serving leader and other personally linked individuals who are then supported by wide networks of patronage.[1]

Robinson (1999) argued that political elites see economic growth and development as a two-edged sword. While it can lead to increased prosperity, development also has the potential to alter the distribution of political power, yielding unfavorable conditions to the elites that initially controlled the system. As a result, the status quo may be better for those in power rather than for them to actively push for growth and development. Because of this, predatory states are not only involved in expansive extraction but also actively impair efforts for institution building and development as part of a broader strategy of regime survival. We have anecdotal evidence of this in the Philippines as one dynastic politician shared how some of his relatives argued that it is

[1] While rents in a developmental state lead to positive economic outcomes through wealth creation and the attraction of foreign investments, rents in a predatory state are transferred through top-down looting of the nation's funds (Doner et al., 2005; Lim et al., 2021).

better for their province to be poor, as that would help ensure that their political clan's assistance would always be needed.

However, maintaining a predatory state has its costs. Political elites can choose to build the necessary economic institutions for development when they are confronted by systemic vulnerabilities that challenge their claim on power and resources (Doner et al., 2005). If the associated costs with being predatory become too high, elites may be forced to promote development and handle threats to their political position in some other form. When the economic sector is lively and independent, clientelist connections to few economic elites are not enough to secure power and political elites are compelled to open up access to power and resources.

The relative power and independence of the economic elite determines how effective they are as a countervailing force to political dynasties. The economic elite has to be powerful enough to pose a significant threat to the political elite in order to constrain their potential abuses of power. When economic power is concentrated in a small number of people, the business interest is easily organized and collective action is made easier (Olson 1965; 1982; Shafer, 1997). A highly concentrated business circle makes it very likely that political elites and economic elites can all "sit at the same dinner table" (Haggard et al., 1997, 49).[2] The interaction of businessmen with the government takes a highly personal form away from public scrutiny. It is precisely the lack of openness, transparency, and competition in these networks that allows them to ossify into rent-seeking coalitions (Doner and Ramsay, 1997). In such cases, the business elite is no longer independent from the political elite and, instead of a countervailing force, a collusive relationship takes effect.

2.2. Economic activity encouraging better governance

Scholars also shed light on the role of an active economic sector in promoting economic development through job creation, social welfare, and competition. In the context of great political concentration, businesses lead to development indirectly by actively pushing for good governance and improving the accountability mechanisms of the citizenry. Businesses seek favorable conditions for their investments to bear fruit, and politicians need to provide these conditions to also reap benefits from private sector investment (Haggard et al., 1987; Przeworski, 1985).

Businesses in the province can step in as partners of the government by improving conditions for economic growth. Business activity can create jobs, introduce innovation in the area, and encourage competition (Kritikos, 2014). Business activity also improves social welfare as seen in empirical studies that examined the impact of entrepreneurial activity on poverty (Rupasingha and Goetz, 2011), income inequality (Atems and Shand, 2018), and the human development index (Dhahri and Omri, 2018). Some businesses even intentionally assume social and political responsibilities as a way of maintaining influence and operation (Lobel, 2013).

Businesses can also contribute to development by promoting effective governance and tempering the excesses of political elites. An active economic sector leads to calls for greater transparency in government procedures, countering the status quo maintained by predatory states (Reno, 2015). Business associations pressure government officials and lobby for basic public goods, stronger property rights, and effective governance (Doner and Schneider, 2000). Moreover, vote-buying may be less effective if citizens have nearby businesses for aid and support. In the Philippines, low income citizens with access to credit aside from government officials have been found to be more critical of politicians (Canare et al., 2021). Thus, an active economic sector can impair the channels of corruption and patronage that a traditional political dynasty relies on for electoral success.

[2] See for example, Thorp and Durand (1997) on Peru's small oligarchy and Schneider (1997) on the thirty-member Mexican Council of Businessmen.

3. Methodology

3.1. Expert survey on linkages between politics and businesses

When discussing the roles of politicians and businesses in economic development, conventional studies assume a clear demarcation between the interests of economic elites in improving competition and innovation in an area, and the interests of dynastic elites in monopolizing local resources to remain in power (Doner and Schneider, 2000; Doner et al., 2005). Yet in the Philippines, similar to most developing countries, political and economic elites overlap. Deep-rooted relations between both elites have persisted across history (Anderson, 1988; Hutchcroft, 1991; Bello et al., 2004). Acemoglu and Robinson (2008) took note of this overlap in their study on the impact of economic power concentration, measured as land inequality or land Gini, and political power concentration, measured as the number of incumbent mayors over the number of mayoral appointments, on development. The authors included an overlap variable to account for rich and politically powerful people which was measured from cadastral records of influential individuals.

Data that is this detailed and complete is hard to come across. As an alternative, studies abroad used the subjective assessments of consultants or key informants to measure linkages between companies and members of the political elite. Fisman (2001) measures the political connectedness of Indonesian companies through the Suharto Dependency Index based on the assessments of top consultants in the firm as to the degree to which a company is dependent on political connections for its profitability. Diwan et al. (2020) also interviewed managers of banks and private equity funds, lawyers, and NGOs (e.g. anti-corruption organizations) to build a comprehensive list of businessmen with political influence. Later on, Faccio (2006) built on this list to also compute for the degree of concentration the political influence on businesses is in Indonesia.

Assessing the business-political linkages in any country requires access to a massive amount of data on ownership which may not be readily available nor accessible. In light of this, the Ateneo School of Government conducted a novel survey of experts about potential linkages between local politicians and businesses. Instead of companies or businessmen as our unit of analysis, we turn to provincial level data gathered from a diverse set of experts. We rely on 3 key informants for each of the 81 provinces in the Philippines which consists of one business group leader, a civil society organization leader, and an academic that specializes in business. Informants were asked to assess questions on business ownership, political influence over businesses, and businesses' reliance on political connections for success across three presidential terms (Arroyo, Aquino, and Duterte). To check for robustness, multiple recall questions and open-ended questions are included. These open-ended questions attempted to dig deeper into the negative and positive effects of the collusion between business and politics in the province, its impact on the local politicians' opportunity structures, and its role in the entrance of newcomers and potential investors. The survey was also anchored by vignettes (Bakker et al., 2014) to contextualize the variable to specific situations, and so as to avoid wide divergences in personal perceptions of corruption. Data gathered from this survey was then used to guide our analysis and compute the ownership variable for this study.

3.2. Descriptive statistics

This study empirically tests for the impact of fat political dynasties and the presence of an active and independent economic sector, on poverty levels in Philippine provinces using a unique panel dataset extending from 2006 to 2018, with observations for each of the 5 available years with data on poverty incidence. We posit that poverty

Table 1
Summary statistics for variables used in the model.

Continuous Variable	*Full* N	Mean	St. Dev.	*Luzon* N	Mean	St. Dev.	*Non-Luzon* N	Mean	St. Dev.
Poverty Incidence	386	0.25	0.14	189	0.18	0.12	197	0.31	0.13
Fat Dynasty Share	386	0.24	0.09	189	0.25	0.10	197	0.24	0.08
Business Dynamism (In Millions of Pesos)	386	10.02	21.54	189	15.41	28.52	197	4.87	8.76
IRA (In Millions of Pesos)	386	898.40	634.78	189	964.87	716.87	197	834.62	538.73
Distance from Manila	386	742.69	486.11	189	336.81	197.4	197	1132.07	339.910
Categorical Variable	*Full*			*Luzon*			*Non-Luzon*		
	Freq.	Perc.		Freq.	Perc.		Freq.	Perc.	
Ownership									
None (0)	22	10.84%		10	9.90%		12	11.76%	
Few (1)	62	30.54%		35	34.65%		27	26.47%	
Moderate (2)	38	18.72%		13	12.87%		25	24.51%	
Many (3)	81	39.90%		43	42.57%		38	37.25%	

Source: Authors' calculations.

incidence increases as political concentration increases. The study makes use of two controls. First, we include the internal revenue allotment (IRA) since provinces tend to depend on this budget allotment. Resource variation in the IRA may have implications in how political dynasties and business dynamism influence poverty incidence. While it could stimulate development through increased government spending, IRA can also lead to misgovernance and poverty due to political capture (Panao, 2020). Second, we consider distance from Manila (capital) as a geographical control. Institutions in Manila could spillover good development practices to surrounding areas. Moreover, central oversight may be weaker in areas further from the national capital, in turn leading to bad governance.

The use of fixed vs random effects model was considered by using the Hausman Test. Given the p-values of the Hausman test for all specifications was below 0.05, then the use of a fixed-effects model is more appropriate. Given the presence of both time variant and invariant variables in the empirical model, and since time-invariant variables like distance are not allowed in fixed-effects models, we utilized the Hausman-Taylor model, which uses a mixed structure that considers time-invariant data (Hausman and Taylor, 1981). It is considered a 'mixed' case between fixed effects model, which accounts for unobserved individual heterogeneity, and random-effects model, which can have time-invariant variables (Ao, 2009).[3] The panel fixed-effects models (removing the time invariant variable "distance from Manila") is featured in Table D of the Appendix. The results are largely consistent.

To prevent possible endogeneity issues between variables, all independent variables are lagged by two years, aside from the time-invariant variable on distance from Manila. Due to triennial availability of provincial poverty statistics in the Philippines (which began in 2006, and is measured every three years thereafter), only provincial poverty data from 2006, 2009, 2012, 2015, and 2018 is included in the study, which is the latest available data with the Philippine Statistics Authority. The two-year lag was chosen given the availability of Philippine election data, which is available every three years starting 2004. Business dynamism, IRA and distance from Manila are also logged to improve the fit of the model. The empirical model is as follows:

$$Poverty = \beta_0 + \beta_1 dynasty(t-2) + log\beta_2 businessdynamism(t-2)$$
$$+\beta_3 ownership(t-2) + log\,\beta_5 IRA(t-2) + log\,\beta_6 distancefromManila$$

Where:

- "Poverty" refers to the average poverty incidence among families. This is taken as the proportion of the population with per capita income less than the poverty threshold.
- "Dynasty" is a measure of the prevalence of fat dynasties, measured as the proportion of elected local positions in a Philippine province occupied by politicians belonging to fat dynasties. Dynastic politicians typically occupy elected positions simultaneously, usually in one political jurisdiction, and across different positions (Mendoza et al., 2016). Here, we count politicians with two and above family members in elected office within a province as a fat dynasty. A family name identification approach was used in identifying relatives serving in the same province (Querubin, 2016; Mendoza et al., 2016; Dulay and Go, 2021). This is lagged by two years to account for possible endogeneity since higher poverty may lead to more dynastic politicians being elected, and/or dynastic politicians lead to political concentration that weakens checks and balances and often leads to bad governance (Mendoza et al., 2016).
- "Business Dynamism" attempts to measure how active and competitive local businesses are as well as their influence over the revenue of the local government. This is operationalized as the annual business tax collection per region from the Bureau of Local Government Finance. This is also a rough proxy measure for the countervailing force provided by a strong business sector within a province.
- "Ownership" refers to the ownership of local businesses among politicians. This variable was developed from a novel survey of experts identified at the provincial level. Respondents were asked: "How much is the share owned by politicians in the businesses in your province currently during the [Arroyo/Aquino] administration?" Their responses were quantified as 3 if they responded "many '', 2 if "moderate", 1 if "few", and 0 if no politician owns a local business in their province. Afterwards, the average of their responses are coded as a categorical variable where it is coded as "1″ if two of the three experts agree that there are many businesses owned by politicians in their province and one expert answered that ownership is moderate, and "0″ if otherwise.
- "IRA" pertains to the Internal Revenue Allotment per province which is taken from the Bureau of Local Government Finance.
- "Distance from Manila" is measured as the driving distance from Manila in kilometers.

The data, model, and subsequent analysis is limited only to available Philippine province data. The analysis does not include Metro Manila, the Philippines' capital region, since it is not administratively considered as a province and hence lacks data to fit the specifications of the study. Conceptually, governance and administrative structures and institutions are also similar across provinces, which greatly differs with the autonomous nature of the cities within the country's capital region.

Table 1 features the summary statistics for the above variables. On average, poverty incidence seems to be higher in non-Luzon provinces compared to provinces in Luzon. While the overlap between economic and political elites is relatively the same across regions, Luzon provinces appear to have a much more active business sector compared to non-

[3] The model is implemented in R (version 4.03) using the plm package (2.2-5).

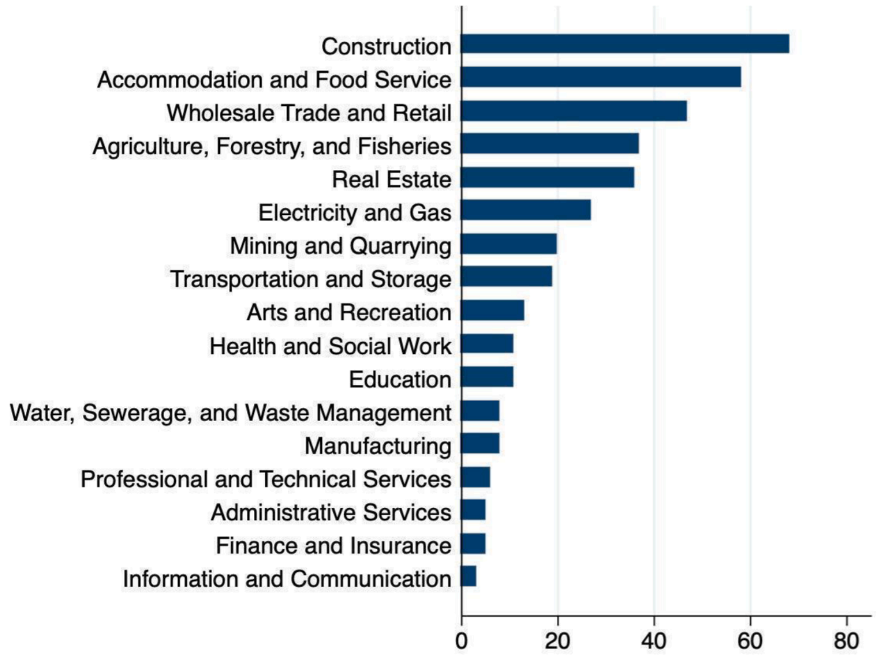

Fig. 1. Industries owned by Politicians in Luzon.
Source: ASOG Survey on Linkages between Politics and Business.

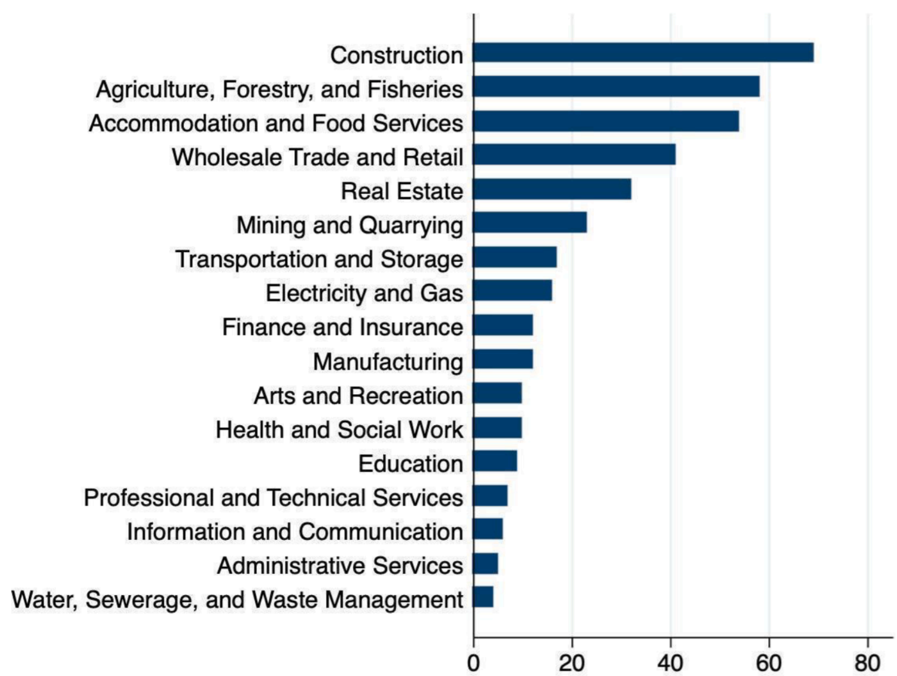

Fig. 2. Industries owned by Politicians Outside Luzon.
Source: ASOG Survey on Linkages between Politics and Business.

Luzon provinces and receive higher amounts of IRA. Luzon provinces are therefore better equipped to encourage economic growth. This means that, despite the prevalence of dynasties and business ownership across regions,[4] the local government in Luzon has more funds at their disposal for public goods. Thus, the regressions can illustrate a more detailed assessment of the dynasty-poverty link.

4. The Philippine case

Insights gathered from the open-ended questions of the survey illustrate a more nuanced divide between Luzon provinces and non-Luzon provinces. These suggest that the socioeconomic environment of a region shapes the opportunity structures that local dynasts navigate and their potential for predatory behavior. Robinson (1999) mentioned

[4] The distribution of 'fat' political dynasties and politician ownership over businesses in 2016 can be seen in Figures A and A respectively of the Appendix.

Table 2
Effect on Poverty using the National, Luzon, and Non-Luzon samples.

	National(1)	Luzon(2)	Non-Luzon(3)
Intercept	0.008 (0.08)	0.238* (0.09)	−0.848*** (0.2)
Fat Dynasty Share	0.214*** (0.07)	−0.102 (0.08)	0.706*** (0.1)
Business Dynamism, logged	−0.0007 (0.004)	−0.0008 (0.007)	−0.006 (0.006)
Ownership	0.017* (0.01)	0.026* (0.01)	0.010 (0.01)
IRA, logged	−0.0485** (0.02)	−0.056*** (0.01)	−0.062*** (0.02)
Distance from Manila, logged	0.078*** (0.009)	0.055*** (0.01)	0.199*** (0.03)
Chisq (df=5) Chisq P.Value	206.835 <0.01	137.607 <0.01	71.1652 <0.01

Standard errors in parentheses
*** $p<0.01$
** $p<0.05$
* $p<0.1$

four societal characteristics that make the emergence of predatory states more likely: (1) rich in natural resources; (2) poor in factors complementary to public investments (e.g. human capital); (3) large gains from political power; and (4) intrinsic instability (e.g. illegitimate states).

When political power is rewarding and leads to exclusive access to natural resources and/or similar rent-seeking activities, there are more incentives for elites to hold on to power. As such, improvements in welfare and the economy are not prioritized as these can ultimately diminish access to rent-seeking opportunities. Non-Luzon provinces are endowed with abundant and untapped natural resources that encourage extractive industries. This is reflected in the industries owned by politicians in Luzon and outside Luzon which are shown in Figs. 1 and 2 respectively.[5] Agriculture, forestry, and fisheries rose to the second rank in non-Luzon provinces while it only ranked fourth in Luzon. Mining and quarrying were also ranked higher as it occupies the sixth place outside Luzon compared to the seventh place in Luzon. The economic interests of some politicians outside Luzon are likely focused on these rent-rich sectors that are not as conducive to poverty reduction (Simbulan, 1965; McCoy, 1994). As discussed by Reno (2015) and O'Higgins (2006), interests in extractive sectors encourage more traditional rent-seeking behavior that cultivates a predatory state. These extractive sectors frequently establish ties with politicians through campaign contributions.[6] The economic interests of politicians with stakes in agriculture and forestry lie in the obstruction to land rights among smallholders which further exacerbates poverty (Webster, 2007). Moreover, a respondent from outside Luzon detailed the environmental consequences of mining and quarrying for municipalities such as bulldozed mountains, waste material in the river due to failed irrigation projects, and flooding. If unchecked and predatory, ownership over these industries by politicians can be greatly profitable at the expense of the lives and livelihoods of residents.

As an aside, construction, accommodation and food services, wholesale retail and trade, and real estate expectedly dominate the industries owned by politicians. In the Philippines, the lack of transparency and accountability in the bidding process can make these industries attractive business ventures for politicians across all provinces (Navarro and Tanghal, 2017; Cruz et al., 2018). As stated by one of our respondents, ownership over these business ventures is a 'win-win situation for politicians.' Local politicians have discretion over the awarding of government contracts and business permits, and are the first to know of other promising business opportunities in the province. This increases their chances of business success and allows for preferential treatment that rewards political allies. In addition, business ownership benefits politicians as they earn clout from their business' success and they secure patronage networks through their ability to provide jobs and disaster relief for locals. While these efforts can encourage economic development through infrastructure, larger funds from the national government, and the development of key local industries, our respondents note that politicians also have a tendency to monopolize the industry by blocking competitors thus limiting economic mobility for the rest of the population.

There are lower opportunities for investments in non-Luzon provinces compared to Luzon. Predatory behavior is encouraged when there is low marginal productivity of public investments (Robinson, 1999). Bribery and extortion, common to both Luzon and non-Luzon provinces, raise the costs for investments. However, it seems like investors react differently to both areas. In Luzon areas, respondents note that a lot are interested in pursuing business thus local government officials earn a lot of kickback and even receive campaign contributions or pledges for donations to the province to smoothen the process. Meanwhile, respondents note that very few investors are interested in non-Luzon provinces due to political instability, low market demand, geographical circumstances (i.e., accessibility, vulnerability to natural disasters), and tedious government requirements. As a result, politicians in Luzon have the leverage to negotiate for benefits with businesses while politicians in non-Luzon provinces have to provide incentives such as tax breaks, the creation of business chambers, and inviting investors to their province. Respondents from non-Luzon provinces noted that local politicians work closely with landed elites and local business moguls to manage the economy. Rather than competitive and independent businesses, provinces are perceived to rely on the government for economic activity.

With these circumstances, politicians and businesses seem to work more closely together in non-Luzon provinces. Politicians in Luzon negotiate with businesses. Thus, both actors counter each other with dynasties stifling competition and earning kickbacks through predatory behavior and businesses directly encouraging development through economic activity and the provision of alternative channels of economic aid. On the contrary, politicians in non-Luzon provinces 'sit at the same table' with local economic elites thus forming a collusive relationship. This may not necessarily be a negative thing. Indeed, a sizable portion of respondents from non-Luzon provinces praised local politicians for encouraging economic activity, building infrastructure, and providing employment.

Yet the absence of checks and balances brought by this collusive relationship creates opportunities for dynastic politicians to pursue economic growth that merely benefits a small circle of elites rather than the entire province. Certain circumstances also put pressure on political dynasts to enact predatory behavior. Predatory behavior is attractive if they see themselves as vulnerable to internal threats like rebel attacks and coups among others (Reno, 2015). To maintain political power, political dynasties would need a constant stream of income to fund clientelist ties with the people and investments for the province. These circumstances, along with inherent political instability in key areas outside Luzon, create a permissive environment for predatory political dynasties.

For these political dynasties, pursuing economic development is a challenging and costly feat as they already face difficulties in attracting investors and benefit from the status quo. For political dynasties in

[5] We focus on business ownership by politicians as this represents the most extreme form of collusion between political and economic elites. This is not to discount the prevalence of cronyism, bribery, and campaign contributions that warrant further investigation.

[6] Even national politicians accept campaign contributions from the mining sector as shown by a recent report from Bantay Kita (2022).

Luzon, pursuing economic development is an attractive strategy as it grants them political and economic benefits from investors. Instead of sacrificing business relations by consolidating the pot to themselves, political dynasties in Luzon likely face the alternative to grow the economic pie, and share resources and profits. Of course, these insights are limited to the experiences and observations of our respondents. Each province also has a more specific experience with dynasties that may differ from the others. To test for the generalizability of their insights, we move on to our empirical analysis.

5. Results

Table 2 below features the Hausman-Taylor Regression estimates. Similar to previous studies (Mendoza et al., 2016), we disaggregate our analysis into Luzon and Non-Luzon (Visayas and Mindanao islands) samples. Mendoza et al. (2016) found strong support for political dynasties leading to greater poverty outside Luzon but no significant relationship between dynasties and poverty in Luzon. That is, dynasties neither increase nor decrease poverty. (The latter is still compelling given the amount of power these dynasties have concentrated, and yet fail to make a dent on reducing poverty.) This study attempts to examine if these results hold when the dataset is extended from a cross-sectional analysis in 2009 to panel analysis from 2009 to 2018; and when economic and business-linkage factors are included. For reference, individual tables on the impact of political and economic factors on poverty for the national (Table A), Luzon (Table B) and the non-Luzon sample (Table C) can be found in the Appendix. These results are supported by robustness checks. Using panel fixed-effects regression to estimate the same effects but without the time-fixed variables (distance from Manila), we find consistent results with Table 2.

Both controls appear to be significantly correlated with poverty. A higher budget for the IRA counters poverty in the provinces. Indeed, a cross-sectional study by Canare (2016) and panel estimate by Panao (2020) provide evidence that unconditional transfers in the form of IRA increases total government expenditures on welfare. These welfare programs include healthcare, labor, housing, and education. Investment into these programs can reduce poverty by offering social safety nets to citizens and providing opportunities for employment. However, the same authors also point out that the IRA on its own is unsustainable since reliance on the IRA can crowd out local income generation.

Meanwhile, the farther a province is from Manila, the higher the poverty incidence. This is in line with our hypothesis that proximity to the capital region (Manila) leads to higher chances of development. As the capital of the Philippines, Manila is the location of the national government and is considered as the center of investments, education, research, commerce, and trade. It should therefore follow that the region enjoys higher levels of governance (through institutions for checks and balances that are concentrated there), and infrastructure, as well as a more active civil society compared to the rest of the country. As the results show, these developmental benefits spillover into surrounding regions. Nearby residents can migrate easily for varied livelihood opportunities. Meanwhile, those from farther areas like Visayas and Mindanao are constrained by their geographic isolation from Manila and may suffer from weak oversight of key central government institutions, and the lack of necessary domestic development institutions.

When analyzing the entire Philippines (Model 1 of Table 2), we find that the presence of fat dynasties and politicians' ownership over local businesses are both directly linked to poverty incidence by 0.214 and 0.017 respectively. This adds to the growing literature in the Philippines that political dynasties deter development (Balisacan and Fuwa, 2004; Teehankee, 2012; Mendoza et al., 2016; Querubin, 2016). More than this, the prevalence of political dynasties is shown to have a much greater impact on economic development compared to economic independence and activity thus supporting the arguments of Acemoglu and Robinson (2008) and Bates (1981). Political concentration in a province creates conditions for predatory behavior that broadens the dynast's opportunities for corruption while also limiting the ways citizens and business actors can hold them accountable. In addition, business ownership by politicians is also associated with increased poverty.

While politicians are lauded by citizens and even the experts surveyed for providing jobs, infrastructure, and products, the results show that this pattern of power concentration spilling into the economic sector is still associated with deeper poverty in provinces. Possible reasons here include how the monopolization of key industries can skew local policies and economic gains to local politicians and their clients rather than the entire province. Anecdotal evidence also suggests that political cum business leaders can turn regulatory powers into anti-competition tools to favor personal businesses while punishing non-supportive and non-aligned businesses. The empirical result suggests a nuance is necessary in our interpretation of dynastic effects on development—dynasties on the one hand, and politicians' business ownership on the other could both produce independent negative effects on development. One through diminished competition and weaker checks and balances in politics; the other through conflict of interest in utilizing state powers to favor personal businesses and thus also weakening economic competition.

Hence, there appears to be a difference in how predatory politicians, through dynasties or business ownership, influence poverty between Luzon and non-Luzon. In Luzon (Model 2 of Table 2), there is no correlation between dynasties and poverty while there is a direct correlation of 0.026 between the ownership of businesses by politicians and poverty. As discussed, it is possible that the marginal benefits of predatory behavior for political dynasties in Luzon are far fewer than the marginal benefits of developing the region. It is also possible that industries in Luzon are more attractive for investors, increasing the economic pie for both politicians and businesses. While this can temper predatory behavior in office, politicians are also incentivized to profit and earn clout from the economic pie by engaging in business themselves, and in the process perhaps stifling competition.

Ownership over service-oriented industries (Fig. 1) generates employment under the name of politicians and can be used to secure clientelistic relations for political gains. Moreover, economic development is encouraged by an active business sector and high amounts of IRA (Table 1). With these conditions, politicians are faced with the opportunity to fuel development while at the same time prioritizing their share of the economic pie over everyone else's. One might consider this as a slightly better outcome when compared to non-Luzon provinces where dynasties directly debilitate development. (At least in Luzon, we expect politicians to want to grow the economic pie because they also own a large piece of it.) The negative effect probably comes into play when this ownership eventually pushes into anti-competitive behavior. Thus, we observe another way dynasts 'bring home the bacon' but at the same time block the spillover of economic development to the people.

The opposite can be observed for provinces outside Luzon (Model 3 of Table 2). Economic factors have no influence over poverty but the presence of fat dynasties is significantly linked to poverty incidence at 0.706. We posit that this is a result of weak checks and balances brought about by dynastic dominance of the local leadership. Due to weakened checks and balances, dynasties are also likely to enact predatory policies that may exacerbate (or at most fail to reduce) poverty due to the presence of extractive industries, lack of investment opportunities in the province, and the need to fund clientelistic ties for perpetuation in political office. This collusive relationship would also mean that the personal ownership of politicians over businesses does not matter as much to economic development since politicians are already encouraged to manipulate local policies for a few economic elites. As a result, dynasties exacerbate poverty in non-Luzon provinces, mostly from political dominance rather than through business ownership and economic dominance.

6. Conclusion

This study shows that the net effect of the dynasty-poverty link is contingent on regional context. Previous studies such as Mendoza et al. (2016) posit that the divide in the poverty-dynasty link between Luzon and non-Luzon experiences with dynasties is due to a sharp difference in economic activity and institutions. This study adds to this by providing empirical evidence that the Luzon vs. non-Luzon divide is primarily driven by the opportunity structures presented to political dynasts in the form of industry type, investment opportunities, gains from political power, and political stability. Future research can further nuance the Luzon and non-Luzon divide in development by evaluating other divisions revealed by our survey such as industry-type and investments per region.

Political dynasties outside Luzon exhibit predatory behavior because of an institutional context that does not just permit corruption through the absence of checks and balances but through an unsustainable political structure that requires it to maintain local support. Businesses in non-Luzon provinces, rather than checking against the excesses of dynasts, work closely with dynasts to propagate political and economic inequality. While businesses can exert enough pressure on politicians in Luzon to keep the pie growing, we also find no evidence that shares to this economic pie are distributed appropriately and that the poor benefit. Poverty remains unchanged despite high economic dynamism in Luzon. Dynasties in Luzon do not exacerbate poverty; neither do they reduce it. Rather, political dynasties based in developed areas are more likely constrained in their extractive tendencies and are compelled to rely on more insidious forms of consolidation.

Through an inductive approach, this study provides an understanding of how political concentration and economic concentration manifest in the Philippines. In the case of Colombia, Acemoglu and Robinson (2008) elaborated on the different impacts political concentration and economic concentration have on development. They argue that both check each other to fuel development but that the independence of economic elites matters. The case of political dynasties in the Philippines illustrate this further. In an institutional setting where accountability is weak and investments are low such as non-Luzon provinces, politicians and economic elites work closely together and are incentivized to engage in predatory behavior. Meanwhile, an institutional context such as Luzon that motivates different interests between politicians and economic elites facilitate negotiations that are necessary to check each other's interests. With this balancing of interests, development is encouraged but there remains little incentive to make sure economic benefits spillover to the rest of the province. This therefore validates—but makes more sophisticated and nuanced–the longstanding observation that political dynasties deter development (Teehankee, 2012; Mendoza et al., 2016; Querubin, 2016). Thus, this study finds evidence supporting the spread of institution-building national programs in the countryside to provide the necessary political opportunity structures that curb the dynasty-poverty link as well as necessary reforms to constrain the proliferation of political dynasties in the Philippines.

Declaration of Competing Interest

The authors declare that they have no competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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Appendix

Fig. A

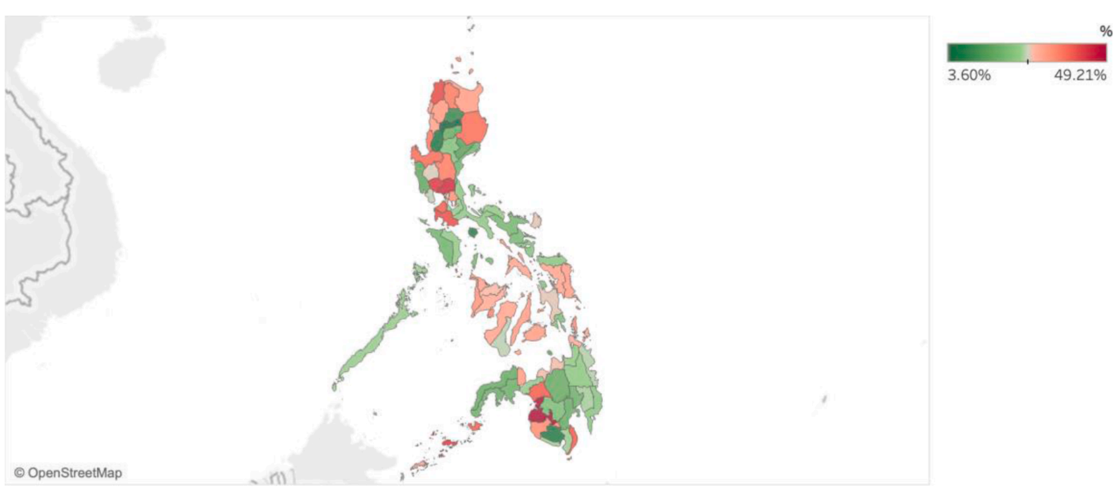

Fig. A. Distribution of Fat Political Dynasties across the Philippines in 2016.

Fig. B

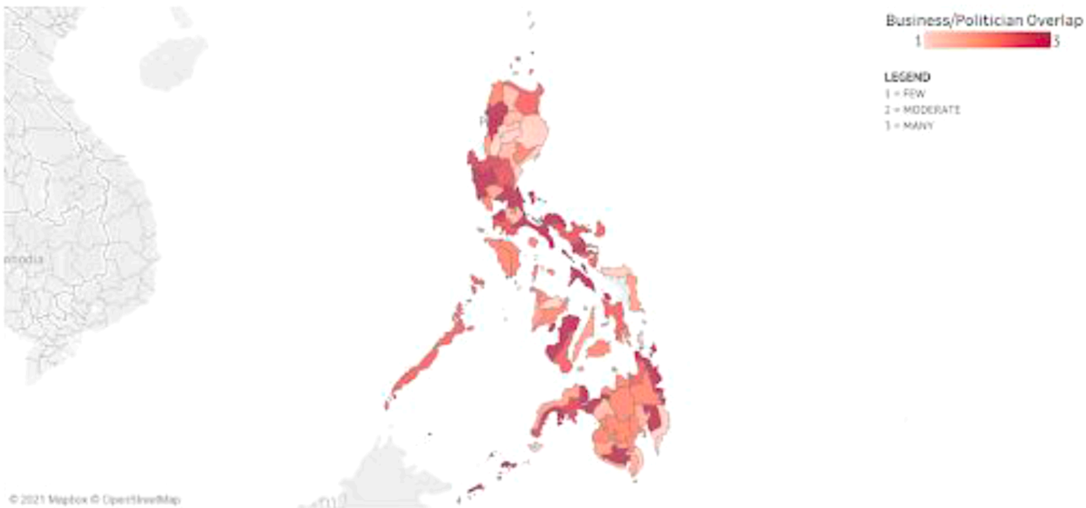

Fig. B. Distribution of Politician Ownership over Businesses across the Philippines in 2016.

Table A

Table A
Effect of Political and Economic Factors on Poverty using the National Sample.

	Political Factor(1)	Economic Factors(2)	Political and Economic Factors(3)	Controls(4)
Intercept	0.308*** (0.02)	0.241*** (0.01)	0.261*** (0.02)	0.008 (0.08)
Fat Dynasty Share	−0.236** (0.09)		−0.087 (0.08)	0.214** (0.07)
Business Dynamism, logged		−0.037*** (0.004)	−0.036*** (0.004)	−0.0007 (0.004)
Ownership		0.031** (0.01)	0.03** (0.01)	0.017* (0.01)
IRA, logged				−0.0485** (0.02)
Distance from Manila, logged				0.078*** (0.009)
Chisq	7.625	99.9602	101.093	206.835
Chisq P.Value	<0.05	<0.01	<0.01	<0.01

Standard errors in parentheses
*** $p<0.01$
** $p<0.05$
* $p<0.1$

Table B

Table B
Effect of Political and Economic Factors on Poverty using the Luzon Sample.

	Political Factor(1)	Economic Factors(2)	Political and Economic Factors(3)	Controls(4)
Intercept	0.310*** (0.02)	0.216*** (0.02)	0.266*** (0.03)	0.238* (0.09)
Fat Dynasty Share	−0.507*** (0.09)		−0.273** (0.09)	−0.102 (0.08)
Business Dynamism, logged		−0.04*** (0.004)	−0.035*** (0.005)	−0.0008 (0.007)
Ownership		0.021 (0.01)	0.026* (0.01)	0.026* (0.01)
IRA, logged				−0.056*** (0.01)
Distance from Manila, logged				0.055*** (0.01)
Chisq	34.2816	82.3436	96.7388	137.607
Chisq P.Value	<0.01	<0.01	<0.01	<0.01

Standard errors in parentheses
*** $p<0.01$
** $p<0.05$
* $p<0.1$

Table C

Table C
Effect of Political and Economic Factors on Poverty using the Non-Luzon Sample.

	Political Factor(1)	Economic Factors(2)	Political and Economic Factors(3)	Controls (4)
Intercept	0.246*** (0.03)	0.259*** (0.02)	0.206*** (0.03)	−0.848*** (0.2)
Fat Dynasty Share	0.285 (0.1)		0.246* (0.1)	0.706*** (0.1)
Business Dynamism, logged		−0.027*** (0.006)	−0.02*** (0.005)	−0.006 (0.006)
Ownership		0.047*** (0.01)	0.043** (0.01)	0.010 (0.01)
IRA, logged				−0.062*** (0.02)
Distance from Manila, logged				0.199*** (0.03)
Chisq	6.26136	26.7227	31.9471	71.1652
Chisq P.Value	<0.05	<0.01	<0.01	<0.01

Table D

Table D
Effect of Political and Economic Factors on Poverty using Panel Fixed Effects Regression.

	Full Sample(1)	Luzon Sample (2)	Non-Luzon Sample (3)
Fat Dynasty Share	−0.03 (0.09)	−0.11 (0.10)	0.33** (0.15)
Business Dynamism, logged	−0.04*** (0.005)	−0.03*** (0.01)	−0.02*** (0.01)
Ownership	0.01 (0.01)	0.01 (0.01)	0.02 (0.02)
IRA, logged	0.04* (0.02)	0.01 (0.03)	0.06** (0.03)
N	386	189	197
F. Statistic	15.71***	11.67***	5.33***

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