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Decentralization and the Politics of Local Taxation in Southeast Asia

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M.A., National University of Singapore, 2011

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An abstract of

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## Abstract

### Decentralization and the Politics of Local Taxation

By Ryan Tans

Why do otherwise similar cities in Southeast Asia vary in their capacity to generate tax revenue? In this dissertation, I argue that local business associations drive increases in property taxation to enable cities to spend on infrastructure, but only if they can resolve two political problems that commonly bedevil taxation. Business associations must build a distributional consensus, and they must forestall local officials from diverting new revenues away from business-friendly projects. It takes strong and influential business associations to resolve these problems. This argument proceeds from an understanding of the political obstacles to taxation as collective action and commitment problems, rather than a mere lack of accountability for public officials. In making this argument, I challenge dominant political economy accounts that view tax policies as outcomes of either class conflict or patronage politics. Instead, I adopt an extended “fiscal contracts” approach which emphasizes the role of private sector associations as an institution that underpins an exchange of taxes for services between taxpayers and governments. My findings show that strong local business associations resolve distributional conflict and monitor public spending to varying degrees in four Indonesian and three Philippine cities, and draw on interviews, administrative documents and press reports as well as national statistical data. This dissertation explains why similar local governments enact different tax policies, and in doing so it poses a partial explanation for geographically uneven development. Furthermore, it delineates the conditions under which self-interested economic elites agree to fund public goods, thereby joining a rich tradition of work that casts public goods as a by-product of rent-seeking politics.

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My wife, Ida, endured long absences and hours spent writing without ever losing her infectious optimism. I could never remain discouraged for long because she wouldn't let me. The ideas here grew during thoughtful conversations with her about the political obstacles to public service provision.

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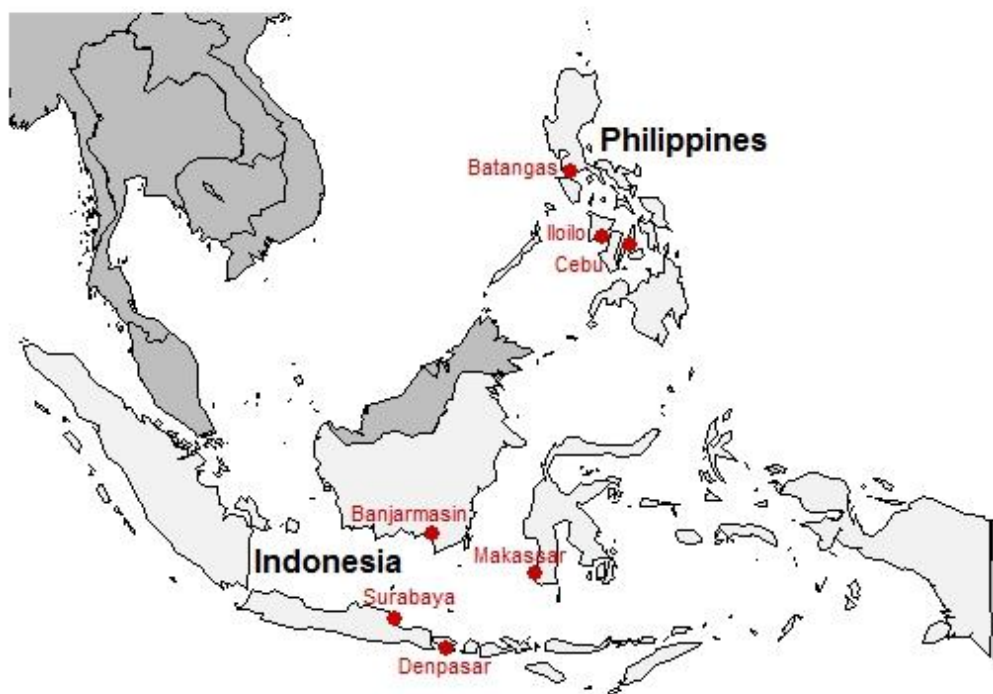
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## List of abbreviations and glossary

APBI	Asosiasi Pertambangan Batubara Indonesia (Indonesian Coal Mining Association)
Apersi	Asosiasi Pengembang Perumahan dan Pemukiman Seluruh Indonesia (All-Indonesia Community and Housing Developers Association)
Bappeko	Badan Perencanaan Pembangunan Kota (City Development Planning Board)
BLGF	Bureau of Local Government Finance (Philippines)
BPS	Badan Pusat Statistik (Statistics Indonesia)
CBC	Cebu Business Club
Dispenda	Dinas Pendapatan Daerah (Regional Revenue Agency)
DJPK	Direktorat Jenderal Perimbangan Keuangan (Directorate General for Fiscal Balance)
DPRD	Dewan Perwakilan Rakyat Daerah (Regional People's Representative Assembly)
<i>fasum</i>	<i>fasilitas umum</i> (public facilities)
GDP	gross domestic product
ILED	Iloilo Economic Development Foundation
IMF	International Monetary Fund
KADIN	Kamar Dagang dan Industri Indonesia (Indonesian Chamber of Commerce and Industry)
<i>kecamatan</i>	sub-district (Indonesia)
<i>kelurahan</i>	neighborhood (Indonesia)
Kepco	Korean Electric Power Corporation
MICE	meetings, incentives, conferencing, exhibitions
MNC	multinational corporation
PD PAL	Perusahaan Daerah Pengolahan Air Limbah (Wastewater Treatment City Enterprise)
PDI-P	Partai Demokrasi Indonesia – Perjuangan (Indonesian Democratic Party of Struggle)
PSA	Philippine Statistics Authority

REI	Real Estate Indonesia
RTRW	Rencana Tata Ruang Wilayah (Land Use Master Plan)
SIER	Surabaya Industrial Estate Rungkut
<i>tol tengah kota</i>	central city toll expressway

## Map of Southeast Asia



# **1 The Institutional Underpinnings of Fiscal Contracts:**

## **Theory and Cases**

Several Southeast Asian states have recently decentralized political, administrative, and fiscal authority to subnational governments. The most far-reaching programs were enacted in Indonesia and the Philippines, where reformers sought to check central authority during transitions to democracy. At their best, decentralizing reforms make government more accountable to citizens and empower local governments to invest in their own development. Yet, successful decentralization requires local governments to exercise their newfound powers of taxation to finance new service delivery responsibilities, and the capacity of local governments to generate tax revenue varies widely.

Indonesia and the Philippines both seem well suited to decentralized democracy. Their decentralization programs are well-designed, in that they assign administrative responsibilities and tax powers to advisable levels of government (Oates 1999, World Bank 2005). They are the only stable democracies in Southeast Asia. And their current arrangements build on historical traditions of decentralized, consultative decision-making naturally suited to archipelagic societies. Yet, despite their apparent advantages, not all local governments embraced the new powers. While some cities aggressively cultivated new sources of revenue and invested in expensive new infrastructure, others dithered, seemingly unable to realize the potential benefits of decentralization.

Why do otherwise similar cities in Southeast Asia vary in their capacity to generate tax revenue? In this dissertation, I argue that differences in the influence and

cohesiveness of local business associations explain differences in local tax policies. Specifically, local businesses drive increases in property taxation to enable cities to spend on infrastructure, but only if they can resolve two political problems that commonly bedevil taxation. Businesses must reach a distributional consensus, and they must forestall local officials from diverting new revenues away from business-friendly projects. It takes strong and influential business associations to resolve these problems.

I show that strong local business associations resolve distributional conflict and monitor public spending to varying degrees in four Indonesian and three Philippine cities, drawing on data from interviews, administrative documents and press reports as well as national statistical data. I build my case upon three types of comparisons. Within-case analysis of change over time and controlled comparisons between similar cities demonstrates that my approach explains within country variation better than contending approaches. A cross-national comparison between Indonesia and the Philippines, which exhibit similar outcomes despite certain national differences, implies that these findings may travel to other developing countries that similarly combine fiscal autonomy and local elections.

In making this argument, I challenge dominant political economy accounts that view tax policies as outcomes of either class conflict or patronage politics. Instead, I adopt an extended “fiscal contracts” approach which emphasizes the role of private sector associations as an institution that underpins an exchange of taxes for services between taxpayers and governments. This approach proceeds from a more nuanced understanding of the political obstacles to taxation than are typically found in the literature on decentralization. Specifically, I contend that mere accountability for public officials is



insufficient to produce efficient taxation; rather, taxation demands political capacity to create consensus and build credibility.

The argument has implications for three interrelated questions about local government. First, what are the local institutions that enable effective taxation under decentralization? Local tax policies vary despite nationally uniform—and technically correct—tax powers, implying that local variables modify the effects of national tax assignments. Specifically, local institutions sustain political support for taxation in some places but not others. This dissertation goes beyond the existing emphasis on electoral and legislative institutions to explore the importance of private sector associations for “making decentralization work”.

Second, under what conditions do local governments successfully promote local development? Local governments enhance their capacity to finance public goods when they generate their own revenue, but different types of taxes have different consequences for economic efficiency, with property taxes generally being regarded as the most economically efficient local tax. All else equal, local governments that increase property taxes at the expense of other sources of revenue will achieve faster economic growth through more efficient economies, less economic inequality and better capacity to finance public goods. This dissertation explains why similar local governments enact different tax policies, and in doing so it poses a partial explanation for geographically uneven development.

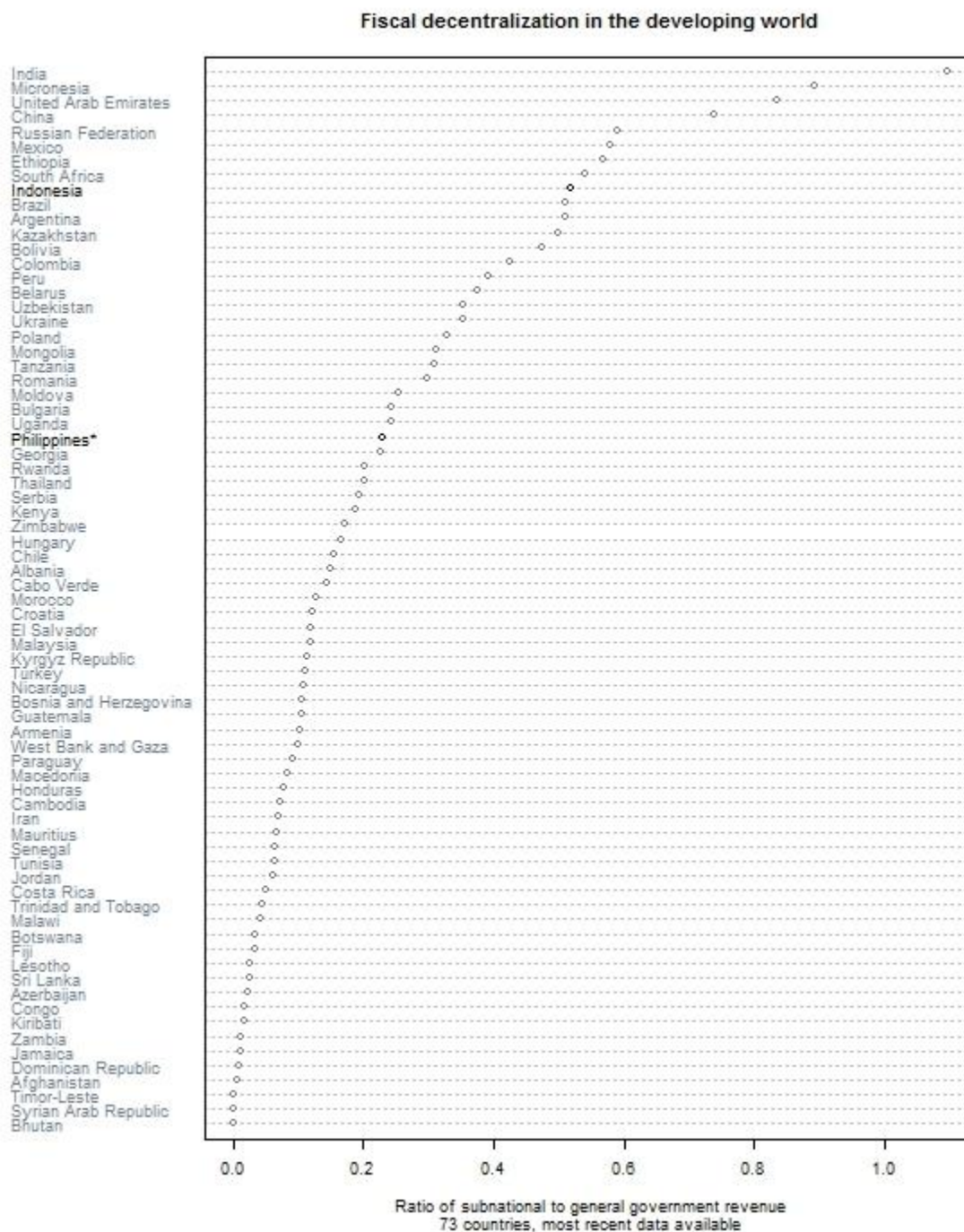
Third, what are the effects of elite capture on decentralized local government? The conventional wisdom blames elite capture for many of decentralization’s shortcomings, contending that decentralization fails to produce efficient and accountable

government because local economic elites hijack local government to defend their privilege and engage in rent-seeking. In contrast, this dissertation credits elite capture for decentralization's success. It delineates the conditions under which self-interested economic elites agree to fund public goods, thereby joining a rich tradition of work that casts public goods as a by-product of rent-seeking politics.

### **THE CASES IN CONTEXT**

Indonesia and the Philippines constitute a surprisingly representative sample of local tax capacity in the developing world, sharing many national characteristics in common with other developing countries while capturing nearly the full range of variation in tax capacity. Specifically, four useful features make them well-suited to research on local taxation. First, they share similarly designed decentralization programs that delegate administrative, fiscal, and political responsibilities to local (not provincial) governments. Second, local autonomy has produced significant variation in property tax capacity across cities within both countries, generating opportunities for illuminating subnational comparisons. Third, Indonesia and the Philippines share political institutions and development challenges in common with many other developing countries. Fourth, variation in property tax capacity across Southeast Asian cities mirrors broader cross-national variation in the developing world. Taken together, Indonesia and the Philippines offer the promise of producing research findings that hold not only across cities within each country, but also more broadly across decentralized democracies in the developing world.

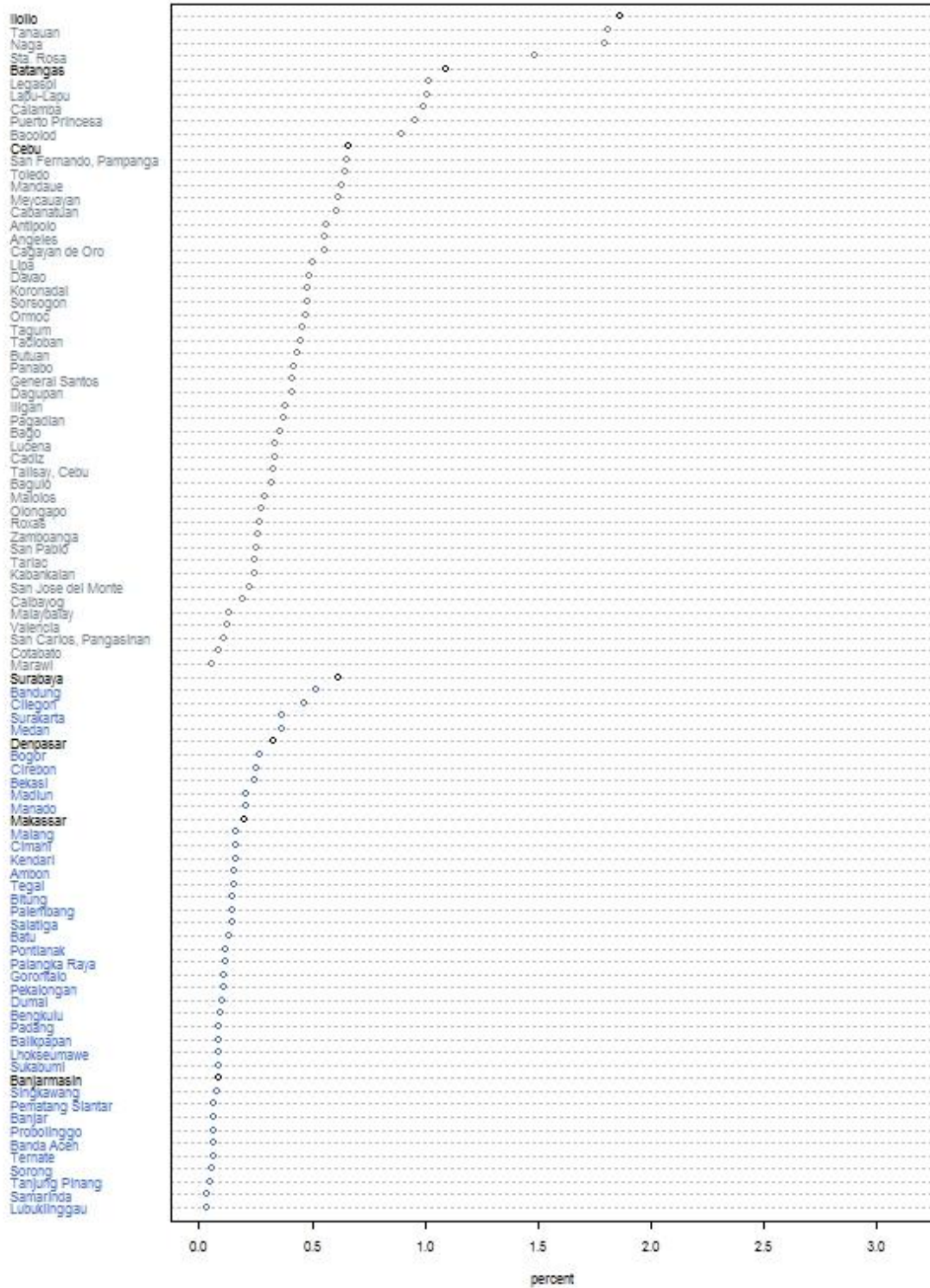
FIGURE 1.1



Source: IMF GFS 2017

**FIGURE 1.2**

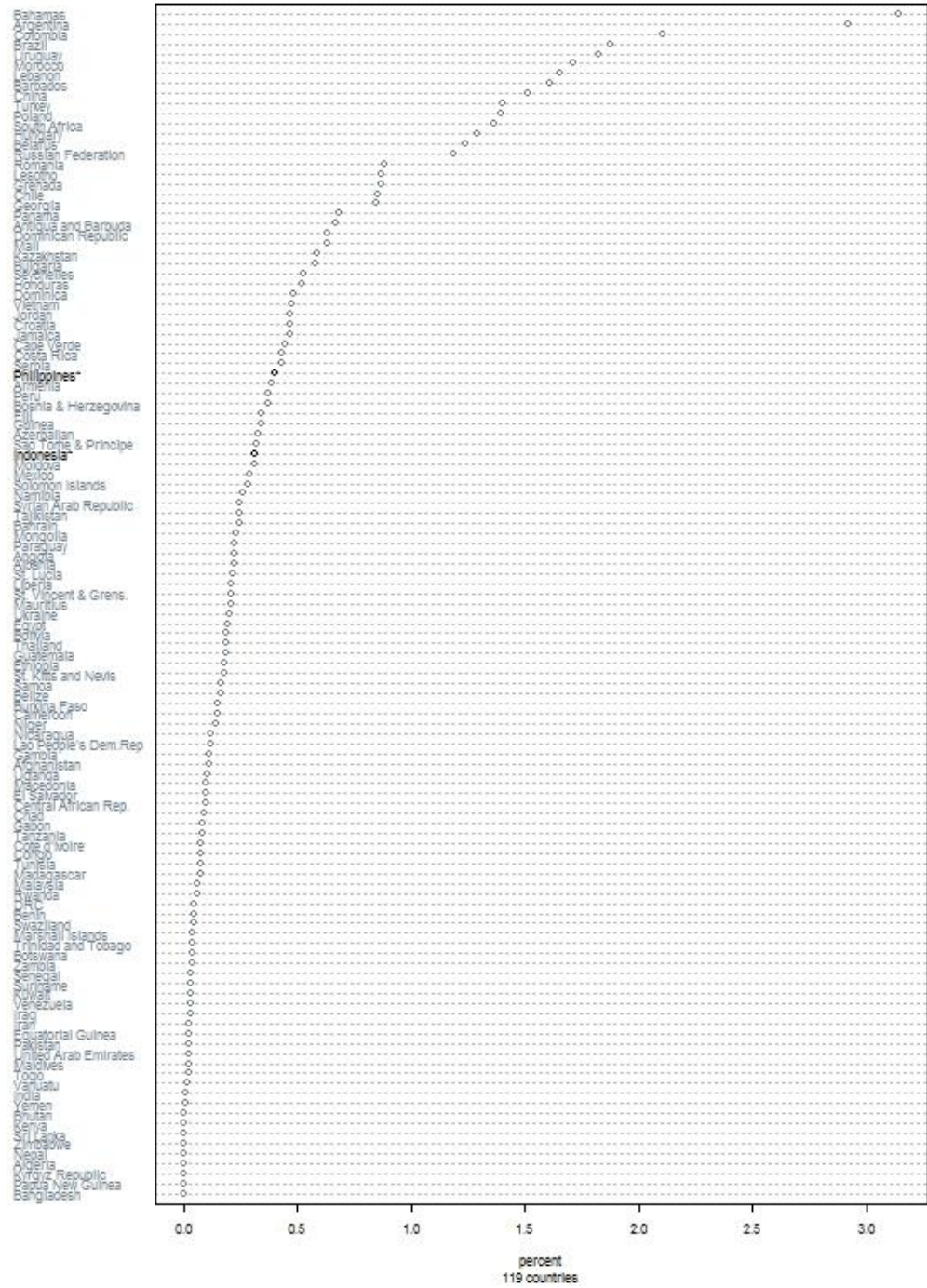
**Property Tax Revenue as a Percent of GDP  
Philippines (above) and Indonesia**



Source: BLGF 2014, DJPK 2014, PSA no date, BPS no date, BPS 2010, PSA 2010.

**FIGURE 1.3**

**Property Tax Revenue as a Percent of GDP  
Developing economies**



Source: IMF World 2017.

Decentralization in Indonesia and the Philippines was well-designed, according to the policy prescriptions in the public finance literature. In both countries, administrative, fiscal, and political reforms bestowed, within limits, genuine policy autonomy upon local governments, often at the expense of provincial governments (Balisacan and Hill 2007, Schulte-Nordholt 2003, Aspinall and Mietzner 2010).<sup>1</sup> The reforms delegated administrative responsibility to provide health, education, and other social services; fiscal responsibility to manage large budget allocations from the central government as well as to administer specific local taxes such as the property tax; and political responsibility in the form of elections for local executive and legislative offices reinstated after years of disuse under authoritarian rule.<sup>2</sup> These reforms correspond to three distinct types of decentralization: administrative, fiscal, and political (Falleti 2005).<sup>3</sup>

These institutional reforms achieved significant changes in the practice of local government. Figure 1.1 illustrates the practical impact of decentralization in Indonesia and the Philippines according to a measure near and dear to the heart of every public official—control over public revenue.<sup>4</sup> The figure arrays developing countries according to a widely used, albeit imperfect, measure of fiscal decentralization which calculates the share of public revenues controlled by subnational governments by taking the ratio

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<sup>1</sup> Rural “municipalities” in the Philippines are the exception, because unlike Philippine cities or Indonesia *kota* and *kabupaten* (cities and districts), they share fiscal and administrative responsibilities with provincial governments.

<sup>2</sup> Prior to authoritarian rule, however, the Philippines had a much longer and more robust history of local autonomy (Hutchcroft 2000).

<sup>3</sup> Falleti defines each type of decentralization as follows: administrative decentralization entails transferring “the administration and delivery of social services such as education, health, social welfare, or housing to subnational governments”. Fiscal decentralization increases “the revenues or fiscal autonomy of subnational governments”, which can be accomplished by decentralization of expenditures through fiscal transfers, decentralization of taxation, or both. Political decentralization, finally, devolves “political authority or electoral capacities to subnational actors”, including but not limited to local elections.

<sup>4</sup> Subnational revenue for the Philippines is missing from the Government Finance Statistics dataset, so I substituted data from BLGF (2014).

between subnational revenues and the “general” government budget<sup>5</sup> as reported to the IMF (Dziobek, et al 2011; Prichard 2014; Smoke, et al 2006).<sup>6</sup> The figure shows that both Indonesia and the Philippines have decentralized significant fiscal authority. Indonesia appears near the top of the figure among the most fiscally decentralized countries in the developing world, rubbing shoulders with federations such as Mexico, Brazil, and Argentina. While the Philippines is lower than Indonesia, it is still well above the median country (Morocco), indicating significant fiscal decentralization.

Thus, decentralization is similar in practice and design in Indonesia and the Philippines. Yet, at the local level, tax capacity varies greatly across cities within each country. Figure 1.2 depicts this variation across 51 Philippine and 42 Indonesian cities, measured in terms of property tax revenue as a percent of local GDP in the year 2014.<sup>7</sup> The figure shows that property tax capacity ranges from zero to 0.6 percent of GDP in Indonesia, and from 0.05 to 1.9 percent of GDP in the Philippines. This variation, arising despite uniform fiscal powers, poses the empirical puzzle at the heart of this dissertation.

Variation in property tax capacity across cities within Indonesia and the Philippines mirrors cross-national variation across the developing world. Figure 1.3 presents property tax capacity in 119 developing countries, measured in the same units as

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<sup>5</sup> I substitute central revenue figures for countries which do not report “general” government revenues to the IMF. Hence, the ratio can exceed one.

<sup>6</sup> In the IMF dataset, subnational revenues include both intergovernmental transfers and “own-source revenues” collected at the subnational level, while general government revenues include both central and subnational revenues.

<sup>7</sup> The figure includes cities with populations larger than 150,000, and excludes cities in the Philippines’ National Capital Region (NCR) and Indonesia’s Special Capital Region (Daerah Khusus Ibukota, or DKI). There are an additional fourteen Indonesian cities which meet these criteria but are absent from the figure because I lack property tax data for them. I calculated city level GDP by multiplying city population times regional (Philippines) or provincial (Indonesia) GDP per capita (BPS no date, PSA no date).

Figure 2 (property tax revenue as a percent of GDP).<sup>8</sup> Comparing Figures 2 and 3 reveals that within-country variation in Southeast Asia (especially in the Philippines) captures the full range of cross-country variation in the developing world, excepting Bahamas, Argentina and Colombia which exceed two percent of GDP.<sup>9</sup>

In more general respects, Indonesia and the Philippines also resemble typical lower-middle income countries. They face similar development challenges, as they struggle to sustain growth, redress inequality and cope with urbanization. They endured authoritarian rule during the Cold War and transitioned back to democracy as part of the “third wave” of democratization. They adopted decentralization reforms, including fiscal decentralization, during the transition to democracy. Today, Indonesia and the Philippines are but two of many states in the developing world that have decentralized fiscal and political institutions. Table A.1 in the Appendix, for example, lists 42 countries in Asia, Africa and Latin America that combine decentralized property taxation and local elections.

## **THE ARGUMENT IN CONTEXT**

Cities in the developing world must overcome obstacles to taxation in order to cultivate stable, efficient sources of revenue that can finance much-needed infrastructure and other public goods. The property tax is the most economically efficient local tax according to literature on public finance, yet many local governments neglect it because it is politically unpopular and administratively challenging (Bird 2010, Rosengard 1998).

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<sup>8</sup> In the WoRLD dataset (IMF 2017), property tax revenues for both Indonesia and the Philippines include only central property tax collections while excluding local property tax collections. Therefore I have corrected the figures to include combined central and local property tax revenues by consulting BLGF (2014) and DJPK (2016). However, the uncorrected figures are presented in Figure A.2, in the Appendix.

<sup>9</sup> For comparison, property tax revenue in the developed world is uniformly distributed between 0 and 4 percent of GDP (Appendix Figure A.1).



Scholars of decentralization in both public finance and political science have theorized that local officials neglect property taxes because they are insufficiently held accountable to citizens who demand high quality, cost-effective public services. Yet, hypotheses based on this theory have struggled to account for subnational variation.

I submit that both of these literatures have misunderstood the nature of the political problems posed by taxation. Taxation involves broad social debates about distributional fairness as well as questions about the trustworthiness of government, meaning that it poses both a collective action and a commitment problem. Accountability enables citizens to punish poor performance, but it does not create capacity to resolve these problems. Rather, scholars of decentralization should look beyond mere accountability and focus on institutions that constrain free-riding and facilitate credible commitments.

The New Institutional Economics specifies more precisely the nature of these problems (Doner and Schneider 2000). First, the incentive to free-ride stymies collective action. Coordinated action in the pursuit of some collective goal is difficult to sustain because each individual has an incentive to free-ride on the efforts of others, while still enjoying the collective benefit of others' efforts (Olson 1965). This problem is particularly fraught with respect to taxation, because each taxpayer would prefer to rely on others to pay taxes that fund roads, health and education, while personally evading their own obligation.

The problem can be resolved if some consensus about how to distribute the burden of taxation can be negotiated and enforced. This process must determine not only who pays taxes and how much, but also who will benefit from public spending. There are

multiple, competing philosophies about what types of tax distributions are “fair” (Scheve and Stasavage 2016), but without some consensus the incentive to free-ride will make taxation extremely difficult. Taxpayers who do not trust their neighbors to pay will evade their liabilities more energetically, increasing the costs of tax administration and decreasing overall tax revenues.

Second, commitment problems undermine exchanges that unfold over time (Greif 2000). When one party to a transaction pays before the other, the second party has an opportunity to “take the money and run”. In the case of taxation, it is taxpayers who must pay now and trust that they will benefit later from government spending.

The solution to this problem requires a system of monitoring and sanctions that “tie the hands” of the government, ensuring that officials cannot repurpose public revenue for private or political gain. Official promises about taxation will be credible if taxpayers themselves can monitor public spending. Otherwise, disbelieving taxpayers will oppose new taxes and evade existing ones.

In Southeast Asia, these problems are acute. Diverse forms of economic inequality exacerbate distributional conflict. For example, wealth inequality erodes common ground between rich and poor, informality exempts many small and medium enterprises from taxation, and insecure land tenure increases uncertainty about who will benefit from public spending. Credible commitments are, if anything, even more elusive. Journalists have documented chronic misuse of public funds at all levels of government, breeding public cynicism and eroding government credibility. Exacerbating the problem, taxpayers know that they will have difficulty tracking the path of funds through the

budgeting process, making it easy for officials to break their promises about spending new revenue.

Mere accountability, construed as the power to punish poor performance, cannot overcome these problems.<sup>10</sup> Negative incentives cannot create political capacity to organize distributional consensus and to underwrite credible commitments. Rather, officials must devote sustained attention to negotiating consensus and building credibility, without guarantee of success, to resolve the political problems associated with taxation. In the face of such challenges, it is little wonder that few local governments emphasize politically unpopular, administratively difficult taxes like the property tax. More puzzling are the few instances in which governments actually do increase property taxes.

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

This approach is built around the assumption that elections solve a collective action problem on behalf of the poor majority. Simply by voting, poor citizens can

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<sup>10</sup> Accountability defined more broadly as the power to monitor government finances helps to solve the commitment problem. However, many studies of local taxation do not clearly distinguish between these two related meanings.

organize majority consensus in favor of redistributive tax policy. But this approach ignores the commitment problem. In practice, voters may not support redistributive taxes if they do not trust public officials to use those revenues to benefit them.

Furthermore, the class conflict framework fits poorly in the context of local electoral politics in Southeast Asia. First, local governments typically do not redistribute directly. They provide services that benefit both rich and poor, such as policing, roads, sanitation, education and health, so local elections should be less class-based than national ones. Second, elections in Southeast Asia are often characterized by “political market imperfections” (Keefer and Khemani 2005). Voters are not sure what incumbents achieved in office, and do not believe candidates’ promises, so elections do not aggregate broad demand for policy. Weak, volatile and indistinguishable political parties, especially in the Philippines, further impoverish what is an already information-poor political environment (Hicken 2015; Hutchcroft and Rocamora 2012). As a result, elections are contested on the basis of patronage and handouts, empowering elites who have resources, including from criminal enterprises, to influence the outcome of elections (Aspinall and Mada 2016, Hadiz 2010, McCoy 2009).

The second approach, which views tax policy as a source of patronage, is more in keeping with Southeast Asia’s well-established reputation for distributive politics. Elected officials reward their supporters by selectively exempting them from tax obligations. Therefore, tax revenues should fall as elections become more competitive, because candidates will promise tax breaks to ever more voters (Scott 1972). Although Scott was writing about national politics, this tendency is likely to be even more pronounced in local politics because officials can count on central transfers and

presidential patronage to bail them out if they bust the budget (Hutchcroft 2012; Rodden 2002). Conversely, less competitive elections should allow powerful incumbents to extract higher taxes without jeopardizing their positions, a proposition for which Rogers (2014) finds evidence among Argentine provinces. In the Philippines, Sidel (1999) describes politically entrenched “bosses” who exploit the state’s coercive and regulatory powers to seize control of the “commanding heights” of the local economy.<sup>11</sup> Thus, whereas class-conflict approaches expect to find a positive relationship between tax revenues and the competitiveness of elections, patronage approaches hypothesize a negative one.

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

Furthermore, while the patronage approach recognizes “political market imperfections”, it has difficulty explaining cases of successful tax reform. Both Scott and Sidel show how officials exploit the state’s fiscal power as a political weapon, but neither explains why they might attempt to increase taxes broadly and equitably. Furthermore, the very incentives that tempt officials to politicize tax policy undermine the state’s capacity to administer taxes by sowing suspicion and provoking resistance, especially among opponents of the current incumbent. As a result, easy taxes, like user fees, are

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<sup>11</sup> Sidel’s argument, however, has nuanced tax implications. Bosses are likely to increase taxes on opponents and possibly supporters, while reducing taxes on themselves. Thus, the expected effect on overall revenues would depend on the extent of the boss’ personal stake in the local economy.

probably more susceptible to patronage manipulation than property taxes, which are more politically controversial and administratively demanding.

The third approach, finally, assumes that citizens' willingness to pay taxes depends on the terms of a "fiscal contract" under which taxpayers agree to taxes in exchange for useful public services (Lieberman 2002, Timmons 2005). For example, studies on national political economies of taxation have proposed that economic elites submit to taxation in exchange for political representation (Ross 2004), security (Slater 2010), or racial privilege (Lieberman 2003). At the local level, fiscal capacity in America's colonies coalesced where participatory democracy compelled "officials to negotiate with their constituents about the details of sophisticated policy regimes" (Einhorn 2009: 171). This approach is especially useful in the context of Southeast Asia, because many local governments cannot even assess tax obligations accurately, much less compel citizens to pay. Under these conditions, the "quasi-voluntary compliance" of wealthy citizens is a necessary condition to enable local governments to emphasize efficient, progressive sources of revenue like the property tax (Levi 1989).

Yet, this literature is vague with respect to the political institutions that underpin fiscal contracts. Studies that focus on distributional conflict explain taxpayer consent by pointing to the power of "social solidarity" (Feldman and Slemrod 2009), the extent of "moral obligation" (Lieberman 2009), and public standards of "tax fairness" (Scheve and Stasavage 2016). Meanwhile, studies that focus on the threat of opportunistic behavior by public officials submit that parliaments (North and Weingast 1989), independent bureaucracies (Weingast 1990), political parties and labor unions (Timmons 2010) generate credibility by protecting their constituents from predatory states. However, these

arguments fail to specify how variation in the character of an institution modifies its effect on fiscal capacity, partly because they consider distributional conflict and the threat of opportunism separately. As a result, they struggle to explain subnational variation.

I address this gap by contending that strong, encompassing business associations provide the institutional underpinnings for successful fiscal contracts. Businesses are a key group of taxpayers, and their associations, as economic institutions, shape their incentives to pay taxes. Incorporating the effects of variation among business associations within a fiscal contracts framework generates more nuanced hypotheses about the conditions under which businesses are willing to pay taxes.

Specifically, business associations vary along three key dimensions, according to Schneider (2004). In contrast to narrowly organized sectoral organizations, *encompassing associations* represent a broad variety of firms across multiple industries. *Cohesive associations* have sufficient organizational strength, deriving from “material resources and internal intermediation”, to mediate among competing interests and influence member firms’ behavior. Finally, *connected associations* have privileged access to policy-makers through regular, but not necessarily formal, consultation mechanisms.

Business associations that are encompassing, cohesive, and connected can be well-suited to resolve two key political problems that hinder taxation. First, they provide a forum in which businesses can mitigate distributional conflict by negotiating trade-offs, and second, they create mechanisms to monitor public spending through consultation with officials. When local business associations organize consensus and restrain opportunism, they encourage tax compliance by lending credibility to official promises about the benefits of taxation.

## **RESEARCH DESIGN**

My research design combines within-case analysis of individual cities, subnational comparisons across cities within Indonesia and within the Philippines, and a controlled comparison between Indonesia and the Philippines. Each layer of comparison serves a distinct inferential purpose. The first adjudicates among rival hypotheses; the second clarifies the relationship between each city case and the broader population of cities within the same country; and the third lays claim to “external validity” within an explicitly defined population of similar countries.

First, I analyze change over time within individual cities to adjudicate among rival hypotheses. The various approaches to taxation imply very different observable mechanisms as the link between local tax politics and tax outcomes, making it possible to eliminate hypotheses with respect to individual cases by comparing them to the observed mechanisms that play out within a single case over time. For example, the class conflict approach expects taxes to rise when voters demand taxes to “soak-the-rich”; the patronage approach expects taxes to rise when local “oligarchs” or “bosses” squeeze their political opponents; and the fiscal contracts approach expects taxes to rise when taxpayers demand better public services. I compare these expectations to the observed mechanisms at work in each case, finding evidence that taxes rise when business taxpayers are organized enough to demand better public infrastructure—a mechanism consistent with the fiscal contracts approach.

I observe mechanisms by drawing on interviews, press accounts, and government documents to reconstruct the sequence of events that led to a particular policy, and to identify key actors, their underlying interests, and their influence within the policy-



making process. These sources record the publicly stated opinions of key participants about the goals and effects of proposed policies, so to the extent that my interpretation of these sources is convincing, my claims about collective tax outcomes rest on individual “microfoundations” of the expressed intentions of city officials, tax bureaucrats, and businesspeople.

Second, I exploit subnational variation to compare cities that exhibit different outcomes despite sharing many otherwise similar characteristics. This logic, comparing “most similar cases with different outcomes”, enables a researcher to evaluate how well a particular explanation correlates with variation across cases. Explanations that cannot account for observed variation are ruled out, while explanations that accurately predict variation are strengthened. Thus, these comparisons define a population of “similar” cases, and identify explanations that hold across a specific range of values within this population. In other words, they define the relationship between individual city cases and the broader population of cities within the same country.

Furthermore, well-matched subnational cases will have more similarities than their cross-national counterparts, making subnational variation a more vexing puzzle and allaying concerns about omitted variable bias (Snyder 2001). Subnational comparisons enable greater control over shared national characteristics, while focusing attention on characteristics that vary locally. Smart case selection can control for additional variables, while maximizing variation on the key variables of interest.

This dissertation is particularly well-suited to the “subnational comparative method” because local governments possess uniform fiscal powers in both Indonesia and the Philippines, but the key dependent and independent variables all vary locally. All of

my city cases are provincial capitals, major population centers, and international ports, which operate within shared national contexts that include uniform fiscal autonomy and powers of taxation, overarching national party systems, and common national histories. On the other hand, my city cases vary in terms of tax policies and tax revenues, strength of business associations, competitiveness of elections, inequality, and the political role of patronage. Thus, my research design identifies a population of economically and institutionally similar provincial cities among which differences in the strength of local business associations explains variation in tax policies better than alternative explanations based on class-conflict or patronage.

Finally, my claim to “external validity” across a broader population of countries rests on a controlled comparison between Indonesia and the Philippines. Whereas my subnational comparisons adopt the logic of “most similar cases with different outcomes”, my cross-national comparison adopts the logic of “most different cases with similar outcomes”. In particular, this comparison shows that the organization of business affects local tax policy despite national differences between Indonesia and the Philippines.

According to Slater and Ziblatt (2013) controlled comparisons generate external validity when they “control for rival hypotheses” and “capture representative variation” among an “explicitly defined population of cases” (1311-1313). Thus, one key to establishing a claim for external validity is to argue that the cases in a controlled comparison are representative of a broader population of cases; in other words, to define the “population context” (Pepinsky 2014).

The “most different, similar outcome” design is well-suited to this purpose because it can “eliminate necessary causes (definitively)” by cataloguing many different

characteristics that did not ultimately preclude the similar outcome (Seawright and Gerring 2008, 298). For example, in Indonesia local governments receive more generous intergovernmental transfers than in the Philippines, effective property tax rates are lower, property tax assessment is bureaucratically more insulated from political interference, local governments have less experience administering the property tax, and the central state has a history of greater bureaucratic strength, yet despite these differences variation in the strength of business associations affects the tax policies of provincial cities in both Indonesia and the Philippines. Thus, all of these variables can be safely ignored when defining the broader population of cases that encompass Indonesia and the Philippines, at least within the range of variation captured by each variable.<sup>12</sup>

Instead, the population context is defined with reference to the similarities between Indonesia and Philippines. However, it is very difficult to determine which similarities delimit the population context, even when such choices are guided by theory. Some similarities are clearly relevant to my argument. Most basically, Indonesia and the Philippines are decentralized democracies in the developing world, with similarly empowered and autonomous local governments facing similar development tasks, most notably (for my purposes) the problem of inadequate infrastructure. A second set of similarities are clearly irrelevant, such as frequent volcanic eruptions and the use of spoons instead of chopsticks to eat rice. Theory expects a third set of similarities to work against the observed outcomes. For example, Indonesia and the Philippines share high levels of ethnic and linguistic diversity which many scholars believe inhibits the provision of public goods. Yet, strong business associations in both countries push local

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<sup>12</sup> So, for example, Indonesia and the Philippines represent a population of cases in which local governments receive intergovernmental transfers no larger than in Indonesia, nor smaller than in the Philippines—a wide range.

governments to upgrade infrastructure, a public good. Similarities of this type pose new puzzles, but they probably do not restrict the population context. Finally, there is a middle ground on which the relevance of shared characteristics is not so clear-cut either way. For example, both the Philippines and Indonesia have undergone transitions to democracy within the past forty years. Whether this is a defining feature of the broader population of cases depends on a theoretical judgment about whether, how and to what extent the process of democratization or legacy of authoritarianism affects business associations and local tax capacity. If authoritarian governments tend to “domesticate” business, then perhaps the claim of external validity should be limited to “young democracies”; otherwise, perhaps not.

Ultimately, the population context is never definitive because it involves a hypothetical judgment about which contextual variables do or do not shape the relationship between the dependent and independent variables. The choice of how broadly to define the population context comes down to personal preference (Gerring 2007; Pepinsky 2014), and I err toward defining it broadly and inviting future researchers to investigate the deviant cases that should have been excluded. Table A.1 presents the broadest possible population context for this project in the form of a partial list of developing countries with decentralized property tax administration and corresponding subnational elections. Forty-two countries meet these minimal criteria, but none, interestingly, from Southeast Asia (besides Indonesia and the Philippines). Rather, Indonesia’s and the Philippines’ Southeast Asian neighbors appear in Table A.2 which, with Table A.3, presents the countries that are excluded from the population context.

In sum, my research is designed to adjudicate among class-conflict, patronage, and fiscal contract approaches to taxation within provincial cities in decentralized democracies in the developing world. I employ within-case analysis to show that the fiscal contract approach best fits the mechanisms that produce change over time within individual cases; a “most similar, different outcome” subnational comparison to show that the fiscal contract approach best explains variation among a broader population of “similar” provincial cities within the same country; and a “most different, similar outcome” cross-national comparison to stake a claim to external validity within a broadly defined population of decentralized democracies in the developing world.

## **FINDINGS AND PLAN OF THE DISSERTATION**

I draw on approximately 140 Indonesian-language interviews, 100 English-language interviews, 350 administrative documents and 2,500 news clippings to show that business associations, to the extent that they are encompassing, cohesive, and connected, can be well-suited to resolve two problems that bedevil taxation. They provide a forum in which businesses can mitigate distributional conflict by negotiating trade-offs, and they create mechanisms to monitor public spending through consultation with officials. When local business associations organize consensus and restrain opportunism, they encourage tax compliance by lending credibility to official promises about the benefits of taxation.

I spent eight months collecting data in the Philippines during 2014-2015. I conducted research in three cities, which varied according to property tax revenue, competitiveness of elections, and business organization, in order to assess the effects of electoral politics and business resistance on local tax policies, because at this early stage

of the project I was focused on a class-conflict approach to taxation. Evidence from the Philippines did not support my early approach, however. Tax legislation in Iloilo, Batangas, and Cebu showed no clear relationship to the competitiveness of the preceding election. In fact, property tax reform was most successful when executed under the watchful eye of a strong business community—not over the resistance of a weak business community.

The contrast between the cities of Iloilo and Batangas usefully parses alternative explanations (Chapter 3). On the one hand, the competitiveness of elections did not have a clear effect on decisions about tax policy in either city (Table 1). On the other hand, business associations exerted clear and direct influence on tax policy. These cities, both of them major ports and provincial capitals, shared similar problems with inadequate and crumbling infrastructure, but their communities responded in different ways.

**TABLE 1.1:** Property tax legislation and elections in the Philippines

	<i>Competitive elections</i>	<i>Non-competitive elections</i>
<i>Tax hike</i>	<b>Iloilo 2011</b>	<b>Iloilo 2014 Iloilo 2005</b>
<i>Tax freeze</i>	<b>Batangas 2013</b>	<b>Batangas 1995-2012</b>

In Iloilo, a local business association, the Iloilo Economic Development Foundation (ILED), organized support for a huge infrastructure drive that reshaped the city between 2005 and 2015, resolving distributional conflict among local businesses in the process. To fund the effort, ILED negotiated with the city government to increase taxes gradually but steadily, agreeing to new tax ordinances in 2005, 2007, 2011, and

2014. During this time, ILED and the business community vigorously monitored public spending.

In Batangas, by contrast, local businesses were so divided that they could not even articulate unified support for the construction of a new bridge after typhoons destroyed two existing bridges, much less agree to new tax measures. When in 2013 the city government tried to increase property taxes, local businesses were too weak to influence the bill. Instead, they enfeebled it with litigation and civil disobedience. As a result, property tax revenues have quintupled in Iloilo since 2001, but stagnated in Batangas.

These findings prompted my departure from the class-conflict approach. In its place, I generated new hypotheses consistent with the fiscal contracts approach, but augmented by incorporating Schneider's emphasis on the role and structure of business associations as the institutional basis for private sector tax compliance. I tested these new hypotheses during nine months in Indonesia during 2015-2016. I selected four cities that exhibit the full range of revenue capacity—Surabaya (high), Makassar and Denpasar (intermediate), and Banjarmasin (low)—and I expected that variation in the encompassingness, cohesiveness, and connectedness of business associations would explain differences in fiscal capacity (Figure 1.4).

Local tax policy in Indonesia presents a “hard test” for my hypotheses, for two reasons. First, property taxes are lower in Indonesia, so businesses have less incentive to try to influence local tax policy. Second, unlike in the Philippines where mandatory public hearings and city council deliberations create opportunities for monitoring, the policy process in Indonesia is more opaque and informal. As a result, it is more difficult

for Indonesian businesses to monitor local fiscal policy. Nevertheless, the ability of business associations to forge distributional consensus and monitor public spending proved central to attempts to increase property taxes in these Indonesian cities, too.

In the extreme cases of Surabaya and Banjarmasin, the effect of business associations on tax policy contrasted starkly (Chapter 4). In Surabaya, where fiscal capacity was highest, a property developers association, REI, worked closely with City Hall to develop city planning priorities, and subsequently supported tax increases. By contrast, in Banjarmasin where fiscal capacity was lowest, businesses cared little about local development, because the key economic activity in the region was mining and exporting coal.

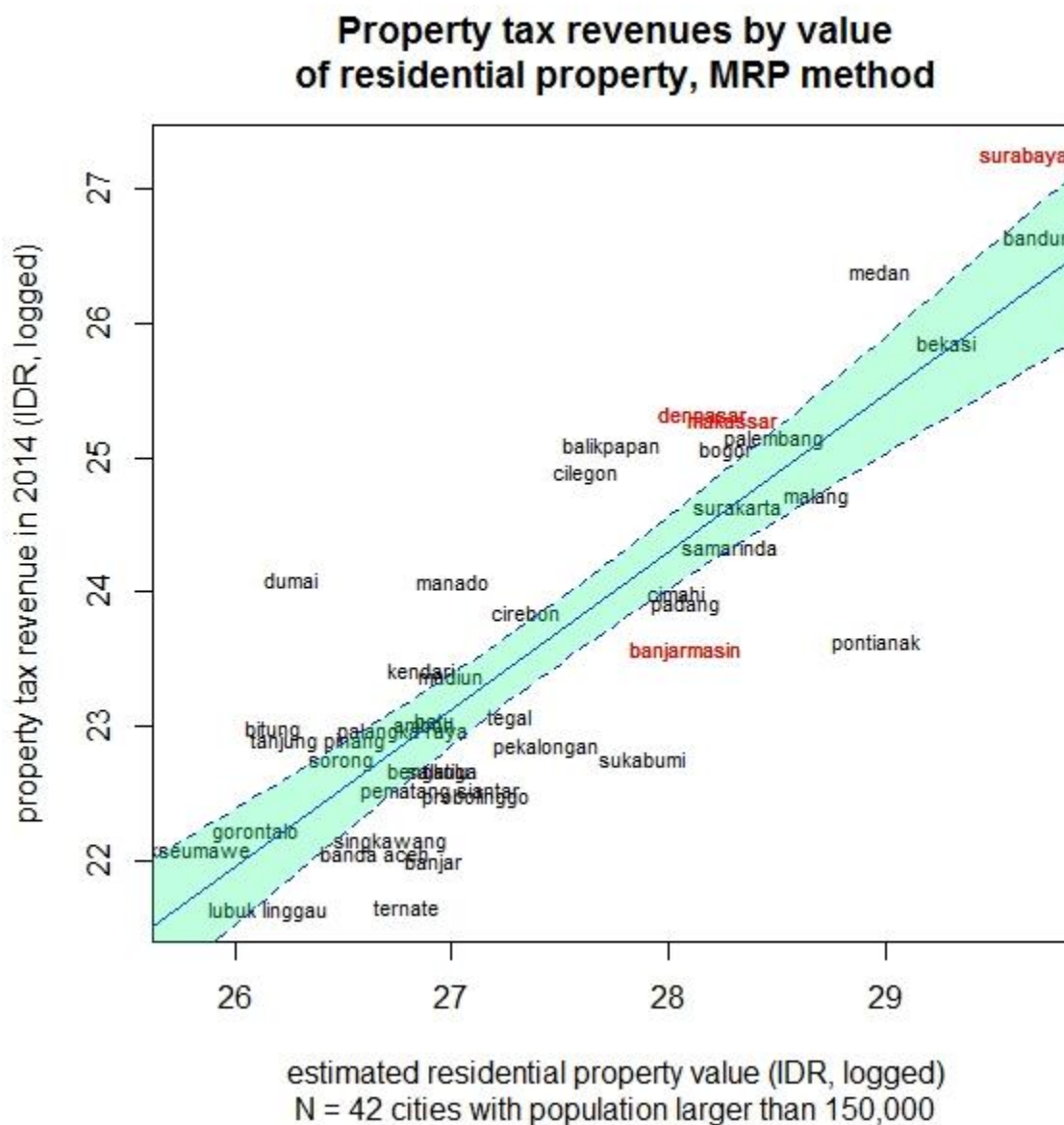
In the intermediate cases, Denpasar and Makassar, problems achieving distributional consensus and monitoring public spending limited the ability of local governments to increase property taxes (Chapter 5, briefly). In Denpasar, deep distributional conflict exploded in bitter controversy over a proposed reclamation project, preventing public investment outside the tourism industry. In Makassar, by contrast, the business community's inability to monitor public spending created skepticism for official promises and undermined a property tax increase despite broad elite consensus for a reclamation project.

In the conclusion, I discuss these intermediate cases as well as Cebu as part of an empirically grounded consideration of the limits of my argument. In addition, the conclusion raises the antecedent question of the origins of business associational capacity, which I have so far left unanswered. This important question will guide the future direction of this project. Before presenting my empirical findings, however, I



return to the literature on public finance and decentralization. The next chapter reviews this literature, with a particular focus on its implications for tax administration and policy.

FIGURE 1.4



Source: DJPK 2014, OLX, BPS 2010

## **2 Beyond Mere Accountability:**

### **Political Incentives in the Literature on Decentralization**

Local taxation poses economic, administrative, and political challenges.<sup>13</sup> Economically, decentralizing taxes risks serious economic inefficiencies—except in the case of the property tax. Administratively, decentralizing taxation imposes the bureaucratic burdens of registration, assessment and collection on local governments—the property tax most of all. Thus, decentralizing taxation confronts local officials with a choice between economic efficiency and administrative simplicity. Unfortunately, local taxes are often politically unpopular—especially the property tax, which affects economic elites more than most local taxes. The administrative difficulty and political unpopularity of the property tax convinces many officials to neglect it in favor of other sources of revenue. Under such circumstances, decentralization inhibits collection of the property tax and undermines economic growth.

Yet, according to many public finance economists, the potential benefits of decentralization outweigh the risks—and if global trends are any indication, many countries would seem to agree. Decentralization offers the tantalizing promise of better provision of goods and services because local governments can tailor their services to the wishes of local residents. The key to realizing those benefits, according to the public finance literature, is to hold local governments' accountable to citizen demand for high-quality, cost-effective public services. To meet this demand, local officials will favor

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<sup>13</sup> For ease of exposition, I use “local” in this chapter to refer to subnational governments generally, including provincial ones.

economically efficient taxes, such as the property tax, which will finance public services without hindering economic growth.

The call for “accountability” is in many ways a response to the political science literature on federalism and decentralization. Motivated by Weingast’s insight that local governments only maximize public welfare when it is politically expedient, a huge literature has developed exploring the effects of institutions on the incentives of local governments. Broadly speaking, this literature has examined the potential of three types of institutions to generate accountability: federalism, elections, and citizen participation.

Unfortunately for decentralization’s proponents, political scientists have found many market failures but few examples of accountability, although recent research on citizen participation is more promising. Still, I submit that the political science literature has found few examples of accountable taxation because it has insufficiently appreciated the political problems posed by taxation. Tax collection is not simply a matter of political will, but of political capacity to solve collective action and commitment problems.

## **PUBLIC FINANCE LITERATURE**

The literature in public finance, at least historically, has favored decentralization of administrative functions with only limited decentralization of taxation. It advocates for decentralized government spending because local governments are “closer to the people” (Oates 1999).<sup>14</sup> According to this perspective, local governments deliver public goods more efficiently than the central government, as long as there are no spillovers, because they can tailor them to the needs of their particular jurisdiction rather than designing them to satisfy the entire country. In contrast, decentralizing responsibility to collect all but a

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<sup>14</sup> The basic model, as well as the huge literature associated with it, is often referred to as “fiscal federalism”.

few types of taxes risks serious economic inefficiencies. In the best of all worlds, local governments should deliver local public goods, and they should rely as much as possible for revenues on property taxes, user fees and central transfers.

However, when local governments have extensive expenditure responsibilities, such as for health, education and infrastructure, the revenue generated by user fees and property taxes fall short of the amount needed to fund large government programs. In these cases, central governments must choose between delegating additional tax powers and fiscally supporting local governments through intergovernmental transfers, of which both options can be problematic. While large fiscal transfers are susceptible to waste and abuse (Gervasoni 2010), many local taxes besides property taxes and user fees are economically inefficient when collected at the local level.

#### *Economics of local taxation*

Local governments typically collect some combination of sales, excise, property, business taxes and user fees.<sup>15</sup> Each tax is levied on a different tax base, collected in a different manner, and affects different types of taxpayers.

Sales and excise taxes are both levied on consumer goods and services, but they differ in that sales taxes are collected from consumers at a point-of-sale, and excise taxes from producers on each item shipped. Property taxes are levied on ownership and transactions of land and buildings. One of the key challenges of collecting them is that they are very visible taxes. Whereas most other taxes can be collected at a point-of-sale or debited from paychecks, property taxes must be personally paid out every year by individual taxpayers. Business taxes comprise the most variety of all types of taxes. They

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<sup>15</sup> Although user fees are not taxes in the strict technical sense of the term because they are not compulsory, they are nevertheless an important source of revenue for local governments and sufficiently similar to taxes to justify comparisons (Moore 2013).

include fees for licenses and permits, taxes on units of production, and taxes on the movement of products across borders. The method of collecting business taxes varies accordingly, ranging from publishing a schedule of licensing fees to setting up highway checkpoints. Finally, user fees are direct payments in exchange for specific government services, such as payments for health care, identity cards, rental space in markets and terminals, and building permits (Bird 2010). Table 1 compares the tax bases of various types of local taxes.

**TABLE 2.1: Comparing types of taxes**

Type of tax	Base	Mobility of base	Progressivity	Incidence
Sales and excise	consumption	moderate	regressive	residents and non-residents
Business	trade, production, licenses	high, but varies	progressive, but varies	residents and non-residents
Property	land and buildings	low	progressive	residents only
User fees	service beneficiaries	low	regressive	residents only

Adapted from Bird (2010, Table 3)

The public finance literature discourages local tax collection, aside from property taxes and user fees, because most local taxes are easy to avoid by relocating. For example, consumers can elude sales taxes by traveling a little farther to shop in neighboring communities, and firms can avoid business taxes by moving their operations to tax free districts. These kinds of distortions lead to non-optimal levels of taxation and lower rates of economic growth. If business and sales taxes push capital and consumption to flee to other units, then local governments may compete in a “race to the bottom”, leading to excessively *low* taxes. On the other hand, if taxes on commodity exports and

foreign-owned assets shift the burden of taxation to non-residents, then double-taxation will lead to excessively *high* taxes (Inman and Rubinfeld 1996). By contrast, taxpayers cannot avoid property taxes and user fees, and as a result, these taxes are the least distortionary types of local taxes.

Tax incidence (that is, who pays the taxes) also varies across types of taxes. In general, property and business taxes are more progressive than sales, excise taxes and user fees. The wealthy, by definition, are more likely to own property and businesses, whereas the poor are disproportionately affected by sales taxes, health care fees, and market rentals. However, some business and sales taxes target products that non-residents buy or assets that they own, and in so doing they shift the burden of taxation to non-residents, away from rich and poor residents alike (Morgan, Mutti and Rickman 1996). To the extent that they “export” the tax burden, such taxes are neither regressive nor progressive from the perspective of local residents.

#### *Administration of local taxation*

Lieberman (2003, 50-54) usefully distinguishes three tasks of tax administration. First, governments must register taxpayers. This task involves identifying and recording individual taxpayers who are liable to pay certain taxes. Second, governments must assess tax liability. This task involves appraising the value of an individual transaction, property, or income in order to calculate the amount of tax due. Third, governments must collect tax payments. This step involves collecting taxes, identifying delinquencies, and imposing penalties on those who do not pay.

The degree of difficulty of each administrative task varies across types of taxes, and, among local taxes, property taxes impose the most significant administrative

burdens (Bird 2010, 28-33). To register taxpayers, local tax offices must maintain cadastral maps that record the size and ownership of every land parcel, as well as any improvements on the land. These data are constantly changing as a result of new construction as well as transactions, subdivisions and mergers of land parcels. To maintain up-to-date records, tax offices must solicit information from government offices that approve building permits and land transactions, and regularly undertake cadastral surveys.

To assess tax liabilities, local tax offices must appraise the fair market values of property in order to calculate the tax liability. This task requires assessors to compare the characteristics of a given property to the characteristics of similar properties that recently sold in order to estimate fair market value. However, this difficult task is made nearly impossible by a dearth of transactions data in many developing countries. Assessors will sometimes compensate for the lack of sales data by soliciting opinions from banks and other real estate professionals.

To collect the tax, finally, local tax offices must overcome taxpayers' resistance and convince them to pay the tax. In many cases, this requires the taxpayer to come to the tax office in person, stand in line, and make a lump-sum payment once every year. For this reason, the property tax is a very visible tax that provokes more resistance per dollar than consumption or payroll taxes. Moreover, local tax offices must identify and penalize late-payments and delinquencies. Usually, they impose fines and, as a last resort, confiscate property. Yet, confiscation introduces a whole new set of administrative headaches because the government must then somehow dispose of the property.<sup>16</sup>

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<sup>16</sup> For example, city tax offices in the Philippines are reluctant to confiscate delinquent properties because they are often difficult to sell at auction.

In sum, high administrative capacity is a *sine qua non* for property tax collection. In contrast, business taxes are often self-assessed, significantly reducing the burden of assessing liability. Other taxes are sometimes “outsourced” in that private agents assess and collect the tax on the behalf of local government. For example, electric utilities often collect electricity excises, retailers collect sales taxes, and notaries or real estate agents collect property transaction taxes. While such outsourcing requires the local government to monitor its agents to keep them honest, it nevertheless saves local tax offices from the tedious work of assessment and collection.

### *Politics of local taxation*

Compounding the difficulty of property tax administration, property taxes are highly controversial politically. Not only are they highly visible, but they are also difficult to evade in the sense that property cannot be moved offshore. As a result, property taxes provoke significant resistance in the form of both political lobbying and direct negotiation with tax bureaucrats to manipulate data on the size or value of the property. Furthermore, property taxes disproportionately affect economic elites, who are precisely the group of people who can most effectively block new tax legislation. Not only are economic elites more politically active and better organized, but they are also more likely to occupy positions in local government (Moore 2013).

In contrast, other sources of local revenue impose less severe political costs. For example, business taxes provoke less overt political resistance when they are self-assessed because the taxpayer can covertly resist by under-reporting her tax liabilities. Sales taxes are less visible than property taxes because they are paid out in small payments over time, and user fees affect the poor, who are much less capable of political



resistance than property owners. In addition, business and sales taxes (especially on hotels and restaurants) often target non-residents, further tempering local resistance. Non-tax revenues, such as loans and intergovernmental transfers, are even less politically controversial, as they shift costs to the central government or defer them into the future.

Bird (2010, 28) concludes that “the political costs of reliance on residential property taxes in particular are so high that no government with access to politically ‘cheaper’ sources of finance is likely willingly to take the risk”. The political costs of the property tax, combined with its heavy administrative burden, create powerful incentives for local governments to neglect the property tax regardless of economic efficiency.

### **POLITICAL SCIENCE LITERATURE**

Financing local governments thus poses a dilemma. Large intergovernmental transfers are prone to waste and misuse; many local taxes have economically distorting effects; and the property tax is often prohibitively costly administratively and politically. The public finance literature did not initially acknowledge this dilemma because it assumed that public officials were “benevolent” (Wibbels 2006). It was not until more recently that Weingast (1995) and Montinola, et al (1995) introduced the role of political incentives into the literature on decentralization when they proposed five individually necessary and jointly sufficient conditions for local officials to adopt economically efficient fiscal policies.<sup>17</sup> Since then a huge literature has developed exploring the effects of institutions on the incentives of local officials, with special focus on federalism, elections, and citizen participation.

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<sup>17</sup> The five conditions were 1) authority is clearly delineated between national and subnational governments; 2) subnational governments have primary authority over the economy; 3) the national government polices the common market; 4) subnational governments face hard budget constraints; 5) the allocation of authority is institutionally durable (Montinola, et al 1995, 55).

As a result, it is now generally accepted that the dilemma of financing local government requires an institutional solution. Specifically, local officials must be made somehow to answer to citizen demand for high-quality, cost-effective public services. This requires first, that local governments control tax and spending at the margin, and second, that “local residents must also have some power to control and influence their governments” (Bird 2010, 20). Bird proposes elections as well as public complaint mechanisms as two institutions that generate accountability, but the political science literature has examined others as well, starting with the institution of decentralization itself.

#### *Interjurisdictional competition*

The first accountability mechanism analyzed in the political science literature is interjurisdictional competition imposed by decentralization itself. Local governments offer a “package” of services at a given tax rate, and mobile residents “vote with their feet” by moving to the jurisdiction that provides their preferred combination of taxes and services. Thus, market-like competition among governments creates the incentive for efficient spending and taxation (Tiebout 1956). Weingast and his co-authors believed that this mechanism would accelerate economic growth by restraining local and central governments from expropriating property; in other words, from imposing inefficient and unnecessary taxation (Montinola, et al 1995; Weingast 1995).<sup>18</sup>

However, there are several problems with the idea that interjurisdictional competition disciplines local governments. First, decentralization only induces competition under strict conditions that may rarely hold in practice. Specifically, the

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<sup>18</sup> This model is widely known as “market-preserving federalism” or, to relate it to fiscal federalism, “second generation fiscal federalism”.

model requires that local jurisdictions are sufficiently similar to facilitate competition and that factors are sufficiently mobile to move across jurisdictions (Cai and Treisman 2005; Pepinsky and Wihardja 2011).<sup>19</sup> Cai and Treisman (818) contend that the first condition “is unlikely to hold for most real world cases”, while Pepinsky and Wihardja present convincing evidence that neither condition holds in Indonesia. When the conditions do not hold, interjurisdictional competition creates little incentive for local officials to offer an attractive package of tax and services.

Second, the model assumes that local governments levy only a single type of tax, the residential head tax. In practice, local governments choose from a variety of taxes, including business, excise and sales taxes which enable governments to shift the tax burden to non-residents or the poor. As a result, interjurisdictional competition does not always lead to efficient taxation; it can also produce adverse outcomes like regressive taxation, double taxation, or insufficient taxation due to a “race-to-the-bottom” (Inman and Rubinfeld 1996).

Third, decentralization introduces collective action problems among local governments and commitment problems between local governments and the center that make it harder to manage national macroeconomic policy. Weingast’s immediate successors constructed an impressive list of such market failures. For example, decentralization can make it harder for central governments to rein in high rates of inflation by empowering regional veto players (Treisman 2000). It can inhibit macroeconomic adjustment by enabling subnational governments to pursue their own

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<sup>19</sup> The first condition is not met when countries have significant geographical variation in income, economic endowments, education levels and language, among others; the second when capital is invested in location-specific enterprises, such as mining and agriculture, or when laborers are unwilling and unable to move in search of work.

monetary policies (Wibbels 2000). It can inflate deficits because local governments know that central governments will bail them out in crisis (Rodden 2002). And, as mentioned, it can provoke a “tragedy of the commons” when many local governments tax the same base (Berkowitz and Li 2000).

Finally, interjurisdictional competition cannot explain subnational variation except in combination with other variables. It is a national-level variable that applies to all local governments, so it can only address subnational variation in interaction with variables that actually vary across subnational units. As a consequence, all of the foregoing work on interjurisdictional competition focuses on national economic outcomes, not subnational variation. In contrast, other institutions of accountability do vary subnationally, facilitating direct subnational comparisons of public accountability.

### *Elections*

The second accountability mechanism that the political science literature examines is local elections. Weingast himself, with Careaga, incorporated elections into his theory of interjurisdictional competition in order to address subnational variation in Mexico (Careaga and Weingast 2003). They reasoned that if the public purse is filled with local tax dollars, then voters will pay attention to how local officials manage that purse. And if public office is selected by voters, then officials will pay attention to public demand for high-quality services and low taxes, at least when elections are competitive. Elected officials will be forced to tax as efficiently as possible.

In Careaga and Weingast’s formulation, elections have implications for tax structure (that is, the composition of revenue sources) but not for revenue levels (because preferences can vary across voting constituencies). However, other scholars have

formulated hypotheses linking elections to revenue levels by imposing additional conditions on Careaga and Weingast's logic. For example, in unequal societies, the majority favors redistribution so elections will increase tax revenues (Meltzer and Richard 1981). In developing countries, services are so underprovided that demand for even cost-effective services implies rising tax revenues (Cleary 2007). Alternatively, if voters prefer the smallest possible government instead of high-quality, cost-effective services, then elections will reduce tax revenues.

However, the literature has produced mixed findings about the effects of electoral accountability on both public services and revenue. With respect to public services, a series of studies in the Philippines suggests that electoral pressures encourage local officials to increase development spending, expand the provision of health care, and experiment with innovative policies (Capuno 2011; Capuno, et al. 2015; Solon, et al. 2009). In Indonesia, cities and districts spent more efficiently on health, education, and infrastructure after the shift from indirect to direct local elections (Lewis 2017). But Cleary (2007) finds no effect of the competitiveness of municipal elections on the provision of water and sanitation in Mexico, and Fossati (2016) finds no effect of the competitiveness of gubernatorial elections on the provision of health services in Indonesia.

With respect to revenue, competitive elections have been found to reduce tax revenues across Argentine provinces (Rogers 2014), Indonesian cities and districts (Tans 2014), and cross-nationally across developing countries (Prichard 2014), but not across Mexican municipalities (Cleary 2007). And Lewis (2017) finds no effect as a result of the shift from indirect to direct executive elections within Indonesian cities and districts.

While much work remains to clarify the relationship between elections, public services, and revenue, one result does seem clear: the empirical evidence does not support Meltzer and Richard's expectation that elections in unequal societies increase tax revenues. Not only have elections failed to increase tax revenues at multiple levels of government, in various countries, and at different times, but new research also challenges Meltzer and Richard's assumption that inequality creates demand for redistributive taxation. Hollenbach and Silva (2017) find that Brazilian municipalities with higher inequality actually collect less, not more, property tax revenue.

Yet, while this research rejects the Meltzer and Richard hypothesis, it does not identify the causal mechanism actually driving the relationship between elections and tax revenue. Revenues might fall because governments eliminate inefficient and unnecessary taxes.<sup>20</sup> Alternatively, revenues might fall because voters prefer the smallest possible government. But this research is also consistent with my contention that voters resist taxation because they do not trust the government to spend the money to their benefit. They may actually prefer a higher level of services, but unless the government can credibly commit to provide those services, voters will vote against tax hikes.

### *Citizen participation*

Finally, the third accountability mechanism that the political science literature considers is citizen participation. Citizen participation takes various forms from neighborhood meetings, to participatory budgeting, to "traditional" indigenous governance. Defined more broadly, citizen participation could also include participation of the poor in governing coalitions and even elite collective action.

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<sup>20</sup> Rogers' (2014) finding that provinces with less competitive elections tax businesses more heavily supports this interpretation.

This type of institution enables citizens to participate in the policy-making process, thereby drawing policies closer to their ideal preferences. It establishes public forums for articulating interests and meetings designed to elicit citizen input. In so doing, it not only increases the information that public officials have about what citizens want, it also increases the quality of information that citizens have about what the government is doing. As a result, citizens are better equipped to monitor public programs, ensuring that money is spent and projects are implemented according to publicly agreed-upon specifications.

This literature consistently and convincingly finds positive effects of citizen participation on the local provision of public goods and services, arising from, for example, political participation in Mexico, traditional indigenous governance in Oaxaca, participatory budgeting in Brazil, incorporation of the poor in Indonesian electoral coalitions, and elite collective action in Indonesia and the Philippines (Cleary 2007; Diaz-Cayeros, et al. 2014; Goncalves 2014; Rosser, et al 2011; von Luebke 2012).<sup>21</sup> All of these studies explain their findings by emphasizing the link between citizen participation and political accountability. Participation allows citizens to “hold their political leaders accountable” and “to press for a response”, and creates opportunities for “enhancing government accountability” and “scrutinising government performance” (Diaz-Cayeros, et al. 2014, 81; Cleary 2007, 296; Goncalves 2014, 95; von Luebke 2012, 18, respectively).

However, these studies de-emphasize a second process by which citizen participation might also affect the provision of public goods and services. Specifically,

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<sup>21</sup> Winters, et al. (2014), by contrast, demonstrate the importance of citizen participation by its absence. Clean water and sanitation are badly underprovided in Indonesia because citizens have little interest in such services.

citizen participation can enhance the capacity of local governments to execute policy. In other words, citizen participation enhances the government's ability to implement better policies, not just its willingness to do so. It accomplishes this not only by improving the quality of information that the government possesses about citizen preferences, but also by improving its quality of information about project priorities, infrastructure in need of maintenance, service delivery problems, and so on. Furthermore, when citizens monitor public programs, they not only monitor the government, they also monitor the government's agents. Thus, they improve service delivery not only by holding the government accountable to citizens, but by holding private contractors and street-level bureaucrats accountable to the government! Finally, citizens will be more willing to contribute labor, information, and even money to assist public programs when their ability to monitor assures them that their efforts will not be in vain.

Perhaps if this literature was more attuned to this second mechanism, it would be better equipped to address the question of tax capacity. As it is, however, these studies generally ignore the question of revenue while focusing on expenditures, leaving lingering questions about how citizen participation affects the incentives of local officials to collect taxes. Cleary (2007) is an exception, because he shows that citizen participation increases tax revenue as well as water and sanitation provision. Yet he interprets the effect indirectly: citizen participation motivates municipal governments to improve performance, which in turn motivates them to "modernize" their tax bureaucracy. As a result, he misses an opportunity to consider the possibility that citizen participation actually creates tax capacity.



## **BEYOND ACCOUNTABILITY**

I submit that the political science literature on decentralization does not sufficiently appreciate the political problems posed by local taxation, perhaps because it does not take tax administration seriously. The administrative task of assessment determines how the burden of taxation is distributed across taxpayers, provoking distributional conflict. Meanwhile, the task of collection asks taxpayers to pay now for services they will receive later, creating opportunities for officials to “take the money and run”. Thus, effective local taxation requires both collective action to overcome distributional conflict, and a credible commitment that local governments will spend revenues to benefit taxpayers. Tax capacity is not merely a matter of technical administration or “political will”, it requires distributional consensus and credible commitments.

The literature does not consider whether interjurisdictional competition, elections, or citizen engagement can resolve these problems. Instead, these studies focus on creating incentives that will reward local officials for good policies, and punish them for bad ones, because they depart from the same motivating assumption as Weingast—that the incentives of officials are the key impediment to good local policies. Yet, if local officials cannot organize distributional consensus among taxpayers or engage in credible commitments, then the emphasis on accountability is misplaced. They may be held accountable and removed from office, but their replacements are unlikely to succeed where they failed.

However, it is possible to generate new hypothesis by reinterpreting the literature on decentralized institutions to account for capacity. Under its most ideal conditions,

interjurisdictional competition may create accountability, but it is not clear that it generates capacity. On the contrary, if local governments are tempted to spend tax dollars to attract new residents, then it could exacerbate distributional conflict between residents and newcomers and undermine the credibility of official promises to spend tax dollars to benefit residents.

Elections clearly create accountability, and they also generate collective action by identifying fiscal policies supported by a majority of voters. Yet, they exacerbate commitment problems because taxpayers know that officials have an incentive to divert revenues to fund campaigns and woo other constituencies. I suspect that failing to account for these countervailing tendencies has produced some of the inconsistent findings in studies of the effect of elections on tax revenue.

Citizen participation, finally, has the potential to generate not only accountability, but also capacity. Public meetings create opportunities to negotiate distributional consensus, and effective monitoring upholds the credibility of the government's promises. These mechanisms are present in the literature on citizen participation, even if they are under-emphasized. Goncalves (2014), for example, points out that governments use information that they gather through citizen participation to improve allocative efficiency, and von Luebke (2012) credits collectively organized elites for "initiating public reforms" (18).

Jibao and Prichard (2013, 37), however, provide the clearest description of citizen participation in action as it relates to tax policy. They explain varying degrees of success in property tax reform across four cities in Sierra Leone. In Bo, the most successful case, reforms increased citizen participation in both administrative processes of assessment and

collection. With respect to assessment, the city established “clear and transparent rules governing tax assessment, while offering forums for taxpayers to raise objections where enforcement is considered unfair”. With respect to collection, the city made “extensive efforts to inform citizens about the revenue raised and about how specifically that revenue is being used by the council, including through a weekly radio dialogue”. These reforms were clearly designed to generate consensus about how taxes were distributed, and credibility about how taxes were used.

### **BUSINESS ASSOCIATIONS AND POLITICAL CAPACITY**

The emphasis on institutions of accountability is insufficient to resolve the dilemma of financing local government, just as it is insufficient to explain subnational variation in local tax policies. Rather, as Fossati (2016) also recognizes, accountability must be considered within the context of capacity. In matters of tax, “power to” is as important as “power over” (Stone 1989).

This dissertation explores how private sector institutions contribute to public sector capacity to tax. Specifically, business associations are well-suited to facilitate taxation by resolving distributional conflict among taxpayers and mistrust between taxpayers and the government.

Business associations build distributional consensus by facilitating negotiations among their members over tax burdens and spending priorities. Cohesive business associations with influence over their members can enforce these agreements to discourage free-riding in the form of tax evasion. They also deploy privileged access to policy-makers to translate internal agreements into public policy. They do so not only by negotiating the criteria of assessment and valuation of particular properties, but also by

providing technical assistance and sharing market information that helps assessors value properties more accurately.

Business associations underwrite public credibility by “specializing” in monitoring. Business associations can assume the responsibility of tracking proposed ordinances, public hearings, and public spending, and disseminate that information to members, eliminating the need for members to monitor local government individually. Privileged access to local government further strengthens monitoring, because business associations will consult regularly with public officials in an ongoing relationship that requires transparency. In addition, business associations and local governments can jointly oversee specific projects, guaranteeing full transparency for important initiatives.

Not all business associations will have the ability or inclination to carry out the tasks of building consensus and underwriting credibility. The foregoing discussion makes it clear that business associations will be most effective at these tasks when they are sufficiently cohesive to enforce internal agreements, and sufficiently connected to enjoy privileged access to local policy-makers. On the other hand, business associations need not necessarily be encompassing to be effective. Still, the more encompassing they are, the wider the distributional consensus they can broker, and the greater the tax potential.

To recapitulate, this dissertation builds on the political science literature on decentralization by casting business associations as an institution that facilitates citizen participation in tax policy. But it also strives to take seriously the political implications of the public finance literature’s discussion of tax administration. In doing so, it proposes an explanation for subnational variation in tax policies that considers not only political accountability, but also political capacity to resolve the problems that bedevil taxation.

### **3 Philippine Cases: Iloilo and Batangas**

In 2007, Iloilo City flooded precisely at a time when major investors were considering whether and how much to bid for the right to redevelop the old airport. Three years later, the city experienced an energy crisis that culminated in daily outages during the month of November. Around the same time in Batangas City, typhoons wiped out first one and then the other of the city's two major bridges.

These two cities, both of them major ports and provincial capitals, shared similar problems with inadequate and crumbling infrastructure, yet their communities responded to those crises in very different ways. In Iloilo, a local business association, the Iloilo Economic Development Foundation (ILED), organized support for a huge infrastructure drive that reshaped the city between 2005 and 2015. To fund this effort, ILED negotiated with the city government to increase taxes gradually but steadily, agreeing to new tax ordinances in 2005, 2007, 2011, and 2014. In Batangas, by contrast, local businesses were so divided that they could not even articulate unified support for the construction of a new bridge, much less agree to new tax measures. When the city government tried in 2013 to increase property taxes, local businesses simply opposed the effort because they were too weak to influence the bill. As a result, since 2001 property tax revenues have quintupled in Iloilo, but stagnated in Batangas.

Why did Iloilo City but not Batangas increase property tax revenues, despite sharing similar infrastructure needs? In this chapter, I argue that differences in the strength and cohesiveness of business associations in these cities explained the differences in their governments' tax policies.

I present a controlled comparison between Iloilo City and Batangas City to show that my argument explains tax policy in these two cases more completely than other approaches. These cities are similar in several key respects that control against alternative explanations for property tax policies (Slater and Ziblatt 2013). And while there are some differences, I contend that these dissimilarities affect fiscal capacity through the intervening variable of business associations, making them “critical antecedents” rather than rival hypotheses to my argument (Slater and Simmons 2010).

I present the comparison in three steps. First, I detail how tax policies in Iloilo and Batangas differed despite the similarity of these cities. Second, I argue that alternative hypotheses focused on class-conflict and patronage cannot explain the tax differences. Third, I detail the public role of local businesses in each city to show that the strength and cohesiveness of local business associations explain tax policy better than alternative explanations. To conclude the chapter, I briefly speculate on the origins of business associational capacity in these cities.

## **BACKGROUND: TAX ASSIGNMENT IN THE PHILIPPINES**

The Local Government Code of 1991 grants Philippine cities authority to collect property taxes, business taxes<sup>22</sup>, and a variety of minor taxes and non-tax revenues (the latter of which comprise user fees, regulatory fees, and income from publicly owned enterprises).<sup>23</sup> City governments are responsible to set tax rates within certain bounds set by the central government, appraise obligations, and enforce collection.<sup>24</sup> City

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<sup>22</sup> According to Manasan (2007: 285, note 9), business taxes are an *ad valorem* tax “levied on the gross receipts of businesses and traders”.

<sup>23</sup> For the complete list of local taxes and how they are assigned, see Table 9.4 in Manasan (2007: 284).

<sup>24</sup> Provincial governments formally review tax legislation for the majority of cities (those classified as component cities), but these powers are limited to ensuring that city legislation is consistent with the Local Government Code.

governments also autonomously decide how to spend local revenues, with two exceptions. A portion of property tax revenues (usually one-third) are earmarked for education through the Special Education Fund, and thirty percent of the remaining property tax revenues are shared with neighborhood councils, or *barangays*. In general, the code adheres to the recommendations of the public finance literature to tie local revenues to immobile factors (through property taxes) and direct benefits (through user fees). And while fiscal autonomy does have limits, particularly in the form of tax rate ceilings, local governments nonetheless control revenue at the margin (Llanto 2012; Manasan 2007).

The tax assignments enacted in the Local Government Code bestow genuine fiscal autonomy upon local governments, but they also exacerbate geographic inequality because revenue capacity varies across local governments. Major cities and suburban provinces—where businesses concentrate and property values are higher—have benefited, while rural provinces often struggle to generate local revenue.<sup>25</sup> To counteract this tendency, the Code introduced the Internal Revenue Allotment (IRA), a formula-based block grant intended to equalize revenues across local government units. For the most part, the IRA successfully accomplishes this goal (Yeeles 2015), but it has also been criticized for discouraging revenue-poor local governments from cultivating their own sources of revenue (de Dios 2007), and for creating “slush funds” on behalf of local “budget dictators” (Hutchcroft 2012). Indeed, many local governments depend on the IRA for a very large share of their revenues.

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<sup>25</sup> In 2014 for example, the IRA contributed 67% of revenues in the median city, and 84% in the median province. For comparison, the IRA contributed 33% and 34 % of revenues in Batangas and Iloilo, respectively.

Against this background, I use property tax performance as the measuring stick to compare fiscal capacity in Iloilo and Batangas. Compared to other devolved taxes, the property tax is both the most desirable and the most difficult to collect, making it an acid test for local fiscal capacity. The property tax is desirable because it is economically efficient (Moore 2013). Whereas business taxes invite businesses to shift revenues across jurisdictions in search of lower taxes, the property tax has no such distortionary effects because it is levied on immobile assets. Furthermore, the property tax constitutes a substantial source of untapped revenue. According to Department of Finance estimates, uncollected property taxes exceeded 20 billion pesos (USD 440 million) in 2015 (BLGF 2015). Without even adjusting tax rates, city governments could greatly increase revenues simply by updating official property valuations. In 2014, eighty percent of all cities based their property tax assessments on out-of-date property valuations (BLGF 2014). Some cities were nineteen years overdue, forgoing millions of pesos in potential revenue.

Despite its promise as a lucrative and economically efficient source of revenue, many cities neglect the property tax because it is administratively demanding and politically unpopular. Administrative capacity is a *sine qua non* for property tax collection, because the tax requires official assessments of property value (Bird 2010). To this end, city assessor's offices require a great deal of administrative expertise to appraise fair market values of property and to maintain records of property ownership and transactions—difficult tasks made nearly impossible by the dearth of sales records in the Philippines. Compounding the difficulty, property taxes are highly charged politically, exacerbating disincentives created by the IRA that discourage cities from collecting them



(Capuno 2012). Property tax legislation provokes resistance everywhere because the tax is difficult to evade and imposes costs on economic elites (Jibao and Prichard 2013), but in the Philippines resistance is institutionalized in the requirement that city councils approve revisions to the schedule of property valuations. Whereas in many other countries properties are valued by professional tax appraisers, in the Philippines city councilors must take public responsibility for increases in property appraisals, which they do not like to do for obvious reasons. Thus, when city governments increase property tax revenues, even merely to keep pace with rising property values, they demonstrate a degree of administrative capacity and political capital that is greater than what is needed to collect other revenue sources.

### **SIMILAR CITIES**

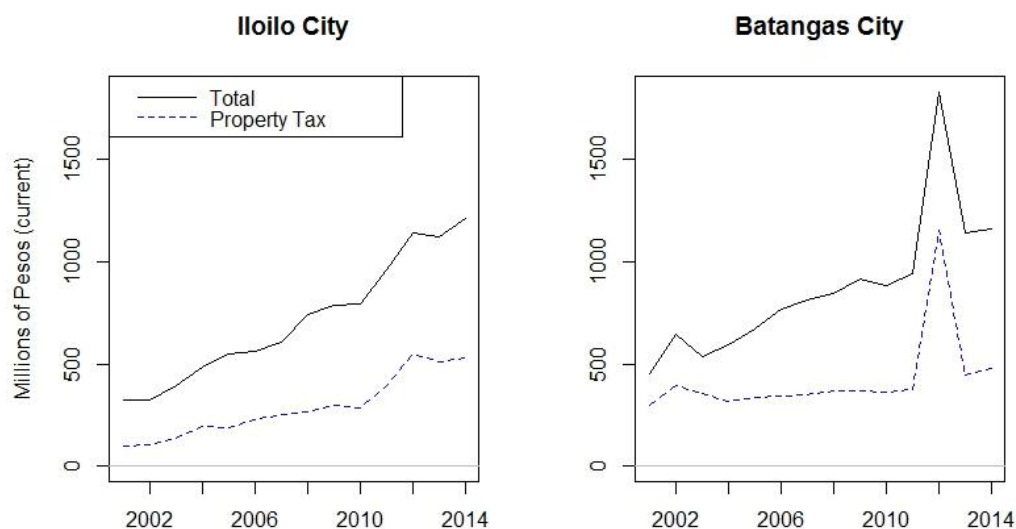
Iloilo City and Batangas City are roughly—albeit not exactly—similar politically and economically. Economically, both cities are large provincial capitals with major ports. With populations of 300,000 and 425,000, respectively, Batangas and Iloilo are both among the Philippines’ twenty largest cities outside of metro Manila. Batangas’ economy is very industrial, and while Iloilo’s economy is primarily commercial, it has a growing industrial sector. In addition, both cities host public and private universities and major shopping centers, as well as national government agency field offices. In sum, both cities are economic and cultural centers—Iloilo for Panay and Guimaras Islands in the Western Visayas; Batangas for Southern Luzon. Politically, both cities have endured different versions of the Philippines’ famed “political dynasties”. In rough-and-tumble Batangas, Eduardo Dimacuha and his immediate family members have won ten consecutive mayoral elections since 1988. In Iloilo City, the incumbent mayor has won

re-election or chosen his successor in every election since the end of Marcos' martial law regime. As in so many other Philippine cities, the advantages of incumbency have proven insurmountable in both Iloilo and Batangas.

Despite their similarities, the cities differ in three ways that could affect taxation. First, inequality is relatively higher in Batangas. As of 2003, a greater share of Batangas' population was living in poverty, despite greater overall prosperity in the Southern Tagalog region (Manasan and Chatterjee 2003, NSCB and World Bank 2009).<sup>26</sup> Second, Batangas' excellent deepwater port and proximity to the Malampaya offshore gas field have attracted major multinational energy corporations. By contrast, Iloilo has neither natural resources nor major investments by multinational corporations. Third, despite the similar lack of turnover in local executive elections, politics are nevertheless more open in Iloilo than in Batangas—a pattern which has roots in the pre-Marcos era (Leichter 1976). Whereas in Batangas a single family has dominated politics for three decades, in Iloilo local government is directed by shifting coalitions of elites. As a result, barriers to entry into local government are lower in Iloilo, and a greater variety of interests participate in decisions about policy. I address the effects of inequality in the section on competing explanations, and I return to the effects of natural resources, multinational corporations and political openness in the conclusion, where I argue that these differences constitute antecedent conditions to my argument.

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<sup>26</sup> Poverty incidence was 13.8 in Batangas, compared to 9.7 in Iloilo.

**FIGURE 3.1: Local revenues over time<sup>27</sup>**

Source: Bureau of Local Government Finance, Philippine Department of Finance

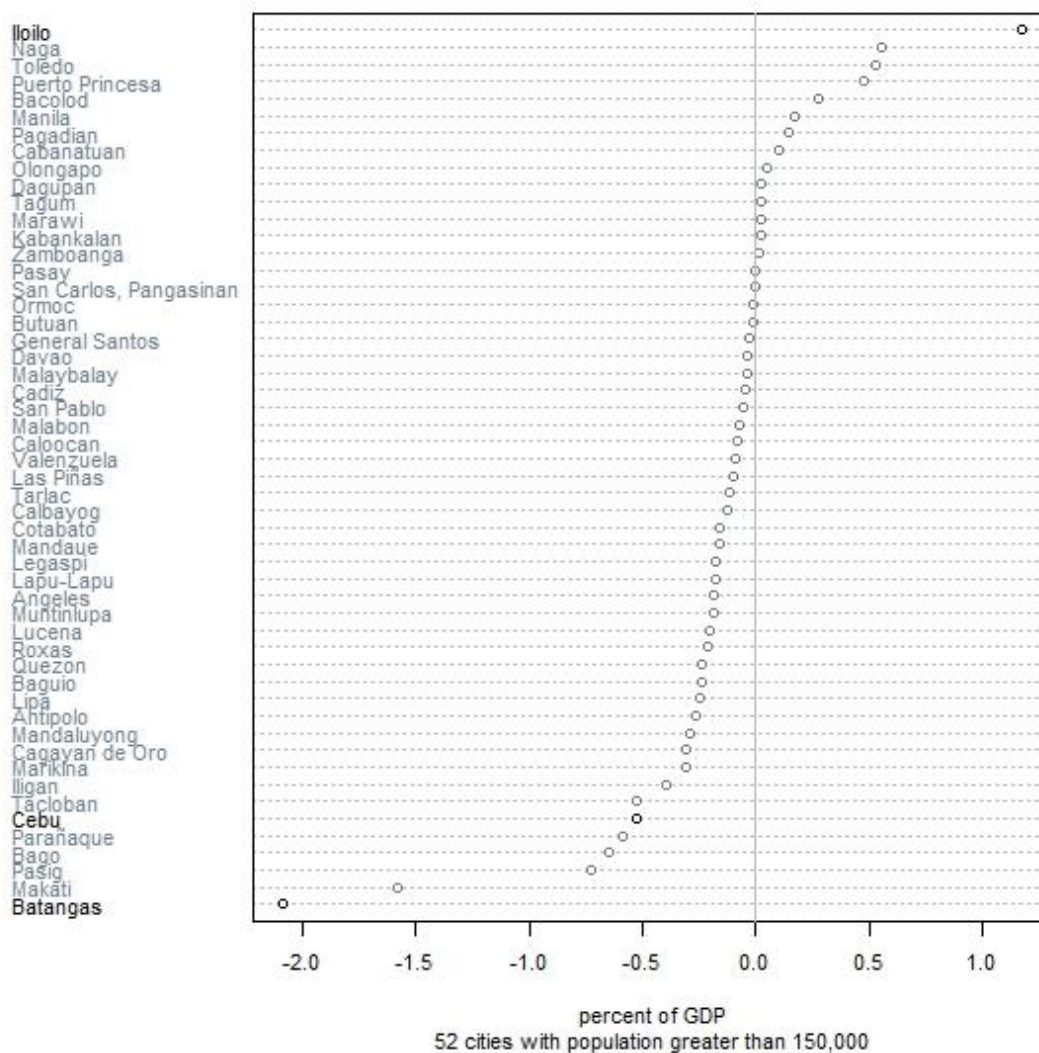
## DIFFERENT OUTCOMES

In 2014, Iloilo and Batangas generated similarly impressive levels of local revenue, both overall and from the property tax (Figure 3.1). They were two of only nine cities outside of metro Manila to exceed one billion pesos (approximately twenty million US dollars), of which property taxes contributed approximately forty percent in both cities. Yet, these cases are trending in opposite directions. Iloilo has quintupled its property tax revenue since 2001, from just under 100 million to more than 500 million pesos. In contrast, Batangas' property tax revenues have grown very slowly over the same time period, albeit from a much higher starting level. When tax capacity is measured in terms of property tax revenue as a percent of GDP, no two cities have diverged more dramatically than Iloilo and Batangas (Figure 3.2).

<sup>27</sup> Batangas City's revenues dramatically spiked in 2013 because Kepco paid the city a settlement of approximately 900 million pesos (discussed below in the section on Batangas).

FIGURE 3.2

Change in property tax revenue as a percent of GDP,  
Philippines, 2002-2014



Not only are Iloilo and Batangas trending in opposite directions, but the property tax base is much more top-heavy in Batangas than in Iloilo. In Batangas, industrial properties comprise only 1.4% of all property parcels in Batangas, but 85% of total property tax collectibles.<sup>28</sup> By contrast, ordinary homeowners pay little tax on their houses. The average tax due was about USD 15 in 2014 (Table 1). This arrangement is

<sup>28</sup> These figures are based on the revised property valuations enacted in 2013. The previous schedule of market values was probably even more top-heavy.

progressive, but it leaves the city vulnerable to resistance from just a few large taxpayers. In contrast, the burden of the property tax in Iloilo is distributed more evenly. The average homeowner in Iloilo pays three times as much as her counterpart in Batangas, and industrial properties represent only 40% of the total tax base.

Furthermore, Iloilo collects a much higher percentage of assessed property taxes than Batangas, as the comparison between Table 1 and Figure 2 implies. In 2014, Iloilo collected approximately 70% of taxes due, while Batangas collected only 36%. Iloilo's higher collection efficiency ratio indicates better tax administration on the part of local government and more compliance on the part of taxpayers, which have enabled the city to make the most of its smaller tax base.

Batangas and Iloilo have codified their tax policies in various city ordinances, and in this respect also they sharply contrast. Prior to 2013, Batangas assessed property taxes based on valuations that dated back to 1994. For years the city council steadfastly refused to update the city's outdated tax ordinance, even as revenues stagnated. In comparison, Iloilo City actively adjusted and readjusted city tax policy, enacting at least five major property tax reforms since 2002. In sum, tax policy differs between Batangas and Iloilo City, despite similar levels of revenue. Property tax revenues in Batangas have stagnated, because the city government heavily depends for revenue on a few large taxpayers rather than a broad tax base. For years, the city government was unable or unwilling to pass new property tax legislation. When in 2013 the city council finally did introduce a new ordinance to update property valuations, the attempt proved to be highly controversial and arguably unsuccessful, as I describe in the section on Batangas. In contrast, Iloilo's city government has repeatedly passed property tax ordinances that have

achieved steadily increasing revenues and an expanding property tax base. While Iloilo's tax ordinances have also been controversial at times, I will argue that the city's strong business association, by endorsing them, enabled their success.

**TABLE 3.1: Property tax assessments, 2014 (in pesos)<sup>29</sup>**

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

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

**TABLE 3.2: Major Iloilo City tax legislation, 2001-present**

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

<sup>29</sup> Note that property tax assessments exceed property tax revenues in both cities because collection efficiency is less than 100%.

**TABLE 3.3: Major Batangas City tax legislation, 2001-present**

<i>Year</i>	<i>Ordinance</i>	<i>Effectivity</i>
2002	Revised revenue code (affecting business taxes and user fees)	2003
2009	Revised revenue code	2010
2013	Revised schedule of market values (affecting property valuation)	2014

### COMPETING EXPLANATIONS

Why have Iloilo and Batangas enacted different property tax policies despite their similarities otherwise? I argue that neither class conflict nor patronage approaches to taxation can fully explain the difference.

The class conflict approach expects that property taxes will increase when inequality is combined with competitive elections, on the one hand, and when businesses and other wealthy taxpayers are too poorly organized to resist tax hikes, on the other. In contrast, the patronage approach expects that property taxes will increase when elections are not competitive, because powerful incumbents can exploit the fiscal, regulatory, and coercive powers of local government to squeeze local businesses. Table 4 compares Iloilo and Batangas in terms of these explanatory variables.

The class conflict approach should expect upward pressure on tax rates in Batangas, if anywhere, yet it is in Iloilo where taxes have risen. Popular demand for redistribution should be greater in Batangas as a result of its higher inequality, and the city's disorganized and quarrelsome business community would seem to be vulnerable to measures intended to "soak-the-rich". In contrast, Iloilo's highly organized and influential business community should be well-equipped to resist taxation, all the more so because demand should be muted by relatively low inequality. Yet, it is in Batangas where resistance to tax has been most fierce.

The patronage approach is more consistent with tax policy in Batangas, but it does not adequately explain Iloilo's rising revenues. As mayor of Batangas, Eduardo Dimacuha has long benefited from the easy tax revenues generated by Shell's Tabangao oil refinery and other industrial developments attracted by Batangas Bay and the Malampaya off-shore field. These revenues allowed Dimacuha to spend freely while also restraining taxes on homeowners, and they probably contributed to the maintenance of his political machine.

Iloilo City, however, fits this line of argument only in the broadest strokes. While it is true that more than two decades of noncompetitive elections have coincided with a steady rise in revenue, the tax increases during this period were hardly predatory. On the contrary, almost every major tax ordinance was packaged with concessions to the city's business groups.<sup>30</sup> Furthermore, the characterization of Iloilo's administration as rule by unaccountable bosses is unconvincing. However else they may have used public money, recent mayors Jerry Treñas and Jed Mabilog nonetheless funded useful projects around the city including parks, sidewalks, roads and bridges. More generally, whereas political machines typically undermine or co-opt the political power of business (Chubb 1981), Iloilo's businesses have, if anything, grown more assertive and influential during the past two city administrations.

These classic arguments do not explain the tax policy differences between Iloilo and Batangas. In both of these approaches, the key political incentive motivating tax policy is the competitiveness of elections. Yet, the cases of Iloilo and Batangas cannot be distinguished on the basis of electoral competitiveness. Their similarity in this respect

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<sup>30</sup> For example, the city limited collection of property taxes to 60% of assessed value when it revised property valuations in 2005. In 2011, the city council offset another increase in property values by expanding property tax exemptions for new commercial and industrial developments.



controls for explanations based on electoral incentives. On the other hand, the cases differ in terms of business organization, yet neither approach expects stronger business organizations to be associated with increasing taxation. Rather, they share an assumption that businesses oppose taxation, so tax revenues will fall as business influence increases.

**TABLE 3.4: A variable comparison**

<i>Variable</i>		<i>Iloilo</i>	<i>Batangas</i>
Property tax policy	<i>dependent variable</i>	<b>dynamic, broad-based, rising</b>	<b>gridlocked, top-heavy, stagnant</b>
Business associations	<i>independent variable</i>	<b>strong, organized</b>	<b>weak, fragmented</b>
Competitiveness of elections	<i>rival hypothesis</i>	<b>low</b>	<b>low</b>
Inequality	<i>rival hypothesis</i>	<b>low</b>	<b>high</b>
Primary economic sector	<i>antecedent condition</i>	<b>commerce</b>	<b>energy, industry</b>
MNCs	<i>antecedent condition</i>	<b>market-seeking</b>	<b>resource-seeking</b>
Political regime	<i>antecedent condition</i>	<b>coalitional dynasty</b>	<b>family dynasty</b>

In order to explain why property taxes increased in Iloilo despite the presence of a strong and active business association, I re-examine the conditions under which local businesses oppose taxation. In particular, I argue that business support or opposition for taxation depends on their ability to resolve the political problems associated with it. In the rest of this chapter, I describe how businesses in Iloilo organized collective action to support taxation, while their counterparts in Batangas did not.

## **ILOILO**

Iloilo City raised property taxes in 2005, 2011, and 2014, despite evidence that businesses worried about distributional conflict and residents feared that local government would misuse new tax revenues. How did Iloilo overcome these political problems? I argue that Iloilo's business community, led by Iloilo Economic Development Foundation (ILED), advanced a business-centered vision for city development which required extensive infrastructure improvements that exceeded the city's fiscal means. To this end, they mobilized external resources, built distributional consensus among local businesses and held local officials to their promises to spend public money on infrastructure. Their political influence was sufficient to monitor public spending and to punish officials who diverted funds away from infrastructure spending, lending credibility to otherwise unconvincing official promises.

*A business-centered infrastructure drive*

For years, Iloilo's business organizations were vocal about their desire for better infrastructure. In particular, business leaders highlighted shortcomings in the city's power supply, water supply, drainage system, road system, and air and sea ports (R. Drilon 2012). Partly in response to these problems, ILED was founded in 2007 by a group of nationally prominent businesspeople with roots in Iloilo, including the brothers Rex and Franklin Drilon. The organization's stated goal was to attract investors to Iloilo City.

Despite the infrastructure problems, the late-2000s provided an opportunity for Iloilo to capture billions of pesos of investment in call centers and MICE (meetings, incentives, conferencing, exhibitions) tourism, because the giant Manila property developers wished to expand into the provinces. In particular, the old Iloilo airport site attracted a lot of attention when the national government put it up for sale in 2007,

eventually selling to Megaworld Corporation for PhP 1.2 billion (USD 26 million) (Sinay, March 19, 2007). Megaworld planned to develop an IT park on the property, and eventually expanded its plans to include a business park, condominiums, and a conference center and hotel (Montecillo, May 6, 2011). Yet, these developers also worried about the state of the city's infrastructure. Mayor Treñas, for example, admitted shortly before the airport site was awarded that bidders were concerned about the city's recurrent flooding (*Visayan Daily Star*, April 29, 2007).

Acting alone, the City of Iloilo probably could not have addressed all of the infrastructure problems identified by ILED. Yet, the condition of Iloilo's infrastructure improved dramatically between 2005 and 2015, thanks to a "massive public infrastructure development" effort (F. Drilon 2014). The drive included the construction of an international airport, a floodway five kilometers in length, an international convention center, a ferry terminal, a by-pass road, a 164 MW coal-fired power plant, the restoration of Iloilo River, and greenbelts and walking trails along the river's banks. These projects were funded by benefactors ranging from national government agencies to Japan International Cooperation Agency (JICA) to private donors and investors to the city itself. In the case of many of these projects, ILED worked behind the scenes to facilitate collaboration between the city, the national government, and individual businesspeople.

ILED's signature achievement was a successful campaign for public acceptance of the controversial coal-fired power plant, over the opposition of the Catholic Church. ILED President Narzalina Lim also helped to convince Megaworld to donate 1.7 hectares of the old airport property for the construction of the Iloilo Convention Center (Angelo, November 26, 2012). And when the Bureau of Immigration was short of funds to outfit

the new airport for international flights, ILED organized the donation of electronic equipment worth millions of pesos, including computers, passport scanners, database servers, and uninterrupted power supply units (Angelo, November 3, 2012).

The City of Iloilo played a supporting role during the infrastructure drive by funding smaller projects which complemented the enormous national ones. In particular, the city resettled communities displaced by the projects (Mateo, August 23, 2014; *Visayan Daily Star*, April 29, 2007). Residents complained that relocation sites were distant and lacked access to water and power, but in general the city sided with the business community and insisted upon resettlement. Mayor Mabilog somewhat ungraciously described the city's role by saying, "While the senator [Franklin Drilon] does what needs to be done, I'm the one who has to face complainants in court" (Jimenez-David, May 26, 2015). In addition, the City's Annual Investment Plans show many small projects to improve neighborhood roads, drainage, and parks, including Iloilo's famous plazas. Despite their smaller scale, these projects still reduce traffic and flooding and create opportunities for recreation at the neighborhood level.

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

#### *Building distributional consensus*

In addition to promoting certain infrastructure projects, ILED organized consensus within the business community favorable to its vision for Iloilo. The cleavage most-threatening to ILED's development agenda was the contest between established,

downtown businesses and newcomers gravitating toward Mandurriao district, which benefited more than any other from the development boom. Megaworld's business park, the Iloilo Convention Center, the Esplanade Park, and many other new developments are located in Mandurriao, and the district is quickly eclipsing downtown Iloilo as the center of business, recreation, and shopping. The contrast between Mandurriao and "City Proper" is most arresting at night, when thousands of people throng to Mandurriao's shiny new malls, restaurants, and parks.

Many downtown businesses are small, family operations owned by Chinese-Filipinos that have been there for years. While they have loyal customers, it is not easy to compete against giant malls like SM and Robinson's. If they were not somehow compensated, it is likely that businesses downtown would not only resist ILED's leadership, but also oppose the entry of new developers altogether. Just such a conflict arose between the vendors' association at the Iloilo Central Market and the city government when the city proposed to privatize the central market in order to "revitalize" it. The rumored buyer was SM Prime Holdings. Afraid of being displaced from their stalls, the vendor's association resisted the proposal by filing a civil case against the city government (Angelo, June 7, 2014).

In general, however, such conflicts have been rare, because ILED mitigated potential tension in two ways. First, they proceeded cautiously, preferring to support causes that generated widespread support within the business community. The original ILED platform—to reduce the cost of electricity and water, improve the roads, upgrade the ports, expand tourism—benefited everyone, including small businesses downtown and large developers in Mandurriao. Notably, ILED spent years building its credibility

with less controversial river redevelopment projects, such as cleaning the river and building a new ferry terminal, before proposing the controversial redevelopment of the Iloilo River Wharf in 2014.<sup>31</sup> The wharf has historically been the site of intense political contestation—its control once triggered a “war on the waterfront”—and thus its redevelopment highlights not only the changing times but also ILED’s impressive influence (McCoy 1977).

Second, ILED has attempted to compensate small, downtown businesses by attracting more visitors to City Proper. First, the annual Dinagyang Festival, funded by the city government, attracts tens of thousands of visitors to downtown Iloilo for several days every February. The Dinagyang Foundation organizes the festival, and its trustees include Felipe Uygongco, brother of ILED Chairman Alfonso Uy. Second, the city government, with the full support of ILED, has been preserving heritage buildings downtown to attract more tourists. Third, ILED has been lobbying city officials to decorate “Chinatown” along Iznart Street in the fashion of Singapore’s Chinatown to make it more attractive and recognizable to visitors.

Ordinarily, such compensation would pose the same type of commitment problem as taxes, because larger businesses would rather not honor their promises of compensation. But in this case, small businesses have ongoing leverage against larger businesses because their cooperation is needed to make taxation work and to spread the costs of development. If larger businesses renege on their promises, smaller businesses

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<sup>31</sup> The project proposed the relocation of existing warehouses and port operations to the other side of the river, while redeveloping the current wharf into a commercial strip modeled after Singapore’s Clarke Quay. The wharf’s stevedores and warehouse operators were reluctant to move, but ILED combined tough talk from vice chairman Rex Drilon and consultations with Senator Franklin Drilon in order to persuade them. Rex Drilon said, “The warehouses will have to move. If the businessmen know what’s good for them, the rehabilitation bodes well for them as the value of their properties at Muelle Loney will go up if the area is converted into a commercial, retail and tourism site” (Angelo, August 8, 2014).

can simply stop paying taxes. As the section on Batangas shows, it is very difficult for local governments to enforce compliance unilaterally.

*Exerting political influence at City Hall*

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

To this end, ILED exerted political influence through close personal connections with Mayor Treñas and Mayor Mabilog, active involvement in the deliberations of the city council's committee on ways and means, and after 2010, national-level influence within the ruling Liberal Party. In theoretical terms, the ways and means committee provided the means to monitor public spending, while the Liberal Party provided the threat of punishment.

Members of ILED had personal relationships with Iloilo City's mayors. Current mayor Jed Mabilog was second cousins to Senator Franklin Drilon, and former mayor Jerry Treñas early in his career worked in the law office where Franklin Drilon was a partner. Moreover, personal and family ties were reinforced by institutional connections, because both the mayor and governor are ex officio members of ILED. In this respect, ILED functioned as a "home-grown" forum for public-private consultation, which Doner

(2009: 86) argues is essential to underpin credible commitments. Yet, relationships alone were not enough to guarantee the credibility of city officials.

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

Businesses remained skeptical and demanded more detail about how exactly the money would be spent. Joeboy Agriam, governor of Philippine Chamber of Commerce and Industry – Iloilo, demanded, "If you want a compromise, open your books, present your financial statement and we will see what areas in your expenditures are weak... if it is really needed, then we might help" (De los Santos and Mateo, July 19, 2014). Mayor Mabilog took Mr. Agriam at his word, and presented the city's finances to the business community despite the strenuous objections of Councilor Nava (Angelo, July 21, 2014). Yet, not even this concession satisfied local businesses, and they countered with a proposal that the mayor's executive assistant for finance dismissed as "paltry" (Angelo and Mateo, August 18, 2014).



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

In this episode, personal relationships among the city’s top leaders were crucial to resolving the standoff, because they facilitated face-to-face negotiations amid growing animosity among city council, mayor, and business community. Yet, it is equally clear that business leaders expected more than mere personal assurances from Mayor Mabilog. They were unmoved even when the mayor said, “I am willing to sacrifice my political career if [the tax] will burden the majority of Iloilo City residents” (De los Santos and Mateo, August 15, 2014).

What businesses demanded was a credible commitment that their tax dollars would be spent on infrastructure, upheld by the ability to monitor public spending and punish wayward officials. In this respect, the city council process for deliberating tax measures, and budgeting more generally, was sufficiently transparent to enable monitoring. Despite the animosity, business leaders received many opportunities to state their position during the ways and means committee’s public hearings. As a result of the process, they ultimately gained access to the city’s financial records and substantively influenced the form of the new ordinance. Councilor Nava and Mayor Mabilog proved that they were willing not only to share information with business but also to hear its

concerns. The attitude of city leaders combined with the procedural requirement to hold public hearings on issues related to finance created a reasonable expectation that businesses would continue to be able to monitor public spending in the future.

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

During the Liberal administration of president Benigno Aquino III, that support would have had to go through Franklin Drilon: President of the Senate, Liberal Party stalwart and brother of ILED vice chairman Rex. I speculate that Drilon's influence in the Liberal Party would have allowed him to undercut Mayor Mabilog in three ways, their family ties notwithstanding. First, Drilon, as a high-ranking official within the Liberal Party, would have had significant influence over the flow of patronage out of the presidential palace at Malacañang. Second, Drilon, who has been personally credited for pork-barrel projects worth billions of pesos, could have punished Mabilog by excluding

him from the circle of credit for ongoing and future projects. Third, Drilon could have threatened to exclude the mayor from the Liberal Party slate of candidates in the 2016 elections. Such a threat would have been particularly credible in Mabilog's case, because Congressman Treñas is popular and many local observers expect him to run again for mayor at the first opportunity.

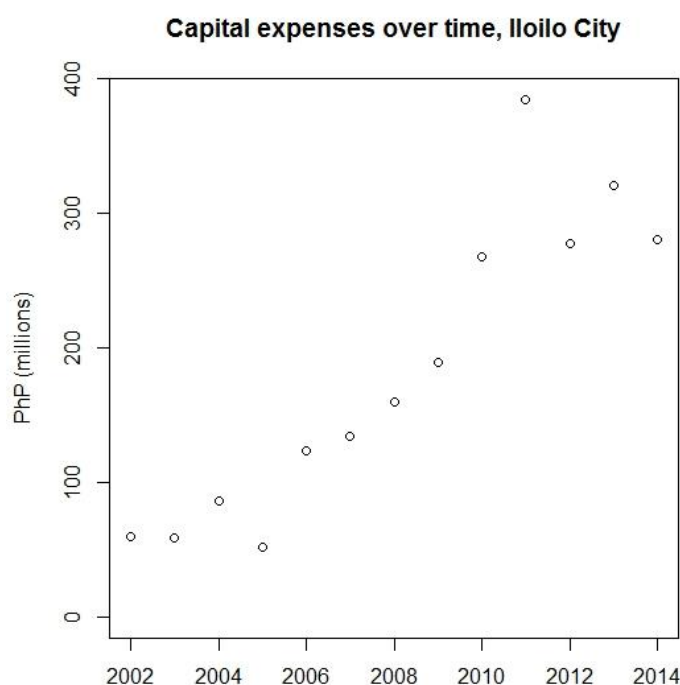
In contrast, ILED should have been less able to punish Mabilog's predecessor, Jerry Treñas. Prior to 2010, Franklin Drilon, the Liberal Party, and, by extension, ILED were in the national opposition. Secretary of Justice Raul Gonzalez, whom Rex Drilon openly distrusted, still dominated Iloilo politics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

The effect of ILED's changing ability to enforce credible commitments is observable in the data on Iloilo's infrastructure spending. Figure 3 shows annual levels of spending on capital outlay, including expenditures on public infrastructure as well as procurement of capital assets such as motor vehicles and land. The figure shows that infrastructure spending began to increase gradually in 2006, the year Mayor Treñas' major tax ordinance took effect, but that it did not take off until Mayor Mabilog took office in 2010.

The Iloilo business community was cautious with Jerry Treñas regarding fiscal policy, even though he was a big proponent of infrastructure projects. Treñas' signature tax ordinance, re-appraising property values, was passed in 2005 but never fully

implemented during his time in office.<sup>32</sup> The city council had to pass a second law to activate the first one, which it did not do until 2011. I suggest that the business community insisted upon this precaution because it could not fully trust Mayor Treñas without a credible means of punishing him should he divert funds away from infrastructure spending.

**FIGURE 3.3**



Source: Commission on Audit

As a case study of local taxation, Iloilo challenges both class conflict and patronage approaches to taxation. Iloilo's well-organized business community neither rejected progressive taxation outright nor begged for special exemptions. Instead, local businesses, represented by the Iloilo Economic Development Foundation, complied with tax increases when the city government credibly promised to spend new revenues on

<sup>32</sup> The law took effect gradually. In 2006 and 2007, property taxes were assessed on 50% of appraised property values, and then beginning in 2008 on 60% of appraised values.

public infrastructure, because the business community believed new infrastructure would attract call centers and MICE tourism.

## **BATANGAS**

Even though Batangas did not raise property taxes for nineteen years, many local businesses resisted when the city finally did so in 2013. They did not trust the city government to spend the money well and they objected that the tax burden was not fairly distributed across all properties. Why could Batangas not overcome the same problems that Iloilo solved? I argue that Iloilo's business community was too divided by ownership and political affiliation to develop the associational capacity it would have needed to solve such problems. As a result, businesses acted individually to reduce their tax burden despite the city's obvious need for new revenue to upgrade poor infrastructure.

### *A need for better infrastructure*

Despite years of high revenues, Batangas City has allowed its infrastructure to crumble. Most notably, the city's two most important bridges, both of which span the Calumpang River, recently collapsed. The Bridge of Promise, which completed a bypass road linking the Shell oil refinery to Manila, collapsed in 2009 during Typhoon Santi (international name Mirinae). As a result, tanker trucks bound for Manila were forced to detour through downtown Batangas until the Bridge of Promise reopened the following year. Then, Calumpang Bridge collapsed in 2014 during Typhoon Glenda (international name Rammasun). Calumpang Bridge connects the posh Pallocan district to Batangas City Proper, and losing the bridge reportedly made the trip across the river to SM Mall so inconvenient that many shoppers preferred to travel to Lipa City rather than Pallocan. The city government constructed a pontoon pedestrian bridge as a temporary measure to

allow commuters to walk to work until the original bridge reopened in late 2015 (Figure 3.4).

While reconstruction of the Calumpang Bridge was underway, the city government proposed plans to construct a third bridge spanning the Calumpang river. This time, the city wanted to build a suspension bridge in order to elude the threat posed by river debris. Initial estimates put the cost of the proposed bridge at 350 million pesos, or about USD 20 million.

**FIGURE 3.4**



Evening commuters crossing the Calumpang river on March 4, 2015 (photo by author)

The city government was eyeing other projects, too. In an op-ed republished in the city government newsletter, Secretary to the Mayor (and Eduardo Dimacuha's son) Victor Reginald Dimacuha described a laundry list of urgent city projects. Among the projects he listed, he included building 100 new high school classrooms, renovating two public markets, constructing roads, canals and seawalls, developing new industrial and

commercial districts, and maintaining current healthcare and scholarship programs (Dimacuha 2013).

In 2013 the City Council passed a tax ordinance updating property valuations for the first time since 1994. The measure had the effect of increasing property taxes tenfold in some cases, albeit from a very low starting point. Victor Reginald Dimacuha claimed that the measure was necessary to achieve the “dream of a more developed Batangas City” (Dimacuha 2013). Whatever else the Dimacuha regime planned to do with the new revenues, it is very clear in hindsight that Batangas City did in fact acutely need to upgrade its physical infrastructure.

#### *Dissension among businesses*

Unlike in Iloilo, however, the business community in Batangas City organized vociferous resistance against the measure, not support for it. Batangas’ businesses were divided among three distinct groups with diverging political agendas, and their internal conflicts precluded the possibility of formulating a unified response to the tax increase. All that was left to them, then, was resistance. The first group comprised the huge multinational corporations (MNCs) invested in Batangas, specifically Shell and the Korean Electric Power Corporation (Kepco), which appeared to rise above the fray of local politics only because they chose to lobby at the presidential palace instead of City Hall. The second group comprised local businesses supportive of the Dimacuha regime, and the third group comprised the regime’s opponents.

Kepco, owner of the natural gas power plant at Ilijan, resisted property taxation by “lawyering up” and seeking the aid of the national government. For the first eleven years of its operating life, the Kepco plant was delinquent in its property taxes. During

that time, it accumulated an astonishing 9.9 billion pesos (USD 500 million) in back taxes. Kepco insisted that under the terms of its Build-Operate-Transfer contract, the Philippine National Power Corporation was responsible for its tax obligations. Batangas City appealed in the Court of Tax Appeals, but in 2011 President Aquino forced the city government's hand when he issued Executive Order 27 forgiving part of the tax owed by a different "independent power producer" in neighboring Quezon province. Even though the order was only binding for Quezon province, the City of Batangas and Kepco ultimately reached a settlement based upon it, and Kepco agreed to pay approximately 900 million pesos (USD 50 million) to the city (Mauricio, April 24, 2014).<sup>33</sup>

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

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<sup>33</sup> The payment of the settlement appears in Figure 1 as a dramatic spike in revenue in 2012.



By lobbying nationally, the MNCs invested in Batangas distanced themselves from both local politics and local businesses. Meanwhile, local businesses negotiated directly with the local government over tax policy, but internal conflicts hamstrung their efforts. Two competing business associations, the Metro Batangas Business Club<sup>34</sup> and the Batangas Province Chamber of Commerce, both claimed to represent the business community. The Metro Batangas Business Club was friendly with the Dimacuha regime, while the Batangas Province Chamber of Commerce was implacably opposed. Yet, neither organization influenced city tax policy.

The Metro Batangas Business Club emerged as an outgrowth of the USAID Invest program, which promoted an open business climate in three Philippine cities including Batangas (USAID 2014).<sup>35</sup> In September 2013, the INVEST program, the Batangas Province Chamber of Commerce, and the provincial chapter of the Filipino-Chinese Chamber of Commerce organized the first of many meetings among a core group of local businesses that would go on to found the Metro Batangas Business Club. Although the INVEST program initially worked through Batangas Province Chamber of Commerce, USAID officials and the city government pushed for a new, city-specific business organization. Then, as the new business club developed, the mayor and his allies in the business community sidelined the Batangas Province Chamber of Commerce and its outspoken president, Faustino “Ting” Caedo. Ting Caedo publicly opposed the proposed property tax increase, which was being debated at the same time that the Metro Batangas Business Club was being formed (Batangas City Stakeholders 2013).

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<sup>34</sup> Previously Batangas City Business Club.

<sup>35</sup> The other two cities were Iloilo and Cagayan de Oro.

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

As a result, City Hall felt no compulsion to negotiate the new tax ordinance with local businesses. Not only Batangas Province Chamber of Commerce, but also Metro Batangas Business Club requested relief from the tax increase in the form of reduced rates or gradual implementation; the city government would not hear it. The city council pushed forward with the ordinance as proposed, and passed it on November 25, 2013.

*“Reject RPT 20 Movement”*

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

mayor Jose Tolentino, the Dimacuha's own daughter-in-law Kristine Balmes, and former Secretary of Justice Hernando Perez.

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

The litigation did not strike down the law, but it may have sown enough doubt among Batangueños to embolden the civil disobedience campaign. In a personal interview, Victor Reginald Dimacuha, Secretary to the Mayor, expressed disappointment with the revenue generated by the tax increase, saying that realized revenues fell well below what the city expected to collect based on the new law. Non-compliance increased the year the law took effect, so perhaps he was right to be disappointed. Property tax revenues increased by only 7%, despite a 25% increase in assessments (BLGF Region IV-A 2014). The 30 million additional pesos (USD 700,000) that the new law generated was not nearly enough to fund a third bridge over the Calumpang River. Indeed, by late 2014 the city government was already considering borrowing funds with which to build the new bridge.

On the other hand, the “Reject RPT 20 Movement” became the focal point of political opposition in Batangas. The group held a rally in the Batangas plaza every

Saturday for at least two years, attracting perhaps twenty people wearing red on a regular basis. Although the tax increase was the original impetus behind the movement, the group soon began to oppose other city development proposals, too. They rejected a proposal for a new coal power plant, and, of course, the proposal to borrow PhP 350 million to build the third bridge.

In many ways, the case of Batangas City exemplifies a political machine oiled by patronage and fueled by windfall revenues. The city government collected huge revenues from just a few large industrial facilities, and like Sidel's (1999: 142) "mafia-style bosses", the Dimacuha family used "state resources to establish private economic empires and political dynasties". Their political tactics also exhibited the hallmarks of "bossism", such as vote-buying and political violence, and yet, the beleaguered opposition was still able to enfeeble a perfectly reasonable tax increase. A small group of businesses and politicians relied on weapons of the weak—litigation, civil disobedience, gossip—to resist the city's first property tax increase in 19 years. Resistance to taxation is the recourse of weak businesses; it takes a strong business association to make taxation work.

### **THE SOURCES OF ASSOCIATIONAL CAPACITY**

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

of business associations, I have so far left unanswered the antecedent question of the origins of those associations. To conclude this chapter, I consider how geographic differences between Iloilo and Batangas might have generated antecedent conditions that directed local business associations toward different development paths.

Batangas' key geographical advantage over Iloilo is undoubtedly its extraordinary port. Batangas Bay provides a deep, protected natural harbor that is so wide that it accommodates 23 private ports in addition to the enormous Batangas International Port (Philippine Ports Authority n.d.). The bay, and its proximity to Manila (approximately 100 km), has attracted investment by major domestic manufacturers, the state-owned Philippine National Oil Company (PNOC), and multinational corporations such as Shell, Chevron, and Holcim—all of which own industrial facilities serviced by private piers around the bay.<sup>36</sup> Although Shell built an oil refinery at Tabangao as early as 1962, industrial development around the bay exploded in the mid-1990s after natural gas was discovered at the Malampaya off-shore field, and Shell, in partnership with Chevron and PNOC, began laying pipeline to convey the gas to Batangas.

The industrial development attracted by Batangas Bay had three detrimental effects on the development of business associations in Batangas. First, it ensured that MNCs would tower over their local counterparts in the city's business landscape. MNCs are “pretty deficient” in terms of political engagement (Doner and Schneider 2016), and their “mousiness” typically prevents them from participating in business associations and engaging with local governments (Schneider 2013). This pattern was clearly evident

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<sup>36</sup> These facilities are spread across four administrative locations: Batangas City, and Bauan, San Pascual and Mabini Municipalities.

when Shell and especially Kepco focused their lobbying efforts on Malacañang Palace rather than Batangas City Hall.

Second, many of the investments around Batangas Bay were “natural resource-seeking” enterprises that manufactured products for national or foreign, not local, markets. Large firms used their private piers to transport materials in and out without relying on the city’s infrastructure. Consequently, these firms required little in terms of public services. The nature of their enterprises reinforced the inclination toward “mousiness”: neither MNCs nor their domestic counterparts had much to gain by contributing to the development of local associations.

Third, while Batangas’ large industrial firms made few demands of local government, they nevertheless paid large sums of money in property and business taxes. Those revenues, which like the industrial boom took off during Eduardo Dimacuha’s second term in office, would have substituted for presidential patronage and insulated the family from the vicissitudes of national politics that have toppled lesser Philippine strongmen (Sidel 1999). As a result, the Dimacuhas were able to achieve a measure of autonomy from local businesses and national politicians, not unlike their Vietnamese counterparts with access to foreign direct investment (Malesky 2008).

Lacking similar geographic advantages, Iloilo City developed a different pattern of business-government relations. The Port of Iloilo, like the Port of Batangas, is a protected, deepwater harbor, but its size is limited by the narrow Iloilo Strait. As a result, there is only one additional private port, a Holcim distribution terminal at the mouth of the Iloilo River. Instead, much of Iloilo’s passenger and cargo shipping traffic shares the Iloilo River Wharf.

Consequently, Iloilo was less attractive than Batangas to MNCs. No MNCs have appeared on the city treasurer's list of Iloilo's top 20 property taxpayers since 2009, when a Shell oil depot made the list. Furthermore, the multinational enterprises that did arrive in Iloilo were "market-seeking" investors. Shell and Holcim built regional distribution terminals, while Samsung opened a retail outlet. As a result, Iloilo developed a homogenous business community of domestic and local firms focused on local commerce.

Iloilo's business community was not only more homogenous than Batangas', but it also shared a collective interest in adequate local infrastructure. As a commercial hub for the Western Visayas, Iloilo relied on transportation and logistical infrastructure that would facilitate the movement of goods and people in and out of the city. The business community's shared interest in better land, sea, and air links resulted in upgrades for all of them, beginning with the new airport in 2007. Even Holcim's private port depended on the public maintenance of the Iloilo River for access to the sea.

While the business community depended on the local government to maintain adequate public infrastructure, local politicians depended on national politicians and business patrons for political support. Lacking the easy revenues that the Dimacuha family enjoyed in Batangas, local politicians in Iloilo never achieved similar political autonomy. Instead, in a pattern typical of the Philippines, local politicians formed vertical coalitions with patrons with access to congressional and presidential patronage (Hutchcroft and Rocamora 2012). During the Estrada and Aquino administrations, Raul Gonzalez, Sr. dispensed this patronage as Congressman and then Secretary of Justice, while Franklin Drilon and Jerry Treñas assumed the role during the Aquino

administration. As a result, local politics in Iloilo is a matter of shifting elite coalitions, which creates opportunities for local businesses to exert influence by threatening the *status quo*.

In sum, I submit that geographic differences between Iloilo and Batangas created antecedent conditions that shaped the subsequent development of local business associations in three ways. In Batangas, the gulf between MNCs and local businesses undermined the cohesiveness of local business associations; the prevalence of private ports and natural resource-seeking enterprises precluded encompassing interests from crystalizing; and the huge revenues generated by a few large enterprises that were indifferent to public services disconnected local government from the business community. In Iloilo, by contrast, the homogeneity of the business community facilitated cohesiveness; the importance of local and regional markets cultivated an encompassing interest in adequate local infrastructure; and the dependence of local politicians on national patronage predisposed them welcome connections to local businesses—not only to protect their access to national patronage but also to balance against the influence of Manila.

I do not wish suggest that the geographic differences between Batangas Bay and the Iloilo Strait predestined strong associational capacity in Iloilo and weak capacity in Batangas. As Olsen (1965) teaches, collective action does not automatically follow from structural conditions; it requires effort and organization. Rather, I hypothesize that the three antecedent conditions I have identified—the role of MNCs, the nature of local business interests, and the degree of autonomy of local politicians—made collective action easier for businesses in Iloilo than Batangas. The extent to which local businesses



were able to take advantage of those conditions and develop strong business associations is still a crucial intervening variable that ultimately determined local fiscal capacity.

The contrast between business associations in Iloilo and Batangas may help to sketch out the beginnings of a framework for explaining local variation in state-society relations across the Philippines. Local politics takes on a broad spectrum of colors against the gloomy backdrop of a resilient national oligarchy preying on an underdeveloped, patrimonial state (Anderson 1988, Hutchcroft 1998). For example, bosses ruled in Cavite and Cebu provinces (Sidel 1999), the Osmeña family governed technocratically in Cebu City (Mojares 2009), and “People’s Councils” facilitated participatory democracy in Naga City (Kawanaka 2007). Yet, while the Dimacuha family dynasty in Batangas is strongly evocative of Sidel’s local bosses, Iloilo’s political community does not fit easily within this typology. There, politics were dominated by family-run businesses that did not behave like typical oligarchs: instead of plundering the state to drive private accumulation, they strengthened its fiscal capacity to promote the provision of public goods. Iloilo’s oligarchy took part in participatory democracy, as it were—or perhaps economic and political leaders simply constrained one another as “mutual hostages” (Kang 2002). Regardless, the development of a cohesive, encompassing, and connected business association changed the economic interests of Iloilo’s oligarchs. Under the watchful eye of strong business association, good governance was also good business.

## 4 Indonesian Cases: Surabaya and Banjarmasin

In 2009, the Indonesian government decentralized authority over property taxes to cities and districts, significantly expanding the fiscal powers of local governments. The property tax, according to public finance experts, constitutes a substantial source of untapped revenue in the developing world, especially in urban areas. Thus, the legislation had the potential to endow local governments, especially cities, with greater fiscal autonomy and to equip them to invest more aggressively in infrastructure and development. Yet, not all local governments embraced their new powers. While some cities aggressively raised rates and enforced compliance, others hesitated, seemingly indifferent to the opportunity to increase revenue.

Figure 1.4 (p. 28) illustrates this variation with data from 42 major cities, which are more likely to benefit from the decentralization of the property tax than small cities or rural districts. Property in cities is more valuable and easier to assess than elsewhere, so it can yield higher revenues at lower costs. Yet, even these cities vary, as the figure shows. The y-axis shows property tax revenues for the year 2014, as reported by the Directorate General for Fiscal Balance, Ministry of Finance. (Fourteen cities are missing from the figure because they were not included in the Ministry's data.) The x-axis presents my estimates of the total value of residential property in each city, which I calculated by combining data from the 2010 census and online property classifieds (Gnagey and Tans 2017).<sup>37</sup> The best-fit line represents expected tax revenues for a given value of residential property. In the figure, Surabaya, Denpasar and Makassar, among others, have revenues

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<sup>37</sup> However, these estimates do not include commercial properties, which vary in value across cities, so they do not capture the total value of property.

higher than expected, while Banjarmasin, Pontianak, and Sukabumi, among others, have seemingly neglected the revenue potential of the tax.

Why do Indonesian cities vary in their capacity to collect property taxes, even after taking into account differences in the size of their tax bases? In this chapter, I compare tax policy in Surabaya and Banjarmasin. Both of these provincial capital cities have undertaken expensive infrastructure projects in recent years. Yet while Surabaya paired those expenditures with increases in property tax revenue, officials in Banjarmasin dragged their feet in implementing the property tax, maintaining in effect some of the lowest property tax rates in the country.

This chapter presents evidence that these contrasting tax policies were the result of different patterns of business-government relations. In Surabaya, the provincial chapter of the national property developers association, Real Estate Indonesia (REI), helped the city increase revenues for the sake of expanding transportation and water infrastructure in the city. In Banjarmasin, business associations showed little interest in new infrastructure, because their economic interests lay outside of the city limits in suburban development and distant plantations and coal mines.

Figure 4.1 contrasts tax capacity in these two cities by ordering cities according to the residuals of Figure 1.4.<sup>38</sup> That is, the figure measures tax capacity by the degree to which each city exceeds or falls short of expected revenue given the value of residential property. The figure shows that tax capacity sharply diverges in Surabaya and Banjarmasin even after taking into account differences in the value of property.<sup>39</sup> Together, these two cities capture nearly the full range of variation in tax capacity among

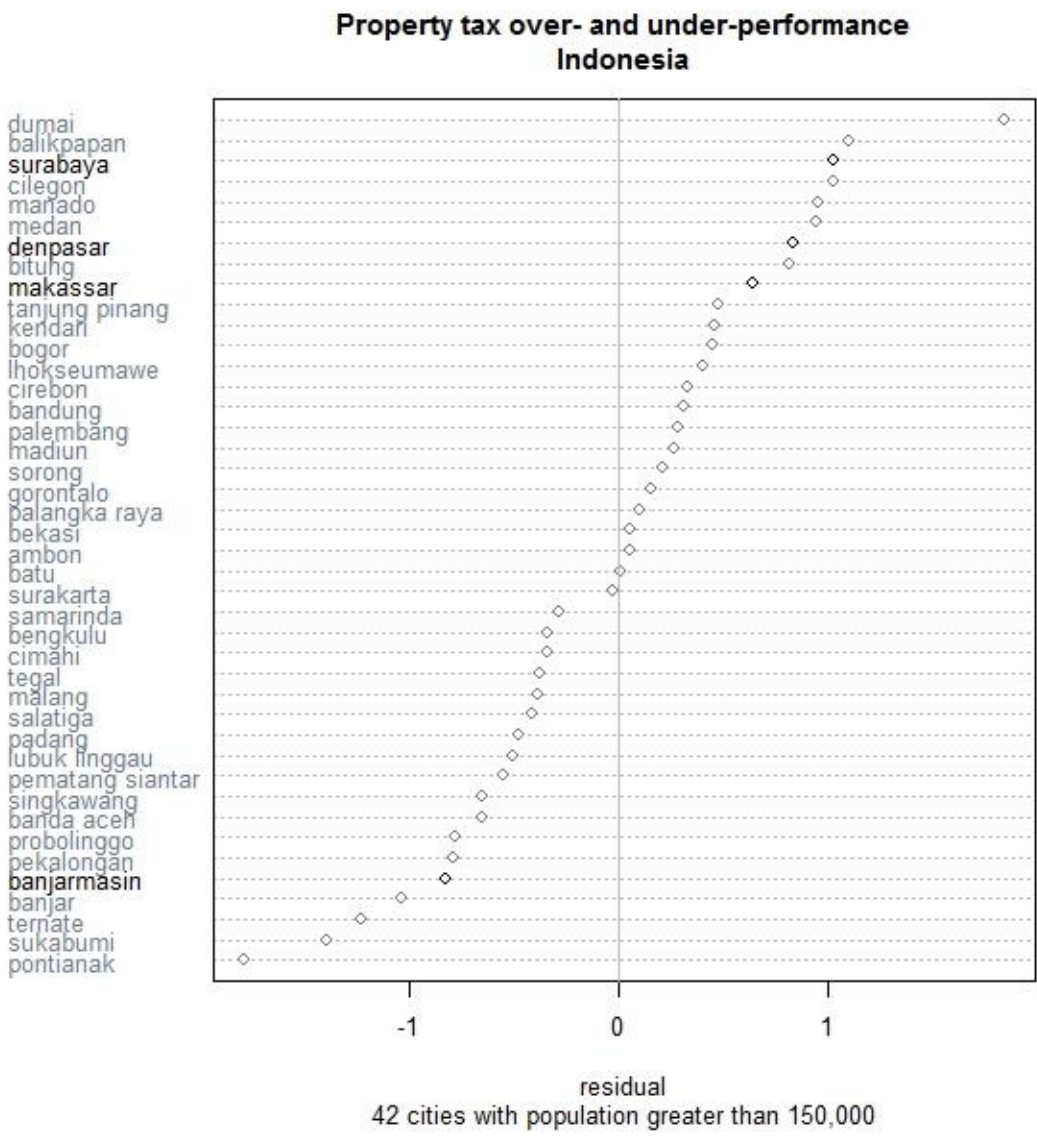
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<sup>38</sup> The residuals are equal to the distance along the y-axis from a given data point to the best fit line.

<sup>39</sup> Alternatively, Figure 1.2 shows the divergence in capacity after taking into account GDP.

Indonesia's major cities, as Surabaya has the third-highest capacity by this measure while Banjarmasin has the fifth lowest.

FIGURE 4.1



Source: Tax revenue from DJPK; property values estimated by author.

Tax capacity diverges in Surabaya and Banjarmasin despite important similarities. Both cities are provincial capitals and major port cities. They are cultural hubs with nationally prominent universities, provincial hospitals, and offices for provincial and national government agencies. Their ports make them centers of commerce, with Banjarmasin shipping goods to and from interior Kalimantan and Surabaya to and from Eastern Indonesia. In addition, both cities have competitive electoral politics (Table A.4). In Banjarmasin, mayoral elections have produced constant turnover since the end of the New Order—the city has not had a two-term mayor since at least 1999. Surabaya had similarly competitive elections until Tri Rismaharini was re-elected in a landslide in 2015.

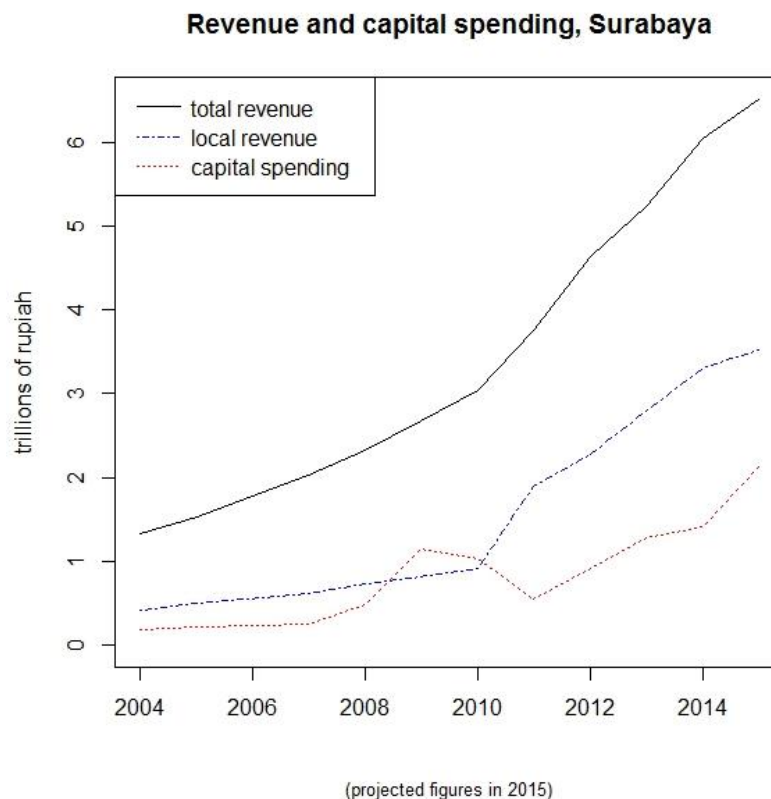
However, there are also differences. As Indonesia's second city and the gateway to Eastern Indonesia, Surabaya is a commercial center to a much greater extent than Banjarmasin. Commercial activities contribute fully 47% of GDP in Surabaya, compared to only 25% in Banjarmasin (BPS Surabaya 2016; BPS Banjarmasin 2016). By contrast, Banjarmasin is something of a frontier town, providing services for mining, logging and plantation enterprises in Kalimantan's interior. Accordingly, services, especially financial services, are the most important sector in Banjarmasin's economy. According to rumor, Banjarmasin also has a thriving illegal entertainment industry, including drugs, gambling and prostitution, though it is difficult to compare its scope to similar activities in Surabaya. A final difference is that Surabaya is large in terms of land area, and property developers have banked huge concessions of up to thousands of Ha of land on the margins of the city since the 1990's (Dick 2002). By contrast, Banjarmasin is smaller, so

most new development takes place outside the city limits in the neighboring districts of Banjar and Barito Kuala.

Thus, Surabaya and Banjarmasin exhibit very different degrees of tax capacity, despite sharing many similar characteristics, including similarly competitive elections. Elections are important, because holding their competitiveness constant controls for a key independent variable in class conflict and patronage approaches to taxation. On the other hand, there are some economic and geographic differences that might suggest alternative explanations. However, as in the case of Batangas and Iloilo, I argue that these differences should be understood as antecedent conditions that shape tax capacity indirectly through their effect on the cohesiveness of business associations.

**TABLE 4.1: A variable comparison**

<i>Variable</i>		<i>Surabaya</i>	<i>Banjarmasin</i>
Tax capacity	<i>dependent variable</i>	<b>high</b>	<b>low</b>
Business associations	<i>independent variable</i>	<b>strong, organized</b>	<b>disinterested</b>
Competitiveness of elections	<i>rival hypothesis</i>	<b>high</b>	<b>high</b>
Primary economic sector	<i>antecedent condition</i>	<b>commerce</b>	<b>services</b>
Land area	<i>antecedent condition</i>	<b>large</b>	<b>small</b>

**FIGURE 4.2**

Source: DJPK

## **SURABAYA**

Perhaps no city has benefited from the decentralization of the property tax more than Surabaya, Indonesia's second largest city. The city budget quickly doubled after the change, from 3 trillion rupiah in 2010 to 6 trillion rupiah (USD 500 million) in 2014 (Figure 4.2). Locally generated revenues accounted for most of the difference, while central government transfers remained constant. The most important new sources of revenue were the property tax and the property transactions tax, which contributed a combined 1.5 trillion rupiah, or half of the total increase.

More tellingly, property tax revenue increased significantly after Surabaya took over administration of the tax from the Ministry of Finance. In 2011, Surabaya relied on

property valuations and tax records that it inherited from the central government to collect just under 500 billion rupiah (USD 60 million). By 2015, Surabaya had increased property tax revenue to 830 billion rupiah. In so doing, Surabaya exemplified a best-case scenario for public finance experts as a local government that outperformed the central government in administering the property tax because the revenue potential is much higher as a share of the local budget.

Surabaya's revenue growth was accompanied by an increase in capital spending that was nearly as dramatic. Spending on capital investments, such as land acquisition, machinery procurement, and construction projects, doubled to 2.1 trillion rupiah (USD 160 million) between 2010 and 2015 (Figure 4.2). In particular, the city began to execute major infrastructure projects that had been years, even decades, in planning. The largest projects were the Kenjeran Bridge, the expansion of Ahmad Yani Street, the construction of western and eastern bypass roads<sup>40</sup>, the diversion underground of the Banyu Urip irrigation channel, and the redesign of the Satelite Highway Interchange. The primary effect of these projects was to improve traffic flow on the western, southern and eastern margins of Surabaya—where multi-million dollar mixed-use developments are reshaping the city.

Mayor Tri Rismaharini, or Bu Risma as she is popularly known, oversaw all of these changes, and has become one of the most popular mayors in Indonesia. In 2015, she was reelected to her second five year term with 86% of the vote.

In sum, Surabaya approximates the ideal success story for fiscal decentralization, as depicted in the public finance literature. The city embraced its new fiscal authority and dramatically increased revenues by focusing on the most efficient taxes, especially the

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<sup>40</sup> In Indonesian, Jalan Lingkar Luar Barat and Timur, or JLLB and JLLT.



property tax. Those revenues were directly translated into investment in much-needed transportation and water infrastructure, much to the delight of local voters, who subsequently rewarded the mayor for her performance by reelecting her in a landslide. Yet, Surabaya's success should not be taken for granted. Viewed in the context of other Indonesian cities, as well as Surabaya's own recent past, the city's ongoing development boom is striking.

How did Surabaya generate political support for increasing taxes and building new infrastructure? While something like a development consensus exists in which the mayor's office works closely with developers to plan and execute infrastructure projects, it has been tested repeatedly. As recently as 2011, the Surabaya city assembly voted to impeach Risma over changes to the billboard tax ordinance, and in 2010, Risma generated intense controversy when she refused to approve a central government plan to construct a new toll highway through the city.

In this chapter, I show evidence that fiscal policy in Surabaya was neither an effort to "soak-the-rich" and redistribute to the poor, nor was it a scheme to distribute patronage to Risma's electoral base. Rather, the overall effect of Surabaya's fiscal policy is to shift resources from the commercial city center to the fast growing margins of the city, where major new property developments are rising. Real Estate Indonesia, and the major property developers, worked closely with City Hall to develop these planning priorities and to execute key projects. In exchange for the infrastructure that would make their investments viable, REI encouraged its members to pay property taxes. The association accomplished these goals by providing a forum for businesses to negotiate distributional trade-offs and a means to monitor public spending.

## RIVAL EXPLANATIONS

According to the class conflict approach to taxation, elections prompt tax increases by channeling popular demand for redistribution. Furthermore, the more competitive elections are, the more the pressure to “soak-the-rich” intensifies. Superficially, Surabaya fits this pattern. Risma steadily increased taxes during her first term as mayor after winning a close election in 2010 with 41% of the vote. As a first-term mayor facing a hostile city assembly, Risma might have been tempted to cater to Surabaya’s poor voters as allies against the city establishment.

Yet, close examination of changes to the property tax during Risma’s first term show that her administration carefully preserved the vertical incidence of the tax that it inherited from the Ministry of Finance. In other words, the property tax maintained a similar level of progressivity because the city uniformly increased property valuations across the economic spectrum.

Surabaya achieved a 66% increase in property tax revenues over four years primarily by revising the property valuations that it inherited from the Ministry of Finance.<sup>41</sup> A comparison of the 2011 and 2015 schedule of land valuations reveals across-the-board increases in land valuations of 50 to 100%.<sup>42</sup> For example, the median increase in the lowest valuation in each of 75 neighborhoods (*kelurahan*) was 49%, while the median increase in the highest valuation in those neighborhoods was 68%. (Note how closely these changes track the increase in revenue.) As a result, the ratio of the highest to

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<sup>41</sup> In general, Indonesian cities have preferred this method of increasing revenues because it is easier than conducting field surveys to revise property data and it is shielded from politics because new valuations do not require the approval of the city council. Furthermore, rate adjustments are legally constrained because the law that decentralized the property tax also limited property tax rates to no more than 0.3 percent.

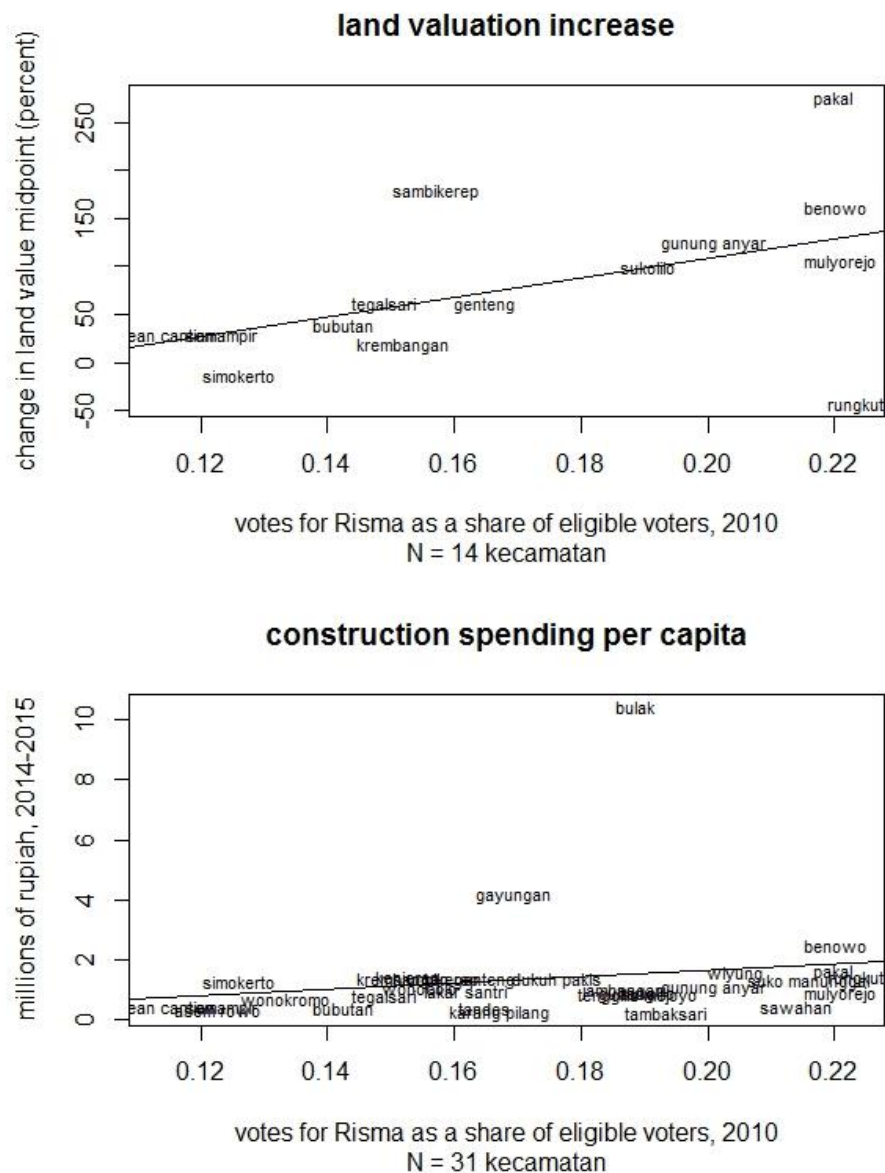
<sup>42</sup> I obtained hard copies of the 2011 schedules of property valuations for 14 out of 31 city sub-districts (*kecamatan*) from the City Legal Office (*Bagian Hukum*), as well as a complete 2015 schedule in PDF from the official city website.

lowest valuation changed very little within neighborhoods. Land valuation grew more progressive in forty five neighborhoods (that is, the ratio of highest to lowest increased), but less progressive in 30 neighborhoods (that is, the ratio decreased). In the median neighborhood, the ratio increased by 0.49, but the average change across all neighborhoods was a decrease of 0.1. The pattern across neighborhoods was similar, in that rich neighborhoods were no more likely to become more progressive than poor neighborhoods.

If property tax policy in Surabaya has not targeted the poor, then perhaps it has favored Risma's supporters. The patronage approach to taxation expects that local officials will reduce taxes on their supporters, while expropriating as much as possible from their opponents. Therefore, revenues should fall when elections are competitive and elected politicians need to reward their supporters. Recent tax history in Surabaya, however, belies these expectations. Tax revenues rose, not fell, after Surabaya's competitive election in 2010.

Variation in land valuation across city sub-districts deepens the impression conveyed by the overall revenue figures: Risma did not single out supportive sub-districts for favorable treatment. Figure 4.3 shows that land valuations actually increased more in districts where a greater share of eligible voters supported Risma. Nor did construction spending make up for the tax increases—per capita spending on construction is relatively constant regardless of a sub-district's previous support for Risma. While it is likely that the tax office still cut deals with individual taxpayers, Surabaya's fiscal policy did not systematically favor sub-districts that supported Risma.

FIGURE 4.3



Overall, the changes in valuation resemble neither a concerted effort to increase taxes on the rich, nor an attempt to favor Risma's supporters. Rather, the changes seem to have brought official valuations more in line with fair market values. The 2015 valuations predict 2016 baseline neighborhood land values twice as accurately as the 2011

valuations (though neither fit the baseline land values well).<sup>43</sup> The model results are merely suggestive because of a dearth of data on property transactions in Indonesia, but they suggest that the changes to property valuation under Surabaya's administration have been motivated by technical as much as political concerns.

## **FISCAL CONTRACT**

While Surabaya's fiscal policy has not favored the poor or Risma's voting base, it nevertheless has had redistributive implications. In this case, Surabaya redistributed public resources from the commercial center of the city to the developing margins of the city. By two different measures, land was taxed most heavily in the center of the city, while construction spending per capita was highest at the northwest, northeast, and southern city limits.

I argue that this spatial redistribution across neighborhoods reflects a bargain between City Hall and major property developers in which property developers endorse high taxes on completed developments in exchange for infrastructure spending that complements new developments. This bargain is upheld by Real Estate Indonesia, which works with the city to develop city planning priorities and pressures its members to pay taxes. The association's close relationship to City Hall provides both the means to monitor public spending and the leverage to discipline its members.

### *Tax incidence across neighborhoods*

Four city sub-districts, Genteng, Tegalsari, Mulyorejo and Dukuh Pakis, stand out as the most heavily taxed relative to 2011 tax obligations and to present land values. Surabaya's residents will recognize these sub-districts as some of the most desirable

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<sup>43</sup> The 2015 valuations predict 2016 baseline neighborhood land values with an  $r^2$  of 0.08, while the 2011 valuations predict the same values with an  $r^2$  of 0.04. Complete results available upon request.

neighborhoods in the city. Genteng and Tegalsari comprised the heart of the late colonial city, while Dukuh Pakis and Mulyorejo hosted the first exclusive housing developments in the post-war era. Overall, these sub-districts encompass most of the commercial heart of the city and many of its most well-established residential neighborhoods.

Figure 4.4 compares land valuation by sub-district in 2015 and 2011. I summarize the land valuation for a given sub-district simply by taking the midpoint between the minimum and maximum valuations.<sup>44</sup> Recall that Surabaya's 2011 property valuations were inherited from the Ministry of Finance, while the 2015 valuations reflect four years of gradual revision by the city tax office. The best-fit line shows the expected 2015 valuation, for a given level of valuation in 2011. In sub-districts above the best-fit line, land valuations increased disproportionately to other sub-districts. Land valuations increased most in Tegalsari, Genteng, and Mulyorejo, and they also increased in Sukolilo and Sambikerep. (I do not have 2011 data for Dukuh Pakis.) By contrast, land valuations increased more slowly in sub-districts below the line, such as Simokerto and Rungkut. The key observation is that the Surabaya tax office chose to increase valuations in Tegalsari, Genteng and Mulyorejo much more rapidly than their counterparts with similar valuations in 2011.

Whereas Figure 4.4 depicts neighborhood tax burdens relative to 2011, Figure 4.5 depicts tax burdens relative to fair market values for land. The y-axis presents the average official land valuation by sub-district in 2015, while the x-axis presents baseline neighborhood land values in 2016. I estimated baseline land values using data from 1,530 property advertisements that I collected from the website OLX Indonesia in 2016. I was

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<sup>44</sup> I received the 2011 schedules, numbering hundreds of pages, in hard copy, so calculating an average valuation will be impossible until I can manually transcribe the schedules into Excel.

able to match 60% of these data, or 911 advertisements, to specific sub-districts. With these data, I estimated an OLS model using lot size, building size, property type (residential, commercial, undeveloped), land tenure (outright ownership, building rights, informal ownership), and sub-district dummy variables to predict asking price. I combined the model intercept and sub-district dummy variables to produce baseline land values for each sub-district.

The figure reinforces the implications of the previous figure. It shows that no sub-districts are taxed as highly as Genteng, Dukuh Pakis, Mulyorejo, and Tegalsari, even after accounting for the fair market value of land. The specific estimates of baseline land value are imprecise, and should be interpreted cautiously. I have only eight observations from Dukuh Pakis, 15 from Genteng, 19 from Tegalsari, and 84 from Mulyorejo. In particular, the baseline land values for Genteng would seem to be too low for the central business district. Yet, ordinary folks live in urban kampongs behind Genteng's commercial establishments, and derelict buildings blight even the prestigious Tunjungan Street. In addition, my estimates do not capture buildings and other improvements, which constitute much of the value of property in Genteng. In sum, Figure 4.5 should not be accepted as the final word on tax incidence in Surabaya, but rather as additional supporting evidence that the commercial heart of the city is taxed more heavily than similarly endowed neighborhoods elsewhere.

FIGURE 4.4

Change in land valuations, Surabaya

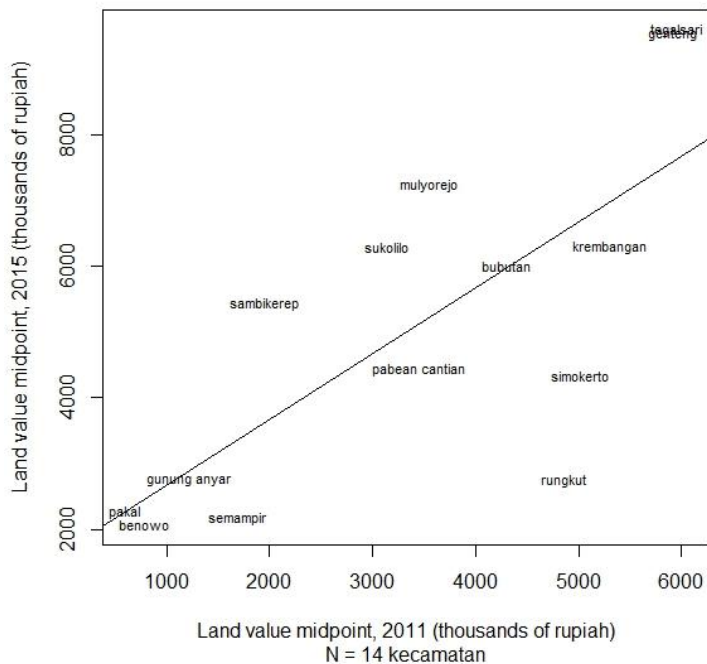
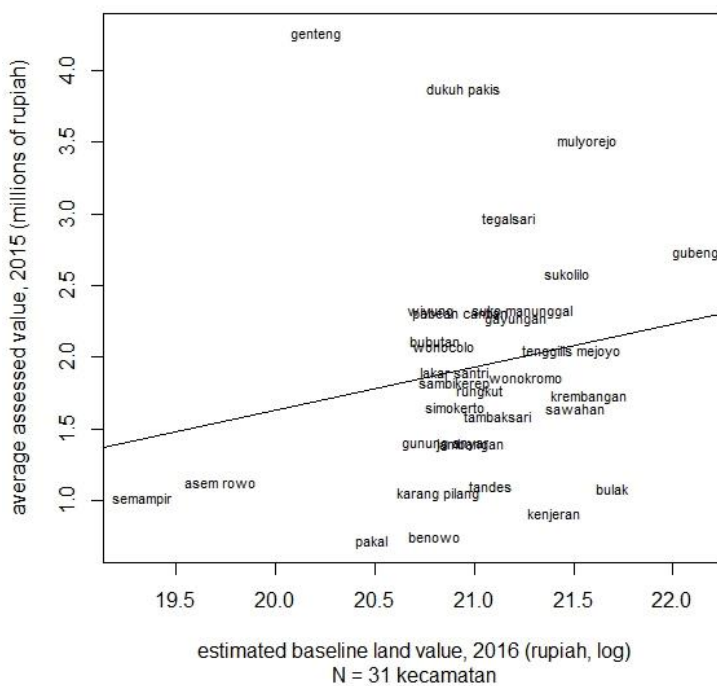


FIGURE 4.5

Land valuations versus market value, Surabaya





*Construction spending across neighborhoods*

While the commercial center of the city pays disproportionately more in taxes, neighborhoods on the edges of the city have been benefitting the most from city spending on infrastructure. Surabaya's exploding revenues enabled Mayor Risma's administration to double spending on capital investments in just five years. The majority of the expenditures funded improvements to Surabaya's roads and drainage system, including projects to construct bridges, widen roads, introduce sidewalks, enlarge canals and purchase flood control pumps.

During 2014 and 2015, the city spread its construction expenditures more or less evenly across the city, with the exception of Bulak, Gayungan and Benowo sub-districts (Figure 4.6).<sup>45</sup> These sub-districts benefited from major infrastructure projects that drove per capita spending much higher than might be expected given their relatively light tax obligations. In contrast, spending in the commercial heart of the city was in line with other sub-districts despite its greater tax burden.

Bulak extends along Surabaya's northeastern coastline from the Suramadu Bridge to Kenjeran beach, where several drainage projects, two major road projects, including the eastern bypass road, and Kenjeran Bridge were intended to generate tourism in what had been a poor fishing community. Gayungan is the southern gateway to Surabaya, where an ambitious project to widen Ahmad Yani Boulevard was intended to improve communication between the city and its southern suburbs. And Benowo sits on Lamong Bay at the northwestern boundary of Surabaya, where bus terminal improvements and

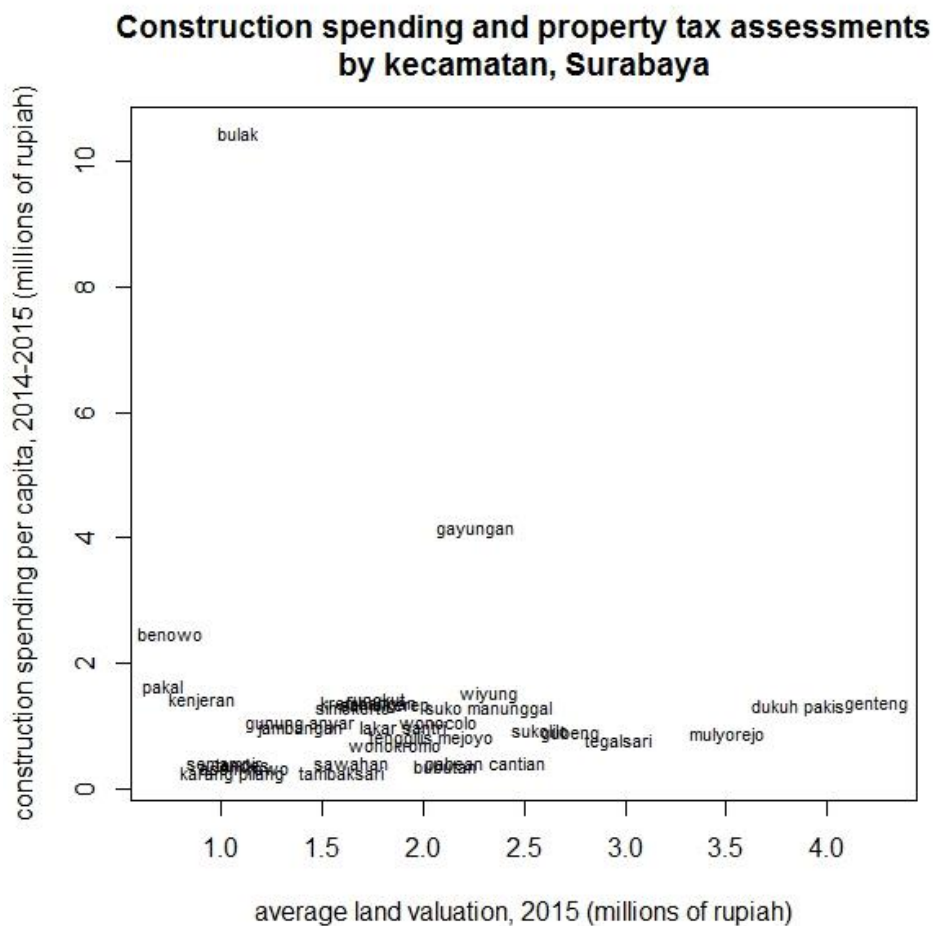
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<sup>45</sup> The data on construction projects comes from the Indonesian government's Public Procurement Plan Information System ([sirup.lkpp.go.id](http://sirup.lkpp.go.id)). I was able to match 2,202 projects to a specific sub-district, accounting for 67% of construction projects and 80% of construction spending in 2014 and 2015.

two road projects, including the western bypass road, were intended to reduce traffic congestion and improve access to the Lamong Bay Container Terminal.

Projects currently in progress continue the pattern of investment on the city's margins. The diversion underground of the Banyu Urip irrigation channel poured billions more rupiah into Benowo in 2016 and 2017. The western and eastern bypass roads, still in the beginning stages of construction, will eventually provide north-south arteries on the western and eastern margins of the city. And a developing transit project will lay track for an electric tram along Ahmad Yani Boulevard, further improving transportation through Gayungan.

**FIGURE 4.6**



## INSTITUTIONAL UNDERPINNINGS

How has Surabaya generated political support for a fiscal policy of spatial redistribution? I contend that Surabaya's property developers drive spatial redistribution, endorsing both higher taxes in the commercial city center and lobbying for infrastructure development on the city margins. Their influence has increased during Risma's administration, when Surabaya's rapidly expanding budget enabled the emergence of a "growth regime" encompassing developers, City Hall, and middle- and working-class voters (Stone 1989). At the same time, the growth regime excluded elements of Surabaya's political and industrial elite.

The coalition grew out of a strong working relationship between Risma and Surabaya's major developers that developed during Risma's time as a city planner in the city bureaucracy. However, REI, as the corporate representative of hundreds of local and national developers, was essential to sustaining the coalition. The association addressed distributional conflict by extending benefits to smaller developers, and it overcame mistrust between developers and the government by enforcing agreements between Risma and association members. As a part of this arrangement, REI encourages members to report sales data accurately to the city tax office.

### *Background to the coalition*

Before her election as mayor, Risma had already been collaborating with property developers for the better part of a decade in her job as a city planner in the Surabaya city bureaucracy. As early as 2002, Risma was involved in a project to develop a new business district along Menganti Road in western Surabaya (*Kompas*, November 29, 2002). The city signed an MOU with a group called Cakra Nusaraya Consortium, led by

Nugroho Suksmanto, the developer of the exclusive Mega Kuningan district in downtown Jakarta. The project, which never came to fruition, would have developed a “Mega Kuningan” for Surabaya comprising commercial, office, and residential properties on approximately 150 hectares of land. Notably, it was understood that Cakra Nusaraya, not the city, would install public infrastructure, including a main road, drainage system, green space, and sidewalks. Meanwhile, existing residents were to be relocated further west on land owned by Citraland, a project of property giant Ciputra.

As director of the city’s development oversight office (Bagian Bina Pembangunan), Risma was responsible to oversee the Cakra Nusaraya project. The initial MOU was valid for six months and renewable conditional on satisfactory progress by the developers. Risma told *Kompas* newspaper that the city would “constantly monitor their monthly reports” (November 29, 2002). Years later, Nugroho recalled that Risma was initially “very supportive” of the project, but that as time passed her interest waned (*Properti Indonesia*, April 1, 2014).

The Cakra Nusaraya project anticipated later projects executed under Risma’s administration. As mayor, Risma would continue to pressure private developers to build public infrastructure, and to employ MOUs to coordinate among multiple property developers. However, Risma also learned from her experience with the failed Cakra Nusaraya project. Whereas Cakra Nusaraya attempted to conjure up a new central business district *in toto*, later projects would build on existing developments. In addition, the Cakra Nusaraya MOU required developers to acquire land for the project, but under Risma’s administration the city would shoulder that responsibility.

Risma refined her approach to working with property developers as she ascended the city bureaucracy. From 2005 to 2008, Risma directed the parks and sanitation department (Dinas Kebersihan dan Pertamanan); then she directed the city development planning board (Badan Perencanaan Pembangunan Kota, or Bappeko) until she resigned to run for mayor in 2010. During this time, Risma's demanded much from developers, but she also viewed them as engines of urban development. On the one hand, she demanded private assistance for public projects, proclaiming on one occasion that "there must be consideration from third parties, specifically private enterprises" to expand public spaces in Surabaya (*Kompas*, June 19, 2006). On the other hand, she viewed private projects as an essential component of development. On the 715<sup>th</sup> anniversary of the founding of Surabaya, for example, she highlighted new housing complexes and malls on the edges of the city as evidence of "relatively even" urban development (*Kompas*, May 23, 2008).

Many businesses willingly engaged Risma's call for collaboration. For example, Telkom Indonesia volunteered funding in 2006 that the parks department used to revitalize Bungkul Park, remaking it into one of Surabaya's most popular and recognizable public spaces. However, Risma was also willing to apply the city's regulatory powers to demand cooperation, if necessary. In 2006, Risma unilaterally seized thirteen petrol stations whose business permits had lapsed, and converted the properties into parks (*Tempo Magazine*, January 5, 2015).

Risma's most important regulatory tool was the "public facilities" (*fasilitas umum*, or *fasum*) regulation. According to a 2010 city ordinance,<sup>46</sup> developers are

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<sup>46</sup> Peraturan Daerah No. 7/2010 tentang Penyerahan Prasarana, Sarana, dan Utilitas Pada Kawasan Industri, Perdagangan, Perumahan dan Pemukiman.

required to reserve forty percent of each property development for public facilities such as roads and parks, but in practice the use of such facilities is often restricted to residents only (Arai 2015).<sup>47</sup> At Risma's urging, developers gradually began placing public facilities within their concession areas under city management.<sup>48</sup> The results were impressive. By 2009, Surabaya had increased the land area of public green spaces by 40 square kilometers, with 83 developers contributing public facilities (*Kompas*, February 15, 2007; September 10, 2009). As a result, Surabaya became the only Indonesian city in which the share of green space met the twenty percent threshold established in the 2007 law on spatial planning (*Tempo Magazine*, January 5, 2015).<sup>49</sup>

Perhaps no statement exemplifies Risma's view of urban development as strikingly as her call, just one month after being inaugurated as mayor, for new private investment on Surabaya's East coast. She said, "By all means, build anything at all in East Surabaya, I turn it over completely to the developers. And we will do everything in our power to facilitate any project that conforms to regulations" (*Surabaya Pagi*, October 25, 2010).<sup>50</sup> In particular, she challenged by name Pakuwon Group to develop a recreation area. On this occasion, she articulated a model of development in which the city facilitates the business of private developers in return for their investment in public parks and infrastructure—a model which would guide her throughout her administration.

For their part, Surabaya's property developers expressed dissatisfaction with city government in the years preceding Risma's administration. The largest concern of the big

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<sup>47</sup> Strictly speaking, the regulation distinguishes between "public facilities", such as roads, drainage, and lighting, and "social facilities", such as parks and athletic fields.

<sup>48</sup> For example, the city acquired two hectares of green space from developers in 2007, and fourteen hectares of roads, drainage and green space in 2009.

<sup>49</sup> UU No. 26/2007 tentang Penataan Ruang

<sup>50</sup> "Silahkan bangun apa saja di Surabaya Timur, saya kembalikan dan saya serahkan sepenuhnya kepada pengembang. Dan kami akan berupaya memberikan kemudahan asal semua sesuai aturan."

developers was transportation infrastructure, especially in West Surabaya. REI repeatedly complained about the lack of access to the new developments west of the Surabaya toll road, which included projects by Ciputra, Pakuwon, and others. When traffic backed up on Mayjen Sungkono/HR Muhammad, there was no alternative access route to that part of the city (*Kompas*, June 30, 2003; March 22, 2005). In addition, REI objected that tax obligations “strangled the necks” of property developers, estimating that the combined total of taxes on a new property amounted to twenty percent of the sale price (*Kompas*, May 29, 2003). Finally, REI lamented the cost of obtaining permits for new projects, complaining that they paid more in Surabaya than elsewhere and implying that costs were inflated by officials who demanded bribes (*Kompas*, June 30, 2003).

Smaller developers, represented by the All-Indonesia Community and Housing Developers Association (Asosiasi Pengembang Perumahan dan Pemukiman Seluruh Indonesia, or Apersi), echoed REI’s concerns about taxes and infrastructure. They depended on the city to connect their housing projects to roads, water and electricity, especially because their projects tended to be located on less desirable land far from the city center (*Surabaya Pagi*, November 13, 2008). Their most pressing concern, however, was the unpredictable regulatory environment and the high costs of obtaining permits (*Kompas*, October 7, 2010; *Surabaya Post*, April 16 2010; *Surya*, February 5, 2010).

From the perspective of the developers, the issue of infrastructure was no idle concern. In the 1970s, Darmono pioneered the first exclusive housing development in western Surabaya, and it sat empty for years until the Surabaya toll highway opened up access to the west in 1987 (Dick 1992). More recently, developers have been expanding

further west, but if transportation access does not keep pace, their investments risk similar fates.

### *Rise of the coalition*

By 2010, Risma had won local and national acclaim for transforming Surabaya into a greener city, making her one of the most popular public figures in Surabaya (Affan 2011). At the same time, the outgoing mayor, Bambang Dwi Hartono (Bambang DH) was prevented by term limits from running for re-election. Thus, Risma's name quickly emerged as a potential mayoral candidate.

By one newspaper account, a group of 35 property developers, including Ciputra and Pakuwon, were some of Risma's earliest champions. This group agreed at a meeting in December 2009 that they preferred Risma to other potential nominees because of her impressive record as a city planner, according to an anonymous source who purportedly attended the meeting. While the director of Ciputra's subsidiary Citraland Group declined to confirm that a meeting was held, he did offer a veiled endorsement of Risma, saying that mayoral candidates "need not be politicians, when there are also accomplished bureaucrats".<sup>51</sup> He also reiterated developers' hopes that the new mayor would invest in new infrastructure: "As a developer in Surabaya Barat, I hope that infrastructure will be upgraded, because road construction there is still proceeding slowly despite rapid population growth" (Abdiono-Fatoni 2009).<sup>52</sup>

Soon after, Risma was nominated as a mayoral candidate by Partai Demokrasi Indonesia – Perjuangan (Indonesian Democratic Party of Struggle, or PDI-P). A group of young party activists advocated on her behalf, eventually winning the approval of party

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<sup>51</sup> "Tidak harus orang parpol, orang birokrat yang berhasil kan juga ada."

<sup>52</sup> "Sebagai pengembang Surabaya Barat, saya berharap infrastruktur ditingkatkan, sebab pembangunan jalan di sana masih pelan. Padahal pertumbuhan penduduknya paling cepat."



chairwoman Megawati Sukarnoputri even though Risma was not a member of the party. Dahlan Iskan, chairman of Jawa Pos Group, completed the electoral coalition, lending the voice of Surabaya's biggest and most influential newspaper to Risma's campaign (Supriyanto, et al 2014).

However, the true contours of Risma's supporting coalition were only brought into relief after the election in the controversy over the "central city toll expressway" (*tol tengah kota*). In this episode, PDI-P abandoned Risma, siding instead with the industrial enterprises and construction contractors who would have benefited most from the proposed project. Property developers, on the other hand, continued their quiet support for Risma, who refused to approve the project—defying the Public Works Ministry in the process—and earned the gratitude of thousands of working-class residents who would otherwise have been displaced.

The proposed expressway would have cut through the center of Surabaya from Wonokromo to the port at Tanjung Perak, following either the Kalimas River or the Surabaya-Malang railroad bed (*Kompas*, June 28, 2004). From its inception the project was controversial in Surabaya, and its critics suspected that it would displace residents, exacerbate flooding, and worsen traffic (Davidson 2015; Mada 2010). However, the expressway would have significantly reduced logistical costs for companies with factories located at the Surabaya Industrial Estate Rungkut (SIER) or in neighboring Sidoarjo, by providing a direct link to the port at Tanjung Perak. In contrast, the existing toll road offers a circuitous route to the west of the city, and forces trucks to exit the highway before entering the port (Setyarso, et al 2014).

Thus, the central expressway pitted the interests of residents and businesses in the center of the city against the interests of industrial enterprises in Rungkut and Sidoarjo to the south. At times, the participants in the debate explicitly referred to the conflict in these terms. For example, provincial assembly member Bambang Suhartono, of PDI-P, asked in 2011, “Now is the time, will the city government make Surabaya a city for housing or business?” (*Surabaya Pagi*, August 13, 2011).<sup>53</sup> Three years later, Wisnu Sakti Buana, a leading PDI-P figure in Jawa Timur, sometime rival of Risma, and Risma’s deputy mayor, echoed that analysis, “It doesn’t matter whether the road is buried underground so no one sees it or elevated as high as the sky. What matters is that there must be a toll road. If not, well, modify Surabaya from a city of commerce into a city of mere tourism” (Setyarso, et al 2014).<sup>54</sup> More often, however, the project’s proponents justified the highway in terms of traffic relief, while critics countered that it would only worsen traffic by concentrating vehicles downtown.

Just before Risma took office, the concession holder Margaraya Jawa Tol tried to revive the central expressway project, which had been dormant since 2007, setting up a showdown between Risma and the city assembly (Dewan Perwakilan Rakyat Daerah, DPRD). Risma flatly refused to issue a construction permit, so the company appealed directly to the city assembly, which approved the project by a vote of 32 to 6 on December 16, 2010 (Harsaputra 2010). At the same time, the assembly was debating whether to impeach Risma for increasing the tax rate on large billboards. While PDI-P initially opposed impeachment, the party decided to clear the way for the central expressway project by betraying Risma, and on January 31, 2011 she was impeached.

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<sup>53</sup> “Sekarang sayat (sic), Pemkot Surabaya itu mau menjadikan Surabaya sebagai kota hunian atau bisnis?”

<sup>54</sup> “Terserah, mau dibuat di bawah tanah biar tidak kelihatan atau ditinggikan setinggi langit. Yang penting, tol harus ada. Kalau enggak, ya, ubah Surabaya dari kota niaga menjadi kota wisata saja.”

Risma remained in office, however, after the press and the public responded with outrage and national party leaders of PDI-P and Democrat Party were obliged to intervene on Risma's behalf (Setyarso, et al 2014).

In this conflict, the city assembly was representing what might be considered Surabaya's traditional political and industrial elite. The central expressway's three most prominent advocates were Wisnu Sakti Buana; Soekarwo, Governor of East Java; and Jamhadi, chair of the local chapter of the Indonesian Chamber of Commerce and Industry (Kamar Dagang dan Industri Indonesia, or KADIN). Wisnu Sakti was the youngest son of the late Sutjipto Soedjono, one of PDI-P's most senior politicians. Soekarwo was financed and advised by Alim Markus, the founder and CEO of Maspion Group, a local political heavyweight with extensive production facilities in Sidoarjo (Chong 2015). And Jamhadi was the CEO of Tata Bumi Raya, a construction contractor founded by Sutjipto and linked to the project (Davidson 2015). Thus, these three spokesmen personified the alliance among Surabaya's historically dominant party, local manufacturers, and politically connected construction contractors—an alliance which would have benefitted immensely from the central expressway project.

In contrast, press coverage portrays Risma as a lone defender of the people, heroically refusing compromise, supported only by chairwoman Megawati. But while it is undeniable that Risma had considerable popular support stoked by the friendly coverage of Jawa Pos, I suspect that she had property developers in her corner, as well.<sup>55</sup> While Surabaya's developers did not publicly state a position about the central expressway, they met with Risma on friendly terms even as the controversy roiled (Budi

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<sup>55</sup> Indeed, I cannot help but speculate—without evidence, unfortunately—that titans of property development in Jakarta may have encouraged Megawati and even President SBY to intervene in the impeachment proceedings.

Said 2013).<sup>56</sup> Risma solicited their input to develop her transportation plan, and they responded by doing everything in their power to advance the agenda, which substituted western and eastern bypass roads and a mass transit network in place of the central expressway. As I discuss in the next section, they donated land and money to these transportation projects in order to get shovels into the ground as soon as possible.

*Institutionalizing the coalition*

The coalition between City Hall and property developers offers material benefits to large and small developers, their middle-class clientele, downtown businesses, and the working-class residents of Surabaya's urban kampongs. Large developers have finally received their long-awaited roads and small developers their streamlined permitting process. Projects are well underway to construct a new road network that will open up access to the margins of the city where luxury housing developments are expanding rapidly. Meanwhile, the city has partnered with REI to cut red tape for development projects. Not only the developers, but also their middle-class clientele benefit from these programs, because they enjoy shorter commutes and a wider variety of housing choices. Furthermore, progress on the bypass roads undercuts support for the central expressway, offering downtown businesses their best hope for avoiding the disruption threatened by the project. Finally, the city has made significant progress on its goal of laying paving stones in every urban kampong, increasing the prestige of those working-class neighborhoods.

I argue that REI held these disparate groups together in two ways. First, it spread benefits across its membership in order to sustain a distributional consensus among large

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<sup>56</sup> I'm still trying to locate the October 29, 2011 issue of Jawa Pos which supposedly corroborates this blog post.

and small developers. Second, it facilitated tax increases by assuring its members that the city government was committed to projects that would benefit them. REI drew on significant organizational capacity to achieve these objectives.

REI's East Java chapter has demonstrated considerable organizational capacity independent of its involvement in the growth coalition, not unlike the national organization and Jakarta chapter, as documented by Arai (2015). REI has a wide membership in the East Java, with an average of 402 members per year between 2010 and 2016 (REI 2016).<sup>57</sup> Membership in REI confers legitimacy to developers, and in return, REI expects its members to meet official regulatory standards. They must obtain clear ownership over land, pay taxes, integrate green space and public facilities into new developments, respect government requirements for mixed-income housing, and most elementally, build all of the units that they sell. While not all REI members meet all of these requirements all of the time, they respect them enough to resent the competitive advantage that “amateur” developers gain by ignoring them (Pandia 2005).

REI applies both sticks and carrots to enforce membership standards. For starters, it screens new members by requiring them to present a business “masterplan” and to obtain a recommendation from a current member. It also offers selective incentives to members in good standing, such as access to credit and training in project planning. Finally, REI seeks to punish non-members. In 2014, for example, REI had active agreements in place with six local governments<sup>58</sup> and several banks that only REI members would receive construction loans and permits (*Kabar Bisnis*, November 14, 2014).

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<sup>57</sup> These figures include members from throughout the province and not just Surabaya.

<sup>58</sup> The local governments were Banyuwangi, Jember, Batu, Malang, Sidoarjo, and Surabaya.

REI also possesses the trappings of a professional organization, including a beautiful two-story office building in Surabaya, administrative staff, glossy business cards, and weekly lunch meetings. Under the leadership of Paulus Totok Lusida (2013 – 2016), the organization had 60 officers, in addition to administrative staff, responsible for various portfolios like subsidized landed housing (*bidang rumah sejahtera tapak*).

Finally, REI has enjoyed privileged access to Surabaya City Hall, especially during Risma's administration. Most importantly, Risma spent years in talks with REI before enacting city's new land use master plan (Rencana Tata Ruang Wilayah, or RTRW) in 2014 (Muiz 2013; Budi Said, October 29, 2011; *Jawa Pos*, February 3, 2015).<sup>59</sup> REI also consulted with the city when it was considering revising its method of property valuation—a process from which KADIN was excluded, much to its chagrin (*Jawa Pos*, February 6, 2015). The city assembly listens to REI, as well. For example, the development committee (Komisi C) invited REI to testify at a committee hearing, and the committee chair immediately embraced REI's position that privately constructed apartment towers offered a solution to Surabaya's shortage of low-income housing (*Sorot News*, July 19, 2013).

In sum, REI had sufficient influence over its own members and within City Hall to solve the political problems that might otherwise have derailed the growth coalition. First, REI spread benefits across its membership, both geographically and by size. Surabaya's major developers wanted nothing as much as they wanted better road access to their exclusive developments in western Surabaya, including Citraland, Pakuwon

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<sup>59</sup> Peraturan Daerah No. 12/2014 tentang Rencana Tata Ruang Wilayah Kota Surabaya Tahun 2014-2034

Trade Center, and the Darmo Octagon.<sup>60</sup> Yet, that is not where the city focused its spending in 2014 and 2015. Instead, REI's membership absorbed much of the cost of the new infrastructure in the west, allowing the city to reallocate resources to the northwest, northeast, and south (and also guaranteeing progress on the projects dearest to REI).

Specifically, eight developers agreed to build sections of the western bypass road where the route passed through their concession areas.<sup>61</sup> When finished, the road would be handed over to the city as "public facilities". The developers' work would account for approximately eighty percent of the length of the twenty kilometer road, while the city would complete the remaining twenty percent of construction, primarily located in the northwest (*Kompas*, September 23, 2015). In addition, REI agreed to fund and build a 600 meter underpass at the Satelit expressway interchange, a crucial intersection linking western Surabaya to the rest of the city.<sup>62</sup> Thirty-eight developers, including Citrand and Pakuwon, contributed a total of 75 billion rupiah (USD 5.6 million) to the project (*Jawa Pos*, May 1, 2017; *Surya*, June 4, 2015).<sup>63</sup>

In addition to spreading infrastructure projects geographically, REI spread benefits across developers of different sizes by championing two issues of particular importance to smaller developers. First, REI joined Apersi in demands for a more streamlined regulatory environment (Muiz 2013).<sup>64</sup> Indeed, Paulus Totok Lusida at times

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<sup>60</sup> These projects, and others like them, are spread across Sukomanunggal, Dukuh Pakis, Wiyung, Lakar Santri and Sambikerep sub-districts.

<sup>61</sup> The developers are Mitrakarya Multiguna, Bumi Serpong Damai, Galaxy Citraperdana, Citra Bahagia Elok, Tamancitra Suryahijau, Suburhijau Jayamakmur, Ciputra Surya, and Ciputra Surya Padang Golf.

<sup>62</sup> Specifically, the Satellite interchange is where Mayjend Sungkono/HR Muhammad intersects with the Surabaya toll expressway.

<sup>63</sup> PDI-P, still excluded from the growth coalition, criticized REI's management of the project and called on the city to nullify the agreement (PDI-P 2016).

<sup>64</sup> Clearly, faster processing benefits both large and small developers, but the issue is especially important to smaller developers because they are less capable of absorbing the costs introduced by capricious decision-making and long processing times (Rahayu 2012).

spoke as if REI's cooperation on infrastructure projects was contingent on changes to the project permitting process (*Kompas*, September 23, 2015). In 2013, the city moved to an online system for permit applications, and in 2015, REI signed an MOU to process permit applications jointly with the city (*Kompas*, March 18, 2013; *Surya*, March 26, 2015). These changes reduced processing times from up to two years to forty-four days (Jajeli 2017). Second, REI began to lobby in 2015 for the establishment of a public "land bank" to enable small developers to acquire land for low-income housing in the city center (*Jawa Pos*, July 6, 2015). Apersi had long complained that high land prices in the city center made such projects financially unviable (*Surya*, February 5, 2010).

REI not only mitigated distributional conflict among its members, but it also obtained assurance that the city government would follow through on its promises without opportunistically taking advantage of REI's members. The most direct means by which REI bound the city to developer priorities was through joint management of its members' highest-priority projects. Thus, REI's members undertook jointly to construct the western bypass road, REI procured an MOU jointly to administer construction permits, and REI launched construction of the Satelite underpass (through which the city plans eventually to run a monorail train [Surabaya 2015]). These were formal, public agreements from which neither side could easily withdraw.

For the time being, however, the interests of both sides may be sufficiently aligned to mitigate fears of betrayal regardless of formal agreements. The central expressway controversy still simmers, and Governor Soekarwo and deputy mayor Wisnu Sakti Buana are poised to revive the project at the first opportunity. Thus, REI has a window of opportunity to upgrade infrastructure on the margins of the city that may only



last as long as Risma remains in office. Consequently, both sides felt so much pressure to demonstrate progress before the 2015 mayoral election that they rushed to launch three different road projects before the beginning of the campaign period (*Surabaya Pagi*, September 26, 2015).<sup>65</sup>

Finally, I contend that REI's ability to forestall distributional conflict and to commit the city government to infrastructure projects lent it sufficient credibility to persuade its members to accept property tax increases, especially in the city center. Publicly, REI has considerably moderated its stance on taxation. Whereas in 2003 REI officials protested that property taxes "strangled the necks" of property developers, in 2015 they refrained from criticizing a roughly twenty percent hike in valuations, preferring instead to focus on technical details of administering the tax (*Jawa Pos*, February 6, 2015).

Internally, REI exhorted members to pay taxes. According to an interview with a senior officer in the organization, REI had an informal agreement with the city tax office that, for purposes of tax assessment, members would under-report the value of all property sales by exactly thirty-five percent.<sup>66</sup> He claimed furthermore that the organization threatened to help the city prosecute members who did not comply with the agreement. If REI's members complied with the agreement, and Surabaya's rising revenues imply that they may have, it would have benefitted the city in two ways despite the under-reporting. First, under-reporting by only 35% was probably significantly more than what developers reported previously, because it was not uncommon to report

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<sup>65</sup> The projects were the western bypass road, the Satellite interchange, and the Teluk Lamong Port access road.

<sup>66</sup> Personal interview, March 18, 2016. I was not able to corroborate the thirty-five percent agreement with other sources.

property transactions according to official assessed value, which is usually one-third or less of the market value depending on the location (Agustia, et al 2013; *Jawa Pos*, February 6, 2015; February 7, 2015). Second, for the first time, the city would have had reliable sales data, allowing it to value property much more accurately and easily in the future.

Many of the new revenues returned to REI's members in the form of infrastructure upgrades, but not all of them. For REI's members, the cost of participating in the growth coalition was to subsidize spending in Surabaya's urban kampongs. Early in her administration, Risma announced a goal of laying paving stones on every street in every urban kampung, and she has worked hard to fulfill that promise (Pandia 2011). Between 2013 and 2015, the city budgeted 240 billion rupiah (USD 20 million) to lay paving stones on perhaps 1,000 side streets and back alleys, many of which would have been wide enough only for motorcycles and pedestrians (Antara, January 23, 2013). In 2015, the paving stones project accounted for seven percent of all construction spending; in 2014, eight percent.

## **BANJARMASIN**

In Banjarmasin, local revenues grew from 80 to 220 billion rupiah (USD 9 to 19 million<sup>67</sup>) after the city assumed responsibility for administering property and property transaction taxes (Figure 4.7). If a near threefold increase seems impressive, it is only because local revenues were beginning from such a low starting point. Furthermore, the city, unlike Surabaya, has struggled to increase property tax revenue over the levels achieved by the Ministry of Finance. Property tax revenues were 17 billion rupiah during

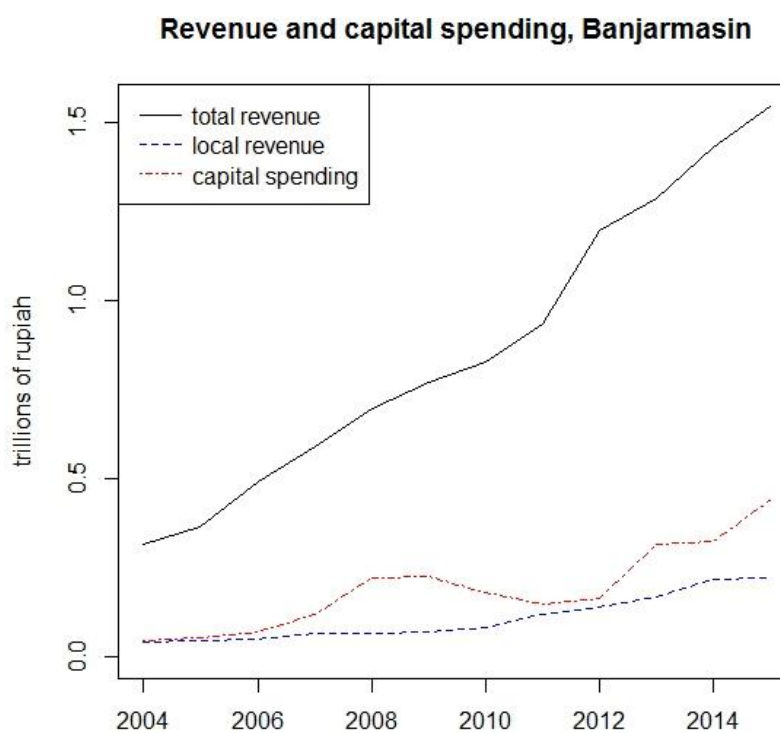
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<sup>67</sup> The Rupiah weakened from 2010 to 2014, undercutting revenue gains when measured in converted US Dollars.

each of the first three years that Banjarmasin administered property taxes, equal to USD 2 per resident. Property tax revenues finally rose to 24 billion rupiah in 2016 after the city waived penalties for unpaid taxes (Sukarli 2017).

Banjarmasin's apparent indifference toward local revenue is puzzling, not least because city expenditures on capital expenses have grown significantly since 2012, reaching 350 billion of a budgeted 440 billion rupiah in 2015. These budget allocations have funded high-profile infrastructure projects, including building roads, bridges and a new hospital. Banjarmasin, "city of a thousand rivers", has also been making a concerted effort to restore riverbanks and to create riverside parks, especially in the heart of the city along the Martapura River.

**FIGURE 4.7**



(projected figures in 2015)

Source: DJPK

However, a comparison of Figure 4.7 and Figure 4.2 shows that when central fiscal transfers are taken into account, total revenues in Surabaya and Banjarmasin have grown at similar rates. Moreover, Figure A.3 (Appendix) shows that these cities manage similarly sized budgets per capita, which amounted to 2.3 million rupiah per resident (USD 190) in Banjarmasin and 2.2 million in Surabaya in 2014.

Is it the case that Banjarmasin neglects local taxes simply because central budget allocations are sufficient for its revenue needs? After all, its overall revenue capacity, including central transfers, is equal to Surabaya, and it has managed to increase spending on notable infrastructure projects without increasing local revenue. While this explanation makes sense in the context of a comparison between Banjarmasin and Surabaya, it is less convincing in the broader context of Indonesian cities. Furthermore, Banjarmasin has attempted a variety of administrative reforms to increase revenues, indicating that the city itself perceives a need to increase revenue. However, the effectiveness of these reforms has been limited by a lack of corresponding political capacity, as I discuss below in the section “Administrative strength, political weakness”.

Banjarmasin’s revenue from central transfers seems generous in comparison to Surabaya, but it is low by Indonesian standards (Figure A.4, Appendix). Banjarmasin and Surabaya are both in the bottom 25% of cities in Indonesia in terms of revenue per capita from central fiscal transfers. Yet, while Surabaya has cultivated local sources of revenue to compensate for its revenue handicap, Banjarmasin has not. As a result, Banjarmasin’s revenues fall well short of revenues achieved by other cities with similar levels of central transfers. Figure 4.8 shows this precisely, by displaying residual variation in overall revenues after taking into account central fiscal transfers. (The scatterplot on which

Figure 4.8 is based appears in Figure A.5 in the Appendix.) In this figure, tax capacity once again sharply contrasts between Surabaya and Banjarmasin.

### **RIVAL EXPLANATIONS**

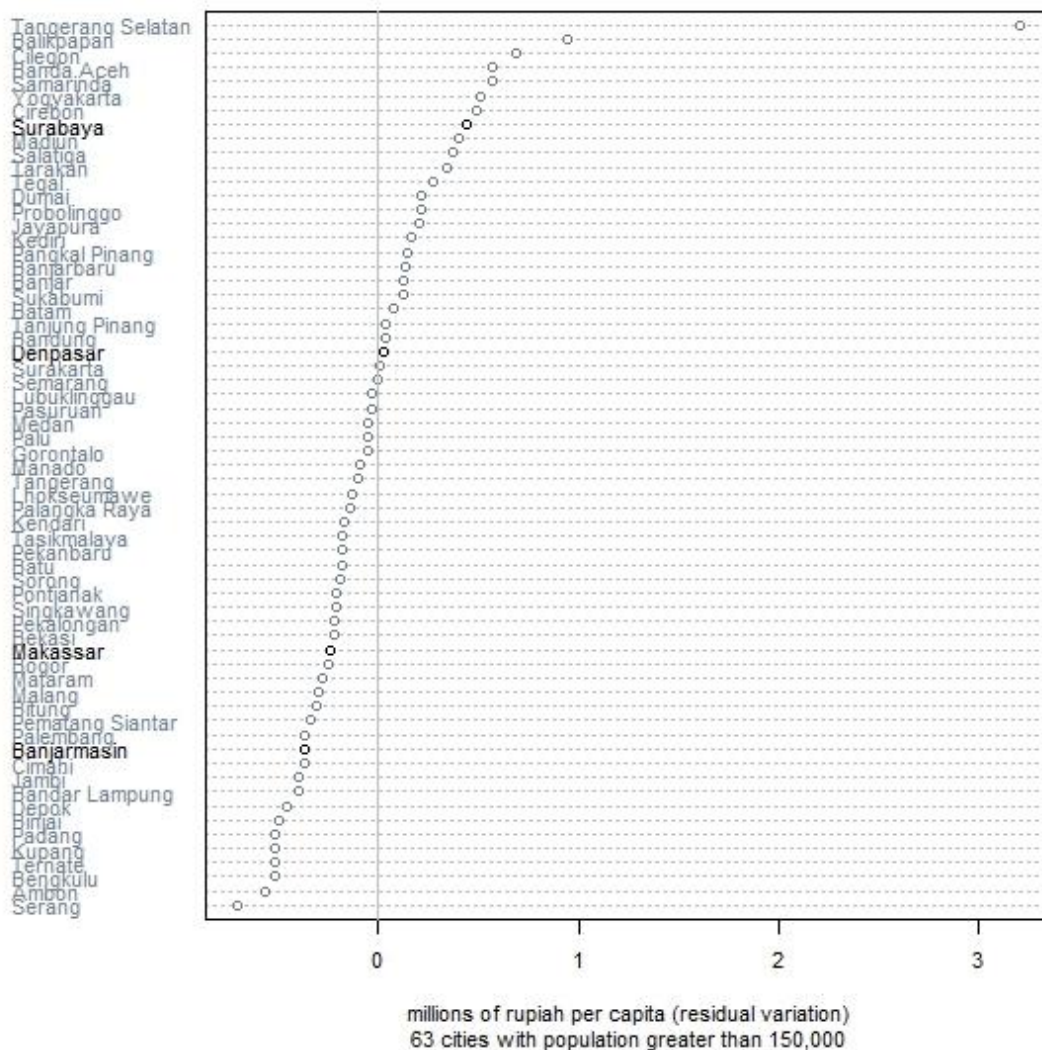
Banjarmasin is quite clearly a non-congruent case for class conflict approaches to taxation. Recall that this approach hypothesizes that competitive elections increase revenues by channel demand for redistributive taxes to “soak-the-rich”. Yet revenues remain low in Banjarmasin despite very competitive elections.

In 2005, Yudhi Wahyuni won the mayoral election with a margin of victory of just 7% in a field of five candidates, and in 2010 Muhidin came out of relative obscurity to defeat Yudhi and four other candidates by 13%. In 2015, Ibnu Sina was elected by a more comfortable margin of 23%, but he was not challenging an incumbent because Muhidin instead mounted an unsuccessful campaign for governor. Two-term mayors are quite common elsewhere in Indonesia, but Banjarmasin still has not had one during the reform era. However, despite demonstrable electoral insecurity, none of Banjarmasin’s mayors have increased taxes.

In contrast, Banjarmasin better fits patronage approaches to taxation, which hypothesize that competitive elections will decrease taxes by forcing politicians to appeal more and more to supporters by ignoring their tax obligations or promising tax breaks. This explanation for Banjarmasin’s low revenues is plausible, as elected officials who fear the next election may prefer to keep taxes low. Indeed, some of my interview respondents indicated that they believed that Muhidin deliberately kept taxes low to build up good will in preparation for his gubernatorial campaign.

FIGURE 4.8

## Revenue performance, given central fiscal transfers



Source: DJPK, 2010 Census

Yet, the patronage approach is less consistent with recent efforts, under current mayor Ibnu Sina, to increase taxes by administrative means. For example, the policy to waive penalties on unpaid taxes demonstrated both a desire to increase revenues and a willingness to make benefits available to anyone with outstanding tax liabilities, including opponents of the mayor. Furthermore, the patronage approach cannot explain

why tax capacity diverges between Surabaya and Banjarmasin despite similarly competitive elections. In sum, the patronage approach may partially explain tax policy in Banjarmasin, but it is not the whole story.

### **ADMINISTRATIVE STRENGTH, POLITICAL WEAKNESS**

The city of Banjarmasin tends to tackle problems administratively while struggling to generate external political support for reforms. In this section, I describe two examples of this pattern. First, in 2006 the city established a city-owned enterprise, called PD PAL (Perusahaan Daerah Pengolahan Air Limbah, or Wastewater Treatment City Enterprise) to provide water sanitation services intended to reduce chronic river pollution caused by household wastewater. Second, under the current mayor the tax office has undertaken a city-wide census of properties to improve the quality of data for taxpayer registration and property assessment. In both cases, the city acted without support from the private sector, and in the case of PD PAL, the provincial chapter of REI Kalimantan Selatan publicly resisted appeals to cooperate.

I suggest that the city has been forced to adopt a go-it-alone approach to public policy because of the weakness and disinterest of local business associations. The Indonesian Coal Mining Association (Asosiasi Pertambangan Batubara Indonesia, APBI), for example, does not even have a local chapter. They focus their lobbying activities entirely on the central government in Jakarta. While REI does have a provincial chapter in South Kalimantan, it is internally divided between indigenous and Java-based developers, and externally distracted because most of the potential for new development is in suburban communities in the neighboring districts of Banjar and Barito Kuala.

Without the political support of an engaged business community, the city government has not had the capacity to generate distributional consensus or demonstrate credibility with respect to tax policy. Instead, in the case of wastewater treatment, the city has been forced to rely on user fees and external support (including foreign aid) to finance its efforts to solve a growing public health crisis.

#### *PD PAL*

Banjarmasin, like many Indonesian cities, is experiencing a growing public health crisis due to poor management of household wastewater (Winters et al. 2014). Many households rely on leaky septic tanks to contain their wastewater; others dump their wastewater directly into the city's many rivers (*Radar Banjarmasin*, October 28, 2010; June 29, 2011).

The city recognizes the problem, and in 2006 formed a city-owned enterprise, PD PAL, to improve water sanitation services. The enterprise's business model is to connect individual houses to centralized sewage systems, and to recover some of its capital and operating costs by charging users a 25% surcharge on their city water bill (*Radar Banjarmasin*, August 7, 2012).

Banjarmasin has been praised for its innovative approach to water sanitation, and PD PAL has delivered it from the fate of other cities where multiple government agencies bicker about who should be responsible for water sanitation (Winters et al. 2014). Yet, PD PAL has encountered serious obstacles, including a lack of demand for sewer connections and consumers' unwillingness to pay a monthly surcharge for sanitation (*Radar Banjarmasin*, April 20, 2011). As a result, the enterprise is not profitable, and requires constant external financing to keep its books balanced.



For example, PD PAL lost a combined 13 billion rupiah in 2013 and 2014 (USD 1.2 million). During those same years, the city invested 35 billion rupiah and assets worth another 5 billion rupiah in the enterprise (BPK 2015). In addition, PD PAL has received assistance from AusAID, USAID, and JPAL (*Radar Banjarmasin*, August 2, 2011).

Yet, when in 2012 the city assembly proposed to require developers to equip all new residential developments with sewage connections, REI protested. They did not oppose centralized wastewater treatment, of course, but they wanted the city to bear the cost of sewer installations, even within gated housing complexes (*Radar Banjarmasin*, November 19, 2012; January 25, 2013). Presumably, the marginal value of sewage connections to housing prices was not sufficient to convince Banjarmasin's developers to invest in that public good, in contrast to the obvious value that Surabaya's developers placed on good transportation access.

Despite Banjarmasin's innovative approach to wastewater management, its significant financial investment in PD PAL, and extensive foreign assistance, untreated household wastewater continues to contaminate the city's rivers. The continuing problem has prompted columnists to harangue readers to "stop dropping number two in the rivers" and that "rivers are the people's garbage bins", while news editors run increasingly urgent headlines, such as "154 billion lost every year because of poor sanitation" and "Losses from wastewater increase by 10 trillion in three years" (*Radar Banjarmasin*, October 28, 2010; June 29, 2011; November 28, 2011; February 11, 2012, respectively).<sup>68</sup>

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<sup>68</sup> "Jangan BAB di sungai lagi!"; "Sungai Jadi Tong Sampah Kotoran Warga"; "Rugi Rp 154 M Setahun: Karena Masalah Sanitasi Buruk"; "3 Tahun Naik 10 Triliun, Kerugian Akibat Limbah".

*Property census*

A similar story has unfolded with respect to the city's efforts to improve tax administration, particularly of the property tax. When the city tax office assumed responsibility to administer the property tax in 2013, it inherited numerous problems from the Ministry of Finance, including poor cadastral data and delinquent tax liabilities worth 63 billion rupiah, some of which dated as far back as 1993 (BPK 2015)! The city tax office has struggled to collect unpaid taxes, and, in many cases, even to identify the owners of delinquent properties. In one example, the owner of a major downtown hotel has not paid taxes on that property in more than ten years. These problems highlight just how limited the city's ability is to coerce tax payment.

In response, the city tax office undertook an ambitious, two-year census to catalogue every property in Banjarmasin (Dispenda Banjarmasin, February 23, 2016). In essence, the city decided to reconstruct its property register in an effort to improve its administrative ability to register taxpayers and to assess tax liabilities. The census would commence in 2016 with North and East Banjarmasin sub-districts at a cost of 2 billion rupiah (USD 150,000), and continue in 2017 with West, South, and Central Banjarmasin sub-districts.

This property census is still ongoing, so it is too early to evaluate its effectiveness. Nevertheless, the contrast with Surabaya is instructive. In Surabaya, property developers help the tax office maintain high-quality data by accurately reporting sales transactions, whereas in Banjarmasin the city is expending a great deal of time and effort to collect that data on its own.

More generally, a property census creates the appearance of reform, while postponing any changes to citizen's actual tax liabilities. Jibao and Prichard (2013: 26) observe that property censuses are politically expedient because they are benign: "identifying new properties offers the potential for expanded collection but is not necessarily threatening, as the administration retains the ability to manage the actual collection of taxes in accordance with political considerations".

*Private sector disinterest*

Unlike Surabaya, the city of Banjarmasin has failed to garner the support of allies in the private sector in its efforts to improve water sanitation or to increase property taxes. REI, for example, responded coolly when the city considered asking its members to install sewer connections in new housing developments, and has not been forthcoming with sales data to assist the city in its efforts to improve its property register. For its part, the coal miners association APBI is completely absent from local politics.

I argue that the city of Banjarmasin has not found a suitable interlocutor in the private sector because its business associations are both weak and distracted. In South Kalimantan, REI is internally divided by mistrust between "indigenous" developers and outside investors based in Java (*Radar Banjarmasin*, March 26, 2013; February 22, 2014), undermining its ability to create consensus. In addition, REI in South Kalimantan sometimes acts more like a social club than a business association. REI sponsors a golf club that competes in monthly tournaments around Kalimantan, and when current chairman Royzani Sjachril began his term, he pledged not only to make REI more transparent, but to change the impression that only large, wealthy developers were

welcome to join (*Banjarmasin Time*, December 17, 2014; *Radar Banjarmasin*, December 29, 2014).

Furthermore, both REI and APBI are distracted from local politics because they are more invested outside than inside the city limits of Banjarmasin. In the case of the coal industry, those companies typically transport coal from remote mountain deposits to the Barito River by means of private roads, where they own load barges by means of private river port facilities. Even the airport is not in Banjarmasin but Banjarbaru, meaning that many coal miners never come to Banjarmasin except for rest and recuperation. In the case of property developers, many of them are more invested in bedroom communities outside of Banjarmasin in the neighboring districts of Banjar and Barito Kuala. Ciputra, for example, which is so influential in Surabaya, has a luxury mixed-use development just beyond the city limits on Ahmad Yani Boulevard, and its competitor Grand Banua is located three miles further down the road.

As a result, many of Banjarmasin's major businesses are uninterested in making improvements to Banjarmasin's infrastructure, especially when, as in the case of wastewater sanitation, there is no clear profit in those projects.

## **5 Lessons, Limitations and Future Directions**

Despite nationally uniform fiscal powers, local tax capacity varies greatly within Indonesia and the Philippines, posing a puzzle and at the same time creating opportunities for illuminating subnational comparisons. This dissertation has presented evidence that strong local business associations in Iloilo, Philippines and Surabaya, Indonesia enabled those cities to increase property taxes in the service of vigorous efforts to upgrade and expand local infrastructure. These associations, a peak association and a property developers association, respectively, facilitated tax increases in two ways. First, they negotiated distributional consensuses by championing spending projects that were broadly popular (in the case of Iloilo) or geographically dispersed (in the case of Surabaya), and by compensating smaller businesses. Second, they lent credibility to government promises about taxation by monitoring public finances through public hearings and joint project management.

In contrast, divided and distracted business associations in Batangas, Philippines and Banjarmasin, Indonesia were unable to engage city governments on tax policy and unwilling to participate in city infrastructure development. They opposed city-initiated efforts to revise property tax assessments in Batangas and to centralize wastewater sanitation in Banjarmasin. Their recalcitrance led to widespread tax evasion in Batangas and increasingly urgent warnings about the costs of water pollution in Banjarmasin. In both cities, tax revenues have been stagnant for years.

Class-conflict and patronage approaches to taxation cannot explain these divergences nor account for trends within each city. The class-conflict approach expects

competitive elections to empower popular demand for redistribution in cities with high inequality. Yet, neither city exhibited signs of such demand, nor did tax policy figure prominently as an issue in electoral campaigns. Moreover, tax policies diverged despite similarly non-competitive elections in Iloilo and Batangas, and despite similarly competitive elections in Surabaya and Banjarmasin (at least in 2010). In Surabaya, where tax policy is superficially consistent with class-conflict expectations, property tax increases meticulously preserved the distribution of the tax across differently valued properties, indicating that they were not intended to be redistributive.

The patronage approach expects elected officials to reduce the tax obligations of their supporters when they are insecure in their positions, and to increase taxes on their opponents when they are safely ensconced in their positions. Once again, similarly non-competitive elections in the Philippines and similarly competitive elections in Indonesia cannot explain divergences in tax policy. Moreover, in Iloilo and Batangas, where patronage-based explanations are consistent with local outcomes, there is little evidence that Jed Mabilog and Muhidin were leaning on opponents or favoring supporters, respectively.

Thus, these cases support the argument advanced in this dissertation that the strength of local business associations explains variation in tax policy better than contending explanations. Strong associations shape tax policy by doing much more than merely punishing officials who do not provide high quality, cost-effective public services. They negotiate among their members to reach a distributional consensus and underwrite credible commitments by monitoring government finances.

This argument has implications for each of the three questions posed at the beginning of the dissertation. First, tax capacity that varies locally despite nationally uniform fiscal powers raises the following question: what are the local institutions that create capacity to collect taxes? The answer proposed here is that strong, encompassing business associations create tax capacity by resolving the political problems associated with taxation. Differences in the strength and encompassingness of business associations explain variation in their willingness and ability to support taxation, and, by extension, variation in tax capacity across cities in Southeast Asia.

Business associations have at least two features that make them particularly well-suited to contribute to tax capacity, but in principal other institutions might also have the ability to resolve the political problems associated with taxation. Businesses are typically the largest taxpayers, making their associations particularly important to shaping tax policy. Second, peak business associations are relatively common—both Indonesia and the Philippines have national Chambers of Commerce with active local chapters—and naturally encompass various economic sectors. However, the decentralization literature highlights many other institutions and organizations that also facilitate distributional consensus and monitor public finances, such as indigenous governance and participatory budgeting.

Second, under what conditions do local governments promote development? This dissertation considers two ways in which local governments promote development. They directly invest in infrastructure; and they indirectly promote economic growth by emphasizing economically efficient taxes, such as the property tax. The dissertation shows that strong business associations advance both types of policies to the end of

upgrading certain types of infrastructure, including roads, drainage, and power. However, the example of wastewater sanitation in Banjarmasin suggests that not all types of infrastructure inspire similar cooperation. Indeed, there are good reasons to suppose that fiscal contracts would be more difficult to sustain when the end goal does not involve straightforward bricks-and-mortar construction projects.

Infrastructure projects vary in three ways that affect the severity of collective action and commitment problems, constraining in turn the ability of communities to sustain support for them.<sup>69</sup> Specifically, infrastructure projects vary in 1) time to results, 2) visibility, and 3) number of beneficiaries.<sup>70</sup> Long-term payoffs undermine collective action because taxpayers discount future benefits, increasing their reluctance to shoulder the burden of taxation; they weaken credibility because long time horizons exacerbate the threat of opportunistic behavior. Low visibility obscures the benefits of a project, discouraging collective action, and, perhaps more importantly, undermines credibility because monitoring a “hidden” project is difficult. Finally, the more the beneficiaries of a project, the greater the incentive to free-ride, and the harder it is to organize effective monitoring mechanisms.

These three dimensions determine the degree of political difficulty posed by various types of infrastructure. At one end of the spectrum, centralized wastewater sanitation has long-term payoffs because water quality and health improve only gradually; low visibility because the system itself is buried underground and its health

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<sup>69</sup> In contrast, Davidson (2015) arrays infrastructure projects by their commercial potential, because he is interested in private sector investment in infrastructure.

<sup>70</sup> Roughly, these characteristics correspond to three of Franzese’s (2002) four “ables” as described by Selway (2011). Projects with quick payoffs are “palpable”, with high visibility are “attributable”, and with few beneficiaries are “targetable”. The fourth “able” is manipulable, meaning that politicians can easily intervene in a project’s execution to solicit kickbacks and to direct the bidding process.



effects are not immediately apparent; and a high number of beneficiaries because clean water is a pure public good. All of these characteristics exacerbate collective action and commitment problems, making wastewater sanitation an especially hard sell for taxpayers. At the other end of the spectrum, roads and drainage pose the least challenge. They get quick results, they are highly visible, and they benefit specific neighborhoods. In the middle of the spectrum, different types of infrastructure raise some, but not all, of these political difficulties. Reclamation and transit, for example, take a long time to realize but they are highly visible, and reclamation has such a limited number of beneficiaries that it resembles a club good.

In sum, the political challenges associated with infrastructure increase greatly with the complexity of the project (to say nothing of health and education!). Thus, while strong business associations can generate distributional consensus and underwrite official credibility to support roads, drainage, and power, their ability to solve these same problems for the sake of more complex development tasks remains an open question.

Third and finally, this dissertation addresses the consequences of elite capture for local governments. The conventional wisdom is that elite capture debilitates the ability of local governments to provide public goods or to collect progressive taxes, like the property tax. When “predatory” or “rent-seeking” elites dominate local policy-making, they monopolize project tenders, resource concessions, and monopoly licenses, while exempting themselves from taxation. Batangas and, to a lesser extent, Banjarmasin fit this mold, perhaps. Yet, Surabaya and Iloilo indicate that self-interested economic elites are willing to pay for public goods when increased profitability is the return on

investment. In these cases, elites have indeed captured public policy and steered it to their benefit, yet the result is better infrastructure that benefits everyone.

That is not to say that elite capture never leads to wasteful spending or harmful public policies. It does, and there are many examples. But I insist that the policies of “captured” local governments vary in their effects, and I propose three criteria to characterize this variation. Elite capture harms the public interest when it directs government spending toward 1) private and 2) consumption goods, while 3) weakening public institutions.<sup>71</sup> In contrast, public policies that produce 1) public and 2) capital goods while 3) strengthening public institutions benefit the public, regardless of the underlying motivations.<sup>72</sup>

Table 5.1 illustrates these criteria by applying them to specific policies that benefit local businesses in my Southeast Asian cases. Iloilo’s infrastructure drive, for example, meets each of the three criteria for productive public policies. The new roads, parks, ports, and power plant ease traffic congestion, create new opportunities for recreation, improve transit links for passengers and cargo, and reduce brownouts—all public goods.<sup>73</sup> At the same time, these investments are capital goods because they increase the productivity of workers and businesses by reducing time lost to commuting, power outages, and logistics. Finally, Iloilo’s infrastructure drive has created new institutional capacity with the potential to outlive the influence of the business association ILED. Specifically, the effort to upgrade infrastructure in Iloilo has “thickened”

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<sup>71</sup> Pritchett and Woolcock (2004) provide a framework for evaluating the capacity of bureaucratic institutions to accomplish “discretionary, transaction-intensive” tasks.

<sup>72</sup> Club goods fall in between public and private goods because they are excludable but non-rival, but they can be evaluated in terms of the size and diversity of the group that has access to them, and in terms of the degree to which they represent productive capital goods.

<sup>73</sup> Though these policies also create losers, including residents displaced by new roads, businesses evicted from prime riverside locations, and communities encroached upon by the power plant.

associational life in Iloilo. ILED itself was founded as part of this effort, and other associations such as the Iloilo Dinagyang Foundation that organizes the city's annual cultural festival grew in professionalism and assertiveness. Iloilo's growing associational capacity enabled the city to tackle increasingly difficult problems, including initiating the negotiations over the redevelopment of Iloilo River Wharf at Muelle Loney.

In stark contrast, Banjarmasin's hands-off approach to regulating nightclubs benefits only the proprietors, suppliers, and "protectors" of the nightclubs. Not only has the city failed to crack down on illegal activities associated with its nightclubs, including drug and sex transactions, but it has also overlooked more prosaic regulations, including those requiring closing times and an entertainment tax. These establishments—Banjarmasin famously has three of them—exercise political influence to evade local and national laws, while cultivating crime and undermining public health. In this case, a small group of elites has captured public policy on this issue and steered it to their private benefit, while harming the broader society and undermining the city's ability to uphold the rule of law.

Two more examples occupy a middle ground between these clear-cut examples. First, Surabaya's effort to streamline the permitting process for real estate developments increases the productivity of developers, but its benefits are largely limited to developers, making it more of a club than public good. The initiative has the potential to increase institutional capacity if it improves the city's ability to process permit applications quickly and accurately, but recall that in the case of Surabaya this initiative was based on joint processing of permit application between REI and the city. If REI simply takes over the process, then the city's institutional capacity would remain unchanged.

Second, the Balinese chapter of REI has been campaigning (unsuccessfully, so far) for the city to increase the maximum building height, which is presently fifteen meters (the height of a coconut tree). If REI successfully lobbied to change this policy, then its members would capture a club benefit by reducing their land acquisition costs in Bali's overheated land market. But such a policy change, enacted at the "stroke of a pen", would not affect the capacity of Bali's provincial government to accomplish "discretionary, transaction-intensive" tasks (Pritchett and Woolcock 2004).

**Table 5.1 Evaluating public policies**

	<i>Infrastructure</i>	<i>Streamlined regulations</i>	<i>Building height restrictions</i>	<i>Lax oversight of nightclubs</i>
Example	Iloilo	Surabaya	Denpasar	Banjarmasin
Public good?	Public	Club	Club	Private
Capital good?	Yes	Yes	Yes	No
Institutional change?	Associational life	Permitting process?	No	(Law enforcement)

The foregoing consideration of local institutions, infrastructure and elite capture highlights both the potential of business associations to contribute to local development, and the limitations on their ability and willingness to do so. In both Iloilo and Surabaya, self-interested business associations not only advanced policies that created widely beneficial public goods, but they also created new institutional capacity to solve problems, administer taxation, negotiate distributional consensus, and make credible commitments. Yet, these initiatives supported relatively straightforward, bricks-and-mortar construction projects. The ability of business associations to forge similar political consensus in the service of more difficult types of infrastructure, let alone health and

education programs, remains in doubt. Furthermore, infrastructure is but one of several items on the agenda of most business associations, and some of their other goals are less publicly oriented. In each of my cases, business associations also pursued narrower club goods, with limited public benefit, and individual businesses sought out rents and privileges harmful to the public interest.

Ultimately, the argument advanced in this dissertation is intended to explain variation in tax capacity. Its implications for local development and quality of governance are limited in scope by the differences among types of infrastructure and the multiplicity of political motivations on the part of local businesses.

## **LIMITATIONS**

Each of my controlled comparisons encompasses two cities, out of a combined 244 cities across Indonesia and the Philippines. Furthermore, I selected cases that exhibited extreme tax capacity at both ends of the spectrum. Surabaya has perhaps the highest tax capacity in Indonesia, while Banjarmasin has among the lowest; Iloilo has made the largest gains in tax capacity in the Philippines over the past decade, while Batangas has declined more than any other city.

How does my argument apply to the many cities that fall within these ranges? My argument is largely presented in terms of binary variables: strong associations create strong tax capacity and weak associations create weak tax capacity. If these variables were actually binary, then the argument would imply a bimodal distribution. Yet, tax capacity is clearly distributed much more smoothly, implying that intermediate outcomes are not only possible, but the most likely outcome. Therefore, in this section, I consider how the strength and cohesiveness of local business associations is related to intermediate

levels of tax capacity by briefly describing tax politics in Makassar and Denpasar, two intermediate cases. The approach I take is to argue that each city solved one of the political problems associated with taxation, but not the other.

Second, there are cities that do not fit my argument. For example, Cebu has a seemingly strong business association, yet its tax revenues are trending downward. This and other anomalies suggest that my argument is limited in scope by certain conditions. Therefore, in this section, I consider the limits to my argument with reference to the non-congruent example of Cebu. I acknowledge that my argument applies best when businesses require better infrastructure to remain profitable, but local governments lack revenue to execute those upgrades. These caveats parallel Doner, et al's (2005) logic of "systemic vulnerability" in that an existential threat (against failing local businesses) combined with resource scarcity (in the form of limited revenue) motivates demand for institutional reform (in the form of new taxes).

*Intermediate cases (Makassar and Denpasar)*

Makassar, South Sulawesi, and Denpasar, Bali, exhibit intermediate levels of tax capacity, according to every measure of tax capacity (compare, for example, Figures 1.2, 4.1, and 4.8). Both consistently fall in between the extreme cases of Surabaya and Banjarmasin, with Denpasar demonstrating slightly greater capacity than Makassar on each measure. I submit that these cases have achieved intermediate capacity, while still lagging behind Surabaya, because they each have solved only one, not both, of the political problems associated with taxation. In Makassar, elite consensus extends even to reclamation, but persistent recrimination between local government and the business community undermines public credibility. In Denpasar, by contrast, a professional and

efficient administrative apparatus has sufficient credibility to achieve high levels of collection efficiency,<sup>74</sup> but a lack of consensus on spending priorities (including reclamation) has suppressed both capital spending and land valuation.

In Makassar, elites agree that the city needs better infrastructure. In recent years, the city's economic growth rates have raced ahead of the rest of Indonesia, and its streets can no longer support all the new automobiles on the road. Business leaders and Mayor Ramdhan (Danny) Pomanto agree that the city needs to upgrade its infrastructure in order to keep growing.

One such project is Makassar's 600 Ha reclamation at Losari Beach called the "Center Point of Indonesia". The project aspires to reshape the face of Makassar, adding six square kilometers of prime waterfront property adjacent to downtown. Several signature projects will supposedly adorn the new district, including the first presidential palace outside of Java and Bali, a mosque to rival the Taj Mahal, and the "Makassar Nostradamus", a park displaying statues of 1,000 Indonesian heroes (Iqbal and Akbar 2014).

Reclamation always stirs controversy in Indonesia, and environmental advocates, anti-corruption watchdogs, and fisherfolk residing near the project all fiercely oppose the Makassar project. Yet, unlike in Jakarta and Bali, where controversy scuttled proposed reclamation, Makassar's project has steamed forward at full throttle. The project is broadly supported by the region's elites, from the city to the province to the vice-president's mansion, where Jusuf Kalla, Makassar's wealthiest man, holds court. The project has attracted trillions of rupiah of investment from Indonesia's biggest property

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<sup>74</sup> That is, the share of taxes due that are actually collected.

developers, including Ciputra and Lippo, and will bestow a windfall upon the local developers who win the contracts to construct those signature projects.

Many giant infrastructure projects in addition to reclamation are unfolding in Makassar—Jusuf Kalla has seen to that. A new toll expressway, a massive port expansion, and the trans-Sulawesi railroad are all currently under construction. Yet, unlike Iloilo City, which played a crucial supporting role to facilitate externally funded infrastructure projects, the City of Makassar is contributing few funds to these projects. The expressway, railway, and port are all national projects, and the reclamation is funded provincially, at a cost of 160 billion rupiah as of 2014 (USD 14 million).

Meanwhile, Makassar's capital spending underwhelms (Appendix Figure A.6). Whereas in 2015, Surabaya and Banjarmasin respectively budgeted 33% and 28% of expenditures for capital investments, Makassar budgeted only 22%, up from a mere 18% the previous year. Moreover, Makassar failed to meet even this modest goal, as capital spending fell short of the budgeted amount by more than 100 billion rupiah!<sup>75</sup> Not coincidentally, Makassar also missed its revenue targets in 2015. The shortfall from local revenues amounted to 163 billion rupiah, more than enough to fill the gap in capital spending (Makassar 2015).

Makassar's reach exceeded its grasp in 2015, but the city's ambition was not without reason. The city forecast a monumental increase in local revenues of 260 billion rupiah (or 36%) over 2014, based on an expectation that revenue from property taxes would increase by up to 200 billion rupiah.<sup>76</sup> The city attempted to raise the effective rate

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<sup>75</sup> The city ultimately spent 673 billion rupiah on capital expenses in 2015.

<sup>76</sup> This reading of Makassar's 2015 budget is somewhat speculative but charitably so. The city's official target for property tax revenue was not 300 but 122 billion rupiah, which was easily met. Yet, if the city



of property taxation by aggressively increasing its assessments of property values. According to REI South Sulawesi, the city increased property valuations by up to 300% (*Tribun Timur*, September 20, 2015).

Unfortunately for the city, property tax revenues did not increase by 300%, but by 30%, creating the aforementioned shortfall of 163 billion rupiah. Amid the shortfall, tax collection broke down into recrimination and finger-pointing. REI rejected the new property valuations. Various members of the city assembly accused the tax office of pocketing tax payments, restaurants of falsifying transaction records, and one of the city's largest malls of evading its property tax obligations (Adil 2015; *Fajar*, May 5, 2015; Arfah 2015). The rancor persisted into 2016, when yet another member of the city assembly accused hotels of falsifying their registers to evade the hotel tax (Rahmat 2016).

Despite elite consensus in favor of infrastructure spending, the Makassar city government has failed to establish credibility with respect to fiscal policy. Tax increases have provoked suspicion and resistance, while the city's sluggish revenue growth has invited recrimination. Some businesses, NGOs and public officials in Makassar do perceive the need to build credibility, however, and at the end of 2014, a group of business associations, NGOs, and government agencies founded a joint monitoring committee tasked with overseeing the project tender process (Iqbal 2014). Yet, the committee fizzled. It rarely met and ultimately failed to fulfill its monitoring function. A successful committee would have lent much-needed credibility to the city's ill-fated attempt to increase revenue and capital spending, and Makassar would do well to reinvigorate the initiative.

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was not basing its ambitious revenue forecast on new property taxes, where was it expecting to find an extra 260 billion rupiah?

In contrast to Makassar, the City of Denpasar commands significant credibility, but lacks a distributional consensus. The city's credibility derives from a capable and professional civil service that quickly processes business and other permits (such as for research!), and transparently fulfills requests for information. In practice, the city's credibility enables it to collect surprisingly high levels of property tax revenue despite extremely low property valuations.

Denpasar has the sixth highest property tax capacity in Indonesia, according to Figure 1.2, making it a "high-intermediate" case, at worst.<sup>77</sup> Yet, the city tax office achieves high revenues despite property valuations that are almost laughably low. The most costly land tax assessment in Denpasar is four million rupiah per square meter (USD 300), affecting land which fronts Imam Bonjol Boulevard, a commercial thoroughfare linking downtown Denpasar to neighboring Kuta. Unbelievably, the priceless beachfront property in Sanur is assessed at even lower values than parcels along Imam Bonjol. For comparison, the maximum land tax assessments in Surabaya and Banjarmasin are nineteen million and twelve million rupiah per square meter, respectively, even though average property values are lower in both cities than in Denpasar.

Denpasar's high revenue despite low valuations indicates a higher than average degree of tax compliance. Taxpayers in Denpasar are willing to entrust their tax dollars to local government, because, I argue, the local government enjoys a high level of credibility tied to its professional civil service. Yet, the city is disinclined to increase property valuations.

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<sup>77</sup> In Figure 4.1, Denpasar ranks seventh.

If Denpasar's disinterest in increasing revenue is puzzling, its near total disregard for capital spending is nigh inexplicable (Appendix Figure A.6). Whereas Makassar at least managed to devote 22% of its budget to capital expenses, Denpasar set aside only a paltry 12% in 2015, and its capital expenses have never exceeded 16% of the budget. For a city with seemingly unlimited revenue potential and an endless procession of highly demanding tourists, its indifference toward infrastructure spending is very peculiar.

However, Denpasar's peculiar fiscal policy is consistent with the expected effects of chronic distributional conflict.<sup>78</sup> Distributional conflict undercuts both revenue and spending, because taxpayers disagree not only about who should bear the burden of taxation, but also about what are the benefits that those taxes should fund.

Denpasar's distributional conflict is exemplified in the acrimonious battle over the Bena Bay reclamation. The proposed 700 Ha project would create twelve new resort islands in the bay between Nusa Dua to the south and Sanur to the north. In part, the project is controversial because the bay is a mangrove forest reserve. But more importantly, the reclamation pits an outside investor against existing hotel owners. Specifically, the larger-than-life Jakarta-based tycoon, Tomy Winata, owns the concession to develop the project, while the existing tourism industry, especially in Sanur, fears that the reclamation will accelerate coastal erosion by changing currents in the bay. Perhaps, too, Balinese feel threatened by Tomy Winata's ruthless reputation and rumored ties to organized crime.

The conflict threatened to turn violent in early 2016 when both sides recruited youth organizations to project a street presence. The escalating situation culminated when

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<sup>78</sup> A powerful alternative explanation for Denpasar's low property taxes is simply that the city prefers to tax tourists, but this explanation does not also account for Denpasar's low infrastructure spending.

the opposition declared *puputan*, meaning they preferred death to defeat. Their resistance successfully delayed the project, but the standoff continues while both sides wait to see if the President will revoke the project concession.

I suggest that the uncertainty and discord over the future direction of tourism on “the island of the gods” has prevented the Denpasar city government from investing in new infrastructure and raising taxes, despite its strong credibility among taxpayers.

Tax capacity is highest when distributional consensus and public credibility occur jointly. Yet, these two types of political capacity have individual effects, as well. Public credibility increases collection efficiency by persuading taxpayers to meet their tax obligations, even when investment in infrastructure is low. Distributional consensus increases tax revenue indirectly, by empowering associations, agencies or individuals to promote economic growth and procure external financing for key infrastructure projects. Economic growth in turn increases revenue from easy sales, excise, and business taxes, even when weak credibility debilitates capacity to administer difficult taxes like property taxes.

#### *Non-congruent cases (Cebu)*

Cebu Business Club (CBC) is an established and respected business association. CBC, together with its Makati counterpart, has inspired the founding of other business clubs throughout the Philippines, including in Iloilo. Yet despite the presence of this strong business association, Cebu City’s tax capacity has eroded badly since 2002 (Figure 3.2). Cebu is thus a non-congruent case for my argument, and an explanation for why it deviates from patterns observed in other cases will identify conditions that limit my argument.

Cebu appears to have been a victim of its own success. During the 1990s and early 2000s, Mayor Tommy Osmeña secured five major tax increases between 1993 and 2005. At the same time, Cebu slowly proceeded with the South Road Properties reclamation project, which created a 300 Ha island south of downtown Cebu for mixed-use development. Construction on the project began in 1999, and the first land parcel sold to Filinvest in 2009 for 1.8 billion pesos, followed in a year by a second parcel sold to SM for 2.7 billion pesos. In 2015, the city was negotiating two more sales, valued between 9 and 12 billion pesos.

The windfall revenues generated by the South Road Properties shattered the city's resolve to collect taxes. When in 2010 Mike Rama succeeded Osmeña as Mayor, he expanded funding for welfare programs that provided direct cash payments to specific groups, such as the young and the old. His budgets ballooned while relying on optimistic forecasts of incoming revenue from the South Road Properties. For example, Cebu's 2015 budget was its largest ever, at 13.4 billion pesos, and fully 5 billion in revenue was anticipated from South Road Properties sales.

Cebu's experience implies that neither business associations nor local governments feel inclined to raise taxes when they have ready sources of alternative revenue. Yet, Cebu's business community still perceived a need for new infrastructure during Mike Rama's term in office, and CBC led a coalition of thirteen business associations and NGOs lobbying for a new bypass road to skirt the mountains west of downtown. Despite the city's revenue windfall, the effort was unsuccessful. Mike Rama did not need business support when he could use the South Road Properties revenue to build a mass patronage network.

If the characteristics of different types of infrastructure shape the willingness of businesses to invest in a fiscal contract, then the fiscal health of local governments shapes the willingness of public officials to reach out to businesses. Fiscal contracts, in which businesses pay taxes to local governments in exchange for new infrastructure, can only occur when public officials need new revenue and businesses need new infrastructure. These conditions parallel the logic of systemic vulnerability, in that an existential threat (against failing local businesses) combined with resource scarcity (in the form of limited revenue) motivates demand for institutional reform (in the form of new taxes).

## **ORIGINS**

The dissertation focuses on characteristics and behavior of business associations but does not answer the antecedent question of the origins of those features. This question is significant in its own right, but it is especially important in the context of this dissertation because it has implications for the validity of the argument.

There are three possibilities for the relationship between business associations and the antecedent variables that shape them. First, if the cause of strong business associations—whatever that is—affects tax capacity independently of business associations, then it is a competing hypothesis. If, on the other hand, the cause affects tax capacity via the mechanism of business associations, then it is the primary cause, and business associations are relegated to mere epiphenomena. And finally, if the cause interacts with business associations to affect tax capacity jointly, then it is an antecedent condition (Slater and Simmons 2010).

Why, then, are some business associations more cohesive and encompassing than others? The literature on collective action and business associations variously locate the

causes of associational strength at the level of the firm, the group, and the social environment. Olson's (1982) classic work focuses on the effects of group characteristics on collective action. Almost all groups employ selective incentives to discourage free-riding, but smaller and more homogenous groups have recourse to "social" selective incentives, and require less valuable incentives because the benefits of participation are higher. "Privileged groups" are the rare groups that do not require selective incentives, because one or a few large members absorb the full costs of organizing. In practice, business associations in Latin America and Asia have deployed selective incentives and ethnic linkages (indicating homogeneity) to achieve organizational strength based on "high membership density" (Doner and Schneider 2000b). Frieden (1991) also embraces this tradition in his work on the politics of business in Latin America. He identifies sectoral concentration (which affects group size), and asset-specificity (which affects the cost-benefit ratio to action), as the levers of the political influence of business.

Subsequent work has extended Olson's framework to include variables at the level of the firm and the social environment. At the level of the firm, ownership, conglomeration, and size affect the incentives of businesses to organize. Domestically owned firms tend to be more politically engaged than their "mousy" multinational counterparts (Hirschman 1971: 231, cited in Schneider 2013). Conglomerates, be they vertically integrated or horizontally diversified, have more encompassing interests than standalone firms. And while Olson expects very large firms to create "privileged groups", they may also prefer to engage the government one-on-one, undercutting the strength of business associations (Schneider 2004). At the level of the social environment, Schneider (2004) demonstrates that governments create many of the selective incentives upon with

business organization depends. Schrank (2007), meanwhile, highlights the competing and overlapping interests of specific social classes, arguing that conflicts and alliances among urban labor, rural landowners, and the industrial bourgeoisie constrain business-government relations.

All of these explanations are consistent with variation in the strength of local business associations in Southeast Asia. Group composition (from Olson), ownership (from Hirschman), and government access (from Schneider) loom especially large as features of the business communities in Iloilo and Batangas, and all three contributed to the respective strength and weakness of their associations (Chapter 3). The business community in Iloilo was homogenous in its lack of MNCs, market-seeking, and politically connected. The business community in Batangas was heterogeneous including MNCs, resource-seeking, and apolitical. These patterns were largely repeated in Indonesia. Property developers in Surabaya were domestic firms, market-seeking, and politically active. Businesses in Banjarmasin were heterogeneous including giant export-oriented firms like Adaro (though not MNCs), resource-seeking, but also politically active. In both of these comparisons, these differences result in part from geographic differences between cities; that is, Batangas and Banjarmasin have fossil fuels, while Iloilo and Surabaya do not.

Unfortunately, these comparisons do not allow inferences about the precise cause of associational strength in these cases, because there are too many overlapping, reinforcing variables, making the strength of business associations overdetermined. However, for the sake of argument, grant that the clearest parallel between the Philippine



and Indonesian cases is the presence of resource-seeking energy firms in Batangas and Banjarmasin, and their absence in Iloilo and Surabaya.

If resource-seeking energy firms sap associational strength, what are the implications for the validity of my argument? I suggest that this explanation for associational strength might be a primary cause or an antecedent condition, but not a competing hypothesis. In general, natural-resource enterprises are the easiest of all businesses to tax, so a direct effect of the energy sectors in Batangas and Banjarmasin should be high tax revenues. Yet, tax revenues in both cities have been stagnant, although Batangas' revenues were once among the highest in the Philippines. Thus, no direct effect on tax revenues is apparent, and the presence of resource-seeking energy firms can be ruled out as a competing hypothesis.

However, I cannot parse the distinct effects of business associations as opposed to the presence of resource-seeking energy firms based on these cases alone. It could be the case that the natural gas economy in Banjarmasin and the coal economy in Banjarmasin precluded any possibility of strong business associations ever emerging, in which case geography determines tax capacity, and business associations are the conduit that transmits the effect. However, if fossil fuels did not predetermine weak tax capacity, and at one point an opportunity to strengthen a local business association was missed, then fossil fuels are an antecedent condition that interacts with weak business associations jointly to produce weak tax capacity.

This inferential problem is crying out for further research! A least-likely case selection strategy would be illuminating for this question. Least-likely cases are those in which every expectation points in one direction, yet the outcome is in the opposite

direction. Thus, least-likely cases would be one in which a strong business association emerged despite the presence of natural resources and MNCs; and another in which a weak business association emerged despite the absence of natural resources and MNCs.<sup>79</sup> The payoff is that least-likely cases would demonstrate independent causal effects of strong business associations, allowing me to rule out fossil fuels as the primary cause of tax capacity.

A candidate for a least-likely case of a weak business association is Cebu, Philippines. Economic structure there is similar to Surabaya and Iloilo, yet tax revenues are low. If the effectiveness of the Cebu Business Club atrophied as a result of the city's windfall revenues from the South Road Properties reclamation project, then it would offer evidence that some types of development projects can undercut associational strength. A candidate for a least-likely case of a strong business association might be Balikpapan, Indonesia. Balikpapan has a large energy sector including many MNCs, yet it has a reputation as a well-governed city.<sup>80</sup>

In such least-likely cases, strong or weak businesses associations emerge anomalously, despite economic structure, resource endowments, and the role of MNCs. Therefore, some other explanation must account for associational capacity in these cases, and it must be a sufficiently potent explanation to countervail the combined effect of other variables. I hypothesize that group composition and government policies toward business associations are the best candidates to exert that kind of causal horsepower.

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<sup>79</sup> Another way to express the same logic is that the least-likely method of case selection ensures that the independent variable (the strength of business associations) does not co-vary with the antecedent conditions (fossil fuels, presence of MNCs, degree of homogeneity, etc).

<sup>80</sup> Although on the other hand the mayor recently warned of an impending fiscal crisis (Zubaidah 2017).

I hypothesize that ethnically homogenous groups will form especially strong business associations, even in cases where associational strength is unlikely. All across Southeast Asia, overseas Chinese communities, some dating back centuries, are active in business and commerce. Powerful ethnic linkages provide a high degree of group homogeneity and strong social incentives to participate in associations with co-ethnics (Doner and Schneider 2000). In cities with long-established, well-organized Chinese communities, strong business associations based on ethnic ties are more likely to emerge.<sup>81</sup>

On the other hand, extreme heterogeneity in size should debilitate business associations, even in cases where associational strength is likely. In direct contrast to Olson's expectations for "privileged groups", I expect that when one or a few businesses tower over the rest of the business community, they will engage directly with government, representing only their own interests. By cutting deals on the side, they erode the benefits of membership in business associations and undermine associational capacity.

The second explanation with the potential to overwhelm the effects of other variables is government policy toward business associations. Schneider (2004) shows that governments provide many selective incentives upon which business associations depend, both positive and negative. Not only do they sometimes mandate membership, but they also empower business associations to allocate public resources like training programs, credit, and government contracts. Even more importantly, governments grant business associations privileged or exclusive access to the policy-making process, making membership in business associations valuable indeed. Yet, government policies

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<sup>81</sup> I am grateful to Tom Pepinsky for suggesting this hypothesis.

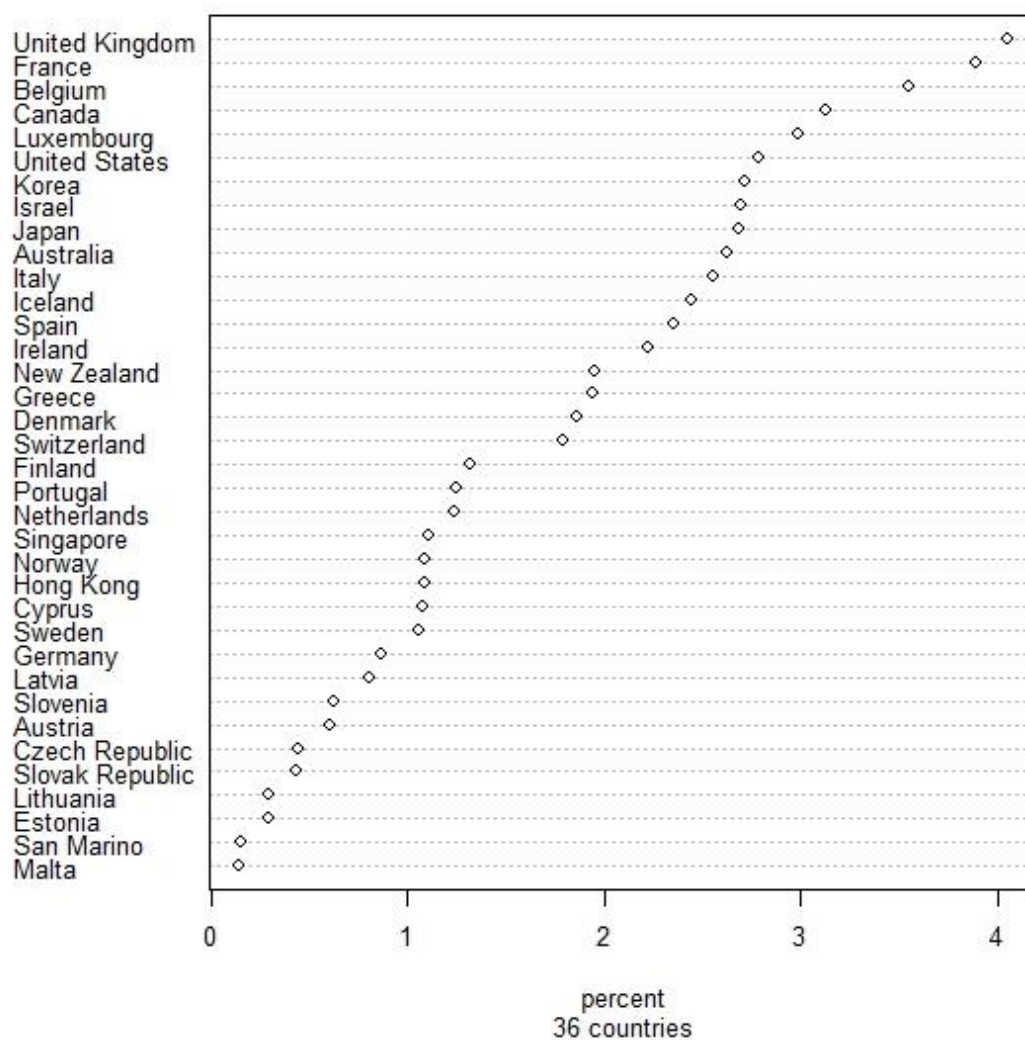
can also disorganize business associations by, for example, interfering in the selection of leaders and establishing competing associations. Thus, the attitude of governments toward business associations can decisively shape their strength, regardless of the effects of other variables.

The next step in this project is to document the history of business associations in Southeast Asia, particularly in those least-likely cases where associational capacity defies expectations. Not only will new evidence on the development of these associations help to parse competing hypotheses about the sources of associational capacity, but it will also clarify the relationship between antecedent conditions, local business associations, and tax capacity in Southeast Asian cities.

## Appendix

FIGURE A.1

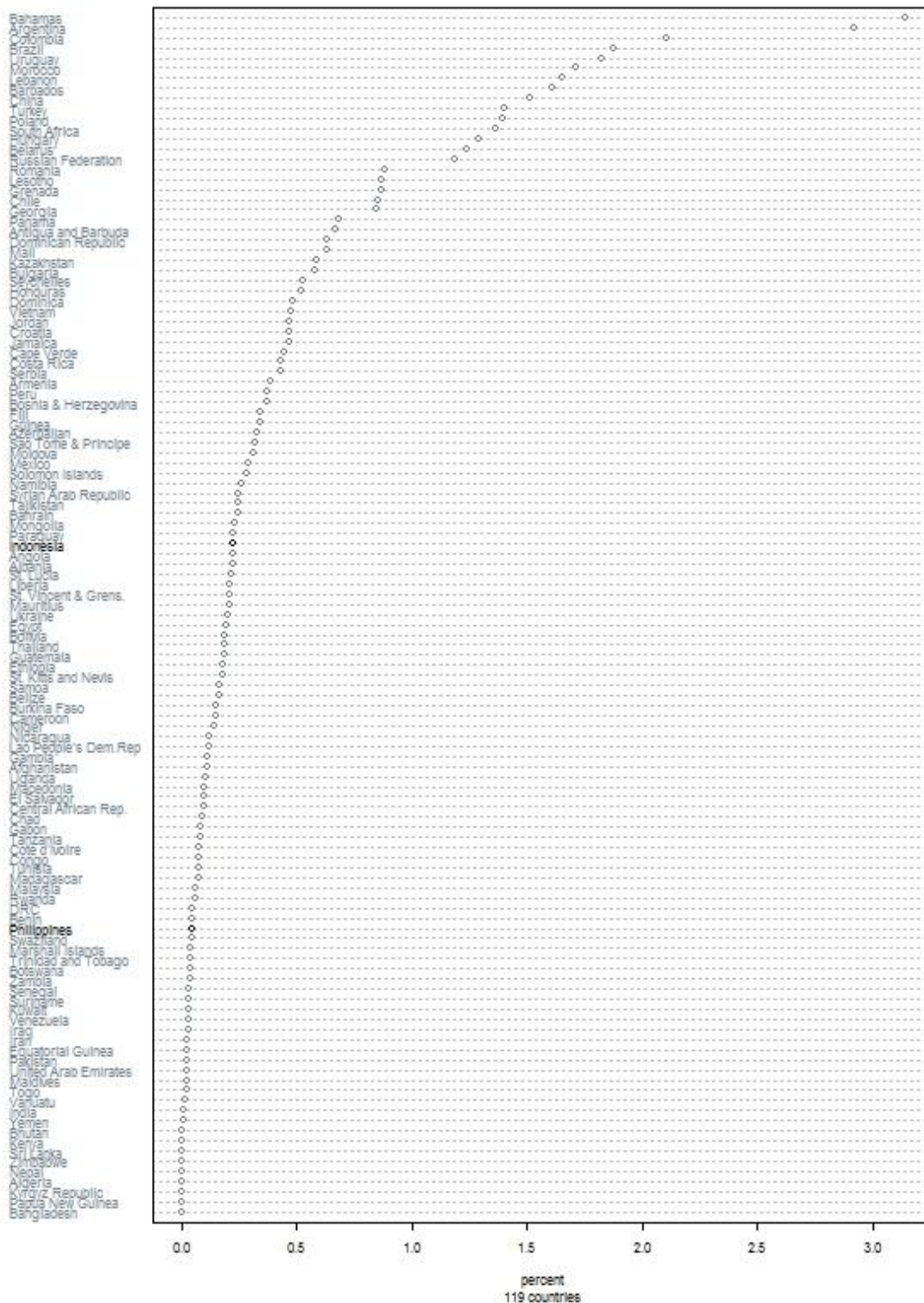
**Property Tax Revenue as a Percent of GDP  
Advanced economies**



Source: IMF World 2017.

FIGURE A.2

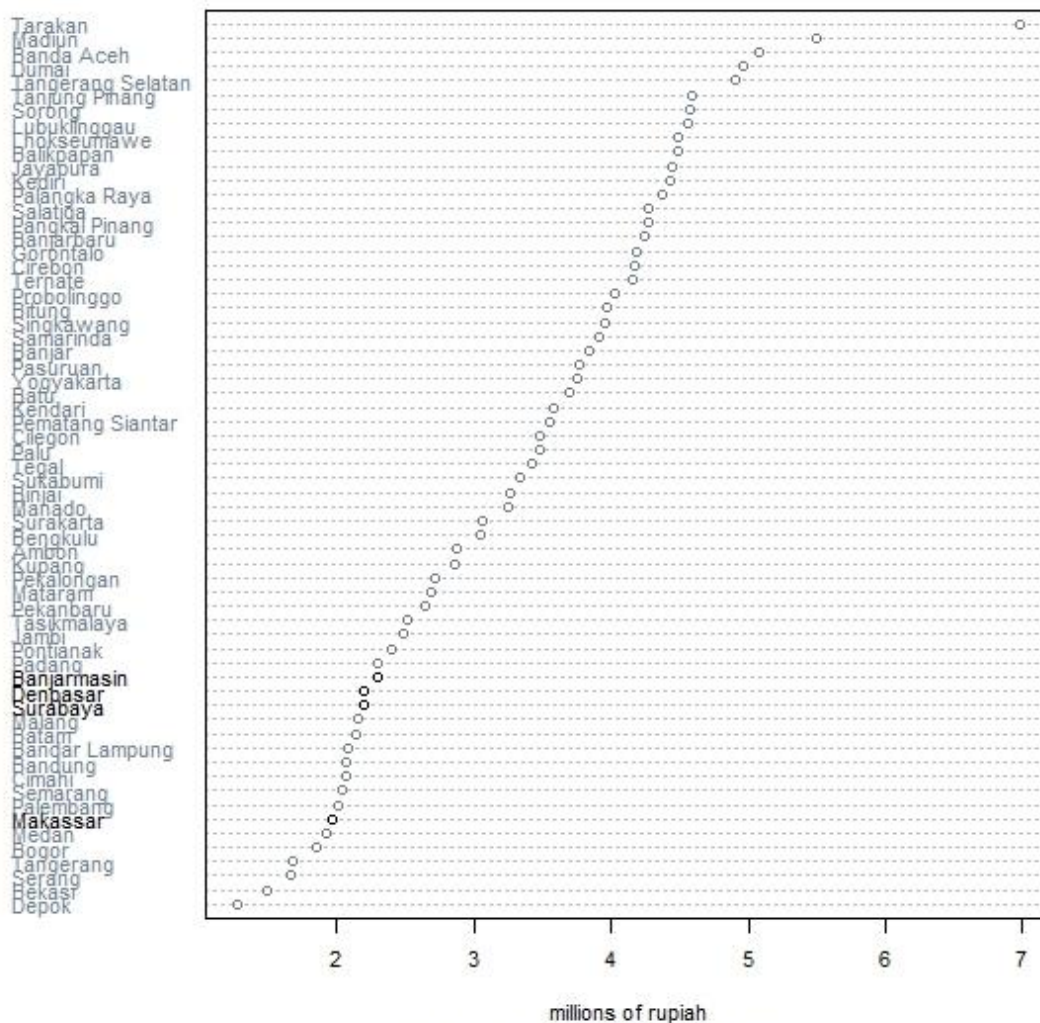
Property Tax Revenue as a Percent of GDP  
Developing economies



Source: IMF World 2017.

FIGURE A.3

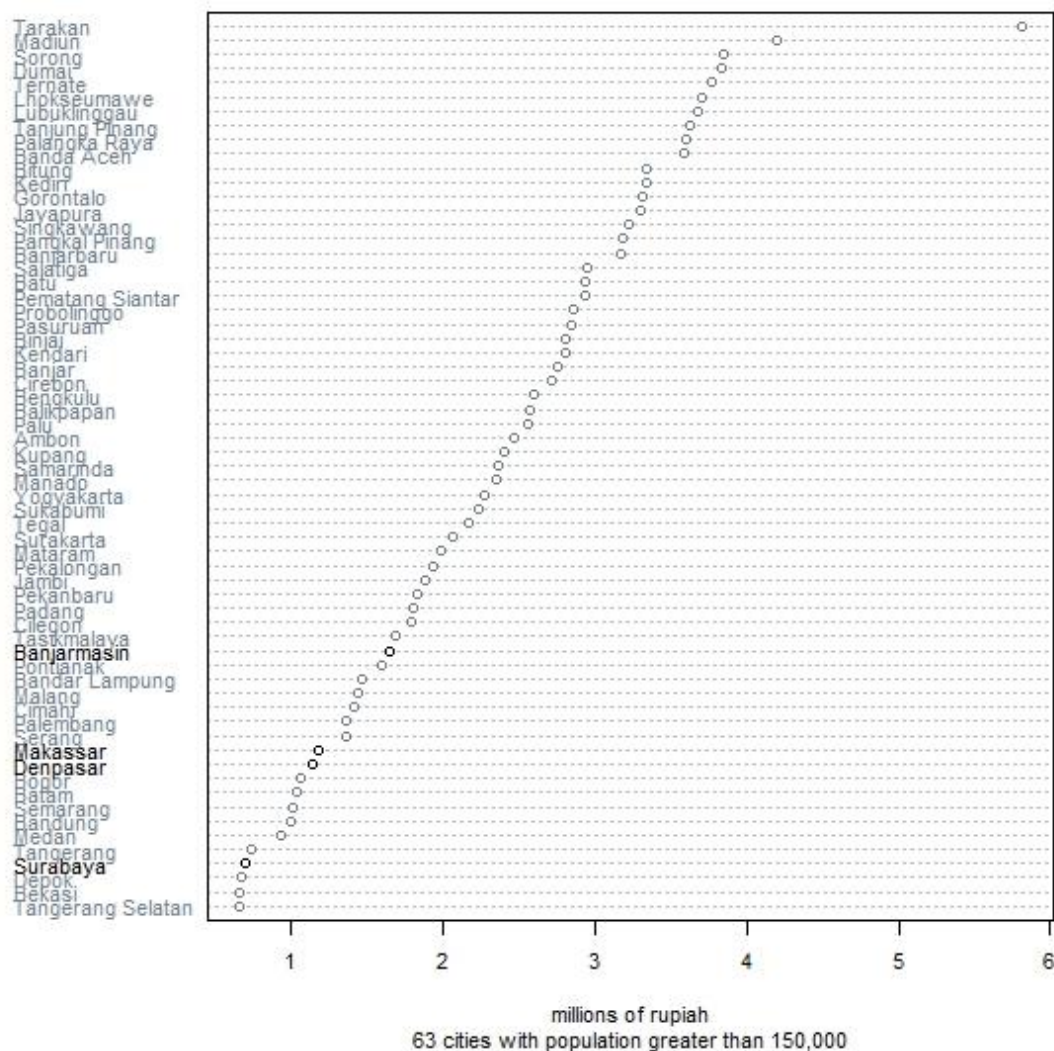
Total revenue per capita,  
Indonesia 2014



Source: DJPK; BPS 2010

FIGURE A.4<sup>82</sup>

Central fiscal transfers per capita,  
Indonesia 2014

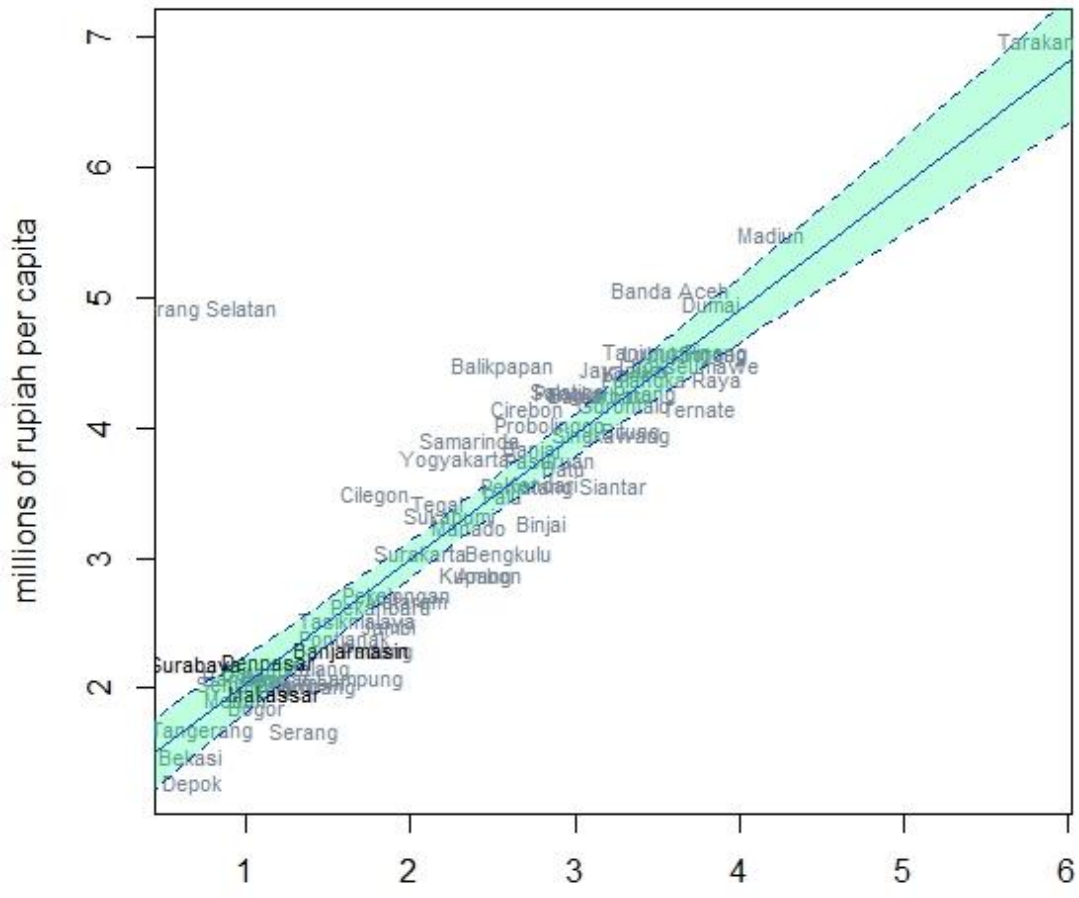


<sup>82</sup> In this figure, central fiscal transfers include the budget categories for “fiscal balance funds” (Dana Perimbangan) and “adjustment funds” (Dana Penyesuaian).



FIGURE A.5

Total revenue by central fiscal transfers,  
Indonesia 2014

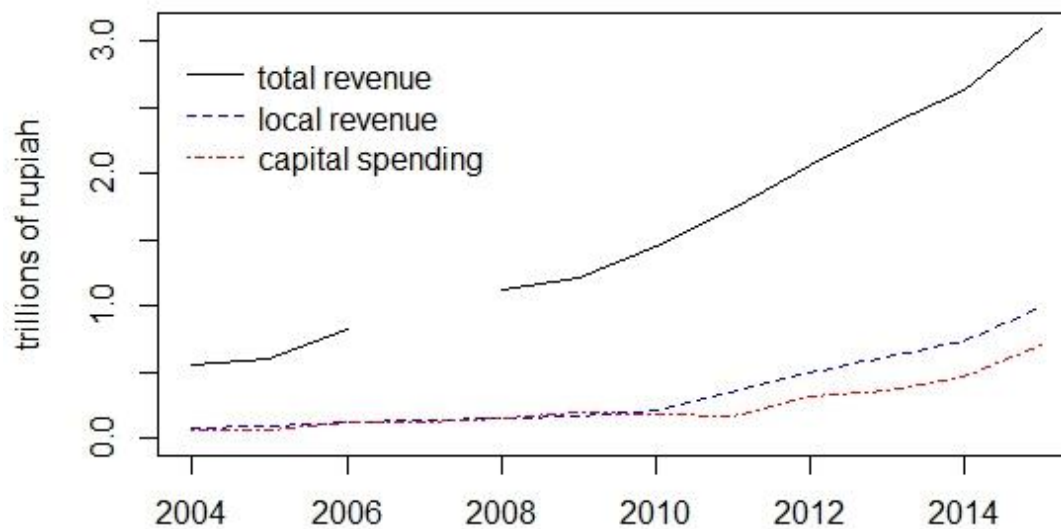


millions of rupiah per capita  
63 cities with population greater than 150,000

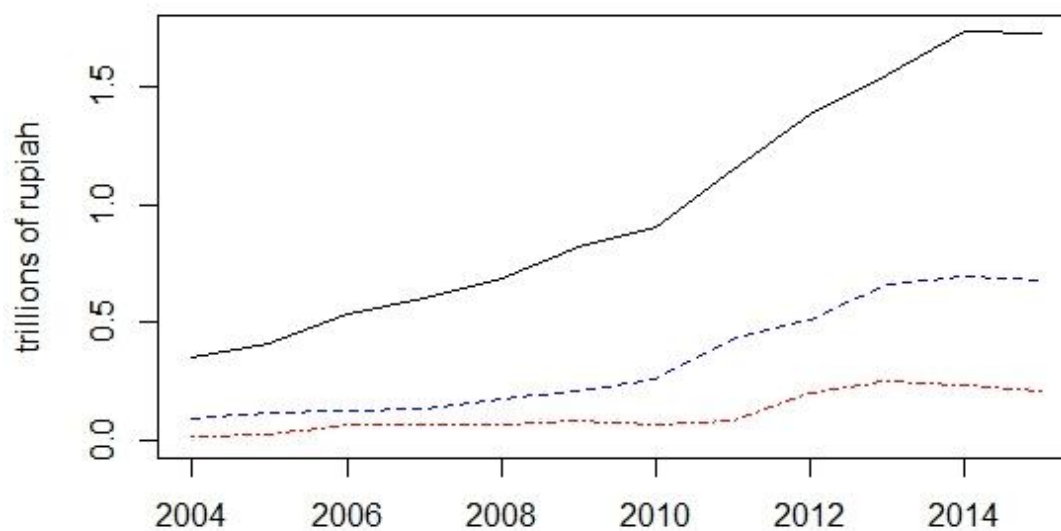
Source: DJPK; BPS 2010

FIGURE A.6

### Revenue and capital spending Makassar



### Denpasar



(projected figures in 2015)

Source: DJPK

**Table A.1: List of developing countries with decentralized property tax and local elections**

<b>Region</b>	<b>Country</b>	<b>Level of property tax administration</b>	<b>Type of elections</b>
Asia	India	States	Exec/assembly
	Indonesia	Regencies	Exec/assembly
	Nepal	Village Development Committees and Municipalities	Exec/assembly
	Pakistan	Provinces	Exec/assembly
	Philippines	Municipalities	Exec/assembly
Latin America	Argentina	Municipalities and Provinces	Exec/assembly
	Bolivia	Municipalities	Exec/assembly
	Brazil	Municipalities	Exec/assembly
	Colombia	Municipalities	Exec/assembly
	Costa Rica	Cantons	Exec/assembly
	Ecuador	Cantons	Exec/assembly
	Guatemala	Municipalities	Exec/assembly
	Honduras	Municipalities	Exec/assembly
	Mexico	Municipalities	Exec/assembly
	Nicaragua	Municipalities	Exec/assembly
	Peru	Provinces	Exec/assembly
Uruguay	Departments	Exec/assembly	
Venezuela	Municipalities	Exec/assembly	
Africa	Botswana	Sub-districts	Exec/assembly
	Cape Verde	Parishes (Freguesias)	Exec/assembly
	Comoros	Autonomous Islands	Exec/assembly
	Ethiopia	Districts (Woreda)	Exec/assembly
	Gambia	Districts	Assembly only
	Ghana	Districts	Assembly only
	Kenya	Counties	Exec/assembly
	Lesotho	Councils	Exec/assembly
	Madagascar	Communes	Exec/assembly
	Malawi	Local councils	Exec/assembly
	Mauritius	Districts	Exec/assembly
	Mozambique	Districts	Exec/assembly
	Namibia	Constituencies	Exec/assembly
	Nigeria	States	Exec/assembly
	Rwanda	Districts (Uturere)	Exec/assembly
	Senegal	Arrondissements	Exec/assembly
	Sierra Leone	Districts	Exec/assembly
	South Africa	Municipalities	Exec/assembly
Swaziland	Constituencies (Tinkhundla)	Exec/assembly	
Tanzania	Districts	Assembly only	
Uganda	Counties	Exec/assembly	
Zambia	Districts	Exec/assembly	

Sources: Coppedge, et al 2017, DGFB 2013, Fjeldstad and Heggstad 2012, Franzsen and Youngman 2009, Lewis and Searle 2010, Lincoln Institute of Land Policy 2017, Taliercio 2005.

**Table A.2: List of developing countries with nationally administered property tax**

Region	Country
Asia	Bangladesh
	Cambodia
	Malaysia
	Thailand
	Vietnam
Latin America	Chile
	Dominican Republic
	Panama
	Paraguay
Africa	Angola
	Burundi
	Cameroon
	Central African Rep.
	Chad
	Congo
	Cote d'Ivoire
	DRC
	Gabon
	Guinea-Bissau
	Liberia
	Niger
Sao Tome & Principe	

Sources: Coppedge, et al 2017, DGFB 2013, Fjeldstad and Heggstad 2012, Franzsen and Youngman 2009, Lewis and Searle 2010, Lincoln Institute of Land Policy 2017, Taliercio 2005.

**Table A.3: List of developing countries with decentralized property tax but no corresponding elections**

Region	Country	Level of property tax administration	Type of elections
Asia	China	Provinces	None

Sources: Coppedge, et al 2017, DGFB 2013, Fjeldstad and Heggstad 2012, Franzsen and Youngman 2009, Lewis and Searle 2010, Lincoln Institute of Land Policy 2017, Taliercio 2005.

**TABLE 4.1 Mayoral elections in Surabaya and Banjarmasin**

	<i>Election</i> <sup>83</sup>	<i>Elected mayor</i>	<i>Winning vote share</i>	<i>Margin of victory</i>	<i>Number of candidates</i>
Surabaya	2000	Soenarto Soemoprawiro	N/A	N/A	N/A
Surabaya	2005	Bambang DH	51%	30%	4
Surabaya	2010	Risma	41%	5%	5
Surabaya	2015	Risma	86%	72%	2
Banjarmasin	1999	Sofyan Arpan	N/A	N/A	N/A
Banjarmasin	2005	Yudhi Wahyuni	28%	7%	5
Banjarmasin	2010	Muhidin	44%	13%	6
Banjarmasin	2015	Ibnu Sina	56%	23%	3

Source: KPU Surabaya 2005; KPU Surabaya 2010; KPU 2015; Courtesy Jan Pierskalla

<sup>83</sup> Before 2005, mayors and district heads were chosen by the local assembly.

### List of interviews

No	Date	Location	Position
1	September 24, 2014	UP-Diliman	Director, Center for Local and Regional Governance, NC-PAG
2	September 24, 2014	UP-Diliman	Assistant Professor
3	September 24, 2014	Makati	Professor, ANU
4	September 25, 2014	UP-Diliman	Associate Professor
5	September 25, 2014	UP-Diliman	Associate Professor
6	September 26, 2014	UP-Diliman	Assistant Professor
7	September 26, 2014	UP-Diliman	Professor
8	September 29, 2014	UP-Diliman	Assistant Professor
9	September 30, 2014	UP-Diliman	Associate Professor
10	October 8, 2014	Quezon City	Former Deputy Director, BLGF
11	October 10, 2014	Manila	Project Management Specialist, BLGF
12	October 16, 2014	Quezon City	Assistant Professor, De La Salle
13	October 17, 2014	Manila	OIC Executive Director, BLGF
14	October 18, 2014	Quezon City	Review team member for Local Government Code, DILG
15	November 12, 2014	Manila	Manila City Treasurer
16	November 18, 2014	Quezon City	Director, IPD
17	November 19, 2014	Quezon City	Congressman and high-ranking member of Liberal Party
18	January 27, 2015	Iloilo City	Dean, UPV College of Management
19	January 27, 2015	Iloilo City	Chief, RPT Division, BLGF Regional Office
20	January 27, 2015	Iloilo City	Iloilo City Treasurer
21	January 28, 2015	Iloilo City	City Assessor and President, Philippine Association of Assessing Officers, Inc.
22	January 28, 2015	Iloilo City	Assistant City Assessor
23	January 28, 2015	Iloilo City	Division Chief, City Assessor's Office
24	January 28, 2015	Iloilo City	Legal Affairs Officer, BLGF Regional Office
25	January 28, 2015	Iloilo City	Assistant Professor, Division of Social Sciences, UPV
26	January 29, 2015	Iloilo City	Legal Affairs Officer, BLGF Regional Office
27	February 3, 2015	Iloilo City	Rotary Club
28	February 3, 2015	Iloilo City	Professor, Division of Social Sciences, UPV
29	February 4, 2015	Iloilo City	NEDA Region VI, retired
30	February 4, 2014	Iloilo City	City Planning and Development Coordinator
31	February 4, 2015	Iloilo City	Legal Affairs Officer, BLGF Regional Office
32	February 5, 2015	Iloilo City	Executive Director, Iloilo Business Club and ILED Foundation

33	February 9, 2015	Iloilo City	News Coordinator, Panay and Negros Islands, Manila Bulletin
34	February 9, 2015	Iloilo City	Chief of Correspondents, Visayas Bureau, Philippine Daily Inquirer
35	February 10, 2015	Bacolod City	Bacolod City Treasurer
36	February 11, 2015	Iloilo City	OIC Assistant Regional Director, BLGF Regional Office
37	February 12, 2015	Iloilo City	Chief of Tax Mapping Division, Provincial Assessor's Office
38	February 12, 2015	Iloilo City	Chief of Records Division, Provincial Assessor's Office
39	February 12, 2015	Iloilo City	Executive Director, Iloilo Business Club and ILED Foundation
40	February 13, 2015	Iloilo City	Iloilo City Councilor
41	February 16, 2015	Iloilo City	Chief Economic Development Specialist, NEDA Regional Office
42	February 16, 2015	Iloilo City	Regional Election Director
43	February 17, 2015	Iloilo City	Executive Assistant for Financial Matters
44	February 17, 2015	Email	Congressman, and Former Iloilo City Mayor
45	February 18, 2015	Iloilo City	Editor-in-Chief, Daily Guardian
46	February 20, 2015	Iloilo City	OIC Assistant Regional Director, BLGF Regional Office
47	March 3, 2015	Quezon City	Assistant Professor, Ateneo de Manila
48	March 3, 2015	Quezon City	Associate Professor, Ateneo de Manila
49	March 5, 2015	Batangas City	Executive Editor, Sun Star People's Courier
50	March 6, 2015	Batangas City	Batangas City Assessor
51	March 6, 2015	Batangas City	Assistant City Assessor
52	March 9, 2015	Batangas City	Secretary to the Mayor
53	March 9, 2015	Calamba City	Regional Director, BLGF Region IV-A
54	March 10, 2015	Batangas City	Dean, UB College of Law
55	March 10, 2015	Batangas City	Senior Vice President, PonteFino
56	March 10, 2015	Batangas City	Finance Manager, PonteFino
57	March 11, 2015	Batangas City	President, UB; former Secretary of Justice
58	March 11, 2015	Calamba City	Assessments, BLGF Regional Office
59	March 11, 2015	Calamba City	Treasury Operations, BLGF Regional Office
60	March 12, 2015	Batangas City	Assistant City Treasurer - Operations
61	March 12, 2015	Batangas City	City Legal Officer
62	March 13, 2015	Batangas City	Secretary to the Sangguniang Panlungsod
63	March 13, 2015	Batangas City	Attorney-at-law
64	March 16, 2015	Makati	Professor, ANU
65	March 30, 2015	SMS	Journalist, Manila Times
66	March 31, 2015	Batangas City	Member, City Council
67	March 31, 2015	Batangas City	President, Batangas Province Chamber of Commerce and Industry
68	April 14, 2015	Cebu City	Associate Professor, University of San Carlos Political Science Department

69	April 14, 2015	Cebu City	Lecturer, USC Political Science Department
70	April 15, 2015	Cebu City	Personal assistant to John Osmena
71	April 16, 2015	Cebu City	Regional Director, BLGF Region VII
72	April 16, 2015	Cebu City	Assistant City Treasurer - Operations
73	April 16, 2015	Cebu City	Journalist, Cebu Daily News
74	April 17, 2015	Cebu City	City Assessor
75	April 17, 2015	Cebu City	Facilitator, City Assessor's Office
76	April 17, 2015	Cebu City	Head, Secretariat, City Assessor's Office
77	April 17, 2015	Cebu City	Head, Land Appraisal Division, City Assessor's Office
78	April 17, 2015	Cebu City	Staff, GIS Section, City Assessor's Office
79	April 17, 2015	Cebu City	Staff, MICS Department, City Assessor's Office
80	April 17, 2015	Cebu City	Assistant City Treasurer - Operations
81	April 21, 2015	Cebu City	Regional Director, BLGF Region VII
82	April 21, 2015	Cebu City	Professor, USC Economics Department
83	April 21, 2015	Cebu City	Assistant City Treasurer - Operations
84	April 22, 2015	Cebu City	Assistant Professor, USC History Department
85	April 22, 2015	Cebu City	Former Executive staff member under Tomas Osmena
86	April 23, 2015	Cebu City	Associate Professor, USC Political Science Department
87	April 27, 2015	Iloilo City	Board Secretary IV, Sangguniang Panlungsod Secretariat Office
88	April 28, 2015	Cebu City	Executive Director, Cebu Business Club
89	April 29, 2015	Cebu City	Executive Assistant II, Office of Alvin Dizon
90	April 29, 2015	Cebu City	Administrative Officer, Office of Alvin Dizon
91	April 29, 2015	Cebu City	City Planning Officer
92	April 29, 2015	Cebu City	Election Director
93	May 1, 2015	Cebu City	City Assessor
94	May 1, 2015	Cebu City	Finance Consultant to Councilor Margot Osmena
95	May 5, 2015	Manila	Project Management Specialist, BLGF
96	May 6, 2015	Makati	Professor, ANU
97	May 8, 2015	UP-Diliman	Associate Professor
98	May 8, 2015	Telephone	Local Assessment Operations Officer, BLGF Region VII
99	May 9, 2015	Makati	President, Foundation for Economic Freedom, Inc.
100	May 9, 2015	Makati	Program Director, The Asia Foundation
101	May 13, 2015	Manila	Project Management Specialist, BLGF
102	May 14, 2015	Quezon City	Secretary, National Anti-Poverty Commission
103	May 14, 2015	Telephone	Local Assessment Operations Officer, BLGF Region VII
104	May 15, 2015	Telephone	Batangas City Treasurer
105	October 5, 2015	Jakarta	Advisor, Ministry of Finance
106	November 5, 2015	Jakarta	Executive Director, PATTIRO



107	November 5, 2015	Jakarta	Director, PATTIRO
108	November 5, 2015	Jakarta	Senior Operation Manager, PATTIRO
109	November 5, 2015	Jakarta	Staff, PATTIRO
110	November 6, 2015	Jakarta	Social Policy & Governance Specialist, Prakarsa
111	November 6, 2015	Jakarta	Senior Researcher, Prakarsa
112	November 6, 2015	Jakarta	Research Manager, Prakarsa
113	November 17, 2015	Makassar	Executive Director, YKPM (NGO)
114	November 17, 2015	Makassar	Direktur, Yayasan Adil Sejahtera (YAS)
115	November 17, 2015	Makassar	Senior Advisor for Bureaucracy Reform, GIZ
116	November 18, 2015	Makassar	Lecturer in Economics, UMI
117	November 18, 2015	Makassar	Finance Officer, City Revenue Agency
118	November 18, 2015	Makassar	Staff KUPAS
119	November 19, 2015	Makassar	Researcher, Fajar Institute of Pro Otonomi
120	November 19, 2015	Makassar	Researcher, Fajar Institute of Pro Otonomi
121	December 8, 2015	Makassar	Senior Advisor to the Mayor
122	December 8, 2015	Makassar	Officer, Bank Mutiara
123	December 9, 2015	Makassar	Staff, YKPM (NGO)
124	December 10, 2015	Makassar	former Director, Walhi
125	December 10, 2015	Makassar	Staff, Walhi
126	December 11, 2015	Makassar	Assistant Notary
127	December 14, 2015	Makassar	Finance Officer, City Revenue Agency
128	December 14, 2015	Makassar	Staff, City Legal Office
129	December 14, 2015	Makassar	Program Manager, KOPEL
130	December 15, 2015	Makassar	KOPEL Staff, Lecturer in Economics
131	December 15, 2015	Makassar	KOPEL Staff
132	December 15, 2015	Makassar	KOPEL Staff
133	December 15, 2015	Makassar	Direktur, Yayasan Adil Sejahtera Sulsel (YAS)
134	December 15, 2015	Makassar	Deputy 1, Fajar University
135	December 16, 2015	Makassar	Deputy Director, APINDO South Sulawesi
136	December 16, 2015	Makassar	Deputy Director, APINDO South Sulawesi
137	December 16, 2015	Makassar	Secretary, APINDO South Sulawesi
138	December 16, 2015	Makassar	Deputy Secretary, APINDO South Sulawesi
139	December 16, 2015	Makassar	Treasurer, APINDO South Sulawesi
140	December 16, 2015	Makassar	Deputy Treasurer, APINDO South Sulawesi
141	December 16, 2015	Makassar	Insurance and Finance Coordinator, APINDO South Sulawesi
142	December 16, 2015	Makassar	SME Coordinator, APINDO South Sulawesi
143	December 16, 2015	Makassar	Chair, PHRI South Sulawesi
144	December 16, 2015	Makassar	Tax Accountant, Hotel Clarion
145	December 16, 2015	Makassar	Former Land Appraiser
146	December 17, 2015	Makassar	Finance Officer, City Revenue Agency
147	December 17, 2015	Makassar	Land Appraiser, City Revenue Agency
148	December 17, 2015	Makassar	General Secretary, KUPAS (NGO)

149	January 10, 2016	Jakarta	Civil servant
150	January 11, 2016	Jakarta	Department of Analysis & Oversight of Priority Programs (Presidential Staff)
151	January 15, 2016	Jakarta	Officer, FITRA
152	January 28, 2016	Surabaya	Human Rights Activist
153	January 29, 2016	Surabaya	Senior Lecturer, University Malaya
154	February 1, 2016	Surabaya	Staff, YKPM
155	February 2, 2016	Surabaya	Coordinator, FITRA Jawa Timur
156	February 4, 2016	Surabaya	Petugas Pajak
157	February 9, 2016	Surabaya	Lecturer, FISIP UNAIR; Founder, Researcher, CSWS
158	February 10, 2016	Surabaya	Executive Director, NSC Polytechnic
159	February 10, 2016	Surabaya	Editor, Jawa Pos
160	February 10, 2016	Surabaya	Journalist, Jawa Pos
161	February 10, 2016	Surabaya	Journalist, Jawa Pos
162	February 11, 2016	Surabaya	Head of Section, Entertainment and Billboard Tax
163	February 11, 2016	Surabaya	Property Tax Services Coordinator
164	February 11, 2016	Surabaya	Staff, Revenue and Financial Management Agency (DPPK)
165	February 12, 2016	Surabaya	Former property tax appraiser
166	February 15, 2016	Surabaya	Activist
167	February 15, 2016	Surabaya	Lecturer, University of Sydney
168	February 16, 2016	Surabaya	Head of Section, Hotel and Restaurant Tax
169	February 16, 2016	Surabaya	Founder and Director, c2o
170	February 17, 2016	Surabaya	Professor, University of Melbourne
171	February 18, 2016	Surabaya	Professor, ITS
172	February 18, 2016	Surabaya	Executive Director, KADIN Surabaya
173	February 19, 2016	Surabaya	Lecturer, Political Science, UNAIR
174	February 19, 2016	Surabaya	Lecturer, Political Science, UNAIR
175	February 19, 2016	Surabaya	Lecturer, Political Science, UNAIR
176	February 19, 2016	Surabaya	Lecturer, Political Science, UNAIR
177	February 20, 2016	Surabaya	US Consulate Staff
178	February 22, 2016	Surabaya	RW Chair (neighborhood leader)
179	February 22, 2016	Surabaya	Tourism Official
180	February 22, 2016	Surabaya	Deputy Director, UNAIR School of Graduate Studies
181	February 23, 2016	Surabaya	Activist
182	February 23, 2016	Surabaya	RW Chair (neighborhood leader)
183	February 23, 2016	Surabaya	Neighborhood resident
184	February 23, 2016	Surabaya	Lecturer, Law
185	February 25, 2016	Surabaya	Writer; Lecturer, Petra Christian University
186	February 25, 2016	Surabaya	Security guard
187	February 25, 2016	Surabaya	Custodial staff
188	February 25, 2016	Surabaya	Lecturer, Political Science

189	February 26, 2016	Surabaya	Freelance real estate agent
190	March 2, 2016	Surabaya	Journalist, KOMPAS
191	March 2, 2016	Surabaya	Owner, Editor, Writer, beritajatim.com
192	March 3, 2016	Surabaya	Lecturer, Law
193	March 4, 2016	Surabaya	Head of Section, Hotel and Restaurant Tax
194	March 5, 2016	Surabaya	Artist
195	March 5, 2016	Surabaya	Activist
196	March 5, 2016	Surabaya	Activist
197	March 6, 2016	Surabaya	Registered Tax Consultant
198	March 8, 2016	Surabaya	Small business owner, writer
199	March 15, 2016	Surabaya	KADIN Chairman
200	March 16, 2016	Surabaya	Affiliated Lecturer, UNAIR
201	March 18, 2016	Surabaya	Senior Officer, REI East Java
202	March 18, 2016	Surabaya	Deputy Chair for Subsidized Landed Housing, REI East Java
203	March 19, 2016	Surabaya	Chairman, HIPMI Surabaya
204	March 19, 2016	Surabaya	General Treasurer, HIPMI Surabaya
205	March 20, 2016	Surabaya	Former researcher, Jawa Pos Institute for Pro-Otonomi
206	March 24, 2016	Jakarta	US Embassy Staff
207	April 4, 2016	Jakarta	Officer, DJPK
208	April 5, 2016	Jakarta	Lecturer, Political Science, UNAIR
209	April 20, 2016	Banjarmasin	Former lecturer, History, IAIN Antasari
210	April 21, 2016	Banjarmasin	Lecturer, Public Administration, Universitas Kalimantan Selatan
211	April 22, 2016	Banjarmasin	Activist
212	April 26, 2016	Banjarmasin	Assistant Rector, IAIN Antasari
213	April 26, 2016	Banjarmasin	Executive Director, LK3 NGO
214	April 26, 2016	Banjarmasin	Commisioner, Election Monitoring Committee
215	April 26, 2016	Banjarmasin	Head of Section, Legal affairs and internal review, Tax Directorate General
216	April 27, 2016	Banjarmasin	Small business owner
217	April 27, 2016	Banjarmasin	Assistant Notary
218	April 27, 2016	Banjarmasin	Lecturer, English, IAIN Antasari
219	April 27, 2016	Banjarmasin	Civil servant
220	May 2, 2016	Banjarmasin	Senior Advisor to the Mayor
221	May 3, 2016	Banjarmasin	City assembly member, Golkar
222	May 3, 2016	Banjarmasin	City assembly member, Golkar
223	May 3, 2016	Banjarmasin	Director of Graduate Studies, ULM Law
224	May 3, 2016	Banjarmasin	Chairman of Nahdlatul Ulama, South Kalimantan
225	May 4, 2016	Banjarmasin	Professor of Economics and Business, ULM
226	May 10, 2016	Banjarmasin	Head of Regional Development Division, Development Planning Board
227	May 10, 2016	Banjarmasin	Director, Development Planning Board

228	May 11, 2016	Banjarmasin	Director, City Revenue Agency
229	May 11, 2016	Banjarmasin	Local Taxes Officer, City Revenue Agency
230	May 11, 2016	Banjarmasin	Property Tax Officer, City Revenue Agency
231	May 11, 2016	Banjarmasin	Data and Registration Officer, City Revenue Agency
232	May 11, 2016	Banjarmasin	Assessment Officer, City Revenue Agency
233	May 11, 2016	Banjarmasin	Property Tax Officer, City Revenue Agency
234	May 11, 2016	Banjarmasin	Admin/SISMIOP operator
235	May 12, 2016	Banjarmasin	Head of Section, Data and Registration, City Revenue Agency
236	May 12, 2016	Banjarmasin	Novelist
237	May 12, 2016	Banjarmasin	Director, Integrated Permitting Services and Investment Board
238	May 13, 2016	Banjarmasin	Journalist, Media Kalimantan
239	May 16, 2016	Banjarmasin	Editor-in-Chief, Radar Banjarmasin
240	May 17, 2016	Banjarmasin	Mayor of Banjarmasin
241	May 17, 2016	Banjarmasin	REI Chairman, South Kalimantan
242	May 18, 2016	Banjarmasin	Director, City Legal Office
243	May 18, 2016	Banjarmasin	Data and Registration Officer, City Revenue Agency
244	May 18, 2016	Banjarmasin	Legislative Staff, Banjarmasin City Assembly
245	June 22, 2016	Denpasar	Program Manager, Taman Baca Kesiman
246	June 23, 2016	Denpasar	Editor-in-Chief, Radar Bali
247	June 24, 2016	Denpasar	Chair, REI Bali
248	June 27, 2016	Denpasar	IT Staff, City Revenue Agency
249	June 27, 2016	Denpasar	Program Oversight Officer, City Revenue Agency
250	June 28, 2016	Denpasar	Founder, Sloka Institute
251	July 29, 2016	Jakarta	Senior Associate Director, Colliers
252	July 29, 2016	Jakarta	Marketing Executive, Colliers
253	August 1, 2016	Jakarta	Executive Director, Center for Indonesian Tax Analysis
254	August 3, 2016	Jakarta	Vice Secretary General, REI Indonesia
255	August 3, 2016	Jakarta	Lecturer, Faculty of Economics, UI
256	August 3, 2016	Jakarta	Lecturer, Political Science, UNAIR
257	August 3, 2016	Jakarta	Lecturer, Faculty of Economics and Business, UI
258	August 3, 2016	Jakarta	Executive Director, ARSC
259	August 5, 2016	Jakarta	Deputy Executive Director, REI Indonesia
260	August 5, 2016	Jakarta	Vice Secretary General, REI Indonesia

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