



## ***Subsidiarity, Decentralization and Privatization***

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This paper will discuss some political concepts related to citizen administration and governance. Those 3 concepts in the title though will be the dominant themes.

### ***The principle of subsidiarity***

This principle states that the lowest and least centralized levels of administration and governance should handle the citizens' various concerns. Only on concerns where the lower levels cannot handle that the next higher level of administration should take charge.

According to [Wikipedia](#), "The principle of subsidiarity goes back to [Pope Leo XIII](#) in [Rerum Novarum](#) and holds that government should undertake only those initiatives which exceed the capacity of individuals or private groups acting independently. The principle is based upon the autonomy and dignity of the human individual... and emphasizes the importance of small and intermediate-sized communities or institutions, like the family, the church, and voluntary associations, as mediating structures which empower individual action and link the individual to society as a whole and holds that all other forms of society."

This is a beautiful model of citizen administration because it encourages self-reliance, independence of action, and most importantly, it promotes and respects individual and parental responsibility in running people's lives. Ultimately, society is made not mainly of government agencies and bureaucracies, but of individuals, households and their voluntary organizations. Such bodies range from churches, neighborhood or village associations,

sports clubs, civic and charity clubs, professional organizations, advocacy associations, and so on. Government is only part of society and it is not the most important part, it is individuals and people.

### ***Decentralization***

Decentralization of political power, from the central or national government to the sub-national or local government, is a move that affirms the beauty and practicality of the principle of subsidiarity. This is after people have realized the ugliness and impracticality of central planning under a socialist government set-up or any of its derivatives characterized by a big and centralized government that is supposed to provide and subsidize everything but also takes everything from the people.

So certain social and economic functions are devolved to local government units (LGUs), functions that used to be handled by the central government and its various line agencies. Decentralization in this sense, is good because the LGUs are able to bridge the gap between a powerful and often less-sensitive central government, and ordinary citizens and their private enterprises and civil society organizations. Such civil society organs are mostly "apolitical" (like cooperatives, neighborhood associations, churches, sports clubs, civic and charity clubs, etc.), where people just want their individual choices and organizational freedom be respected. The citizens often feel "powerless" in relation to a centralized and very often bureaucratic, national government.

Local government function in this respect can approximate the competition among private enterprises and/or individuals in providing the needs of society. When certain functions are provided by the central or national government alone, there is no competition, there is only monopoly. And a monopoly very often creates lots of waste and inefficiencies because a monopolist thinks its "consumers", the people, have no other options anyway.

Competition is possible among local governments. Neighboring towns and/or cities attracting lots of investors, local or multinationals, are forced to compete with each other in terms of better infrastructure, lower crime rates, lower local taxes, easier business registration, and so on. This competition among neighboring cities is happening in some of Metro Manila's LGUs (composed of 17 cities and municipalities), and the result is generally good. Provinces and cities or municipalities that have good white sand beaches, or beautiful waterfalls or lakes and mountain resorts, will be competing with other provinces and cities or municipalities that have the same natural attractions. The LGUs in this situation will be compelled to improve their infrastructures like airports, seaports, roads, power supply, etc., as well as improve the peace and order situation, if they are serious in attracting more tourists and visitors to come. More tourism, more business and employment opportunities to local residents.

With this background in mind, can one conclude that local governments automatically provide more democracy? NO. While it is true that LG is closer to the citizens and can identify their needs more than a central government, LG can also introduce its own set of economic distortions through new regulations, taxes and fees on top of those implemented and collected by the national government.

Note for instance, those small economies with very small local governments like Maldives, Singapore and Hong Kong: they charge only 1, 4, and 5 different taxes respectively, for medium-sized companies. In contrast, economies with plenty of local governments like the Philippines, Indonesia and India, even with decentralization, charge 47, 51 and 60 different taxes and fees, respectively, to medium-sized enterprises. Data from the World Bank and Price Waterhouse Coopers (WB-PWC) study, [“Paying Taxes 2008: The Global Picture”](#).

Will decentralization always lead to better governance and poverty alleviation? NO. Decentralization can lead to better governance because LGUs competing with each other can improve services to the public, but this is not always the case. As discussed above, LG can introduce new rules and regulations, new taxes and fees, even create new local monopolies, etc. on top of existing regulations, taxes and monopolies administered by the central government. The end-loser of this situation are the citizens.

And will fiscal decentralization ensure equality among regions? Again, NO. There is no assurance for equality among regions, provinces, cities and villages because each locality has physical, geographical and population characteristics that are different from the other localities. Finally, local governments should NOT aspire for equality among each other. An island-province that is mountainous and volcanic cannot aspire to become equal with a flat, cosmopolitan and urbanized island-province. The former can develop eco-tourism or geothermal energy as main development path.

### ***Splitting of function***

The main task for the national government in the opinion of this writer, is maintenance of (a) armed forces against external aggression, (b) foreign affairs and international diplomacy, (c) infrastructure and public works not covered by the private sector through franchise or build-operate-transfer, build-own-operate and related schemes; (d) judiciary, both lower and higher courts to settle disputes among people, their enterprises and organizations, (e) legislature, to amend or abolish antiquated laws, create or consolidate new laws, and (f) revenue collection and budgetary disbursement body.

The rest of social functions – the police, fire protection, basic and secondary education, primary health care, garbage collection, others – can be devolved

to LGUs. The purpose is to instill competition among LGUs – better roads, airports, other infrastructure; better peace and order; better education and training of people, etc. So that people can “vote with their feet”, if their current LGU is behaving like a giant hold-upper and providing mediocre services, people can leave and move to other provinces or cities. With such splitting of function, I can hardly think of other disadvantages.

### ***Levels of local government***

Local government takes many forms in many countries. In the Philippines, LGUs range from the province, down to city or municipality, down to the barangay or village, as the lowest and most basic political organ. A province is composed of municipalities and cities. A city is more “prestigious” than a municipality because the former connotes bigger economic activities and hence, bigger revenues. All LGUs have a share of internal revenue allotment from the national government, and have powers to create and collect their own set of local taxes and fees.

In theory and in the law, those barangay leaders should be “non-partisan”; hence, they cannot join the established political parties. In reality, they are highly partisan to any opposing candidates for city or municipal mayor. Nonetheless, barangay leaders are usually the most sensitive to citizens’ concerns.

In the experience of this author as a private citizen, and living in a “non-gated” village or subdivision, the most important function of a local government, the barangay especially, is the maintenance of peace and order in the locality. The barangay does this mainly through good street lighting in the evening, and having very alert and mobile barangay patrols. When some neighbors become noisy at nighttime, disturbing other people’s sleep, just one phone call of the barangay, the barangay patrol comes in a few minutes, and the noisy neighbors suddenly become silent. Any roving thieves and robbers are also afraid to come near the neighborhood in the evening because they can easily be seen and recognized due to good street lights.

When there is peace and order in the community, people can be productive. They can work late if they want, or start work very early in the morning, knowing that their house, their family, are generally safe. Of course, households should still secure their house and other property properly.

### ***Getting good people for local governments***

Bad politicians run for local (and central) government mainly to steal, or to create restrictive and protectionist policies to favor and protect themselves, their businesses, and their friends’ economic and political interests. But good

people also have the same incentives to run for the same position, mainly to block the victory or capture of political power by the bad politicians. Hence, “recruiting good people for local governments” is not a problem because there is always an incentive for some well-meaning people to join the government, both at the local and national levels.

The main problem though is the credibility of the electoral process. Good politicians are not likely to cheat in elections and to bribe election officials just to win. It is the corrupt politicians who have all the incentives to cheat in elections, bribe voters, bribe election inspectors, bribe election officials. And it is this lack of credibility of the electoral process in the Philippines and many other developing countries that is the main hindrance why many good people are discouraged from entering politics. There is deep feeling that one will be compelled by circumstances to engage in some election cheating, or bribery of election officials, from limited to large level, if only to minimize the damage and reduce the effect of large-scale cheating by the bad politicians and unprincipled political parties. This alone turns off many good people from entering politics and they prefer to be in private business, where there is less political controversies, where life is more peaceful.

There are at least 2 ways to help remedy this situation. One is a major reform in a country’s electoral system towards more transparent, more modern system like computerized voting and counting. And two, to have a strong political party with very distinct and principled political and economic philosophy, and the party and its leaders will provide political, financial and moral support system to good politicians not to lose heart and be more brave.

The usual campaign of “fighting corruption”, “good governance” and related mottos may no longer catch the imagination of the average citizens because almost all political parties, almost all politicians, whether from the administration or the opposition, are saying the same thing. There is a big potential for a political party that advances the principle of subsidiarity, classical liberal and related philosophies of less government, less taxes and regulations, and advancing individual responsibility. A political party that strongly believes in the “rule of law” in the Hayekian definition of “the law applies to everyone and exempts no one”.

### ***Liberalism***

This philosophy, according to wikipedia, considers “individual liberty to be the most important political goal”. Putting this definition with the above definition of subsidiarity principle, it can be said that the individuals and their family, their private enterprises, their voluntary and civil society organizations, are the lowest levels of citizen administration and governance, and not the local government. Only in cases and functions where the households, the private

enterprises and civil society organs cannot handle, that local governments up to the central government should take charge.

The advantage of relying first with the individuals and their voluntary organizations for self-administration and self-reliance, is that various goods and services are produced and exchanged in a voluntary way. When a locality has lots of rice, vegetables, fruits, animal products, but no fishery products, a fisherman or aquaculture farmer, or a small firm producing and trading fishery products, will provide said products to the people. And when people have lots to eat but no or little entertainment areas, another firm can put up a mall with moviehouses, or theme park, and so on.

When people exchange goods and services in a voluntary manner, as in free trade and free market, very little forcible contributions, i.e., taxes and fees, will be needed. The government's role, local governments especially, is to watch out and discipline lazy and bully people who engage in stealing, cheating and various crimes. The protection of the citizens' right to life, right to private property, and right to liberty and dignity, remains a very important function of government, both the central and local government.

### ***Privatization***

Here in the Philippines, the proliferation of private security guards is noticeable. All malls and department stores, all residential and office buildings, all banks and convenience stores, all schools and universities (except government schools at elementary level), all hospitals, all villages and subdivisions, even airports, seaports and bus terminals, are guarded by private security guards. In a sense, one can say that the peace and order function has been privatized, and so far it is working. And that it is an indicator of citizen distrust of the capacity and sincerity of the government policemen. The police effectively has limited function but big budget, and some of them are tainted with links to organized criminals.

Private schools at the pre-elementary, elementary and secondary levels are plenty in the Philippines. Which again is an indicator of citizen distrust of the capacity and quality of government-run schools, despite the Department of Education (DepEd) having the biggest annual budget among all departments and agencies. There are plenty of private clinics and hospitals too, some expensive but many are offering competitive prices. People have choices depending on their budget and type of services demanded.

If peace and order function can be privatized, and private security companies are competing with each other in offering good services, many other social functions can be privatized too.

Privatization is consistent with the principle of subsidiarity. If private enterprises can provide the needs of the people, say education, restaurant, buses, hospital, haircut, then both central and local government should stay away. This also reduces the rationale for high and multiple taxes and fees. And privatization works best if the economy is deregulated and demonopolized. When a state enterprise is privatized, it should be “one of the many” enterprises in that sector. If privatization happens while the economy is over-regulated and monopolized, then it will just be a transfer from government monopoly to private monopoly, and citizens will not feel much the difference. When citizens say private enterprises are better compared to government monopoly, it’s because in the former, they have a choice. They can patronize one company and boycott the others. This scares all other enterprises, and they are all forced to improve their services.

Some services becoming expensive after privatization can be expected, and some services becoming cheaper after privatization can be expected too. This is because of “product differentiation” and “price segmentation” by competing enterprises. When an airline is a government monopoly, fares can be either low (due to subsidy) or high (due to wastes) but services can be lousy because the monopolist knows that the riding public have no other airlines to choose anyway. After privatization coupled with deregulation and demonopolization, various airlines come in and compete with each other. Airline A will field new and modern planes, provide free food and drinks to passengers and charge expensive fares. Airline B is a budget airline, no food and drinks and charge low fares. Airline C also gives no food and drinks but offer some perks on participating shops and hotels and charges fare midway between those of airlines A and B. That is how product or service differentiation and price segmentation work and it is one result of competition.

It is important that local government leaders should recognize the practicality of the principle of subsidiarity and privatization, that local governments can only be a transition stage to a condition of civil society, and not an end in itself in citizen self-administration and empowerment. Informed and responsible people know what they want, and what they do not want. This creates diversity in needs and aspirations of people, but such diversity should be respected, not discouraged by forcing equality in society.