Exploratory Analysis of the Correlation Between Local Income and Internal Revenue Allotment: Focus on Municipalities that Converted to Cities from 1994-2009

ABSTRACT

There is still an unresolved debate concerning the dynamics between the Internal Revenue Allotment (IRA) of a local government unit (LGU) and its locally-generated income. Two contending views, both supported by empirical analyses, posit that IRA either stimulates or substitutes for local income (i.e., "stimulative" vs. "substitutive" effect). To weigh in on the debate, this study examined municipalities that have converted to cities from 1994 to 2009. Since conversion to cityhood immediately and significantly increases the LGU's IRA receipts, it can be considered a naturally-occurring "intervention." Through Simple Linear Regression and Interrupted Time Series Analysis, this study isolated and analyzed pre- and post-intervention trends in local income, and drew inferences on how an LGU's local income-generation efforts correlate with changes in the amount of IRA it receives. The results point to more significant empirical support in favor of the stimulative effect hypothesis, although the same are inconclusive and merely preliminary.

CITATION

Balisacan, R.C. (2016). Exploratory Analysis of the Correlation Between Local Income and Internal Revenue Allotment: Focus on Municipalities that Converted to Cities from 1994-2009. (Working Paper and presented at the "2016 NCPAG Research Colloquium and Paper Competitions: Good Governance and Open Government Partnership (OGP)"). University of the Philippines Diliman, Quezon City, Philippines.