

Conquering Poverty Through Market Reliance and Good Governance

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I feel as at home in this gathering as fish in water, because as our emcee said, I am a bonafide economist, and do I treasure those years between 1987 and 1992 when I was a member of the board of directors of this professional group whose membership is a list of who's who among the country's economists. It was only when I was elected senator that I discontinued sitting in the Board. But even in the Senate, my main legislative work was economic legislation. And now that I am President, you and I understand each other on the economic imperatives that we must confront in this new government and in this new millennium.

When I took my oath of office as President of the Philippines, I said that we must be bold in our national ambitions, so that our challenge must be that within this decade, we will win the fight against poverty. To make this happen, we must recognize, that the world our youth will inherit is a truly new economy, where capital markets and information technology are forces that create both peril and opportunity. To tap the opportunities, we must adopt an economic philosophy of transparency and free enterprise, for these create the entrepreneurial spirit to be globally competitive. To extend the opportunities to our rural countryside, we must create a modernized and socially equitable agricultural sector. To address the perils, we must give a social bias to balanced economic development in the form of structural reforms, safety nets for globalization, and safeguards for our environment. Finally, to preserve our gains against corruption and waste, we must improve moral standards in government and in society. In doing so, we promote good governance based on a sound moral foundation, a philosophy of transparency, and an ethic of effective implementation.

Thus, we shall make market reliance and good governance the twin pillars of our social and economic policy strategy. We will adhere to policies and institutions that work and discard those that have failed. A quick look at the past offers many useful lessons.

1. Learning from experience

The last half of the past century saw many fundamental changes. Many of the former colonies won their political independence from the large industrial countries after the Second World War. Winning economic independence, however, proved

* President, Republic of the Philippines. This paper is based on the President's speech during the annual meeting of the Philippine Economic Society (PES) on March 26, 2001 at Dusit Hotel, Makati City.

elusive for many. The exceptions are — setting aside Japan — the four Asian tigers — Hong Kong, Singapore, Taiwan, and South Korea. They became exporters of manufactured products on a global scale beginning in the sixties. They achieved full employment and caught up with the real per capita income levels of the industrial countries. The Asian tigers became models of successful outward looking and export-led industrialization. The 20th century also witnessed the collapse of central planning. At the start of the nineties, the former Soviet Union broke up. Politically, that meant the end of the Cold War. On the economic side, it proved that policies based on free enterprise and market reliance were superior to central planning. Then came the latter part of the 1990's. In May of 1997, Thailand's baht was devalued. That ignited a contagion that resulted in the sharp devaluation of currencies in East and Southeast Asia. The peso, over a period of three months after the crisis erupted, lost about 40 percent of its value against the U.S. dollar. As exchange-rate volatility in the region continued, economic contraction set in.

That Asian crisis brought out many helpful but painful lessons. True, the crisis was rooted in some fundamental economic weaknesses like large current-account deficits and poorly regulated financial systems. However, it cannot be denied that the crisis was a question of governance, too. Political factors greatly influenced the channeling of bank loans to large enterprises. When the crisis simmered down, the investigations revealed cronies and behest loans written all over the ledgers of the failed banks. Many observers agree that the Philippines — along with Taiwan and Singapore—was not as hard hit by the Asian crisis as others. The non-performing loans of the Philippine banks, for example, were nothing compared to those in Indonesia, Malaysia, Thailand, and South Korea. Thus, when the recovery emerged in the region, many were disappointed when the Philippines' own turned out to be mild.

In the aftermath of Edsa, the reasons have become quite clear. The reasons pertain to governance — that governance was not consistent and orderly, that actions did not match rhetoric, that public favor or largesse flowed not to the poor and helpless but rather to the powerful and influential. That was the wrong way to confront the challenges of the 21st century. We cannot raise the quality of life of our citizens if we do not reject plunderous governance.

2. Our macroeconomic priorities

We are committed to addressing the social and economic challenges of our country. And let me now therefore spell out our administration's policy directions for the immediate and distant future, starting with our fiscal policy choices. We are committed to balancing the financial position of the public sector by the year 2004. At the center of these efforts is the reduction of the budget deficit of the National Government to 3.8 percent of GNP this year from four percent last year. In two years of large deficit spending, the past administration has left government finances in a precarious state. When the government borrows from the public to finance its deficit, it absorbs funds that otherwise should have gone to private investments.

This is not sustainable. It is private investment in plant and equipment that raises productivity and creates jobs. In pursuit of the goal of a balanced budget, I have issued an executive order that mandates spending cuts in government. Luxury vehicles are the first to go. In addition, I have ordered the review of major capital projects of government agencies. The past administration left another unwanted legacy. Government projects assisted by official development assistance were poorly implemented. The disbursement rates sunk to new lows, tying up scarce budgetary funds that could have been released for other valuable uses. We will correct this situation with the ongoing review by inter-agency committees of the National Economic Development Authority (NEDA) Board, in which I am the Chairman.

On the revenue side, we are starting with improving the tax collection machinery of the government — the Bureau of Internal Revenue (BIR) and the Bureau of Customs. The current state of our tax administration needs fixing. Potential tax revenues are not being realized. Instead, we see the small fixed-income earners carrying a disproportionate share of the burden of taxation. We also need a comprehensive review of our tax system, including special fiscal incentives. Studies indicate a sizable amount of taxes being foregone as a result of tax breaks, tax holidays and exemptions from customs duties. This foregone revenue must be capped and reduced over time. Only by correcting the deficiencies in our tax system can we make adequate investments in infrastructure like roads, bridges, schools and hospitals, which are all supportive of private production and consumption.

In the near term, the most effective way of addressing the needs of our disadvantaged Filipinos is through the tax and spending policies of the government. In this regard, we will be prudent stewards of public funds by obtaining a peso worth of results for every peso that is spent. We will not use fiscal policy for short-term pump priming measures. We will use it to protect our core values. To name a few, these are in information and communications technology, skills intensive service industries like tourism, safety nets for sectors affected by globalization, safeguards for our environment, agricultural modernization, and land reform. In short, our budget deficit program will be a responsible one. As we try to balance the budget, we will protect our fundamental priorities. We will resist shortsighted solutions that impair our long-term goals of growth with equity. I am asking you to support our budget deficit program, fellow economists. With this, interest rates will decline. This is already happening as seen in the recent behavior of Treasury Bill rates. Such decline will unleash forces in the private sector for increased investment, which ignites productivity improvements. In consequence, income and employment will grow.

As for monetary policy, we respect the independence of the Central Bank. We will not compromise the Central Bank's efforts to reduce interest rates and exchange-rate volatility. We will support the Central Bank's efforts by not allowing large deficits in the government budget to persist. We will also assist the Central Bank in securing efficient financial intermediation. We must get out of the watch list of money laundering countries as soon as possible. We can do this by ensuring the passage of amendments to the Central Bank Act and the General Banking Act. With strong banks and a developed capital market, we can expect new savings

instruments to emerge. Families are encouraged to raise their savings, enabling enterprises to infuse more funds in their investment projects.

3. Promoting broad-based growth

The best means for reducing poverty and providing safety nets for sectors affected by globalization is through investment in education and training. To begin with, we will invest in increasing the quality of basic education, especially in science and mathematics. But what we learn in the lower grades is not enough. Rapid technological change and globalization compel us to prepare workers for the long term through lifelong education and training. As we do so, we must equalize access and expand the opportunities of the poor to acquire the kind of education they want. We have piloted early childhood development so that children from poor families are not disadvantaged when they enter first grade-level. We will find the means so that these pilot projects can be expanded and, eventually, implemented on a national scale. As for higher education, this must be led by the private sector. Instead of government subsidies, which shall remain modest, we must start thinking in terms of educational loan programs so that entry into colleges and universities is not determined solely by family incomes.

We will seek increased government support for research and development and science and technology. Our current level of growth and development is the result of past technological choices. Technological developments have not been actively pursued. Our administration intends to correct this. As a starter, I formed a cabinet cluster on information and communications technology. This, I believe, will help spur public and private investments in advanced technology. It is advanced technology, especially information and communications technology that will create the high-wage jobs of the future and raise the quality of life of every Filipino. Productivity rises with technological progress; this will be a boon to our exports.

To sustain export growth, we will be firm in our support for international trade based on fair and predictable rules. We will continue to take advantage of existing and emerging regional trading arrangements to achieve our goals of export diversification and opening new market destinations for Filipino exporters. The value added from our manufactured exports must increase and we should reduce our heavy dependence on a few country destinations. Through trade reform, our micro-enterprises and small and medium enterprises will be able to purchase least-cost capital equipment, raw materials and components that are available in the world markets. This will bring us nearer to full employment since SMEs have immense potentials for job generation. All these efforts are meant to promote economic and social security. But we must do more, specifically with regards to our systems of social protection and health and medical insurance. The vision of universal coverage remains. In this regard, we will assist households raise their savings so that they can share in the cost of expanding the coverage and benefits from these social protection schemes.

4. Alleviating poverty

One way to increase household savings is to help families, especially the poor, exercise responsible parenthood that is consistent with our cultural and religious values. We must equip poor couples with the means to provide their children with the education and health needed in order to be productive. If this is not done, poverty will continue to be transmitted across generations. Moreover, we will carry out targeted poverty alleviation programs as safety nets. We will pursue food security for the poor, and as our budget resources improve, we will be able to provide temporary subsidies to some of their non-food basic needs. As we do so, we will open up the opportunities for the poor to acquire employable skills and carry out livelihood activities. This is meant to reduce their dependence on government subsidies and ultimately make them responsible for their own well-being. Furthermore, we will pursue sustainable development anchored on sound natural resource management and the provision of safeguards for our environment. We will make sure that the standards of living of unborn unrepresented generations are not diminished by the financial requirements of mending a damaged environment.

5. Forging effective partnerships

These commitments demand a new kind of governance. A highly centralized government, which acts as the provider of all goods and services, is no longer appropriate. We will forge new partnerships with the local governments and organizations outside the government. We are committed to the full flowering of decentralization and devolution. Local governments are in most instances well positioned to respond to the diverse needs of their constituents. We shall also seek the support of civil society in monitoring the implementation of government projects. Meanwhile, private businesses guided by the price system are capable of providing the many goods and services that individuals and families demand.

We are conscious of the fact that private enterprise lies at the heart of all modern economies. But the national government will be there to regulate and protect consumer interest when competition by small firms is not viable. For example, this is true in the electric and water utilities. We will cut bureaucratic red tape and engage in market-friendly regulation. But we also expect private concessionaires to heed their contractual obligations and not throw unreasonable demands at the government. In addition, we will strengthen the legal, judicial and administrative system to minimize corruption and ensure contractual performance.

Peace and order is a responsibility of the government — it is a public good. Development will not take root if this public good is not delivered. I have thus called for the reconstruction of the peace process with the Moro International Liberation Front (MILF) and the National Democratic Front (NDF), and I have ordered a suspension of offensive military operations in Mindanao and Southern Tagalog so

that peace talks can proceed. Since the guns are silent in Mindanao and Southern Tagalog, I have asked the military to mobilize their assets instead to help the Philippine National Police (PNP) in the war against crime. We are fortunate that our people as a whole are now more enlightened, that we have a broader middle class, and that People Power II provided fertile ground for the development of national consensus — a national consensus that we have to be more socially progressive to keep pace with the rest of the world. Thus, I remain hopeful that this time around we finally have the right conditions in place to win the struggle against poverty, if we work at it as a united, unified nation. In this connection, I enjoin all economists, all members of the Philippine Economic Society, to be a part of this task of nation-building. This moment presents us with great responsibilities as well as great possibilities that must not be squandered.

Since we took office, we have seen positive movements in the stock, foreign exchange and treasury bill markets. Interest rates are declining. The peso is stabilizing. The inflation rate is slowing down. Moreover, the Supreme Court has ruled in my favor on the legitimacy of my assumption to the Presidency, thus, promoting political stability. These developments benefit us all. Therefore, I ask you to support our twin strategies of market reliance and good governance, starting with our austerity measures. The private sector's compliance with tax obligations would be a good start on the part of the private sector. If we continue to save and invest for the future, we will be rewarded with expanding economic and social opportunities and continuous improvements in the quality of our lives. Filipinos have stood up against dictatorship and against immorality in government. Let us continue to do this.