

The Economist in Government: A Reflective Commentary

*Gerardo P. Sicat**

My assignment is to speak on economists in government. I will discuss this subject without structure but in a general vein. There is so much to say.

The economics profession is prominent in the government. This was not always the case. Many of us who had been around for a long time will testify that in the past, the economist was essentially—to use figures of speech in musical terms—second, if not minor, fiddle.

Today, the economist is more likely to play, second, if not first fiddle, if by first fiddle, we mean, as head of a department or agency of the government.

This is a great advance. Moreover, in view of the globalization of the world economy, economists in high government positions are also being turned into negotiators and are displacing some diplomats.

One of the interesting developments of our times is the emergence of the economist as a relevant player in national development. This development began outside our country, and as is often the fashion, our leaders followed a practice introduced in other countries.

The public prominence of the economist in the exalted position of first fiddle, or chief major second fiddle, has been accompanied by the growth in the number of positions in government that are exclusively designed for staff with basic training in economics. “Staff economist” is a major item found in many government offices, especially when the agency or office concerned is linked with major policy-making that has an impact on economic activities.

Where are the economists in the government today?

How can we be assured of more productive work from economists in government? What areas of concern should those in a position to play an important institu-

* The author returned as Professor of Economics to the U.P. School of Economics in 1998 after almost fourteen years of work on international economic development issues. This article is based on a talk before the Philippine Economic Society meeting on February 23, 2000, at the Shangri-La Hotel EDSA, in Ortigas, Rizal, Philippines. In view of the nature of this topic, it is well to note a few career points concerning the author. He started his career at the U.P. upon graduation in 1957, as a researcher in public administration. He began his career in the faculty of Economics in 1958. From 1959-1963, he studied on a UP-sponsored Rockefeller scholarship and received in 1963 his Ph.D. in Economics at MIT, Cambridge, Mass. U.S.A. From 1970-1972, he held a Cabinet post as Chairman of the National Economic Council, the economic planning office of the Republic. He organized the National Economic and Development Authority, the successor to the NEC in 1972. He served as its first Director-General and Minister of Economic Planning until 1981. He was Chairman of the Philippine National Bank from 1981-1984. From 1985 until his retirement in 1997, he worked at the World Bank, in Washington D.C. He is currently busy working on the revision of his book, *Economics*,

tional and developmental role emphasize so that they leave a legacy that is enduring?

How useful are economic technocrats in development? How important is their work compared to that of national leaders, or of the government administration? What is their place in successful economic reform and in nation building?

What are the ingredients for a sound economic policy menu in the context of our future development as a nation? I propose a few guidelines for policy making in order to improve the final product of economists in their work of helping to shape national development policy and project implementation.

1. Economic technocrats in nation building

The hiring of economic technicians in the government since the 1960s is part of a worldwide shift of opinion to put specialists in more direct roles in government decision-making. Sometimes labeled as technocrats, these technicians carry the reputation of their calling to their work in government.

Have they made a big difference in the determining the outcomes of economic development effort? As economists, when confronted with a difficult question, we say, "It depends." Truly, an answer in this case is that indeed, it depends.

Successful economic performance depends on a number of factors. Three things account for good economic results: leadership, good policies, and responsive bureaucracy. Of these three factors, leadership is the key. It is the fundamental reason for successful outcomes. The best leaders often also create good policies. However, good (or even just improving) policies can fail in situations when the leadership is either without direction or incompetent or when leaders have little legitimacy or have no credibility. In spite of this, good, inspiring leadership can improve perceptions enormously even when policies are very imperfect. Good leaders create the perception that good things will happen in time. So good leadership creates a psychology of prosperous expectations.

On the other hand, inadequate leaders or leaders with poor credibility create a psychology of doom. Although all leaders would be tested through a sieve of booms and dooms, eventually, the leaders with poor credibility end up as harbingers of their country's doom and gloom. Because it is so important, I will deal with this issue more fully in an extended version of this paper in the future.

Leadership, a non-economic factor, is critical to good economic performance. Good policies – the product of good economic debate, analysis, and policy formation – are not enough to produce good outcomes. All of these are necessary conditions for good economic performance. Because good leadership often times can combine all of these elements – a kind of Schumpeterian entrepreneurial role to produce an innovating and highly productive economy – it is the only unique factor that can become both a necessary and sufficient condition to successful outcomes.

Lee Kuan Yew succeeded in this immensely in Singapore. And it seems that Mahathir despite his more controversial nature of late, is doing this in his country as well. Outside

of their countries, both leaders are considered very cerebral, determined, and sometimes, ruthless, but they have done the political role of consolidating economic reforms with an increasingly performing bureaucracy. Park Chung-hee produced this kind of miracle earlier in Korea. These leaders produced an ethos in government that seeped down from top to bottom. In Hongkong, it was the British colonial office that really made policies very market-oriented. The difficult structural reforms recently in South Korea are the handiwork of strong support given to structural adjustments by its current president, Kim Dae-jung. In Taiwan, the leadership of the Kuomintang party carried out the ideology of economic survival that produced the results for Taiwan's economic miracle.

In the exercise of leadership, the greatest degree of interest is often in the sector agencies where specific contracts and projects of the government are undertaken. Here, the classic problem is determining the choice of project suppliers and the choice of contractors and their financiers. The technocratic framework is oftentimes utilized to improve the processes by which the project cycle is implemented to make the decision process transparent and above board, to introduce competitive bidding whenever possible, and to introduce very strict standards of project reviews. Whenever large projects involve the support of the major international development institutions, which require international public bidding, the results of project implementation tend to have very good outcomes. When the practices advocated by open and verifiable processes are not respected, the selection processes become less clear. At that juncture, the exercise of political power becomes very selective and possibly open to secret negotiations. That is when the quality of the leadership is tested.

In Indonesia, the sound economic technocracy supervised by the so-called Berkeley mafia was able to contain for almost thirty years, the damage done for almost thirty years by a faulty system of contract awards in the government. When the dam of protest burst against the government, following the economic debacle of 1997-1998, even the good work of the economic technocracy for a long period was also shunted from the public mind.

2. What should constrain economic policies for our country?

I have a checklist that spells out the boundaries of economic policies in order to make them sound and appropriate for our nation. This checklist will guide us towards a competitive and strong economy. It will promote an economy that is technically efficient. In my thinking, this is efficiency over time, so that we can be free of such debates as to whether there is a case for infant industry protection. Indeed, in very few cases, protection could be justified.

Here is my list:

- Policies should be anchored on the globalization paradigm.
- Domestic policies should take advantage of the ever-widening market that is ASEAN.
- Markets and the price mechanism should be made to work and not contradicted.

National economic management should be prudent to promote stability of the fiscal and balance of payments accounts.

I suggest this list in a normative, or ought to, context. The list sums up my experience and my thoughts on what constitutes sound economic policy for our country in the years ahead.

2.1 The globalization paradigm

The Philippines is part of a global economy. The opportunities for progress are rooted in the acceptance of the world global trading system.

It took more than five decades before the international community could succeed in establishing an organization that set the rules of world trade through the World Trade Organization (WTO). It is better to live in a world of rules rather than one of chaos.

That the world trade body was a compromise agreement of more than two hundred countries satisfies no single country completely. This is true even among the biggest trading powers. The WTO not only provides a framework for the rules of international trade, it prescribes a conflict resolution process that should enable the world trading system to interpret and implement its trading rules. Many countries pursue trade practices that are controversial and are considered inimical to the interests of other countries. Those practices can now be singled out by the aggrieved parties and argued out before a tribunal that is empowered to decide if these practices conform with the rules.

Some of the big battles over protectionism and trade barriers between trading powers are now being fought in that tribunal. What is interesting is that most of the issues that are contested in the WTO are significant to all countries. Yet the primary protagonists are in fact mainly the US, Japan, or Europe, not the small countries against the rich. The settlements of these grand issues in trade will benefit the small countries like us.

2.2 Domestic policies and the ASEAN market

The ASEAN Free Trade Agreement (AFTA) is almost here. There is little time for further vacillation. Philippine industries need to be ready for competition. Investment trade, and domestic policies need to be geared towards expanding market competition. If our industries are to survive in this region, they should do well in international trade for it is in ASEAN and in the Pacific region where the toughest trading nations are located. Government economists have to face the challenge of speeding up economic liberalization, not slowing it down.

Over many years, our country failed to take full advantage of the opportunities offered by international trade. Economic policies rooted in past measures of controls, misguided nationalism, and other kinds of policies nurtured the protectionist mentality that has warped the nation's capacity for economic development. As a result, our country has become the worst performer in growth and trade until only recently, when we discovered that through the electronics industry, our country could become a power-

use in industrial exports. The overall tone of policy has changed immensely for the better. Yet, there is a continuing lobby to slow down economic liberalization that continues to bedevil government policy-makers.

.3 Employing the market mechanism to help in allocation

Making our laws and regulations simple and market friendly will allow the use of the price system to guide the activities of our enterprises. Almost all the successful countries in the Asian region – even most of the policies that contain a strong accent of government interventions in economic activity – have utilized the price mechanism to guide most of their economies. Our country fell markedly behind our neighbors¹ in economic growth because of the tendency to intervene in the market far too often and too deeply. Reliance on the market is one of the costless ways of levelling the playing field for all economic participants – to all investors and competitors.

Interventions in the market are a common feature of the very complicated laws and regulations that our government has the habit of sponsoring to define human and economic behavior. There is, of course, room for regulations especially in the financial sector to create a prudent and reliable system. However, more often, the complicated laws and regulations that are crafted in industry and commerce and even in common social relations provide only additional opportunities for lawyers to unravel and serve more clients. Worse, they are also the source of incomes for dishonest public officials, and they restrain the creation of productive jobs in the labor market.

Take the case of our Constitution. It is very complex. It needs simplification. It needs to straighten and lay bare what can be permitted. Yet it is full of “don’ts and don’t-through-this- and-that-way-only.” This is the reason why I am fully in favor of that clamor to amend the economic provisions of the Constitution. Although, I think that, given the problems that the government has now, that issue will have to be postponed for the future.

Many of the laws that countermand the price mechanism require our public officials to waste their valuable time on hard work without reward. Instead, they should, be made to deal with problems that help the nation prosper.²

¹ I have elaborated on this point, and on issues about protectionism and on social amelioration policies, in G. P. Sicat, *Fallacies and Myths in Economic Policy Making*, Public Policy, July-Sept. 1999, vol. III, no. 3, pp.17-34

² As an example, I cite an incident that happened just a few months after the height of the energy crisis in the early 1970s. After the four-fold price increases in energy, the basic prices of consumer staples were put under stringent price controls. The price controls were supposed to last only for a short, transitional period. That they lasted over the years is another story to tell. The dynamics of price controls was such that if prices were too low, the goods disappeared from the market, but if the government allowed price adjustments, the government people became the villain. In such a role, I became a referee between Arturo (Bong) Tanco, Jr. (then Secretary of Agriculture), and Troadio (Teddy) Quiazon, Jr. (then Trade Secretary). As NEDA Director General, I presided over an executive session of the Price Control Council. After almost two hours of fruitless and exhausting debate, with the hour ticking towards eight in the evening and all of us hungry, there was no significant outcome. Tempers rose and suddenly the two officials stood almost nose-to-nose and were almost coming to blows. Bong had proposed an increase of milk prices to improve the miserable position of the milk manufacturers. Teddy questioned the basis of the calculations. Fortunately, the stentorian voice of Bong could not have powered a punch, and the overweight Teddy could not have delivered a knockout blow either. Needless to say, the world was better off that night only in the sense that I became a successful non-boxing referee, for fight night was cancelled. We had to postpone the price adjustment recommendation just a few days more after that.

Lack of reliance on the price allocation mechanism gives many sectors of the economy a false sense of comfort. When payback time comes for the support of subsidies and of resource mis-allocations, a macroeconomic bust would likely come and the whole nation is shackled back into inflation, and the shock of income falls. The very poor in our society are, therefore, further brought down into the new depths of poverty that they are trying to get out of.

Luckily, it seems that our government has learned the lessons of the past booms and busts. Or has it? The oil industry deregulation has now been with us after years of trying to get rid of the miseries that controlled oil prices brought upon our nation. Just when I thought that the issue of oil industry regulation was way behind us and that we are already entering a new phase of oil industry competition, new bright ideas are afoot to establish an oil exchange. This would redirect new demand for the government to provide facilities, to build infrastructure, to stock up oil, and to be engaged in some form of oil trade regulation. I think that the prudent way to proceed is to assure the oil companies that they should expand here, and to make sure that the companies are competitors and not a cartel. That is all it would take, rather than new interventions.

Although I may not be happy with individual market solutions for all the problems that we face, it is the most economical way by which we can achieve success. Let me then just state two axioms on this front.

- The market mechanism encourages winners to emerge and to make winners come forward.
- Protectionism, subsidies, and other kinds of special accommodations to special groups encourage a behavior of dependence and patronage.

The alternative to the market mechanism is excessive calculations and review of proposals to pick winners. How is this done traditionally, however? How have we tried to pick winners? The methods used by bureaucrats or project proponents begin by analyzing the resource base, the market base, the choice of technology, and the market feasibility, etc. Then, the proposal searches for specific types of incentives provided by the government, including determining some types of infrastructure support, special subsidized credits, and tariff protection. Very often, the calculations of outcomes for project proposals are always optimistic. In short, it is often an exercise in finding the best of all possible worlds, an exercise in Panglossian optimism.

If policies are market-based, prices take care of signaling to project proponents what is profitable and what is not. Those who think they are winners come to you! Many of those who are dependent on patronage are partly weeded out of the price system. Thus, the less pain for government officials, who could work on more important issues. The high cost of supporting government machinery trying to analyze who the winners are, will disappear. Thus, markets function better in picking winners and weeding out the losers.

When I was in the government, I was always frustrated with the arguments laid out by others that removing protectionist barriers would kill Philippine industries and would fail to encourage exports. Economic liberalization of the last few years

has taught us that the economic liberalization program could help the country pick export winners faster. Therefore, it could help to pace a boom in industrial growth that we had not known before.

My examples have been lifted from the industrial sector, but here is one related to agriculture. If the government is to get its investments in irrigation infrastructure to pay for maintenance and upkeep, it should be able to collect the irrigation fees needed to sustain the systems that help farmers. However, farmers often believe politicians who say that paying their irrigation dues can be postponed and even condoned. That is the kind of problem faced by the National Irrigation Administration (NIA) in the irrigation systems that it built for the benefits of farmers, in this case, the Upper Pampanga River area. Not only do the farmers become dependent on state largesse. The NIA could be threatened with cash flow problems that could make them come begging again for additional capital from the government.

Thus, as demonstrated by our history, subsidies, and the psychology of dole-outs has encouraged a mentality of perpetual dependence on the government.

When I think in terms of making the market mechanism work, I am cautious enough to know that cases of market failure could happen. Fortunately, these do not happen too often, because most industries would have, not declining average costs, but rising costs. The cases of externalities could be dealt with by special policies, to which the government could devote specific attention.

2.4 Prudent national economic management

A prudent national economic management simply means watching out that government expenditures do not end up as large, unsustainable deficits. On the balance of payments side, it means that the country has the capacity to pay for current and capital import needs. So that if future import needs are large; the export earnings of the country are moving in the direction of affording them.

This is a large topic. It covers fiscal and balance of payments management, and I will skip any further elaboration, to enable me to dwell on other issues that I think require discussion.

But I cannot leave this topic without first making the point that I think the central bank has done a fine job of keeping the exchange rate within a range of volatility that truly keeps the peso from excessive appreciation. In the past, the mistake of policy was to encourage its appreciation by thinking that the peso nominal rate should look attractive to the common domestic shopper and the Filipino who wants to travel.

By keeping this current policy intact, the added costs to Philippine industries resulting in the hidden penalties of labor policies are somewhat fully compensated for. In addition, the country is able to continue attracting more industries in the export sector. This will be essential to sustain the export boom. If maintained in the future, the tendency to earn payments surpluses in the foreign trade account could become a habit. This is the path towards building confidence in our trade and industrial policies.

3. Who and where are the economists in government?

Early during the 1960s – the founding years of the Philippine Economic Society (PES) – I heard Armand Fabella, who was the first Society president, say that the PES was founded on three legs – the government sector, the private sector, and the academe. I think that over the years, the three legs have grown at different paces, so that today, if you tried to sit on this kind of chair, it will not hold you, for the legs are unequal.

There are two aspects regarding economists in the country: one aspect of numbers is scale; the other is balance in the distribution of the numbers. In terms of scale, there is no doubt that the chair has grown bigger. There are more economists. There are more economists in the academic sector, in government, and in the private sector.

The scale of the profession is a matter of interest to the Society. Today I have no actual numbers to state. Nevertheless, I am sure that there are many more Ph.D.s, M.A.s, and undergraduate degree holders in economics compared to years past. If the UP School of Economics is any indicator, there has been a steady stream of graduates in economics, and I presume that many of those graduates eventually take up lines of work related to economics. I think that the PES should conduct a population study of the number of economists in the country some time.

Other schools and universities have also been expanding their programs. In fact, it is fair to say that the manpower in economics, including business people with strong backgrounds in economics, has enlarged.

However, relative to other countries in the region, I am not sure if we have caught up with the rapid growth of the profession. The economies that prospered very well during the last few decades support far more economists than we do now. While I talk based on impressions, there seem to be more economists found in research institutes, financial institutions, central banks, and the private sector in these countries nowadays. Impressions are hardly a sound basis for making conclusions.

I recently visited South Korea, and I was surprised to find that in the government alone, there are fourteen research institutes where economists are employed. The oldest of these, the Korea Development Institute has 39 research economists with Ph.D. degrees listed in its information brochure. The Korea Institute for Economic Policy, a younger institution with a more limited mandate, has around 29 Ph.D.s in their brochure. Most of these are foreign educated Ph.D.s. A side-point that I want to make is that when these Ph.D.s. produce their own made-in-Korea Ph.D.s and M.A.s as they are doing now, we can imagine how their supply of economists will be in the future.

Perhaps one measure of progress in many countries, aside from counting engineers and scientists, is to count the economists. This could be a useful proxy statistic

for many things that are happening. The institutions depending on the contributions of economists in various countries have been strengthened immensely.

Therefore, while it seems that the number of economists in our country has increased, the growth in the number of high caliber professional economists has been outpaced by some Asian neighbors that were behind us in many ways just a few decades back.

That some of these countries have succeeded in building stronger economies than our own is well known. But, have they invested more in the education of more economists? Have our institutions produced more economists from our own graduate schools? Moreover, what is the condition of the graduate schools educating our economists? These are very relevant questions especially for the Philippine Economic Society.

Over the years the UP School of Economics has continued its graduate offerings of a full-time M.A. and Ph.D., level education. The economics departments of other colleges and universities have gradually improved the number of their faculty. Ateneo, La Salle, and the Center for Research and Communication (CRC), now the University of Asia and the Pacific, have concentrated on producing business students with a strong bent on economics. Other units of the UP System have also begun offering economics as a course, and so have the other large private universities. The growth of specialist education in economics beyond the undergraduate level has to be strengthened within the country.

4. Where are the economists in the government?

By the nature of its mandate, many of the economists in the government service are in the planning agency, the National Economic and Development Authority (NEDA), and its regional staff. There are also government economists serving in the front offices of major policy and operational agencies, such as the Departments of Finance and the Budget Department. The three agencies can be considered the planning-finance nexus of government planners. The Board of Investments (BOI) constitutes another part of the operations end of the government with a good complement of economists.

I refer to the economists who are members of the staff of the above agencies and institutions. Occasionally, an economist takes on the high responsibility of department secretary, NEDA Director-General, deputy secretary, and so on. In fact, all NEDA director-generals had been economists from the academic sector, before they joined, and that began when I accepted the post. The precursor agencies to the NEDA were headed by economists as well with stronger links from the business sector. I can name quite a few distinguished names that line up that field: Sixto Roxas III, Armand Fabella, Cesar Virata (even though he started out at U.P.), Placido Mapa, Jr., among others.

The major agencies and financial institutions have their requirements of economists. A premier user of economists is the *Bangko Sentral ng Pilipinas* (BSP) because the nature of credit, money, and debt management policy is critically economic. The government financial agencies, like the *Philippine National Bank* (PNB), *Development Bank of the Philippines* (DBP), *Land Bank*, and the two pension funds, *Social Security System* (SSS) and the *Government Service Insurance System* (GSIS), are major users of the services of economists, although their use is probably more in the operational areas of bank work.

The sector agencies, including the regulatory agencies and departments of the government have economists in their plantilla. Often these economists are found mainly in the planning offices of these departments and agencies, in the front offices, which are think tanks of the department heads. This kind of structure has a rationale. In fact, at the time when the NEDA organization was put together during the early 1970s, I stressed the need for technical economists to man these types of plantilla. They were to help provide for core support of the planning structure within the national government that was built around the NEDA. The chief of the government reorganization office, Armand Fabella, was a key supporter of that idea, taking his own past experience within the planning network in the government.

I suspect that the economic work in the government will not change much. There are routinary reports to be made on the status of program and projects. There are issues related to the follow-up of progress with respect to national policies. Some technical units of the government have to do much more analysis of proposed projects and a reevaluation of existing ones. Others are reviewing the technical nature of submissions to the government by the private sector. In these, good technical people are needed, not routinary clerks who attach their signature on paper for endorsement to the next higher officer or to other officers. In fact, some project reviews, if they are to be done competently, would require inter-agency debates.

The various inter-agency committees of the government are the workhorses for much of the economic work of the government. When we talk of policy coordination, the inter-agency committee work is very significant. Weak staff means weak follow-through and weaker feedback to the heads of critical agencies. Strong staff at the level of these committees means that the agency owning that staff will eventually be exerting a major influence on the outcome of an inter-agency study or recommendation.

The issue that concerns me most is how the economic work of the government has proceeded over the years. It has been quite a number of years since I have been absent from the scene. I come back after almost fourteen years away from the country, almost like Rip van Winkle who awoke to see a different world.

Is it really different? Has the quality of staff work improved, or has it remained the same? I have my own impressions on this, and a strong one that keeps coming back is that there had been some kind of post-EDSA trauma in the nature of staff work. This might have been caused by the departure of critical staff who were reaching a level of maturity at the point in time when changes in the civil service employment

had caused a major realignment in the staff agencies. Younger staff has of course taken over those vacancies in due time.

More important, however, is the problem of salary standardization that has gripped the entire government machinery. Salary standardization is good, if qualified staff are properly compensated. No problem arises so long as critical staff are able to keep within their expectations as family breadwinners. Otherwise, the post of economist in some offices will be viewed as a temporary posting for the very talented, who could command a good price in the open market.

When the National Economic Council (NEC)—one of the two precursor agencies of the present NEDA—was created in 1956 after a major reorganization of the economic planning agencies, the NEC staff were well paid, happy and acutely tuned to their mandates. Within a few years of inflation, and then reversion to salary standards in the government, key departures hurt the overall performance of that institution. In due time, it was eclipsed within the planning machinery.

An important point that I want to stress, therefore, is that salary standardization has a way of creating a least or lowest common denominator of standards. Unless salaries are adjusted to catch up with the scarcities of the human resources in question, the quality of economic work will move to the levels that are warranted by the salary standards.³

5. Improving economic work in the government

The last part of this talk is on how we can guarantee that economic work in the government will improve.

Economic data. The improvement of government economic work depends, of course, on the nature of that work. Much of the work of economists depends on the way the economy, or some sectors of it, evolves. Recently, while combing through an issue of the *Business World*, I was surprised to see a debate between Solita Monsod and Felipe Medalla, Jr., one a former and the other the current NEDA Director-General, on national income data estimates.

This happens to be one of my favorite topics for encouraging continuing efforts at improving the many components of national income measurement. As an academic, I

³ This question could be asked in another context with respect to the weak science and technology bureaucracy in the government. Why is it that the science and technology sector in the government has failed to make an impact on the development of science and technology? In part, it is due to the inadequate interaction of industry and science, which reflects the underdevelopment of innovative industry in the country. However, the more likely reason is that salary standardization has reduced the science and technology department into a mere administrative agency concerned with routine issues rather than a source of scientific innovation. A big reason for this is that the department of science and technology, quite aside from attracting a few heads of divisions who are scientists, cannot really afford to hire promising scientific talent with the salary rates it is allowed to offer. They are also hampered by government regulations on audit of expenditures.

once incurred the ire of the head of the national income accounts office for criticizing the estimates of national income. That debate was quite fortunate. For when I assumed the office of chairman of the National Economic Council in 1970, one of the priorities that I worked on was to make the national income estimation techniques public and to place high priority on the construction of improved estimates.

Today, Philippine national income estimates are quite extensive. The estimates are made in timely releases. Few countries publish them in the same depth, quantity, and frequency. They are also widely open to the discussion of estimation techniques. My own assessment of the situation is that some areas of the estimates could be subjected to major methodological improvements. I say this to encourage further our outstanding national income statisticians for their hard work, with good results, over the years.

The needed effort is not to prepare new estimates, but to keep alert to changing economic structure as this affects the position of firms with respect to the composition of statistical indexes. The yeoman's effort is, therefore, first related to the improvement of the initial sources of data, which could be traced to new information from surveys and from censuses. Towards this end, there is a great need to study more carefully the production and the input indexes for major series, especially those on industrial production and on labor employment.

After these are satisfactorily resolved, then there could be major improvements in the estimates of production among the sectors in the national income accounts. I suspect that there has been a tremendous shift in output composition in the industrial sector, because some firms die, and some sell off assets, while new, stronger firms, might not be captured by the existing survey samples. I suspect that a major rebasing of those indexes would help to give a better picture of the economy, for instance, in the industrial sector. The old, protected establishments that were borne of the era of industrial protection might be weighing down a number of sectors. These are also the industries whose labor productivity has not been rising and so are giving a bad picture of labor productivity growth in the country.

Other than this, I would like to congratulate the statistical system for producing a wide set of publicly available data on various aspects of the economy. Years ago, I required the system to put out a yearbook. I am happy to say that the statistical yearbook project still exists and is now more comprehensive. There is also a very useful CD-ROM version available.

In addition to this development, there is a recent input-output table, which is likely to be very useful in structural studies of the economy.

6. Research and institution building

I have been a staunch believer that research not only helps to produce good economists. Team research often helps to cement various talents on important issues. Eventually, that process produces an important pay-off for the nation, because

the same group of people will be harnessed to deal with major economic issues in the government and in the private sector. They will improve policy-making decisions.

I was quite aware of these types of externalities when I decided to funnel resources (minimal by many standards) on various teams of economists to examine connected issues that were helpful towards improving methodology and data efforts during my time at the NEC and at NEDA. I had already adverted to the topic of improving national income data estimation, in which not only the statistical machinery was involved, but teams of economists, working on various aspects of the national income accounts methodology during the early 1970s.

There was a time when I was able to harness the talents of Dr. Jose Encarnacion, Jr. to organize a team to develop an econometric planning model for the economy, which we needed for undertaking the macroeconomic consistency framework of the national development plan. Soon, much of the intellectual talent of the UP School of Economics and its graduate students were focused on developing various aspects of the econometric model.

One of the most important projects then was the work that I asked Romeo Bautista to lead with John Power as consultant, to review the industrial development issues for the Philippine economy. In my view, this important work played a great role in substantiating what to me had been an obvious problem in the country: the misallocation of resources in the country arising from protectionist policies. The findings, together with the train of graduate students that worked on this issue, have provided a major force in turning the debate around the inefficiency of protection as a model of growth for the country.

There were other undertakings for which we made sure Filipino economists were not marginalized participants in a team effort. When the so-called International Labour Organisation (ILO) Report on Comprehensive Employment Strategy was organized by Gustav Ranis of Yale University, we made sure that a few Filipino economists were members of the team.

7. The Philippine Institute for Development Studies (PIDS)

The crowning effort for the establishment of institutions to help the country improve its research capability on long-term issues was the creation of the PIDS. The task I had in mind was akin to an institute that was not to serve NEDA's operational work – for that NEDA and the government had a full staff that could deal with day-to-day issues. PIDS in my view has become a major resource for the government in linking research priorities to the concerns of many research institutions in the country. Through a loose institutional network, research activities are grouped together for collaborative effort. Many research undertakings are harnessed in this way and the government finds possible uses for these undertakings at the appropriate time.

This is also one of the unique places where there is a place for Ph.Ds. in economics to find genuine research employment. The number of fellows in this research

institute has peaked for budgetary reasons, but it is still far below what could be achievable if only the government paid more attention towards providing institutional and financial support for these research institutions. As I indicated earlier, I recently visited South Korea and discovered that their research think tanks have flourished into several institutes with special mandates, at the same time that their Korea Development Institute has continued to serve its mandate of providing research useful for the preparation of government development plans.

In time, the research activities of the fellows of PIDS have found their uses with various end-users in the government, even helping, in some cases, the legislative efforts of Congress.

8. Where the Central Bank has missed out

I would like to record at this point my disappointment that one institution that could have been a catalyst for research in macroeconomics and financial issues has chosen to become mainly an operational institution. This is quite a loss for the country, because the Central Bank has the resources, the mandate, and the special location to stimulate relevant research on critical issues affecting macroeconomic and financial management.

The central bank does have a department of economic research. However, that department as it developed over the years has remained mainly a branch of operations work supporting the governor in his work. The department as I had known it in the past was essentially a support staff for the preparation of short-run, memo-writing and think tank for the governor. Of course, the department is the lead agency for contacts with the International Monetary Fund (IMF) and other external development institutions. (I was a member of the Monetary Board from 1973 to 1981, so that I can claim to some inside knowledge.) One of its main tasks is to put out the annual report on the economy. Over the years, that has become a boiler-plate annual report. Of course, too, the statistical data generated by the banking system are published by the Central Bank.

When I worked at the World Bank, I could access all the data that the Central Bank submitted as part of its statistical reporting to the International Monetary Fund for the IMF's publicly available electronic versions of their international financial statistics. (I do not refer to more confidential data exchange regarding monitoring and surveillance issues tied up with the policy dialogue.) I know that many Philippine academics find it difficult to find the same data as easily in their own country. If there were a greater research tradition in the central bank, there would be less touchiness to the question of data with other research professionals. That kind of problem has strengthened the tradition of data secrecy, etc. without which, perhaps there could have been a more fruitful exchange on issues around exchange rate policy and financial development issues.

The Central Bank had its first fifty years of history pass us by. However, by default, it had chosen not to develop a think tank of high caliber research professionals.⁴ It has a good battery of economists and central bankers on the operational side, who would occasionally write a short study piece on a given topic.

Perhaps, my own perception concerning research and institution building is that I see a very strong synergy between operations and research. If you put an ounce of research into most operational issues, the likelihood that better operations results from that research is high. Therefore, I am probably much more optimistic than most people. For in my lifetime career, I have met quite a few people with very opposing ideas on this issue. This is true wherever I have been – at the UP, at the planning ministry at NEC and NEDA, in government circles, even at the World Bank, an institution that probably is the largest generator of economic research in the world.

Anyway, my reasoned judgment is that an institution like the Central Bank – with its financial resources, needs in policy-making, and in fact, needs for working economists on its active staff – could be energized enormously by a force of high-caliber economic researchers. I have noted that in many central banks, a stable of Ph.D. economists almost always fill up a research division. Perhaps, we should look around the Asian region as model, if only to convince ourselves.

9. Training economists using our own resources

The intelligent use of training opportunities in the government has been highly distorted in favor of training in foreign lands. Yet, our local institutions do not get strong support in funding even through cost reimbursements. Nowadays, however, foreign training resources are available only in trickles. As in the past, they are grabbed quickly by agencies in the government. The training for economists and public administrators are most popular. The most famous of these are the one year training programs at Williams College, the Edward Mason program at the Kennedy School at Harvard, the Vanderbilt programs in earlier years. Other special programs had been available in a wide range of universities and centers. However, there had never been enough of these in any case, and they are very expensive.

The government should really support local training programs, partly as a means of saving resources for these programs are much cheaper and perhaps their direct relevance to the work of the officials could be higher. Although, local training programs do not add as much glamour as a foreign training visit.

I have always believed in training. Moreover, I am a great admirer of their cost effectiveness. For instance, when the Ph.D. program was initially introduced at the UP School of Economics, with the help of foreign funding from Ford and Rockefeller Foundations, the graduates were given an opportunity to undertake one-year post-

⁴ I say this with the added caveat that it had developed a good set of operational central bankers over the years, and that I have a very high regard for the abilities of Benito Legarda, Jr. and Mrs. Escolastica Bince. They served as the frontline officers of the research office.

graduate studies in some of the best economics departments in the world. I think that we added to the country's human capital immeasurably in that way, at lower expense, guaranteeing further that the expertise that we sent was not sucked up by the great vacuum cleaner that is the brain drain.

Of the few Ph.D.s in economics that we hired for the initial staff of the PIDS in the 1970s, I allocated one-year study fellowships for postgraduate studies. In this way, we were able to send staff to go to the best graduate schools in the US, and we even arranged short internships with the World Bank for some staff.

When the NEDA was organized, I introduced an unusual experiment in recruitment. I asked our personnel officer, with the help of a panel of distinguished persons to assure the best possible selection, to recruit directly from the best and most motivated graduates of undergraduate colleges in the country to join the NEDA. We actively searched the graduating classes for the best graduates, and offered those selected with a one full year of free study, with stipend and a guaranteed entry into the plantilla of NEDA. In this way, I reserved many slots in the plantilla for these recruits while at the same time I got them educated at the UP School of Economics program in development economics⁵. I was able to fill close to forty new professional recruits of highly motivated people into the government. I believe that that effort was one of the most cost effective scholarship programs in government, which resulted in the recruitment of very talented young technicians in the government.

Those were extraordinary days, and we bent some of the rules of government scholarships to achieve that kind of project. But the end result of those programs were these: we filled the training programs in development economics at the UP School of Economics⁵ for two full years with highly motivated young recruits into the government. And to this day, some government agencies are benefiting from the bright group of cadre brought into the government.

⁵ First introduced as a certificate program at the UP School of Economics in 1965, the Program in Development Economics (PDE) became a regular academic program leading to a Master in Development Economics (MDE) in 1995