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Development Dynamics in the Philippines
Historical Perspectives: 1950-2010

by

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Abstract

This paper attempts to explore the use of an OECD *Multi-Dimensional Country Review (MDCR)* framework in understanding the long-term development history of the Philippines. The MDCR recognizes the multiplicity of development objectives countries usually pursue and therefore the associated multiplicity of challenges and opportunities. Following a conventional dichotomy of explaining the country's development dynamics into economic and non-economic factors, the paper reviews the historical economic record and examines more recent non-economic hypotheses. While the latter is mostly political explanations it tries to link them to economic outcomes yet it is weak in tracing the mechanisms of the linkage despite using more rigorous methodologies. The paper then proceeds with hypothesizing that the long-term (political) behavior of breaking the country into finer geographical (and political) entities has been inimical to its sustainable long-term (economic) growth. The splitting of provinces, creation of new ones, of legislating more congressional districts, and further break-up of even the lowest government levels clearly fragment markets, raise real financial and transactions costs, bloat government budgets and the bureaucracy, and add burden to the private sector environment. Partial evidence is explored showing this behavior along the country's long-term development history and some policy directions are suggested.

JEL Code: O11, O15, O43, J68

Development Dynamics in the Philippines
Historical Perspectives: 1950-2010[1]

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I. Introduction and Summary

This paper attempts to explore the use of an OECD *Multi-Dimensional Country Review (MDCR)* framework in understanding the long-term development history of the Philippines. The MDCR recognizes the multiplicity of development objectives countries usually pursue and therefore the associated multiplicity of challenges and opportunities. In contrast however to conventional approaches that focus on specific sectors (e.g. macro-economy and monetary and fiscal policies; trade and exchange rate and border restrictions; capital markets and prudential policies; labor and employment policies), the MDCR acknowledges the existence and importance of cross-cutting *issues* and diagnoses binding constraints. While it is possible that the identified cross-cutting issues and binding constraints may miss the actual development bottlenecks confronting the country, the MDCR reflects the difficulties of any diagnosis. Or the real bottlenecks, following the MDCR, are politically rooted and require revolutionary reforms. Its applications, especially for countries which are tough to put a finger into, may provide insights into what otherwise would be conventionally addressed. Indeed the more recent publication of important studies on economic development (Acemoglu and Robinson 2012; Studwell 2013) has re-ignited the interest and debate on the explanation of long-term sustainable economic growth and its determinants. These studies refer to a number of countries as illustrations of uneven experiences and at the same time highlighting what seem to be critical elements behind them. These studies of course continue to see binding constraints through a limited focus. The Philippines is a good candidate for exploring the MDCR but also reflecting the inadequacy of more rigorous growth paradigms. Apart from this resurgence are the emerging concerns for growth inclusiveness, employment and job creation, and overall well-being as objectives of development.

As a backdrop to the use of MDCR, the paper examines the economic track of the Philippines from 1950 until contemporary times. Since there are numerous studies detailing the country's historical economic record, the next section assembles comparable data more as a reference point than particularly new information. What we reiterate is the mediocre economic achievement across all political regimes, irrespective of the international vagaries of good and bad times, in comparison with many of our neighbors in the region which we had bested before, and in sharp contrast to the seeming development path taken by many developing economies – even with recent adverse consequences. In addition to the usual tracking of per capita real income over time, we have assembled comparable long-term tracking of employment and unemployment, inequality indicator Gini coefficients, and some relative geographic distribution of economic indicators. While the story of the country's dismal economic performance in the long-term – although there are indeed periods of relative short-run prosperity – remains true, the newly assembled data we have are even more telling. The emergence of the Overseas Filipino Workers (OFW) in large numbers tends to distort what the figures reveal. While they are excluded from the count of the labor force, they are part of the household members in the population censuses (Rivera 2008). It may turn out that employment-population ratios rise and

[1] Kensuke Tanaka of OECD Development Centre suggested this framework and Sigrid Alegre provided needed research assistance.

unemployment rates fall but for different reasons. The series on unemployment rates show a persistent long-term increase even if we take into account the sharp fall due to definitional changes. The Gini coefficients for several decades indicate creeping inequality that is pernicious and difficult to reverse or even to see moderate levels that characterized the mid-eighties. The economic performance in terms of broad aggregates points to the country's long-term widening gap with Asian neighbors.

All these constitute the character of economic growth – a preference for inclusiveness meaning participatory, job creating, geographically dispersing, and equalizing, among others. This inclusiveness list is a tall order and the review of a number of long-term indicators suggests the inability of the Philippines to satisfy many of them. Extending the exercise to other relevant sectors also show some lack of inclusiveness. The section examines how uneven access to private financial resources is. The data reveal that more than a third of local government units (cities and municipalities) do not have full-service banks, less than 5 percent have non-bank financial institutions, and less than half with ATMs. Not surprisingly and reflecting the nature of the country's growth, there is a high access to remittance agents, pawnshops, and credit cooperatives.

In the third section we explore further the multi-dimensional nature of the country's economic growth track. We proceed along 3 streams. First, there is a vast literature hypothesizing different explanations why the Philippines has failed to achieve a sustained growth trajectory in its post-war record and offering implicitly differing solutions for a more inclusive growth. These range from an argument for combined state intervention, party institutionalization, and pragmatic policy and ideology to a sense of nationalism and culture. It is difficult to find an adequate handle for this stream which either calls for institutional development (for a country with weak institutions building another one), or a more rooted behavioral change. These however shed significant insights on the multi-dimensionality of economic growth. Second, several authors have related specific political variables to explain the country's dismal economic growth and find these to be significant in their equations. Thus, aside from being rigorous through the use of econometric models, these are numerically tractable and can deduce the variables' impacts on growth. Common across these is the hypothesis that political dynasty is an inhibitor of development where dynasty is measured as the proportion of provincial officials related to one another by blood or affinity in an election year. Variants of this include the number of positions taken by the largest dynasty within a local government unit. Dynasties are assumed to create barriers to entry for those aiming for elective positions and thus perpetuate families. General equilibrium models posit simultaneity of determination of political and economic variables. In explaining the variation of provincial level growth of per capita expenditures (proxy for poverty incidence) the dynasty index as indicator of political competitiveness exerts a significant negative effect. And the direct use of poverty headcount ratio growth rates turns out to be significantly explained by proportion of provincial officials related to each other. On the other hand, what explains political dynasties particularly expansion of the largest political families are poverty incidence and per capita incomes.

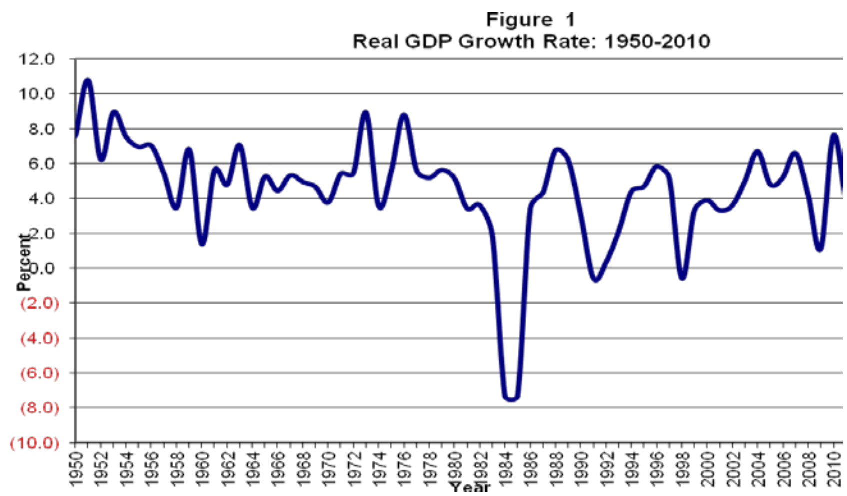
The final stream is a focus on how political variables influence poverty as a peculiar dimension of growth. A common hypothesis in relation to this focus is that limitations of candidates for elections reduce competition for political leadership and thus ability to carry out policies that alleviate poverty and increase per capita incomes. And the limitations come from entrenched family dynasties. Further extension of the hypothesis is the notion that poverty itself expands and exacerbates dynasties in the sense that the poor are vulnerable to patronage that in turn keeps families in political control. Thus dynasties explain poverty but poverty also explains dynasties. We argue in this section that although the dimensions of culture and ideology may be weak in providing specific ways in which these affect economic growth, the political dimensions equally suffer from weaknesses as well. For instance, one reason being given why political dynasties negatively affect poverty is a hypothesis that political parties do not really support policies that benefit the poor but introduce policies that entrench political dynasties. Without a clear evidence what those policies may be that preserve dynasties the hypothesis cannot be refuted. The same weakness can be said of the comparable thesis that lack of political competition leads to sub-optimal policies and poor economic performance. In other words, the mechanism by which these political variables work their way to outcomes in the economic landscape has to be more explicit than what has been done in the focus on political variables.

We further explore this by positing that dynastic families exert influence through legislation in cutting up their geographical boundaries into smaller spaces where additional family members become local government officials. This splitting of original provinces into sub-provinces, of creating new cities or municipalities, and of legislating more congressional districts is a way of dividing up "fiefdoms" to be politically shared within the family. This behavior, which has been pervasive in the country's history, reinforces other multi-dimensional behavior including a culture of shallow sense of affinity and thus of nation, limited ideology, and perpetuates a domestic colonial mentality. This also constrains a more robust economic structure from evolving that in turn continues the vicious cycle. As a consequence an integrated market fails to prosper, abetted by inadequate infrastructure, and economies of scale escape private sector businesses. There are manifestations of these mechanisms through some partial evidence. The Philippine constitution of 1987 provided for term limits precisely to prevent dynasties to perpetuate but apparently it has been honored in the breach. Of the 38 provinces in 1903, 19 declined in land area in 2010 – a stark example is the province of Cotabato which originally had 30,526 square kilometers of land area which now stands are 9,008 square kilometers. The number of provinces increased from 49 in 1946 to 79 in 2010. In part this also explains why there remain many provinces and municipalities which do not have banking and financial outlets. While theoretically juxtaposed political areas can always be seen as one, more often than not local laws are enacted that lacks consistency with one another. Many of chopped provinces may not be of sufficient size for certain types of services, hinder upward mobility, stunts social and cultural assimilation that is supposed to be inherent part of development. The exploration in this section seems to validate the notion that non-economic dimensions impinge on growth and development.

The final section ties the long-term tracking of growth with other possible dimensions that appear to be a more credible story of the country's economic progress. What has been explored in the paper however, to the extent that it follows the MDCR framework, needs to be more rigorously and carefully pursued and further extended with more comprehensive data particularly relating to the broader dimensions. The argument that we have advanced here especially in the previous section is more tentative than definitive but appears to offer a more complete explanation of the long-term growth dynamics in the Philippines. What seems clear is that concentrating on economic reasons alone for the country's underperformance in a prolonged period is insufficient – and may be misleading in terms of how to institute a package of reform measures. On the other hand, focusing mainly on other explanations for what looks like a dismal economic record may be murky and confines possible solutions to ambiguous directions and inadequate policies. The point however has been made about the multi-dimensionality of a country review. The departure for such a review remains the economic aggregates bearing in mind that their determinants especially for their long-term tracking are not to be exclusively found in one economic dimension. The dynamics of economic growth are more involved than just the aggregates that are described. They are more complex than being single dimensional. The MDCR framework that has been followed here seems to give a more encompassing view of a country's development processes that ultimately offer a more robust policy milieu.

2. Macroeconomic Aggregates

The long-term economic growth rate of the Philippines can best be described as "wobbling" while other economies in the Asia region were creating the "Asian miracle" of rapid growth, poverty alleviation and modernization. While others were experiencing high growth orbits, the Philippines was struggling in bouts of growth spurts and declines. If we are to picture the country's real GDP growth rate in the last 40 or more years it would show cyclical patterns around an average of 4 percent per year. As Figure 1 below shows the country's growth path seems to oscillate around what can be hypothesized as an "equilibrium" growth rate – call it a "low-level equilibrium" growth trap.



Source: NSO

While the few years of high growth rates are respectable (e.g. 1976, 1988, 1996, 2004, 2010), they came after previous periods of lower growth rates masking the performance. Indeed the average for the more than 50 years of growth has been around 4 percent per year. Much of this growth has only been chipped by a high population growth rate leaving per capita rates even lower. And if one were to discount the uneven distribution of incomes the incidence on the lower income classes of this low-level growth rates would be more disconcerting.

If one were to look farther backward in the period immediately after the end of World War II when most Asian economies were recovering from its ravages, the Philippines had in fact one of the highest growth rates in the region. We compare the country with 3 economies that are part of the "Asian Miracle" or tigers (Singapore, Korea, Taiwan) and 3 economies that may be considered as emerging tigers (Indonesia, Malaysia, Thailand) in order to have different perspectives from these 2 groups. We compare the per capita real GDP for these economies with the Philippines. It must be remembered that all of these economies were not only recovering but were also plotting their economic growth trajectories.

Table 1
Annual Growth Rate
Real **Per Capita GDP**
(Percent)

	1950-60	1960-70	1970-80	1981-90	1990-2000*	2000-10
S. Korea	3.1	6.0	8.0	9.9	9.1	4.6
Singapore	1.3a	6.7	7.7	6.3	8.7	7.0
Taiwan	4.0	6.3	6.7	8.5	6.6	4.7
Indonesia	1.9	2.3	5.7	5.5	8.6	5.2
Malaysia	1.0	3.3	5.3	5.2	9.4	5.5
Philippines	3.6	2.2	3.4	1.2	3.8	4.7
Thailand	2.8	4.7	5.1	7.8	10.2	4.6

a -1956-61
***Ave: 1990-95**
Sources: Oshima (1982)
ADB KI

What Table 1 above shows is that in the decade of the fifties at the start of post-war reconstruction, Philippine economic growth was one of the highest (bested only by Taiwan at 4 percent per year). The table also reveals that after this initial decade the Philippines started to decline in relative growth rates highlighted by the “lost” decade of the eighties when its annual growth rate was merely 1.2 percent per year. In fact during the entire period (6 decades in Table 1) the country was in the cellar of economic growth except for the initial and ending decades. What is not so apparent from the table is that since it reports *per capita* GDP, the higher the population growth rate the lower would be the per capita growth rate. And even if we presume similar growth rates as the rest, a Philippine population growth rate higher than the others would put a drag in its per capita performance. For example, the Philippines has always been compared with Thailand given its similarity in resource endowments, size, location, etc. Indeed as late as 1965 Thailand had a slightly higher population growth rate than the Philippines so that by 1975 the two countries had about the same population size. Yet by 2000 Thailand had almost a quarter population less than the Philippines which meant it had a higher per capita growth rate, all other things being equal.

These growth rates when translated into absolute values provide even sharper contrasts. In 1990 the Philippines Gross National Income (GNI) in current US dollars was $ 920 compared to Singapore’s $ 12,050 and Korea’s $ 6,000 or Taiwan’s $ 8,339[2]. In 2000, the country’s GNI reached $ 970 compared to Singapore’s $ 23,350, Korea’s $ 10,890, Taiwan’s $ 14,908. This GNI for the Philippines in 2000 was 67 percent higher than Indonesia’s $ 580. However by 2010, Indonesia’s GNI of $ 2,580 was now higher than the Philippines $ 2,050 (by 26 percent) reversing the 2000 figures. Of course, Singapore, Korea and Taiwan continued their high income march despite some slowdown between 2000 and 2010 (e.g. Taiwan at 2.5 percent per year). These comparisons are however quite late to really appreciate the relative economic growth of the Philippines. If we work backwards into 1950 and examine long-run (50-year) comparisons until 2000, the contrasts are sharpest. For example, the real

[2] The data here were culled from ADB Key Indicators (various years)

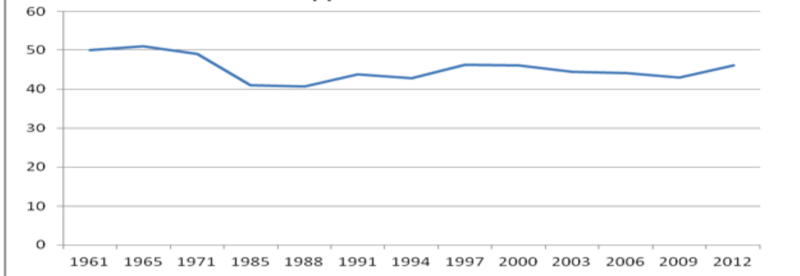
per capita GDP of the Philippines was higher than that of Korea between 1950 and 1965, yet by 1970 Korea's real GDP accelerated and left the Philippines permanently.

The growth picture (and the per capita numbers) described above and in comparison with selected economies is highly aggregative and a theoretical indicator of the growth for each one of the population. Such aggregative picture is clearly inadequate. And the recent concerns about growth being more inclusive demands that the character of growth displays specific qualities. In particular, among these are growth that is (a) participatory, (b) employment creating, (c) dispersed, and (d) poverty reducing – aside from a real growth rate with particular characteristics (e.g. above population growth rates, rising, and sustained). Participatory growth means its distribution being less unequal over a longer time period. The concerns today are of the growing inequality associated with economic growth. Employment creating growth is one where unemployment rates are falling, there is net job creation and not a "jobless growth". A growth that is dispersed when applied to the Philippines means its geographical incidence that is more even across different regions of the archipelago. In addition dispersed growth also means micro, small and medium enterprises (MSME) are drawn into the growth processes. A poverty-reducing growth is falling poverty rates (incidence and absolute and relative numbers) that go with economic growth. This could be objectively measured or based on self-rated poverty perception that is regularly conducted over a long-term. Since there may be other dimensions related to poverty this characteristic should capture wider non-economic indicators such as education, governance, political development, and others.

The data for these growth characteristics invariably do not follow the series for the aggregative track; sometimes the time period is truncated and data are spotty; where we have constructed a long series, they may have different coverage, definitions, and sources. Nevertheless for the purpose of appreciating long-term trends the series is meant to convey directions. Neither can we pursue detailed technical examination given the wide coverage and thus limited to a qualification of the growth record and neglect of other factors. Increasing inequality is found to be significantly associated with rising economic growth among Asian economies (ADB 2012). This finding is not only true in Asia but a global condition. Indeed the inequality is starker when the top deciles in income distribution are further broken down into the top 1 percent. For example, the growth of income distribution in the US for 1979-2007 shows dramatic rise in the top 1 percent share (Krugman 2013). What is unique in the Philippine data is that over the long-term inequality was already significant at the start, falling to what seems to be the experiences of the Asian economies. Using the Gini coefficient or index as our gauge of the inequality conditions, it had a record coefficient of 0.51 in 1965 before coming down to 0.40 in 1988 and then rising again to 0.46 in 2012. Taking a threshold inequality coefficient of 0.40 the country has actually been in this territory in the course of its long-term growth. This is unlike the empirical evidence in Asia where rising inequality is positively and significantly related to rising economic growth. The ratios of the higher quintile groups to the lowest quintile groups are around 7 times (ADB 2012) which means the gap between the quintile tail-end groups is not extremely high though maybe alarming. The existing cross-country studies have not dwelt on the upper 1 percent which seems to be the more alarming trend in terms of widening gap within the same deciles or quintiles. Figures 2and 3 below show the long-term track of Gini indices between 1961 and 2012, and the mean incomes of the first and the tenth deciles between 1991 and 2003, respectively[3].

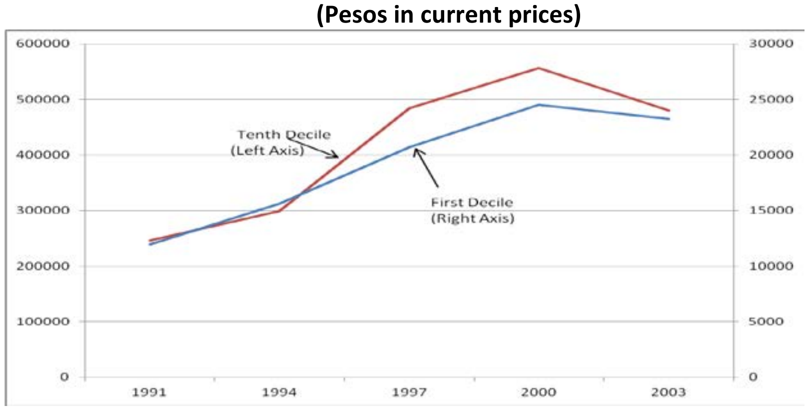
[3] We use mean incomes (in current prices) instead of mean expenditures partly wash out the effect of remittances overstating the degree of expenditures.

Figure 2
Philippines Gini Index



Sources: World Development Indicators, World Bank

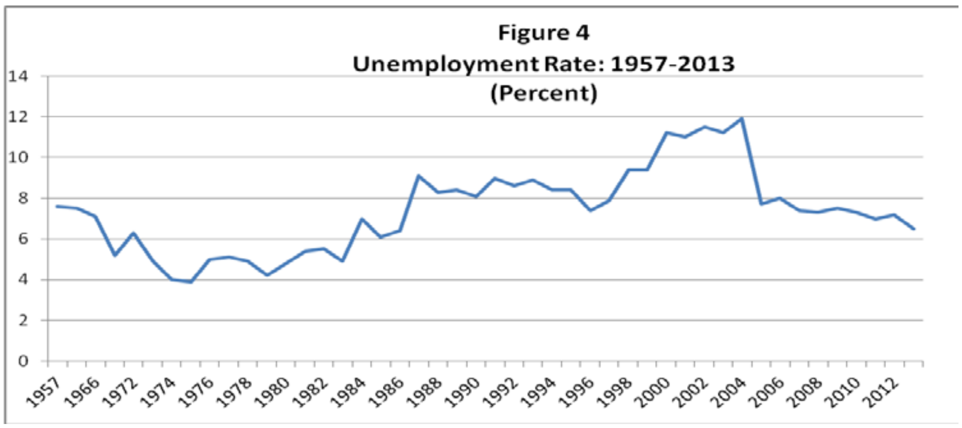
Figure 3
Mean Income of First and Tenth Deciles
(Pesos in current prices)



Source: NSO

Figure 2 shows that the Gini indices started out at above 50 and declined to 40 and remained there for some time before rising again with a spike in 2012. The index of 40 seems to be the upper bound of the growth-inequality relationship that is now evident but which is apparently the usual number for the Philippines. What Figure 3 shows is the movement of mean incomes of the lowest (first) income deciles and the highest (tenth) income deciles. It indicates that the two deciles began with the same speed and diverged in 1997. Moreover the ratio of the mean income of the tenth deciles to the mean income of the first deciles in the 2 ends of the series stands at 20.6 rising to 23.4 by 1997. Compare this with the average ratio among the Asian countries of 7 (ADB 2012). The magnitude of income inequality in the Philippines is therefore seen in terms of the absolute values of the Gini coefficient or index which has remained at the upper bound of the Asian countries' experiences with anemic growth rates and the comparisons between the movement of mean incomes of the first deciles and the tenth deciles. These being first and crude estimations of inequality resulting from economic growth expose what has now been documented as consequences of rapid economic growth. Some of the qualifications of these measurement include possible understatements due to inability (or refusal) of respondents to divulge incomes or expenditures (Medalla 2011). There may be substantial differences in inequality account with the use of income and expenditures variables and thus on the extent of inequality. Needless to say, qualification of the measures will not change the initial results indicating the degree of inequality associated with the country's long-term economic growth.

There was a time in the country's history when its unemployment rate was less than 4 percent of its labor force – a "full-employment unemployment rate" – but since then unemployment has been escalating. Coupled with a double-digit underemployment rate, employment generation is the scourge of the Philippines growth record. True enough, there are pockets of tight labor conditions and sectors which are short of the right kinds of workers. Our purpose here is to look at the aggregate employment track and highlight the severity of joblessness and thus the magnitude of tasks in fashioning growth that is job-creating. In attempting to construct a long-term unemployment trail, we have patched together a series from 1957 until 2013 calling attention to differences in definitions, coverage, etc.



Sources: Tidalgo and Esguerra 1984; ISHB NCSO various years; NSO, October 2013

What Figure 4 shows is that other than the dip in unemployment rate in 1975 (3.9 percent), the country had a runaway unemployment reaching a high of 11.9 percent in 2004. The sharp drop in the unemployment rate in 2005 is the result of the adoption of different definition of unemployment.[4] If one looks at the results of LFS over the years one would discover the meager increases in job creation relative to the increases in the size of the labor force (from the population 15 years old and above). For example, for the April 2012 LFS, there was only an increase of 68 thousand workers in the workforce (thus reduction in unemployed by the same amount), hardly denting the number of unemployed for the same period of 2.8 million.[5] This does not take into account the increase in the number of underemployed workers. This reflects the number of workers in the labor force who are employed but would still want to work (visibly underemployed means those working less than 40 hours per week) for more hours. This measure is dependent on worker perception and may thus be biased quantitatively. But it does indicate the conditions of the job environment and the underlying labor market. In particular the higher the under-employment rate is the more likely are job conditions less than satisfactory. This means that jobs are less formal, short-term contracts, or piece-meal, among others. This provides a reference point from which employment policies are crafted. In order to put more meaning to Figure 4 Table 2 below reports some data from the April Labor Force Surveys (LFS) for the period 2009 through 2013.

[4] Beginning with the Labor Force Survey (LFS) of April 2005 an additional criterion was added (so-called availability criterion) to 2 others. See NSCB (2005) for details.

[5] The use of the April LFS may exaggerate the amount of unemployed since this is the time that graduates are just entering the labor force. The use of the other times of the LFS may remove some seasonality but is not likely to change the drift of the above text.

Table 2
Net Changes in Job Creation
April Surveys (thousands) except Rate (percent)

	2009	2010	2011	2012	2013
Labor Force Change	1374	688	1179	953	263
Employment Change	1462	416	1407	1021	23
Net Employment*	-85	272	-228	-68	240
Net Underemployed*	-4	-324	830	185	61
Unemployed	3100	2800	2871	2803	3087
Unemployment Rate	7.5	8.0	7.2	6.9	7.5
Underemployment Rate	18.9	17.8	19.4	19.3	19.2

*+Decrease/-Increase
Source: NSO LFS (various years)

The table shows the net employment changes, absolute numbers of unemployed and the corresponding unemployment and underemployment rates. For example, in April 2011 the increase in the labor force amounted to 1.179 million workers of which the economy absorbed 1.407 million workers for a net increase of 228 thousand workers reducing the stock of unemployed which in that year numbered 2.871 million. Using this procedure for other years we can estimate the cumulative net employment over a time period. Thus for the 4-year period 2009-2012 the net employment the economy absorbed was slightly over 100 thousand workers (in excess of the number of new workers). Other things being equal, this should reduce the unemployed by over 100 thousand. Considering that the number of unemployed is 2.803 million in 2012 this would only reduce the unemployed to 2.7 million. If a "tolerable" unemployment rate of 4 percent of the labor force is assumed, the amount of unemployment to mop up would be 1.2 million. At the rate of employment generation shown in the period 2009-2012 it would take more than 40 years to reduce the unemployed unless drastic changes and reforms take place to specifically address job creation.

The magnitude of OFWs and their evolution in this context deserves a brief comment and different perspective. Their total number effectively employed abroad in 2012 was 2.2 million with 46 percent in the 25-35 years age bracket. Counting them or not as part of the labor force would probably not matter in reckoning unemployment rates.[6] Since they are removed from the domestic economy yet are linked through their remittances and their expenditures they are analogous to the enclaves spawned by export processing zones which were pervasive in the past. The more important question is what happens if this outlet for what would otherwise be part of the unemployed falters? On the other hand there is also the question of how the OFW phenomenon contributes to sustaining economic growth. Moreover, presuming this is part of the country's overall economic landscape there is the question of how the country can graduate out of this dependence on employment abroad and remittances. As can be seen in the box on OFW and Employment, it would seem that the world has been more successful in providing employment opportunities for unskilled workers (especially women). This is exactly the urgent agenda for employment generation in the Philippines that would eventually reduce the unemployment rate to tolerable levels. Given that other countries which also had extensive migrant workers were able to achieve turning points i.e. from a net exporter of labor to a net importer of labor – principally through accelerated trade, the Philippines can equally trace similar paths and their associated policies.

[6] Adding them into the numerator and the denominator will not change the results of Table 2 above.

Box 1
OFW and Employment

The Overseas Filipino Worker (OFW) phenomenon in the Philippines has had more than a generation of implicit policy tolerance if not encouragement. From an original view as a stop-gap measure while structural reforms were taking place for the economy to eventually absorb increments in the labor force, such a generation of experience has also created its own sub-culture. Whether in fact the OFW "solution" has worked in the sense of sustaining economic growth or preferably influencing its long-run trajectory is the more critical issue. There are several reasons why this has not happened. First, there are enough studies and empirical investigation of OFW remittances inflicting a Dutch disease to the economy (Tuaño and others 2007; Bayangos and Jansen 2010). The usual mechanism of appreciating currency caused by remittances reduces export competitiveness. This seems to be a conventional finding from other countries in similar conditions the main difference is that other countries have been able to thwart its deleterious effects while the Philippines has not through e.g. productivity improvements. Second, the use of remittances has not transformed expenditure behavior away from consumption towards investments potentially creating a bubble and preventing an investment-led growth (Colombo 2013). Public policy has neither resisted this direction in pro-active ways such as better land-use and zoning policies. Finally, while the pattern of OFW employment seems to follow the aggregate pattern it has not resulted in significantly sustained expansion of domestic employment. The table below shows the number of OFW and the share of unskilled workers from 2005 to 2013 based on annual Survey of Overseas Filipinos

Number of Employed OFW and Share of Unskilled Workers

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Number (million)	1.33	1.52	1.75	2.0	1.9	2.0	2.2	2.2	2.3
Share of Unskilled Workers %	33.1	35.1	35.0	32.4	32.3	32.0	32.7	31.3	30.8
(Male)								9.2	
(Female)								55.0	

Source: NSO Survey of Overseas Filipinos (various years)

The above table shows that OFW employment has been increasing at an annual average rate of 7.1 percent between 2005 and 2013. On the other hand, the number of employment in the Philippines during the same period rose on average by 1.9 percent annually. Moreover the unemployment rate did not see any significant decline between 2009 and 2013 (in the main text) which does not seem to support model simulations of unemployment declines (Bayangos and Jansen 2010). In other words without any serious policy redirection the OFW route has not influenced a better economic growth. The above table also shows the share of unskilled workers to OFW employment which is comparable to national ratios (32.6 percent of April 2013 LFS). What is disconcerting however is the share of female unskilled workers which is more than 50 percent (for 2012 which has this published detail). Since the male/female ratio of total OFW is slightly male dominated, this high share reflects the potential problem of greater social vulnerability of female OFW.

The more important and critical policy issue is understanding how countries dependent of overseas workers and remittances can turnaround from being net exporters of labor to becoming net importers of labor. Unfortunately such empirical understanding is scarce in the literature which concentrates on remittances and the economy rather than how labor-sending countries can graduate into sustainable middle-income economies (but see Alburo 1994 for illustrative empirical test where accelerated trade partly influences a turnaround).

Going back to Figure 4, the trough of the series is 1975 with an unemployment rate of 3.9 percent. From then on unemployment cumulatively increased despite short cycles of reduction in some years reaching a peak in 2004. Oddly enough it is unemployment that has seen an increasing orbit over the long-term instead of real GDP growth rates.[7] Conversely, the employment rate (not shown here) would show the reverse of Figure 4. On the other hand, the data on Table 2 tell of an unusual fact keeping in mind that the April 2013 is not the final number. The labor force change of only 263 thousand is relatively low in comparison to similar April LFS in the previous 4 years. The universe of the labor force i.e., totals population 15 years and older is demographically determined (not reported in the table) and its change is relatively constant. What is apparently responsible for the decline in labor force change is the dip in the labor force participation rate in April 2013 compared to April 2012 which fell by 1 percentage point. Indeed if the participation rate in April 2013 were the same as in the previous LFS, the labor force change would have been higher and consistent with the trends found in the rest of Table 2. What needs to be explained is the decline in participation rate but at the same time a rise in the unemployment rate[8]

The Philippines has often been depicted as Manila and the rest of the country in view of the unequal distribution of resources, government largesse, infrastructure, and employment opportunities, among others. While it is possible to look at many economic indicators by regional distribution (and even by province) we can simply look at one outcome arising from such geographical unevenness – gross regional product which reflects a coterie of economic activities defined by regional environments. The government regularly reports Gross Regional Domestic Product (GRDP) which is really a regional breakdown of national production data using some estimates of regional shares plus some validation from regional offices. The estimates come from national aggregates and not directly from regionally derived data.[9] Although these are validated by regional agencies and there are plans to arrive at more independent and truly regional-based data, GRDP remains extrapolations from national income accounts on the production side. What is evident from examining GRDP series is the wide variation in the regional distribution of national accounts. For example the real GRDP between 2000 and 2011 shows that the standard deviation increased by more than 20 percent often exceeding the mean values.

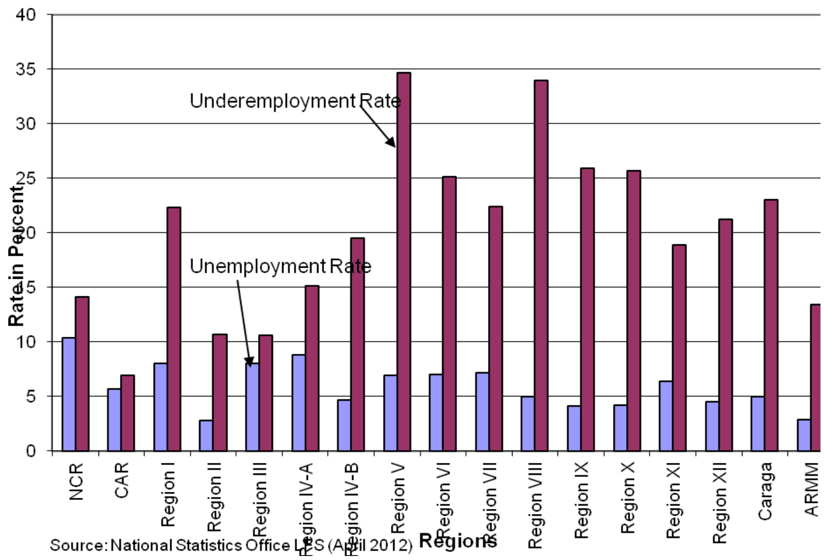
What is more interesting than the GRDP estimates are the regional employment dimensions which are directly derived from population censuses and surveys using the Integrated Census of Households. Figure 5 below reports the magnitude of unemployment and under-employment among the regions of the country.

[7] If Figure 4 was the GDP growth rate and Figure 1 (except for the sharp fall in 1984) was the unemployment rate, it would put the Philippines on a high growth trajectory approximating Asian neighbors.

[8] For example discouraging employment prospects may lead some to voluntarily withdraw from the labor market.

[9] See NSCB for a technical description of how GRDP and Gross Regional Domestic Expenditures are estimated using national income accounts.

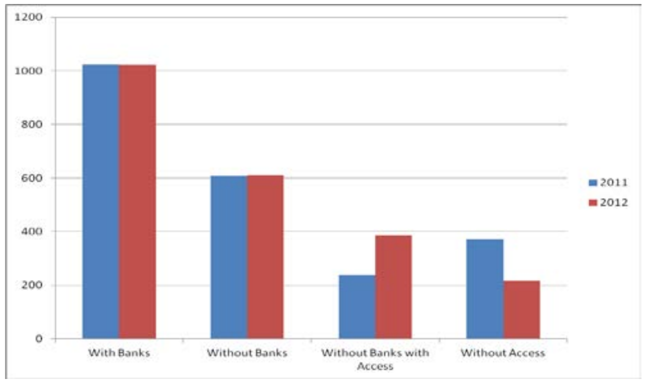
Figure 5
Regional Distribution of Unemployment and Underemployment
(April 2012)



It can be seen that while there are variations in unemployment across the regions of the country, the variations in under-employment are even larger suggesting substandard employment conditions in some regions. High under-employment coupled with above average unemployment rates signifies poor quality jobs. See for example Regions V and VIII although it would be understandable if this can be attributed to agriculture's dominance in the region.

If we now look into the regional distribution of access to finance it turns out that there is also uneven dispersal of accessibility. Banks and non-bank and other financial institutions are not present across all regions of the country the latter comprising of savings and loan associations, credit cooperatives, pawnshops, remittance agents, foreign exchange dealers, and micro-banking offices. Figure 6 shows the number of cities and municipalities and the number which have banks, no banks, no banks but with access to other institutions, and those with no access at all.

Figure 6
Number of Cities and Municipalities
With and Without Banks and Financial Access



Source: BSP

Of the 1,634 cities and municipalities in the Philippines in 2012, some 1,023 have banks but a full 611 or a third of them do not have banks at all. Still among those which do not have banks, more than half of them have other financial access facilities. Only an absolute number of 216 cities and municipalities do not really have access at all. Note however that the number of pawnshops exceed the number of banks that are present in the countryside reflecting the degree of "progress" in the regions[10]. Similarly, 748 of these have remittance agents which actually exceed those that do not have banks at all. In relation to the GRDP there is a negative correlation between the higher values of GRDP and the number of cities and municipalities in the region without banks[11].

This review of macro-economic aggregates tend to show that the Philippines has had a lackluster record in climbing to a more sustained economic growth in the last 5 decades long history, an uneven income distribution more unequal than the experiences of Asian neighbors, a feeble dispersal of economic activities beyond the capital cities, far from an integrated archipelago, and an endemic employment generation unable to absorb increasing labor force that comes from a rapid population growth. Consequently the country, by these accounts, has failed to deliver substantial welfare improvements to its people in comparable degrees achieved by its neighbors.

These observations, and the limited aggregates that have been briefly presented here, have been made many times during the course of the country's history. Indeed even as early as 1961 (Golay 1961) there have been analyses made and recommendations for an economic road map. While the macro-economic aggregates outline the broad picture, observations in the form of major works to specific sectors and concerns have already been written (e.g., Power and Sicat 1971; Ranis 1974; Baldwin 1975; World Bank 1975; Shepherd and Alburo 1991; Krugman 1991; Bautista, Power and others 1979; Balisacan and Hill 2002; ADB 2007; World Bank 2013). This is aside from many other smaller studies and articles more recently which point to the same dismal economic growth performance of the country (e.g. World Bank 2010; Usui 2012; Aldaba 2013). The Philippines is perhaps one of the few

[10] Poverty often leads households to rely on pawnshops as source of immediate borrowing which unfortunately charge high interest rates yet readily accessible.
[11] The correlation between GRDP and the number of cities and municipalities within the region without any bank is -0.45.

developing countries that have been over-studied for a long time alongside the period of its poor growth performance.

Most of these observations carry policy directions intended to raise the country's growth trajectory. Given the level of aggregation these covered aggregate policies or narrow sectoral measures which affect aggregate growth. Monetary and fiscal policies including specific measures related to debt, trade policies particularly exchange rates and the protection system, associated infrastructure support, industrial policies and investment incentives, among others, occupied the menu to influence growth. In short, the directions that were identified were aimed at setting a favorable macroeconomic environment that would sustain a growth momentum. But this approach compartmentalized the aggregate problem, neglected other determinants (e.g. education), and ignored the underlying social structure of the economy.

This does not mean aggregate dimensions were not important or if the proposed measures were adequately carried out. This is the underlying problem of policy evaluation. On the other hand, the aggregate numbers themselves become open to varying degrees of criticism and interpretation. For example, assessments of more contemporary aggregate growth are viewed as potential bubble about to explode. This refers in particular to the period between 2009 (right after the great recession beginning in 2008) and 2013 – driven by brisk private property construction (housing, condominiums, malls), rising consumer expenditures and conversely lower savings, increasing government spending, and thus high aggregate growth rates. But these are outcomes of zero-bound interest rates (resulting from Quantitative Easing [QE] in the US, the EU, and Japan), appreciating currency due to short-term capital inflows, increasing money supply, credit boom, and low interbank lending rates. This kind of illustrative explanation of economic growth argues that growth is hollow and in the long-run, unsustainable (Colombo 2013).

What is evident from this examination of the Philippines macro-economic aggregates since 1950 is a growth characterized by a cycle around a low-level average instead of a cumulatively rising orbit. And if we extend this examination in terms of contemporary concerns of growth inequality, geographical incidence and employment generation, the country has had a poor performance over the long span of its history and in comparison with both the tiger and the emerging economies of Asia. Put differently, that growth has been far from participatory, job creating, and regionally dispersed. Although there have been many technical treatises attempting to explain and advance some determinants for their behavior these have been narrow in scope and largely confined to economic factors and thus economic solutions. Given the long-period of under-performance there are many competing interpretations of the aggregate record. It would appear that these are not sufficient or robust enough to explain history particularly when we investigate specific components of the macro-economic aggregates. Towards this end it may be useful to follow the MDCR framework which we now turn to in the next section.

3. Multiple Dimensions of Unsustainable Growth

In any discussion of the Philippines long-term economic growth is a perennial question – why has growth been erratic and what would explain the inability to achieve a sustainable growth path? Among numerous hypotheses is a dichotomy – economic and non-economic causes. The economic one invariably starts with post-war reconstruction policies that spawned import-substitution which lasted for a protracted time period. This initially spurred economic growth until the limitations of the home market slowed it down while entrenching vested interests in protecting domestic industries at the expense of exports despite liberalization moves along the way (Power and Sicat 1971). The liberalization that took place in the remaining decade of the 20th century was selective and did not really lead to a momentum before onset of the Asian crisis in 1997 and the global financial crises of 2008. The prominent aberration in the aggregate performance was the economic crisis in 1985 that left the country in complete shambles even if growth re-started under a new government regime[12]. But the growth of the economy was real without a shadow of being a bubble – indeed even the expansionary policies in the late sixties that led to a 1970 devaluation reduced unemployment and raised real output[13].

Non-economic causes focus more on the political atmosphere, election cycle and spending, political dynasty, social structure, institutions, bureaucracy as well as more disaggregated concerns of health (e.g., mortality, disease), education (e.g., literacy) and poverty in general. The underlying hypotheses try to explain the cycle of aggregate growth to election cycle and spending, unequal wealth and incomes, established elites who capture industries and institutions, and weak governance especially at the local levels (Kuhonta 2011). For example, it is pointed out that during the period when growth was expanding amid some peace and stability, the country failed to galvanize a strong social agenda that existing political parties could promote and effectively fortify the economic gains (Hutchcroft 1991; Hutchcroft and Rocamora 2003).

In analyzing the country's long-run aggregate growth, there have been attempts to link economic and political developments. Baldwin (1975) related economic crisis to political developments such as the cycle of election spending and balance-of-payments problems. In the more recent episodes with better data series political indicators have been employed to explain growth in general and poverty indicators in particular. Several studies have used political dynasties to quantify the effects of weak political institutions on growth (e.g., Balisacan and Fuwa 2003; Mendoza and others 2013) with the implicit argument that without competition for elected posts and with political families in effective control of government machinery the collective national interests would be far from their concerns. And the way to test this was through relating economic outcomes with dynasty indicators. Variants of the same variable expands the notion to the tendency of existing dynasties or the largest dynasty to further expand its reach (termed "fat" dynasties) and thus have a separate but deepening impact than simple dynasties. The econometric results of these studies validate the assertion that political dynasties have negative effects on growth (measured in these as growth in per capita expenditures instead of incomes); that while dynasties (measured as number of officials elected with relatives also elected officials in the same local government unit) may not have significant effects on poverty headcount, poverty or family income do have increased though insignificant effect on dynasty especially contributing to the expansion of incumbent dynasties. The explanations of these results dwell more on additional hypotheses rather than direct empirical evidence. For instance, lack of competitive political system leads to sub-optimal policy choices hence poor growth record. A reason why poverty contributes to preserving (large) dynasty is its exploitation of patronage politics, mastery in the skills of identifying with the poor and teaching them to the next generation of politicians.

These efforts to provide broader causal reasons for the country's growth beyond the confines of economic variables particularly exploring the political dimensions have clearly identified their

[12] A Balance-of-Payments crisis getting out of control (partly also due to reporting errors) may have been the initial trigger to the economic crisis but it was the adjustment to it necessitating a severe economic contraction that eventually did the country in.

[13] The notion of a bubble economy, more relevant to contemporary times, had no manifestation of any component in the long-term growth path – housing boom, credit expansion, stock price spikes, etc.

importance. But the mechanisms that have been advanced by which they ultimately impact on economic growth remain in the political realm even when they are supposed to affect the way economic policies are shaped. The dichotomy prevails and they fall short of indicating where the nexus is more so in coming up with binding constraints that cut across sectors and which can illuminate some priority directions for integrated policies.

What seems to be common between the dichotomies is the recognition of long historical past that plays a critical role in economic behavior. While the usual starting point is post-war economic growth in terms of the behavior of economic indicators, such behavior is argued to derive from farther into the past (Kuhonta 2011). Indeed the retarded development of institutions, a body politic that practices favor seeking and favor giving (rent-seeking behavior in economic terms), and a general patrimonial state has characterized the Philippines even during the Spanish occupation. Oddly enough Spanish authority concentrated in the capital with little to do in the rest of the archipelago while the American occupation concentrated on giving power to the periphery through electoral democracy. Unfortunately, both failed to develop capacities and in fact created a chasm between the elites and the rest of the masses[14]. In addition government bureaucracy failed to develop under both occupations – under Spain there was limited interest in developing capacities and institutions to craft national policies across the islands and authority was more exercised in the capital; under American rule power decentralization led provincial elites to capture elected positions and reliance on them and away from bureaucrats.

Governance, and its effects on the economy, is usually composed of 5 dimensions – voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. In a comprehensive literature review particularly in the pioneering work of North and others on institution, and analysis of how this, as constraint, affects Philippine growth, de Dios (2008) finds that (relative) political stability consistently affected the economy particularly (relative per capita) *foreign* direct investment flows relative to Malaysia, Indonesia, and Thailand; moreover the same governance indicator directly influences changes in lending interest rates. On the other hand, corruption also directly influences investment ratios even more than the traditional economic determinants of interest rate or GDP. Since both dimensions are composites of many underlying variables, the search is then for their likely relative strengths.

This abbreviated description of a non-economic explanation of the country's sluggish economic growth over a long period of time is still compartmentalized. The expedition into a longer history adds an important dimension to the aggregate behavior – that understanding its sustainability should take into account a more rooted basis. Indeed post-war economic changes apparently reflect immediate responses that lack permanency in part because the underlying institutions were inadequate or damaged. The center-periphery tension built up from a long history in some sense explains the narrow post-war economic performance and its concentration around Manila and surrounding areas. There is no doubt that putting history to bear on the economic aggregates makes the story more complete. But it remains detached and needs to blend together.

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[14] Agriculture commercialization during the Spanish era allowed the elites to literally grab lands and exploited peasants leading to dual plantation and peasant economies. Land redistribution of Americans from friar lands allowed the elites again to own vast tracts, and elections at the lowest levels of government provided the mechanism through which the elite extracted resources from constituents and from the center – as Kuhonta (2011) notes this created an "elitist democracy".

What is evident from an analysis of the economic aggregates and the additional explanations using political and institutional factors is the importance of the country's past history in defining an environment for its long-term behavior. And its long history under both Spanish and American colonial occupations seems essential in appreciating the role of institutions, the bureaucracy, political processes and family dynasties, economic organization, and sense of nation. But these seemed to be forced into the explanations rather than embedded into them even if they are plausible. On the other hand putting in political indicators to the economic behavior opens up many alternative explanations for significant findings in the quantitative analysis.

The crucial question is how are these behavioral hypotheses (in the economic and non-economic sphere) manifested? Or what mechanisms can be posited that bring these together and can they be measured? What we are looking for are development binding constraints that are common in economic and non-economic sense and thus multi-dimensional. Once these are identified and linked behaviorally, we can then suggest policy directions.

Although growth may take place stimulated by a variety of triggers including international trade, vibrant domestic economy, and policy influences, its sustainability is what is important. This in turn requires economic and non-economic factors – efficient markets, institutional development, and governance among others[15]. What is needed is a common link among these as essential to sustaining economic growth. The search is therefore for the political and social dimensions that affect the economic environment in terms of specific indicators. First of all, it is usually accepted that political dynasties characterize the country's political system. They hamper a more functional democracy and introduce vested interests in the economy. Despite this common knowledge the means by which they appear in the economy for instance are manifold and either there is overwhelming acceptance for which no evidence is necessary or they are taken for granted.

Second, for this and other reasons, the 1987 Philippine constitution imposed term limits on elected officials which should open the system to more potential alternatives and eventually end dynasties. In fact the constitution also provides that dynasties are to be prohibited "…as defined by law…" But without such a law as provided for it remains inutile. It is in the term limits therefore that hope is there for eventual end to family control of elected positions. The term limits are for senators, congressmen and other local officials.

Third it remains to be seen if the term limits actually achieve their objective of clamping down dynastic hold on local politics and open the system to more choices to the electorate. One study for example argues that term limits may even increase further dynastic power as incumbents run for higher offices and train family members for other local offices (Querubin 2011). An implicit natural limit to this dynastic expansion is the scale of the local government unit itself. Within this constraint however the study further illustrates specific cases where once one family member's term expires it brings in other family members to vie for the position while waiting out and running again after the new member's term expires[16].

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[15] Governance variables directly affecting economic growth are first-order determinants. Since these are composed of many underlying factors the task is either to directly plug them in or hypothesize the more dominant ones.

[16] This comes about since the provision of the term limits allows incumbents who have served the limits to re-enter the same position after one term. See Figure 1 in Querubin 2011 for an actual term-limited incumbent waiting it out as his wife served one term and then he returns to the same position where he reached the term limit and served again for three terms.

Fourth, term limits can be circumvented, and there are cases that demonstrate the circumvention. There are no quantitative indicators of how pervasive has this behavior been since the imposition of term limits. The point is that the limitation and its intent do not seem to alter the widespread practice of political dynasties. Indeed celebrated cases of its violation in intent simply show how ineffective the provision is (see Querubin 2011 for a number of cases). What the behavioral response to the term limits reveals is the need to ascertain the real root cause of the practice behind political dynasty.

Finally, the circumvention of term limits, despite its good intentions, reflects a perpetuation of past behavior among local officials and politicians of (a) creating political bailiwicks to entrench family dominance and control or (b) breaking up existing local government units in order to extend the reach of families and relatives to positions of power. For example, the referred study noted that the number of congressional districts increased from 98 in1946 to 219 by 2007[17]. What is more relevant is to understand how this pervasive behavior impinges on sustaining economic growth. We propose to establish this linkage and argue that the political dimension coupled with weak institutional development and poor governance impedes a sustainable growth rate.

We hypothesize and argue that political and other non-economic behavior including dynastic tendencies which are manifested through the creation of additional local government units and congressional districts lead to market inefficiency in the private and public spheres, buttress traditions and social classes, and prevent a critical development mass to evolve which hardly help sustain economic growth. Indeed all the evidence in related studies showing a negative impact of political variables on poverty and incomes work directly through this mechanism and are identifiable.

There are several pieces of partial evidence in support of what we propose. Provinces numbered 49 in1903 and in 1946 the number remained the same[18]. In 2012 however the number of provinces was 80. Given this starting point what we want to demonstrate are 3 inter-related facts. The original number of provinces changed in composition where the military district component became regular provinces, sub-divided, and changed in name. The composition of the 2012 list of provinces includes entirely new provinces and some which were renamed apart from those sub-divided. The creations took place mostly in the decade of the sixties. There have also been a large number of provinces whose areas declined between 1946 and 2012 due to sub-divisions and outright reduction in the area[19]. Moreover the number of barangays in the provinces increased which effectively reduce the unit areas of the local government units. Table 3 below reports the number of provinces between the reference period 1903-1946 and 2012 classified according to the original number in the reference period (49) and 2012 (80), sub-divided provinces consisting mostly of new provinces, and the approximate dates when these new provinces were created by period between 1951 up to 1991 and the more recent years.

[17] For sure some of the congressional district expansion must have been legitimate. Its implications however are what matters. See below.

[18] The 1903 province list comes from the Philippine Census of 1903 which listed 49 provinces of which 9 were military districts. The 1946 number comes from Querubin 2011. Between 1903 and 1946 the 9 military districts were converted into regular provinces (5), subdivided (3) and changed name (1).

[19] This has to be properly documented by looking at those provinces and the underlying reasons for the size reduction.

Table 3
Number of Provinces

	1903-46	2012	Number Created (Period)
Original	49	46*	
Sub-divided		9	
New Provinces		25	
1951-60			8
1961-70			14
1971-80			6
1981-90			-
1991-			6
Total	49	80	34

*Excludes 3 which were re-named and considered new.
Sources: 1903 Population Census; Querubin 2011,
Author's calculation

What the table reveals is that the additional number of provinces was all created in the post-war period mostly in the 2 decades of the sixties and seventies including the chopping up of 6 original provinces into additional 9 provinces for a total of 15 provinces and 3 original provinces in new names. For example, the 6 original provinces of Ambos Camarines, Surigao, Misamis, Mindoro, Zamboanga (military district), and Davao (military district), were sub-divided into 2 provinces each (Camarines Norte and Sur, Surigao del Norte and del Sur, Misamis Occidental and Oriental, Occidental and Oriental Mindoro), 3 provinces each (Zamboanga del Norte, Sur and Sibugay) and 4 provinces each (Davao del Norte and Sur, Davao Occidental and Oriental).

What happened to the size (area) of the provinces between the 2 periods? The comparison can only be made from the original number of provinces because the new provinces are additions to the aggregate size of the local government unit. Table 4 below lists the 49 provinces and classified according to the number which have lower geographic areas in 2012 compared to 1903-1946. Note however that the table only reports the *number* of provinces not the magnitude of area reduction which vary widely by province.

Table 4
Number of Provinces with Area Reduction

	Number	Number Declined in Area
Provinces common in 1903 and 2012	38	21
Provinces in 1903 sub-divided by 2012	6	6
Provinces in 1903 with name change or regular	5	
Total	49	27

Source: Table 3; Author's calculation

More than half of all provinces in 2012 which were the original provinces saw a reduction in their geographic areas prominently illustrated by 6 which were sub-divided into 9 provinces. But there were increases as well so that a finely detailed measure has to be taken in order to accurately support the argument that there was a reduction in the size of provinces. There were sharp reductions of areas for Cagayan and Quezon, and sharp increases for Bohol and Palawan but on average it seems there was a reduction in provincial geographic areas. A complementary way of supporting the decline in the geographic area not of provinces but of local government in general is the growth of barangays in the country. Being the lowest form of government it also has distinct geographic boundaries. The total number of barangays in 2012 is 42,027 which is an increase of more than 7,000 since the mid-seventies. This means 20 percent more without a proportionate increase in the number neither of provinces nor of municipalities. On average then the geographic area of government units must have fallen.

Finally, there is a number of anecdotal evidence to highlight a behavior of creating more provinces or breaking up existing ones to accommodate family members or those whose term limits are reached. There is the well-known move by last-termer legislators from Cebu province to break the province into 3 – Cebu del Norte and del Sur, Cebu Occidental, and the present province so they can run again under the new set-up. Then there is the legislative bill to split the province of Camarines Sur into two – Nueva Camarines and the existing province. Notwithstanding that the present province was already sub-division of the original Ambos Camarines the proposed split is a reflection of a family feud between father and son who are representative and governor of the province, respectively.

These pieces of evidence fit together as indications of political behavior aimed at propagating family hold on positions of power at the local levels. These are concretely shown by the large increases in the number of provinces most of which took place in 2 decades, in the number of provinces which have been reduced in geographical areas, in the consequent increase in the number of the lowest local government units associated with a reduction in their sizes, and in a number of recent cases of moves by term-enders and families to break up provinces to perpetuate dynasties. What then are the implications of these in identifying the connection to inhibiting a sustainable economic growth?

The splitting of provinces, creation of new ones, and further break-up of even the lowest government levels clearly fragment markets, raise real financial and transactions costs, bloat government budgets and the bureaucracy, and add burden to the private sector environment. This would be true for both goods and services. Imagine how sub-optimal would it be for small local governments to provide services for limited constituencies (markets) – a post office within few kilometer distances between towns, slaughter house, wet markets, etc.[20]

They reduce potentials for scale economies as local industries and firms have limited horizons or face connection barriers outside the shrinking province. This is manifested in the case of accessibility to banking and financial services described above (see Figure 6). This kind of constraint imposed by a politically motivated behavior is an additional burden to the private sector but by and large business may have adjusted to it. Some industries and establishments for example respond with strategic locations that capture economies of scale (e.g. location of malls, residential buildings, factories). The point is that without the constraint of smaller geographical areas economies of scale would be larger and not difficult to attain encouraging innovation and entrepreneurship, bedrocks of growth.

[20] This reference to towns instead of provinces is analogous to province that is broken up to extreme with small sizes like towns.

They also limit production network from naturally emerging. Breaking up production according to stages of the value chain and core competencies require seamless amalgamation. Differing rules defined by different local governments (e.g. licensing procedures, taxes, labor requirements) exert wedges to what would otherwise be efficient networks. There may be common borders in juxtaposed provinces but different rules. The development of what would be microcosms of international supply chain production is hindered.

They reinforce social traditions and retard modernity. Modernization of an economy also involves abandoning some social and cultural mores inimical to market systems. It requires independence, desire to accumulate, and to save and invest. These social traits accelerate upward social mobility and prevent downward social dislocation. Indeed some longitudinal studies find evidence of social mobility across different classes (e.g. from tenant farmer to small land owner, irregularly employed to regularly employed) and that increasing GDP growth rate in combination with social behavior, education, and even number of children, among others, enhances mobility; conversely they reduce the likelihood that those who moved up the social ladder revert back (Fuwa 1999).

They inhibit national identity and promote cultural factionalism. Sionil-Jose suggests that with this outcome of tribalism, regionalism, and family circles the "sense of nation" gets lost (Sionil-Jose 2004). Others may even assert that a "damaged" culture of the Philippines is getting in the way of its development (Fallows 1987). There is of course no international best practice in culture as every individual and society has unique traditions, rituals, and customs. It is inappropriate to have a reference point. Chopping geographical spaces into smaller units to satisfy dynastic tendencies over a long period of time potentially portends new customs and rituals. The culture of many fiestas in the Philippines even in next barangay, town, or province – a relic of centuries-old tradition of patron saint in every place – clearly gets in the way of a stronger collective sense of society and identity that galvanizes the nation. The political behavior of having family territory is not conducive to sustaining economic growth.

They spread government resources too thinly and preclude a critical mass of good governance from taking root. Creating new provinces, municipalities, and even local government units may ensure a family's hold onto the political power but along with them the demands for additional institutions and bureaucracies escalate. The rationale for them can always be couched in grandiose terms but there is no doubt private (family) interests are followed using weak governance and state machinery, a clear variant of "booty" or "crony" capitalism (Hutchcroft 1998). They also weaken further what are already weak institutions as new organizations (province, etc.) grapple with delivering basic government services. Considering that new (local) governments have to institute rules for resource allocation and rules for reducing the costs of procedures to follow new rules, it is doubtful if they can keep pace with the needs in governance for economic development. While it is likely that political kingpins are certain to capture the reins of central control what is more likely is institutional uncertainty those constituents and those who deal with the new set-up (e.g. domestic and foreign investors) face. Multiply these institutional barriers by the number of breakups of provinces or the creation of new ones and they eventually diminish the sustainability of economic growth. Stimulating economic growth through orthodox policy levers may jump-start an economy (e.g. macro-economic instruments of fiscal and monetary policies, trade policies, and exchange rates) but these are not growth-sustaining. It is the behavior of economic agents and institutions that take over and ensure that sustainability. It has been argued for example that substantial improvements have taken place in the Philippines after the Marcos regime but because basic institutions and governance structures have remained, patronage politics have also remained (Lim and Pascual 2000). Put differently, when one behavior obviously violates with impunity a norm (e.g., limits to a new "fiefdom"), succeeding behavior violates other norms (e.g., fielding family members), and so on for economic behavior. These are consistent with the "broken-windows" theory which suggests that signs of disorder induce other disorders – indeed linking one (political) disorder to another (economic) disorder (Keizer, Lindenberg, and Steg 2008).

4. Directions for Sustainable Growth: Multiple Dimensions

We have endeavored in this paper to (a) review Philippine historical aggregate economic performance and (b) explore multi-dimensional factors that may explain its growth dynamics following the OECD framework for Multi-Dimensional Country Review (MDCR). Many, if not most, of analyses of the country's long-term aggregate economic record show that while growth accelerated in some years it also stagnated in other years so that its average performance has been at best mediocre and at worst dismal. In comparison with other countries in the Asia region this record is closer to the tail end of the comparable countries and nowhere near where it was in the early decades of the post-war period. The explanations for this feeble performance follow economic orthodoxy – low investment ratios, low productivity across sectors, low savings conversely high consumption, insufficient infrastructure, market failures, public sector inadequacies including fiscal deficits and insufficient fiscal consolidation, over-regulation in industries and sectors, among others. On the other hand, our exploration of multi-dimensional factors point to a variety of non-economic explanations for the persistent low economic track. Although institutional factors have gained increasing attention and acceptance as indeed reflected in burgeoning theoretical and empirical literature, overall they are yet to be fully tested. But a major part of the emergence of other factors is the inability of conventional measures or the use of institutions and procedures that were successful in developed countries to explain the failure of developing countries in achieving sustained growth. Even conventional reviews often dismiss culture and social explanations for underachievement of some countries including the Philippines (Briones 2009). In the end then there is still dichotomy in understanding what is really behind why sustained growth is elusive. We emphasize here how to sustain economic growth – indeed conventional economic analyses have pinpointed to specific critical development constraints particularly articulated not so much in terms of national indicators but how varied are the sub-national characteristics suggesting regional and local solutions. And these range from again conventional policy directions such as accelerated infrastructure, good governance, access to more equitable opportunities (e.g. finance, land, education, health, social services, safety nets, etc.), diversified and stronger industrial base including "walking on two legs" meaning industry and services (ADB 2007; 2011).

What this paper has argued is that common across the orthodox economic analysis and non-economic analysis is a country slowly fragmented under a behavior that leads to uneconomic sizes driven by political expediency, of preserving dynasties and family control of provinces and sub-provincial areas. This common feature seems to be the real binding constraint to the country's sustained economic progress. Even if we presume that productivity rises and is sustained allowing a structural transformation of the economy, there is still the nagging question of whether there is sufficient institutional robustness for it to take root. While the Philippines remains a development puzzle for economics, those who have studied institutions apparently see no puzzle as we have reviewed earlier. This is more so for industrial development with strong domestic vested interests which has been partly why the manufacturing sector has not gained headway after long years of uneven stimulation. This does not seem to be the case of specific services such as business process outsourcing which has been internationally driven without immediate domestic institutional bottleneck nor vested interests.

Without addressing this common critical binding development constraint as integral part of a reform package of economic measures, it appears unlikely that a sustained economic growth will permanently take place. On the other hand, there are specific measures that have to be considered in ensuring that the streak of fragmentation will stop and even reverse its long-term trend. One is a moratorium on the creation and break-up of provinces and local government units and eventually abolishing some provinces, cities, municipalities, and even barangays. This will consolidate geographical areas and greater ability for economies of scale to evolve, encouraging entrepreneurship, innovation, greater product diversification, and more production networks. Some countries have successfully reduced their provinces allowing agglomeration and larger seamless markets[21]. In fact such rationalization of local governments tends to spare scarce bureaucratic capacities increasing efficiency to service the private sector. It bears repeating, however, that by itself, this will not trigger growth nor automatically sustain a respectable growth. It remains part and parcel of a more complete policy agenda. Another is that the package of economic reforms that are laid out by other studies, orthodox they may be, need to be vigorously pursued in tandem with non-economic measures. In particular, it may be necessary not only to accelerate infrastructure but to really aim for a "big push" in order to overcome new boundaries from break-up and fragmentation of provinces[22]. Indeed, building a major road artery along with feeder connections and sea arteries may help consolidate areas and reduce fragmented cultural identities. Finally institutional capacities have to be developed across different levels of the bureaucracy.

[21] China in 1946 had 35 provinces but through a process of abolition and some consolidation into autonomous regions, the country has only 22 provinces. Of course there must be a political motive behind but the economic impact is also evident.

[22] Infrastructure, directly and by itself, is not a solution to e.g., intersectoral distortions or labor market rigidities (and is never intended to be) but it enables borders to be more porous and boundaries blurred and becomes even more effective if combined with reducing artificial (political) geographical units.

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