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**Building Bureaucratic Capability
in the Philippines**

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ABSTRACT

This paper reviews the importance of governance to a developing country like the Philippines. It looks into the role of bureaucratic efficiency in improved governance. Analyzing features of the Philippine bureaucracy, it identifies some organizational aspects which lead to inefficiency. Among those studied are the effect of the criminal justice system on bureaucratic behavior and the cost of slow project implementation.

Building Bureaucratic Capability in the Philippines¹

by

Cayetano Paderanga, Jr.²

Background

The recent study on *The East Asian Miracle* emphasizes the importance of bureaucratic capability in the growth episode of Japan and the newly industrialized countries (NICs) of Asia. This has led to the examination of governance as an important ingredient in economic development. For the Philippines, the question is doubly important because the same study observed that this country had a weak bureaucracy relative to the Asian NICs and ASEAN neighbours.

The meaning of governance

According to *Webster's New Collegiate Dictionary* governance or government refers to "... 4 a: the continuous exercise of authority over and the performance of functions for a political unit: RULE b: the political function of policy making as distinguished from the administration of policy decisions 5 a: the organization, machinery, or agency through which a political unit exercises authority and performs functions and which is usu. classified according to the distribution of power within it b: the complex of political institutions, laws and customs through which the function of governing is carried out in a specific political unit..." This broader definition even as applied to the narrower area of economic development is preferable as it highlights the "governance needs" of a country deeply engaged in pushing economic development. While it is embodied to a large extent in the building of the right institutions, it implies intangibles that go beyond them.

Importance for economic development

Economic growth is often defined as the increase in per capita income over a

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long period³. This definition of economic growth emphasizes and further illuminates the importance of governance in economic development. It connotes the utilization of the economy's resources to increase productive capacity over the long term. The other dimensions of development are similarly influenced by this need for effectively using resources and for continuously doing this over a long period and would also need the broader definition of governance.

The essence of governance in this context is the organization and focus of a country's resources for the very concrete and specific tasks needed for development. It starts with the collective social decision to push for economic development, which may require some initial sacrifice. This is important because at some points, the magnitude of the sacrifice required to maintain the development effort may call into question the decision to work for development. The governance need of the economy includes the social organization to attain the initial decision to work for development and the social arrangements needed to maintain this overall commitment in the face of difficulties⁴. Political and social arrangements are important for this particular task. This is true whatever form of government the country is under.

Once the commitment to the development task is made the economy must build the habits, the customs and the other organizational features most conducive to optimal economic growth. This includes "setting the prices right," streamlining and invigorating the bureaucracy, streamlining procedures and identifying bottlenecks, and, perhaps most basic, defining the appropriate role and scope of government. This, probably comprising the largest portion of the layman's understanding of the term governance, is the main subject of this paper.

One other component of governance, often neglected, is the ability to incorporate speedy feedback from the public to the decision making and implementation staffs. This is important for modification and further refinements of development plans and programs. It is also useful for monitoring impact and maintaining support for the development effort.

³While only one of several dimension of economic development, growth appears to be a crucial one as it facilitates the attainment of the other others. The other dimensions are similarly influenced by governance.

⁴See for example Bardhan (1990) for the importance of government in "developmental coalitions deriving political legitimacy from what may be called the nation's collective aspirations."

Improving the bureaucracy

This paper focuses on the challenge of improving the bureaucracy as an instrument in pushing the development agenda. Two approaches are possible: one is to describe the characteristics of a system designed to deliver good governance; the other is to describe the tasks that a good governance system must fulfill (subsequently deducing the qualities of the system which will provide them). A good description would probably incorporate ideas from the two approaches. The first approach provides standards leading to decisions which on balance are desirable from a general neutral point of view; the latter approach has the advantage of identifying some peculiarities of specific environments which can be exploited (or have to be work with) for maximum bureaucratic effectiveness.

Root (1995a) and Root(1995b) belong to the first approach, describing features of bureaucracies which are expected to lead to desired decisions and activities. The three fundamental characteristics are accountability, transparency and predictability. Combining these needed qualities with features of the Philippine environment help to identify suggested changes. Note that while these characteristics are conducive to the behaviour that may be termed good governance, they do not guarantee it. These may be necessary, but not sufficient, ingredients for what we may be looking for.

Government's Role and function

In the context of the market economy, the (narrow) role of the public sector may be viewed as the execution of a list of critical projects at crucial points in the development effort. Alternatively, one may view this as the function of providing necessary public services which must be available when the economy needs them. Without these projects or services, the economy never attains the self-sustaining momentum which characterize growth spurts. These projects and services have to be thought of, planned, executed, and maintained.

While a good bureaucracy is necessary and conducive for these activities to happen, it is not sufficient. Conscious effort by the leadership to provide a common vision of what needs to be achieved is still needed. Whether this is properly part of the term governance is more than semantics. A successful development effort requires that this common vision be provided. What is discussed here is whether a "good" bureaucracy would provide this stimulus as a matter of course.

Lessons from the Philippine experience

The Philippine experience illustrates the importance of good governance. For example, concluding from the experience of the Asian NICs, the saving and investment rates of the Philippines should have produced higher growth during the 1955-75 period³. Instead, the country's growth was lower than those of the NICs (Paderanga, 1988). While this was due in large part to the trade and investment policies followed by the country in the last forty years, one may ask how the policies were allowed to persist for such a long period. Why was it that government was unable to identify the correct policies, or, having seen them, was unable to implement? Beyond this, the poor quality of the bureaucracy has also been pointed out as one of the major weakness of the economy (World Bank, 1993).

Importance of procedures

How things are arranged can also be very important. The economic system's institutions and procedures can interact with individual behaviour to produce results which may be conducive or counterproductive for development. Some arrangements are more effective than others under a prevailing environment. Government practice and experience indicate that analysing procedures and arrangements is a necessary ingredient to increasing bureaucratic effectiveness. This has to be considered at the same level of importance as training and pay improvement. A few examples may illustrate this.

Politics and the Budget Process

The main objective of budget making is to allocate public resources to the activities and investments which will maximize social welfare (which may have per capita income as an operational target) over the long run. The ultimate objective, therefore, is to design a system which induces behaviour that promotes this desired result. In particular, we want the system to efficiently tie together planning, programming, budgeting and, very important, feedback on the effectiveness of the projects and programs into one seamless whole.

On paper, the budget process follows a system which integrates planning,

³Krugman (1994).

programming and budgeting called the Synchronized Planning, Programming and Budgeting System (SPPBS)⁶. Under this system, the government uses a three-year budget cycle which starts with the identification of projects and activities under the medium-term development program. These undergo pre-feasibility studies and initial screening during the first year and the remaining projects undergo more detailed project studies during the second year. During the second year, the projects and activities are programmed for implementation. The third year of the cycle is devoted to getting the appropriation approved and the funds allocated and disbursed. Implementation starts.

There are several qualifications to the process. A three-year cycle, if followed slavishly, can be inflexible and non-responsive. The process has to incorporate features for newly-breaking developments and events. However, as envisioned the process contains the kernel of an integrated approach to planning and programming the major and inter-connected infrastructure needs for the country -- especially if taken in conjunction with the decentralization moves of the government (taken up later).

Of interest is how the process may go against the immediate, short-term interests of implementing agencies and the short terms of most politicians. It is in the interest of implementing agencies to try to influence (distort) the SPPBS process toward implementing as much of its programs as possible even at the expense of the consolidated expenditure program. It is also in the interests of politicians to implement projects that are identified with the incumbent office holder, even if these are not completely in accordance with the optimal sequence of projects. Some of the proposed changes may be legitimate. But that does not negate the possibility that myopic agency and individual politician vision will dictate distortions in the expenditure program.

If maximum benefit is to be derived from the current resources of government, the integrated and systematic expenditure program has to be balanced well with the legitimate modifications dictated by events. Discipline needs to be introduced into the system in order to differentiate valid deviations from those merely flowing from myopic agency and individual local government needs.

⁶See appendix for the full cycle.

Geographic distribution of public investments

The allocation of funds across geographical units also create the same kind of bureaucratic strategic behaviour. The pressure for geographical subdivisions to induce their political leaders to distort the systematic allocation process is internally generated and leads to myopic (but rational) individual behaviour. The system has to be designed to minimize this counter productive behaviour.

One important component of an effective system is the ability to properly identify national and local investments. Once the national investments are properly identified, that is with national or, at least, interregional implications, it should be viewed as a system or network. Location and sequence needs to be decided on the basis of maximum effectiveness of whatever service is being offered such as a national transportation network. Normally then, geographical considerations take a second place to overall considerations in national projects.

Experience shows that perceptions of regional and local equity in investment allocation is a major concern throughout the country. This can be addressed in, among others, the allocation of funds for local projects. However, under such a system it needs to be emphasized that national projects have to remain undistorted by local considerations. The loss of effectiveness from localization-induced distortions would be to the detriment of all regions in the end.

At the same time, there should be recognition that genuine local preference for "getting" national projects built in particular regions can exist. This is specially true for services which may have some local impact (aside from the provision of employment). An example of this may be the location of main transportation nodes whose benefits may diminish with distance from the node. In such cases, matching grants to and from the regions or localities can be used by the national government to a) even out the net benefits among regions, and b) even speed up the provision of services given a specific budget for national investments. Conversely, matching grants can also be given to induce regions to invest in local projects with substantial spillovers into the national network.

One possible system would use the budget (SPPBS) process to allocate expected resources between current and capital expenditures. Capital outlays would then be allocated between national and local projects. Local projects would be allocated and programmed by the appropriate local process. This can be mediated

through the regional, provincial, and municipal development councils. The Investment Coordinating Committee of the NEDA Board can process national projects the way it does now. However, with the proposed guidelines enumerated above, this will be done with main interest on maximizing the effectiveness of the national investment project. Investment funds for local projects, on the other hand, will be distributed according to a generally accepted formula which pays proper attention to geographic equity and other considerations of need.

Importance of speedy and timely implementation

Speedy and timely implementation of projects and activities is also doubly important in developing economies. System rules may, however, hamper implementation by procedurally necessary but temporally sub-optimal requirements for reasons other than effectiveness. In most of government procedures (and decision making) time and financial cost are not given enough weight relative to the prevention of fund leakage and wastage, no matter how minor this may be. As a result, elaborate procedures to prevent the most minor frauds are inflexibly followed, resulting in very long delays which inflate costs many times over.

Optimal resource allocation requires procedures which can more closely approximate the optimal trade-off between losses from fraud and related misdeeds and the cost of delays. The final cost to the economy from unavailable support services at the time they are needed and the delay in connecting infrastructure facilities are tremendous and ultimately debilitating. It would probably be beneficial for the economy to move a bit towards due consideration of this cost in the (re)design of procedures and systems over the next few years.

The role of the criminal justice system

A large part of the present system design, as mentioned earlier, may derive from the experience of losses from graft and corruption in the past which gave the impression of having gone unpunished. Over the years, layers and layers of regulation and procedures have gradually built up, designed to make the commission of graft difficult. However, these have resulted in a very complicate and unwieldy system where the discretion of public officials are avoided and only reluctantly applied. The result has been a system which is difficult to manoeuvre for maximum effectiveness and which runs on whatever little inertia it has. It is a system that is inflexible and often unresponsive to the current needs.

The cost of delays due to elaborate procedures designed to prevent fraud and related abuses are very high. The role that is played by the right incentives in changing individual behaviour through appropriate penalties and rewards has been ignored. The economics of criminal behaviour which would indicate the optimal combination between probability of punishment and the weight of the penalty if caught in determining the least cost system design has not been appropriately incorporated into the design of Philippine procedures.

This could have developed because, historically, it has been very difficult to convict, much less, punish wealthy and well-connected individuals. First has been the tremendous delays in the administrative and criminal procedures. Second has been the difficulty of bringing action against many highly visible perpetrators in the past.

A redesign of the criminal justice system intended to speed up and complete fraud and related investigations would substantially decrease the cost of economic activities (both in the public and private sectors) in the country.

At the same time, all of the elaborate procedures which have accumulated over the years in order to prevent graft and corruption have made the room for official discretion much less. Decision making in government has become administratively hazardous and difficult. One of the largest sources of this difficulty, for example, is the present form of our anti-graft law (Republic Act 301, as amended). Under Sec. 3(e) of this act, public officers are liable for "causing any undue injury to any party, including the Government, or giving any private party any unwarranted benefits, advantage or preference in the discharge of his official, administrative or judicial functions through manifest partiality, evident bad faith or gross inexcusable negligence..." Sec 3(g) of this same act further finds liable any public officer for "entering, on behalf of the Government, into any contract or transaction manifestly and grossly disadvantageous to the same, whether or not the public officer profited or will profit thereby."

In its present form, a public official is liable if 1) he has profited from a decision he has made, 2) the government suffers some loss, or 3) any third party suffers some loss from a decision that he has made. The last two conditions do not require that the official profit from a decision he has made although they require that the injurious act was done through "manifest partiality, evident bad faith or gross inexcusable negligence." They only ask whether the government or a third party suffered some loss. Since the grounds for initiating an anti-graft action are so broad,

it opens the public official to nuisance suits which can then drag on for years, holding up his retirement pay and other emoluments. Since these would probably constitute the major portion of the accumulated wealth of most career government officials, this feature introduces extreme conservatism into the action of most senior career public officials. It is not unusual to observe officials at the undersecretary, assistant secretary and director levels become reluctant to make difficult decisions.

As a corollary, it may also be beneficial introduce procedures to screen out nuisance suits by requiring some element of initial plausibility before administrative and criminal investigations can be used to suspend the granting of emoluments. Some entry fee may also be considered to screen out nuisance suits, as well as the possibility of counter suits should the charges prove to be merely vengeful and nuisance allegations. Finally, to speed up the investigations of charges, some conditions for lapsing of action may also protect the official from the burden of protracted (and even dormant) investigations.

Rules versus discretion: Process versus results

The other aspect of process orientation concerns the level at which discretion is exercised. Currently, there is an emphasis on correct procedure which are routinely followed at the lower levels of government and there is substantial use of inter-agency committee meetings and decisions. Decisions and discretion also tend to be exercised at higher, rather than lower, levels. No doubt these are intended to ensure that decisions are fair and that all the other considerations such as environmental spillovers are included. However, these add to the decision making and implementation layers leading to the costly delays mentioned earlier. For example, it is very reasonable to expect that environmental policies and guidelines can be set by the Department of Environment and Natural Resources but will be enforced by, say, the Department of Public Works or local governments in all public works projects. However, where there is no assurance that these will be routinely followed by non-environmental agencies, the need for formal approval by the DENR arises. But it is clear that under ideal circumstances these elaborate and long-winded process can be drastically shortened.

This preference for elaborate rules to guarantee fairness and completeness is intertwined with the environment. The trade-off between making sure the system is fair on one hand and emphasis on results on the other depends on whether broad standards of fairness and equity are prevalent in the society and whether these can be

expected as a matter of course from public officials. Where these are not present, the response has been to impose elaborate rules which need to be followed⁷. In an environment where social standards allow us to reasonably expect fairness and social concern, more trust in discretion of public officials and at lower levels can be part of the system.

How to create the environment where trust in the social standards will allow us to use speedier procedures is a goal worth spending resources on. The reduced cost of decision making and implementation resulting from such a change could be substantial. However, this may require the practice of speedy and certain punishment where misbehaviour is actually found, re-orientation of the values and expectations of society and a clearer specification of what the public can expect.

Decentralization and its impact

The devolution of powers to the local government has greatly improved the responsiveness of government to local conditions. At the same time, it poses the danger of transmitting the problems of organizational design mentioned above to many other areas and many other points of government. It also introduces additional organizational and management dilemmas. Among these are a) issues of standardization or localization of employee and other staff policies and b) to what extent national standards of public services will be imposed on local decision making.

When there are several levels of administration, there is often a dilemma of whether to impose uniform standards in order to promote predictability and monitoring or to allow for managerial discretion in order to promote "frontline" effectiveness and responsiveness. An issue in the area of human resource management illustrates this. In employee benefits and career development, there is often a dilemma between centralization and uniformity on one hand and local applicability on the other. The former assures uniform treatment of employees and avoids managerial excess but introduces inflexibility and diminishes responsiveness to local conditions. The latter allows for greater managerial discretion and innovative approaches designed for heightened effectiveness but introduces the possibility of arbitrary and uneven application of rules resulting in employee demoralization. Here

⁷This is, perhaps, emphasized by the rule within the Office of the President that there should be "complete staff work" or "CSW" before a decision can be made. This may be because the decisions that are made at that level are policy-oriented. Still the point is underscored.

the spirit is just as important as the letter of organizational approach. Facile formulas, such as a national minimum levels and local discretion for additional emoluments, do not work because the unwritten tradition that permeate the bureaucracy gives rise to expectations that could be more binding than the written rules⁸.

A similar dilemma exists for public services which are devolved to the local governments. After the identification of which functions are properly devolved to lower levels of government, the specification of levels and forms of these services which people all over the country can expect from government is a difficult task. Levels which are set too high start to impinge on the local executives' ability to manage their budgets and, therefore, limits the local governments' choices in the menu of services which they may want to provide to their constituency. In the process, the main strength of local responsiveness may be sacrificed and inflexibility in government services may result.

A systems audit and staff training program is a major part of the solution to the expected difficulties with decentralization and devolution. The correct choice of what functions to devolve coupled with a strong training program to speedily upgrade the level of competence in lower levels of government is very important if we are to profit from recent devolution and decentralization efforts. This upgrading is also needed in order to allow the managerial discretion that is a necessity where local responsiveness is sought.

Revenue collection and the macroeconomic limits

Rosario Manasan in various articles and Krugman, *et al* (1992) have mentioned the large loss in government revenue coming from the less-than-expected performance in revenue collection. This is of critical importance because it has direct and immediate impact on the fiscal balance which is very important in determining the macroeconomic limits of the economy. If the fiscal sector is in balance, it substantially enhances the economy's ability to grow at higher rates in a sustainable manner.

The features discussed in Root (1994 a and b) as qualities of a good

⁸Better senior and middle management skills as well as appropriate rewards for accomplishments could focus public managers on better human resource management, resulting in better handling of employee matters.

bureaucracy are critical to the achievement of desired results in this area. Training and adequate pay are probably the most important ingredients of institutional change here. However, the improvements in the other parts of the system, especially the criminal justice system, leading to the right penalties and rewards are also critical. The design of the revenue collection system interacting with the ethical standards throughout society is very important. A systematic institutional change program in this area will, probably, require political will at the highest levels of government.

A neglected point in improving revenue collection is providing the incentives to lower levels of government to support increased revenue collections. Under the Local Government Code the internal revenue allocations (IRA) of lower levels of government are divided into the main categories (provincial, municipal, cities, etc.). The share of each level is then divided among the units belonging to that category. There is, therefore, very little connection between the revenues generated in each locality and their share of the IRA. The possibility of inducing local government effort to help increase revenue collections is not exploited. In an improved system revenue sharing could reflect the local government's revenue collection effort.

Role and scope of government

Identification of the proper role and scope of government could substantially ease the task of increasing bureaucratic capability in several ways. One way is through the resulting realignment of the government's finances. It is possible that over the years, especially during the period when government interventionism was favored, that the public sector has increased beyond its optimal size. Activities properly belonging to market and private sector provision have been taken over. The result is expensive and imperfect provision of services by an ineffectual public sector. There is also a resulting dissipation of public resources. Ultimately, all public services suffer, including those which the market cannot provide and which properly belongs to the public sector.

In a developing economy context, the government should also determine what services it can afford to provide with its meager resources. The resulting dissipation of public resources due to overly optimistic promises by the government result in no effective services being given. As a result, it is difficult to impose high standards on public service and mediocrity follows.

Serious thinking is needed in specifying the services which the government, at

all levels, can effectively provide at this stage of our development. As the government's role and function are clarified, unnecessary activities or those more attuned to market and private provision are avoided. The resulting increase in resources can then be used to increase the remuneration of government employees.

The proper delineation between the private and public sectors could also result in fashioning out a smooth interface between them. There will be less uncertainty on the part of the private sector as to what is expected of it. The rules can be made simpler, more defined and easily enforceable. The resulting reduction in uncertainty and complexity can be expected to result in cost reduction in both the public and private sectors. It will also lead to easier monitoring and management in the bureaucracy.

The role of training and systemic change

This brief survey of possible changes in bureaucratic capability has highlighted the need for higher quality manpower in the public sector. This is true in some general sense at all levels of government although, of course, there are pockets of highly capable competence. It emphasizes the need for a massive upgrading program designed to raise the commitment, competence and dedication of public servants. A major component of this upgrading program will be a widespread and long-lasting training program addressing the technical competence and value orientation of government officials. This will probably come in several packages designed for the various levels and functional sections of government. It will need to be long-lasting in order to ensure that in the end the cadre of government employees with the desired qualities will be a critical mass if not a compelling majority.

At the same time, the review also shows that the training and upgrading program will have to be combined with a systematic analysis of the procedures, guidelines and organizational design of the institutions. This is needed so that the upgrading program will be self-sustaining. The right rewards and penalty system and other supporting institutional features need to be present so that being a government official with the desired quality will not be a lonely and losing proposition.

Institutional framework

In the current thinking about bureaucratic development, the issue of the organizational framework to develop and maintain bureaucratic competence arises.

In particular, the advisability of setting up a Ministry of Public Service and/or an Independent Public Service Commission has surfaced. This is worth considering. However, the statements made above regarding the balance between national standards and local appropriateness apply to agencies as well as to lower levels of government. Aside from the financial implications of still another bureaucracy (or increase in a present agency) on the over-burdened government budget, there is danger that in the push to impose standardization, we may build structures which do not respond to actual conditions. There is nothing in the analysis above that suggests that such an organizational innovation is needed. While upgrading and staff development is an urgent necessity in the current setting, we also need to be wary of the possibility that over centralization of human resource policies will introduce undue inflexibility into the government. If we are not careful, mechanical and overly legalistic adherence to procedures could dominate the practical, result-oriented application of basic rules and managerial discretion.

There is a need to allow management discretion to be applied to an area that belongs to management. Above a certain minimum in benefit levels and basic procedures, personnel and other human resource matters should be the responsibility of the agency head. If he is made to answer for the efficiency and effectiveness of his agency, that is enough incentive for him to ensure that his staff is well-functioning and possess high morale. We can depend on the right incentives to limit arbitrariness and abuse. Beyond that, the national leadership can manage by exception. Those agencies which are not performing well can undergo a change in management.

Role of national leadership in good governance

The achievement of good governance and an efficient bureaucracy is a necessary component of the development effort. The savings in the costs of decision-making, implementation, review and feedback as well as the benefits of improved decision making and implementation are comparable in impact on real output and growth as increases in, say, the investment and savings rates. Government resources and attention applied to improving governance and bureaucratic capability should be rated on equal basis as other public sector investment areas. The national leadership rightly considers this as a very important investment of its time and effort.

The analysis and realignment of the institutional framework (which includes the rules and other intangibles aspects) can be reviewed with strong commitment from national leadership on the improvement and maintenance of governance and

bureaucratic capability as a background condition. This point can also be the background to issues of whether to set up additional institutions to monitor and improve bureaucratic capability including suggestions for setting up a department devoted to the bureaucracy. Perhaps, rather than further adding elaborate rules the thrust should be towards simplification of rules, and towards increased attention by the national leadership.

What may also be emphasized from here on is the importance of making administrative structures responsive to policy makers. Just as important as making agencies more independent, is the need to make them accessible and responsive to the public's welfare. In a democratic setting, this feedback is channelled through policymakers directly accountable to the electorate or indirectly by being accountable to the President and the cabinet. This may a more effective way of getting good performance than elaborate rules and procedures.

What may be explored is developments in parts of the economy, aside from those happening in the bureaucracy itself - such as increased transparency through the media so that backroom wheeling and dealing gives way to open discussions of social welfare. Changes like these, in tandem with increased accountability of senior management in agencies and local governments could then be given time to mature. In the long run, this may be more dependable than setting up arrangements which result in more complicated regulations and procedures.

At the base of all these is the formulation and promotion of a vision of national development which considers the present stock of resources and potential economy capacity. Aside from the possibilities promised for the future, such a vision must also articulate the sacrifices necessary for the present. With such a program, the government may be able to expect the level of dedication and hard work that is required for a capable bureaucracy so useful for the development effort.

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