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Political Economy of Philippine Economic Reforms

by

Gerardo P. Sicat

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Abstract

This essay is concerned with the broader canvas of economic reforms in the Philippines viewed from the framework of political economy. The first part provides a brief discussion of the rationale for economic reforms. The second part presents a tableau of economic policies in perspective over a long-term perspective covering years before political independence. This historical background provides a backdrop for understanding the evolution of economic policies. Before political independence, economic policies were mainly liberal along the framework of economic policies inherited from colonial legacy. A series of crises and within the background of Constitutional policies set forth in 1935, economic policies underwent growing restrictions. These restrictions took the form of trade protectionism and discriminatory policies that affected the employment of the three major factors of production -- labor, capital, and land. Realizing some of the problems of these restrictions, slowly economic liberalization took place in the course of the succeeding stages of economic policy reforms. The third part of the essay summarizes some of the major aspects of economic reforms facing the economy that remain to be attended to. There are structural and institutional problems that continue to be daunting. The major part of the essay on the important factors that affect the political economy of economic reforms focuses on the major aspects of political and institutional factors that affect the progress of reforms. Factors stressed include leadership issues and the peculiar aspects of Philippine politics that affect progress. This is illustrated by commentaries on various economic policy episodes and personalities involved in them. Among other factors cited are the importance of international economic relations and the critical value of having proper economic diagnosis which requires not only improving the technical personnel of the government but also the diagnostic capability that is developed within the nation. The last part deals with four aspects that are related to the pursuit of sound policy and constitute a commentary on four lessons learned that describe the country's experience.

Key words: Political economy, politics, economic reforms, Philippine economy, liberalization, Philippine economic history

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POLITICAL ECONOMY OF PHILIPPINE ECONOMIC REFORMS

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1 Introduction

This essay is concerned with the broader canvas of economic reforms in our country. It traces the historical antecedents of existing policies and speculates on the political economy that needs to be taken into account if the country is to move quickly into the arena of high economic performance that is characteristic of the East Asian growth experience. In order to move actively into that arena, it would be useful to delve into the strategic issues, the tactics that need to be employed to achieve the objectives, to make a statement of those objectives, and finally to learn some of the lessons from past experience. One of the first outcomes of this exercise is to bring in stark reality the tendency fostered by economic policies of the past, beginning with the legacy from restrictive policies that have been the source of many problems as a nation. They raised the barriers faced by policy-makers. The result was that the economy became more vulnerable to macroeconomic shocks, both from within and from without.

Within that context, it might be instructive to add my own experience and observations about the process. Since 1958 when I joined the economics faculty of the U.P., I have been a life long student of Philippine economic issues. In subsequent stage of that career, I spent more than ten years as a practitioner and decision-maker at the national level. Then, I took a kind of hibernation by working in a different environment. For the next thirteen years of my career in what might be considered one-third of a normal professional career, I worked on the experiences of other countries at the World Bank. In the present stage after my return to the country, I have the luxury of review, evaluation and contemplation.

The essay is divided into five parts. A brief discussion of the rationale for economic reforms is made focussing on its urgency. The second section presents a tableau of economic reforms in perspective, and divides the episodes into separate stages. This table provides a kaleidoscope of economic issues and changes in the legal framework that affect economic behavior. While beginning with liberal policies, there followed a period of restrictions. This was then followed by liberalization of the economy. The next part summarizes some of the major aspects of economic reforms facing the economy. The single most important problem is the low domestic rate of saving. Aside from that problem, there are structural and institutional problems that continue to be daunting. The analysis of economic reform issues from the standpoint of political economy are then analyzed focusing on some of the important aspects of political economy that are relevant to the economy. There is virtually a review of economic and political institutions, focuses on leadership issues and the political economy attendant to the pursuit of reforms. The paper emphasizes the role of leadership and the use of tactics. The last section deals with four aspects that are related to the pursuit of sound policy and constitute a commentary on four lessons learned that describe the country's experience.

2 Need for economic reforms

For many years now, the need for deepening economic reforms has been a major preoccupation among those who see that our economy has *yet* to live up to its potential. The potential is there. The ability to push the envelope of economic change toward that potential exists provided that the barriers to investment and to higher productivity are removed.

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- At no time in our history is the problem of poverty in the forefront of the national agenda. Poverty is an economic problem and many signs of its having grown is due to failure to solve it well. As our neighbors succeed in reducing their poverty, we come up in stark contrast with them.

- The long-term economic growth record that we have experienced – just take the last two decades – compared to our neighbors – despite the effects of the last economic crisis in Asia that began in 1997 – still is below average. The actual lag in performance accentuated during this period, even though overall, the record of the 1990s was relatively fair.

- The exodus of overseas contract workers (OCWs), rather than being viewed as a new industry providing additional incomes, is a vote of lack of confidence in the future of what is happening in the country. It is not only one of determining the choice of alternative sources of incomes.

The fact is that domestic wages have not caught up with the world around us. The rise of wages among some of our country neighbors in East and Southeast Asia has been dramatic while ours have relatively stagnated over many decades. Thus, it is not strange that these neighbors face labor shortages while we seem to have so much excess. As a result, some of our workers are in fact looking for work in these countries. Yet, if the outlet for OCWs did not exist and they all stayed home, we can imagine how large the level of unemployment would be and how much lower would be the real wages at home could be and how poor we really would be. The other face of that scenario is that the current problems that we now face – in relation to economic crimes, corruption, and other social problems – would be so much more intolerable even as today they already seem to be.

A nation that depends on wages outside of its geographic boundaries to keep its citizens relatively well off is a statement about the inability to have good control of its own economic destiny. Unless the efforts of providing for jobs are done mainly by efficient and competitive production at home, the country could be condemned to this fate. Only reform that strengthens the growth of investment in the country – hopefully to include a large growth of foreign investment and a strengthening of domestic investment – will make jobs grow at home, with rising wages accompanying it. (It is entirely different if the earnings that we receive are earnings from Philippine capital resources sent abroad, assuming that it has exhausted its use and employment at home – that is the kind of dependence that progressive industrial economies like the US, Japan, and European countries have achieved. And we are far off from achieving that stage.)

Defining the problem

The term "political economy of reform" involves the union of three important words – economics, politics, and reform.

Economics is the study of the allocation of scarce resources and the appropriate distribution of benefits and costs arising from that allocation. Economics tries to understand the behavior of economic agents in their search for solutions to problems requiring the use of scarce resources. The end result is that it gives an indication of the price and corresponding quantity for solving those allocation problems.

Economic reform involves the effort to undertake economic solutions to the problems of allocation that involve movements towards economic efficiency. The improvement of economic efficiency is a prerequisite of the improvement of the distribution of the resulting incomes. Reform –in this context *economic* reform – involves moving from one state of affairs to another in the direction of greater efficiency. Efficiency involves an improvement in the use of resources, a reduction of the cost of effort in achieving some measure of comfort for the family. It is what economists call *allocative efficiency*. If that measure of comfort is improvement of material comforts at the dinner table then it is achieving that basket of consumption goods at the lowest possible cost. That involves a welfare gain for many. Achieving this new state of affairs can only be obtained at a cost. For whenever one moves from one state of affairs to another, especially in the short run, there are winners and losers in the process.

Politics is the art or science of making the possible a reality, with the use of political power or a coalition of voting rights that sufficiently enables political power to be exercised wisely. Politics happens in the presence of institutions that serve as a framework for facilitating the decisions that involve economic reforms. Political institutions – the rules of change, of coalitions of like-minded reformers and their beneficiaries, and the changing realignments of alliances – determine how far the reforms that are planned can take place. In a polity like ours, it means getting our leaders to undertake changes in the way we conduct economic activities to arrive at more efficient arrangements. When viewed in political terms, pursuing economic reform implies using the means of politics so that certain desirable reforms – as defined by those who want to bring the economy to a more efficient situation – can be adopted.

3 Economic policy in historical perspective

In drawing the current canvas for economic reforms, a historical perspective based on the evolution of economic policy is presented. Table 1 (in the appendix) presents in capsule form the history of economic policies in the country in historical framework. The long time framework is important in laying down the basis for many of the current problems that have bedeviled economic policy in the country and which led to many cases of inconsistency in the pursuit of national economic policies. In 1934, the Constitutional Convention was convened to draft the basic law of the land. It was presided by Claro M. Recto who was to become the symbol of many highly nationalistic economic measures that would become dominant during the first few decades of independence.

These measures would, in time, reduce the flexibility of land use, the exploitation of natural resources, and the movement of foreign capital into the country. The restrictions applied to foreign ownership of investments in public utilities. The argument behind these restrictions was to provide a playing field in business that was tilted to favor citizens of the country. These policies were to become populist in appeal, and they encouraged the buildup of many protectionist measures that made economic policies basically highly inward-looking in outlook and myopic.

The country's leadership is identified through the incumbent president in the second column. The third column lists major economic and political turning points that were happening in the country at the time. The fourth column indicates contemporaneous world events that were then happening. These external events have a way of influencing the course of macroeconomic and structural policies within the country. Sometimes, the world events are truly important in the shaping of domestic events. Those who lived through the early 1930s probably had real fears about developments in the Spanish civil war. This was happening in the shadow of the growing consolidation of the Soviet communist state during the 1930s in Russia at the same time that a resurgent Germany was challenging Europe and the world. Filipino leaders, with fresh remembrance of former colonial ties with Spain, were keyed to the developments of that civil war. Coupled with agrarian unrest in Central Luzon during this period, this meant that that social equity and justice would be prevalent in the minds of leaders of the time who were framing the Philippine Constitution.

In the next three columns, policies affecting factors of production are listed. The three principal factors are labor, land, and capital. The policies that were adopted could have neutral or a biased impact on the markets for the services of these factors. Raising the price of the factor does not necessarily imply a negative impact on the hiring of that factor, but it has a consequence on decisions by owners of capital about what to do with their resources if they had any flexibility at all. In some situations, the policy was not designed to raise the price of the factor directly, but in presenting a barrier to its uses as a factor of production it indirectly raises the price of that factor. Many of the constitutional provisions that would affect land and capital provided an effective barrier against those factors that utilized foreign resources. The restrictive features of these policies were the expression of economic nationalism. There was immense optimism that Philippine resources would be enough to do the job. The driving force behind these provisions was related to the view that the nation's resources belonged to its citizens, so that the citizens had a monopoly in their exploitation. This monopoly, as experience later would prove, would encourage the nation's leaders to allow Filipinos to squander their own advantage and the wealth of natural resources.

Three economic indicators or policies are also noted in the next columns. These are policy areas that are critical to the evolution of the economy in studying the Philippine development experience. The first of these is the exchange rate of the peso. The second is trade – what is happening to trade flows and policies. The third refers to domestic investment. By domestic investment I mean, in general, all investments taking place in the economy, whether it be directly by foreign investments or by Filipino investments. During the first four decades of the country's experience, domestic investment is dominated by Philippine citizen investment although foreign investment had come. Sometimes, the commentary in these three areas is to influence of developments affecting the markets for the factors of production. This includes developments in the regulatory framework that supervised and influenced decisions in these sectors. Finally, a catch-all column is included. Here, additional observations are made to assist in the overall assessment or impression during the period in question.

The tableau, therefore, provides a kaleidoscopic view of the Philippine development experience in the context of economic reforms and policies that were relevant to the nation's economic course during the long period since we took over our destiny as a nation. These are the tools and data that I bring forward in making an assessment of the issues of political economy of reform in the country.

Excluding the war years that were an interruption of the continuum from the transitional period of the Commonwealth and early independent Republic period, it is possible to divide the economic policy canvas into five distinct stages or episodes. The division of episodes is undertaken from the viewpoint of economic openness. The five episodes could be grouped into three by collapsing the second and third together into one phase and the third and fifth phases into one also.

Stage 1. Economic transition to independence

The first stage could be called the liberal economic policy stage in which the provisions of the 1935 Constitution did not yet dictate the basic constraints for foreign factors of production. The period was transitional not only because after the destruction of the war period many things required rebuilding. The parity amendment on the Constitution gave American factors of production the rights accorded to citizens, but until 1973. In fact, the Philippine independence law (passed by the US Congress in 1934) called for a 10 year economic transition period to independence.

Essentially, this policy stage was marked by an open economy with freedom in trade and payments for all economic agents. The early postwar independence years were characterized by generous amounts of inward capital flows. They financed economic rehabilitation (war damage payments), social protection (consumer subsidies), and US military expenditures (large presence of troops and rehabilitation of military bases in spite of the immediate military demobilization after the war).

Stage 2. Controls and import substituting industrialization

The second stage began in 1949 when import controls were imposed and later on, these measures were accompanied by more severe exchange controls to keep the fixed exchange rate for the peso. Many steps were undertaken to cause a de facto fall in the value of the peso. These were undertaken through the mechanisms of foreign exchange taxation and "margin fees" on the opening of letters of credit for imports (which were pseudo-taxes to raise the price of the dollar), including all kinds of monetary and trade procedures that slowed down the disbursement of foreign exchange. All these methods were consciously used to promote new and necessary industries and to provide clear citizenship advantages as a means of allocating scarce exchange resources.

This was the beginning period of protectionism in industry, which carried forward some early ideas during the prewar period but culminating further in the open use of the motto of Filipino First for industrial promotion. I would call this period the import and exchange control phase with high level of protection for industry. Three presidents spanned this period – Quirino, Magsaysay, and Garcia.

Stage 3. Decontrol with inward looking industrialization

The third stage started with the decontrol of foreign exchange in 1962 and the introduction of protection through tariffs as part of industrial policy. This was a period when all the pent-up problems that built up from the foreign exchange and import controls were released, thereby removing the administrative burden of controlling the sale of dollars for any uses they might have been. This transition opened with Diosdado Macapagal in charge. But after Marcos won the election in the next election year (1965), these policies remained but included a marked expansion of government public spending on infrastructure on roads, school buildings and irrigation programs.

By the end of the second period in 1970, another release of the exchange rate was undertaken to relieve the pressure of the buildup of domestic spending on the balance of payments. I would briefly describe this period as decontrol with industrial protection.

Stage 4. Outward-looking liberalization

The fourth stage began in the early 1970s[1] and marked a period of economic policy liberalization and reforms in a number of areas. But it was also a period of great international economic turbulence – energy shock, end of fixed exchange rates, easy foreign loans through the build up of large amounts of petrodollars, interest rate shocks, third world debt crisis. Politically, it marked a turning point in Philippine history as Marcos declared martial law and instituted what he called constitutional authoritarianism that translated to what his opponents simply called in its pure and simple description, a dictatorship. During this period, the country participated in major rounds of international negotiations and also began the ASEAN economic diplomacy.

What started out as a promising period in terms of economic reforms became messed up in part by the economic turbulence that upset the macroeconomic framework and which led to many frustrating efforts to deal with price stabilization and macroeconomic stability. Finally, the sequence of shocks beginning with the international debt crisis in Mexico and the political crisis caused by the assassination of Senator Benigno Aquino Jr. in 1983 totally unravelled the fundamentals. The latter caused not only a political crisis but aggravated the economic crisis, causing reversals of some policies and a forced exit of Marcos from the political scene. I would describe this period as one of economic reforms and liberalization. The reversal of the reforms was temporary. The shorter name is outward looking liberalization because most of the challenges were still in opening the economy.

Stage 5. Economic liberalization

The current stage that we are presently in began in 1986, after the EDSA I with the assumption of the presidency by Corazon Aquino. I would call it the period of economic liberalization, although it began from a very gloomy period of economic crisis when per capita output had fallen by around 10 percent of the levels at the beginning of the 1980s. The country is still reeling from some of the problems left by the economic crisis of the early 1980s today, but moved towards a higher level of transition in terms of economic policy. By and large, some of the economic liberalization measures especially in the area of trade, investments, and economic openness of the economy. Some difficult problems of policy were relatively easier to undertake because, at the early stage of people power, Mrs. Aquino enjoyed a high degree of insulation as a leader despite the variegated political forces that supported her coalition.

She carried through measures that were started during the 1970s, were even reversed or stalled by the economic crisis of the early 1980s, but many of the measures accelerated during this period, and much more so during the 1990s. Fidel Ramos as president would extend this liberalization period even more quickly. Gloria Macapagal Arroyo has shown by her perseverance on economic issues that she will move the forward motion towards a more open economy.

In short, the economic liberalization agenda appears to be secure, especially because, today, the business sector supports the process whereas, the forces that inward-looking industrialization had built as interests in the commercial and business sector provided the main drag to the economic liberalization efforts of the earlier years. After many economic crises, a shift in economic attitudes occurred on this issue. Some of the measures taken in

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[1] I entered the Cabinet in 1970 as Chairman of the National Economic Council (the national planning body). I became the first Director General of the newly organized NEDA in 1972, and later, was appointed with a concurrent portfolio as Minister of Economic Planning. (Actually, the Director General of NEDA was the minister of planning, but the portfolio of minister was added mainly for the international protocol reasons.) I left NEDA in June, 1981. Actually, I was fired from my job during the cabinet revamp of that year. I had become an internal critic of the economic directions that were taking place by that time. I served as Chairman of the Philippine National Bank during a difficult period for two more years. I accepted a job to work at the World Bank in Washington D.C. in 1985, so I watched EDSA and the fall evolve from my TV set in Bethesda Maryland.

international diplomacy which began with the rounds of trade negotiations beginning with the Kennedy Round in the 1960s and ending in the Uruguay Round during the 1990s had borne fruit and led to an acceleration of economic liberalization. More immediately important was the conclusion of the ASEAN Free Trade to be consummated by the end of the present decade.

In capsule form, the first quarter century of independent existence was to follow a path of inward-looking development strategy. It took another quarter century to turn the clock the other way around more firmly. Realizing that the country was on the wrong track for the first quarter century of growth, it required a period of similar length in the midst of various economic and political crises to ground firmly the opening of the economy. By the standards of East Asia, this adjustment required a long period. Some countries (Korea and Taiwan) successfully turned towards the open economy by the middle 1960s within a decade of realizing that they were on the wrong track in their policies. Other areas (Hong Kong and Singapore) had never entered an inward-industrialization phase. They moved forward to reap the benefits of an open, competitive economy inviting foreign investment capital to invest in manufacturing and commerce and creating opportunities for their citizens to engage in profitable ventures without the benefit of excessive protection. Other ASEAN countries (notably Thailand and Malaysia) had only a mild case of protectionist, inward-looking industrial experience and, having made the mistakes early, had awaken from the stupor without being consumed by it. Perhaps, they also observed how their neighbors –we in particular – dealt with our problems.

In the case of the Philippines, there was deep case of fascination and romance with a faulty economic model and as a result the experience took a long time to shed off. That experience was inflamed by en economic nationalism that was discriminatory and highly protective.[2] Even today, there are groups that ask the government to keep on with supporting them with additional protection. However, it seems that the main body of opinion has now shifted towards embracing an open economy as the basis of commercial and industrial policy.

4 The complexity of economic reforms

The major economic reforms facing the economy can be grouped into three areas: macroeconomic, structural (sector, industry incentives, factor markets, prices, and so on) and institutional. Having laid the canvas of economic policies of the past, it would be useful to prepare a catalogue of current reform issues. Reform issues will never end. As a country matures, old problems require continuing review especially as new problems arise.

Macroeconomic reforms

For many years, the main problem of the economy was the imbalance between aggregate demand (caused by government expenditure, rising domestic expectations, and high import demand) and aggregate output (inadequate capacity, low level of output, and supply side constraints in production). This often caused serious international payments problems and also serious fiscal deficits. After years of economic crises, adjustment measures in various parts of the economy, and a surge of economic liberalization policies, the external problem seems to have been stabilized. Exports in manufacturing have become robust. Basically, the growth of exports, the surge of earnings from remittances of contract workers abroad, and the liberalization of the commercial foreign exchange regime have created balance on current accounts surpluses that are comfortable.

But recently, the main macroeconomic problem emanates from the return of the fiscal deficit. The fiscal deficit places a demand on private saving and on foreign saving to finance the gap. But which ever is the financing method, a fiscal deficit causes the saving rate to fall, via a claim against private domestic saving or a rise in foreign saving. This low national saving rate has caused the reliance on foreign saving to finance the fiscal deficit. But the saving rate is low in part because the economic growth rate has slowed down. It is easier to have rising saving as income increases than when it is depressed. The need for investment as a continuing source of growth, however, requires a growing level of saving. This is an intricate problem, and some of it is explained in full in Appendix 1("Why raising domestic saving is important").

[2] For a diagnosis of this brand of economic nationalism, see Sicat (2002a) Sicat (2002a).

The immediate economic reform agenda at the macroeconomic level requires that the fiscal deficit be kept within a sustainable level and to keep it within control so that it does not destabilize the rest of the system. This has been a difficult activity, however. The fiscal pressures of the government have been many and urgent: the peace and order problems in Mindanao that required a steep rise in military requirements had caused this. The economic downturn also contributes to the fall in saving because of a slowdown in income growth. The fiscal deficit is really the major source of threat to macroeconomic stability. Shortfalls in the revenues – arising either from optimistic expenditures and unrealistic tax revenue projections – common sins that are often committed could cause unexpected fiscal deficits.

There is another source of threat to the fiscal performance, and this arises not from microeconomic problems of state firms. It is related to the shortfalls in operating revenues of the state corporations. Some of this problem is due to management of the state firms. But others are related to their inability to their operating costs because the government does not allow them to charge the proper tariffs. Their budget figures are not directly part of the government budget. But they represent a potential threat to the fiscal position because of their operational deficits. The debts of government corporations are contingent liabilities of the treasury.

Microeconomic or structural reforms

Structural reforms cover aspects of microeconomic problems of incentives, pricing, and improving markets. These reforms are often designed to change the behavior of economic agents so that there could be an improvement of allocation and efficiency. The general theme of the structural reforms is to provide more room for competition and for the market to play an important role, to replace discretionary power with market allocation, and to reduce the inefficiencies caused by high levels of taxes and by government interventions in the economy. This is the theme of much of the reforms that had taken place as a reaction to the effects of fashionable policies that began with government interventions.

A list of examples follows.

The effects of structural reforms could be gradual so that it takes a period of adjustment that is often longer than the effects that are expected from adjustments in macroeconomic policies. Adjustments of structural and macroeconomic policies could produce a significant improvement of investment, production, or economic efficiency in particular sectors or economic activity when the complement each other. Structural reforms extend over reforms in tariffs and trade affecting industry, financial reforms affecting the behavior of banks and the securities market, industry regulation reforms, including pricing policies.

Some state corporations have been sources of fiscal and other problems for the government. Efforts to deal with their problems have called for demands for their privatization. With privatization, the problem of management would be shifted to the private sector and inefficiencies associated with government management of public enterprises could then be eliminated. The privatization of several of these enterprises had been met with resistance, mainly from employees, in all sectors. But efforts to provide early retirement plans and absorption of some employees within the new management had facilitated acceptance of privatization as an inevitable solution for many public corporations that have peculiar problems of procedures and incentives that continue to give them

Financial sector reforms have progressively moved forward. The average size of banks were raised by reforms requiring higher capitalization and competition among them has been promoted by requiring entry of foreign banks, either as strategic partners in the early phase of reforms, or as full service banks during the 1990s. This has broadened the area of services, encouraged consolidation of small and weak banks and raised the standards of performance of banks. In part, this has come with improved regulation and supervision. Financial liberalization has included broadening of participation in the insurance business and other financial institutions like investment banking and stock brokerage of foreign investment. But further reforms are needed in the strengthening of the capital market. Practices that occurred arising from recent stock market scandals, such as those that occurred during the Estrada period, could be avoided. A reform to create a secondary mortgage market for housing loans has been wanting in order to strengthen the housing market that simply depends on primary lenders.

Regulation of public services is in need of active intervention from reforms to promote competiton in the transportation sector especially in inter-island shipping and transport. Some of the problems faced by the agricultural sector in many parts of our island archipelago are forced by high transport costs to pay high prices for inputs and are made to reduce their prices for their farm output because transport costs eats up a lot. Inefficiencies that are the result of lack of competition and the prevalence of monopoly power in transport services, especially in inter-island shipping, were glaringly exhibited by the outcomes of the deregulation of airline deregulation.

Many structural reforms can be summarized under the roof of promoting competition. This follows from simple promotion of competition through trade reforms (that have essentially been fully tackled in many areas) but especially in improving also competition within the domestic industry, the distributive trades, and also in the regulation of public services.[3] Trade reforms are a necessary condition for competition. But more need direct efforts at the home front need to be undertaken to promote domestic competition and improve the playing field not only among suppliers but more importantly to promote the welfare of consumers.

Institutional reforms

Institutional weakness is a major source of fragility of the economy. This weakness appears to have deteriorated into a malady. Policies that created barriers to some types of economic activity gave way to the creation of lucrative but unproductive opportunities for activities designed to substitute what could have been just normal economic activity. These seemingly important economic opportunities are just in the class of activities that economists call *rent seeking*. Rent seeking is not necessarily corruption, but a major class of rent-seeking activities is probably corruption. These new opportunities just added to the cost of obtaining that substitute product or service that was once not so difficult to obtain or undertake. Thus, it became costly to secure a permit whereas in the past such permits were not as bothersome to get. Often, that meant seeking a political sponsor or developing networks of trusted cronies who could help facilitate the action. This strengthened the hand of those who dispensed economic and political power on the other side. In short, what is described here is the birth of monopolistic control. It is the outcome of the system of barriers that arise from an economic policy regime that breeds those barriers and create further opportunities for compounding them.

The outcome infects the whole social fabric. The public commentary on corruption and rent-seeking is common in the media today. Many local pundits and journalists – among whom are experts in anthropology, sociology, political science, and economics – have commented on these weaknesses to the character or culture of the nation.[4] The fact that these weaknesses are openly discussed in the media is perhaps an asset. For it facilitates access to the wider group of reformers and stakeholders and helps to ventilate openly the nature of the problems and the manner of their potential solution.

Institutional reform does not only refer to strengthening, restructuring or even abolishing particular public agencies to improve the performance of the system. Institutional reforms include the improvements in the rules that enable transactions to take place efficiently and at the least possible costs and the introduction of a system of reward and punishment that are put into effect to implement the system. If market failures exist, then government regulation would call for policies that might improve the outcome through a simulation of market solutions to make the allocation decision. Sometimes, institutional policies would call for an improvement of the economic environment by simply working for policies that reduce barriers to transaction, encourage competition, and create opportunities for economic transactions to take place.

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[3] Many aspects of current structural reforms insofar as they deal with the promotion of competition are discussed in detail in E. Medalla, ed. (2002).

[4] The literature on this issue is quite extensive and has been a subject of contribution by many commentators. The Philippine print media is lively, filled with columnists of different persuasions and specialty. Calixto Chikiamco (1998), a perceptive writer newspaper columnist on the economic scene, also has commented on this problem in various pieces. See his 3 short pieces in the first part of his book, carrying the title of his piece, for instance. Rafael Ileto (2001) provides a critique of a number of interpretations of Philippine politics from a historical viewpoint and in a thought-provoking review of American historiography on Philippine political processes describes takes on the common interpretation of political relations in the Philippines as analyzed by American scholar.

Institutional weakness has led to the prevalence of rent-seeking in the economy at many levels. For instance, Raul V. Fabella (2001), the current dean of the UP School of Economics, postulated that the Philippines is a *soft society* – a society in which policies, rules and regulations are implemented weakly because penalties against infractions with these rules are not sufficiently severe in their actuality. If one went deeper into in the analysis of what had gone wrong, not a few of the reasons would be traceable to rent-seeking activities promoted by years of a trade and industrial regime that contained enormous amounts of restrictions and controls. Those policies promoted barriers to competition favoring only a few.

Today, discussions of Constitutional reform keep coming back like the waves from the shore. It is an index of dissatisfaction about the current state as the nation. However, the issues that are gaining ground for reform refer to the change in the political structure. Even though there are imperfections in that part of the political structure, more important to those are constraints that relate to the provisions affecting the economy. The relevant provisions on the participation of foreign capital to the exploitation of resources, ownership of land and ownership and operation of public utilities were written in 1935. They were further strengthened, when they should have been liberalized to allow for freer movement of economic resources, in the 1973 and 1987 revisions of the Constitution. Lack of capital has deterred our progress and caused us to have a self-inflicted reduction in our capacity to expand the economy and enlarge the employment of our people. These two contributed to the limitation of investment in our economy.

Like the reforms in trade and industry of the past, these Constitutional issues are likely to provoke tough discussions, but the nation has already experienced part of the problems in recent times. It has realized that foreign investment can be a boon towards creating a progressive economy. But they are most important for review and revision if we are to make a major headway towards correcting the problems related to our problems about a low rate of national saving.

Justice reform, budgetary reforms, civil service reforms

The recent World Bank social and structural review study on the remaining agenda for reforms,[5] among others, touches on some of the institutional reforms that need attention. Some of these are mentioned below: creating a motivated, meritocratic civil service; budget reform (which covers such issues as budgeting for performance; financial accountability; rationalizing procurement; containing the payroll); combating corruption; effective delivery of justice. Each of these have been problems for a long time, but in some of these cases, the problems are perceived to be areas where major faults exist.

Another problem area of serious concern is the delivery of justice. The same report observes that the legal framework assures the protection of property rights by uniformly applying the law and predictably applying them when disputes arise. But economic development can be retarded when the courts are not perceived to be promoting "stability, uniformity, and predictability." The report cites the survey conducted by the Economist Intelligence Unit in early 1999 which found that nearly three-fourths of managers of foreign firms called Philippine courts "capricious" and the opinion of members of the Makati Business Club in 1997 that ranked the courts among the worst public bodies.

A recent complaint by a citizen who lost a decision in the Court of Appeals even though he had admitted to having bribed two justices complicates the perception issue. Who is the crook? The citizen who bribed or the justices who took? Or is it all parties? The stakes regarding this issue were raised when the current American Ambassador Ricciardone was quoted in the press on the issue of corruption in the courts and Chief Justice Davide felt sufficiently challenged to invite the ambassador to name names. Therefore, the problem is no longer relegated to a matter of idle debate. These incidents reveal that something is rotten in the kingdom, as Hamlet would have said.

Focusing on the problem of judicial review, the World Bank concludes that two problems are at the heart of the court system's poor performance: (a) lengthy delays in resolving civil and criminal cases; and (b) unpredictable results when a decision is finally reached. And zeroing in on the biggest factor explaining (b), it adds that "the

[5] World Bank, *Philippines: Growth with Equity: The Remaining Agenda,*2000, especially Chapter 4.

biggest hurdle to increasing the predictability of court decisions remains corruption. So long as judges' decisions can be purchased, the law will neither be predictable nor uniformly applied…."

Complexity of reforms require some sequencing of some of them

Some economic reforms are very complex. They involve interrelations of many factors, their impact on the behavior and situation of economic agents, on economic efficiency, and on income distribution. For these reasons, the components of the economic reform measures have to be isolated and then individually tackled. Many reforms can take place simultaneously without causing any problems. But there are some types of reforms in which a given sequence of reforms appears to be critical.

There is a long literature in economics on the sequencing of economic reforms, for instance in the field of financial reforms and in trade and industrial reforms. The right sequencing of economic reforms requires that the reforms be designed so that a logical sequence of events would take place that would enhance the chances of total reforms to succeed. The reality is that there could be a mismatch between the time horizon of the reformer and the time it is required for the full effects of policies to produce the right effects. So, in haste, some reforms are grouped simultaneously when in practice there should be a correct sequence under a longer time horizon.

For instance, one of the grand issues of economics is what comes first, reforms that create allocational efficiency or reforms that grant distributional justice? The answer to this is not hard and fast. The history of the problem at hand is very important. But, in our fifty years of history, our leaders made two grand errors of judgment. And here, some of the political problems that lie at the heart of our nation building are laid bare. Some measures are popular and easy to get support for. But some other popular measures that appear important cannot go through because the leaders in charge of the decision are the net losers in the initial stages.

Knowing that we have many poor people, that the rate of population growth was high, and that unemployment was rampant, our policy makers worked ahead on issues of distributional justice. They passed laws that raised the cost of employing labor even before the economy was on a path toward improving allocational efficiency. Had they emphasized first the reforms in the direction of improving allocational efficiency and in creating jobs, then the economy would have promoted the growth of competitive industries and of employment. Perhaps that sequence of policies would not have mattered fundamentally if the policies pursued both improved distributional efficiency and allocational efficiency, rather than erecting a set of policies that raised barriers for many types of economic activity within our shores. But, in fact, the policies for distributional justice were mixed with policies that further constricted the attainment of economic efficiency.

To grant distributional justice by passing laws to this effect always win popular support with voters who are mainly workers. So, Congress kept passing laws that improved welfare standards before a large amount of the labor force was employed gainfully. These were the policies that raised the cost of setting up industries. It was also easier to present the supposed benefits of growth in pursuing economic activity if those benefits were being justified in the context of the gains of citizens who are voters. As a result, the policy of inward looking industrialization during a substantial part of the early decades of independent history became very popular even if, as events of later years would show, the outcomes were inefficient both in terms of future growth of the economy and on employment.

The other failure was in the land reform issue. Here, the historical record was on the side of correcting a distributional injustice, especially because the country from the mid-1930s until immediately after independence, the land issue was a major cause of social unrest and the Huk communist rebellion. But our leaders were landowners and their political power was largely derived from the control of the land. So, the issue of land reform was resisted. It took many years to improve its content. In fact, it took martial law to get the land reform issue (with retention of up to 7 hectares for landowners, a figure even higher by the standard of Japanese, Taiwanese, and Korean land reforms) settled. From that stage of reform, the 1987 reforms were generalized to cover all lands with a variety of solutions. The land reform of 1987 changed the land valuation to make it even more expensive for land to be transferred so that the land reform recipient farmer would have to pay a higher cost of transfer. The delays in the settlement of the land reform issue prolonged major distributional issues on land property rights. They continue to linger on even though the country has moved on to a new range of development issues. In the other countries cited, the problem was solved early and quickly.

Crises as the opportunities for reforms

Every country enters a crisis stage at some point. And ours experienced economic crises at critical points. Three major crisis points in the country's economic history offered major turning points in policy. In my view, the turning points of economic history were 1961 when exchange rates were decontrolled was instituted; in 1972 (when martial law was instituted), and in 1986 (when EDSA toppled Marcos). It is possible to refer to more momentous events as turning points. Those years were momentous because they led to major actions on the economic policy-making fronts. All of them provided major opportunities to undertake deep economic reforms. Some of those opportunities also were partly dissipated and weakened the outcome of the reform process – sometimes even reversing them. But, in general, there was a clear movement towards an improvement of economic policies.

5 The political economy of economic reform

What do we know about political economy that we do not as yet know from experience? We know that to push economic reform to its limits in any particular part of the economy, it is important to have a clear view of who are affected by the reforms. In brief, some accounting of who the winners and losers are from the reform is a highly important exercise. In an economy, the winners from economic reform should be more of the people. But there are also losers from reforms. The more complex an economy gets, the more complex the accounting could be.[6]

Identifying the reform issue

An important aspect of economic reform is defining exactly what the reform issue is. This is why the importance of economic analysis should be stressed as part of the process of undertaking the reform. It begins with work that strengthens the hand of the reformer. The economic analysis needs to take account of strengthening the beliefs of the reformers as part of the need to bring others to the camp of the reform process. And an appropriate analysis of the problem is the critical one.

Appropriate diagnosis of the problem requires a meaningful investment of resources. Oftentimes, the outcomes of policy are also better understood when placed in the context of the experience of others. It is like asking, what is the evidence that the reform that is being suggested is likely to produce results that are superior to the present condition. Most economists, even when they disagree vehemently on some points, often come to agreement when their assumptions and initial conditions are known to them, so that they understand the changes that result once these initial conditions are known. This explains partly the reason why economists, for instance, tend to agree mainly with the conclusions about the market being an efficient allocator of resources. Or why free trade is better than protection.

Sometimes, the problem is so obvious from the way things are likely to happen. However, to convince others of the efficacy of a reform requires having confidence from more opinions. Analyses undertaken by a larger group of professionals, including those of outside advisers, are therefore likely to provide that confidence. This is similar to the idea about a second opinion in the medical profession whenever a serious a practitioner renders a first diagnosis of a given problem. Sometimes, a second opinion or other opinion is utilized if only to provide further support to those who decide on the need for reform. Technocrats can short-circuit this problem because oftentimes they are ahead of the game and they need not be convinced again and again.

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[6] The new literature on political economy is very enlightening, but much of it is theoretical at this point of its development. There is a corresponding literature that stresses empirical issues. I attach some useful new material that I found very useful, and some of the rather strange terminology used in the following text is in part lifted from this literature. A number of the materials in this literature are attached to the bibliography, but I found the following most enlightening: Aghion, Alesina, and Trebbi (2001), Grossman and Helpman (2001), Persson and Tabellini (2000), Inman (1987), and Rodrik (1995).

Winners and losers

Some of that analysis needs to focus on who are the winners and losers from a given economic reform. One of the most intensive studies of winners and losers from economic policy has come from an understanding of international trade and industry issues. So, comparative studies of many countries undergoing reform stresses on this particular point have been very useful in producing stories about the experiences of many countries. Economists of many countries have been engaged in these types of studies. Some of the Philippine studies conducted by Philippine and foreign scholars have been part of this rich arsenal of studies. I will have time to refer to the Philippine case when it is time to comment on trade reforms in the country and how they took place.

And yet, reform proposals can state only the expected benefits from the reform. There are likely to be uncertainties about the exact outcome and in fact, some conditions that are essential to a particular reform, could not be present in some cases so that realizing the outcome could be more risky. Successful outcomes observed in other countries provide strong demonstration of the viability of reform.

Oftentimes, understanding the winners and losers is more about the short run process of adjustment than about the long run. Losers think that their losses are incalculable, and even when they are themselves in favor of the reforms from a long run view, they fear that they could be wiped out in the short run. In fact, some of those convinced about losing in the short run could eventually be short run winners. Uncertainty about the distribution of the gains from reform might fuel the element of distrust. Fernandez and Rodrik (1991) observed, for instance, that in the case of the most celebrated trade liberalization reforms among developing countries, the businessmen who ultimately benefited from the reforms initially opposed the liberalization at the start. This was the case of Taiwan and South Korea (early 1960s), Chile (1970s), and Turkey (1980s). The reforms were put in place by fairly strong governments that insisted on those reforms.

When countries begin to get exposed to competition for their industries that have for years been protected, the losers are identifiably the economically inefficient industries that cannot compete with foreign products that are likely to be better in quality and even cheaper in price. Facing a tougher climate of business creates challenges that are likely to stimulate capable firms to improve their products and costs. The challenged firms have to reduce costs and to improve quality of product. They have to innovate. Speaking before India's economists, Nicholas Stern (2001) recounts what happened to the Indian machine tool industry. When protection was reduced in the early 1990s, Taiwanese firms came in and began to take over about one-third of the Indian market. That benefited other industries in the country that needed high-quality machine tools. But this created a big problem for the domestic machine tool industry. However, after nearly a decade of more open policies, several Indian producers have dramatically increased productivity, increased new products, reclaimed much of their lost market – and they have started to export. The higher productivity and better quality of product is one of the sources of the gains from openness.

What is undertaken to help the immediate losers could be of great importance to success of the reform itself. In some cases, the adjustment is natural because workers laid off could find jobs in other firms or industry. It helps a lot if social protection measures were available, such as programs that improve emergency opportunities in other industries, or in training programs that might be set up with state assistance. Automatic social protection could be available from a social security system if it is in place, but that is often a temporary support. In developing countries social protection schemes like the Social Security Systems are likely present but they can only help for a short duration for loss of job. Sometimes, help from special programs undertaken by the government could alleviate part of the losses and to help prepare the job losers for other opportunities. The degree of success of the winning firms and industries in the reform process will determine how much substitute employment they can provide as the adjustment process takes hold.

In reforms of important agencies and institutions, the design of the reform process needs to pay particular attention to the case of the losers because they are likely to be the immediate center of opposition. Of course, the other opposition are those whose interests are likely to be adversely affected by a reform that changes the behavior and incentives that operates on the organization being reformed. The creation of incentives for early retirement is one of the weapons often used when an organization or firm is being restructured. Early retirement creates a process of voluntary withdrawal from the organization that facilitates the reorganization. To have a successful early retirement program, the incentive offered is often much higher than the benefits derived from the normal retirement from the organization. Since the main incentive in early retirement is monetary in nature, it has to be well-funded and certain to take care of voluntary demands for retirement once announced.

Early retirement is a filtering process that enables the management to take care of labor redundancy in a reform process. Often, the fear of redundancy, or the uncertainty of the nature of the process of implementation of that process, could create extreme opposition to reform. Changes that took place in the reorganization of the old Central Bank, the Development Bank of the Philippines, and the Philippine National Bank eased considerably when the idea of early retirement became a certainty for employees who had been with these institutions for a long time.

Leadership

Leadership is the vital component of the reform process. Leadership begins with the country's leadership whose demand and vision for reforms ought to be clear and feasible. But it does not stop there. There is a chain of leadership command in that reform. Often, it is in the choice of supporting lower levels of leadership where problems of coalitions are most important in determining the pace of reforms. A leadership that has a vision of what needs to happen, and who tries to learn what could be the best of all possible attainable worlds is a requisite for good reforms to happen. Eventually, it boils down to providing a track record for consistency of results so that a statement of objectives and reform vision becomes credible to those who observe what happens. The quality of leadership is important in gaining credibility.

Effective leadership also involves the use of tactics and strategic moves in the building of a coalition for the reform agenda. This is where the importance of initial conditions and the knowledge of the various interests of the parties that are likely to frustrate the reform process is important. Effective leadership implies understanding what could happen to frustrate the efforts and what weapons to use in order to move the agenda forward.

Quality of leadership

Quality of leadership and of other politicians who work with that leadership is vital to the level of performance of reforms. Quality of leadership goes beyond the question of qualification for office and the virtues possessed by the leader in office. Most people for instance regard integrity and honesty as important qualifications aside from ability. Quality of politician, however, is a behavioral concept: how the leader conducts the leadership function is an indicator of quality. A leader can have ability and effectiveness in office, but he could also be plunderer, whose major interest might be personal or family enrichment. Or a leader could have virtues of integrity and honesty but fall far short of ability and effectiveness when in possession of the office. Or a leader can be both inept, useless, and dishonest. In a democracy, the process of leadership selection is dependent on the constitutional stage. The manner of election, the process of elevation, and the structure of government are important determinants of leadership selection. As will be discussed later, this process could contribute highly to the quality of leadership. Unless there is scope for a change in Constitution, then the subject is essentially moot, and the provisions become the chief constraining factor in the leader selection process.

The effective leader sets the agenda and accomplishes the task towards conclusion or to a satisfactory state by the time he leaves the scene for his successor. The depth of reforms undertaken depends on the personal and social background of the leader, on the goals that he sets, the problems that he faces when in office, the interactions with other stakeholders and coalition members in the reform process, and the institutional framework. The leader who succeeds to mobilize the resources that he has in his command and ultimately establishes a track record for success – be that incremental or one marked by major accomplishments – establishes credibility for his actions. This credibility to some extent further mobilizes additional allies and therefore resources that increase the chances of success. An economic reform policy is credible when, once announced, it is followed and there is no change. That is how economic agents adjust to it, because a policy that is credible is consistent over time, economic agents react to the policy in a predictable manner. Credibility of leadership implies that the policies that he uses become successful in that respect.

In another scenario, however, a leader could be effective for a while and his opponents are of course on the lookout for major opportunities to displace him from power. The institution of a political term in office assures that contests for the support of the electorate have their periods and during that period, the leader continues to retain support from his constituency through a variety of issues and services to satisfy them. If by any chance that worth were eroded by some event or decision on a major issue that break the constituency, the effectiveness of the leader disintegrates. A consequence is that even policies that are adopted could be reversed, so that credibility also breaks down.

This scenario is too familiar as a reminder that extra-legal power is available also to the people through open defiance and People Power, like the two EDSAs. This event has been replicated in history many times, EDSA I and EDSA II being just their manifestation in a Philippine political context. People power can upset the political leadership stage. This has been done elsewhere in the past as it is likely to happen also in the future (French Revolution, the Iranian revolution (1970s), the Solidarity movement in Poland that toppled communist rule (1980s), fall of Suharto in Indonesia, of Fujimori in Peru, and of a succession presidents in Argentina).

Background of leaders

The background of current leaders is dominated by linkage to the traditional landowning classes of the past, tempered by intermarriage with the professional class and with those who have prospered in business. In general, there has been a growing number of leaders with professional background before their entry into politics. Another stream of the professionals were those who descended from the landed class who started out in professions and in business. These were supplemented by the stream of government pensionados first sent to study in the United States during the commercial era, who later took charge of critical parts of the growing government bureaucracy. Philippine society is relatively mobile and there are those who descended from poor or low middle income class families who, through sheer effort, hard work, and sometimes good luck, had succeeded and become very successful. From these came of course their descendants who had more freedom to mix with the ruling members of society. The other element is the ethnic intermarriage, especially with the Chinese, Spanish and Americans. With a landowning background, this ethnic alliance enriched political perspective with business insight.

From the scions of these bureaucrats grew the next generation of leaders who studied, intermarried with the landed classes and who later went into politics as the legislature grew, then the Commonwealth government, and then the Republic. The other source of leadership is the military, whose professional training had been through the PMA and then through university (and perhaps training abroad) for their special studies. Of course, the immediate source of leadership power is the local level, and this is where the dominant families from the landed classes first asserted their holds, because much of rural Philippines had problems rooted in land issues. In time, the business and professional classes were able to challenge the local landed politicians, and today, there is a diversity of leadership control from among these backgrounds. The other more recent stream of leadership comes from professionals who have succeeded ably within their fields (lawyers, engineers, teachers, accountants, and so on). These are also technocrats, who have been drafted in government for their expertise increasingly rather than from a political background. Since the 1960s, a good stream of them has occupied various offices in the government, including the most important such as the finance and economic departments.

Those who framed the Constitution of 1935 were more homogeneous in background than today's leaders. For today's leaders include those who had prospered through business and commercial background even though they may have originally come from the landed class. For the decades preceding 2000, if they had been in business, chances are they would have been associated with import substituting enterprises that have subsisted through protection, or they might have had sizable holdings of land. Separate studies undertaken by Yoshihara (1989) and by Rivera (1994) shows that many names or families associated with industry and commerce were tied up with import substituting industrial interests and domestic industrial activities that have thrived for years. Major studies by sociologists on the family origins of Filipino leaders always have the common denominator of land as part of that history, with background in sugar, and also in commerce. These are also the political families.[7]

[7] For further backgrounder on Filipino families, see McCoy (1994), Kerklviet (1995), Gutierrez (1994) and also footnote number 2.

Assembling a coalition

When political power is dispersed, coalition of support is essential. Even when political power is concentrated, it is essential for the leader to feel the pulse of his support. Therefore, coalition is a fact of life in government.

The structure of political power in the country today is dispersed among co-equal institutions – the presidency, the legislative, and the courts. Even though these branches of government are relatively independent, they have to interact with each other in many ways. In the case of any reform process, the president sets the agenda through this allies in the legislature, and to pass the required law, the two houses of Congress have to come to a law in accordance with their own legislative procedures.

In relation to the arrangement of various independent powers, the Philippine political system today could be described as "horizontal" in the distribution of independent powers. Power is equally distributed and no organ of government is presumed to be above the other, although there is a natural order of protocol among them and in the true exercise of political power, it is the president that has the final say on a particular decision. But it is also true that the Supreme Court could interpret the true meaning or intent of particular laws, especially in relation to whether they are consistent with the basic law – as provided in the Constitution. While enjoying their independent realms in the exercise of their respective mandates, there is a degree of interaction, especially between the president and the legislature, the two sources as initiator and drivers of the reform process. Horizontal systems tend to *require*, perhaps to *create* is a better term, a far higher degree of consensus building on issues of policy because of the independence of inherent political powers held by each unit.

An essential element of democracy is the presence of checks and balances. Constructed within the institutional constraints of our presidential system, this check and balance is one of relative independence of each of the branches of government. And yet, the president has to design a framework so that her agenda is supported by an effective coalition over which he/she could have an effective influence so that the reform agenda could be achieved.

The most effective president in our country in recent times is Fidel V. Ramos. This is all the more admirable because he was elected with only a plurality vote over several opponents and he garnered only about 25 percent of the popular vote. There being no runoff, unlike in the French system, he did not have the full support of 75 percent of the electorate. But in the six years that he was in office, he truly made a great difference in many areas. If he were not hampered by the problem of the electricity crisis caused by the mistaken decision by Mrs. Aquino about not putting into commission the nuclear power plant, his first four years in office would have probably made a bigger difference. During the early part of his term, the international economic environment was very propitious. But the decisions of his early years in office meant that he had to gain the support of Congress for the various reform measures related first to overcoming the electricity crisis and others related to economic liberalization in the form of financial and banking reforms. The electricity crisis – at least the removal of the capacity bottleneck – was however rapidly solved because he got the required support of Congress to fast track some decisions. Then, he undertook the reforms to speed up the liberalization of the economy including banking reforms, strengthening of international commitments, and privatization of state assets as a major source of revenues. Of course, a favorable international environment helped him along, including major agreements leading to ASEAN Free Trade Agreement (AFTA) and the establishment of the World Trade Organization to which the country acceded.

In contrast, Mrs. Aquino had much more political leverage to pursue economic reforms at the beginning of her term. She had a very high level of popular support for having toppled Marcos peacefully. The support permeated beyond the domestic political realm. In fact, despite the crisis proportions of the bad economic conditions that she had inherited, these could have been much more easily solved if only she did not lack the shrewdness necessary to work them out. She had enormous opportunities that she could have used to induce additional long term finance for various aspects of development projects. Her reluctance to become a symbol and lead the opposition against Marcos was probably due to her own assessment of her lack of experience and limitations for the job of leader. Her success in helping to remove Marcos was politically spectacular. But running the government as president is a different kind of leadership game where symbol and plain appearance in the field could not substitute for actual leadership of the affairs of government. The challenge of course is not only in running government but in defining the agenda for future economic reform. It was critical that in doing so, the continuity of government should not be fractured.

The first major mistake that Mrs. Aquino made was to allow a disruption of the civil service, at least in the middle and upper layer of government where a professional work force of the bureaucracy was already in force, especially that layer of directors, sub-directors, assistant secretaries and undersecretaries. Although there was no official policy to the effect that they would be replaced, many of these public officials were removed and displaced. These officials had controlled the government bureaucracy and, although there might have been political types that could be associated with the previous rule, in general, they were a very responsible group of civil servants who had been schooled in the bureaucracy of the years. They were responsible for the immense achievements of Marcos in infrastructure, agriculture and the social services.

Second, she decided against commissioning the about-to-be-finished nuclear power plant in Bataan that would have taken over a large reserve of electric power capacity. With her decision to abolish the department of energy, the critical personnel in the power sector of the government, enormous institutional and technical knowledge was lost or disrupted. Therefore, it was just a matter of time that the carefully studied long term plans on power generation that was scuttled would lead to the enormous power blackouts suffered during her presidency. These events were to play a major role in discouraging also the entry of new foreign investments during an auspicious part of the international economic environment when foreign investments from Japan, South Korea, Taiwan and Hong Kong were moving southward to ASEAN countries. It led to many of these investments by-passing the country.

Actually, Mrs. Aquino appointed good people to her cabinet to deal with economic issues in the tradition of other presidents. Because of her lack of vision on the economic issues, she allowed them to debate critical disagreements in public, rather than inside the cabinet, inter-agency offices and the president's office. The outcome was to signal to the external world, especially, instability and indecision, so that there was discomfort with her new government when, in fact, what was needed at the time was to project assurance, goodwill and determination to move forward. To her credit, however, she pursued the economic liberalization program that began in the early 1980s before the political crisis hit the country under Marcos. Mrs. Aquino even gave the program a more credible twist by moving the tariff liberalization program on a faster track.

The current agenda for reforms – of which in my view there are many – will depend very much on how Gloria Macapagal Arroyo develops her political coalition and pursues the focus of her work. It is too early to judge her leadership on a lot of reforms that are yet to be accomplished. But one year of her administration has shown that she had focused on getting major economic legislation undertaken, a far better record that Estrada accomplished in almost three years of work. In the first year of office she was able to push through the reform of the electricity sector and major legislation leading to reform in the capital markets reform. Estrada succeeded in having the retail trade law, but it was far different from the original intent. His inattention to legislative reform led to neglect of a major set of useful economic legislation that Ramos had not been able to get through towards the last months of his busy presidency. Macapagal Arroyo has kept the course of directions in trade and industrial reforms fairly steady although she is facing protectionist resurgence. She is today, however, working in a more difficult political and international economic environment compared to that of Ramos.

The environment for quality depends on the social, economic and political milieu. It is known that a corrupt and or inefficient bureaucracy can make it difficult for reforms to succeed. Even a well-intentioned leader could be frustrated. But when the quality of leadership is bad at the top, then it is even worse. Recent experience in Philippine history tells us what magnifying contributions to the problems of reforms that bad leadership – or even a bad mistake by a well-intentioned leadership – can leave a legacy of major problems for the nation.[8]

[8] The immediate experience that I have in mind was the country's sad experience with Joseph Estrada. He was not only unfit for office (though he had the charisma generate the necessary votes to win the presidency by landslide). If Ferdinand Marcos had left the scene by 1980, he would be well remembered as an effective president. Definitely, he would have been well remembered if he had left office at the end of his two elected terms in 1972 by virtue of his accomplishments in many areas of reforms and government programs. Marcos evokes very strong feelings for his imposition of martial law. Although there were many who opposed that act, he was widely supported politically by a wide segment of society. It became clear by the early 1980s that his long stay in power was causing a wide rift in that support. The economic plunder charges against him in office are documented in charges filed by the Presidential Commission on Good Government created by the Aquino government and the cases filed before the Office of the Ombudsman.

Interest groups

One of the important aspects of coalition building in a democracy is that the constituents have a say in the manner elected politicians conduct their decisions. At least, this is the essence of representative democracy. But exactly, how do the leadership and the elected representatives decide on critical issues of economic policy? How is the coalition for leadership built?

The answer partly lies in the influence of interest groups on their elected leaders. This influence could come from the different ways in which vested interests make their influence felt. The principal (the electorate, the financial supporters, the vested groups that control the actions of the agent through their financial support) in effect uses the agent (the politician, the elected representative) to assert their preferences for specific policies. Policies that run counter to their interests could be changed through lobbies, through influence on the electorate, through the mobilization of votes. During an election, this could be expressed in the mobilization of votes to enable the candidate sympathetic to their interests by contributing heavily to their election chests, thus enabling victory.

It seems that in our country, electability is the strong feature that further strengthens a high volume of campaign contribution to an election. Interest groups use electability partly to buy insurance for their selfish causes. In this way, they help to ensure that sufficient swing votes are guaranteed. And in a situation of tightness of electoral contests, the volume of election contributions support the resources that could swing potential votes through tactics that are not allowed by law but which are known to happen –vote buying, for instance.

While elections are part of the process, most votes or decisions on actual issues happen during the term of office. To have the right politician at the helm strengthens interest groups. To assure that the politician's actions are in conformity with their interests is another. Their perception of the average voter's interest could guide the politicians, especially in the absence of direct and active lobbies. The reason why economic reforms are tough to push is that they invite rent-seeking behavior of parties whose interests are threatened. The perception of losing from an economic reform activates the instincts of those interests, and they make their presence felt on the political arena by active lobbying.

Checks and balances and the degree of insulation

Having three independent branches of government is an intentional feature of checks and balances. This is an attribute that was borrowed from the American political system, which arose out of the fear of abuse of power, especially by the executive. But, having said that, the system does not prevent the accumulation of strong leadership through coalition building.

The degree of "insulation" of the leader could help to explain how far certain types of economic reforms can go forward. Insulation refers to the ability to rise above the threat of excessive checks and balances so that leadership can be exercised effectively. A high degree of insulation happens when the political opposition is weak. This could come about when the leader has a high degree of political support from the electorate or because of certain elements of power that are allowed within the political framework. At the constitutional stage, there could be a provision for a strong executive relative to the legislature. Or this might derive from the strong tradition of political party system of government that extracts strong party member discipline.

Beyond the constitutional stage, the degree of insulation depends on how far the leader can build support from political allies – in short, how strong is the coalition. This means achieving an approximation of a hierarchical system of influence or command despite the horizontal structure of power arising from checks and balances. A hierarchical system is similar to a system of command, as in a bureaucracy or in a corporate enterprise. Applied to an elective democracy, it is related to the manner in which the command structure of a party system operates within an existing government. All political systems with representative parliamentary democracies depend on this type of control. A kind of dual arrangement – one formal – the government structure and the other informal – the party structure – work in combination to assert control of the political and economic agenda. Through the political party, it is possible to discipline recalcitrant members. Through the political party or the coalition of parties, it is possible to win critical votes to swing a measure. The formal structure of the system therefore gives way to a kind of shadow presence of the informal structure of party discipline that is reminiscent of party democracy.

The Philippine political system is, however, relatively a weak system in terms of the insulation of the leader largely because of the presence of a more dominant horizontal structure of the distribution of political powers bestowed by the constitutional framework. But it is not as weak as it might be surmised. The degree of insulation of the leader depends on the political mandate that is earned during an election, but more important, it is the leader's political acumen and organizational ability that makes that degree of insulation stronger or weaker. The insulated leader has the capacity to create a stronger agenda for reform. He/she could possess a higher incentive in reform activities because of the higher chances of getting them delivered. As a result, it is also likely that he could attract higher quality politicians since insulation itself bestows some degree of monopoly power over policy-making.

But there are costs toward having leaders with a high degree of insulation. The more insulated the politician is, the smaller is the chance of imposing checks on his actions. The electorate could be faced with an insulated leader who might not bring in the expected economic policies that are anticipated and which fail, as a result, to move the country towards deeper levels of economic reform. Moreover, precisely because of that insulation, the entry of potential opponents could become highly restricted.

The country has had several presidents who could be said to have had a high degree of insulation, at least on the basis of their popular mandate upon election. Ramon Magsaysay was the first. Ferdinand Marcos was the second. Joseph Estrada was the most recent. Of the three, however, one died after two years in office because of an accident (Magsaysay), the other two ended up being overthrown by EDSA People Power, which is the ultimate weapon of the electorate against political insulation of the leader. Estrada's insulation was plastic, and he lacked the competence to put it to good use to enable him to run the politics of the nation. Marcos was the one gifted with political acumen and organizational ability. He showed it during his first and second term in office and effectively used that to create the most effective insulation by declaring martial law and assuming virtual dictatorial powers. In this respect, the initial reward of having undertaken large changes in the electoral phase of his career gave way to the authoritarian phase. This is not the occasion to really deal with this topic, but it cannot be avoided even in passing when we review the five decades of the country's history, two-fifths of which was essentially a history of the country under Marcos.

But even the less insulated leaders can increase that degree of political control of the economic agenda. This is because party discipline is not a trait that can be attached to Filipino politics. The party emblem appears to be a convenience of temporary alliances, and depending on the incentives available within the framework of the political system, those alliances are broken with little risk but often with high rewards. Throughout Philippine history, this has been the pattern. It was a feature of pre-independence politics under Quezon and Osmena, and it continues as a vital feature of the current politics. Mrs. Aquino's high political leverage, already discussed in an earlier context, is an indication of the high degree of insulation that she enjoyed immediately upon toppling Marcos. During the term of Mrs. Aquino, the term *balimbing* became very current because of a large influx of new supporters who used to be associated with the past regime. The balimbing, or star fruit, is a many-sided fruit. It is a picturesque description of the shifting sides that politicians might take especially during a regime change but also during more quiet times. It depicts also the inscrutability of the true sentiments of the politician who switches political loyalty for convenience.

But this trait has enabled consensus to build up more quickly and easily on some types of political and economic issues. Party-shifting was recently mobilized as a political weapon in the current government of Gloria Macapagal Arroyo. To avoid the loss of control of the Senate due to the defection of one senator (John Osmena who had switched from the other side just a year before) from the majority party, two senators from the minority (Blas Ople and Robert Jaworski) switched over to the majority. The facility with which this was achieved without any loss of political standing, and at great gain to the switching senators, is characteristic of the political system.

Political skill could be defined as that quality that enables a leader to manage the required coalition so that the requisite control of the agenda can be effected – that is, to get the essential majority – to get the reform program to continue. Recent realignments in the Senate, in which two senators and possibly more, were induced to join a fragile administration majority indicates the peculiarity of the Philippine political system, where party loyalty is relatively loose and coalitions based on personal and other factors could be realigned. This fluidity of coalitions could work well when there is effective leadership and when the costs of shifting coalitions are not, themselves, made at the expense of the content of the reforms agenda.

Many times in the political life of the nation this has happened. One of the first tasks of Ramos was to foment a realignment of legislative forces by forming a larger coalition from the defeated or neutral parties in the aftermath of the elections. This enabled him to form a working coalition in place and to get the legislative program going. When Ramon Magsaysay ran for the presidency, he brought with him a lot of support from the Liberal party, the party in power, who foresaw his victory as a Nacionalista candidate. Although he himself was a leading Liberal, being the Senate president then, Ferdinand Marcos bolted the party of the incumbent Diosdado Macapagal to challenge for the 1964 Nacionalista party presidential nomination and thereby challenge Macapagal. This kind of game of musical chairs was a feature in the struggle for leadership between Sergio Osmena and Manuel Quezon in the pre-Republic politics of the nation.

Political party switching is strengthened by expectations of which party is gaining strength. That party raises the strength of its coalitions by providing incentives to others to switch over. The nature of these incentives are part of the political bargain, and so long as the leader does not compromise the reform program, she might succeed in pushing the agenda. It seems, however, and this is to be discussed in specific cases later, that this kind of political bargaining could weaken a reformist program.

Building diagnostic capability

As already stated earlier, proper diagnosis is very critical part of economic reform. In order to have proper diagnosis, some capability for diagnostic work is important. Therefore, the task of building analytical assets within the system is an important part of building that capacity. In the absence of that, the capability requires use of external talent when possible, sometimes through consultancy and sometimes through technical assistance.

One of the problems of proper diagnosis in developing countries is the presence of competent staff to do the work. Lacking that competence, the diagnosis becomes the work of parties who are external to the economic reform process. This is the problem of many developing countries, especially in Africa, where expatriate staff from other Western countries often formed the basic line of analysis in the many ministries of government. When they asked for support from the World Bank and the International Monetary Fund to cure major ailments whether macroeconomic or structural economic reforms, their leaders would sign agreements that committed government to undertake actions designed to trigger the reforms. But lacking the internal capability to understand fully the reform issues, oftentimes this meant signing onto commitments for which they were unprepared politically to follow through. In short, there is no full ownership or understanding of the reforms themselves. In fact, most of the intricate adjustment programs and the matrix of actions that it involves would often written by the World Bank staff or the IMF staff, depending on the agreement. The result is gross dependence on foreign advice and lack of understanding of the depth of commitments that they have signed on to.

Sometimes, the line of ministers and top heads of agencies may be sufficiently capable, but the depth of support staff is very shallow. So, many issues of importance are not internalized within the government. Although there could be a domestic consulting group industry, it might not have the required economic preparation for the complex reform issues at stake.

The Philippine situation is, of course, much better. The country had benefited from the stock of civil servants and the educational system that put Filipinos ahead in literacy over many neighbors during the first half of the century. And at independence, there were plenty of scholarship resources (from foreign economic aid and the activities of educational foundations) available for educated Filipinos to go on to graduate schooling abroad. Economic assistance programs carried technical training programs that financed foreign studies. So, the government departments and bureaus were getting staff of competent trainees, some of them trained abroad and a great many of them from the university system.

Some bits of introspection on personal experience would illustrate why this aspect of reforms is important. At the time when I entered government in 1970 at the National Economic Council, the level of expertise in the government on economic issues was at best fragile, especially at the level of support staff in key economic ministries. At the level of the line departmental command, knowledge of economics for some critical staff functions was not up to the level that I had expected, although there was a lot of management expertise in the government. Getting staff support for the important economic issues was one of the structural problems at the National Economic

Council, then the national planning office. Conversations with other colleagues informed me that it was worse in the other critical departments of the government. One of the shocking features of my experience was that although there were some competent technical people in that office, there was lack of depth where it mattered most – the analysis of economic issues and in planning and projects. The national income staff was cohesively together – quite a good core of statisticians that only needed adequate motivation and strong leadership in improving the income accounts. I could also rely heavily on the work of the aid coordination group because it was held together by a very able senior civil servant.[9]

That situation at NEC had probably caused Diosdado Macapagal, when he assumed power in 1961, to create a Program Implementation Agency (PIA). The new office became directly linked to the economic mandate of the president. By appointing technically competent heads, it also led to the recruitment of technical people outside the normal civil service stream. The agency would be renamed as the Presidential Economic Staff under Ferdinand Marcos. It helped to produce many of the technocratic personnel of the government in various ministries.[10]

There was a consultancy fund that I discovered was used mainly to employ a coterie of free loaders who, I learned, were derisively referred to as 15-30 appointees (so-called, because payday occurred on that cycle of the month). These included publicists who were actively in that payroll. I reallocated that fund to employ a group of young men and women with graduate training in economics to help facilitate much of the analytical work that had to be done, while still depending on the usual staff for line work of the office.

This experience was to lead me to develop a core of young people to assist in strengthening NEDA when, after a reorganization of the planning machinery, I organized the new NEDA, which displaced the NEC and the PES. The NEDA staff as reconstituted took in a large part of the more dynamic and young PES. I also brought in a young corps of economists with a minimum of M.A. degrees who were graduates of the UP School of Economics. The personnel recruitment staff of NEDA then undertook to scan the new graduates of various universities from the best schools then producing students in economics and business and attracted them to recruitment with a promise of a full year of training before being taken in at the new planning agency.[11]

External expertise and resources

Diagnosis could be substantially improved with the help of international development institutions. Their expertise is broad. These institutions are a repository of knowledge from the analysis of similar problems in other countries. Having one's core of economists – home grown and broadly studied from different centers of learning – is an important element of internalizing the country's problems with our own leaders. But checking that knowledge against the experience of others is always important. Moreover, the international development institutions have a good link with the world's expertise on specific issues.

Prior to the 1970s, the country was mainly dependent on drawing assistance for technical expertise from the US. Countries like Taiwan and South Korea had depended heavily on American technical expertise during their early years of development. Ask any expert on what accounted for the early South Korea and Taiwan miracle and a common refrain then was the importance of American economic aid during the period. My own answer is that they integrated American technical economic advice more fully and that enabled them to use the extensive aid resources more effectively as a result. But in our country, and contemporaneously at about this time, some Philippine

[9] The national income staff was headed by Pablo Q. Samson, and it was staffed by Elpidio Makanas. Peregrino Reyes was to do statistical coordination work. Tito A. Mijares, from the UP Statistical Center, would further strengthen their team as their leader. Bienvenido Villavicencio was head of aid coordination, and his strength was that he could deal effectively with USAID and with the UNDP. Nicanor Fuentes was with the planning office, and he was to remain my deputy at both at NEC and at NEDA.

[10] The leaders of PIA were Sixto K. Roxas and Armand Fabella. The latter would further serve in major capacities as head of the Reorganization Commission and later as Secretary of Education. The next stream of major technicians from PES would be Cesar Virata, Placido Mapa, Cesar Zalamea, Virgilio Vigilar, Carlos Leano, and Ernest Leung.

[11] I describe this experience in my talk before the Philippine Economic Society in 1999. See Gerardo P. Sicat (2000).

observers were disparagingly commenting that the South Korea planning office during the 1950s and the 1960s was being run by USAID economic policy.

Their Economic Planning Office stood beside the identically architectured office building of the US AID, implying that as a result American advice was almost the extension of the government on economic matters. South Korea and Taiwan were more receptive to technical advice, especially those that were related towards getting the price mechanism to work for the economy (even when they applied some measures of price and exchange controls) but less so to high social welfare ideas. Their idea of growth was sacrifice and discipline, and that carried them through decades of development efforts.[12] The issue of economic nationalism was as a highly sensitive to the Koreans and Taiwanese as it is to Filipinos. However, their version of nationalism was not one of dependence on the government making the playing field in business discriminatory in their favor at home. It was to make the domestic firms to become world class, competitive and lean.

What marked the difference with the Philippines then was that in the early years of independence (because of our peculiar relationship with American colonial rule), we welcomed American economic assistance and advice on social and tactical issues in relation to the fight against political insurgency. But our leaders essentially withdrew from the advice regarding encouragement of foreign investments. Making the market mechanism work mainly for the self-serving domestic interests. What we followed continuously was advice on improving social conditions by improving legal structure. But we shunned the means of providing jobs more effectively. The institution of high labor welfare standards and the acceptance of American labor unionism of confrontation as a model for industrial relations were accepted freely and relatively quickly. The minimum wage legislation was proposed by the Bell Mission in 1951, the country immediately adopted it. Some years later, the Magna Charta of Labor, which enshrined labor unionism as a principle, was also passed. This was happening during a period when Philippine industry was at the height of constructing rules of discrimination that preserved many activities for Filipino citizens, in short creating barriers to competition from foreigners so that Filipino enterprise could gain the monopoly privileges thereby created.

With respect to foreign economic advice during those early years, the nation's leaders accepted more readily the welfare-enhancing advice but paid less attention to the market improving and employment increasing advice of foreign technical expertise. The market improving advice tended to clash more with established economic interests and were suspected of favoring greater accommodation to foreign interests, especially American. The first would not be beneficial without the second working very well. And that just about explains a lot about the problems that the nation faces until today. By choosing the wrong sequence of reforms in the early years, we made our country suffer the consequences of the later years until today.

The stumbling block was a version of economic nationalism that was essentially discriminatory and not the kind that consumed Koreans and Chinese in Taiwan: to excel and be as good as the others. To Koreans, the Japanese posed the ultimate challenge to what they could do. To the Taiwanese, it was to reconquer the mainland that they lost to Mao Zedong by excelling economically. To Philippine leaders, it was to be liberated from the brand of American domination of political and economic life, so that the rule was to tilt the rules to favor Filipino enterprise at every turn.

The Consultative Group

Since the 1970s, the most significant development in this area has been the country's relationship with the World Bank. That relationship was fostered by the fact that the government asked the World Bank to form a Consultative Group for the Philippines. This enabled a focus of discussion periodically among various donors to the development assistance program affecting the country. The Bank became a source of project loans as early as the 1950s, and through the 1960s, but the relationship with the World Bank increased significantly after the 1970s. This became more complex and involved with economic policy issues with the advent of structural adjustment lending in the early 1980s. Within this context, too, the program that the country was working with at the macroeconomic front

[12] My admiration for the economic policies of South Korea and Taiwan are a matter of record. See G.P. Sicat (1969).

– through the International Monetary Fund – had taken a larger role especially after the economic crises of the 1970s initiated by the energy shock.

The Consultative Group helped to raise the level of external assistance to the country. It is also a forum from the viewpoint of the government to align the support of principal economic assistance donors so that aid would be better coordinated. For instance, as a result of continuous relationship, the World Bank and the Asian Development Bank undertook a division of labor in assistance for road building and for energy projects. The Consultative Group provided a vehicle by which development projects of the government could be explained. It was a forum by which technical assessments by the World Bank and by other international donor agencies could help explain their impressions of the economy, to suggest policy attention to some areas and to create timetable for monitoring the assistance that was taking place. The Consultative Group was, in short, a forum for a concrete exchange of ideas about the current economic issues confronting the nation and it brings in context the potential actions at the international front that might be helpful in getting the government's objectives realized. From one viewpoint, the assurance that there was external development financing available was important. And to a large extent, the Consultative Group provided a credible assessment to the international community of the state of economic affairs and development.

More significant than the formal meetings of the Consultative Group was access to the analytic capacity of the World Bank to study many economic problems. Any developing country that borrows from that institution could obtain access to that analytic capacity if it requested it. But the existence of the Consultative Group gave greater sanction for the study of a larger range of problems than would have been required if the relationship with the World Bank were only on a project or sector loan basis. The fount of experience and knowledge about development issues in that institution is as good as anywhere.

Technical studies conducted by such institutions were always undertaken at the suggestion of the government or by mutual understanding of the need. Such studies are often policy focused. In general, the studies that they undertake provide diagnosis and they can suggest solutions. No problem that is not suggested as a problem would be the subject of any particular study. The work on any particular investigation might unravel a trail of issues. But the issues that have to be the subject of study are always those that the government had identified as important. In short, they emanate from concerns expressed by the government. Moreover, it is really the country's government that is responsible for carrying out any reform measures that emerge from any diagnosis. In coming out with World Bank studies that I have seen within the government during my time in government, none of the studies could hardly go beyond recommending actions that the Philippine authorities or the authorities in charge of the particular sector found to be unacceptable. That the results of the study might offend one sector within the government is often of course the case, because studies about diagnosis of problems often have to reveal the nature of what happens in a sector or policy that needs reforming.

This emphasizes the importance of good technical staff within ministries and agencies of the government and the importance of having a group of professionals that can work on the same problems. Studies of problems that are reviewed by the diagnosis from the World Bank expedite the review of actions desirable for the reform of existing conditions. The additional diagnosis makes the problem undergo a wider dissemination within the government. The remedies that are suggested acquire greater degree of acceptance. Or at least they bring the problem more directly to the attention of the larger government if, at the beginning, such was confined only to the knowledge of a more limited group. The diagnosis of the external institution is often easier to undertake when the country has good professionals known to work on the problem. These are the workers who know the problems and have a ready solution, but whose opinion do not carry as much weight until those points are made in a study.

All reports reflect the conclusions of staff or consultants who have worked on the issues but these are not stand-alone documents in that they get finished with the writing (unlike many academic papers). There is an internal process within the institution that leads to the discussion of the results of the work, including direct consultations with the country counterpart. To some extent, the country dialogue represents the stage where true give and take occur on various issues requiring attention. The more technically prepared are the local country counterparts, the more productive these types of reports can be. In fact, good diagnostic studies of sector or country problems must involve the inputs and contributions of local analysts. Enormous time is invested in discussing with country officials and in addition with domestic observers and country experts. In fact, the diagnostic studies depend very much on the information, data and discussions that can be had with local staff. The more competent are the local professionals, the greater is the degree of dialogue and even involvement of local professionals in the preparation of the studies.

There is now even a higher degree of transparency of these documents with respect to outside readers. Demands of transparency and accountability in recent years have made these reports finally contain the authorship and even references of source materials. Before, such things were not included on the ground that they represented institutional reports to the government clientele. Then the World Bank decided to affix the names of the authors of and of consultants who helped in their preparation and the senior officials who reviewed the report for release became a matter of standard requirement. Eventually, today, there is a broader accounting of those who prepare the reports. There is also a deepening involvement of local professionals in these reports. This is a sign that there is a deepening presence of Filipino expertise that is utilized in such reports, including members of the staff of PIDS and colleagues in Economics who have often been asked to participate in these studies. These are signs of direct involvement of Philippine experts on diagnostic studies, thus adding greater relevance of the documents because they involve experts from the country who have studied the problem.

Conditionality

The term conditionality is detested in political language. It acquires a pejorative meaning when it is seen as an imposition by an external agency to have a government undertake a measure as part of a program of assistance. It is often seen as an infringement in sovereignty of a state on matters of policy. It is an unfortunate interpretation. Often, a conditionality is a mere statement of a contractual covenant between two freely contracting institutions to undertake a measure that the principal – the one seeking assistance – would have taken on its own to reform a given situation. This is essentially the terminology that is used when there is government ownership of a particular reform program.

Conditionality is not a unilateral demand. But in the case of a weak government that has practically no option in a given crisis situation, the measures that might require action in the conditionality would look as if the government has no choice but to accept the measures suggested. Actually, the consequences facing such a government are likely to be more grim if it did not receive any assistance.

But how does conditionality arise in many cases? Any individual set on a particular program would set personal standards to monitor performance in relation to targets. That is one way to get achieve individual targets. When a government understands what it wants to achieve a particular objective through a project or adjustment loan, then it would the review of performance against targets that are set ahead of time. The timing of that review would arise at a critical juncture, such as the timing of the release of a tranche of a loan. The tranche of a loan is a partial slice of the total fund stated in the loan contract. Often, the condition could be related to performance on the basis of predetermined criteria – predetermined because it had been agreed to between the lender and the country. In fact, it could represent a set of actions that would have been taken by the government even if it did not receive any loan assistance.

In the face of difficulties of pushing through certain actions, conditionality becomes a very useful instrument for getting things undertaken in directions that are required by the economic reform process. But in fact, the conditionality could be used as a tactical weapon of the reformer to see to it that particular actions are monitored or taken, because they are what the government wants to implement in the first place. In short, introducing a given action as part of an agreement in a particular program – project or structural adjustment loan – would strengthen credibility for a particular course of official action. It therefor helps to tie the action to be taken as part of a loan program. Extracting additional financial resources creates improved flexibility for programs that would have been desirable to undertake in the first place. Loan programs are often the result of dialogues and the resulting agreement could help strengthen the content of the economic reform program. If a government owned the program that it is undertaking, implementing the required action according to the time schedule of a particular loan would be exactly what it probably wants to do to begin with. It is when the conditionality is arrived at without any commitment to the reform – an action that is not credible and which could indicate a lapse in government commitments – that makes conditionality look bad.

In the real world of political struggle between contending views or policies, conditionality is a convenient scapegoat by politicians who find the desirability of the policy and yet are afraid to face popular enmity. For that, they look for scapegoats as the bully boy of the unpopular and difficult actions that they finally embrace. In the public eye therefore, conditionality becomes an unlikely action that appears like it is being imposed upon externally. The reform process often requires the assistance of fallback positions that enables a government to bring a particular action to conclusion. Without the help of conditionality, many planned reforms would be reversed, especially in societies with weak governments. Considering the fluidity of political allegiances in the Philippines, oftentimes, the conditionality helps to cement the action if, to begin with, it is the kind of reform that the government wants to achieve in the first place.

In many countries where the government faces daunting challenges, politicians make it customary to blame international institutions when the economy gets into crisis situations. Yet they need these institutions to help fix the problem. Often, the problems themselves arise because certain economic policies create their own vested interests. When those vested interests become inimical to further improvement of the economic situation, these are the sectors that attempt to influence the actors – the politicians that they influence including those that they have captured with their political contributions. In short, some crises are home brewed, like macroeconomic instability arising from excessive fiscal deficits, inadequate attention to proper pricing of the exchange rate, or high protection for some factors of production or for some industries.

Redirecting the policies to improve the economic situation is the nature of economic reform. Inadequate redressing of the problems often arise from either the inadequacy of the measures adopted to address the problem or the underfinancing of the adjustment issue. To assure that the second issue does not happen is in the joint interest of the country and the international institution. But essentially, it is the commitment of the country to undertake the required depth of reform and to sustain the policies that make the difference between success and failure. In fact, many problems of adjustment do not require any financing from international institutions. The fact that adjustment financing is available simply means that some part of the pain from reform could be alleviated with access to additional resource as the reform measures bite into the economic sectors that are adjusting.[13]

International commitments

Entering into international commitments that are in line with the reforms that the country would ultimately want to have could facilitate the reforms more quickly and strengthen their foundation once in place. Of course, there are no international agreements that are tailored to a country's own special needs. But in some peculiar circumstances that are related to historical relations with other countries, sometimes this could be possible.

The recent moves of many European countries to adopt the euro as a currency, a project led by France and German for many years, was finally consummated recently. As a result, many countries in the European Community were pushed to adopt a single fiscal system. Some of the required actions of the member governments was to adopt fiscal restraint. The guideline is that their fiscal deficit was not to exceed a negotiated percent of GDP. This was a very significant requirement to maintain the international value of the euro. By putting a ceiling on the national fiscal deficit, the national authorities were required to place their budgets under severe constraints thereby assuring that instability arising from fiscal expenditure would not arise. In the process of curtailing budgetary expenditure, the nations lost a part of their fiscal sovereignty.

The same kind of finality to protectionism as a policy was dealt with by the country's accession to the World Trade Organization. This caused the Philippines to embrace global rules on trade issues. These global rules were negotiated multilaterally as part of the epoch ending Uruguay round of tariff negotiations sponsored by the

[13] I have witnessed and even participated in works evaluating adjustment lending programs of the World Bank, for instance. Often, adjustment programs for a given country consist of a series of reform measures that form a package, but which have to be tackled individually in terms of particular adjustment loans. The individual parts could be sensitively tied together, and yet in the final analysis, if a particular even or reform unravels and falls short of accomplishments, some early reform programs could suffer. Such interdependence of reform measures in a series of structural adjustment loans has been under-appreciated in reform programs.

Agreement on Tariffs and Trade. Just to note how long it often takes to get to international agreements of these types that are all embracing, the international trading system began the historic march towards internationalism only with the start of the Kennedy round during the 1960s and the Tokyo round during the 1970s. And it was only in 1994 that a WTO was finally able to seal a deal on global trade issues.

By becoming a member of WTO, the measures that used to be among the arsenals of protectionism are no longer possible. The reduction of tariffs on a global basis is part of the Philippine commitment in the WTO.

Progress in economic cooperation within the Association of Southeast Asian Nations (ASEAN) is another major event that has major implications on the cementing of economic reforms in industry and trade. Although ASEAN has not yet arrived at where it wants to go, the epoch making agreement to announce the establishment of an ASEAN to form a Free Trade Area (AFTA) and to commit to take steps to implement it is a major step in the economic liberalization of the country.

This committed the country to a reduction of many items of tariff that are critical for the success of the AFTA as the Philippine part in the regional framework. Without the AFTA framework, Philippine tariffs would still be relatively high. And even though these tariff concessions are seen as concessions only within the preferential tariff system, the fact is that success within ASEAN establishes a framework by which the country can view further tariff liberalization within an international context.

Yet, the reform process at the regional level is much more challenging than reform at the national level. Here is a situation of a completely horizontal structure of power distribution. Each nation is its own decision-maker. Decision by consensus is the only way to arrive at conclusive results. It was at best a very difficult process and a slow one at that because in 1976, as in 1965, ASEAN was made up of economies having very diverse backgrounds with relatively little interregional trade, except between Singapore and Malaysia (formerly one nation) and Indonesia. Trade with Thailand was higher, but Philippine trade with all of these countries was small. Philippine trade with Hong Kong was more significant, and of course, the Philippines looked mainly to Japan and the US for the external trade.

ASEAN was born in 1965 but it took many years before serious economic cooperation began to materialize. Then, in 1976, the economic machinery was established for economic cooperation through concerted efforts involving the economic ministers of the countries. The working groups among internal economic organizations of various governments began to work, led by the economic, trade and industry ministries. And for a number of years, the progress was relatively slow. But the confluence of international events, especially progress within WTO, also accelerated ASEAN economic cooperation to move forward. But the early years of forming the cooperative machinery, the arduous efforts to achieve slow-building consensus, and the acquired sense of power that together ASEAN appeared more important to other economically powerful nations brought the ASEAN closer and more effective to form a common destiny.[14]

6 National economic reform learning curve

Some kind of learning curve from economic policies is helpful in guiding future economic policy makers from committing them repeatedly. It is possible to make a long list of issues from which to trace aspects of this learning curve. Four major areas are discussed in this concluding section. It is not apparent that they relate to the major problem of improving the domestic saving rate, but indeed, that is the outcome of learning from these lessons. Achieving that end result contributes to the reduction of poverty in the country.

Among these key points is the need to sustain the economic liberalization program by focusing on the most difficult issues faced in the future – a reform of the basic law of the land on economic provisions. Relative success in redirecting foreign risk capital into the country needs to be deepened. Foreign saving generation need not leave a

[14]See Sicat (1998), on initial beginnings of ASEAN economic cooperation. In the early days, there was little common ground among the ASEAN members except a desire to work together. Over the years, as they realized that ASEAN was in fact being noticed by other countries, they began to see opportunities emerge.

burden of potential liabilities on the external debt burden unlike foreign borrowing or financing arrangements for the investments in large projects. The third topic is the design of consumer subsidies that are masked by regulated pricing policies. Finally, the issue of investing in the continued expansion of the nation's analytic capacity for undertaking economic and welfare diagnosis of economic policies.

Sustaining economic liberalization, or dancing the rhumba

The stages of policy reforms that cover the economic history of economic policies that are suggested in part 3 of this paper indicates that there are still areas of policy that require further liberalization. Much has been accomplished during the liberalization stage of undoing the restrictive measures of the first quarter century of independence. Many aspects of the economy still need some correction, if the country is to raise its level of economic growth and achieve decent rates of erasing the problem of poverty in the country.

Since Filipinos love to dance, perhaps a figure of speech will carry more instructive message than any other direct discussion of the problem.

Improving economic policies is very much like dancing the rhumba (my simile shows my ancient bearings). You move forward and backward in rhythm, sometimes even sidewards, but if you are good, you move around the floor in the ***desired direction****. It is not like the pasodoble where the motion is always in one direction – no mistakes.*

Economic policies are subject to fads and tendencies. New policies could tilt the balance of policies so that they nullify their total message. Before independence there was a relatively open climate of economic policies. There was a good balance of policies, between labor protection and the freedom to set up enterprises. After independence a lot of economic policies were introduced that tried to control the business environment so that activities would be distinguished by the nationality of the business proponents. These policies led to many barriers regarding the participation of foreign capital and labor, mainly capital. These policy directives were, of course, derived from the provisions of the Constitution of 1935.

In a manner of speaking, the Constitutional edict required that factors of production, labor and capital, be tagged by their citizenship marks. In one fell swoop, barriers were placed in the use of foreign factors of production in our development. The idea behind those provisions was that foreign capital would come in drones through a "channel" through which investments would be screened. That foreign capital would be attracted by many economic opportunities here. We played it like foreign investors needed us more than we needed them. Actually, we needed them more than they needed us. To them it is simply a matter of putting their resources where they could earn a good profit. They had anywhere in the world as an option for their investment.

Of course, this is slightly overstating the case. Actually, the economy was saved from a more drastic fall in output and a large disruption partly because the country had to approve a revision in our Constitution – at least to give the same rights of citizenship to Filipinos until 1973. That gave time for the country to slowly put American capital in its rightful place, that is, being American in respect to Filipino. In the meantime, therefore, it took some slow time before they would repatriate the capital that Filipinos through their Constitution had decreed that they did not need. And they sold out to our compatriots in due time.

Despite the pride of independence, many of our leaders realized that we needed foreign capital. So, we had to attract it. The country's leaders had to invent ways to allow foreign factors to play a role in our development. So, we invented ways of going about these restrictions to foreign capital, by relaxing laws and introducing incentives as far as they could go, so that we could induce foreign capital in particular to play a positive role. Our neighbors did not have the same kind of barriers that we had forced on ourselves in 1935 and later. They could introduce their laws attracting foreign investments with much more freedom. They challenged their domestic entrepreneurs to the edge of competitive effort, encouraged foreign capital to develop new industries to participate in their economies, and the regulatory regime that they introduced for these were not full of mazes and prohibitions. This is the reason that they managed to attract more foreign risk capital than we could.

During all these years of independence, we were forced by Constitutional edicts, followed by later policies that tried to implement that policy, to have one of our dancing feet tied to a heavy weight that served as a drag on our dance of the rhumba. It tired us badly because we could not make the required efficient moves.

The limitations that were placed on foreign participation conferred enormous clout to those in our society who had the capital, the ingenuity and the political links to those in charge of government to take advantage of new policies that encouraged industry, trade and commerce. But these policies gave our compatriots in this field enormous monopoly power over credit availability, entry rights to business and industrial capacity, and market position in the domestic market that they lobbied essentially for perennial advantage over foreign competition. A feature of many of these projects was that they involved a heavy dose of government financing, either in terms of preferred shares or in terms of direct loans and guarantees. When the original proponents began to miss on their payments, the government began assuming ownership and control of the enterprises so that, in the end, it was the Republic that shouldered the exposure for much of the financing that had been obtained.

This happened during our own age of protection and privilege for those who sought the exclusive monopoly over the domestic markets for their enterprises. In the early stage, this policy helped to establish many enterprises and gave them the opportunity to grow. It led these enterprises to quick profits and control of the domestic market. But they fought efforts to open them to competition, more often effectively because they had a strong connection to political power. At least their lobbies and direct influence were heard more in the corridors of power than those who were pushing for a more competitive industrial posture. Their dependence on protection was on the backs of consumers who had to pay for inferior and high cost goods. Eventually, this unsustainable position could not prolong, for they were the enterprises that led the country towards periodic imbalances in trade and payments.

When the economic crisis and adjustment exposed many of the high cost and non-competitive enterprises in the country, many of the original entrepreneurs lost their businesses. Their dreams of economic and business power might have come out deflated, but these businessmen lost only their enterprises or sold out when they could get out or simply conveyed unpaid debts to the government. What they left were enormous amounts of unpaid loans from the banking system, mainly that from the state financial enterprises. In the end, while they escaped the full cost of their business debacles, it was really the nation that is paying for their mistakes. Why? The Treasury had been forced to accept the liabilities of the government banks in order to reform the latter, and to make sure that the nation did not suffer the consequences of a larger financial insolvency of these institutions. This is a major reason for the waste of credit sources of the country and why domestic saving had been hampered from growing.

The years of protectionist policies put additional weight on the other foot. The drag on two feet made the dance very difficult and exhausting to do. Dancing the rhumba was an experience in self-perdition.

Luckily, and this is the last stage we are presently in, our leaders finally had the good sense to move the country back towards the state that we found ourselves before independence. Trying to free foreign capital to participate still much more openly and removing the protectionist barriers that caused us to lag behind our neighbors and to create opportunities for foreign factors of production to play a meaningful role in our growth.

The economic liberalization of the present period that took much longer than many of our neighbors to undertake has finally removed part of the weight on the other foot. That created enormous improvement in the degree of freedom to adjust the economy, but it is still hampered by the weight on the other foot, caused by the restrictive provisions of the Constitution and the effects that they had added on economic restrictions and regulations that relate to these provisions.

We are essentially back to dancing the rhumba, but with only one foot relatively free. There is still the heavy weight on the other foot that causes awkward steps and tires the effort in moving in the desired direction.

Clearly, the next stage of policy reforms has to deal with strategies to deal with these main restrictions that have hampered the nation – the next stage of reform points towards the Constitutional provisions on the participation of foreign factors of production in our economy.

Inviting foreign risk capital

Since the economic liberalization period, it has been foreign risk capital that has led the export boom of the country. This is major outcome of the influx of electronics and semiconductor companies setting up shop in various export processing zones in the country. The earliest of these and the biggest decided to come to the country towards the closing of the 1970s (Texas Instruments and Intel), and they gradually expanded their stakes of their companies in the country to become the biggest export revenue earners in the group. The acceleration of the entry of many other foreign companies from various parts of the world, especially Japan, U.K. and Netherlands, Korea, Taiwan and Singapore, in terms of export revenues came during the 1990s, the result of the improvement of policies affecting foreign capital. Even the import substituting foreign direct investments that came to the country during the protectionist periods began to explore markets in ASEAN and have restructured their country and region business strategies.

The improvement in the span of foreign capital in various industrial activities is an indication of growing flexibility of the policy. The economic efficiency and competitiveness of such projects are somewhat predicated on their being made for the international market. And if domestic market sales emanate from such activities, they would be on the basis that they compete with alternative supplies from imports. Hence, this assures improving efficiency.

A result of the new attitude towards foreign risk capital in a heavy industrial projects is found in in Balamban, Cebu. Here, a major shipbuilding plant of impressive size has been quietly producing ocean-going ships since 1998. This is the Tsuneishi Heavy Industries in the West Cebu Industrial Park, an investment of one of the big shipbuilding companies of Japan. Since 1997, this project has been building ships of up to 52,000 deadweight tons of ocean-going steel hulk vessels. (For non-initiates like me and in graphic terms, these are vessels that are as long as a two hundred meters and with hulk bodies as high as 5 to 6 story buildings.) The shipyard plant has so far (in mid-2002) built 31 ships that have been entirely for exports. At any given time, there are four ships in process of completion in the shipyard – of which one is on training run for seaworthiness, another one on dry-dock finished in assembly, and two others in two different state of assembly. Shipbuilding is essentially an industry that welds high quality steel plates into a floating transport vessel. To many of us, a vessel of 52,000 DWT is just a statistic. But if we say that this type of ship is the work horse of the world's merchant marine vessels, then we get impressed. These are the vessels that ply world trade and which we would normally find docking in the port of Manila and other international ports, like Batangas and Cebu. If the vessels built and delivered had all been of this size, then this shipbuilding plant would have constructed around 1.6 million deadweight tons of ships. But since some of the earlier ships were at half this displacement, the total tonnage is well just over one million tons. This is quite an impressive figure.

But what is impressive about this operation is the number of Filipino workers that it uses. These workers were busily employed, like bees in work overalls, with hard hats and with work boots, such as those one would see in industrial plants of Japan or Korea in every part of the plant. These are Filipino welders – almost 99 percent of them – many of them trained in the shipyards in Japan prior to working in the country. They were made to work with the other Japanese shipyard workers in that country, and afterwards were repatriated back to work in the Balamban Tsuneishi shipyard. There were hundreds of them on the plant on the typical working day that we visited (This was only recently, with the UP group in development economics). Tsuneishi is the fifth biggest shipbuilder in Japan that came in part to the Philippines in search of cheaper labor costs. All the capital was Japanese and all the raw materials – steel plates – were imported from Japan.

The Tsuneishi heavy industry is a very large industrial venture that was set up with foreign capital. Its construction was undertaken entirely by the investor and it gets its financing from its independent access to world capital markets. It shoulders the business risks, and it undertakes its own marketing of its services and product. The only commitment on the part of the government was to provide a site and to provide assurance that the business could take place. (But in fact, it nearly did not establish in the country because it ran afoul of domestic interests that nearly stopped the project.) The industry was set up completely as a contradiction of the arguments about the need for a domestic market when establishing a large, heavy industry. The traditional arguments that the government had been fed through many years of industrialization policy was that large enterprises needed to take control first of the domestic market, displace imports of products and that these industries needed protection first. Then, they also support from the government in the form of credit and guarantees. Of course, the Tsuneishi shipyward was awarded tax incentives through the investment incentives law, but that was where the contribution (or liability) of the country ended. And yet the benefits of foreign exchange earnings, employment, local community growth, additional business, and the potential for future linkage within an expanding economy are enormous.

Heavy industrial projects of the past have given the country a lesson in experience. The heavy industrial projects do not comprise a single experience but a number of actual cases. These projects were conceived with a large dose of government support in financing and in market protection. Most of them were built with the idea that Philippine capital, financed, and enterprise would eventually put the country on the industrial map. The government's zeal in supporting domestic private risk capital in these ventures has led to the major problems that it now faces with the failed projects. Local capital, although available, was in limited quantities and they required supplementation from local credit resources, including the government.

The integrated steel project in Iligan in northern Mindanao was one such project. Today, the project is known as the National Steel Corporation, but it is idle. Its large physical assets assets are rusting in the industrial estate in Iligan. It was to be the country's venture into an integrated steel mill as early as the 1960s. For years, the government had run the National Steel Corporation, pouring good money after bad. Finally, it was privatized in 1994. What intrigues me about this privatization is that the government is still apparently owning some part of it, because the last time that it appeared in the news, the government is again planning to put it back in operation, or is discussing ways of doing this.

The government needs to get out of large industries that it finds difficult to run. These should be sold to the most capable companies with track record in the industry including foreign companies. In short, who buys into these enterprises is a major issue related to the sale of the enterprise, not so much just selling it to some parties who might be peddling the project for their gain. There are other such large industrial projects that the government has decided to sell. The other important aspect of such divestitures by the government is to cut off entirely from financing the company and from taking even minor control from the enterprise. The buyer should have direct equity capital to risk. The assets will be improved in Philippine soil, the employees will be mainly Filipinos, and the expertise to be gained will in part be transferred through the knowledge of the technicians and laborers who will be Filipinos.

Making consumer subsidies transparent

During national emergencies, the need to protect consumers from very abnormal changes in prices is a major problem. The policy response would often be in the nature of price controls. Defining national emergencies is a problem by itself, but they are often needed in abnormal situations. A war or a destructive natural calamity in an area is one such thing. The events of the 1970s were very abnormal in terms of the external shocks that the country had to content with. The oil shock of a four-fold increase of energy import prices, and then within six years another doubling of prices was in the nature of emergencies in view of the country's near-total dependence on imports. Given the fragile nature of the external payments at the time, this external shock was extraordinary. In addition, shocks transmitted by the floating of all the major currencies made the peso exchange rate very volatile even.

Price controls were the immediate outcome of these shocks. Although they were intended to be temporary, the problem with price controls was that they bring with them strong interest groups to back up their continuation and broadening. The populist instinct of leaders, even when they have a high degree of insulation, sometimes is to accommodate such temporary changes, and they could therefore lead to their expansion of coverage.

Price controls also create a constituency within sectors of government who suddenly find themselves in the thrust of events, becoming apparently important in the public eye, and who normally enjoy the instant fame of continuous exposure in the public media. Such measures make men of action more obvious in their responses. Moreover, price controls invite constant public scrutiny often creating credibility problems for the government either for inaction or for other reasons.

Lessons from this experience are many. One is that they should have a definite timetable. Their terminal date needs to be definitely projected. Even this is not a guarantee that they could end, because the likelihood of a strong lobby for their indefinite continuation – even by extension – would happen and the government could be persuaded by a strong populist lobby.

This is one explanation why the price controls in the early 1970s took longer to remove. They politicized a relatively calm market and it made the government extra busy with an activity that was, to say it frankly, unproductive and disruptive to the market and to development.

Another lesson is that even if a special body is made to take care of public hearings to assure that timely adjustments are made, the experience in our country is that the special body would often be swamped by strong political arguments against adjusting prices. This was illustrated by the Oil Industry Commission and oil price regulation. In view of the volatile oil prices occasioned by floating exchange rates and political factors in the oil exporting countries, any impending discussions of oil prices always brought in contentious political discussions, mixed with public protests and even transport disruptions. Oil prices became very politicized. Macroeconomic stability was also threatened by the fiscal deficit. Whenever there was consumer prices were not recovered from the pump, the government was forced to raise the oil price subsidy. It guaranteed price recovery to the oil companies in order to assure continued supply of the product.

The deregulation of oil prices did not get resolved successfully until the government decided to link the price of oil at retail to a flexible anchor. The price anchor is a Singapore price, and this enabled the government to remove the deficits arising from price support of petroleum prices. What is more important is that it led to expansion of the petroleum industry in the country. This also improved the investments in retail petroleum distribution. If one were to driving through the roads of the country now, the supply of gas would be available at any convenient town. The likelihood of fairly efficient service on the road would be available. In addition to the relative stability of oil supplies, there is a vibrant competition among small retailers sustained by the big companies for the favor of the discriminating retail consumer. That was not so for many years when oil prices got messed up with politics of price controls.

It is not only gasoline that got captured by the politics of price controls. Low cost housing supply became a hostage to rent control. This has messed up the country's acute supply of private housing for middle income and poor people.

The issue of tuition fee controls for private universities represents another aspect of these problems. But tuition fee relief and decontrol is a very significant problem that has to be solved if the country is to cure the deterioration of the quality of tertiary education. As it turns out, many escapes from the problem of tuition fee controls have been invented, and some of the imaginative solutions have saved the well-endowed universities with solutions that enable them to charge tuition even above cost recovery. The problem of education reform is in part a pricing problem, because the salaries of teachers and the improvement of laboratories and facilities are dependent on the level of tuition.

The problems of trying to gain populist support in these areas were policies that would linger even to the present day. These problems need to be restored to the judgment of markets and institutions through an encouragement of competition to replace the system. Once introduced, and even when they were conceived as temporary measures when started, politicians find it difficult to be the leaders who would abolish them – because they make them appear less pro-poor. In fact, these measures have aggravated the supply of housing resources and helped to contribute to a lowering of the quality of education.

To this class of problems (although they are not in the nature of consumer subsidies) belongs also policies that are related to wage-setting under the Tripartite Conferences of government, labor, and management that took place during the 1970s-1980s whenever there was a public outcry to raise minimum wages. These meetings were used as a prelude to the approval of a new set of minimum wages. During the turbulent years of the 1970s, we failed to get the government to adopt the alternative of regional minimum wages, which was the appropriate way to handle adjustments in wages. The problem of these policy discussions was that there was a strong urban bias in the wage-setting issue, and it became attractive for the players to insist on the Tripartite approach undertake the recommendation. Faced with that populist appeal and under the onslaught of serious price upheavals that affected the urban workers mainly, organized labor and the Labor Department that had always sided together on these issues could play a strong card. It is to the credit of the Aquino government and the Congress that, later on, facing the problems of urban unrest and labor discontent, Congress was able to switch policy to the regional minimum wage approach. Needless to say, this solution was essential in deflecting urban-based wage demands and it also was much more stable because it included regional competition as an element in the national wage-setting.

Finally, the problems of management of public corporations that sell their services to the public are related to consumer subsidies. Many public corporations have a tariff-setting problem because although they are supposed to be autonomous, the government (pressed on by political factors) always has say on the timing of their pricing decisions. In fact, one factor often hampering them and causing a failure for them to have financial surpluses in their operations is that they have little independence in tariff setting. The financial losses of these corporations eventually end up as a burden to the treasury. Sometimes, they borrow resources from it (which end up as grants eventually because they do not repay). Sometimes they use their corporate borrowing power to finance their deficits. Eventually, should the corporations end up bankrupt or insolvent, and the government decides to renew their mandate because they serve a purpose, then the treasury again begins to finance them with a new lease of life.

The management of public corporations is often a political problem, sometimes a management problem, and also an economic problem when they take away resources from other uses. We have many examples of these corporations. If they can collect their proper fees, if they can recover their costs, and if they are better managed, then they will contribute towards reducing the expense of the government eventually. They are a major source of strengthening the fiscal position of the government. They also help to strengthen efficiency in the government. In short, they will strengthen domestic saving in the economy.

Raising the analytic capacity of the nation

This lesson is not well appreciated. But to an audience of researchers, to say it is like preaching to the cheering section of the team. But in the outside world, this is not well understood. Economic reforms begin with perceptions about the problems and what to do with them. In short, it begins with analysis and then with expert diagnosis of the problem. The list of economic problems that the country faces cannot simply be left to the agencies engaged with the task of correcting the issues that they face. They are, for one, technically short-handed. For another, they face a lot of groups with selfish interests. In short, they face lobby groups with specific agenda in their minds. In fact, they themselves form a lobby within the government, for their point of view. I felt that introducing an economic point of view – efficiency and regard for national objectives of growth and equity – would be important to interject. It could not even be provided by NEDA alone. It had to come from think tanks around the country that contributes to the analysis and discussion of the problem.

Some anecdotal remarks are important in the resolution of the PIDS founding story. One of the key problems that I faced in the government in the 1970s was strategic. There was little analytical ammunition to work on economic problems except the ones that were produced within the government, the amount of research undertaken by the few workers on economic questions, and of course the analysis of external agencies who were reviewing the problems of the economy. There were few people who were sympathetic with my views. Lobby groups and vested interests probably saw me as the lost academic in the government. The operational agencies of the government were engaged in implementing government programs. The work of planning and policy was seen as supporting them not criticizing them or redirecting their programs.

Raising the standard of analytic work was therefore an important mission. This was not easy and the task could not achieve quick results. Institution building was important. But institutions have to be nurtured. This was the compelling reason why I became convinced that there was a need for an institution like the PIDS. It was to serve the government's objectives of analyzing and researching on economic development issues. But it was not going to be an extension of the NEDA. It would not be a staff of NEDA but an independent research outfit. If it were just to multiply the staff needs of NEDA, that could be met by simply expanding staff. What was needed was a professional group, very highly qualified to undertake research that would serve as an independent analytical arm of the government.

The experience with the analysis of protection and its effects on the economy would be very instructive to some. The work on the subject started as an accident of collaboration between John Power and myself. Power was a visiting professor at the UP School of Economics, and he was working on the Philippine case in a comparative study of industrialization and trade that was headed by Bela Balassa and Ian Little at the World Bank. Because I was doing work on Philippine industrialization myself, John and I joined up and produced a monograph, Power and Sicat (1970). When the book was finally published, I was already head of the National Economic Council and John Power was available to come back to continue work on the subject. I decided to enlist Romeo Bautista who had just returned recently finished his studies from Yale University and work at the National Bureau of Economic Research in New York. They were to put the heads of many graduate students and faculty on the subject. The result of this was Bautista and Power (1978), the book on industrial protection. This book engaged the work of many younger economists who, later on, would contribute in many areas of economic research. In addition to this, the collaboration on econometric economic planning work that I engaged Jose Encarnacion, Jr., together with the faculty of the UP School of Economics, firmed my ideas about the need for an analytical group to work on economic issues directly helpful to our needs in the government.

The influence of the work on protection turned the tide of domestic thinking in the government. This collaborative efforts helped produce new technicians who would now be staffing some sensitive government agencies. These are the staffers who prepare the memoranda on particular issues. The results also made inroads in the public consciousness. The work itself would be recycled in many forms, would find its findings in World Bank and other reports and would come back to the government in terms of analytical findings. The work on economic liberalization would now be much easier, since the powerful findings of the work would be internalized even among government officials and analysts in the private sector would begin to absorb its significance. As the country went about to participate in the trade round negotiations, the founding of the WTO, and deeper cooperation within ASEAN, there would be some assurance from the findings of this study that economic reform was on the right path.

The PIDS story was actually a brainchild of the experience with the research on trade and industry, although this is not apparent to many. A large research activity undertaken by highly competent professionals educated a generation of economists on an actual research issue on the ground. When I finally got the signature for the establishment of the PIDS, I appointed Filologo Pante, Jr. in whom I placed enormous confidence because of the quality of his work as one of my assistant directors general. He was indispensable at NEDA but I asked him to sacrifice his NEDA job to get to work on another mission, to nurse the early years of a foundling. The reason was that we had to begin with the best people available. We would appoint only Ph.D.s as researchers to the staff as a minimum. If they were not yet available, we would wait for them to get to that point. And we would attract those who would come from other sources of study to assure that there was a home where professional research work could be undertaken and there was room for individual growth. We got some of the first Ph.D. products who contributed to the protection study, and immediately gave them one-year of post-Ph.D. work in the best universities in the US. Among the first of these were Erlinda Medalla and Rosario Manasan. We would also develop a network with other research institutions so that immediate work could be undertaken even without taking other researchers from their place of work. They would not be threatened by competition for staff, but PIDS would help support funding of their work. In this way, even the other institutions were strengthened. There would be a complementarity of activities.

The rest is history.

The PIDS story stresses the importance of having the government invest in improving the nation's analytic capacity. There is a high domestic payoff. It is not only the existence of PIDS but the enlargement of the country's network of independent research cells of highly competent people that makes the effort also more significant. That will enable continuous debate and analysis of the nation's economic problems. Analysis is part of the political process of reforming society and economy. Continued support of analytical work is a sign of maturity in the study of economic reforms.

Appendix 1. Why Raising Domestic Saving Is Important

The development experience of the last 50 years has not raised the rate of domestic saving to a level that is likely to sustain a high rate of growth that is consistent with building investment projects that are immune from a foreign exchange risk. This is seen below.

From the national income identities, investment is equivalent to saving, break down the components of saving:

Investment = Domestic Saving + Foreign Saving.

Domestic saving can be broken up in terms of private saving and government saving. But private saving is made up of voluntary private savings of households, of businesses, and of involuntary savings plans (social security etc.). On the other hand, government saving consists of the sum of the surplus of taxes over expenditure in the budget and the saving of public corporations. In short,

Investment = {Private Saving + Government Saving} + Foreign Saving

= {Household saving + Business saving + Involuntary private savings} + {Budget surplus + Government corporate surpluses or earnings} + Foreign Saving.

Consider the record of recent years. Because of the relatively low rate of annual growth, especially after 1981, especially when compared with our neighboring countries that have grown by almost twice as much as our country, private household saving and business saving have been relatively low. The involuntary savings generated by the social security systems have done relatively very well on the basis of annual generation of saving from the premia collected. But these institutions have been raided by poor investments and by misguided behests by the former president and by relatively poor investments of the past.[15] Private domestic saving rises as income rises, so a fast rate of economic growth produces higher rates of saving. In fact, based on the record of East Asian countries that have saving rates far higher than those in the Philippines, it is the high rates of income growth that enable them to have spectacular rates of private saving. This has led toward the growth of domestic resources to finance a lot of the investment needs of these neighbors.

Examining now the fiscal record, the recent experience has been a budget deficit rather than a surplus. This means that the government net saving has been negative. This has been between –percent to --- % between 1990 to 2002. This chronic problem extends to earlier decades. Over the years, we did not feel some of these pinches because the nation had lived off earnings from agriculture, from the rapid exploitation of forest resources and minerals, and from assuming just higher levels of deficits. Government saving has been negative for years, in part because of poor tax collections and the inability to cover the budgetary expenditures. The remedy is either a cutback in expenditure or a rise in tax collections, meaning either to raise taxes or to improve collection rate. Moreover, after 1997, the deficit has become higher.

The government corporations have not been sources of surpluses either, but a source of deficits. Many of these deficits are not yet recognized in the budget but are contingent budgetary deficits of the treasury. One of the most threatening of the sources is the deficit of the National Power Corporation. To finance its deficits, it has been using foreign borrowings. And in view of the inability of the NPC to charge a reasonable recovery rate for its

[15] Over the years, GSIS and SSS had been engaged in investments in industrial and commercial ventures that have gone sour. Some of these investments have to buy preferred investments in some of the many industrial failures of the country: hotels, airlines, some of the glossy industrial ventures of the past in steel, and also in investments in equity of industrial ventures. During the impeachment trial of former President Estrada, the former heads of both testified against him, saying that they were made to invest in the stocks of a controversial and overpriced stock. The most prudential management of the SSS came during the time of Gilberto Teodoro, who insisted that the institution only invest in safe and fully secured instruments, thus keeping faith with the mandate of SSS (1970s to mid-1980s). This, he did, despite the pressures that were exerted on him to become more bold.

expenses plus the high costs of IPP contracts that have been generating excess power, the country is paying a high cost for these.

Going now to foreign saving, the financing of the investment program has been in large part through foreign saving. On the assumption that the country's net foreign exchange reserves do not change, foreign saving can be broken down as follows:

Foreign saving = Surplus on current accounts + surplus on capital account

= {Net earnings on current account} + {Net proceeds from Foreign Borrowings + Net foreign direct investment}.

Because of the rapid expansion of exports and earnings of foreign based Filipino workers, the country's net current accounts balance has become positive since the 1990s. This is one of the positive aspects of the growth of export industries and the improving foreign trade posture of the Philippine economy and it provides evidence of the growing capacity to solve the macroeconomic problem. A consequence of this development is that it has reduced the amount of foreign borrowings that must be filled. But because of the large fiscal deficit, the financial deficiencies of government corporations, and the size of the overall investment requirements, the scale of foreign borrowing continues. The foreign borrowing carries the future liability for repayment. So long as these borrowings are for productive investments, they will not pose any problem. But some of these —including the shifting of the burden of PPA from the consumers to the government raises the fiscal deficit further to the amount of the consumer subsidy. The consumer subsidy has no future impact on productivity. But it will hobble the country's capacity to raise domestic saving, for it will pull down the saving rate.

This is the reason why the attraction of foreign direct investment appears to be not only a sensible solution even in the past. Net foreign investment is for the account of the investor, even though the country has the obligation to repatriate it. But if foreign investment is economically efficient, it also does not burden the nation with contingent losses on the part of the government. The risks of failure and the reward of success were in the case of foreign direct investment for the account of the investors. This was unlike the case of many failed Filipino owned private enterprises that cost the nation enormous loss of time in providing job opportunities and incomes to the growing population. In addition, they cost the nation the loss of future flexibility because along with their failure were nation's loss of saving resources.

If this had been recognized a long time ago, this policy would also have induced the growth of domestic Filipino enterprises that are efficient and competitive in the market. The market would have disciplined these enterprises through competition and cost cutting. The national policy of being reluctance to open to foreign direct investments was the result of the protectionist policies. The tone of current policy has reversed somewhat, and the need to accelerate the participation of foreign direct investment however requires further efforts to streamline policies along lines that are as competitive with the benefits that other neighbors are offering foreign investments. The false start that took so long to integrate into the national learning experience has therefore caused the nation very dearly.

Table 1. History of Philippine Economic Policies

		MAJOR EVENTS OF PERIOD		FACTORS OF PRODUCTION			REGULATORY REGIMES			
Year	***President***	***Philippine politics and economic policy***	***World political or economic events***	***Labor***	***Land***	***Capital***	***Foreign Exchange***	***Trade restrictions***	***Domestic Investment***	***ADDITIONAL COMMENTS***
1933		Constitutional Convention		During the colonial period, American laws on labor, land, and capital applied. With respect to land, efforts to break up large landed estates of the Church were undertaken, but ownership and exploitation of resources was allowed to all qualified under American law which has liberal provisions on the conduct of business. Capital was invested in any business activity with few restrictions. American investments in all sectors grow during this period, becoming a major source of investment and growth.			Essentially liberal regulatory regimes on all fronts. Trade restrictions applied to a few Philippine exports to the US – quantity quotas for some primary products – sugar – and tariffs on coconut oil. Exchange, trade, and investment laws in US applied to the Philippines, when not explicity regulated. Therefore, the general framework of policies was one of free exchange rate regime, trade, and investment regimes.			
1934		**US Congress passes Philippine Independence Act.**	Spanish Civil War – aside from being an internal struggle, it was the proxy war between communism, fascism, and capitalism.							Law (known as Tydings-McDuffie Act) allows for 10 year economic transition period with preferential trade.
1936	Manuel L. Quezon	Philippine Commonwealth period commences - 10 years transition	World War II begins in 1939 and leads to occupation of many states by Hitler's Germany.	Ideas of social justice preeminent during this period –promotion of social justice to ensure well-being and economic stability of all the people a concern of the state. Minimum wages for public works and 8-hour labor days.	Right to exploit natural resources and to use land limited to 60% Filipino corporations. Land use limited in area and leases to 25 years.	Explicit provisions to limit public utility franchise, lease or grants to Filipino citizens and corporationswith 60% ownership.				
1946	Sergio Osmena – Common-wealth; Manuel A. Roxas – Republic	**Parity amendment to Constitution. Independence on July 4, 1946.**	Pearl Harbor; 1942-1945 War in the Pacific; End of World War		Parity amendment to the Constitution of 1935 postponed the effectivity of restrictive clause to American citizens.		An overvalued peso at the beginning of independence leads to five yearsof unrestricted imports (and export industries still being rehabilitated), despite huge reconstruction bill financed by US war damage payments. Rehabilitation of export industries and			Parity amendment to the Constitution was exchanged for American reconstruction aid after war and a diminishing preferential

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1947	Manuel A. Roxas	Beginning of Communist insurgency		Note: Early Commonwealth laws began the tradition of labor legislation along American lines (started as early as 1908): laws on non-discrimination and protection of women and minors, workmen's protection and compensation, and courts of industrial relations.			domestic economy was helped by these war damage payments. Exchange rate sovereignty was not allowed as any devaluation required US approval during transition, according to the Trade Agreement (Bell Trade Agreement).			trade agreement with US. The period of adjustment was to end in 1973.
1948	Elpidio Quirino									
1949	Elpidio Quirino	Import and exchange controls adopted.	China's Revolution in Mainland – Mao Zedong				Central Bank begins operations.			
1950	Elpidio Quirino		Korean War, 1950-53				Exchange controls are instituted	Import quotas and import controls.	Encouragement of import substituting industries, with domestic investors as principal beneficiaries	
1951	Elpidio Quirino	New and necessary industries are promoted.		Minimum wage legislation for national wages, for industrial and agricultural workers.				Link of opening of letters of credit via goods classified for imports –		
1952	Elpidio Quirino									US economic assistance extended after end of reconstruction phase.
1953	Elpidio Quirino			Magna Charta of Labor, enshrining labor unionism along American lines (modeled after Taft-Hartley Act of USA); Blue Sunday Law (legal holidays)						

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1954	Ramon Magsaysay		Fall of French Indochina – Dien bien phu	Social security legislation. GSIS law government employees was a Commonwealth law.						
1955	Ramon Magsaysay	Laurel-Langley Agreement revises the Bell Trade Act provisions.			Week land reform law – 144 hectares allowed as retention limit to landowners.		Exchange rate sovereignty restored to the Philippines under the revised trade agreement.	Bilateral preferential agreement becomes favorable to other Philippine non-traditional exports.		
1956	Ramon Magsaysay									1955 to early early 1970s, reparations from Japan provide capital goods and loans for the private sector. Japanese aid in form of soft loans continue beyond 1970s to this day.
1957	Carlos P. Garcia			Forty-hour work week - Govt						
1958	Carlos P. Garcia	Filipino First								
1959	Carlos P. Garcia									
1960	Carlos P. Garcia	Basic industries law	American intervention in Vietnam's civil war begins escalating							Basic industries law continues incentives under new and necessary industries.
1961	Carlos P. Garcia									
1962	Diosdado Macapagal	Exchange decontrol					Removal of exchange controls.			
1963	Diosdado Macapagal	Tariff Code and protection						Protective tariffs replace some quotas and exchange controls	Credit policy for preferred industries available with the government financial institutions	Managed fixed exchange rate allowed the overvaluation of peso over time, despite initial adjustment. –

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1964	Diosdado Macapagal	Retail trade nationalization	Birth of ASEAN		Weak land reform program. Land retention allowed to landowners equalled 75 hectares.			Tariff provisions have barriers: rates dependent on certification		Retail trade nationalization further created additional laws that limited the participation of foreigners in an important distributive area. Although initially designed to help the little sari-sari store Filipino owner, it prevents larger distributorships in normal commerce. This signalled further reduction of opportunities for foreign capital and foreigners in an important industry.
1965	Diosdado Macapagal							Retail trade restrictions to foreigners		
1966	Ferdinand Marcos									
1967	Ferdinand Marcos									
1968	Ferdinand Marcos	Creation of BOI and Investment Incentives law				Although investment incentives law and export incentives law contain provisions encouraging foreign direct investment, procedures and restrictions tended to more more elaborate than simpler laws of ASEAN and other neighbors.		Some tariffs linked to preferred and pionee industries	Preferred and Pioneer industries given high protection and incentives.	
1969	Ferdinand Marcos			Medicare act						
1970	Ferdinand Marcos	Export Incentives law					Floating exchange rates		More liberal export incentives, extended also to foreign investment	

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1971	Ferdinand Marcos	Consultative Group for the Philippines chaired by the World Bank organized to coordinate foreign development assistance							Creation of PEZA. Leads to PEZs in Mariveles, Mactan, Baguio, and Cavite in later years during 1970s.	
1972	Ferdinand Marcos	**Sept. 21 – Martial law declared**								Japanese foreign economic assistance in the form of soft loans would replace ending reparations.
1973	Ferdinand Marcos	1973 Constitution adopted. NEDA is created, merging the Presidential Economic Staff (PES) and the National Economic Council.	Middle East War. OPEC and first oil shock	Thirteenth Month Pay	Privileges under parity amendment terminates. New Consitution allows service contract arrangements for exploitation of natural resources to 100% owned foreign corporations. Second important development: stronger land reform program confined to rice and corn lands					End of parity amendment for American investments. By this time, major utilities have already been divested to Filipinos.
1974	Ferdinand Marcos		Abandonment of Bretton Woods system -- floating exchange rates	Labor Code is passed, codifying all labor laws	adopted. Allowed land retention to landowner is 7 hectares.			Abolition of tariff protection with prior approvals -- tarification of protection		
1975	Ferdinand Marcos		Fall of Vietnam to Communism							
1976	Ferdinand Marcos	Financial reforms in banking -- early phase of increased bank capitalization program.	Economic ministers of ASEAN set up structure for economic cooperation and Bali Summit of leaders approves structure.			Increased foreign participation in banking as strategic minority.				Liberalization of banking is critical in opening greater awareness of the Philippines by foreign investments.
1977	Ferdinand Marcos									
1978	Ferdinand Marcos	Batasang Pambansa	Second oil shock							
1979	Ferdinand Marcos									
1980	Ferdinand Marcos									
1981	Ferdinand Marcos		US Fed interest rate shock to cure US inflation.							
1982	Ferdinand Marcos		Mexico's external debt crisis							

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1983	Ferdinand Marcos	Ninoy Aquino's assassination triggers political and economic crisis.								Economic crisis creates inflation and an external debt problem that ends in moratorium. Two years of successive fall in output.
1984	Ferdinand Marcos									
1985	Ferdinand Marcos									
1986	Corazon Aquino	**EDSA Revolt; Fall of Marcos; Mrs. Aquino assumes government; nuclear power plant, although almost finished, is not commissioned; also, the Department of Energy is abolished.**	Beginning of large flows of foreign direct investments to China and Southeast Asia, especially to Thailand, Malaysia, and Indonesia							
1987	Corazon Aquino	1987 Constitution; Elections, Presidency and Congress restored			Land reform program broadened to cover all agricultural lands.			Resumption of trade liberalization and structural adjustment.	Transfer of non-performing assets and liabilities to government of PNB and DBP to clean their books and restructure..	1987 Constitution upheld most of the provisions of the 1935 and 1973 Constitution. There were hardly any changes from the nationalistic provisions. Reform of government financial institutions (DBP and PNB). Creation of Asset Privatization Trust (APT) and transfer of financial
1988	Corazon Aquino			Wage rationalization act, allowing regional minimum wage setting						
1989	Corazon Aquino									Debt relief from Brady bonds facility helps country reduce the level of formal debt. Even then, external debr service is a relatively heavy burden.
1990	Corazon Aquino	Power shortages in Manila become common and disruptive.	Fall of Soviet Union	National health insurance for all workers						
1991	Corazon Aquino	|	Reunification of Germany.							
1992	Corazon Aquino	US Military bases treaty abrogated								

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1993	Fidel Ramos	Power shortage becomes an early priority with a fast-track authority to rebuild capacity of energy generation. The passage of the Local Government Autonomy Act. Creation of PEZA – Philippine Export Zone Authority. Subic Bay Naval Base becomes a Freeport Zone. Clark Air Base transformed also into an Export Processing Zone.				Constrained by lack of capital and the need to push infrastructure program and to solve the electricity crisis, use of BOT, BOOT, and other innovative financing public investment programs using foreign capital utilized.			Use of BOT, BOOT and other financial innovations allow private financing of investment.	Central Bank reform: abolition or restructuring of old central bank and renaming of central bank to Bangko Sentral ng Pilipinas.
1994	Fidel Ramos		World Trade Organization (WTO) is created; ASEAN announces Free Trade Area agreement for 2010.			Banking liberalization allows liberal participation of foreign banks in local banking. WTO entry also liberalizes insurance industry.	Liberalization of foreign exchange transactions apply to capital flows.	Accession to WTO commits country to less restrictive trade policies. ASEAN announcement leads to anticipated changes in regional trade and the first to adjust are multinational companies that realigns their plants and markets in region.		ASEAN and WTO are two major breakthroughs in liberalizing Philippine trade policy. Without these commitments, the trade and investment regime would be still slowed down by protectionist protests.
1995	Fidel Ramos									
1996	Fidel Ramos								PEZA further liberalizes settin up of export processing zones set up by private sectos and joint ventures, thereby extending further encouraging foreign direct investments for export industries.	
1997	Fidel Ramos		Thai baht crisis infects region and causes Asian financial crisis.							
1998	Joseph Estrada									
1999	Joseph Estrada	Liberalization of retail trade industry.								

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2000	Joseph Estrada	Estrada impeachment trial								
2001	Gloria Macapagal-Arroyo	EDSA II – Jan. 2001 --> Gloria Macapagal Arroyo installed as president.	Sept. 11 – Terrorism in World Trade Center, NYC						Electricity reform to restructure NPC and create competition in energy generation.	

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