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HOW NOT TO BE A NIC

Unavoidably, this paper has been transcribed in Professor Green's absence overseas and its accuracy in punctuation and other editing may not be of a standard he would desire. If you would bear this in mind when reading, it would be appreciated.

A handwritten signature in cursive script that reads 'Sonia Hill'.

Mrs. Sonia Hill
Secretary to Prof. R. H. Green
9th August 1994

HOW NOT TO BE A NIC

Reginald Herbold Green

Time past and time future are both - perhaps -
contained in time present. ... all time
is irredeemable. ... Redeem the time.

- T. S. Eliot
Four Quartets/Ash Wednesday

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By Reginald Herbold Green

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I.

"Forward To The Past" in "What Real World"

The economic policy of the Philippines since the ousting of the Marcos' has been both relatively clear and relatively clearly unsound. Its 1986-1989 phase can be encapsulated in the phrase "Forward To The Past". The great families of pre-Marcos politics and the businessmen associated with them were again in command and sought to turn back the clock to the early 1960s in the false (even for themselves) belief it had been a golden age and the naive view that the international economic context had not altered enough to prevent any such nostalgic journey.

By the early 1990s a new policy pattern emerged - the 'ultra orthodoxy' of early Pinochet Chile. Fixed or appreciating exchange rates, substantial inflation, high real interest rates (approaching monetary terrorism in their impact on productive fixed investment, Central Bank finances and domestic debt service costs) steadily undermining growth and overvaluing the currency. That bubble was made even thinner by the determined "yes" answer to what is usually a rhetorical question "Should we starve our children to pay our external debts?". Critics were accused of not living in a real world but "What real world" was the fairest query to Secretary Estanislau's exercise in walking on water which had failed in the 'Southern Cone' of Latin America and is as likely to do so in the Philippines until either the second coming or the first freezing of Manila Bay

With President Ramos' administration there is at first appearances a strategic change. "Philippines 2000" is a project to achieve NICdom. It is clearly forward looking and grounded in the global economy of the late 20th Century. On the face of it, even if some of the phrasing appears unduly optimistic, it is the most coherent and probably the least inherently unviable economic strategy the Fourth Republic has ever had. But three basic questions arise:

1. Is it potentially desirable to be a NIC?
2. If so, what are the basic requirements?
3. Is Philippine economic policy today even conceivably compatible with the strategy of "Philippines 2000".

These questions will be considered in order with the main focus on the latter. As the title suggests the broad conclusions are:

1. Yes - at least it can produce better broad front economic dynamics, no more problematic political patterns and no worse ecological results than those 'achieved' in the Philippines.
2. High fixed investment; avoiding both currency overvaluation and very high real interest rates; an effective revenue system providing resources for human and infrastructural investment; a relatively low external debt service burden; a rising real wage trend; buoyant and expanding domestic mass markets; and (less uniformly) serious enough land reform to break the political power of the landed interest.
3. No - Philippine economic policy is well designed to achieve the reverse of each of the conditions for becoming a NIC. Indeed it is a trifle difficult to see whose interests it really does serve. Both of the ruling coalition fractions - the ilustrado landlord sub-class and their allies/economic mentors the "Makati (financial) crowd" have good reason to criticise it as it serves the landlords badly now and by creating an unsustainable bubble economy threatens to destroy the latter just as its *locus classicus* brought down virtually every bank and property company in Pinochet's Chile.

II.

Is NICery Noxious?

It is fashionable in even centre left Philippine intellectual circles to treat the intrinsic evil of NIC strategy and practice as a self-evident fact and to construct rationalisations of that perception not to test it as a hypothesis.

Most Asian NICs have not been democracies. But for over a quarter of a century neither was the Philippines and a democracy in which a feudal (great family) rural electoral pattern guarantees landlord dominance has distinct limitations (economic as well as political). South Korea has moved toward democracy because of - not despite - its economic success as a NIC and the relatively broad spectrum of economic winners. So arguably has Taiwan and even Thailand. Indonesia's politics of centralised Javanese dominance, repression of autonomy and virulent expansionism within the archipelago (Irian Jaya, West Timor, the failed Borneo, Singapore and East Irian ventures) clearly pre-date its move toward a NIC strategy by a third of a century and are not self-evidently helpful to it.

Most NICs have not been very tolerant of effective trade unions. But both governments and employers have seen rising real wages and rising state investment in education as crucial to success grounded on regularly rising productivity.

In the late 1950s the Philippines was at the top of the developing Asia rankings in health, education, real wages, labour productivity. It would be unfair to say it is now at the bottom - clearly Afghanistan, Bhutan, Cambodia, Laos and Myanmar are weaker. But South Korea from, perhaps, one-third the real wages and productivity has leapt to, perhaps, five times as high - it has steadily forged ahead while Philippines real wages have fallen and manufacturing sector productivity stagnated. Nor indeed is it at all clear that today South Korean or Taiwanese or even Thai unions or democracy are in practice weaker than Pilipino ones.

Rapid economic growth has had high ecological costs - not only in NICs. But Manila is as air-polluted as Seoul; a more thorough forest wipe-out would be hard to find; the Pasig is dying as are many fishing areas. Disaster related ecological downward spirals, e.g. the total mishandling of the spreading lahar plague, are at least as prominent in the Philippines as elsewhere. No evident NIC/ecodisaster, poor mercantilist/Garden of Eden sustainability pattern can be found.

One thing all NICs have avoided - landlord power. Politically as well as economically that arguably outweighs most of their political economic failings. From the murder of Bonafacio through the betrayal of the Second Republic to the Americans (notably by the abiding three great ilustrado families of Tarlac/Rizal), the not insubstantial support for the Third Republic of the rising sun, to widespread collaboration with Marcos and the determined battle to destroy meaningful land reform (with Miriam Santiago a key tool at one stage), the political as well as economic price of landlord power had been very high indeed for most Pilipinos for well over a century. No NIC has (arguably no NIC can have) an analogous situation.

NICs are indeed dependent on external markets technology, investment and - sometimes - corporations. But in a country whose macroeconomic policies - by the admission of its own

Finance Ministry, Central Bank and State House - are IMF dictated, whose agricultural export sector is increasingly TNC oriented and whose export market dependence is no less than that of South Korea or Malaysia, merely in less buoyant markets or with poorer performance records, criticism of others dependence appears a trifle captious.

III.

To Be A NIC

To become and to remain a NIC requires high investment levels in three sectors: directly productive fixed investment (dominantly by enterprises); human in education, health, nutrition and sometimes housing (mixed but state led and dominated) and infrastructure (except recently for telecommunications and airlines dominantly state including the now fashionable BOOT - build, own, operate, transfer - variant in collaboration with enterprises). All three are vital as poor infrastructure raises production costs and weak human investment prevents the emergence of a labour force characterised by high and growing productivity.

Overvalued currencies are incompatible with success as a NIC - they make exports unprofitable and erode the domestic market sales base crucial to enabling most (not all) industries to break through into global competitiveness. Similarly, high real interest rates deter fixed investment and malstructure much of what remains into luxury housing, offices and commercial premises. Massive inflows of flight capital (and capitalists) kept real interest low in Hong Kong, Singapore and Taiwan when their NIC foundations were laid; South Korea, Malaysia and Thailand have used selective intervention to gain the same result.

Without an effective tax collection machine, health, education, water and physical infrastructure cannot be financed. These are clear cases of "crowding in" (pulling in) - the state spending on education/training and infrastructure pulls in domestic and/or external finance for directly productive fixed investment. Low external debt service - in relation to exports - matters as a means to ensuring adequate foreign exchange to finance capital goods imports and inputs into goods production without either the bureaucratic rigidities of national exchange control and foreign exchange allocation and/or the equally bureaucratic rigidities of IMF's contractionary monetary, fiscal and real wage strategies.

A rising real wage trend (doubtless often from very low initial levels) is another hallmark of successful NICs. For this there are two reasons. At macro level rising real wages are needed to achieve buoyant domestic demand and thus an adequate domestic market platform from which to mount campaigns into the global market. At both macro and enterprise levels rising (on a trend not on cash year basis) real wages are needed to achieve rapid productivity gains

and falling unit labour costs. Workers, like other persons respond to economic incentives and disincentives - high morale, concern for firm performance, eagerness to acquire new skills, adequate nutritional and health bases to work hard all day are linked to rising real pay and benefits packets. Phasing down real wages does not, in general, reduce labour cost per unit produced because of the damage it does to productivity. An employer, especially in a technologically advanced sector, who pays peanuts and expects high productivity is the monkey - not his workers. And no less so if that employer is a state whose best primary school teachers are frequently "domestic helpers" in Hong Kong and whose best nurses are more likely to be found in Riyadh or Minneapolis than in Rojas or Manila.

Buoyant and expanding domestic markets allow strong domestic sales to complement exports. More particularly they allow covering overheads on the domestic sales to allow highly competitive marginal cost pricing. Real wage trends are one key to domestic markets. At least so long as (if) the rural market is important real incomes of small farming families (and rural workers) also need to rise. Once agriculture is a small sector - e.g. 1990s South Korea as well as Japan - this consideration becomes much less important; indeed stagnant, subsidised agricultural may (South Korea, Taiwan) become a burden on more dynamic sectors.

Land reform has frequently been linked to beginning to become a NIC - in late 19th Century Japan as well as in post World War II South Korea and Taiwan. The reasons normally cited for its apparent positive effect are market broadening and setting a market mediated floor under urban wages. These are valid but the main contribution may lie elsewhere.

NIC strategies require stable support by political coalitions favourably disposed toward (favourably affected by) them. Large landlords (unlike small farming families) are unlikely to back such coalitions. Therefore if the landlord interest is strong land reform to break its power may be a necessary - or at least a highly effective - condition for attaining a dynamic toward NICdom.

NICdom is sometimes said to require trade liberalisation, avoidance of state intervention and low inflation. The actual record on the first two - either in Asia from Japan through Thailand or in Europe, where the Gershenkron hypothesis that late comers need more state intervention to break through appears historico - empirically valid, is quite otherwise. Until a firm global export position was achieved (much later in Japan's case) the home market was protected to provide a safe, relatively high price base on which to cover fixed costs allowing exports at - lower - marginal costs. Detailed, selective intervention with positive incentives for meeting output and export goals and penalties (e.g. loss of access to low real cost credit) has been ubiquitous except in Hong Kong. True it has not been intervention to last forever in any one case, at random or for its own sake. But detailed strategic intervention at micro and macro level to further national goals has been a hallmark of NICs. Lack of corruption is not - as was

once believed - a second hallmark *vide* the Japanese, South Korean and Taiwanese revelations over the past two years! The difference from cases like Binondo is that set national purposes are pursued, not particularist private interest, with corruption a tax on complying enterprises not the basis for selecting them.

Inflation is more problematic. High inflation raises risk, makes stable low real interest rates (positive but by 1% to 2%) harder to manage and always threatens to lead to currency overvaluation. Therefore, it is a hindrance to stable advance. But 10% to 15% inflationary bursts for 1 or 2 years so long as reined-in, while real interest and real exchange rates remain relatively stable, does not appear - logically or in practice - to be an absolute barrier to becoming and remaining a NIC.

IV.

NIC Strategy Or Nic Nacs Of Policies?

To sketch the main logical and historical components of NIC oriented strategy and policy and then to examine Philippine policy and praxis in these areas is to discover very rapidly that the policy nic nacs purporting to add up to economic strategy are about as inconsistent with NIC attainment as could be devised and, therefore, can only prevent the attainment of "Philippines 2000" not implement nor even permit it.

Philippine fixed investment - especially excluding luxury residential and office accommodation is low. Among the directly productive sectors the only exception is tourism. The basic reason is not hard to find: an overvalued currency propped up by very high (borrowing deterring and liquid asset holding encouraging) real interest rates. The construction sector appears to be a self justifying bubble which - like Japan's before - in danger of bursting while both the exchange rate and the limited infrastructure (not to mention that Manila, and even Metromanila, is not a very attractive destination for a pure vacationer) threaten the continuation of the tourist facility boom and the viability of much of what is now going up or just completed. The very sluggish growth trend of the economy over - say - the past 15 years (under 2%) is not attractive to directly productive investment dependent on the domestic market (especially as the exchange rate *de facto* subsidises imports now that quotas are gone and the low real wage rates depress both labour productivity and market buoyancy).

Infrastructure is uneven. Where a market backlog exists and private sector investment with *de facto* cost plus or monopoly price creates a nearly risk free environment the private sector (domestic and foreign) is performing. But water, roads, bridges, urban transport and railways are public sector and are moving more slowly than demand - indeed at a pace suggesting solid

traffic jams from Cavite to North Harbour and Manila to San Juan del Monte-Bulacan by 2000! That is hardly an incentive to investors who find unpredictable (or predictably short) water, very slow transport of goods or people and very slow commutes costly - a reason Cebu City with its less inadequate infrastructure is both attracting more manufacturing investment and more tourism growth than Metro Manila (as well as being more liveable) despite the sloth's pace of Mactan Airport upgrading.

The basic human capital investment services too leave much to be desired. Education as noted has fallen from the best in Asia up to 1960 (weighting both quantity and quality) to well below the NICs and new NICs and barely at par with Indonesia. Given real salary levels this is unlikely to improve except in very high cost institutions "producing for the export market" (e.g. for USA hospitals) and not accessible to the vast majority of Filipinos. There are not - and will not be - enough teachers at primary and secondary levels, many are either in fact (whether on paper or no) adequately qualified and very poor remuneration and constant financial worries do little for morale. In addition - perhaps because they are higher cost - technical secondary and university education streams are a surprisingly small share of the total.

Household water is as unreliable as industrial - albeit an assured six hours a day and storage drums can serve a household though not a commercial or industrial establishment. Extension services outside agriculture are virtually non-existent and in agriculture are objectively user unfriendly to small farmers and overlook small female headed farming households whose special needs are apparently invisible to them.

Only in health can it be said that there is a forward dynamic from the wreckage of what 35 years ago was one of Asia's best public primary health care systems. But Secretary Flavio's vision and guideline/programme design capacity are clearly outrunning local government ability to finance the services delegated to them and the alternative or complement to seek massive expansion of domestic social sector (religious groups, people's support groups, people's organisation) service provision requires state participation in funding.

Bluntly, if one wishes a highly educated, technically oriented, high morale and productivity labour force there are plenty of more promising points of arrival than the Philippines. The better reputation of Filipino workers abroad than at home suggests two things: the best, the brightest and the most energetic do seek to find and often do find ways to escape to higher pay and the employer who seeks to pay peanuts and get high morale and productivity is the monkey (not his workers) as is the government which enforces low wages and fails to invest adequately in education, extension and health.

The peso is grossly overvalued. Assuming it was slightly overvalued in 1988 (a reasonable position from which few analysts would dissent then or now) the current exchange rate should

be of the order of P 40 to P 50 to the \$. Instead it appears locked in the P 25-28 range with a recent tendency to float up (admittedly parallel to a fundamentally illogical dollar fall against the yen and D Mark). This suggests - even at P 28 - imports subject to a nominal 20% tariff are in reality subsidised by 20% and unsubsidised exports pay a de facto export duty of nearly 50% if P 40 is the comparative cost rate and more if P 50 is. The moribund state of mining and the somnambulant one of coconut require no further explanation - the continued viability of pineapple (as contrasted to the falling viability of bananas) is the surprise.

The problem is indeed government policy driven. But the problem is not liberalisation - *au contraire*. Removal of quantitative restrictions and lower average tariffs by themselves could be healthy - at a P 40-P 50 exchange rate. Removing statutory protection while building up overvaluation is quite another matter and suggests the rats of Hamelyn, not the pied piper. The problem is the real interest rate which has been held at artificially high levels by the Central Banks combined with a grim determination to hold the exchange rate nearly constant whatever the cost.

Real interest rates on government paper have for the foreign investor rarely been below 10% (depending on his home inflation rate), currency risk low. Apparently low risk property lending has been yielding up to 20% a year. The resulting inflow of foreign floating funds (and the desire of reputable Philippine firms to borrow more cheaply abroad) does create a basis - until the bubble bursts - for 'sustainable' overvaluation, high capital inflow but also low productive fixed investment and virtually none in export sectors other than tourism. It is "market" implemented but State planned and imposed by an interest rate policy at times verging on monetary terrorism.

Philippine tax collection is appalling. Reasoned estimates of actual to potential value added tax receipts range from 30% thorough 40% (the author's allowing for zero rated goods) to 50% (official). By and large a 75% collection rate for a broad base indirect tax is considered poor (67% estimates led to sacking of directors in some East African anglophone states in the late 1960s/early 1970s).

This outturn probably costs the state of the order of P 75-100 billion a year. Rather a lot of basic human services and infrastructural investment could be bought for that and for the P 25 billion a rational interest rate policy might yield in lower domestic debt service costs. Further, the cost to consumers would in fact be very much less than the revenue gain - tax evaders do not usually pass on savings to their customers but use them to pad margins eroding the pre-1990 cost efficiency of the domestic commercial distribution sector.

The government's solution of extending VAT to lower probable yield per collector year areas and into a maze of rather odd and arguably unsound financial transaction taxes appears to rest

on the mindless view "The more taxes, the more revenue" ignoring issues of collection as well as of distributional equity and production incentives.

The problem is VAT. It is a notoriously hard tax to administer and requires hordes of honest, high productivity, rarely corruptible staff at all levels down to retail. Those are not the characteristics of Philippine tax administration.

A single point sales tax (i.e. non-cascade) collected at point of entry or manufacture (or service provision for, e.g. hotels, electricity, telecommunications, air and sea travel) is very much simpler to operate and (by cutting out most wholesale, plus all sub-wholesale and retail levels) can achieve 80%-95% collection ratios (even in some African states in the early 1970s).

Further, it can accommodate up to four basic rates (say 0% basic foods, plus, e.g. basic drugs, printed matter; 15% standard; 25% amenity; 50% luxury) plus a handful of special ones (e.g. alcoholic beverages, tobacco products, automobiles) whereas VAT is virtually impossible beyond a nil, a reduced and a standard rate. The equity gains (and the consolidation of excise into Sales Tax) are potentially considerable.

Because single point sales tax is collected well before retail, rates need to be higher to collect the same amount on the smaller base, but - for the same reason - the consumer cost is about the same at 15% ex-factory as at 10% retail. The nominal gains from VAT (avoiding charging the same input or value added twice) can in large part be achieved by perfectly manageable in bond or tax paid provisions while the supposed VAT safeguards against insider pricing to wholesalers associated with a manufacturer are apparently slightly unreal vide the Tan Group tobacco and beer tax fraud charges.

Ironically in the 1980s the Philippine participant to a UN Expert Group on Developing Economy Budgeting made the best and most convincing (at least to the author who then was open-minded on VAT in lower middle income country cases, even if already sure it did not meet African contextual needs) case against VAT. Its adoption represents apparently unexamined swallowing of a current IMF/Bank fashion with accompanying hype without serious study of options by - say - the body of fiscal experts available at UP-Ateneo and in the broader university community. That VAT's predecessor was hopelessly flawed is true but no argument that VAT was the best substitute available.

In parallel the location of tax collection outside Finance nominally responsible to the President and therefore in fact accountable to nobody (as the President has not time to be chief tax inspector) should be ended. Either it should return to Finance (from which Marcos removed it to facilitate non-transparency, non-accountability and selective non-collection, all of which he thereby achieved) or a separate Ministry of Revenue Collection should be set up. In that case

liaison is still needed with Finance since tax coverage and rates are central economic policy issues not separable from overall Finance functions even if their administration and collection is.

Broadening VAT and reducing collection efficiency yet further is an 'answer' to the problem of low efficiency leading to low revenue even worse than the early 1994 attempt to boost the motor fuel tax for the same purpose. Quite apart from its probably regressive nature and certainty of raising consumer costs far more than government revenue it is very unlikely to solve the cut artery bleeding away of the latter by non-collection and could, by dispersing collection efforts, increase it. As a reform the 1994 tax change legislation and its hype fall foul of any serious "truth in labelling" standards even though the Malacanang and - perhaps - Finance may not realise this because they never sought independent Philippine export advice preferring to buy an IMF patent medicine promoted by the USA (ironically as the USA Treasury position is that VAT is too complicated to be administered successfully in the USA!).

No NIC has achieved that status with a level of external debt service high in relation to exports plus remittances taken together with grants plus new capital inflows. In some cases - e.g. Korea, Indonesia and Malaysia - debt service has at times been high relative to exports but in a context of rapidly growing exports and of large net capital inflows. Debt write-down was an obvious priority for the Philippines in 1986. Its refusal to seek it seriously (in the end as much by World Bank-IMF prodding as own desire accepting about a 10% write-down as a 'final' settlement) amazed the creditors and debilitated the fiscal and external balance position. It is a self inflicted wound which is made even more dangerous by the combined need to devalue fast and far and the incompetent tax collection system which means doing so would cause severe internal transfer side debt servicing problems even were export and remittance growth at a rate making external payment workable in a context of reversal of post bubble capital inflows. The 1994 roll forward of \$500 million is only another example of the putting off policy which hides inability to service actual debt levels and builds up future crises.

Raising real wages is seemingly an unknown official policy goal in the Philippines. When advocated the support is usually on social grounds and the opposition on economic. Declining real wages are regularly lauded as the way to international competitiveness via lower real labour costs.

That line of argument is very crude and makes a very simplistic mistake. Labour cost per unit depends on labour cost per hour divided by units produced per hour. Only if productivity is unaffected by real wages (i.e. if wage earners - unlike almost all other human beings! - do not respond to economic incentives and disincentives) is the argument that real wage changes are a good index of real unit of output labour costs correct. In fact most NICs have had rising trend real wage and labour productivity trends to achieve constant or falling real labour costs

per unit of output, at least in export oriented sectors. The Philippines has had a third of a century of falling trend real wages and of stagnant or even falling labour productivity. On that record it is hard to see why the Malacanang and Makati call for a continuation of the failed approach and why opposition from Pilipino academic economists is so occasional and so muted.

The case is in fact fairly simple and common sense. Rising productivity requires a motivated labour force which expects to benefit from improved enterprise and individual performance. Only rising real wages can ensure that (including taking on additional formal training and informal learning by doing how to do better). A related issue is plausible labour relations and competent shop floor supervision albeit the degree of worker self-organisation and roles of trade unions vary very widely among NICs.

Buoyant and expanding domestic markets - with, at least initially, some protection - are not what the Philippines' ultra conservative fiscal/monetary/external debt service/liberalisation policies have provided. Domestic stagnation, arguably premature liberalisation (or at least too rapid and unselective) and an exchange rate penalising domestic producers and especially exporters are a rather absurd package whatever the growth and development strategy, but especially so if "export led growth" and "international competitiveness" are strategic goals.

On inflation control one might argue that Philippine policy has been more plausible but the results do not actually support that contention. High interest rates, political instability, low capacity utilisation cost push and the luxe construction/land speculation bubble seem to be prime inflation causes (certainly wages are not and the fiscal deficit only secondarily). All are in fact government policy caused. To the extent the fiscal deficit is a cause its own dynamic is one of incompetent tax collection and excessive debt service - both policy failures. By Asian NIC standards the Philippines has had high inflation rates plus stagnation not the more moderate underlying inflation with occasional overheating of a Korea or a Malaysia.

Philippine land reform has been so marginal to date as to do little either economically or politically. While probably vaguely beneficial to some poor peasants its scale is (even now) inadequate to address rural poverty or power relations substantively. Arguably, taken with the recent local government reforms, it can ultimately erode the ilustrado landlord monopoly on rural political power (and thus on the House of Representatives) but that is problematic and at best some years away.

The dominant axis of Philippine politics remains the landlords who have dominated it since the internal coup within the First Republic ending in the elimination of President Bonafacio, now operated in alliance with the Makati Crowd of financial and property institution magnates and managers. The record of neither of these socio-economic fractions either in their own

enterprises nor as rulers is such as to give much reason to hope the Philippines in 2000 will be "Philippines 2000".

But, it can be - and sometimes is - argued, policy has improved since 1992. The Ramos Malacanang and economic team are different in kind from the Aquino ones. Up to a point it would be both inaccurate and churlish to deny this. Up to a point:

- a. there is concern over the upward creep of the exchange rate - but no realisation how large the basic overvaluation is, and why;
- b. There is concern (now backed by moral suasion) about very high bank lending rates and margins as investment deterrents - but no apparent re-examination of the Central Bank/Finance policy which keeps the rate structure high or the tacit acceptance of a cartel of major banks setting margins and relatively immune to competition (e.g. from rural banks) because of statutory restrictions;
- c. there is at least a lessening of the strident anti-union, wage cutting rhetoric that characterised 1988-1991 - but no rethinking of the premise that Philippine wage levels are too high (rather than too low) to achieve export competitiveness;
- d. there is acceptance that infrastructure is inadequate and also some BOOT/privatisation/liberalisation plus enhanced public investment to tackle it but only in electric power and telecommunications can it be argued sub-sectoral needs will perhaps be met by 2000 (over-met with unused capacity weighing on the budget through take or pay contracts in electricity on present trends);
- e. there is acceptance that public education and health services provision are unacceptably low coverage and low quality and, in the case of health, a dynamic intelligent strategy for transformation - but no provision of adequate finance to achieve it;
- f. there is a serious effort from the top to implement the (inadequate) land reform legislation that exists - but (understandably given the nature of House membership) no effort to conceptualise, design, secure authority for phased implementation of an adequate programme and - perhaps even more serious through 2000 - to finance the present programme adequately;
- g. there is wider economic consultation than since the very early days of the Aquino presidency (before the Yellow Revolution recreated itself and added the *de facto* prefix Counter) and a more open-minded and flexible economic team - but it is still the Makati Crowd whose outlook, preferences and prejudices set the parameters within which policy is made (and no one as able, alert and intellectually creative as former Secretary Monsod);

- h. there is more realisation that enhanced revenue is urgent and (rather scatter gun) efforts to raise it - but no concentration on simplifying and operating present taxes better rather than mindlessly adding new ones (and retreating if there is enough outrage as on the fuel tax;
- i. there is "Philippines 2000" which is a coherent strategic document with a broader scope and longer vision than the initial NEPA medium term plan - but, as outlined, no reconstruction of policies to allow (much less to ensure) attainment of its goals.

Nor, unfortunately, is it plausible to argue that a dynamic toward structural transformation of policies is being established. It would be easier to construct the opposite hypothesis: initial changes are running up against unchanged parametric barriers and can be expected to falter or to stagnate.

V.

Signs of Hope? Signs of Chaos?

The fault does not lie primarily in the Malacanang. President Ramos is a competent, well-intentioned man who does decide on his own strategy. The complaints of indecisiveness seem a trifle unreasonable - e.g. to insist that the East Timor Conference could not be banned and allow it with videotapes, if not their authors, was, given the massive pressure Indonesia exerted, a more decisive and courageous choice than 90% to 95% of world heads of state would have made. But the Philippine institutional system remains not merely corrupt but irrational or even awe inspiring in its internal, coherent action blocking inconsistencies. The House at least remains the Manila redoubt of the landlords. And - perhaps as a result - the President's economic team's background is far too narrow. (Indeed the one really independent post Marcos economic policy maker was Professor Solita Monsod in the early Aquino period.)

The inconsistencies and incoherences are costly and those on "Philippines 2000" are not unique. Lahar is another example as is education. Certainly early lahar work was marred by corruption. But corruption cannot explain building the wrong works in the wrong place nor of failing to explain that present policy implies evacuating 250,000 to 350,000 or more people from "doomed" areas including at least one large town (as the official lahar deposit/basin flow maps in fact state if read carefully).

Quite simply lahar cannot be stepped by barrages to keep it on slopes nor channelled by dyking river beds above surrounding land. The best hope is deep dredging all the way to the sea (or to already unusable flat land areas) to make the weight of the lahar keep the channel

open and scoured below its surroundings. Instead, desultory, patchwork, short term dykeing and damming continue.

Nor do the academic/expert quarrels reflect well on the combatants. The aura of take no hostages intellectual and prestige battles with the victims and future vulnerable virtually bit part or chorus role players is unappealing. The deep dredging/anti check dam position is basically correct but its angry claim that it is now too late for that is much less technically clear-cut and its presentation hardly in a form likely to mobilise support.

On education over April-May 1994, incoherent, ill-considered inconsistency was so marked as to rise to the level of awe inspiring. First it was said 100,000 more teachers were needed to staff present public primary and secondary schools. Then, second, that 50,000 or more unqualified teachers would be fired. Third, that the civil service needed to be cut from 1.8 to 1.3 million (with the second number not justified in terms of government goals, policies or instruments nor by comparison with - e.g. Korea or Taiwan or Malaysia). and, that 350,000 teachers were terminatable ("redeployable" onto the street). Fourth, that the 1.8 to 1.3 million cut was policy but that the 350,000 teachers (and lesser numbers of police and health workers) weren't targets, merely those least legally entrenched. That rather destroys the basis for overall cuts as only 50,000 odd general administrators seem to be in the 500,000 "redeployables". Finally, a fifth year of secondary education is needed (apparently teachers or no teachers). This is inconsistent incoherence not merely between but within both Education and Finance raised to the status of fine art - but hardly a way to improve education or to implement "Philippines 2000".

The incoherence shade into more straight forward incompetences only partly explicable in terms of corruption - e.g. the tax collection and Central Bank records. Tax collection's pitiful performance (cited earlier) speaks for itself.

The late, little lamented Central Bank lost at least P 200 billion (at prevailing exchange rates at time of loss about \$10 billion) by incompetence so stunning that (largely inaccurate or quite secondary) corruption charges are hardly surprising.

First, it sold foreign currencies forward to petroleum companies knowing high losses were virtually certain. Second, it maintained sky high Central Bank and Treasury Bill rates and over borrowed creating a spiralling interest on unused funds' deficit for itself and the Ministry of Finance. Third, it accepted crony company private sector loans as its obligations with no evident priority to recovering as much as possible from seizures and asset sales. Fourth, it accepted trivial debt write downs and short debt roll forwards in a way sharply increasing fiscal and internal fiscal as well as external transfer problems.

The 'missing' government deposits were lost - not by stealing but by gross negligence.

Until these incoherence/incompetence problems - which are basically institutional not personal - are well on the way to resolution it is hard to take "Philippines 2000" as more than an honest wish not backed by policy or resource allocations.

VI.

The Blame Starts Here - As Does The Cure

Policy critics tend to export the blame notably to the World Bank and International Monetary Fund but with Japan and GATT/WTO gaining ground as targets. Unhelpful they may well be but they have the power to enforce that unhelpfulness because the Philippines has notably failed to get its own house in order.

If the Philippines had negotiated hard, a 30% to 60% debt write down (bilateral and commercial bank) could have been achieved. If it had reformed tax collection and modernised the sales tax, revenue could be at least 25% higher. Together these two measures - which the Fund and Bank would have backed - would have altered the current account external and fiscal balances out of recognition. In the context of much narrower gaps the Bank and Fund would have little leverage (and possibly little desire) to dictate macro policy.

The Uruguay GATT round may hurt Philippine agriculture. As there is almost no use of "Green Box" (basically general extension, infrastructure, conservation work in support of farmers) or the leeway for limited subsidies the curve - even at a P 25-28 exchange rate lies in Manila not Geneva. And at a P 40 rate competitive food exports would be largely priced out of the market. Together with anti-dumping measures allowed by GATT/WTO that would mean higher returns to maize and rice growers.

To say this is not to exempt the Bank, Fund and other external actors from blame. It is to say the Philippines could have reduced its vulnerability to such advice by removing the desperate need for the advisor's money. Exporting blame may be a safe academic/intellectual growth industry but campaigning to change domestic policy is rather more likely to have a substantial payoff and to lay the foundations for more balanced dialogue and negotiation with external actors.

Equally, the centre, centre left and left critics in the Philippines act as if they perceived each other - not public policy - as the immediate target (enemy?) and purism in defeat as preferable to workable compromises as first steps forward. The crisis of the middle-aged left (the

fragmented fractions of what used to be the second incarnation of the Communist Party) is only the most extreme example of a general malaise. To refuse to settle for a crumb not a loaf is one thing, to refuse half a loaf when to accept would improve chances of more slices later is quite another. It is perhaps as appropriate as ironic, that the name of the post Marxist-Leninist fraction of the middle-aged left - Rejoice - is much more prominent as a newly launched, highly advertised brand of shampoo.

FFDC has been relatively immune from this strategy of maximalism as to antagonists and goals well designed to achieving ultra minimalism as to results, albeit this cannot be said of all its members. But it too has a problem - the debt write down issue can only be reopened in a crisis situation (e.g. after a major devaluation?) and old 'left verities', e.g. never devalues if it moves protect it no longer serve poor Pilipinos/as well if they ever did. A new strategy and at least one to three more entry points for targeted mobilisation - e.g. proper tax reform/tax collection; 2% to 3% real interest rates; substantial devaluation? - are needed urgently. The point is not substituting market economics for political intervention. The nature of political economy is both political and economic; the failures sketched are from nominally market but actual political economic intervention roots; market management not blind market freeing (into whose hands?) is the sensible economic as well as political course.

One clear problem confronting critics is the lack of policy focused political education. The Philippine electorate is politically conscious but not in a very operationally focused way. In the 1992 election slightly over half the vote went to three candidates representing the least appealing aspects of the Marcos regime (Miriam, Danding, Imelda). Only one ticket had a coherent economic platform (Salonga-Pimentel) - as it happens close to a practical politicians' softer variant of that implicit in this paper - and it won under an eighth of the vote. Yet, there was a real demand for democratic process - and a context, which is President Aquino's great achievement, to respond to it. A 25% President was installed with no serious attempts to bar him and Congressional majorities elected on other platforms accepted as a matter of course that they should seek to do business with, not to isolate and hamstring him.

Why? Whatever the answer - which is obscure and probably complex - advocates of serious political economic policy change need to address the question of how to educate voters to more policy oriented choices. Economic policy can be altered by rational persuasion but in a functioning - even if imperfectly - democracy, demonstrable political muscle helps to get attention and to make reasoned briefs more persuasive.

VII.

Where Next?

It is not for an outsider - however friendly - to prescribe policy let alone policy makers. Offering checklists of possible key themes is somewhat different - especially if the offerer has no economic or political capacity to coerce the offeree!

The first group of points are processual:

- How can the electorate be educated more broadly and deeply? For example, FFDC as an apex coalition should work through its members but is the very limited amount of provincial level coordination and mobilisation either necessary or appropriate?
- How can critics with broad areas of agreement unite behind operational medium and short term proposals to do as well as to block? (To date the progressive triumphs - e.g. bases, oil tax, numbers game have all been blocking ones.)
- How can progressive regrouping be less concerned with esoteric theological claims to the past (which inevitably divide) and more to the opportunities and constraints of 1995-2005 which, potentially at least, can unite? Even in cases - e.g. Democratic KMP - in which arguably substantively this has been done, the dead hand of Marxist-Leninist theological dialectics (or their Stalinist and Maoist offspring) hampers both perception of the substantive transformation and possibilities for cordial coalition links with progressive elements which never were Marxist-Leninist or lost faith in the human embodiments of those Gods of History much earlier.
- How can the old 'left verities' - e.g. no devaluation now or ever - be taken off tablets of stone and examined as instruments which have meaning only in specific contexts and may (or may not) be inappropriate to present Philippine opportunities, constraints and poor household immediate priorities.

The second are entry points toward strategic transformation:

- Sensible tax reform and - equally key - competent collection;
- used to enhance human (health-education-extension) and infrastructural investment as well as to reduce the fiscal deficit which opens a gap for leveraging coercive external 'advice';
- achieving much lower real interest rates and a non-overvalued exchange rate to encourage investment in production, make exports viable and reduce another foreign leverage-providing gap;

- in the context of devaluation reopening the debt write down issue say at a 50% level for government to government and a 25% level for commercial bank loan measured by present discounted value of all future interest and principal payments;
- pressing for adequate funding of the present land and agrarian reform programmes;
- arguing the case for rising trend real wages as a route to high labour productivity growth/competitive labour costs per unit of output and as a means to put buoyancy and sustainable growth back into the domestic market;
- using the Local Government Act to take up NGO seats and to mobilise for candidates at local and provincial levels committed to economic strategy transformation.

None of the above is an easy issue. But each has potential for coalition building and for partial successes which smooth rather than bar the way to continued efforts for more. And taken together they would amount - once in place - to a substantial, if incomplete, political economic strategy transformation. They would in fact constitute one route to articulating and executing "Philippines 2000" with a reasonably human face, but also for rather different future goal scenarios.

One drastic caution is in order. The present maimed, halting recovery from the dismal economic performance of 1975-85 and much of 1986-92 is basically a bubble economy one sustained by footloose capital chasing risk free high real interest rates. Sooner or later that bubble will burst but the entry point proposals on interest rates and currency valuation if even half adopted would burst it at once. Measures (including but not limited to external debt write downs) will be necessary to avert spiralling inflation and a long recession. These are more likely to be the Philippines in 2000 than is "Philippines 2000" but do need to be avoided or limited to a few months which is a challenge to reform advocates if they wish either to be helpful and empowering toward poor households or to avoid a backlash from those who blame the bubble bursting on the reforms and not the policies which created the bubble. The challenge is not insoluble if the animal spirits of producers hold up so that exports and domestic demand oriented production do rise speedily and safety nets are in place for low income urban households and for key financial and property enterprises whose collapse could trigger a free fall in morale and output and an equally free float upward of prices including the exchange rate. How is a matter for proponents of reform to work out - neither *status quo* nor revolution advocates have any real interest in doing the job.

[Please see accompanying note]
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