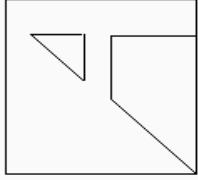


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AKI

Angelo King Institute
for Economic and Business Studies



Konrad
-Adenauer-
Stiftung

Society, Economy, & Philippine Development

A Public Presentation of

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This paper represents a
modest attempt to address

The ‘Philippine **puzzle**’:

How can a country with comparatively
educated, **creative** people, and natural
resources end up being **poor**, a growth
laggard, with a worsening social **situation**?

Four familiar **challenges**,
amidst **limited** options

Declining productivity & competitiveness

- Decades of **under**-investment in agricultural **R&D** have created **large** productivity **gaps** vis-à-vis our neighbours
- This productivity gap has created **pressure** for agricultural **protection** – resulting in higher food **prices** & wage **demands** – making labour **un**-competitive

Fragile **macroeconomy**

- There is an emerging **fiscal** crisis, which creates **vicious** cycles and makes it very difficult to **fund** needed policy **reforms**
- This implies that we **cannot** use **expansionary** fiscal policies, as in the past, but must rely on **progressive** taxation, and **credible** signals that encourage greater **investment** flows

Worsening income **inequality** & frayed social **fabric**

- Both **absolute** poverty (number of poor families) and **relative** poverty (share of national income going to elite) **increasing**
- This implies that a circa-**1990s** strategy of comprehensive **liberalisation** may just **backfire** & ignite the ‘social **volcano**’

Weak institutions, strong **demands**

- Endemic **corruption** saps resources & **goodwill**, erodes social **capital**, and creates discontent, apathy & **cynicism**
- This implies a need to **attack** corruption by **reforming** institutions, **creating** incentives & **disincentives**, and **resurrecting** key **norms** & values

Lessons from **recent** 'success stories'

The 'success **stories**' tell us:

- A country's social **objectives**, political **institutions** & economic **strategies** must be **consistent** with each other
- This '**fit**' is **sustained** by a social **consensus** that is **not** borrowed or transplanted, but **designed** to match **unique** national & cultural **values**

Examples of this **abound**

- Japan's **keiretsu** system, Germany's **social** market economy, Singapore's '**paternalistic**' state, and Malaysia's **bhumiputra** policy are all examples of a **unique** social-political-economic **nexus**
- Now each of these **models** has definite **weaknesses** – but they are **accepted** as part of a **genuine** social **bargain**. This is why they **cannot** simply be **transplanted**

■ As a nation-in-**progress**, we have neither arrived at a social **consensus**, nor designed **institutions** to fit our needs

■ In short, we do not really have an **indigenous** development model to speak of – and we need one **urgently**

Reasonable **expectations**

- Our under-development is the result of **decades of neglect, misjudgment, & rapacity** – and **cannot** simply be undone in a few **years**, by a magic **slogan**, or even the ‘right’ **leader**. This is a **generational** project

■ However, we **can** break these vicious cycles & **unlock** virtuous ones by a measure of **leadership**

‘Leadership’ & ‘political will’

■ The **will** to **re-design** institutions – ie generate **consensus** on priorities, **rationalise** mandates, **re-align** budgets, & **devolve** power to **communities**

■ **Leadership** in the **creation** or resurrection of **norms** through constant **signaling** – **punishment** of ‘big fish’, **simple** living, unimpeachable **conduct**

Toward an **RP**-style **social**
market economy model

First **principles**

- We must **acknowledge** that Filipino **culture & values** – our **peculiar** priorities, expectations, and **preferences** as a people – are a **valid** basis for development
- Our unique **value** system should, in fact, guide us in **resolving** the **dilemmas** of development and **re-designing** institutions

These are **not** idle **statements**

- Examples of **dissonance** among values, policies, & institutions are **everywhere**
 - we value **flexibility**, improvisation, ‘tamang **pagtimpla**’ – yet our government **structure** is patently **inflexible** & excessively **centralised**
 - we value ‘pagiging **makatao**’, regardless of one’s station in life – yet routinely **tolerate** race-to-the-**bottom** labour practices on the pretext that we need to **compete** with countries like **China**

This implies going **beyond** the
“Washington consensus” – or
any other **transplanted**
development model – and
forming a social **consensus**
based on what we Filipinos
value, expect, & uphold

Exactly what are these
'**Filipino** values'?

■ ‘Pakikipagkapwa-**tao**’ as a **paramount** cultural value & **source** of social **limits** for **acceptable** behaviour

■ The **extended** family system as an **organising** principle for government & basis for a **RP-style** social **contract**

‘Pakikipagkapwa-**tao**’ as the **basis**
for an **RP** development **model**

- No cultural value is more important to Filipinos than ‘**pakikipagkapwa-tao**’ (Enriquez, *et al*). It is often the **standard** for what we perceive as **decent** behavior
- Pakikipagkapwa-**tao** imbues relationships with a high degree of **unstated** obligation – it is **prescriptive** but **not** legalistic

- ‘Pakikipagkapwa-tao’ may become the **basis** for a **genuine** social **consensus** that past development programmes may have **lacked**
- As a cultural **value**, it certainly has significant **implications** for the conduct of industrial **relations**

The extended **family** system as an **organising** principle for government

- Looking into Filipino social **relations** can also help us **re-orient** national institutions to be more **consistent** with our **expectations**
- For instance, the Filipino extended **family** system can shed light on the **relationship** **citizens** wish to have with their **leaders**

Five **features** of an **RP**-style **SME** model

- Explicit emphasis on a social **bargain** or partnership among key **sectors** – built on macroeconomic **stability** & **growth** and forged by key **institutional** reforms

Five **features** of an **RP**-style **SME** model

- Government **secures** minimum basic needs, **invests** in human & physical infrastructure, **guarantees** social partnership, and **behaves** as elders are **expected** to in an extended family
- In exchange for **legitimacy**, cooperation, self-**sacrifice** & better social **relations**

Five **features** of an **RP**-style **SME** model

- Business **adopts** a less take-it-or-leave-it, more ‘pakikipagkapwa-tao’ **approach** to industrial **relations**
- In exchange for **government** policies that **lower** business **costs** as well as **programmes** that provide **greater** trade **facilitation** services

Five **features** of an **RP**-style **SME** model

- Labour **acknowledges** need for newer & more **flexible** working arrangements to ensure international **competitiveness**
- In exchange for better **provision** of important wage **goods** & greater **investment** in worker productivity

Five **features** of an **RP**-style **SME** model

- Civil society serves as an **enabler** & good governance **watchdog**
- In exchange for **recognition**, and a greater **voice** in policy formulation

Moving **forward**: from
framework to **policy**

Common **characteristics** of recent economic success stories

- macroeconomic **stability** & growth
- economic **openness** & export orientation
- social equality; principle of '**shared** growth'
- foundational good **governance**

Moving **forward**: foundations for macroeconomic **stability** & growth

- Address emerging **fiscal** crisis
- Strengthen **financial** sector
- High **investment** rate critical
- Raise domestic **saving** rate

Moving **forward**: meeting **challenges** of economic **openness** for employment & growth

C h a l l e n g e s

- Expensive **unskilled** labour but cheap **semi-skilled** labour
- Large productivity **gap** in agriculture
- Poor **infrastructure**
- High labour force **growth** rate

Key strategies:

- Address 'wage goods' especially food through large agri **productivity** growth
- Improve infrastructure and logistics services & other trade **facilitation** services
- Develop and strengthen domestic production **networks** & clusters
- **Human** capital & **skill** development
- Investment in product **development** & across-the-board **technological** upgrading

Moving **forward**: strengthening social **partnership**

- Flexible but **negotiated** firm-level social contracts & labour **arrangements**
- Partnership based on **trust**, good relations & less **legalism** in bargaining
- Government serves as **guarantor** of industrial **relations** by introducing trust-building & **transparency** measures

Short-term & long-term **reforms**

- Government **programmes** to reduce cost of important **wage** goods (food, transport, housing)
- **Incentive** packages for management **practices** consistent with 'pakikipagkapwa-tao' ethic
- Government **matching** grants to **firm**-level investments in worker training & productivity
- **Affirmation** of new 'kapwa-tao' ethic in policy formulation, judicial decisions and media **advocacy**
- **Corporate** & union **governance** reforms

Moving **forward**: institutional **reform** & good **governance**

- **Break** vicious cycle of ‘**booty** capitalism’
- Strengthen party **system** to become more programmatic; campaign **finance** reform
- De-politicise/**professionalise** bureaucracy
- Undertake efforts at **judicial** reform
- **Disestablish** media **monopolies** to restore public **trust** in media & ensure genuine **democratic** expression

The challenge of **leadership**

An **RP**-style model: some **tough** choices

- If we accept that the extended **family** system provides **insight** into what citizens **expect** from their **government**
- Then would we be willing to commit to **universal** provision of **basic** goods & **educational** opportunity as **paramount** budgetary **priorities**, financed by progressive **taxation**, **investment** & **credible** anti-**corruption** measures?

An **RP**-style model: some **tough** choices

- Furthermore, would we support the enactment of a **code** of ethics for **public** service that **requires** our leaders to **behave** as **elders** in an extended family:
- Thinking **creatively**, living **frugally**, spending **wisely**, and bargaining **assiduously** on our behalf?

An **RP**-style model: some **tough** choices

- If we accept that the **structure** of government **matters**, and that at **present** it does **not** uphold the values of **flexibility** & **community**-based **political** power,
- Then would we consider **re-designing** it, say, along **federal** & **parliamentary** lines?

An **RP**-style model: some **tough** choices

- If we accept that **corruption** is not a cultural '**trait**' but is instead the product of poorly-designed **structures** & the lack of a social **bargain** that sustains good **norms**
- Then would we be willing to re-**design** bureaucratic **structures** & incentives as well as send out clear **signals** of intent by dealing with long-standing '**big** fish' **cases**?

An **RP**-style model: some **tough** choices

- If we accept that in the **Filipino** value system, wealth is **not** a licence to do **whatever** one wants, and that even the **elite** have an **obligation** to be **makatao**
- Then would we consider **corporate** reform, ‘**presumptive**’ taxation, net worth **checks, competition** policy?

An **RP**-style model: some **tough** choices

- If we accept that pakikipagkapwa-tao requires **trust**-building, which in turn can only be **based** on **transparency**
- Then would we consider endorsing **measures** for **true** corporate **disclosure**, and **limits** on ‘management **prerogative**’ in the **conduct** of industrial **negotiations**?

in **sum**

We **revisit**

The ‘Philippine **puzzle**’:

How can a country with comparatively **educated**, **creative** people, and natural **resources** end up being **poor**, a growth **laggard**, with a worsening social **situation**?

- Culture **matters** and is **not** incidental to development strategy
- Development **targets**, **priorities**, **institutions**, policies and social **arrangements** should be **consistent** with (**unique**) national & cultural **values**

Recent 'success stories' tell us that **development** comes through **unique** social/economic/political **arrangements** that are the product of a **genuine** and **indigenous** social **bargain**

Perhaps an **RP-style** social market economy can be the **basis** for a development **strategy** that **works**, is **sustainable**, and **empowers**

Marami pong **salamat.**
Mabuhay ang Pilipinas!

