

Terms of Debate

When the Philippine government submitted a Letter of Intent to the International Monetary Fund early this year, the internal policy debate was hardly resolved.

The two main schools of thought follow institutional lines: that of the Central Bank (CB) and that of the National Economic and Development Authority (NEDA). Neither replicates the preferred development strategy of the international creditors in its entirety. Neither, however, approximates a "nationalist" position, even in the most casual sense. The nationalist alternative, in the present conjuncture, remains either unarticulated or unassembled.

The NEDA has been most articulate in its advocacy of a policy of high growth. It is a preference defined by the populist commitments of the present political dispensation. The Aquino government has committed itself to the creation of one million jobs a year and dramatically reduce the unemployment rate by the end of the current presidency. It is a tough order that is prone to reckless policymaking.

The NEDA strategy shall involve extensive external borrowing, deficit spending by government on economic investments, the depreciation of the peso to attract foreign investments and boost the export orientation of the economy, and import liberalization. It is a strategy that risks spiraling inflation and currency speculation against the peso. The former invites domestic unrest, the latter is likely to take its toll on the volume of domestic investments.

Such a strategy appears too gung-ho to the international bankers who, as bankers everywhere usually do, prefer a more cautious approach premised on lesser external borrowing, contained inflation and the assurance of the economy's ability to pay back loans. The international creditors would rather that the government raise domestically-generated revenue and avoid deficit-spending.

Populist as the inspiration for NEDA's high-growth strategy may be, it could hardly be

described as pro-people. It is a strategy that operates on the "cheap wages, more jobs" principle. The inflationary impact of high deficits and a depreciating currency shall tell on the real values of wages. Consistent with its strategy, the NEDA recommended a minimum wage increase of only eight pesos in the last round of wage negotiations.

NEDA's strategy runs against the inherent protectionism of domestic capitalists. Keyed to export-orientation and import liberalization, it is hardly a strategy conducive to nationalist industrialization and national economic self-reliance.

The Central Bank's preferred policy orientation reflects the conservative disposition of the international bankers. The CB prefers a much lower growth rate target than the one originally projected by the NEDA. More cautious in its approach, the CB is disposed towards defending the prevailing peso-dollar exchange rate. The Bank is also reluctant to remove tariff barriers and open the whole economy to the influx of imported goods. The reticent posture of the Central Bank is not likely to cause dramatic improvement of the employment situation. But such a posture shall also restrain inflationary pressures building up in the economy and hold the line against speculative attacks on the currency.

The CB's attitude is more hospitable to investments currently in place. Its anti-inflationary bias shall, in the long run, protect the prevailing real value of wages more than the NEDA strategy. Its tendency towards protectionism shall preserve employment by protecting domestic industries. On the whole, it is a conservative perspective that is not likely to allow us to catch up with our neighbors. But it is also less prone to economic disaster that high but unstable growth invites.

There must be a third option to the ones offered by the NEDA and the Central Bank. Such an option has yet to figure in the national debate.