

A Socially Oriented Economy in a Globalized Setting

MANUEL C. DIFUNTORUM

Sta. Ana, Filomeno S. III, ed., *The State and the Market* (Quezon City: Ateneo de Manila University Press, 1998), 277 pp.

The State and the Market comes at a timely juncture in our economic history. Economic models of late, late industrial development as pursued in East Asia, Southeast Asia are cornering under critical scrutiny. Journalist, economist, political scientist are all looking at the Asian financial crisis and want to know what went wrong. While there is no one single culprit to blame, the cause or causes have as many varied explanations as there are interpretations.

What has been the basis for East Asia's remarkable economic growth? The economies of East Asia were not the beneficiaries of an economic "miracle," nor do they represent a unique Asian economic model according to the era of grand models. Rather, the impressive growth in the region stems from another source: sound economic policies by the states of the region.

The countries that have grown quickly over a sustained period of time have applied productive principles. It is these principles which these collection of progressive Philippine academics and writers are trying to situate within the context of a market economy which is also socially oriented at the same time. These states have pursued prudent fiscal and monetary policies. They created incentives for private savings. Secure property rights and private ownership encouraged investment, a commitment to broad-based education, especially at the primary level, contributed a work force that could learn new skills and gain from investment. In general, the region's market economies benefited from the competition with international trade — through learning to compete in export market and, with some variations, from efficiently priced imports. The writers in the book all address each of the foregoing ideas, in their essays.

While some Asian governments pursued interventionist policies, the successful ones combined government support with competitive discipline and performance requirements. The private sector remained the engine of growth. Price distortions were usually avoided. By directing resources to export industries, governments forced companies to compete abroad. Officials also readjusted their interventions when market conditions changed, if the policies proved unsuccessful, or if the financial support undercut government spending restraint. Overall, the thrust has been to increase the share of resources in private hands and allocated by the market.

Attributing Asian successes to policies rather than miracles or models, however, has a sobering implication: sound policies are not guaranteed; they require the perpetual effort; and the actions of individual countries will matter. The book starts off with an overview of the essays by the editor as well as enunciating the main theme of the book which is: to have a mixed economy which relies mainly on policy levers to simultaneously achieve the objectives of growth, equity, and poverty reduction. Rather tall order for the Philippine state given its “weak state” characteristic as well as bureaucratic inadequacies.

The essay by Chikiamco reminds the readers that the founding fathers of modern economics saw the market not in opposition to social orientation or upliftment but rather in support of it. He takes the reader through a history of markets and how they function and the increasing role of the state as well as the limits of state intervention. He then posits the idea that a strong and vibrant civil society has taken the socially oriented roles previously performed by governments although he does see some difficulties in creating a social market economy, Chikiamco nevertheless feels that democracy, a strong civil society, effective bureaucracy, accountable governance, and a free market are the key ingredients in creating one.

The article by Emmanuel S. de Dios was very interesting as well as historically informative. He states that the last time the Philippines confronted the world and sought universal standards for themselves, they started a revolution and formed the modern Philippine state. De Dios traces in brief the phenomenon of globalization both in trade and finance, its consequences, and the uneven nature of its benefits. He cites who will win, who will lose in this global competition. He writes not only of trade

and finance but the globalization of political and social values as well. He examines what constitutes nationalism in this global context. De Dios ends his essay on a hopeful note.

Joseph Lim's essay on the "Economy in a Globalized Setting," sets forth an analysis of the economy. The framework for analyzing the economy is the three-gap analysis. The brief of this analysis states that in the near term, three possible things could bind or constrain the growth of the economy. The first is the savings-investment gap; the second is external constraint; and lastly, fiscal constraint. The essay is rich in empirical data, having eight tables. He traces the policy failures of the past as well as the causes for the Philippines losing its competitive edge. Lim also writes about culture and institutions. He argues for a strong civil society which can compensate for government's inadequacies and shortcomings with the paradoxical view that governmental policies do matter.

Then follows two essays by the editor. The first essay places the financial crisis in context and provides a look into the near term, which is rather bleak. He then proceeds to pinpoint failed policies, institutions which crafted the policies as well as persons. He lays a major portion of the fault right at the doorsteps of the current Governor of the Central Bank. He also states rather boldly that government projections/predictions for an improved economy in the short run are misplaced and overly optimistic. The second essay argues the case for capital regulation. He states that unregulated capital flows, specifically portfolio flows, caused the bubble to burst in the country and indirectly caused the financial crisis. However, the immediate concern is how to restore competitiveness through higher export earnings, attract more foreign direct investments, increase foreign exchange holdings, foreign debt put into productive use.

The Malaluan essay revolves around the theme of public investments serving both economic growth and social equity through redistribution. He posits the controversial idea that to maximize economic growth, it must pass through a poverty reduction constraint. Is it possible to have growth with equity? Should public investments prioritize poverty reduction?

Briones and Malaluan co-author the next essay on taxation. They argue for a simplified, progressive tax system which leaves the tax administrator little room for discretionary judgments. This they would

argue lessen the chances for corruption and improve efficiency and effectiveness of tax collection. They view the recently concluded Comprehensive Tax Reform Package (CTRP) as a good starting point, but falls far short of what is needed to reduce corruption and better tax administration.

Gonzales writes about the impact of liberalization on labor. He argues that liberalization has adverse impact on labor. It is a detailed analysis of the negative effects of liberalization on labor, especially the non-skilled sector. He makes for the logical argument that the state must pursue an industrial policy of growth with a social policy of equity and participation. Social policies must not be viewed as mere appendages to economic reform.

Ricardo Reyes looks at rethinking the whole complex issue of land reform. Here he breaks away from doctrinaire left thinking on land reform to explore other redistributive models which may work. He proposes a multi-model approach such as stock options, lease-back agreements, (the recently concluded Cojuangco state in Negros) which are market friendly. The changing rural dynamics and global environment demand innovative solutions to traditional questions of redistribution policies to achieve social justice.

Toby Monsod's essay on the Social Reform Agenda (SRA) of the Ramos administration is an indictment on the failure of government to deliver on its promises. The SRA could have served as the focal point for the varied social reform policies of the Ramos government. But in the end, the SRA became an annual "paper game," to see which government agency could complete their stated goals within the year. The essay is full of empirical data which shows the clear failure of governmental agencies to deliver on their promises. It savagely attacks the administration for being long on oratory but short on accomplishments. The SRA was problematic from its inception. There was lack of focus, confusion, budgetary delays in releases, sleight of hand budgetary accounting and lack of political will on the part of government, bureaucratic ineptitude, legislative inertia and yes, even the missed opportunities for the NGO community to advocate their unique agenda.

A political scientist, Temario Rivera, concludes the series of essays. He enumerates different approaches to governance: minimalist,

redistributive, developmental, and structural. He looks for a governance paradigm which can manage the complexity of a modern society that must promote growth, equity, maintain civic virtue. He examines the relationships between a weak state, a vibrant civil society with the goal of achieving growth and sustainable development. He finally argues that growth with equity can only be realized through the emergence of a functional, transparent, and accountable democracy.

Essentially, all the authors agree that though difficult to achieve, a socially oriented economy is possible and indeed necessary for the Philippines in a globalized economic setting. They all advocate specific policies to achieve this goal. This ultimately requires strengthening the governance institutions to prevent elite capture of policies.

For the Philippine economy to reach this goal, I believe, it will have to establish and protect the rule of law and accountability processes. The pervasive corruption will discourage investors, add costs and stymie talented individuals. Corruption leads to a wasteful misallocation of resources, and then compounds the problem because authorities try to insulate their benefactors from competition. Over time, corruption is the rot that weakens the legitimacy of governments, private businesses and societies.

As I mention earlier the book is not only timely, it should be made required reading for policy-makers and elite leaders. There are enough prescriptions and specific ones at that to occupy the new administration until the end of its term. ❁