

# Alternatives for a Peripheral Economy in Transition

Germelino Bautista Jr

The unresolved economic crisis and the end of the 20-year Marcos dictatorship ushered a period of transition, the nature, direction and outcome of which have been the subject of debate. The immediate post-February months under the Aquino government provided both a forum for some segments of the middle class and mass organizations to express their aspirations as well as the opportunity for the nation to move towards directions which were outside the realm of the possible only a year ago. However, the same months witnessed a stronger resolve on the part of conservative and rightist forces to continue operating through legal and extra-legal channels. In effect, the state has become an arena of ideological and political struggle, a far cry from its position during the Marcos years when it was held captive by its own rightist faction and discussions of alternatives could not be publicly articulated, much less translated into concrete programs of action.

The ruling political coalition basically consists of a liberal democratic faction and an authoritarian-oriented, rightist bloc. Given the ideological tendencies of each faction, and the relative influence and pressure exerted by forces from both sides of the political spectrum operating within and outside the state apparatus, there is uncertainty as to whether a liberal democratic or authoritarian state will eventually be constituted.

While the liberal democratic faction, seemingly dominant because of relative public support, is averse to government intervention, it has inherited a debt-ridden and stagnant economy which makes it difficult to sustain a non-interventionist strategy. Moreover, the relative absence of strong citizens' organizations at the grassroots reveals that the current state does not yet have both the economic foundation and the social organization to give substance to a democratic form. While the liberal democratic group seeks to establish a truce, if not

a peaceful settlement with armed dissidents and separatists, the rightist faction considers this approach futile and has no qualms in carrying out a military solution through an authoritarian regime, if the political environment permits such. This further makes the position of the liberal democrats more precarious.

The struggles over the form of the state, however, are not readily manifested in ideological differences with respect to property rights and relations. Both groups share common orientations. However, the liberal democrats are more articulate and consistent with their position on the direction of the economy and the state's relation to it. The liberal democratic views on the state and economic policy proposals associated with the Aquino administration are expressed in the Philippine Institute of Development Studies' *Economic Recovery and Long-run Growth: Agenda for Reforms* and the National Economic Development Authority's *Policy Agenda for People-Powered Development*.

This paper aims to critically discuss the economic alternative proposed by the key planners of the Aquino government. Cognizant of the strong points in their proposals, the paper focuses on some of the inadequacies, if only as a strategy for counterposing an emerging picture of an alternative economic program for the country.

## A. THE LIBERAL DEMOCRATIC ALTERNATIVE

The liberal democrats' concept of the state and its economic thrust rests on three orthodox notions:

- 1) *a competitive market economy fosters the efficient allocation of resources and promotes society's welfare, defined in terms of consumer sovereignty;*
- 2) *government intervention should be kept at the minimum to ensure the workings of the free market, i.e., its economic function should be*

\* Paper prepared for the 4th Meeting of the United Nations University Asian Perspectives (Southeast Asia Sub-Region) Project on Transnationalization, the State and the People, October 10-15, 1986, Haadyai, Thailand.



*limited to the protection or guaranteeing of private property rights, the administration of justice, the provision of infrastructural facilities, public services and goods, such as education, health or peace and order, which yield little or no private returns, or whose returns cannot be privately appropriated.*

- 3) *capital accumulation and growth can only be attained under the auspices of the private enterprise system.*

These same notions which provided the conceptual as well as the normative framework for analyzing the current economic crisis and the role of the Marcos administration in bringing it about, presently motivate the general thrust of the liberal democratic policy agenda for economic recovery and reform. Starting from the position that the interventionist, market-distorting policies of the authoritarian regime promoted a debt-fueled economic growth process which brought about the eventual crisis, the liberal democrats recommend specific non-interventionist, competitive market-oriented policies consistent with the above notions which are considered to be sufficient for addressing the structural basis of the economic crisis and promoting sustainable growth.

The adequacy of the proposed policies, their analytical and empirical basis, and the plausibility of the expected outcomes is the subject of the next section's discussion. This section deals with the specific policy measures and the avowed rationale behind them.

At least five major policies have been advanced to free the market and promote competition, efficiency and economic growth (PIDS; NEDA, 1986). They are as follows: 1) the dismantling of the industrial protection system which has quantitatively restricted the imports of intermediate inputs and granted monopoly groups exclusive rights to import particular commodities; 2) the taxation of excess profits of natural

monopolies to foster efficiency; 3) the removal of the export tax and the reduction and setting of uniform tariffs on imports. 4) the adoption of a flexible exchange rate system; and 5) the setting of the development of agriculture and the export sector (whose growth have been restricted by the above interventionist policies) as priorities as well as the termination of government participation in agricultural export trading and marketing interventions (e.g. buying operations of coconut, cotton, and livestock imports).

The above policies are seen to have a direct bearing on the efficiency and growth of specific sectors and the entire economic system. A liberalized trade regime and flexible exchange rate policy, in particular, minimize the use of political influence to obtain economic privileges, eliminate the opportunities for rent seeking in the non-tradeable and importable sectors, remove one of the sources of excess profits which foreign and domestic monopolies have long enjoyed, and finally eliminate the market distortions which have taxed and adversely militated against the growth of the agricultural and export sectors. The resulting competitiveness of the economic environment and the incentives afforded for farm and export production, can in turn, induce their efficiency.

The central role assigned to agriculture and the export sector in the development process reaffirms the same rural mobilization and export promotion growth strategy proposed by the Ranis report (International Labor Organization, 1974) to the Marcos regime in the early years of martial law. The current NEDA position argues that agriculture and the export sector should remain as priorities, and resources previously devoted to the import-substituting industries must be reallocated to them because past macro-policies were biased against their growth. Moreover, it is advised that the economy must build on what is considered to be its base, its agricultural sector which has traditionally been the major source of employment, income and foreign exchange earnings. It is believed that if the policy biases against agricultural production

are to be removed, the resulting improvement of productivity and rural incomes can be expected to generate greater demand for food, other agricultural products, as well as industrial goods and services through intermediate and final demand linkages. Furthermore, as the economy concentrates and improves its comparative advantage (i.e., land-and/or labour-based commodities) simultaneously with unrestricted imports, domestic producers can become efficient and competitive suppliers in the world market. It is this growth process which can eventually mobilize the surplus labor in the rural sector. While the process is still unfolding, however, the landless rural workers can be tapped in emergency employment programs like the construction of rural infrastructures, land titling and undertaking cadastral surveys.

The proposed growth strategy illustrates the liberal democratic position that non-interventionist economic policies can effect growth. However, some liberal democrats hold the view that while non-intervention is the general principle, there are some instances when direct government intervention is justified. From the two reports, the specific spheres within production, circulation, and distribution can be inferred. The reports also specify the policy instruments to be used, and the rationale for intervention provided by different writers.

Intervention is deemed necessary in the development of the agricultural sector. Assistance to small producers rather than to plantations and agribusiness concerns is preferred. Government assistance can come not only in the form of the usual public goods like rural infrastructures, research results, extension services, and irrigation systems for small communities, but also in the direct allocation to small producers of subsidized agricultural credit and financial resources, coming from the auction or tax proceeds of export quotas and from the sale

of sequestered shares or stocks. These resources are to be especially earmarked for promoting inter-cropping and crop diversification.

Aside from directly assisting small producers, government is also encouraged to intervene in the equitable distribution of tax burdens and access to public lands, contracts and natural resources. Access to these resources shall be opened through a bidding procedure and the dissemination of information on who has obtained access, how such access has been acquired, and the terms of access. The distribution of specific income and wealth forms is also another area of intervention. Concretely, the policy agenda calls for the regulation of the excess (monopoly) profits of private businesses and the breakup of land ownership concentration through an expanded agrarian reform program.

To liberal democrats, intervention is justified on the grounds of promoting competition and efficiency. For instance, competition is said to be fostered with the provision of direct and indirect production incentives to small producers, wider access to public lands and natural resources, and the redistribution of land ownership. Some liberal democrats, however, go beyond the efficiency criterion in arguing for redistribution of income and wealth or a change in property relations. Some assert that social justice is involved in this issue, while others posit that the eradication of a social ill, such as mass poverty and social inequities, is the same as the 'provision' of public goods which market transactions cannot provide thus requiring state intervention.

Having a concern for efficiency and redistribution within a particular scope, the report states that it is not ideologically attached to any particular form of production organization. True to its liberal democratic orientation or the fact that the

PHOTOBANK



social relations and wealth of liberal democrats are not based on land, it is thus open to any of the following production organization in agriculture: family farms, cooperatives, communes, collectives, state farms or private corporations with less than 33% foreign control. Social experimentation on any of these production organizations is permissible, but only for a limited period of at most two years before an explicit public policy is formulated.

## B. CRITIQUE OF THE LIBERAL DEMOCRATIC AGENDA AND IMPLICATIONS FOR AN ALTERNATIVE AGENDA

Like its analysis of the economic crisis and its vision of the growth process, the proposed economic agenda of the liberal democratic faction gives primacy to the role of policies in effecting economic outcomes whether they be stagnation or growth. It also assumes that its policy goals of agricultural development, export promotion, and eradication of poverty are adequate in fostering long-run economic growth and social development. The critique of the liberal democratic economic agenda in this section revolves around an elaboration of these two points.

### 1. The Primacy of Policy in Explaining Stagnation and Growth

While it is true that economic policies affect the composition of output, the growth of production and productivity, the pattern of resource use (e.g., land), technology and employment opportunities, policies in and by themselves are not necessarily the main determinants of particular economic outcomes. For instance, the stagnation of the entire agricultural sector may be attributed to distortionary policies, but despite these policies, positive growth rates were registered for specific crops like banana, pineapple, and hybrid corn in the late 60s for the first two crops and the late 70s for the last. Market demand in these crop sectors broke the limits imposed by the macro-policies. Apart from the nature of market demand and the pattern of its growth, however, other interrelated factors have affected the economic outcomes within agriculture. *Figure 1* presents a system of determination which applies even to other economic sectors.

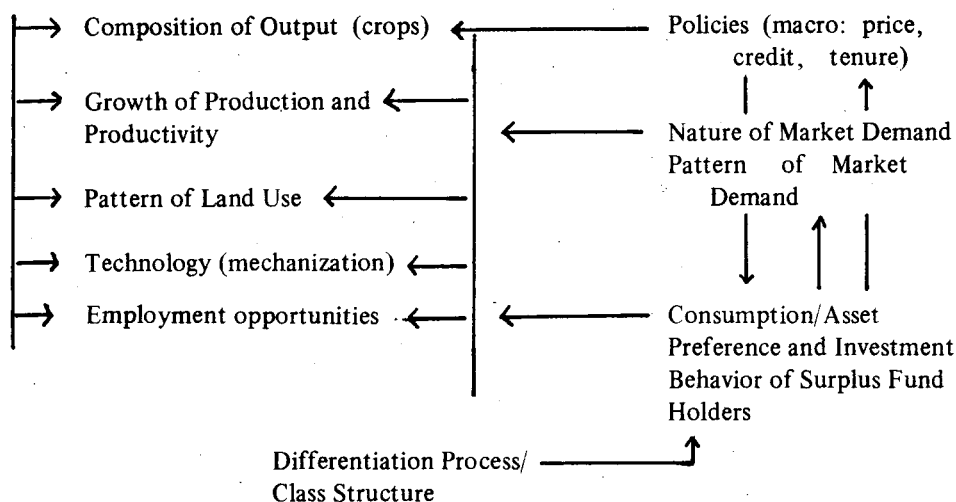
Aside from the influence of policies and the nature of market demand and pattern of demand growth, the economic variable in the left-hand side of the Figure are also influenced directly and indirectly by the economic orientation and investment behavior of surplus-funds holders. For instance, such holders in a particular crop sector may simply engage in speculation or prefer to use their funds for the acquisition of luxury goods and unproductive assets. The rentier mentality of some landowners partly accounts for the limited flow of capital into agriculture. Among surplus-fund holders in the crop sector who invest, the returns of other profit-opportunities within or outside agriculture relative to crop production determine the flow of investment into the sector. While it is possible that prevailing policies may have affected the relative returns of crop production, the flow of funds into alternative uses may result in a more adverse outcome, like a further constriction of employment opportunities. Since the mid-70s for instance, some land owners as well as rice tenant farmers have invested their savings in the purchase of IRRI-type threshing machines, given the returns of custom leasing threshing services. In turn, the shift of farm holders from manual to mechanical threshing has contracted the employment opportunities of landless farm workers.

The existence of surplus-fund holders even among small tenant farmers reflects a differentiation process and an emerging agrarian class structure from which one can identify the social groups which can respond and benefit from changes in policies and market demand. The class structure determines the differential effects of policies, market demand and investment patterns on the economic characteristics of the agrarian sector. Together, market and class structure within a policy matrix indicate a departure from a simplistic attribution of the growth problems in agriculture mainly to market-distorting policies. These variables also determine the economic outcomes in the export sector. However, in this sector, the class structure involves foreign capital which, so far, has not shown a predilection to invest in export-oriented industries.

This does not necessarily reflect only the effect of prevailing national policies but also the excess productive capacity in other export economies. Furthermore, it may also reflect the fact that some transnational corporations can obtain

Figure 1.

Determinants of Economic Outcomes



more profits from other sectors of the economy or from the use of mechanisms (e.g. transfer pricing, the sale of intermediate inputs to import-dependent export industries other than direct investment.

In conclusion, the silence of the liberal democrats on other determinants of economic outcomes for the nation as a whole and for specific sectors in effect points out that they attribute economic problems and their solutions mainly to policy formulations. This has at least two related implications. First, for as long as the policies are enlightened by relevant theories on the efficient operation of the economy, they can, in the long run, solve the problems of growth and poverty. The fact that these policies address only the formal sector in a society where an informal economy is a critical source of live-

mic history of the advanced capitalist countries may not apply to a peripheral economy within the current international division of labour. While it is the popular belief that Taiwan and South Korea successfully replicated the classical sequence from agricultural to industrial development, it can be argued that in these places both processes proceeded simultaneously. The remarkable growth of the economies of these two countries, particularly their export sector, is based on relatively well-developed domestic industries with backward and forward linkages.

To be fair, the liberal democratic agenda recognizes the need to complement agricultural development with an export-oriented industrialization strategy. It is, however, silent on developing local industries aimed at the domestic market. It



Solidaridad II

lihood does not make them inadequate. After all, it is held that if the proper market-freeing policies are implemented, the informal sector will eventually be absorbed by the formal sector. Second, there is an implicit assumption that the policy makers, who in this case are the technocrats enlightened by economic theory, can effect development in the long run. Thus far, however, it is doubtful whether the proposed strategies of the enlightened liberal democrats can lead to long-term growth and social development.

## 2. The Inadequacy of the Agricultural and Export Thrust

One of the main weaknesses of the proposed economic agenda is the central role assigned to agriculture in the overall growth strategy. The critical role of this sector can be inferred from the fact that it is considered a base with an unspecified time frame for its development. Without undermining the need to develop this sector, it is important to note that there is a limit to its employment-generating capacity because there is no internal investment-multiplier mechanism within the sector, unlike in industry. Furthermore, the role of agriculture in stimulating industrial development, as documented in the econo-

implicitly holds that the export sector can eventually trigger backward and forward linkages with agriculture and domestic industries although at present it upholds the enclave-type of export involvement (e.g., the export processing zones and bonded warehouse outfits)

The problems with export-oriented industrialization have been discussed extensively in a previous paper. It is important to note, however, that this paper does not argue against the establishment of export-oriented industries per se. It merely sees the strategy as a complement to the development of agriculture and domestic industries by way of generating surplus which could be reinvested in the two sectors. What is lacking in the liberal democratic economic agenda is a time frame for export-oriented versus domestic industries. In the absence of this time frame, it would seem that export promotion is the main long-run industrialization policy subordinated to agriculture. Furthermore, if export industries are to trigger some forms of domestic industries, who is to ensure that the surplus generated in the former will be redirected to the latter when multinationals are the lead agents in export industrialization and the liberal democratic state is supposed to be non-interventionist?

A non-interventionist attitude with respect to export promotion presupposes that the producers are primarily responsible for determining the commodities to export. This is very similar to the expectation that small producers in agriculture should determine the crops to produce following market demands. The problem is that small producers may not be capable of looking forward to future market developments aside from not having the resources to undertake systematic market research and technology development. The multinational producers, on the other hand, do not care about national interests and improving the country's comparative advantage. Since the historical experience of other countries, who were able to shift their comparative advantage from labor-and/or land-based commodities to higher value products, shows that investments in research and development and higher levels of capital accumulation were critical, a non-interventionist philosophy is untenable for a peripheral economy. It is, therefore, imperative for the state to invest in research and development and not leave the process of accumulation entirely in the hands of external or private capital.

In conclusion, the agricultural and export thrusts of the liberal democratic economic agenda are expected to expand employment opportunities, absorb the surplus labor and eventually raise income to alleviate the problem of poverty. In other words, the eradication of poverty through the long-run growth strategy is a potential outcome sometime in the far future. Because the poor are not an immediate concern, the enlightened technocrats are not sensitized to the survival strategies the majority of the population undertake as part of the informal market (e.g. as scavengers of scrap materials for further recycling, subcontractual workers in home shops), as well as the subsidizing role of the informal sector with respect to the formal sector. Interventions in behalf of the participants in the informal market are also outside the scope of their policies.

### C. CONCLUSION

The Philippine economy is at a point of transition, the direction of which is still uncertain. In this particular historical period, the initiative in charting possible economic directions lie with the liberal democrats in the Cory government. Their goals are clear: minimum intervention to effect welfare programs and the promotion of growth in agriculture and the export sector. The recovery program they propose constitutes their notion of the transition towards the realization of their dreams for genuine capitalist development. While cognizant of the need to undertake social reforms to alleviate poverty and unemployment, the overall strategy is people-oriented only in the long run. The benefits that will accrue to the masses may come about only after the planners have successfully overcome all obstacles in the course (e.g., debt obligations, the political instability etc.). This paper discussed some of the inadequacies of the proposed agenda. The discussion implicitly raised some of the contours of an emerging political and economic alternative.

Poverty in a peripheral society is the outcome of both the level of capital accumulation, and the nature of surplus extraction and utilization. To resolve the problem of poverty,

it is imperative to promote capital accumulation, alter the existing private appropriation of surplus, and redirect its utilization towards more productive ends and a socially-based process of accumulation. The object of promoting capital accumulation and utilizing resources (surplus only being one form of resource) for productive purposes is not dissimilar to the efficiency goals which economists espouse, but the tasks of altering the existing mode of surplus appropriation and bringing about a socially-based accumulation process depart from the conventional notion of 'equity'.

To infer the implications of the above objectives, a number of qualifications must be made. First, it must be noted that the alternative economy is a transitional organization which cannot completely depart from the existing political-economic framework (i.e., property relations) and its structural constraints (e.g., the limited size of the import substituting and export sectors) but which must pave the way for a redefinition of property relations and the economy's structural features.

Second, because property relations cannot be changed overnight without a strong conservative internal and external backlash, the tactical means for generating a socially based process of accumulation must be spelled out. This requires that organized communities with innovative income-generating mechanisms and the state must take the initiative. This has implications for public investment activities, state involvement in research, product and technology development, tax reform, credit extension, the formulation of policies which can slowly resolve some of the structural contradictions of the economy (e.g., the limited domestic market).

The following is a list of tentative proposals to effect a transition:

1. *It is necessary for the state to intervene in the accumulation process to retain more of the surplus within the national economy and to redirect it towards the development of domestic industries. This however, does not mean state control;*
2. *State intervention will end up in corruption and the monopoly of economic benefits by those in power unless it is checked by grassroots people's organizations. It is, therefore, important to organize sectors and communities. For a short-run alleviation of poverty, those engaged in the informal economy should also be organized;*
3. *Research and development for alternative agricultural and export commodities should be undertaken by the state to effect a change in comparative advantage. Consistent with a people-based concept of development, the information obtained from market research and technology development must be passed on to non-government organizations; and,*
4. *The foundations of an articulated economy must be laid through the generation of ideas and the formation of organizations and not merely through the diffusion of technology and the reinforcement of petty bourgeoisie ideals. **K***