



The Politics of Development in the Philippines

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To begin with, I must disclaim any expertise on this topic. I can only claim that, like every other Filipino, I am being forced to think of the harsh circumstances that our country is facing.

To me, the immediate cause of our troubles lies in the political conflicts among different social groupings which have ravaged the country since independence. These conflicts have produced economic stagnation, and worse, a pervasive loss of morale which has made our condition an exception to the general trend of growth and rising living standards in the world's fastest growing region.

Thailand surpassed us in terms of income per head in 1981 and Indonesia is breathing down our necks. In some recent estimates of purchasing power parity, Filipinos are already poorer than the Indonesians and even the Chinese.

We need to make a heroic effort to keep up with our vigorous neighbors. Otherwise, the consequences may be grave. The insurgency could gain a second wind. Our fragile and precarious democracy

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could relapse into another period of military-based authoritarianism. We might see a further deterioration in our quality of life and an increase in crime and mindless violence. Mass poverty may become even more acute. Pollution and population pressure may wreak havoc on our environment.

What then do we need to do? We must do as our neighbors have done — we must self-consciously learn how to compete with the world.

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Late Industrialization

Economic modernization, or late industrialization, in our own time will neither result from inventions, as it did in Great Britain in the 1760s, nor from innovation, as in Germany and the US in the 1860s. The agrarian societies which became industrialized in the 20th century succeeded by borrowing foreign technology and developing industries that would be competitive in the world market.

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In Japan, Korea, and Taiwan, the state is strong, bureaucratic, and authoritarian. Its influence pervades the entirety of the economy and society.

Where did this East Asian compulsion to develop come from? Like the Meiji Japanese before them, South Korea, Taiwan, and Singapore were spurred to overcome crises of survival by outside threats. For South Korea and Taiwan, the compulsion was to strengthen

the state engaged in civil war. Singapore, after separating from Malaysia, had to learn to survive without a hinterland. It was a Chinese enclave in a potentially hostile Malay world. For Malaysia and Indonesia, the threat was internal but just as critical.

Given the intelligence at the top, professional bureaucracies, and a good supply of entrepreneurs, these countries made what has come to be known as *soft authoritarianism* pay off by strengthening national power and attaining higher living standards.

The Philippine State and its Economy

In contrast to these developmentalist states, the Philippine state is still a regulatory one concerned only with forms and procedures and not with the substantive matters of economic competition.

Reading Hernando de Soto's study of the mercantilist state in Peru, one realizes the resemblance between the two countries. The similarity goes beyond the proliferation of lawyers and newspapers subsidized by interest groups or the presence of the Maoist-inspired insurgency. In both countries, the state is bureaucratized and law-ridden. Their governments regard the 'redistribution' of wealth as more important than its production. 'Redistribution,' in this sense, means the granting of concessions to monopolies and favored status to a small group of elites. Mutual dependence characterizes the relation between the state and the elite.

Politics, instead of market forces, governs the economy. The representative system of government becomes a democracy of pressure groups because the state lacks sufficient authority. Extreme competition in influencing the policy-making process results in the widespread politicization of society. Even the law becomes unstable and unpredictable because it depends on who wins the 'war of redistribution.' When the costs of obeying the law exceeds the benefits that may be derived from it, ordinary people themselves simply opt to work outside its fold.

Peru's informal economy involves 48 percent of the economically active population and contributes 38.9 percent to its Gross Domestic Product. Our own underground economy, according to an estimate made by the Center for Research and Communications, is already bigger than the formal one.

'Redistributive' wars

The political conflicts of the post-war period arose from conflicting economic interests between the manufacturing capitalists and landowners; the capitalists and city labor; and the landlords and peasants.

Fordham University economist Henry Schwalbenberg, who studied our economy between 1950 and 1972, notes:

The Philippine political system was responsive to the entreaties of any social class so long as that class or interest group was capable of devoting resources to influence the government in either legitimate or illegitimate ways.

To this observation, he adds wryly,

Clearly the political system was more responsive to well-financed interest groups than to one person [who only has] one vote.

The 'redistributive wars' during this period centered on trade policy, which was built around import-substitution. They were won by the capitalists who used their increasing political clout to exert greater influence on economic policies. Often under nationalist pretexts, industrialists obtained extremely high tariff protection — as high as 365 percent of world prices in 1965.

During this same period, the traditional agricultural exports lost 43 percent of their 1950 value. Agriculture was deprived of funds and technology, as the capital rushed into manufacturing firms proved extremely profitable, although hopelessly uncompetitive and inefficient by market standards. A great deal of this capital transfer, of course, came from rural landowners-turned-urban capitalists.

The capitalists also won in their conflict with the city workers on the issue of wages. Between 1949-72, the real wages of skilled Metro Manila workers declined by nearly half, and those of unskilled workers, by one-tenth. Philippine labor became the least productive in the region.

Landlord rentals also declined. But the agricultural workers suffered the worst. Too dispersed, too poorly educated, and too poor to have day-to-day influence on government, they became fodder for the radical insurgency which was then gathering strength.

Democracy or Authoritarianism

Authoritarianism in developmentalist states justifies itself by imposing stability and long-term predictability in the political system.

In the 'soft' Philippine state, authoritarianism produced the opposite effect. It heightened political instability by generating a communist insurgency, an increasingly bold middle class opposition, and uncertainty among the mass of citizens.

Marcos subsidized corporations based on the Korean model in a vain effort to stimulate Philippine industrialization. But while the Korean state exacted efficiency and discipline from its *chaebol*, the privileges Marcos set up for his cronies became virtual giveaways — abetting their profligacy and wastefulness.

To me, the key element is not government's degree of social control, but how it asserts this control. That depends on the government's motivation and the effectiveness of its machinery.

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Authoritarianism will obviously ease the way for a nationalistic and well-managed government facing a crisis of survival. This is what it did for the ruling elites of East Asia. However, it cannot make an initially ineffectual government run by an irresponsible elite any more effective. As we saw from the example of the Marcos regime, near-absolute power would only make such a regime more arbitrary, corrupt, and voracious.

There is also an economic reason why people are opting for democracy rather than authoritarianism. The latter may have been appropriate in the earlier stages of industrialization, while the former is more suitable in the era of sophisticated new industries evolving in the global economy. Today, industries have become less and less susceptible to central organization as production grows more and more complicated, varied, and flexible.

Weak State, Powerful Elite

In view of our past experiences, the Ramos Administration has come to believe that the improvement of the quality of the government

machinery is the first requisite to growth. President Ramos is trying to organize an effective government — one which is capable of resisting political demands that would undermine economic growth.

The country's elite is still one of Asia's most powerful oligarchy. Everywhere else in the region, traditional elites have been weakened by colonial wars for liberation (like Indonesia and Vietnam); by American occupation (like Japan and South Korea); by civil war (like Korea, Taiwan, and Vietnam); or by communist revolution (like China and Indochina).

In every East Asian newly-industrialized country, the capitalist commercial class was relatively weak in relation to the state when the drive for development began. The Philippines is the only exception. Our economic system is more Latin American than East Asian in the way that it has concentrated land, wealth, and political power in a relatively few families. By its masterful opportunism, this colonial elite has been able to preserve itself through the manipulation of several factors such as the change of colonial masters, the Pacific war, the transition to independence, the 13-year old spell of authoritarianism, two radical insurgencies, and two popular revolutions.

The bare statistics speak eloquently of the extreme concentration of wealth and power in the hands of a few. The top 5.5 percent of all the landowning families own 44 percent of all the arable land in the country. The richest 15 percent of all families account for 52.5 percent of all the nation's income. In 1991, only ten corporations accounted for 26 percent of all revenues; 40 percent of all net income; and 34 percent of the total assets of the top 1000 corporations. A recent study by the Institute for Popular Democracy (IPD) showed that only 60 to 100 political clans control all elective positions at the national level.

Economist Harry Oshima noted that, like the Latin American elites, the Philippine elites give higher priority to family destiny than the future of the nation which they rule with little opposition. Our elite's solicitude for its self-interest has never been mitigated by the strong sense of nationalism that characterizes the Japanese or the Korean oligarchy.

Our entrepreneurial quality compared with the strong Confucian work ethic of the East Asian NIC is diluted by a Hispanic tendency to indulge in luxurious lifestyles.

A study done in 1978 by a Japanese scholar identified the following management characteristics in the country: authoritarian decision-making, extensive nepotism, contemptuous attitudes toward workers, short-term

maximization of profits, and a strong tendency to drain profits out of the enterprise into other activities.

Setting Up an Effective Government

It is in this context that we must view the government's efforts to rationalize the tax system; democratize the economy and level the playing field for competition; professionalize the civil service; and empower the ordinary Filipino.

In this spirit, Mr. Ramos has thrown his support behind a Senate proposal to cut down the bloated bureaucracy — almost 1.7 million strong — by at least 10 percent. Plans to institutionalize recruitment of career officials and to raise the civil service salaries are being laid down.

In another concern, nowhere is the Philippine state's weakness more evident than its poor tax effort which has remained at about 12 percent of our Gross National Product (GNP) over the past 27 years (as compared to Indonesia's 17.36 percent; Thailand's 16.78 percent; Korea's 17.11 percent; and Malaysia's 22.12 percent.)

Filipinos belonging to the upper economic class bear a smaller portion in the share of the tax burden than do the middle class and the poor because of 'give-away' tax incentives for industries and lavish deductions for businessmen and self-employed professionals. Deductions eat up as much as 92 percent of the gross income of the taxpayers from the high income class. In view of this, Mr. Ramos expects to present several tax proposals to Congress which will deal with some of these problems.

At present, media attention is focused on the administration's move to dismantle cartels and monopolies and to put a stop to tax avoidance by big businesses. This drive, I must emphasize, is not against 'bigness' in itself. It is against the inefficiency inherent in crony capitalism. The Ramos administration realizes that Philippine corporations venturing into the world market need economies of scale.

Essentially, President Ramos is working to reconcile our political democracy with this oligarchic economy not by changing the political system (as some well-meaning outsiders would have us do) but by democratizing the economy. In a larger way, the administration's effort is to conscientize the Philippine elite — to sensitize them to the plight of our long patient people.

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Our elite must learn to subordinate its private and group interests to the larger interests of the Filipino nation.

Government's Role in the Economy

Government's basic role is to provide the framework within which people's enterprise can flourish. That framework has four components: 1.) political stability and civil order; 2.) the rule of law, which assures a level playing field for competition and the security of business contracts; 3.) a sound macro-economic policy which, among others, guarantees a sound currency and stable prices; and, 4.) physical infrastructure and human resource development, which private industries cannot provide themselves and involve public investment in the construction of roads, electric plants, piers, irrigation systems, and in human capital through investment in health care, education, skills training, and so forth.

Rationale for Intervention

When the question of what the government's role in the economy is asked, I often feel that what people really want to know is whether or not government should intervene in the economy. The fact is that over the last hundred years, government intervention in the economy has not been the real issue. The real issue has been between capitalism and socialism, which have defined the purpose and quality of government intervention.

Free enterprise has come a long way since the 19th century British Cabinet debated on whether it was right to restrict the import of beef known to be infected with foot and mouth disease. At present, governments in capitalist countries routinely intervene in the economy through macro-economic policies and social legislations in order to promote stability and mitigate the negative impact of the boom and bust economic cycle on their people.

Socialist government's intervention is even more pervasive and ambitious. It operates on the principle that the more complicated the society becomes, the more it requires central organization in order to avoid falling into chaos. But the completely planned economy, as the cold war joke puts it, ensures only that when no bacon is delivered, no eggs are delivered at the same time.

In spite of the collapse of the Communist regimes in Eastern Europe and the Soviet Union, however, a few people still believe in the concept of the state as the administrator of all civil society.

In our case, the concept of the State as an administrator responsible for every citizen's welfare has merely transferred social control from the old aristocracy to a new elite of bureaucrats.

By contrast, state intervention on the side of the market has produced unprecedented, as well as relatively egalitarian, growth in our East Asian neighbors.

The Limits of State Intervention

Finally, we have an acute sense of the limits of what the state can do. Our first principle is to leave to private initiative the day to day workings of the market economy as long as it is possible. We realize that it is much easier to have impartial administrators once the state disengages from large-scale economic regulation.

One lesson that we have learned from having extensive state intervention in the economy under a strongman rule is that the public sector industry generates its own vested interests. We can observe this from the difficulties the government has experienced in privatizing the remaining public corporations.

The government's role in the economy is not to help business people avoid competition by awarding them subsidies, protective tariffs, preferential loans, and other economic crutches. Its proper role is to push and challenge national industry to strive; to innovate; and to stand up against the best in the world.

Modern capitalism's creativeness and productivity comes from its being decentralized and competitive. Democracy, and not authoritarianism, is the proper political framework for this new style of industry.

However, free enterprise should not mean an enterprise free from public accountability. It should not mean having a free rein of the world's environment without regard for the well-being of the peoples and places.

where the resources are located. Free enterprise does not mean that the human costs of development will be shouldered heavily by the poor and the powerless.

Will Democracy Suffice?

Assuming that we are able to organize an effective government, would that suffice to produce a self-sustaining development?

Authoritarianism is a receding tide which we Filipinos cannot ride into in order to develop — even if we wanted to. All over the world, authoritarian and statist systems are being dismantled by peoples who have awakened and realized their political entitlements.

Our salvation lies not in curtailing our democracy but in broadening it. This is what the Ramos government is trying to do in integrating people empowerment in its programs.

To us, people power means devolving political authority from the center, or from Manila, to local governments; awarding control over local resources to local communities; and building up their capacity to organize and manage themselves. Ultimately, it means the politicization of the citizens. Only by using their vote and their organizational strength to make their views heard can ordinary people influence the making of public policy.

Much More Needs to be Done

Among the most urgent measures that the country needs are a.) the completion of the comprehensive land reform program (while also recognizing that land reform *per se* is no longer sufficient to soothe the rural unrest and considering that too many rural people, particularly agricultural workers without any claim to the land are outside of its coverage); b.) speeding up the program to bring down tariff walls that protect our inefficient manufacturing sector; c.) discouraging excessive capital intensive technology by fiscal policy; d.) setting a competitive exchange rate; and, e.) in the area of education, investing in courses grounded on mathematics, science, and technology.

In order to attain NIC-hood, the Philippines would have to rely, much more than the East Asian states did, on the free play of market forces. It would have to emphasize incentives rather than commands. Planning would have to be a little more than indicative. However, setting free the spirit of enterprise, which as of now is finding little