

## **New Economics for a New Administration**

By Walden Bello\*

Corruption was the signature of the administration of Gloria Macapagal-Arroyo.

This is why this representation shares the public disgust with the record of orgiastic compensation, brazen manipulation of government agencies and funds for political purposes, and massive waste of the people's money detailed by President Benigno Aquino III during his State of the Nation address on Monday, July 26.

The public is still reeling from the presidential revelations about the rotting of millions of sacks of imported rice in the warehouses of the National Food Authority, the way that the Napocor was commanded to sell electricity at a low price for electoral gain, and the amazing privileges the board and top executives of the MWSS gave themselves. However, I fully agree with my friend from Cavite, the Honorable Elpidio Barzaga, when he says that President Aquino should not stop at MWSS because there are other government-owned and -controlled corporations (GOCCs) and government financial institutions (GFIs) that have arrogated more exorbitant rewards for their directors. In this regard, let me just mention the astronomical 500,000 peso monthly salary that the former head of the GSIS gave himself and the only slightly less celestial salaries of the 48 vice presidents that made up his court, a fact revealed a few days ago by Ferdinand Gaité, the head of a public employees' union.

But if the subordinates of the GMA administration behaved like pigs, *kung ang mga galamay ng narakaraang administrasyon ay kumilos parang bwaya, ito ay dahil meron silang magandang halimbawa sa pangungurakot sa taas.* They had a good model at the top, and this was a model not only in corruption and plunder but a model on how to behave with impunity and subvert democratic institutions. The channeling of \$105 million of the calamity fund to the second district of Pampanga while starving other districts and provinces of these resources, the \$329 million NBN-ZTE scandal, the P728 million fertilizer scam, the stealing of the 2004 presidential elections, the glorification of the butcher Palparan as hundreds of activists and journalists were killed or made to disappear, the coddling of warlords like the Ampatuans in return for political favors. The representative of the second district of Pampanga awaits prosecution for these deeds, and hopefully this process gets underway soon so that she can be transported from this august chamber to the New Bilibid Prison in Muntinlupa, where she belongs.

Let me note here that the campaign against corruption in high places and low cannot proceed without the successful impeachment of the current Ombudsman, who serves as the first line of defense of the former president. The sooner the current Ombudsman goes, the better for the country.

But let me proceed with my main intent in giving this privilege speech, which is the need of the administration to articulate a policy paradigm to complement its anti-corruption thrust. We in Akbayan support the passage of a National Land Use bill and some of the other measures mentioned by President Aquino two days ago. But there is a need for a more strategic approach and detailed policy package, and I hope the majority

and minority can cooperate in filling out a positive policy agenda for the administration to follow over the next six years.

The dominant feature of the Arroyo administration was pervasive corruption, but its most destructive legacy in the long term will probably be its policy failures. The ascent to power of a new president, backed by a new Congress, provides the opportunity for a fundamental shift in policy in order to end poverty and re-launch the Philippines on the road to development.

The policy paradigm of the administration was one it inherited from previous administrations. This was a pro-market, neoliberal approach the key prongs of which were accelerated trade and financial liberalization, deregulation, and privatization. In addition, Arroyo continued her predecessors' policy of fully servicing the foreign debt, dealt with the ever-widening budget deficit by imposing a 12 per cent value-added tax that hit mainly the middle class and the poor, and left it to the market to address poverty and income inequality.

With its pro-market orientation, the Arroyo presidency followed the lead of previous administrations in refusing to pursue an industrial policy, reducing budget support for agriculture to a minimum, and radically bringing down tariffs on both agricultural and manufacturing imports. Abandoned to global market forces as the administration embraced the ideology of globalization, the economy was channeled to the massive export of labor, export-oriented low-value-added manufacturing, particularly of electronic components, and providing personnel for the outsourced operations of transnational corporations like call centers.

### **Failure of a Paradigm**

Not surprisingly, the country's GDP growth rate was consistently significantly below those of its Asian neighbors, the radical reduction of tariffs decimated manufacturing, the country was turned from a net food exporter to a net food importer, the poverty rate stubbornly refused to go below 30 per cent of the population, and income distribution worsened. In addition, the ecological crisis intensified, owing to desultory environmental management and failure to promote a reproductive health policy for fear of offending the Catholic Church hierarchy. Let me just say in this regard, that Congress' continuing tolerance of the idiotic obstruction of population planning by benighted forces amounts to criminal negligence. We in Akbayan agree with Minority Leader Edcel Lagman: we must immediately pass the Reproductive Health Bill.

The country's plight under the lash of wrong policies over the last four administrations becomes clearer in a comparative perspective. According to the United Nations Development Program's Human Development Report, the Philippines registered the second lowest average yearly growth rate, 1.6 per cent, in Southeast Asia in the period 1990-2005—lower than Vietnam (5.9 per cent), Cambodia (5.5 per cent), and Burma (6.6 per cent). The only country registering average growth below that of the Philippines was Brunei, which, being an oil-rich, high-income country, could not afford not to grow.

The partisans of the past administration say that its big achievement is that the Philippines grew by 4.4 per cent over the last decade. This is nothing to be proud of since most economists say the economy needs to grow by at least 7 per cent a year just to counteract its high birth rate and thus contain poverty. Can we really boast of a 4.5 per cent growth rate when the second tier ASEAN countries, with none of the advantages of

our country, sprinted ahead of us, with Vietnam growing by an average 7.5 per cent a year, Laos by 7.5 per cent, and even conflict-ridden Cambodia by 6.5 per cent..

In the last two years, the seemingly unending crisis of the domestic economy has been exacerbated by the worst global economic crisis since the Great Depression, a development that is a product of the same principles of deregulation and trade and financial liberalization. This dual crisis coincides with the arrival of a new president and provides an unparalleled opportunity to break with the paradigm that has condemned this country to stagnation for nearly three decades.

### **A Pro-active State**

First and foremost among the necessary changes is the transformation of the Philippine state from a passive actor hijacked by corrupt private interests and corrupt officials into an proactive agent of development. The role of the state is not simply to regulate or discipline the market and the private sector, though this is an important function. More important, this state must lead in developing and implementing a strategic program for Philippine development, one that harnesses the energies of the public sector, civil society, and the market to achieve development targets. Planning, which has become a dirty word in recent years, must again take pride of place among the instruments of economic development, with the National Economic Development Authority (NEDA) ceasing to be simply a statistical collection agency and becoming the planning agency it was originally meant to be. In this regard, esteemed colleagues, we do not understand why the president has appointed a man, Dr. Cayetano Paderanga, who does not believe in planning to be head of the country's planning agency.

The revival of an economy with a solid industrial and agricultural base must be among the key aims of the activist state since industry and agriculture are the main sources of solid growth in the economy. This means engaging in industrial policy, or the strategic deployment use of tariffs and other mechanisms not only to protect domestic manufacturing from unfair competition but, more important, to give it depth, diversity, coherence, and complementarity. It also means making agriculture again a centerpiece of the economy through the strategic management of tariffs, quotas, subsidies for farmers, and sustainable agro-technology. The long-awaited completion of agrarian reform is, of course, a central element in the agricultural policy package, and the president's electoral campaign promise to distribute Hacienda Luisita to its tenants would give the green light for this. We must confess some disappointment that that green light did not flash last Monday, but we remain confident that the president will live up to his promise to distribute the lands of Hacienda Luisita to its tenants.

### **Income and Asset Redistribution**

Market-driven export-oriented industrialization and export-oriented agriculture were the main prongs of the old, discredited paradigm. It is time to make the domestic market again the driver of growth. This can only be done, however, by increasing the purchasing power of Filipinos in the lower income groups. This will inevitably involve income and asset redistribution, including a deepening of the land reform program. Higher wages for workers, income subsidies for the poor, and strengthened support services for peasant farmers are also mechanisms to achieve this goal of activating a vibrant domestic market that will be the locomotive of growth. In the current global economic crisis, the Philippines and other countries, via stimulus programs, have fallen

back on the domestic market to make up for the shortfall in foreign markets. This reorientation must be made permanent, a prescription that is underlined by the poor prospects of recovery by export markets in the next few years.

Asserting the role of an activist developmental state does not mean a return to the old developmental paradigm of the 1960's and 1970's. The old paradigm focused on achieving high growth rates, prioritized industrial development, made equity a secondary consideration, and paid little attention to environmental damage.

The *New Economic Policy*, in contrast, stresses the quality of development, with a strong emphasis on equity and ecological stability. A moderate rate of growth that would meet the needs of development and poverty reduction without destabilizing the environment is not a utopian dream, but it can only be brought about on the basis of a more equitable sharing of the fruits of growth. Thus, equity in the distribution of income, assets, and resources fulfills simultaneously the needs of demand-driven growth, environmental sustainability, and social justice.

### **Democracy and Development**

The New Economic Policy is not out to create an authoritarian state. Indeed it sees democratic governance as central to creating consent and thus giving legitimacy to the state's economic initiatives. This means fundamental economic decisions, such as which industries should be promoted owing to their disproportionately positive impact on development and employment, must be arrived at democratically. It means the establishment of mechanisms of accountability of government agencies to civil society bodies such as peasant and workers' production councils and consumer associations. Democracy strengthens government; it does not weaken it.

The New Economic Policy must acknowledge the value of women's work. For too long, women's central role in the reproduction of the economy has not been acknowledged, leading to the devaluation of women's work and generating systemic inequality in income distribution between the sexes. That the majority of the poor are women is not an accident. Addressing the inequality created by gender will involve coming up with a set of complementary mechanisms including income support, affirmative action in employment, and promotion of women-friendly methods of family planning.

Production, consumption, equity, and ownership of the means of production are closely linked. In contrast to a system where one form of property subjugates others, an equity-oriented system of production combines various forms of ownership including state ownership, private property, cooperatives, and ancestral domain or communal property.

Full recognition and protection of ancestral domain or communal forms of ownership as enshrined in the Indigenous Peoples' Rights Act of 1997 is the best guarantee for enhancing the economic welfare of indigenous peoples. Their well being can also be promoted through the establishment of and effective maintenance of protected areas where environmental management will be in the hands of indigenous communities. Such sanctuaries must be created not only in forest and mountain areas but also in the seas and lakes. Fishing in waters at a designated distance from the shore must be reserved for artisanal or smallscale fishing communities.

### **Sustainable Development and Provision of Public Goods**

Mining for natural resources is an important economic activity. Yet government policies have supported foreign corporations that have brought little of their profits to the country and left mainly environmental disasters like the Marinduque mining disaster in 1992. Constitutional restrictions on the nationality of owners of mining firms must be fully respected, mining policy must favor mainly small operators, tight environmental restrictions must be instituted, and profits from mining operations must flow mainly to mining communities. Repeal of the 1995 Mining Act, whose provision on Financial and/or Technical Assistance Agreements (FTAA) allowing 100 per cent foreign ownership was judged unconstitutional by the Supreme Court, will be necessary to bring about such a pro-people mining regime.

In all areas of the economy, there must be a concerted shift to green technology. In agriculture, for instance, land reform and a reversal of destructive trade liberalization are not enough. To be sustainable, agricultural technology must be made less dependent on the chemical-intensive technology that has proven so ruinous to the environment and public health. At the same time, it must avoid the illusion of a new "Green Revolution" based on genetically engineered seeds that are owned by transnational corporations. Organic agricultural methods suitable to small-scale farming must be developed and promoted with the aid of the state and our local scientific community. In this regard, the appointment of one of our former colleagues, Proceso Alcala, as head of the Department of Agriculture gives us heart, for he is one of the country's leading practitioners of organic agriculture.

The last three decades have witnessed a disastrous experiment in the privatization of power, water, and other public goods. Privatization has resulted in higher profits for

the private sector but it has not brought about more efficient management and lower costs of power and water. Water rates have skyrocketed to P33.08 per cubic meter since Maynilad took over distribution of water for a large part of Metro-Manila in 1997. Then the rate was only P8.48. In April this year, Meralco raised the price it charged consumers by a hefty P1.20 per kilowatt hour, citing a rise in the cost of power it bought from suppliers that were also owned by the Lopez family that have a huge stake in the firm. Just last week, Manny Pangilinan, the chairman of obnoxious monopoly that has 5 million residents of Metro-Manila in its grip, announced it enjoyed a profit surge of 50 per cent in the first half of 2010.

People have a basic right to power and to water, and production and delivery of these goods by public or cooperative enterprises is the best guarantee that their price remains within the reach of all citizens. Making public goods affordable will sometimes involve some form of subsidization in which richer classes and organizations assist, through transfer payments, the poorer sectors of the community.

### **The Fiscal Challenge and the Debt**

Taxation is an indispensable mechanism for government to raise the resources to spend for the public welfare. The problem in the Philippines is a system that is regressive, where owing to reliance on the value added tax and other forms of indirect tax, the burden of taxation falls principally on the poor and middle classes. The key to raising resources is to shift the burden of taxation to the rich through higher tax rates for those in the upper income brackets, more efficient collection of income taxes and corporate taxes, and increasing taxes on socially unhealthy activities such as gambling,

drinking, smoking, and carbon emissions. This mix of measures will yield a significant part of the resources to cover the now gargantuan budget deficit.

Fiscal balance will not, however, be achieved without addressing the debt problem. A key reason for national debt of 4.4 trillion pesos is the massive borrowing by the former administration, which contracted credit that was more than thrice the amount borrowed by the Aquino, Ramos, and Estrada administrations combined. This year automatic appropriations for paying off interest come to 22 per cent of the budget, or P341 billion of P1.541 trillion. If you factor in amortization of the principal, the total for debt service comes to P746 billion, or 48 per cent of the national budget. No wonder our colleagues, the honorable Rufus Rodriguez and Maximo Rodriguez of Cagayan de Oro have filed a bill to revoke the automatic appropriations act for debt servicing.

The burden grows more onerous each year. Last year, the government shelled out \$4.3 billion to service the foreign debt. This year, the figure is \$5.2. Next year, it will be \$5.8 billion.

Debt servicing has become the most important single item contributing to the government deficit, especially since the government is now borrowing at higher and higher rates of interest mainly to repay debt coming due. Servicing the debt has become the top national priority, and this has had not only fiscal consequences but also developmental ones. This practice has contributed to the massive reduction in public capital expenditures, which has in turn caused a decline in the rate of investment since government is the biggest investor in the economy and government investment crowds in or attracts private investment. This, in turn, has translated into a depressed rate of economic growth. With funds going to service debt instead of being invested in the

economy, we will never catch up with our neighbors. As pointed out by Dr. Raul Fabella of the UP School of Economics, the country's investment rate, measured as the ratio of gross domestic capital formation to GDP, comes to only 15 per cent, well below Indonesia's 25 per cent, Singapore's 22 per cent, Thailand's 28 per cent, and Vietnam's 38 per cent.

Devoting the largest part of the budget to debt service, the Rodriguez brothers remind us, also violates the Constitution, which says that education must have the top budget allocation.

Without a radical change in our debt management policy along the lines of a debt moratorium or a negotiated or unilateral reduction of the government's debt burden, successfully implementing a new economic policy that will launch the Philippines anew on the road to development will not be possible. A fundamental change in debt management similar to Argentina's decision in 2002 to pay only 25 cents to every dollar it owed to foreign creditors is the sine qua non of a change in the direction of economic policy. The president himself recognizes the need for bold action in this area when he spoke about the need for debt repudiation during the electoral campaign. Let me repeat, the president, during the campaign, favored radical action on the foreign debt. With the aid of Congress, he is now in a position to implement this.

In sum, a golden opportunity awaits the administration of President Benigno Aquino III. A break with past policy, however, is necessary. The contours of a new strategy that will relaunch the country on an ecologically and socially benign developmental path are discernible: an activist state, industrial policy, reinvigorating agriculture through a reversal of trade liberalization, domestic market-driven growth

made possible by more equitable income distribution, environmentally benign production processes in industry and agriculture, affirmative action policies for women and indigenous peoples, a mixed property regime, state, cooperative, or community. Instituting such an alternative comprehensive program will take a great deal of courage and determination, especially at the beginning. A Chinese proverb says that every journey of a thousand li begins with a first step. That first step is to take the bold measures necessary to tackle the biggest problem weighing down the country: the foreign debt.

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