MARKET–FRIENDLY, INDEED...
BUT PRO–POOR?

Fortunately, the two need not conflict. If there is one useful thing that emerged from the historical boom–bust pattern of Philippine growth, it was the revelation that growth and poverty incidence are indirectly proportional (see Table 1). High growth rates are frequently accompanied by decreasing poverty incidence, while recessions almost always point to a worsening poverty situation. Hence, pump–priming the economy or avoiding contractionary measures is a critical strategy for both economic expansion and social development. Furthermore, reshaping the structure of the Philippine economy to ensure sustainable growth should increase both income and welfare.

Since growth is a necessary but insufficient condition for human development, however, the government’s medium–term poverty alleviation programme demands careful scrutiny. The Social Reform Agenda (SRA) of the previous administration successfully secured the participation of civil society, but it was so encompassing that it lacked focus. According to Monsod (1998), the presence of multiple objectives diluted the pressing concerns of the poor. Moreover, lack of funds for implementation of its programmes reinforced the notion that SRA rhetoric was not backed by action.

This report first looks at the macroeconomy in 1998, which is characterised by a contagious recession. The effects on human

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**TABLE 1.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth</th>
<th>Poverty Incidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>-7.02</td>
<td>44.2</td>
</tr>
<tr>
<td>1988</td>
<td>7.71</td>
<td>40.2</td>
</tr>
<tr>
<td>1991</td>
<td>0.46</td>
<td>39.9</td>
</tr>
<tr>
<td>1994</td>
<td>5.25</td>
<td>35.5</td>
</tr>
<tr>
<td>1997</td>
<td>5.77</td>
<td>32.1</td>
</tr>
</tbody>
</table>

Source: National Statistics Office, National Statistical Coordination Board.
development indicators are discussed next. Lastly, some specific issues are cited to complete this brief and sweeping narration.

THE MACROECONOMY IN 1998

The first three quarters of 1998 saw a marked reduction in the growth rates of the gross national and domestic products (GNP and GDP). The GNP expanded by 5.2% in the first three quarters of 1997 as compared to 0.8% in 1998 (see Table 2). GDP growth rates went down from 4.9% in 1997 to 0.2% in 1998. A slight upswing can be observed from the second quarter to the third quarter of 1998. Were it not for the increasing remittances of overseas Filipino workers, however, the GNP would have been negative for the second straight quarter.

TABLE 2.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>1998</th>
<th>1997</th>
<th>Q1 to Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>Gross National Product</td>
<td>2.0</td>
<td>(0.3)</td>
<td>0.8</td>
</tr>
<tr>
<td>Gross Domestic Product</td>
<td>1.6</td>
<td>(0.8)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Net factor income from abroad</td>
<td>92</td>
<td>10.5</td>
<td>18.6</td>
</tr>
<tr>
<td>Agriculture, fishery and forestry</td>
<td>(3.8)</td>
<td>(1.5)</td>
<td>(3.1)</td>
</tr>
<tr>
<td>Industry</td>
<td>1.6</td>
<td>(0.2)</td>
<td>(1.7)</td>
</tr>
<tr>
<td>Services</td>
<td>4.5</td>
<td>3.6</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: National Statistical Coordination Board, Republic of the Philippines

The Philippine response to the economic crisis, however, may bear most responsibility for the ongoing contraction in the industrial and service sector. The Bangko Sentral ng Pilipinas (BSP) used its meager international reserves resisting the initial rounds of depreciation. When this was not enough, the BSP raised reserve requirements and discount rates. Meant to be temporary, this policy turned out to be fatal. When the BSP tried to bring interest rates down, banks, highly exposed to reckless private sector borrowers, resisted by increasing their spreads, and in effect, lending became more restrictive.

These actions resulted in business closures and lay-offs. A labour force survey saw a slight increase in the unemployment rate in comparable months. For the month of January, the unemployment rate increased from 7.7% in 1997 to 8.4% in 1998. April figures saw an increase from 10.4% in 1997 to 13.3% in 1998. For July, unemployment rates went from 7.5% in 1997 to 8.9% in 1998.

True to their pro-poor and market-friendly form, the new fiscal managers attempted to remedy the situation. When they took office, they reversed market expectations of interest rates by consistently resisting a rise in the benchmark treasury bill rates. Since this was done by rejecting bids, the government had to seek other sources of funds. Foreign borrowing became unavoidable. Monitoring the allocation of this infusion of foreign funds will be a challenge for advocates. If foreign funds are used only to bail out distressed private institutions or aid inefficient cronies, then the country may be better off without them.

The government is quick to claim that the Philippines is better off than its Asian neighbours. The true impact of the economic crisis can only be understood, however, when we are reminded that the benefits of the brief two years of growth did not trickle down to the basic sectors. In other words, since the lives of most Filipinos did not improve substantially in the growth period, the little that they have can easily disappear in the contraction.

A more worrisome event that directly affects the poor is the El Niño phenomenon. The drought has caused agricultural production to shrink for the whole year of 1998. In the first three quarters, the sector contracted by 6.2% from 1997. Since most of the poor live in rural areas, El Niño impacts them directly. In fact, the labour force survey hints that a large part of the unemployment is in the agricultural sector.

SOCIAL EXPENDITURES

In hard times, the government is expected to provide safety nets for vulnerable sectors of society. Unfortunately, the situation of the government correlates with the performance of the economy, hence, the prevalence of countercyclical policies in the past. Currently, though, there has been more emphasis on fiscal prudence to prevent runaway inflation.

The last administration ignored its human development commitments and was over-concerned with inflation. In response to the crisis, former President Fidel V. Ramos ordered an across-the-board 25% mandatory cut on all agency budgets excluding personnel expenditures. This was a tremendous blow to the provision of basic social services and implementation of human development programmes. Ironically, this is the same government that launched with much fanfare the Social Reform Agenda. Lim (1998) compiles the list of programmes that line agencies felt were affected by the 25% mandatory cut (see Table 3). These include housing assistance, building of new classrooms and desks, development
of instructional materials, faculty and staff development, and nutrition and immunisation programmes.

Table 3.
To its credit, the Estrada administration decided to restore the budget to the old level for the remaining months of 1998. Still, economic managers are reluctant to raise government expenditures over the P40 billion initial target deficit for 1998. This is rooted in the fear that some pump-priming activities being funded by foreign borrowing to revive the economy are not viable (eg, investments in inefficient sugar mills and the beleaguered Philippine Airlines). Although these will indeed generate employment and heighten purchasing power, they may not generate enough profits in the long run to repay the foreign loans.

The challenge for government is to ensure that any increased government expenditure must have long-term social returns as well as short-term confidence-building benefits. Most social expenditures, such as for primary education and health care, yield increasing returns in the long run, making them some of the most sensible choices for pump-priming investments.

HUMAN DEVELOPMENT INDICATORS

It is difficult to fight poverty without adequate information. Poverty data in the Philippines comes out every three years and the results are released only in the fourth year (ie, poverty data for 1997 became available only in 1998). Formulating anti-poverty programmes is difficult without timely data and when policymakers do not even know where the poor are located. Poverty incidence data are also insufficient since they inform policymakers only how many poor people there are in a region. There is no additional information on the extent to which poor households access publicly provided goods and services, or on asset ownership. For example, the annual poverty threshold for the Philippines in 1997 was P11,388 (USD 285 or less than one dollar per day), which seems impossibly low. But if the government offers good social services in the community, such as free education and health care, and if poor people have access to land, then this amount is not impossible.

This lack of data is currently being remedied by statistical agencies. Methods are being developed that may not be as accurate as household surveys, but they can yield timely and useful data on an inexpensive budget. This would allow annual poverty estimates. Regarding quality of data, the Social Reform Agenda developed an approach to survey people’s preferences on several basic needs at the local government level. The data may be biased, but the result can help local governments in prioritising expenditures since revenues are hardly enough to cover all needs.

The most recent income and expenditure survey shows that poverty incidence went down from 35.5% in 1994 to 32.1% in 1997 (see Table 4). Although the financial crisis and El Niño hit in 1997, the brunt of the crisis was felt only in 1998.

Table 4.
While the situation with regard to absolute poverty may have

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Annual Income (PhP)</th>
<th>Poverty Incidence (%)</th>
<th>Gini Concentration Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>44.2</td>
<td>34.2</td>
<td>0.4466</td>
</tr>
<tr>
<td>1986</td>
<td>40.2</td>
<td>33.9</td>
<td>0.4436</td>
</tr>
<tr>
<td>1991</td>
<td>39.9</td>
<td>33.5</td>
<td>0.4507</td>
</tr>
<tr>
<td>1994</td>
<td>35.5</td>
<td>32.1</td>
<td>0.4960</td>
</tr>
<tr>
<td>1997</td>
<td>32.1</td>
<td>31.9</td>
<td>0.4960</td>
</tr>
</tbody>
</table>

Source: National Statistics Office, National Statistical Coordination Board
improved prior to the financial crisis, income distribution worsened. Gini concentration ratios for the Philippines went from 0.45 in 1994 to 0.50 in 1997. This trend has not been given as much prominence as the improvement in poverty incidence since absolute poverty is usually the focus in developing countries where a substantial percentage of the people are still below a calorie–based poverty line. Nevertheless, it may indicate that growth and human development programmes have helped only those on the fringes of poverty. The poorest of the poor remain untouched by either growth or anti-poverty programmes.

Reproductive health care indicators improved slightly from 1993 to 1998 (see Table 6). Much remains to be done. Tetanus toxoid injections, a preventive procedure against a frequent cause of infant death, were given to only 69.1% of all babies from 1993 to 1998. Because of educational differences and access problems, most rural women, unlike urban women, still rely on nurses or midwives for prenatal care and delivery assistance.

### TABLE 5.

Other human development statistics need to be updated.

<table>
<thead>
<tr>
<th>Residence</th>
<th>Tetanus Toxoid</th>
<th>Prenatal Care</th>
<th>Assistance at Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From Doctor</td>
<td>From Nurse-Midwife</td>
<td>From Doctor</td>
</tr>
<tr>
<td>Urban</td>
<td>69.2</td>
<td>56.7</td>
<td>35.9</td>
</tr>
<tr>
<td>Rural</td>
<td>69.0</td>
<td>23.3</td>
<td>56.8</td>
</tr>
<tr>
<td>TOTAL</td>
<td>69.1</td>
<td>38.6</td>
<td>47.2</td>
</tr>
</tbody>
</table>

Source: 1998 National Demographic and Health Survey, National Statistics Office and Department of Health

The most recent education statistics are for 1993. For the population 10 years and older, 94% can read, write, and understand simple messages in their language or dialect. Of the 10 to 64 population, 84% is functionally literate or can read, write, and compute. The infant mortality rate as of 1995 was 20.6 per thousand live births.

To overcome the sparseness of data, Lim (1998) compares some human development indicators with macroeconomic variables. He found out that infant mortality is highly and positively correlated with inflation and highly and negatively correlated with GNP per capita. This finding allows us to speculate that infant mortality will not improve in the next few years and may even worsen. As mentioned above, the economy has stagnated since GNP was growing at less than 1% in 1998. Inflation will put pressure in household budgets, negatively affecting infant mortality.

Enrollment rates are positively related to GNP per capita and real government expenditure on education. With the current recession and the 25% mandatory cut in government expenditure in the first half of 1998, enrollment rates have certainly suffered. This will have adverse effects in the future since education is a critical to long-term growth.

### MARCOS’ HERITAGE

The year 1997 saw adoption of the Indigenous Peoples’ Rights Act (IPRA). The National Commission on Indigenous Peoples (NCIP) was created to implement the law. A campaign target of several civil society groups, the IPRA recognises the rights of indigenous peoples to non-discrimination and self-governance. Their culture, traditions and institutions are preserved and protected under this law. Most importantly, the law specifies the rights of indigenous peoples to ancestral lands and ancestral domains, two different ways of acquiring ownership of the land and the resources found on it. Although imperfect (Leonen, 1998), the law does offer opportunities for advocates to improve the plight of indigenous people both in the short and long terms.

The implementation of the IPRA is fraught with difficulties. First, the Mining Act of 1995 and the influential mining lobby created loopholes to unburden the industry of constraints to its natural resource exploitation activities. Yu (1998) reports that the appointed secretary of environment and natural resources, Antonio Cerilles, meddled in the appointment of the head of the NCIP. Cerilles has also suspended the processing of ancestral domain and land claims. Lack of funding continues to trouble the NCIP.

The shadow of the late dictator, Ferdinand Marcos, and his family loomed big in 1998. Late in 1998, wife Imelda Marcos, claimed that their family «practically own everything in the Philippines». She was referring to several huge companies controlled by former cronies who were acting, according to Mrs. Marcos, as trustees to the Marcos’ legitimately-earned wealth. Her revelation reminded people of the havoc wrought by the Marcos in their economic, political and physical lives. Some 10 thousand victims of human rights violations filed a class suit against the Marcos’ estate. Unfortunately for them, the government and the Marcos have persistently negotiated for compromise, the latest being a 75–25 sharing scheme. The ombudsman has repeatedly dismissed these loan cases against several Marcos’ cronies and, in mid-year, Imelda Marcos herself was exonerated of corruption charges by the highest court.

The Marcos’ family’s recent good luck has reinforced suspicions that the new administration is beholden to several shady characters. These include big-time tax evader Lucio Tan who openly supported President Estrada in the last elections. The new government has resisted charging Tan with tax evasion while fiscal managers are softening up to the idea of allocating acquired foreign resources to Tan’s ailing Philippine Airlines. Such moves have not only dampened investor confidence in the country; they have also exposed the shallowness of the president’s pro-poor stance.

**MORE CONSISTENCY NEEDED**
Indeed, the Estrada government has in many cases contradict-
ed its oft–repeated «market–friendly and pro–poor» strategy. Be-
yond programmes that are meant for the media, the president still
has to develop a long–term coherent poverty alleviation strategy.
Even without long–term plans, President Estrada must consistent-
ly incorporate the ultimate objectives of human development in
any economic, cultural, social, or political plan. He must heed the
lesson of the past administration where poverty alleviation was
only an afterthought to much vaunted but actually unsustainable
growth. After all, human development is seldom achieved by seem-
ingly perfect poverty alleviation programmes that are obviated by
inequitable economic policies. It takes some persistence and con-
sistency of action to successfully win the war against poverty.

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