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People economics
MAY MAGAGAWAI

Neoliberal PH underdevelopment

Economic policies determine economic outcomes – and the Philippine economy is the way it is by design and not by accident. Decades of economic policies have steadily distorted the economy to keep benefitting mainly a few even at the expense of the majority. Successive governments have been the problem – but successive governments can also be the solution.

Economic history has firmly established that a developmental state is necessary for socioeconomic development and that giving market forces pre-eminence is counterproductive. The gains from a transformed and industrialized economy also have to be distributed fairly to tackle poverty and inequality. The more democratic the state, the more democratic the economy.

The Philippines urgently needs an activist developmental state. This includes building competent state capacity for systematically intervening, regulating and planning the economy. A planned economy does not mean supplanting accustomed market mechanisms. In current economic and political conditions, it means the state wielding the market to ensure that domestic economic foundations are built and that the welfare of the people is, always, foremost over narrow corporate profits.

The economy has to be built up from where it is and with what is available. Economic activity in the country has been largely market-driven since the founding of the Republic so these are the initial building blocks for real economic development. Forming democratic institutions in government, workplaces and communities will eventually expand the possibilities for higher levels of organization and production.

The economy can however already be developed by leaps and bounds even while these democratic mechanisms are still being built. From a policy perspective, the biggest barrier to national economic progress today is the neoliberal “free market” globalization policy regime built up over the last four decades. This needs to be dismantled and transformative policies put in their place.

Since the 1970s, neoliberal policies rolling back the state to only provide minimalist public goods and services were justified as unleashing market forces and spurring development. Correspondingly, the World Bank’s structural adjustment programs and the International Monetary Fund’s (IMF) stabilization programs in the late 1970s and early 1980s set the Philippine economy on the path of trade and investment liberalization, privatization and deregulation.

These did unleash market forces especially in the sense that socioeconomic activity started to be overwhelmingly driven by profit-seeking and by the narrow interest of foreign and domestic investors. The reckless opening up of the economy and rolling back of the state however steadily hollowed-out the Philippine economy and causes persistently miserable conditions for the majority of the population.

FALSE PROMISES

This outcome should not be surprising. There was never any historical precedent of economic liberalization resulting in any kind of national development. This is not how the old capitalist powers developed – the United States (US) and Western Europe in the 19th and early 20th century and Japan in the 1950s were heavily protectionist- and state-driven economies. So too were South Korea and Taiwan until the 1980s.

Russia and China of course built up their economic might only during their respective periods of Socialist revolution since 1917 and 1949. They remain heavily state-directed economies until today. China in particular has excelled in using state power to rapidly enlarge its capitalist sectors and economy to now rival even the US.

It is understandable that many embraced neoliberal globalization when this started to be aggressively promoted. The political tumult from the Soviet Union dissolving and the Iron Curtain melting seemed to make "free market" capitalism inevitable.

A new fact has emerged though from the last decades of "free market" globalization since the 1980s – the impossibility of any real national development under neoliberalism. The negative Philippine experience with globalization is not an aberration but rather par for the course.

It should be conspicuous that there has not been any breakout industrialization by any underdeveloped country in the last four decades of globalization. The last countries to become newly-industrialized were South Korea and Taiwan which were fortunate enough to reach developed country status before the neoliberal globalization offensive started.

Because the developed countries did not develop because they liberalized – they liberalized because they were already developed and felt strong enough to not be threatened by liberalization. And so it was that, since the 1980s, "free market" policies were pushed worldwide.

Even the developed countries opened up although they surgically and two-facedly protected domestic agriculture and industrial sectors as they saw fit and could get away with.

But if this was the case for most of the past decades it is no longer so today. Trade and investment protectionism have been unambiguously rising since the 2008-09 global financial and economic crisis, and especially upon the pandemic shocks.[1] Second, despite their economic might, the advanced capitalist economies of the G7, especially the United States, and China are actually at the forefront of this protectionism.[2]

Underdeveloped Philippines should do no less, if only our economic managers were not so steeped in obsolete neoliberal dogma. This is not to say that a mechanical application of what early and late industrializers did is all that is needed. The last four decades have seen substantial changes in the world economy, in national economies, policy regimes and technologies. The country's development policy needs to consider these changes to navigate towards industrialization..

Economic decline

The first step on that long journey has to be an honest assessment of where the Philippine economy is after years of "free market" reforms and its aftermath since the late 1970s. Looking back on this experience helps in understanding why the economy is the way it is today, and gives justification for a radical change in social and economic policies.

The economy has never been industrialized but deindustrialization worsened with globalization. Domestic manufacturing is a smaller share of the economy now than in the 1970s and is down to its level in the 1950s. (**See Chart 1**) Agriculture has not modernized and its share in the economy has also fallen continuously. Most manufacturing in the Philippines is not even Filipino anymore and foreign investment accounted for as much as 70% of total approved manufacturing investments in the last 20 years.

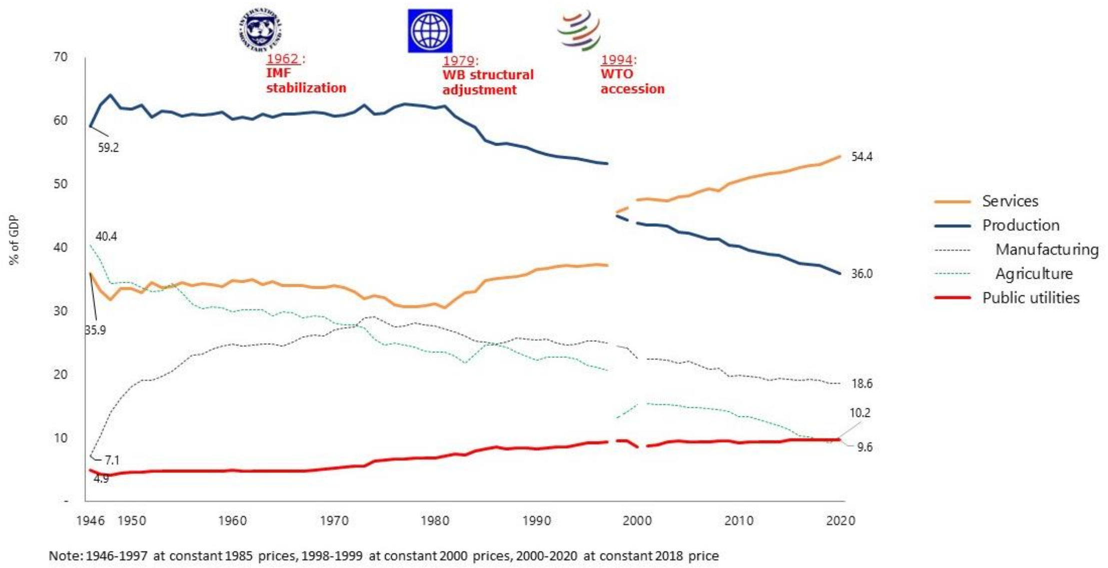
The decline since the 1980s was so rapid that the economy became a service economy more than a producing economy in the late 1990s, where the share of services became greater than that of industry and agriculture combined. Instead of interlinked high-value added production, disproportionate shares of the economy and employment are in informal low-productivity enterprises especially in services. This is despite some relatively higher-end retail, real estate, tourism, and utilities and the notable increase in business process outsourcing (BPOs).

Foreign-dominated enclave manufacturing, low value-added services, and overseas work are the weakest possible foundations for the economy and make any sort of economic take-off impossible.

They are shallow economic activities and do not generate enough economic surplus to support industrialization, growth and expansion. They do not develop any domestic scientific and technological base which is essential for national development. Instead of creating domestic jobs, millions of Filipinos are forced abroad to find work.

The environment has at the same time been destroyed at the expense of communities and undermining prospects for development.[3] Since the 1970s, some 3.9 million hectares of forests have been lost and 71% of land is severely degrade from soil erosion. Similarly, 70% of reefs are at high or very high risk and 76% of mangroves have been lost. Some 67% of river systems are unsafe and 58% of groundwater is contaminated. The country is a biodiversity hotspot and the 4th country in Asia with the most number of threatened species. Mining operations have been especially damaging to shores, rivers, forests and biodiversity. Millions of Filipinos are vulnerable to climate disasters.

Chart 1: Industry share of gross domestic product (GDP) by production, 1946-2020 (%)



Source: Philippine Statistics Authority

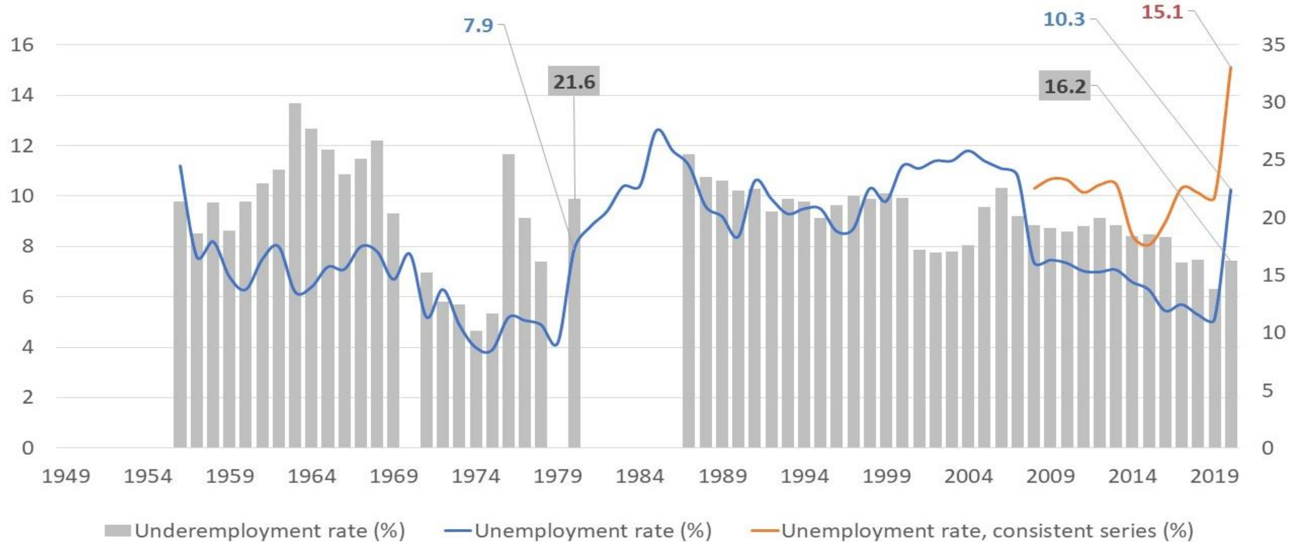
Record joblessness

Solid agricultural and industrial development are essential for sustained job creation and higher productivity. The persistent backwardness of agriculture and severe decline in manufacturing has resulted in sustained joblessness, with the variegated service sector failing to provide either enough jobs or create an economic surplus for reinvestment.

Unemployment levels and unemployment rates spiked upon the onset of neoliberal globalization and as manufacturing and agriculture collapsed. (**See Chart 2**) These stayed elevated despite increasingly rapid economic growth. The high structural unemployment is obscured by a change in the official statistical methodology for counting unemployed since the mid-2000s. In the chart, the blue line is officially reported unemployment while the red recomputes according to the original definition for historical comparability.

The lack of stable jobs is only one part of the structural crisis of joblessness. The other and little acknowledged part is the poor quality of most employment in the country – the majority of work is in the informal sector with low and irregular incomes, no labor benefits and protection, and chronic insecurity. This is work that is often barely indistinguishable from joblessness.

Chart 2: Unemployment and underemployment rates, 1956-2020 (%)



Source: PSA, additional IBON computations on PSA data

The Philippine Statistics Authority (PSA) reports an average 4.5 million unemployed in 2020 (uncorrected for historical comparability) and 39.4 million employed.[4] Of those employed, IBON estimates that 27.1 million (68.7% of total employed) or the overwhelming majority are employed informally.

This 27.1 million includes 14.1 million self-employed, family farms and businesses, unpaid family workers, and domestics as well as an estimated 10.7 million in irregular work in private establishments. Only 8.6 million (21.8%) are formally employed in private establishments and 3.7 million (6.3%) in the public sector, conservatively assuming that all public sector employment is formal. This grossly deficient domestic jobs situation is the reason for record levels of overseas work and extreme dependence on overseas remittances. Overseas Filipino workers started to be deployed in substantial amounts in the 1970s and then spiked in the 2000s. The government's last official count is of 10.2 million overseas Filipinos by 2013.

Economic inequities

The fundamental problem with the economy is its service- and overseas work-dependent economic structure. The low level of domestic production impedes job creation, represses incomes, restricts productivity, and inhibits economic dynamism.

The economy is however also stymied in improving the lives of the majority by how economic values and wealth produced are distributed inequitably.

In workplaces, corporate elites pay workers chronically low wages to boost their enterprises' profits. In farms and fisheries, the rural landlord, trader and fishing elites leave farmers and fisherfolk with barely enough to subsist. In urban and rural poor communities, unprecedentedly huge swathes of the workforce drift between paid work and low-earning self-employment just to have enough for their families to subsist on.

The government's failure to provide social services has become worse under neoliberalism. The privatization of health, education, and housing has made these expensive and, in many cases, even inaccessible. Social protection has been given not as a universal right but mostly to superficially reduce reported official poverty.

The tax system is a potentially powerful mechanism to tap the accumulated income and wealth of a few to finance essential social and economic services. Yet the government has instead chosen to reduce income taxes on wealthy families and large corporations while, to make up for these revenue losses, increasing consumption taxes which unduly burden the poor.

The government's TRAIN Law cut personal income taxes including on most of the country's wealthiest families as well as estate and donor's taxes, while increasing consumption taxes. The CREATE law in turn cut corporate income taxes including on large and foreign corporations.

As it is, excise and VAT tax collections increased from the equivalent of 2.5% of GDP in 2008 to 3.6%

in 2019, while corporate income tax collections fell from 3.5% to 2.8% over the same period.[5]

Meanwhile, a wealth tax even on just the country's less than 3,000 billionaires is exceedingly rational but has never been given any consideration.

Pandemic distress

The economy's underlying problems were already being felt even before COVID-19 hit last year. Growth was slowing in every full year of the Duterte administration and job creation was the lowest in the post-Marcos era. GDP growth was 7.1% in 2016 slowing to 6.9% (2017), 6.2% (2018), and 6.1% (2019).

The economy also only created an average of just 313,228 net new jobs annually from 2017-2019 before the pandemic (the lockdowns drove this into negative territory). This is the smallest among all post-Marcos governments, and barely one-third of the peak 858,250 annually from 2001-2010 under the Arroyo administration. The government's inadequate pandemic response aggravated pre-existing conditions.

Decades of privatization eroded the health system. As a result, existing public health mechanisms could not track and contain COVID-19 and the hospital care system and health workers were easily overwhelmed. The overcrowded and underequipped education system also proved unfit and inflexible to pandemic conditions.

The government could have spent much more to immediately bolster the public health and education response but instead over-relied on lockdowns as its main strategy for pandemic control while awaiting vaccinations. The over-reliance on lockdowns resulted in record millions unemployed, the bloating of informal sector work, and widespread loss of incomes and livelihoods.

The recent moderating of COVID-19 cases and gradual reopening of the economy is if anything long overdue. It does not erase the unrelieved social and economic distress of tens of millions of Filipinos since harsh lockdowns started to be imposed in March 2020. The administration persisted in prioritizing creditworthiness over addressing protracted and extensive difficulties of the people.

More ayuda for poor households and support for small businesses and farmers were critical not just to improve their welfare in difficult lockdown conditions but also to prevent widespread economic scarring. Giving these in only token amounts has resulted in widespread losses in household incomes and savings.

As of the third quarter of 2020, three out of four or some 18.7 million Filipino families did not have any savings according to the central bank. This drastically represses consumption in an economy that is some 70% consumption-driven. As of midyear, some 100,000 MSMEs have closed and almost 500,000 are only partially operating according to the trade and industry department.

Apart from causing so much suffering for Filipinos, the poor pandemic response has caused considerable damage to the economy which makes recovery and structural reforms even more difficult. This is just another adverse result of economic thinking that overrates market forces and underrates the importance of active government intervention for national development. ###

Endnotes

[1] *Global Trade Alert (2021), 27th Global Trade Alert Report and UNCTAD (2021), World Investment Report 2021*
[2] *GTA Database at www.globaltradealert.org*
[3] *IBON (2019), State of the Philippine Environment*
[4] *PSA (2020), Labor Force Survey 2020 Annual Estimates*
[5] *IBON computations on data from BIR*

IBON

#114 Timog Avenue, Quezon City 1103 Philippines
Tel Nos. +63 2 9277060-61; Fax: +63 2 9292496
www.ibon.org

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