

# **A Proposal for a PIDS Policy Research Agenda, 2005-2009**

*By Jose V. Abueva, Dante B. Canlas, and Jose Cecilio J. Magadia, S.J.*

## **Introduction**

This report proposes a policy research agenda for the Philippine Institute for Development Studies (PIDS) over the period 2005-2009 that would be consistent with the emerging development policy preferences of the national government in the 21<sup>st</sup> century. These policy choices may be gathered from the series of medium-term development plans prepared by a succession of political administrations. This exercise continues a tradition that started in 1980.

Public policy has long been concerned with eliminating poverty and ensuring continuous improvements in living standards of every Filipino citizen. The PIDS is a government research institution engaged in independent and non-partisan research mainly in the area of economic and social development. Its studies aim to assist the government formulate sound policy, and through its publications, promote wide understanding of important public policy issues. The PIDS was founded in 1977 and is presently attached, for purposes of policy coordination, to the National Economic and Development Authority (NEDA), the planning agency of the national government.

Since the PIDS was founded, it has endeavored to be responsive to the research priorities of the government. In particular, it pays attention to policy areas emphasized in the medium-term development plans. Over the years, its output has helped advance the policy-reform program of the government. For example, the studies have contributed to the proper conduct of short-run macroeconomic stabilization policy, and in the long run, to the design of foreign-trade policies aimed at making domestic enterprises internationally competitive. These policies are intended to create employment and income opportunities that even poor individuals and households can access. Expanding such opportunities can go far in fighting poverty. It can also alter behavior and make people aspire for sustained improvements in their living standards. Both goals—poverty eradication and sustained improvements in living standards—run through the various development plans.

The preparation of this report has benefited from discussions with current and former senior government officials, with PIDS administrators and research fellows, as well as scholars from various universities and research institutions, both public and private. They are too numerous to be acknowledged individually here. We thank them for the ideas and insights that have influenced our thinking on many of the issues we discuss in this report. We apologize for our inability to acknowledge their specific contributions.

The PIDS is engaged in the production of ideas and knowledge that are perhaps as important as, say, savings and investments, in furthering economic growth and social development. Some unique characteristics of knowledge make this so. As

Kenneth J. Arrow, a Nobel Prize winner in economics, has pointed out, technical knowledge is not costless. But once developed, it can be used repeatedly without extra cost. In other words, it yields increasing returns. Ideas can emanate from various sources. They can originate from the PIDS fellows who have been studying long-standing development concerns. But emerging issues may come from policymakers who must deal with development challenges on a day-to-day basis. Hence, the PIDS is well advised to continue using a process that involves not only its own fellows but also government policymakers in generating priority topics, with resource persons chosen on the basis of particular expertise exercising their judgment in defining the appropriate scope and balance of the research agenda.

The report is organized in two parts: In Part 1, we look at the emerging development policy preferences of the national government. To set the stage for the main goal of the report, we first describe the political and socio-economic environment that has provided the impetus for specific public policy choices. We then survey selectively the body of knowledge that the PIDS has contributed in support of the government's policy preferences. We also discuss some considerations for the next research cycle. In Part 2, we discuss a policy research agenda for the period 2005-2009 consisting of issues that are broadly classified under three main themes, namely, economic policy choices, policies for sustainable human development, and lastly, institutional development and good governance.

### **Part 1. Development Policy for the 21<sup>st</sup> Century**

In the past two decades, some progress was made in creating prosperity through sound public policy. However, it is also evident from recent measures of development performance that many Filipinos are still economically and socially insecure, and the actual transformation reached so far by the economy and society is nowhere near the desired one. This suggests that a good deal more remains to be done in introducing and embracing policy reforms. To succeed in this undertaking, research in a number of areas, plus communication and advocacy therein, is called for. A look at a few aggregate economic indicators is instructive about the nature of current policy problems.

In 2004, the gross domestic product (GDP) adjusted for inflation grew a tad above 6 percent, for a growth rate in real per capita income of nearly 3.8 percent. This aggregate economic performance signals that the Philippines has recovered from the political shocks of 2000-2001--when the incumbent president was forced to resign in the course of his impeachment in the Senate--and offers a good opportunity for the succeeding administration to focus, henceforth, its attention on urgent economic and social ills.

Consider the following: in 2003, more than 4 million households had incomes below the poverty income threshold for a poverty incidence rate of about 28 percent. At the same time, income inequality worsened between 2001 and 2003, as the gap between the income shares of families in the topmost and lowest tenth rung of the income ladder widened. Furthermore, some 4 million Filipinos were unemployed in 2004 amid the 6 percent growth in real GDP, putting the unemployment rate at about 12 percent. The poor, the marginalized, and the jobless are constant reminders of the many Filipinos who encounter hardships in our society.

The government cannot permit massive poverty, inequitable income distribution, and high unemployment to persist. All three indicate dwindling economic opportunities for a significant number of people, a situation that tends to perpetuate poverty and discontent across generations. If they fester, recourse to antisocial behavior is likely. With a weakening of social cohesion, overall living standards are imperiled. Active government action aimed at combating these problems is warranted.

In addressing the above-cited concerns, the government must contend with a fundamental weakness that has prevailed for at least seven years. The repeatedly large budget deficits of the national government threaten stability. As the government borrows to finance its deficits, real interest rates rise, dampening consumption, private investments, and future production. Recurrent foreign borrowing has led some international credit-rating agencies to downgrade the country's sovereign-debt rating. Debt service absorbs about a third of the national government budget already, making it difficult for the government to increase allocations for discretionary items like education, health, and infrastructure. In consequence, opportunities to raise living standards, particularly, of low-income families, are foregone.

The government wields some policy handles that can deal with the sufferings of disadvantaged Filipinos. But to be effective, the problems must be well understood, and the corresponding policy interventions, appropriate and properly targeted. Moreover, in a representative-democracy setting, advocacy and communication are essential in building a political-support base around any policy reform program that the government intends to pursue. In this regard, intellectually convincing research that produces precise and implementable policy designs is an important first step. It is useful to consider this if any of the policy issues described in Part 2 is taken up.

## **1. The Political and Socio-Economic Setting**

A fundamental political change occurred in the Philippines in 1986. The martial-law regime of Ferdinand Marcos ended, and democratic political institutions were restored. Corazon Aquino became president of the republic. With the new political system came the urge for economic freedom. Instead of heavy government intervention, people sought greater reliance on the ability of markets guided by a decentralized price system to coordinate a variety of interrelated human activities. In cases where markets had limited capacity to provide the goods and services valued by society, Filipinos expected the national government to step in and spearhead the provision of public goods, in partnership with local government units (LGUs) and private civic-minded institutions. In discharging this function, the administration upheld good governance as a guiding principle and denounced graft and corruption.

Fourteen years of martial-law rule, which began on September 21, 1972, had yielded several unwanted economic and social outcomes. In 1983, the Philippines experienced a balance-of-payments crisis and the collapse of a fixed exchange rate. The central bank ran out of foreign reserve assets, forcing the government to declare a moratorium on foreign-debt servicing. The economy, rendered illiquid, could not transact with the rest of the world. The government had to arrange a standby credit from the International Monetary Fund (IMF) to get the needed foreign exchange in the form of special drawing rights or SDRs. In return, the IMF prescribed austerity

measures in line with its policy conditionalities, to which the economy reacted adversely.

In 1984-85, real gross domestic product (GDP) contracted, the first in the postwar economic history of the country. The Philippine Central Bank (CB) and the two largest government financial institutions (GFIs) at the time, namely, the Development Bank of the Philippines and the Philippine National Bank emerged from the recession practically bankrupt. Bad debts of favored corporations that had obtained behest loans guaranteed by the CB wrecked the balance sheets of the CB and the two GFIs.

### *1.1. Aquino Administration*

Upon taking over the reins of government, the most urgent task of the Aquino administration was to engineer an economic recovery. Having inherited a large foreign debt from the deposed government, the administration could not apply any fiscal stimulus in large measure. Instead, prudent government spending had to be observed. Fortunately, the wave of goodwill from all over the world generated by a peaceful “People Power” revolution attracted some capital inflows, mostly in the form of official development assistance. Buoyed by the newfound hopes and ingenuity of the Filipino people, the economy recovered in 1986.

But a more formidable long-run challenge lied ahead. Industrialization was and still is the development problem of the Philippines. To industrialize, more than an economic transformation is called for. Various aspects of political and social transformation are equally, if not more, important. To lay the material foundation for industrialization, the first major task is to transform an economy that is still predominantly agricultural into one considered industrializing. This is necessary to sustain growth of employment and family income. Marked improvements in income facilitate the emergence of middle-class parents conscious of the need to save and invest in the human capital of their children.

In 1987, the per capita gross national product (GNP) of the Philippines as reported in the World Bank’s *1989 World Development Report* was US\$590, compared to Thailand’s US\$850, Malaysia’s US\$1,810, and Singapore’s US\$7,940. The Philippine per capita GNP, though, was still ahead of Indonesia’s US\$450, but far behind that of Singapore, which along with South Korea, Hong Kong, and Taiwan had emerged by then as the newly industrializing economies (NIEs) in East and Southeast Asia.

The country’s unemployment rate in 1986 of about 12 percent was far removed from full employment. The incidence of unemployment was highest for workers in age groups 15-19 and 20-24. Youth joblessness was attributed, first, to lack of skills, and next, to a dearth of job opportunities. Meanwhile, the incidence of poverty among families was more than 40 percent, majority of whom were in the rural areas engaged in subsistence agriculture and artisanal fishing. A large portion of aggregate output emanated from the National Capital Region and Region 4, a lopsided production pattern that to this day spurs heavy migration from the countryside to the urban centers in Metro Manila, with attendant social problems.

The 1986 recovery gathered strength up to 1989, until non-economic factors intervened and derailed the recovery. Some members of the military attempted coup d'états against Aquino. They failed, but succeeded in putting a question mark on political stability. In 1990, a major earthquake hit Northern Luzon, followed by the eruption of Mt. Pinatubo in 1991. The putsches and natural disasters, amid a fragile economy, led to an economic stagnation in 1991.

### *1.2. Ramos Administration*

In 1992, a presidential election was held for the first time under the 1987 Constitution. Fidel Ramos emerged winner. He started early on to consolidate his political base in Congress. He forged peace pacts with military rebels and Muslim insurgents belonging to the Moro National Liberation Front (MNLF), moves that were clearly designed for political stability. But before the Ramos administration, which committed to accelerate the policy reforms started by the previous administration, could devote full attention to its development agenda, an urgent problem had to be overcome. There was an electric-power shortage that at its height brought 12-hour daily brownouts.

In a multisectoral summit meeting called Social Pact for People Empowered Development, with acronym SPEED, Ramos got the commitment of Congress to close the power and fiscal gaps. The 1991 contraction had fattened the budget deficit of the national government. Subsequently, Congress enacted the Electric Power Crisis Act, which enabled the chief executive to fast track the private construction and upgrading of power generation plants and transmission lines. The power gap was closed in the middle of 1993, enabling the economy to recover and move on to a firm growth path. At the same time, tax enhancement measures, such as, expansion of the value-added tax (VAT), were enacted. Before Ramos's term ended in 1998, he got Congress to enact the Comprehensive Tax Reform Law. Helped by proceeds from privatization and sale of military base lands, the consolidated public sector account posted a surplus in 1996, one year ahead of schedule.

Consistent with the policy pronouncement of the government to get off business's back, the Ramos administration privatized two major government-owned corporations. Those were the Philippine National Bank, then the leading commercial bank, and Petron, a petroleum refining and distribution company that was then the flagship subsidiary of the Philippine National Oil Company. Moreover, the telecommunications industry was deregulated, thereby ending the long-running monopoly of the Philippine Long Distance Telephone Company. In addition, the government allowed new entrants in the mobile cellular phone industry. Interconnection was mandated, setting the stage for the emergence of Smart and Globe as the dominant players in the mobile phone business. The water utilities sector was also privatized starting with the Metropolitan Waterworks and Sewerage System in the Metro Manila area.

Deregulation was also pursued in the retail and wholesale industry, which the existing law then had reserved solely for Filipinos. A bill was filed repealing the Retail Trade Act, but the law was not enacted till later under the succeeding administration.

Ramos had made international competitiveness the centerpiece of Philippines 2000, his administration's rallying cry. The vision was to make Filipino enterprises and workers internationally competitive and help raise their capacity to benefit from globalization. In line with this, the administration accelerated the tariff-reform and import-liberalization programs. It actively pursued membership in the World Trade Organization (WTO). The Philippines also acceded to the ASEAN Free Trade Area-Comprehensive Effective Preferential Tariff Agreement (AFTA-CEPT) and in the Asia-Pacific Economic Cooperation (APEC). These efforts not only opened up new country destinations for Philippine exports, but also demonstrated to the rest of the world the country's willingness to compete internationally.

The Ramos administration, conscious of the possible adverse effects of open trade and investment on the disadvantaged members of society, launched the Social Reform Agenda (SRA), a poverty-elimination program. The SRA spelled out affirmative action programs for impoverished groups that included land-reform beneficiaries, fisher folks, and indigenous people. The SRA, later on, was institutionalized through a law establishing the National Anti-Poverty Commission. To get international support for the SRA, the Philippines committed to a number of covenants forged in international conferences convened by the United Nations (UN), including, the International Conference on Population and Development, which espoused reproductive health, the Rio Declaration on Sustainable Development, and the Copenhagen Social Summit.

In 1997, the Asian financial crisis broke out. After the sharp depreciation of the Thai baht against the US dollar, the currencies of other countries in East and Southeast Asia that had been pegging to the dollar also fell drastically in value. Sudden loss of confidence in the emerging markets of the region had triggered massive capital outflows.

Following the region-wide currency collapse, many local firms started defaulting on their dollar-denominated loans, causing some bank failures. The Philippine banks were not hit as hard as their counterparts in, for example, Thailand and South Korea, on account of banking reforms that had been introduced in the early 1980s. But as the uncertainty generated by the financial crisis lingered, the Philippines saw its real GDP recede in 1999, a contraction that occurred two years earlier for the other countries in the region.

### *1.3. Estrada Administration*

In 1998, Joseph Estrada was elected president of the Philippines. He was, however, deposed in January 2001, forced to resign by massive street protests. Estrada was accused of involvement in an illegal numbers game, a dealing that caused his impeachment. But before the impeachment process could fully run its course, he was forced out of office by that outburst of people power. Estrada had issued a medium-term development plan that emphasized poverty alleviation, but implementation didn't go far. He was perceived to be an incompetent leader who kept weird working hours. To Estrada's credit, his administration succeeded in getting the Retail Trade Liberalization Act enacted. The Philippines also acceded to the Millennium Development Goals (MDGs), a UN initiative, during his term. Lacking

fiscal discipline, Estrada caused large deficits in the national government budget to reappear; the deficits persisted and proved effective in slowing down the economy.

#### *1.4. Macapagal-Arroyo Administration*

Gloria Macapagal-Arroyo, who took over from Estrada as president, inherited several basic weaknesses. The peso had depreciated sharply at the height of the impeachment proceedings. Portfolio capital had fled the country because of the insider-trading scandal in the stock market during Estrada's watch. Furthermore, there were pro-Estrada groups that tried to unseat Macapagal-Arroyo.

At the same time, an unfavorable economic environment intervened on a global scale. The information technology sector in the US retrenched. As a result, earnings from the Philippines' top merchandise exports of semiconductors and electronic components declined. In addition, corporate shenanigans in America were unmasked. Then 9/11 came and the US declared war against terrorism. All this weakened the US economy, which absorbs about 20 percent of Philippine exports. With a weak US economy, Philippine exports languished. Real GDP still managed, though, to grow 3.4 percent in 2001, and gradually gained strength in the succeeding years.

The administration also got the Electric Power Industry Restructuring Act (EPIRA) enacted, after being bottled up in Congress for 11 years. The EPIRA calls for the privatization of power generation and transmission, which had been monopolized by the government-owned National Power Corporation. However, the budget deficit persisted and a fiscal crisis threatened. A presidential election was held in 2004 and Macapagal-Arroyo was proclaimed winner.

After one year, however, scandals broke out. Macapagal-Arroyo's husband, son, and brother-in-law were implicated and accused of taking payoffs from an illegal numbers game called *jueteng*, the same gambling game that caused the fall from power of Estrada. More seriously, tape recordings emerged of hours of conversation allegedly between Macapagal-Arroyo and a commissioner of the Commission on Elections (COMELEC) at the height of the canvassing of votes in the 2004 presidential election. In the recordings, the lady and the commissioner were discussing measures that would allay her concern about winning by less than a million votes over her nearest rival for the presidency. Subsequently, Macapagal-Arroyo publicly stated that she indeed called a COMELEC official, termed the act a "lapse in judgment," apologized, and asked for forgiveness from the Filipino people.

The political opposition and other groups were not impressed by the public apology of Macapagal-Arroyo. They stepped up the clamor for her resignation. In turn, the economy reacted adversely to the scandals. The peso weakened in the near term against the US dollar, from about 54 to 56 pesos per US dollar while share prices in the stock market declined.

## 2. A Selective Survey of PIDS Research

In the past two decades, despite the political tumult, the various political administrations managed in succession to usher in some important structural policy reforms. To sustain economic growth and promote equitable development, each administration since 1986 has relied on the coordinative ability of markets guided by a decentralized price system. In cases where the market system is not in a position to provide some goods and services in quantities commensurate with society's total requirements, the government is called upon to deliver corrective actions through tax-and-spending schemes. Peace and order, national defense, and provision of a legal, judicial, and administrative system come to mind.

To achieve announced development goals, the government generally commits in the short run to predictable fiscal and monetary policies in an attempt to minimize the uncertainty that the private sector confronts in an open economy. In the long run, the government tries to broaden the industrial base with policies that raise agricultural productivity and accelerate investments in industry and services. Meanwhile, in pursuit of equity goals, the government adopts measures that raise the capacity of poor people to benefit from any form of government assistance, such as, subsidies to basic education and health-care services, and enabling them to partake of any prosperity made possible by a market-oriented economy.

The PIDS has been a major contributor to the formulation and advocacy of policy reforms. A look at its research program and specific studies in the last two decades shows that it has been informing debates on important policy issues. The survey that follows is intended to be illustrative, not exhaustive.

Recognizing the importance of fiscal policy, the PIDS has done studies in budget and tax policy analyses. Since 1986, government efforts to improve tax collection, through some administrative reforms and tax-enhancement measures, have been strengthened by the findings from these studies. Following the precept of no taxation without representation, the pattern of government spending has also been studied.

Monetary policy is the other pillar of stabilization policy. In this connection, the PIDS has started a research program on coordinating fiscal, monetary, and exchange-rate policies. The various studies under this program have served well the goals of price stability and sound balance-of-payments position. Along with its work on financial-market reforms, the PIDS has contributed to improving policymakers' understanding of how monetary policy is transmitted by banks and other financial institutions.

Probably the most ambitious goal of public policy is transforming a largely agricultural economy into a newly industrializing one. It helps policymakers to know how fast agricultural productivity is progressing and whether the non-agricultural sector is rapidly accumulating capital and creating enough jobs for workers released from agriculture. Trade and investment policies, along with sector-targeted policies, are essential here. The work at the PIDS on foreign-trade policies, specifically, the impacts of tariff reduction and import liberalization, and studies that look at the sources of agricultural growth, have assisted government policymakers.

The impact of structural reforms on poor families is a major concern of public policy. The PIDS has initiated a research program on monitoring poverty reduction, determining vulnerability to globalization, and designing appropriate safety nets. Unless poverty is reduced, it is hard for an industrial base to emerge from a predominantly agrarian economy. Poverty limits the extent of the market, preventing enterprises, especially, those in the non-agricultural sector from expanding and realizing scale economies.

### *2.1. Meeting Policy Challenges in the Next Research Cycle*

As the next research cycle commences, some concerns that were raised before by experts commissioned to review the PIDS's previous research programs have assumed a new sense of urgency. For instance, regarding the scope of its research programs, many reviewers have commended its previous and ongoing studies on a number of economic policies; however, they suggest refinements and sharpening of focus to address the unique features of enduring socio-economic problems. For example, the persistent budget deficit of the national government and its financing, along with public-debt management, demand continuing attention over the period the administration plans to balance the budget.

Furthermore, studies aimed at formulating policies for long-term industrial restructuring have identified several second-generation reforms meant to enhance the benefits from the first wave of structural reforms. After privatization and deregulation, for example, some form of competition policy is needed to prevent monopolistic behavior or cartelistic practices harmful to the public interest. In addition, the constraints imposed by globalization have to be well understood so that industrial policies are WTO-consistent.

Social concerns, meanwhile, continue to engage policymakers. Public policy seeks to reduce human suffering and sustain improvements in living standards. In this regard, researchers may have to go beyond merely citing the policy implications of their studies. To determine whether public policy is yielding results on the ground, the research must also look at policy designs; the latter must be implementable, pragmatic, and easy to monitor.

Families concerned about being socially secure continue to make investments in education and health. They expect their government to respond to their needs through social policies that expand and equalize access to education, health, and other forms of social services. Research works to realize this goal by raising the quantity and quality of the information available for policy formulation and implementation. Multidisciplinary and grassroots-consultative research is valuable in this regard. Comparative country studies, meanwhile, yield information useful for benchmarking and identifying best-practice techniques.

The tasks and goals of research may include one or more of the following: (1) deep understanding of the situations of specific sectors, including analyses of the latter's respective strengths and weaknesses; (b) an appreciation of the institutions and structures responsible for addressing the various sectors' concerns, whether formal or informal, governmental or non-governmental, plus an assessment of what has been

done and what remains to be done; (c) comparative study of country experiences, particularly, countries that are similarly situated as the Philippines; and (d) exploration of alternative and innovative models, techniques, and frameworks across time and country border.

Research should respond to a special need of socially oriented research and this is the building up of high-resolution databases, covering specific sectors of society. While macro-level data are helpful, implementing agencies of the government require disaggregated data that serve results-based management. For instance, poverty statistics disaggregated along lines of gender or language group permit analyses whose findings can raise the success probability of affirmative-action programs targeted at vulnerable groups.

In support, for instance, of the public investment program of the national government, case studies of some completed and ongoing projects, whether locally funded or foreign-assisted, may be undertaken aimed at quantifying their impacts across income groups and gender. The generated quantitative information can be used to adjust and improve designs of future projects.

At this stage of the country's development, it is widely recognized that institutional development and good governance, which underpin further growth and development, appear to be lagging behind. As evidence thereof, existing crime statistics indicate that serious peace-and-order problems continue. In addition, the conflict in Mindanao is far from resolved. These observations do not put government institutions like the police and the military in good light. Also, going by public opinion surveys, corruption is endemic. Several agencies in all three branches of government are perceived to be graft-ridden.

To jumpstart and propagate good governance, a comprehensive approach is inescapable. To cite a few of the needed initiatives, the government must formulate appropriate regulatory frameworks for various industries like telecommunications, water and power utilities. To combat corruption, a credible government procurement system with a level playing field is needed. For these undertakings to succeed, two tasks are indicated, namely, human-resource development and an overhaul of the government's compensation structure. Researchers and policymakers must work closely in identifying the various dimensions of these tasks.

In entering the new millennium, the government has by no means completed its policy-reform program. The unfinished businesses are still many. High unemployment and massive poverty, for instance, are slow to come down. Unless follow-up reforms are instituted, these twin problems are bound to persist; in addition, it will be difficult to sustain whatever benefits have been garnered from the first wave of reforms that began in earnest in 1986.

The following goals remain: (1) sustained growth of income and employment; (2) stable prices; (3) sound balance-of-payments; (4) improved distribution of income and wealth; (6) poverty elimination; and (7) political freedom. To advance these goals, market reliance and good governance must be pursued well into the 21<sup>st</sup> century. In line with this approach, the PIDS needs to broaden and deepen the

research programs it has started, putting its accumulated knowledge in the service of second-generation reforms.

The irony is that while expectations from research and technical studies, especially from public-sector agencies, have been rising, government financial support to these activities has not kept up. To adjust to tight budget constraints, the PIDS has to intensify its networking with other research institutions. Strategically, it can concentrate on studies where it has a comparative advantage, namely, economic policy research, while leveraging some of its internal funds and engaging in cooperative work with other research organizations in investigating seemingly non-economic policy matters.

## **Part 2. A Policy Research Agenda for 2005-2009**

From the foregoing, it is evident that the public policy choices have been evolving and undergoing refinements through time. The choices were not arbitrary, but were well thought out responses to obstacles that were encountered while pursuing broad-based economic growth, fighting poverty, and protecting political freedom. These goals are as relevant today as they were before. And so the research agenda for the next cycle must connect with previous policy initiatives, and be flexible enough to respond to any unanticipated turn of events, economic or non-economic, that may dampen the desirable results of actual policy choices. Herewith, our proposed policy research agenda for the next cycle, broadly grouped into economic policy choices, policies for sustainable human development, and institutional development and good governance:

### **1. Economic Policy Choices**

#### *1.1. Budget Analysis*

Possibly the single most important piece of legislation that Congress seeks to enact each year is the GAA, short for the General Appropriations Act. The GAA embodies the annual budget of the national government. It has three major components. First is the expenditure program, which spells out the authorized spending of the government in various areas, including, education, health, internal security, national defense, and infrastructure. Second is the revenue program, consisting of the tax and non-tax financing of government expenditures. The third part of the budget, whenever revenues fall short of spending, dwells on how the deficit is to be financed. It is clear that all three aspects of the budget—spending, revenue raising, and deficit financing—have profound impacts on human welfare. Hence, studies on all three dimensions of fiscal policy within and across generations are of great importance.

Related to deficit financing is debt management. For instance, the contingent liabilities implied by government projects implemented through the build-operate-transfer (BOT) mode and its variants have to be considered in managing the public debt. In addition, in-depth analyses of the proposed Asian bond market and how its presence affects behavior and expectations of agents in the financial market are worth undertaking. Policy is benefited from knowing the efficiency gains, if any, from instituting an Asian bond market. Discussions on the latter and on monetary

integration gained headway after ASEAN leaders announced that they wanted to accelerate regional integration in general.

Apropos the devolution provided for in the Local Government Code (LGC) of 1991, research ought to look at enhancing the capacity of local government units or LGUs to generate additional revenues using their newfound taxing powers. This may minimize the adjustment costs when the national government withdraws or reduces budget support for government services considered devolved to LGUs.

It is widely understood that the budget is more than an accounting statement. It conveys the administration's development vision and contains actual measures vital to advancing that vision. Researchers are well advised to analyze the budget for consistency with the medium-term development goals. The sequence of actual annual government spending can dictate the long-term position of the economy.

### *1.2. Defining the size and scope of the government*

Given the budget deficits that have vexed the national government since 1999, the administration has announced that it is committed to a deficit-reduction program geared towards balancing the budget by no later than 2009. Deficit reduction entails both spending cuts and tax enhancements. In determining where to cut spending, government policymakers, whether in the executive or in the legislative branch, must be guided about the proper size and scope of the government at various levels. This is an area that calls for further research. It is lamentable that despite outcries about non-sustainability of the deficit and the public debt, the public is scarcely treated to an informed debate on the matter of government size and scope. As a result, talks of rightsizing the government have not gone beyond mere statements of opinion. A study that spells out the proper size and scope of the government, including its corporate sector, is helpful.

Related to this is devolution. Since the LGC has transferred to LGUs the provision of some public goods, including, basic health-care, agricultural extension work, and social-welfare services, devolution should be a guide in carrying out the research.

### *1.3. Measuring waste in the government*

Moreover, in thinking about expenditure cuts, wasteful government purchases must be the first to go. In this regard, studies measuring waste in public spending are key. It is important to find out whether the various departments and government-owned and controlled corporations are delivering results consistent with their mandates. If it is shown that they have overlapping activities, then mergers and downsizing are in order. In addition, consistent with waste elimination, the nature and extent of existing government subsidies in education, health, shelter and other social services must be evaluated, with the end in view of ensuring that only those who deserve to get the subsidy get them. In other words, social spending must be well targeted and research must help provide timely information geared towards plugging any existing program leak.

The LGC grants LGUs an internal revenue allotment (IRA) from the national government, which at present amounts to 40 percent of average internal revenues of the preceding three years. Critics charge that the formula for the IRA allotment favors rich LGUs, and even departments with devolved functions have continued to grow in size. Research needs to evaluate what the LGC has accomplished so far and what further refinements are needed so that the goals of devolution and decentralization are realized.

#### *1.4. Tax Policy*

Taxes account for the biggest share of total government revenues. Questions are often asked about the adequacy of the expected revenues from a specific tax measure, such as, increasing the value-added tax rate. The estimates differ and research can help by building models that accurately predict the expected tax take from any proposed measure. Tax policy is served, for example, if it is shown that raising the VAT rate pushes product prices to the elastic portion of demand curves; if so, a recalibration of the rate is called for to realize the revenue-enhancing objective of the VAT.

In addition, fairness is always a criterion in assessing any proposed tax hike. The debate inevitably gets focused on the progressivity or regressivity of a tax measure; with quantification, research can help resolve the issue. Again mere expression of opinion does not advance the discussion.

Small and medium enterprises (SMEs) are widely acknowledged to have strong capacities to create jobs. How do tax policies affect the saving and investment decisions of entrepreneurs behind SMEs? Existing studies on the impacts of tax policies are largely focused on large corporations. Research can be a factor in closing the knowledge gap by contributing to the creation of an SME database and undertaking analysis of the factors affecting SME development.

Knowing the effects of taxation on human-capital investments is as important as that on physical-capital accumulation. Unfortunately, little is known at this point about the links between income taxation and human-capital investments. The latter has long been identified as a major source of total-factor productivity. With quality research findings, tax policy can be redesigned so that people have an incentive to invest in human capital over their life cycle.

#### *1.5. Analysis of Public Spending*

Critics argue that new taxes simply enlarge the size of government and the non-productive spending items of the budget. They cite, for instance, the propensity of Congress to increase pork-barrel items as government revenue collections improve. An analysis, therefore, of government spending is warranted. How adequate and equitable is the spending program? Government spending is potentially the most effective tool of the government to achieve progressivity of benefits. Is it indeed an effective instrument for promoting equity goals, including, the reduction of regional income disparities?

Deserving of rigorous scrutiny are the lump-sum items in the national government budget, such as, the pork-barrel funds. To what extent do these funds promote or retard development? If found wasteful and graft-ridden, mechanisms should be designed and instituted so that waste and corruption are minimized, granting that the first-best approach of eliminating pork-barrel funds is next to impossible. In addition, the Executive and Congress' hands must be tied so that the original intent of the Road User Fund is restored; this fund has degenerated into a pork-barrel item, far from its original intention.

For the LGUs, a similar study should be undertaken. The efficiency and equity aspects of IRA-funded supported the IRAs must be investigated. If the findings show that the positive impacts fall below accepted norms, then amendments to the LGC must be introduced to improve the disposition of IRAs.

Members of Congress argue that pork-barrel funds promote equitable distribution and regional development. But the IRAs have been instituted for precisely that reason. Meanwhile, both pork-barrel funds and IRAs have been growing. Research should document the disposition of both funds and suggest ways to raise their efficiency in use.

#### *1.6. Debt Management*

Current servicing of the public debt absorbs at least 30 percent of the national government budget. Decisions about deficit financing determine how the size of the public debt evolves over time. If a deficit is incurred and issuing debt papers of varying maturities is preferred to income taxation, the public debt grows. Research must examine the output and price effects of such a fiscal-policy choice. Are new issues of government debt less contractionary and less inflationary than other forms of deficit financing?

Non-recurring large government expenditures, such as, major infrastructure and other capital projects are usually debt financed. At some point, though, taxes must be raised to retire the debt. Research may investigate the timing of taxation and its welfare implications.

Equally important are studies about unfunded future liabilities like social security benefits. Is heavy reliance on payroll taxes the best approach to closing the financing gap? Is it efficient to merge the GSIS and the SSS? Answers to these questions can open up the whole issue of pension reform.

Then there is the issue of what to do with the windfall income of government. Suppose instead of using windfall income to fund discretionary expenses of government, the unexpected income receipts go to debt reduction. This is relevant, for instance, to the policy on the so-called Marcos wealth. Based on existing legislation, any recovered amount is earmarked for land reform. Research should try to quantify the merits of an alternative use of the windfall income, say, debt reduction instead of land reform.

Research about the timing of fiscal-policy choices, be they taxes or government purchases, may start with a theoretical framework aimed at establishing

criteria for the desirability of a specific policy over others. Empirical analyses should follow as a matter of course. Since economic policies cannot be tested in a controlled laboratory setting, the empirical tests may be interpreted as approximating results derived from controlled experiments. Furthermore, since social experiments tend to be costly, research may also help design pilot fiscal projects that can be implemented initially on a manageable scale.

### *1.7. Monetary Policy and Financial-Market Reforms*

In the past two decades, much progress was made in reforming conduct of monetary policy, liberalizing bank entry, and regulating other capital-market institutions. Unexpected problems, however, intervened during the 1997 Asian financial crisis. In this regard, banks' risk management, and regulation of banks and securities markets have emerged as key concerns.

In addition, in spite of the entry of ten foreign banks, the links between big and small credit institutions have remained weak. In consequence, many small borrowers continue to be credit rationed. Of special concern is microfinance. Research should be carried out with the end in view of enabling micro-finance institutions benefit from the expanded financial intermediation that the early financial-market reforms have ushered in.

Regarding monetary policy, enough time has elapsed since the Bangko Sentral ng Pilipinas (BSP) was made independent of the fiscal authority. An evaluation study is indicated to find out how useful the newfound independence of the BSP has been in pursuing its price-stability goal. Is the BSP sufficiently shielded today from political interventions in the conduct of monetary policy?

### *1.8. Sources of Economic Growth and Income Distribution*

Many observers have noted how the Philippines has fallen behind its neighboring countries in the development race. In the 1960's, the country's real per capita income level and growth rate exceeded that of South Korea and other countries in East and Southeast Asia. Understanding the various sources of economic growth and identifying specific areas where the Philippines faltered may help the Philippines overcome obstacles to growth.

A good understanding of the roles of specific capital inputs—human, physical, and technological--- in driving growth is required. Research, for instance, should yield information about which aspects of human capital are pro-growth. Which specific investment in basic, vocational and technical, or higher education matters? Moreover, it is useful to find out how technological progress can be accelerated. It is widely accepted that technological progress accounts for a large chunk of long-term economic growth. Studies on the sources of growth can be done at the aggregate level. In addition, research can shed light on the sources of growth by sector, e.g., agriculture, industry (particularly manufacturing), and services.

Equally important is understanding how in the course of economic growth, real income is distributed. Growth in the Philippines has been associated with rising income inequality. The share of labor to aggregate income has remained stagnant at

about 30 percent in the course of economic growth. Knowing the factors responsible for the observed functional distribution of income is a useful first step in improving policy design.

### *1.9. Unemployment Policy*

Unemployment in the Philippines has been high and fluctuates with the business cycle. The incidence of unemployment is highest for age groups 15-19 and 20-24, while urban unemployment tends to exceed rural unemployment.

The task of research is to identify the secular and the cyclical nature of unemployment and identify policies that could ease the plight of labor market participants experiencing hardships, e.g., those who work and yet are poor. In this connection, a close look at the underemployed, people trapped in low-skill, low-wage jobs, is needed for effective program targeting.

Information about how rural labor markets operate can go some distance in addressing unemployment, particularly, urban unemployment caused by migration from rural areas. Research can provide guidelines on how to expand job opportunities, both farm and off-farm.

A quantitative assessment of the wage and employment effects of existing labor-market policies is useful. For example, the current institutional arrangement governing wage orders is crying out for a review. Knowing its impact on labor demand can contribute to improving policy design. Meanwhile, on the labor-supply side, there is little quantitative information at this stage about the wage and employment effects of training programs, such as, those the Technical and Skills Development Authority or TESDA offers or administers.

In aid of research and good policy design, labor-force statistics must be improved. But a methodology that renders some 1.6 million-labor force participants economically inactive is a backward step and must be reconsidered. This result emerged recently when the National Statistical Coordination Board, the National Statistics Office, and the Bureau of Labor Statistics implemented the concept on “availability for work” in a loose and haphazard manner, and misrepresented it as an “ILO definition.”

### *1.10. Getting the Economic Accounts Right*

As a monitor of the economy’s performance, the PIDS is engaged in the formulation of quantitative models based on credible government statistics. The quality of its models hinges on the quality of the statistics it uses. And so the PIDS must be concerned with methodological and definitional changes that the statistical agencies of the government adopt. At the very least, the Institute must be critical of approaches that are not aligned with recent advances in economic theory. Otherwise, its researchers may end up using statistical proxies that are remotely linked to the theoretical counterparts developed in the researchers’ models.

In this regard, the PIDS should start a research program aimed at improving the country’s major economic accounts, namely, the National Income Accounts, the

Family Income and Expenditures Surveys, and the Labor Force Surveys. With regard to the National Income Accounts, the PIDS, for starters, may prod the National Statistical Coordination Board to release as soon as possible its adjusted GDP and GNP figures following the acknowledgement by government that deficits in the external accounts were understated. The Development Budget Coordination Committee of the NEDA Board is going to be misled in the revision of its macroeconomic assumptions for 2005 and beyond if the GDP and GNP for 2004 and earlier are left unrevised.

### *1.11. Competition Policy*

The structural policy reform package of the past two decades included privatizing some government corporations and deregulating some industries. In these industries, there are usually increasing returns to scale or decreasing average cost that makes competition by several small firms not viable. The industry structure is either a natural monopoly or natural oligopoly. To protect consumer interests, the monopolists must be made to behave competitively while the few industry players must be prevented from colluding. It is important for the government to see to it that effective competition prevails.

A review of the legal framework and the enabling acts, if any, to stop non-competitive behavior must be undertaken. If there is none at the moment, an antitrust bill must be initiated and enacted into law. The need for such an Act assumed urgency with the privatization of water and electric-power utilities, and deregulation of the crude oil-refining and petroleum-product industry. For water and power utilities, the nature and scope of government regulation must be clear and credible.

### *1.12. Private Provision of Infrastructure and other Social Overhead Capital*

There is no denying the importance of physical infrastructure, a subset of social overhead capital, for sustained economic growth and equitable income distribution. Traditionally, the government directly provides social overhead capital. Recently, there is a growing appreciation of the fact that for some infrastructures, pricing is possible and cost-recovery mechanisms can be put in place. Given these conditions, the private sector can be tapped. Estimates of the financial requirements of the infrastructure program of the government in the medium term run to several billion pesos. Faced with a tight budget constraint, the government must increasingly rely on partnerships with private providers. For these reasons, the government has enacted a BOT law in support of infrastructure development.

Unfortunately, some BOT projects that recently went sour have tarnished the BOT law, after a promising start with the electric-power plants that were built to overcome the power crisis of the early 1990s. The most notorious case is the Terminal 3 Project of the Ninoy Aquino International Airport that was nullified by the Supreme Court. To help restore confidence in the BOT law, it is important to have a law-and-economics research program in aid not only of contractual enforcement, but also of fair and speedy adjudication of contractual disputes that may arise.

### *1.13. Environmental Protection and Natural Resource Management*

All economic decisions, such as, production and consumption, involve the passage of time. These decisions affect the welfare not only of the present generation but of future as well. The problem is when people decide in the current period, they do not always consider the impact of their actions on the environment and on the unborn generations. For instance, a corporation, in its push for high share prices, may not consider the long-term negative effects of its decisions on the environment. Environmental cost, to the extent a firm does not internalize it, can lead to overproduction and environmental degradation. The government may thus be assigned a role whose corporate equivalent is the holding of proxy votes for absent generations. In this connection, the government can adopt both price and non-price mechanisms to safeguard the environment. The task of research is to assist the government in designing incentive-compatible mechanisms that help preserve the nation's environmental capital for future generations.

### *1.14. The Philippines and the International Community*

Following its accession to the WTO, the Philippines has become an active player in regional trade arrangements like the ASEAN-CEPT and the informal APEC. Both the CEPT and APEC espouse open regionalism, defined as a commitment to multilateral trading rules of the WTO.

While significant advances have been achieved in the WTO under trade in industrial goods, the same cannot be said of trade in services and agriculture. Studies about the expected impacts of WTO-based trade in services and agriculture are essential if popular support for the initiatives in these two trade areas is to be forthcoming. Researchers and policymakers must get together, exchange ideas on key issues, and work on a package of proposals that benefits the Philippines and other similarly situated developing member countries.

At this juncture, we recognize that cross-border tariffs have been reduced significantly, with corresponding improvements in market access. However, several issues that pose barriers to further market opening remain. These include regulatory obstacles, environmental-, labor-, and consumer-protection standards, intellectual property rights, and government procurement practices. Defining the country's position on these issues and forming coalitions with other developing member countries can go far in moving the WTO process forward.

In light of the delays in the Doha round of negotiations, many WTO member-countries in East and Southeast Asia have eagerly sought the formation of either bilateral or regional preferential trading arrangements (PTAs). Little is known in policy circles about the trade and employment effects of these proposed PTAs. Furthermore, one risk in negotiating PTAs is the difficulty of being able to do it on a level playing field. The developed country tends to dominate the negotiations. It is thus important for research to assess the alternative merits and demerits of PTAs.

We note, for instance, that ASEAN has been in dialogue with Japan, China, and Korea under the ASEAN-plus-3 initiative. The expected benefits to Philippine participation in this PTA are not quantified, making it difficult for government

policymakers to sell the idea to a public skeptical of globalization. The same may be said of the ongoing talks about a free-trade partnership between Japan and the Philippines. One should not enter into these negotiations without an idea of the expected costs and benefits. The PIDS is highly qualified to study these issues.

Moreover, research should play a role in monitoring the country's MDG commitments. The MDGs are the equivalent of global public goods to UN member countries that ratified the convention. For the Philippines, the MDGs parallel the multi-dimensional poverty-alleviation goals of the government. Meeting MDG commitments correlates with success in other policy-reform areas. Research can assist the government design appropriate monitoring schemes and evaluation frameworks.

## **2. Policies for Sustainable Human Development**

In many households, the capacity to achieve constant improvements in living standards lies in the amount of human capital that family members possess. In this connection, education and health investments are widely regarded as the two most effective instruments for raising human capital. Education equips people with affective and cognitive skills that are rewarded in society, whether in the labor market or outside it. Being healthy, in turn, is conducive to lifelong learning and enhanced earning power. Hence, investments in education and health lead to a virtuous circle that can contribute to expanding the opportunities available to people across time and place.

### *2.1. Investing in Education*

In education, the national government has been a staunch partner of families. The Constitution provides that education must get the biggest allocation from the national government budget. However, it is well known that most of the funds pay for wages, salaries, and other cost of personnel services. Only a small fraction goes to direct services and benefits to students; much less is allotted to research and development. The situation does not get any better with the observation that the amount spent in education per student in the Philippines pales in comparison with many of our Asian neighbors like Thailand and Vietnam; this affects adversely the country's international competitiveness today and in the future.

A critical first step for research is a comprehensive analysis over time of the country's experiences in education budgeting. Some down-to earth analyses must be done, looking at trends and patterns of fund allotment, utilization, monitoring, and reporting. In addition, the budget-formulation process for education must be reviewed with a view towards streamlining it. Part of the review, using a multidisciplinary approach, is to uncover sources of corruption and help design mechanisms for stamping them out.

#### *2.1.1. Preschool and basic education*

At the heart of educational reform should be a renewed focus on education's main venue, namely, the classroom and the local school, together with its main mandate to provide opportunities for the comprehensive formation of the young at different age levels. Public basic education, including early-childhood education at

pre-elementary level, is a major concern since it forms the foundation on which all subsequent training and development rest and grow from.

A review of processes is in order, and it must move in the direction of devolution as provided for by the law. Moreover, various stakeholders must be involved, especially, the local principals and supervisors, teachers and parents, the private and public sector, LGU officials, and senior officials from concerned national government agencies. How these persons interrelate must be properly delineated. Making the Local School Boards effective must receive high priority.

Some existing government education programs need to be reviewed and recalibrated, if warranted. The following come to mind in this regard: Early Childhood Care and Development Act of 2000, the various school- and classroom-building ventures in partnership with the private sector, the high school bridge program, curriculum development and enhancement programs, and programs to finance indigent youth, such as, the Government Assistance to Students and Teachers in Private Education (GASTPE).

Furthermore, research is also indicated in searching for alternative education models that can lead to a national response to the needs of youth caught in armed conflict, youth in rehabilitation, and children of seasonal migrants. These are some of the research gaps that were revealed in the course of implementing the World Bank-assisted Third Elementary Education Project (TEEP).

### *2.1.2. Technical and Vocational Education*

The national government has had a long history of supporting technical and vocational education. But in spite of the government's presence in the sector, inadequate skills are still widely cited as the main cause of youth joblessness. This invites a lot of questions, including: Are government-training programs preparing trainees for yesterday's jobs? Are schools equipped with the right faculty and capital equipment? The role of research is to provide some answers to these questions, and to suggest ways to make government-training institutions cost effective.

### *2.1.3. Higher Education*

One of the most disturbing developments over the past few years is the growing inequality in income distribution. One explanation that is gaining credence is that returns to higher education have increased. But since tuition fees and other charges have increased significantly, children of poor households, even if of high ability, cannot access higher education. If financing of higher education largely depends on family income, then it would be tough to reverse the growing income inequality. Research should thus look into restructuring higher-education finance to enable poor students with high ability to enter and finish college. One possible area to investigate is the lack of, if not absent, loan markets for higher education. Research may offer guidelines on how the government can intervene to ease the plight of liquidity-constrained students.

Higher education is one sector where private institutions have a leading role, not only in terms of student enrolment, but also in course offerings that respond

relatively quickly to emerging demands. This development is consistent with the main thrust of the government in various sectors of the economy. Unfortunately, the conduct of government policy for higher education appears confused and ad hoc at this stage. For instance, a law established the Commission on Higher Education (CHED) separate from the Department of Education (DEPED), which has been made in charge solely of basic education. And yet an executive order was recently issued mandating the DEPED secretary to exercise oversight functions over the CHED. It is almost impossible to define a sound policy for higher education if politics keeps rearing its ugly head in this sector.

Research in the area of higher education can help sort out the policy confusion. It can start by assessing existing policies and designing mechanisms that will render binding the long-standing moratorium policy on the setting up of new state colleges and universities (SUCs). The inefficiencies are evident. Many SUCs are high-cost operations but are not able to provide quality education. Still, Congress, with the cooperation of the Executive, continues to establish new SUCs.

Another issue that looms large concerns the type of support that the government should extend to private institutions of higher learning. The latter create positive externalities through their teaching, research, and extension work, but they are not compensated for the spillover effects that accrue to society. In the long run, such a situation heightens the risk of underinvestment in higher education. Corrective actions, which a research program on higher education can help identify, are called for. Tax policy, for instance, has immense potentials in expanding the country's human-capital base that supports inventions, innovations, and technological progress.

Meanwhile, with globalization, efforts to raise the quality of higher education on par with that of foreign institutions of higher learning must be actively pursued. This must be done even for occupations that are greatly in demand abroad, such as, nursing. Competition is sure to set in since the large expected benefits from investing in nursing skills do not go unnoticed. The use, therefore, of international quality standards in benchmarking various occupational skills is vital.

## *2.2. Investing in Health and its Financing*

Next to education, investment in medical and health care is the most important source of human capital. Unfortunately, rising cost of health services is preventing many households from making these important investments. An investigation of the factors contributing to rising costs of medical and health care is necessary. Demand and supply factors operating in an idiosyncratic environment are at work. The doctor-patient relationship, for instance, is different from a goods market with many buyers and sellers. The findings can bring out policy guidelines about how best to slow down cost increases without resorting to price controls.

At the same time, how effective is the health and medical insurance program of the government. Is it a good safety net? Are the benefits from the program adequate in relation to the payroll taxes levied to finance participation? How can informal-sector workers avail of the insurance policy without compromising the ability of the program to improve the services given to formal-sector workers? The task of research is to scrutinize these issues and contribute to informed public discussion.

### **3. Institutional Development and Good Governance**

Many observers of development trends are puzzled about the Philippines' inability to get onto a sustained, broad-based growth path. One conjecture that has been offered is that the country has simply failed to build an institutional framework that is conducive to sustained growth and equitable development. If the institutional framework is inadequate, then poor governance tends to follow. If bad rules and procedures proliferate, then opportunism, unenforceable commitments, and corruption are liable to prevail. Research can help by nullifying or confirming this conjecture. In this regard, a useful starting point is the legal and judicial framework.

#### *3.1. Legal and judicial framework*

Is the legal framework conducive to the country's sustained growth and development? We begin by sketching the legal frameworks observed in mature industrial economies and see how that of the Philippines compares. In the early stages, the developed countries' legal frameworks were largely concerned with enforcement of private property and contractual rights. The basis for that emphasis rested on the fact that being market-oriented economies, they had to promote mutually beneficial exchanges.

All exchanges are governed by contracts, whether explicit or implicit. In some market trades, written contracts are not required; reputation suffices in extracting good behavior from sellers. A supplier who cheats develops a bad reputation and is shunned by buyers. Eventually he or she is driven out of the market. Sometimes, the market transaction involves a large, one-time exchange that will not be repeated in the short run, such as, construction of a highway. Explicit contracts are written, defining the rights and obligations of the parties to the contract.

In the developed economies, the legal and judicial system, in the words of Richard Posner, a judge and lecturer at the University of Chicago Law School, is composed of largely ethical, competent, and well-paid judges who administer laws and rules designed to promote economic and business activities. A cadre of well-trained lawyers who provide technical legal advice supports them. A police force that is also honest, ethical, and well paid enforces their decisions. The judges are sufficient in number so they can decide on cases without undue delays. They have access to reliable official data and statistics that enable them to decide factual cases with reasonable precision.

Research can assess how the Philippine legal and judicial system measures up in relation to the legal frameworks in developed economies just described. Some people will say that casual observation will reveal that our system is dismal in relation to theirs and, therefore, no further research is needed. But at a prescriptive level, the research may show the best starting point for reforming the Philippine legal system, and whether there are low-cost, indigenous substitutes for the sophisticated apparatus observed in the developed countries.

### *3.2. The Constitution: Should it be Amended?*

The overriding legal framework is the Constitution that was ratified in 1987 and which has not been amended. Some people argue that the cause of the country's underdevelopment is the Constitution. Again, the role of research is to validate this contention scientifically. Empirical studies may be able to test whether some economic provisions of the Constitution run counter to development.

Moreover, some critics say that the 1987 Constitution opens up an activist role for the Supreme Court in both economic and non-economic issues. Some of its articles, they say, are verbose and ambiguous. Hence, people who disagree with some public policies run to the Supreme Court, exploit the ambiguity in language, and invoke unconstitutionality. The Supreme Court, in many instances, does not inhibit itself once the question of constitutionality is raised.

So if amendments are indicated, what are they? Research can render a public service if it can present a list of the so-called counter-developmental provisions.

### *3.3. Legislative Framework*

The Constitution provides for three independent branches of government. Under the present system, two legislative chambers—the House of Representatives and the Senate--coexist. Critics of this bicameral system say that it is an obstacle to development. On important pieces of legislation with significant impacts on the economy, the two chambers do not always produce a consensus view. So they convene a bicameral conference committee to reconcile differing provisions. Critics assert that the bicameral conference tends to act like a third chamber; it produces a document that at times veers away from the two chambers' versions. Moreover, interest groups allegedly use it as a venue for getting provisions that secure their self-interest. Research is needed to validate these points.

### *3.4. The Executive and the Form of Government*

Some groups are pushing for changes like shift to federalism or a parliamentary form of government, or even a combination of both, to replace the current presidential system. The politicians who are supporting this shift in government argue that direct people-power approach to installing presidents is damaging to democratic institutions.

How do we assess the merits of the proposed change in the form of government? Research is clearly indicated here. At the most rudimentary level, proponents must describe the precise form of the proposed federalist or parliamentary system for the Philippines and the efficiency gains from the shift, if any. Specifically, they must demonstrate that the incentive structure under the new form is conducive to good governance.

## **Concluding Remarks**

We submit that the research agenda of the PIDS for its next cycle must continue to be responsive to the research needs of public policy contained in the medium-term plan. This raises questions about scope and balance, particularly, in light of the modest increases in budget support to research activities in recent years.

We believe in continuity. We think that the three broad research areas we have spelled out should connect adequately to the Institute's previous research agenda, with sufficient flexibility to respond to any new challenge stemming from enduring economic and social problems.

We maintain that the PIDS has a comparative advantage in doing research on economic policy choices. This is evident from the large body of knowledge that the PIDS has built over the years. In the other areas, we believe that the Institute's success in networking with other research institutions, public or private, local or foreign, can be tapped so that rigorous research in the areas where the comparative advantage lies elsewhere can flourish.

We note that monitoring aggregate socio-economic performance, including forecasting, is a long-standing activity of the PIDS. We urge a continuation of this work, perhaps, expanded to include impact or evaluation analyses of ongoing public policies.

We have tried to identify and isolate the important policy concerns, with short- and long-run implications, that have emerged in our interviews with various researchers and policy makers. But our report, as must be expected, stops short of suggesting specific research topics and methodologies. These are tasks that are best left to the Institute.

The PIDS is one of the country's few knowledge producers. Being affiliated with the NEDA, it has to present its findings in a clear and, preferably, pragmatic manner. Its messages must be easily communicated to policymakers and to the general public. And in undertaking joint public policy research with other institutions, it should lead in setting a sufficiently high standard of rigor.

Lastly, partly to address budget constraints, we recommend exploring partnership with some implementing agencies of the government. These agencies may be recipients of some grant-funded technical assistance from bilateral or multilateral ODA donors, which are likewise committed to assisting the government formulate policies supportive of goals enunciated in official development plans.