Can we pick up the pieces?

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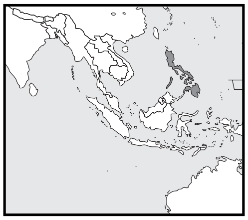

Despite realisation that the global economy was on a downturn even before the September 11 attack, the shortsighted economic strategy is still anchored on exports and direct foreign investments. These are still potential drivers of growth, but this potential is significantly weakened in the light of external and local conditions.

These are certainly uncertain times. Many predicted that the Philippine economy would take a downturn after the September 11 attack on the World Trade Center. The Arroyo administration declared in its year-end report, however, that the Philippines ably held the fort.

For an economy that registered double-digit unemployment rates in 2000 and the first half of 2001 for the first time since 1986, there is probably no way to go but up, or standing still.

If the Philippine people enjoyed equal access to entitlements, standing still would probably be better than recession. But in the Philippines, with its highly skewed income distribution and population growth rate of over 2%—one of the highest in Asia—the poor cannot be content with standing still as poverty has long been a festering problem.

Mediocre growth, but better than expected

Economic growth rates were mediocre even before the September 11 incident. But these growth rates were a pleasant surprise for economic planners who expected much worse given the rest of the world's largely dismal performance. Indeed, when compared with once high-performing economies such as Hong Kong, Taiwan and Singapore that suddenly experienced reversals, or with Japan, which has been in prolonged recession, a 4% growth rate, or thereabouts, may be considered a feather in one's cap.

The Philippine economy is relatively less affected by the global downturn since exports make up only about 40% of the economy's output, in contrast to Malaysia or Taiwan whose exports make up more than 80% of their economies' output.

Unemployment crisis, 40% living in poverty

The unemployment rate of 10.1% in October 2000 (the highest rate since 1986) was quickly paralleled by a rise in crime rate. Although official crime statistics report a 93% rate of resolution, what is worrisome is the nature of the crimes being reported. Where earlier kidnappings were confined to urban areas and among Chinese businessmen, crime is spreading to the provinces and ordinary folk are also becoming victims.

TABLE 1

Labour and employment - July 2000 to October 2001

LABOUR AND EMPLOYMENT	OCT. 2001	JUL. 2001	APR. 2001	JUL. 2000
Total labour force (million)	33.4	32.6	33.6	30.5
Labour force participation (%)	67.5	66.3	69.0	63.8
No. of unemployed (million)	3.3	3.1	4.5	3.4
Unemployment (%)	9.8	10.1	13.3	11.2
No. of underemployed (million)	5.0	5.5	5.1	5.7
Underemployment (%)	16.6	17.7	17.5	21.2

Although the unemployment rate dropped back to single digits by October 2001, there is a pervasive feeling that an unemployment crisis exists. Even with the lower rate, the absolute number of unemployed rose by 140,000 compared with the previous quarter (Table 1). Moreover, a college education used to almost guarantee employment. Of late, even graduates from the country's premier universities are reportedly having difficulty getting jobs.

The daily news reports of company closures and retrenchment do not help. In the first ten months of 2001, 56,531 workers were rendered jobless following mass layoffs and permanent shutdown of 2,294 commercial establishments. Additional 54,549 workers in 526 firms were temporarily laid off, placed on job rotation or had their working hours reduced during the same period. On average, 367 Filipinos became jobless or were temporarily laid-off everyday from January to October 2001. Nationwide, we are talking about 111,080 workers.[2]

Thanks to overseas jobs, unemployment has been somewhat eased. The number of overseas Filipino workers is officially estimated at 7.29 million. Average annual deployment increased sharply to the unprecedented level of 840,000 after the 1997 Asian Crisis. In 2000, overseas deployment constituted 3.03% of the country's domestic employment. For most of the 1990s, overseas deployments outstripped net jobs generated at home.

1 The author is a member of Action for Economic Reforms and co-convenor of Social Watch Philippines.

2 "Gloomy Christmas awaits workforce," *Philippine Star*, 5 December 2001.

TABLE 2

Poverty incidence 1961 to 2000

YEAR	POVERTY INCIDENCE (% FAMILIES)			NO. BELOW POVERTY LINE	
				FAMILIES	POPULATION
	TOTAL	URBAN	RURAL	TOTAL MILLION	TOTAL MILLION
1961	59	51	64		
1965	52	43	55		
1971	52	41	57		
1985	44.2	33.6	50.7	4.355	26.231
1988	40.2	30.1	46.3	4.231	25.005
1991	39.9	31.1	48.6	4.781	28.120
1994	35.5	24.0	47.0	4.531	27.274
1997	31.8	17.9	44.4	4.511	26.768
2000	34.2	20.4	47.4	5.216	31.298
Average annual reduction from 1961 to 1997	**0.76**	**0.92**	**0.54**		
Average annual increase from 1997 to 2000	**0.80**	**0.83**	**1.00**		

The 2000 Family Income and Expenditures Survey (FIES), from which poverty estimates are generated, confirmed fears of increasing poverty after years of steady, albeit small, gains in poverty reduction. Poverty incidence rose from 31.8% of Filipino families in 1997 to 34.2% in 2000. This translates to an additional 705,000 families or, at six household members per family, 4.23 million additional poor Filipinos. Overall, roughly 31.3 million Filipinos, or 40% of a population of 75 million, are poor (Table 2).

There is one “bright” spot in the FIES Survey: income inequality declined slightly. In 1997, the Gini coefficient was 0.4872. The Gini coefficient of 0.4507 for 2000 reflects an improvement in income distribution. Yet, even the government is not proud of this “improvement”. Economic planners admit that this decline in inequality indicates that the economic crisis simply eroded the incomes of households living above the poverty line. To put it bluntly, the crisis, which ordinarily hits the poor most, spared no one this time. Almost everyone is now worse off than before.

Financial deficit in basic social services

Adequate funding for basic social services will not be forthcoming soon. Dr. Rosario Manasan, an economist from the Philippine Institute of Development Studies (PIDS), estimated that for targeted recipients of basic education alone, PHP 115.3 billion (USD 2.3 billion) would be needed. The proposed 2002 budget for the Department of Education, Culture and Sports of PHP 102.9 billion (USD 2 billion) falls short by almost PHP 12 billion (USD 240 million).

For basic health care, Manasan’s high-cost assumption is that PHP 10.5 billion (USD 210 million) is required for 2002. The national government has allocated PHP 14.5 billion (USD 290 million) for health spending, but most of that amount will go to curative rather than preventive health spending.

With the exception of debt service and defence, sectoral expenditures as percentage of GDP have declined since 1997. Similarly, spending for education and health, as percentage of the national budget, has declined.

The debt problem appears to have come full circle. After declining to less than 20% of the national budget in the mid to late 1990s, interest payments again breached that level in 2000. Public sector debt now stands at PHP 2.17 trillion (USD 43.4 billion), 47.5% of which is foreign. This renders government’s fiscal programme highly vulnerable to exchange rates and foreign interest rates volatility.

Going beyond the short-term

In July 2001, about six months after the ouster of the Estrada presidency and the take-over of then Vice President Gloria Macapagal Arroyo as President of the Republic, Dr. Emmanuel de Dios of the University of the Philippines School of Economics observed that the new administration was preoccupied with short-term threats and exigencies such as the kidnappings in the South, threats to national security and natural calamities. He correctly warned of the loss of tempo and will for economic and political reform. Already then, the will to reform was being replaced by a creeping sense of inertia and growing cynicism.

Despite realisation that the global economy was on a downturn even before the September 11 attack, the shortsighted economic strategy is still anchored on exports and direct foreign investments. These are still potential drivers of growth, but this potential is significantly weakened in the light of external and local conditions.

In terms of financing, the November 2001 State visit of President Arroyo to the United States yielded a bag of goodies in terms of economic and military aid to the country. The US bag of goodies has provided some relief and has perhaps even postponed much-needed reforms, such as coming down hard on high-level violators of corruption laws and cracking the whip on under-performing revenue collection agencies.

The overriding concern of the government appears to be survival until the 2004 elections. For civil society, segments of which claim credit for the ouster of former President Joseph Estrada in what was known as People Power 2, there is only one big question: Can we now pick up the pieces? ■

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