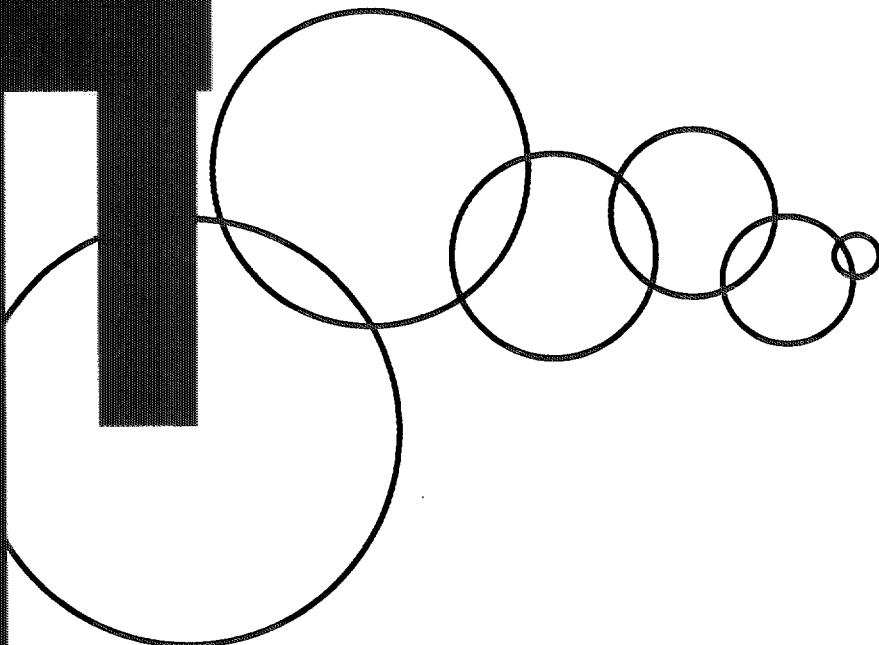




ASEDP No. 11

DEREGULATION AND ECONOMIC DEVELOPMENT IN THE PHILIPPINES

Edited by:
Joseph Y. Lim
Katsumi Nozawa



INSTITUTE OF DEVELOPING ECONOMIES

TOKYO 1991



ASEDP No. 11

Deregulation and Economic Development in the Philippines

Edited by

**Joseph Y. Lim
Katsumi Nozawa**

INSTITUTE OF DEVELOPING ECONOMIES

TOKYO 1991

© Copyright in 1991 by Institute of Developing Economies

42 Ichigaya-Hommura-cho, Shinjuku-ku, Tokyo, Japan

All rights reserved.

No part of this publication may be reprinted by any means without written permission from the Institute.

ISBN: 4-258-55006-X-C3033

Printed in the Philippines

AUTHORS

Joseph Y. Lim.
Associate Professor
School of Economics
University of the Philippines
Diliman, Quezon City

Katsumi Nozawa
Overseas Senior Research Officer
Institute of Developing Economies
Tokyo, Japan

Mario B. Lamberte
Vice-President
Philippine Institute for Development Studies
Makati, Metro Manila

Rosario G. Manasan
Research Fellow
Philippine Institute for Development Studies
Makati, Metro Manila

Erlinda M. Medalla
Research Fellow
Philippine Institute for Development Studies
Makati, Metro Manila

Arsenio M. Balisacan
Associate Professor
School of Economics
University of the Philippines
Diliman, Quezon City

Dante B. Canlas
Professor
School of Economics
University of the Philippines
Diliman, Quezon City

TABLE OF CONTENTS

Authors	iii
Introduction	iv
Chapter I. The Macro Aspects and the Political Economy of Liberalization and Deregulation	
by Joseph Y. Lim	1
1. Introduction	1
2. The Macro Setting	3
2-1. The Liberalization Experience: 1981 to 1983	3
2-2. Economic Collapse: 1984 to 1985	6
2-3. The Aquino Administration	8
3. The Political Economy of Deregulation	13
3-1. Deregulation in the Sixties Versus Deregulation in the Eighties	13
3-2. Lobbying Power: Strength in the Vested Groups	16
3-3. Liberalization and Structural and Distributional Reform.....	21
Chapter II. Privatization Policy in the Philippines	
by Katsumi Nozawa	25
1. Introduction: Rationale of Deregulation and Privatization Policy	25
2. Increase of Government-Owned and Controlled Corporations (GOCCs) in the Philippines	27
2-1. Brief History of GOCCs	27
2-2. Government Interventions under the Marcos Regime	28
3. Privatization Policy under the Aquino Administration	33
3-1. Salient Features of the Privatization Policy	33
3-2. Role of the Committee on Privatization (COP) and the Asset Privatization Trust (APT)	34
3-3. Role of the Presidential Commission on Good Government (PCGG)	35
4. Current Problems and Issues on Privatization	
4-1. Dispositions of Non-Performing Assets (NPAs)	36
4-2-1. Measure of Disposition	36
4-2-2. Problems of Disposition of the Non-Performing Assets (NPAs)	37
4-2. Privatization of the GOCCs	38
4-2-1. Measure of Privatization	38
4-2-2. GOCCs to be Privatized	39
4-2-3. Progress of Privatization of the GOCCs	40
4-2-4. Problems of the Privatization of the GOCCs	42
4-3. Recovery of the Ill-Gotten Wealth	44
4-3-1. Legal Procedure for the Recovery	44

4-3-2. Progress of the Recovery of the III-Gotten Wealth	46
4-3-3. Problems of the Recovery of the III-Gotten Wealth	46
5. Perspectives of Privatization Policy	50
5-1. Privatization's Link to Agrarian Reform.....	50
5-2. Monetary Targets for Agrarian Reform	51
5-3. Conclusion	55
References	56
Appendix	58
Chapter III. Financial Deregulation Experience in the Philippines	
by Mario B. Lamberte	63
1. Introduction	63
2. Issues in Financial Deregulation	64
2-1. Directed Credit Policy.....	64
2-2. Financial Liberalization: McKinnon-Shaw View	65
2-3. The Emerging Views	67
3. Financial Deregulation Experience in the Philippines	68
3-1. Aspects of Financial Deregulation	68
3-1-1. Structure of the Financial System	69
3-1-2. Interest Rate Policy	75
3-1-3. Credit Policies.....	76
3-1-4. Portfolio Regulations	76
3-1-5. Prudential Regulations	77
3-2. Performance of the Financial System	77
3-2-1. Growth and Stability	84
3-2-2. Market Concentration and Competition	86
3-2-3. Financial Intermediation	91
4. Lessons from Financial Deregulation	93
References	94
Chapter IV. The Role of Fiscal Policy in Economic Deregulation	
in the Philippines in the Eighties	
by Rosario G. Manasan	97
1. Introduction	97
2. Micro Aspects of Fiscal Policy Reform	98
2-1. Tax Policy	98
2-1-1. Revenue Generation	99
2-1-2. Efficiency and Distribution Considerations	99
2-1-2-1. The Individual Income Tax.....	99
2-1-2-2. Tax on Passive Income	102
2-1-2-3. The Corporate Income Tax	103
2-1-2-4. The Sales Tax and the Value Added Tax	104

2-1-2-5. Excise Taxes	106
2-1-2-6. Fiscal Incentives	108
2-2. Government Expenditure Policy	112
2-2-1. Distribution of Government Expenditures Across Sectors	113
2-2-2. Distribution of Government Expenditures Across Economic Categories	116
2-3. The Rationalization of the Government Corporate Sector	118
2-3-1. Policy Actions	120
2-3-1-1. The GCMCC	120
2-3-1-2. Administrative Order 59	120
2-3-1-3. Disposition of Existing GOCCs	121
2-3-2. Assessment	121
3. Macro Aspect of Fiscal Policy Reform	124
3-1. The Fiscal Deficit and the Stabilization Program.....	124
3-2. The Fiscal Deficit and its Impact on Overall Deregulation	132
4. Conclusion	132
References	135
Annex Tables	137

Chapter V. The Philippine Deregulation Experience in Trade and Investment Policy by Erlinda M. Medalla	145
1. Introduction	145
2. Trade Policy and Deregulation in the Philippines	146
2-1. Historical Evolution of the Policy	147
2-2. Reforms under the Aquino Administration.....	148
2-3. Policy Assessment	151
3. The Philippine Exchange Rate Policy and Deregulation.....	165
4. The Philippine Investment Incentive System and Deregulation	167
5. Summary and Highlights	169
Trade Policy and Deregulation	171
The Exchange Rate Policy	171
Investment Incentive System.....	171
References	172

Chapter VI. Deregulation in Philippine Agriculture: Has it Benefitted the Rural Poor? by Arsenio M. Balisacan	173
1. Introduction	173

2. Postwar Structural Changes in Philippine Agriculture: An Overview	173
3. The Rise and Fall of Regulation in Philippine Agriculture	174
4. A Simple Approach to Measuring the Impact of the Deregulation on Rural Poverty	181
4-1. Farm Price Changes	182
4-2. Impact on Rural Poverty	184
5. Concluding Remarks	194
References	194

Chapter VII Employment, Real Wages and Money Growth in the Philippines: Deregulation in the Labor Market
by Dante B. Canlas 197

1. Introduction	198
2. Philippine Employment and Wage Trends	200
3. A Review of Labor Demand Studies	206
4. Static Labor Demand Analysis	207
4-1. Theoretical Considerations	207
4-2. Estimation Procedure	208
5. A Dynamic Labor-Demand Model	211
5-1. Theoretical Framework	211
5-2. Time-Series Analysis	212
6. Real Wage and Monetary Policy	214
6-1. Theoretical Considerations	214
6-2. Empirical Analysis	216
7. Monetary Policy	217
8. Concluding Remarks	218
References	219

ISBN 4-258-55006-X-C3033