Global poverty down, Philippine poverty remains high –"Imprisoned in the neoliberal paradigm"

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That the poverty situation in the Philippines has not improved has been the cause of much concern lately. According to the National Statistics Coordination Board, 27.9 percent of the population currently lives below the poverty line, a figure that was practically unchanged from the figure of 28.6 per cent and 28.8 respectively in the first half of 2009 and first semester of 2006, respectively.

The figures are all the more disturbing because globally, the poverty situation has actually improved since 2005. According to the World Bank, the proportion of people living in extreme poverty — on less than $1.25 a day — fell in every developing region from 2005 to 2008. Moreover, the biggest recession since the Great Depression seems not to have thrown that trend off course. According to the Bank, "The progress is so drastic that the world has met the United Nations' Millennium Development Goals to cut extreme poverty in half five years before its 2015 deadline."

Debating the causes of global poverty reduction

What accounted for this positive global trend since 2005? One school of thought is represented by Brookings Institution researchers Laurence Chandy and Geoffrey Gertz, who claim that the "stunning progress" is due to "the rise of globalization, the spread of capitalism and the improving quality of economic governance – which together have enabled the developing world to begin converging on advanced economy incomes after centuries of divergence. The poor countries that display the greatest success today are those that are engaging with the global economy, allowing market prices to balance supply and demand and to allocate scarce resources, and pursuing sensible and strategic economic policies to spur investment, trade and job creation. It's this potent combination that sets the current period apart from a history of insipid growth and intractable poverty." In short, the key for Getz and Chandy was market-oriented or neoliberal reforms, also known as "structural adjustment," that radically reduced government intervention, eliminated barriers to trade and capital flows, and promoted privatization.

Seemingly convincing, this explanation, when subjected to close analysis, falls apart. There is another, and indeed, more credible way, of interpreting the results. The dismal period of little progress from the 1990s to 2005, occurred during the high noon of neoliberal reform and globalization. This was the period of widespread structural adjustment in the global South. As admitted by Chandy and Gertz themselves, this period of so-called economic reform had the following features: “Excluding China, the…decrease in global poverty becomes an increase of 100 million. In the world’s poorest region, sub-Saharan Africa, the poverty rate remained above 50 percent throughout the period, which, given the region’s rapid population growth, translated into a near doubling in the number of its poor. Similarly in South Asia, Latin America and Europe–Central Asia there were more poor people in 2005 than there were a quarter of a century earlier.”

So what accounted for the improvement in the global poverty picture since 2005?
What happened was that from the early 2000’s, governments the world over began throwing off the shackles of neoliberalism. In the 1980’s and 1990’s, Latin American countries were the most ardent followers of neoliberal reform. But with little to show for this except deepening poverty and rising inequality, many governments radically change course in the first decade of the 21st century. Government intervention, economic nationalism, redistributive populist policies that promoted both equity and expanded internal markets, and the commodities boom triggered by China’s development made up a potent combination that reversed trends in poverty.

In Africa and Eastern Europe, the story was much the same: a pragmatic shift away from neoliberalism. In East Asia, most countries, with the exception of the Philippines, managed to avoid comprehensive structural adjustment even as they rhetorically praised market reforms to high heavens. And in the aftermath of the Asian Financial Crisis of 1998, most threw off or softened the neoliberal measures they had selectively adopted, like capital account liberalization.

Departures from orthodoxy

Even some establishment circles now recognize that the neoliberal approach codified in the so-called “Washington Consensus” was way off the mark. As former World Bank chief economist Justin Yifu Lin has noted, “It was not an effective economic strategy for most developing countries, which typically are trapped in multiple levels of distortions and need gradually to gradually organize their transition out of these second-, third- or nth-best situations.” In short, the neoliberal framework “ignored the requirement that developing countries’ governments play a key role in overcoming the issues of coordination and externality in the process of technological innovation, industrial upgrading, and structural change.”

The missing link

What are the implications for the Philippines, one of the countries that bucked the trend towards reduced poverty? One lesson is that the Conditional Cash Transfer (CCT) Program is not enough. As Jose Ramon Albert, the secretary general of the National Statistical Coordination Board, has written, “(T) he CCT is not expected to immediately yield significant changes in incomes that will make the poor cross the poverty line, as it is investment in human capital—particularly in education and health, where the impact may be seen in five to 10 years.”

The CCT is meant to contain poverty, to prevent it from getting worse. It merely serves as a supplement to a more comprehensive strategy designed to spur development, create jobs, and reduce poverty. That comprehensive strategy is what is missing. It is the reason why significant gains in the war against poverty continue to elude the Aquino administration.

Encouraging signs, discouraging signs

Nevertheless, there are encouraging signs. Contrary to the views of ultra-neoliberal economists like

Bernardo Villegas, passage of the Reproductive Health Law is recognition, albeit belated, that the gains of economic growth are for naught if they just get channeled to consumption by a rapidly growing population instead of serving as investment for expansion of the economy. Slowly, there is seems to growing realization that the neoliberal paradigm that we absorbed from the International Monetary Fund and the so-called Chicago School of Economics is fundamentally flawed. For example, the Department of Trade and Industry has created an "industrial policy" task force that envisions, rather timidly though, a greater government role in picking and supporting industries that would create jobs, diversify the economy, and trigger sustained development. Industrial policy is taboo among neoliberals.

For the most part, however, our policymakers are imprisoned in the neoliberal paradigm. The Central Bank and Department of Finance continue to see inflation as the dragon to be slain, biasing them against an active and flexible fiscal policy that would put the focus on job creation. Another article of faith is being a "model debtor." Consequently, religiously paying the foreign debt according to the harsh terms of the creditor now regularly takes up 20-25 per cent of the government budget, restraining spending for infrastructure that has been identified by many as one of the key bottlenecks to sustained growth and leaving little fiscal space for funding pro-poor initiatives. Guided by the idea that it is foreign corporations and the rich that are the source of wealth, the government is stuck with tax, investment, and incomes policies that favor these groups while shifting the burden of providing revenue to the middle class and the poor via VAT and excise taxes. Structural reforms that would raise the incomes of the poor and make them a source of demand to spur economic growth are either stalled or moving at a snail's pace: agrarian reform, for example, is scheduled to end in the middle of 2014, yet over 900,000 hectares nationwide remain to be distributed to land reform beneficiaries. Meanwhile, the World Bank-derived mantra of "inclusive growth" serves as the rhetorical canopy for a comprehensive proactive macroeconomic strategy that does not exist.

Chinese and Latin lessons

In working out a post-neoliberal macroeconomic strategy for the Philippines, our government might want to pick up the best practices from East Asia and Latin America. From the experience of China and other successful East Asian countries, Lin, the World Bank's former chief economist, underlines the role of the state as "strategic facilitator," in contrast to neoliberal thinking that frowns on all kinds of state intervention. According to him, "[I]t is important for a country to have a committed, credible, and capable government to perform the information, coordination, and externality compensation functions…By playing such a role, the state can overcome market failures and facilitate industrial upgrading and structural transformation." Corruption on government is a problem, but in rooting it out, one cannot throw out the baby with the bathwater. An activist government is central to economic transformation, as our neighbors' experience has shown, contrary to neoliberal chatter about the "virtue" of the do-nothing state.

Our technocrats and economists might also find it worth their while to read former Financial Times correspondent Hal Weitzmann's recent book titled Latin Lessons: How South America Stopped Listening to Washington and Started Prospering. Though not uncritical of their policies, the book underlines the central role in Bolivia, Ecuador, and Venezuela of redistributive reforms favoring the lower classes over the upper classes, and national interests over foreign interests. Hugo Chavez' popularity in Venezuela stemmed not so much from his anti-Washington rhetoric but from the fact that his policies favored the lower half of society at the expense of the rich and foreign oil corporations.

And Argentine President Nestor Kirchner righty deserves his exalted place in the continent's economic history. He defied foreign creditors and paid only a slightly quarter for every dollar that Argentina owed foreign bondholders. The result – as foreign debt payments amounting to billions of dollars were rechanneled to the domestic economy – was that Argentina went from depression in 2000 to 2002 to energetic growth that averaged 10 per cent from 2003 to 2008.

The challenge of the next three years

The challenge in the final three years of the Aquino administration is to lay a new macroeconomic paradigm for sustained development. Retaining the old neoliberal framework, though in more pragmatic from, will ultimately erode the gains the administration has made in successfully battling corruption and containing poverty via the CCT program. The economy may continue to grow impressively, but this alone will not be sufficient to reduce poverty and inequality. And rapid growth, alongside continuing or increasing poverty and inequality, is, as the history of revolutions has shown, a prescription for continuing social instability.

The president has shown his dogged determination in cleansing the government of corruption. Will he show the same crusading spirit for reform in economic policy by setting aside the conservatism and caution of his advisers and placing the country on a new, dynamic macroeconomic path?

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* http://www.waldenbello.org/global-poverty-down-philippine-poverty-remains-high/