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WHEN POLICIES AFFECT AVAILABILITY OF FOOD

Food is the largest item in the budget of low-income families. In the 1988 Family Income and Expenditures Survey (FIES), 50.7 percent of household expenditures went to food.

Food security at the household level depends on the affordability of food. Average household incomes, however, are still low that consumption of basic foods tends to increase as per capita incomes increase. Public policy should, therefore, aim to achieve food production targets, increase incomes of food producers and make food available to low-income households.

A study that focuses on public policies as they affect the production and supply of food was undertaken by a team of consultants through the Department of Agriculture (DA) with funding from the Asian Development Bank. A group of experts commented on the study's components during a conference-workshop co-sponsored by DA, PIDS and the Philippine Economic Society held on 26 March 1992 at the Asian Institute of Management.

The foodcrop sector policy study is an attempt to analyze past and current policies on pricing, tariffs, trade and marketing, investment incentives, subsidies and regulation in the foodcrop sector. It identifies institutional measures required to enhance the efficiency of the sector and outlines a public investment program in support of the Philippine Agricultural Development Plan for 1990-1995.

Toil from Soil

Agriculture has a great social and environmental significance. Agricultural growth increases rural income, reduces poverty and provides work opportunities. Its stagnation, on the other hand, depresses rural income, thereby, increasing the gap between rural and urban incomes. It also contributes to urban problems, as the rural poor flock to the cities to seek opportunities they cannot find in the countryside.

What is the country's experience in agriculture? The sector grew by an average of 2.4 percent a year in the past decade. Employment in the sector also grew at the same rate. However, the rate of population growth estimated at 2.5 percent over the same period, has levelled off whatever gains have been achieved. The mediocre growth of agriculture has been largely blamed on the policy biases against the sector as a result of trade protection, high rate of population growth, unequal land distribution, and limited access of the rural poor to essential services such as transport, farm inputs, health, education and credit.

Producers Are Also Consumers

Rice and corn are the country's staple crops. They are also the main sources of income for the majority of small farmers. In 1991, these crops accounted for more than one-half of the total cultivated area and two-fifths of the value of total crop output. Moreover, about one million people or one-third of the rural workforce were engaged in the production of these crops.

Since producers are also the consumers, a possible conflict arises when the government tries to close the gap between rural and urban incomes (estimated to be 50% in 1988)

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Editor's Note

"Health is wealth" goes a proverbial phrase. As such, government strives to provide its people with the necessary health care, recognizing the fact that a healthy citizenry contributes positively to a nation's growth and development, and that health care is a public good anyway.

In the Philippines, the Medicare -- the country's social health insurance -- envisions to cover the entire population. Studies, however, suggest that this may not be readily feasible since implementation of Medicare's Phase I, covering the regular wage-earners and the self-employed, has experienced a lot of problems and difficulties.

Making health care accessible to all would also mean correcting the other biases in the sector, i.e., the double-standard pricing of drugs and the pro-rich alternative financing schemes. The IHPP studies described in this issue address these concerns.

Meanwhile, the government is pushing its drive towards economic liberalization. Related to this is the review of commodities recommended for import liberalization. In this issue, PIDS Research Associate, Lorelei de Dios, provides a list of the remaining regulated commodities and the reasons for such regulation.

When Policies Affect...
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through food pricing policy. Rice and corn farmers have little marketable surplus and, thus, any increase in the price of these staple crops will ultimately hurt them.

Importing rice and corn under a fully liberalized regime, on the other hand, to meet the demands of a burgeoning population for more affordable food (food security) is not practical when almost half of the population are still engaged in agriculture.

Securing Food Supply

The study argues that self-sufficiency and consequently, food security can be achieved if the agricultural system is able to supply the domestic market with food at prices competitive with imports. This can be done by reducing the cost of food production through effective research and better policies on input supply, marketing and infrastructure so that producers enlarge their incomes even when consumer prices are actually decreasing.

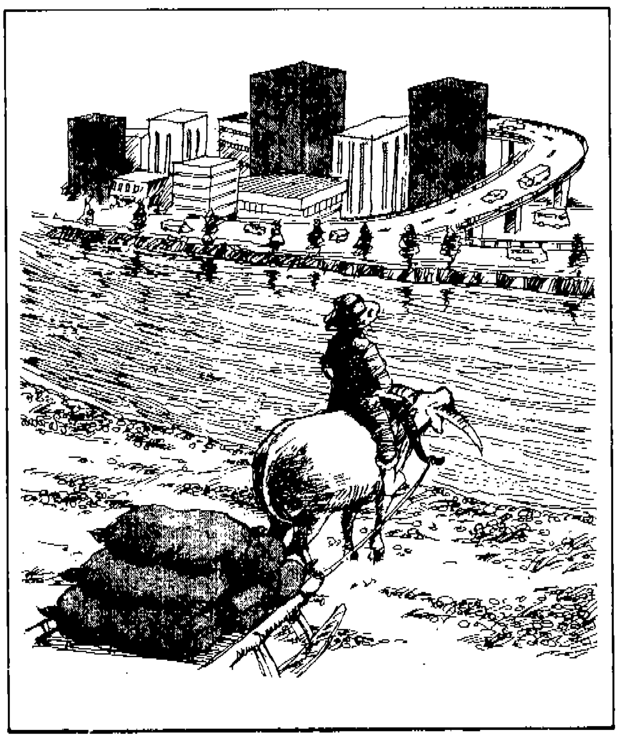
More resources should be allocated for research and their use should generate adequate flow of technical improvement in order to raise yield per hectare. Adequate yield can also be assured by adopting improved post-harvest methods. At the very least, farmers should not be burdened with "protected" fertilizer prices.

Intervention in the rice market should aim to stabilize prices in the face of fluctuations in the world market. This can be done through a variable tariff levied on imports, rather than outright import controls. Corn which is used for livestock and, thus, has linkages with other sectors, should be allowed to seek its own price levels by eliminating protection. Vigilance, however, is needed to ensure that public policy (such as allowing cheap supply of competing grains as food aid) does not undermine the domestic market.

Allocation of resources should be geared towards rural programs such as rural roads and social services, notably education. Investment programs should be set at realistic levels given resource constraints and the need of return to investments. In particular, spending will be required to rehabilitate, maintain and extend irrigation facilities.

> *'Food security can be achieved if the agricultural system is able to supply the domestic market with food at prices competitive with imports.'*

The study also notes the importance of supportive macroeconomic policies to agricultural development. Agricultural products are tradable and, hence, the exchange rate affects the profitability of producing for export and the price of competing imports. An overvalued exchange rate undercuts profits for exports and cheapens imports.



What the Experts Say

In reacting to the **research and extension** component of the study, Dr. Crisanto Escaño, Director of the Philippine Council for Agriculture, Forestry and Natural Resources Research Development (PCARRD), lamented the poor investment in agricultural research. This, he said, can be addressed by demonstrating the usefulness of research and development (R&D) and by lobbying for higher government spending on R&D.

Dr. Escaño also pointed to (1) the weak linkage between research and extension especially with the transfer of the extension function to the local government units under the Local Government Code; and (2) the continuous conversion of prime agricultural lands to other uses. He suggested that the research network establish formal linkages with local government units and that government adopt an incentive system that guarantees a high appraised value for agricultural lands.

Dr. Felipe Medalla of the University of the Philippines' School of Economics commented on the component on **terms of trade, transport, infrastructure, marketing and post-harvest.** He agreed that an overvalued currency penalizes agricultural exports, but this, he said, is also true for all other exports.

To address underinvestment in rural infrastructure, he suggested devolved fiscal powers to generate revenues, reformed land taxation and a change in the system of protection in addition to a reduction

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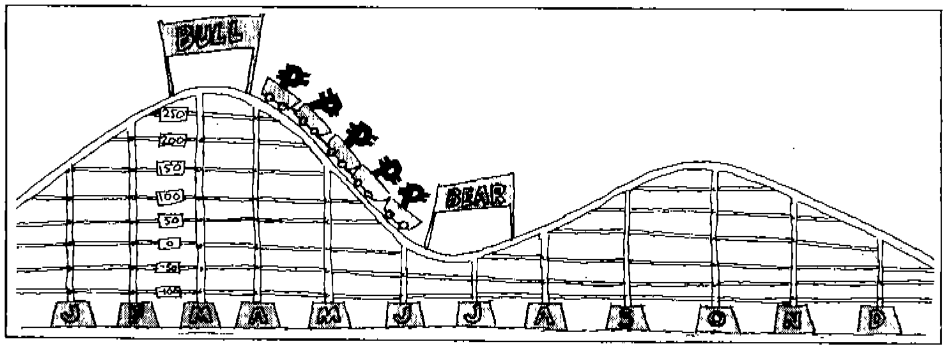
ARE STOCK MARKETS EFFICIENT?

"Fluctuating...risky...speculative... guess work..."

These are but some of the common notions about stock markets. But, how true are they? And are stock markets really inefficient?

Stock markets *are* efficient, says Dr. Villamor Vital, Vice-President at All-Asia Securities Management Corporation. In a *Pulong Saliksikan sa PIDS* held on 8 April 1992, Dr. Vital shared some of his findings on the efficiency of the Philippine stock market. He presented the two opposing views on the stock market -- on one hand are those that consider stock markets as efficient and on the other, those that regard them as pure guesswork.



Stock Markets Are Efficient

The first view maintains that the stock market is efficient if it equals the rate of return on investment *without* risk. This condition, said Dr. Vital, is very unrealistic. It presupposes that there is no transaction going on which is impossible. How can anyone imagine an investment without risk?

Moreover, according to Eugene Fama, an "efficient market" theorist, the economy benefits when stock prices reflect fundamental values because investment funds flow to the most valuable user. The fundamental value is the price an investor is willing to pay for the stocks at the current period. It is equivalent to the sum of stock dividends for a specified period of investment and the expected price at the end of this period. This sum is further divided by the current risk.

This view, said Dr. Vital, assumes that all investors are wise and expert in quantifying risk in the market. This is not an easy task. In addition, the fundamental value cannot be measured by dividend payments alone. The current asset ratio of the company issuing stocks should also be considered. In fact, fundamental values of a company should be reflected in the price of its stocks. Otherwise, the company is overvaluing the potential returns on investment. Furthermore, the expected returns should be constant and equal to the interest rate. If returns deviate from the interest rate, it is only due to the new information about future profits. Investors should still expect future returns to be constant and equal to the real interest rate. In other words, if prices increase more than expected, investors should not expect them to continue increasing just because they did so in the past. Likewise, investors should not expect the price to grow moderately to offset the unexpected increase.

> *"If stock prices do not reflect the fundamental values, the stock market will not direct investment funds to where they are most valuable."*

A Guessing Game

Meanwhile, on the other end of the spectrum are the pessimists of the stock market. These analysts claim that stock markets are inefficient. But Dr. Vital argued that the perceived inefficiency of stock markets has no basis. Prices often overreact to new information thereby exceeding the fundamental values of the company. If stock prices do not reflect the fundamental values, the stock market will not direct investment funds to where they are most valuable. This is true in an inefficient market where stocks of low fundamental values can become overvalued and vice versa. In this way, inefficient companies are able to raise more money than the efficient ones in the equity market.

And who are responsible for this overreaction? The "feedback traders" or the "speculators" in the market. They "buy in good news and sell in bad news" which should be the other way around.

Mean Reversion

Both views believe that the normal trend is to revert to the fundamental value of the mean after stock prices have gone above or down the level. For instance, interest rates that have gone higher or lower than the fundamental value of the stocks will go back to the mean. That is why mean reversion is considered a gauge in the efficiency of the stock market.

However, establishing a standard mean remains a big problem. In fact, there is no single mean price for any stock in the world. The price mean of a stock adjusts to the profitability of the company at any given period. A company's profitability is usually anticipated by the bull market between six

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IHPP STUDIES STRESS CORRECT PRICING OF HEALTH CARE

How viable are health maintenance organizations (HMOs) as alternative financing schemes? How are drugs used by households? What determines their utilization? These were among the issues raised during a forum held on 11 March 1992 at the NEDA sa Makati Building.

Dr. Ma. Concepcion Alfiler of the UP College of Public Administration and Ms. Ma. Cristina Bautista of the Ateneo de Manila University presented the final results of their individual studies under the PIDS-International Health Policy Program (IHPP) Research Project for the Philippines in a policy dialogue attended by officials and technical staff of the Department of Health.

Conducted two years ago, the joint project was part of a larger program managed by the World Bank, World Health Organization and Pew Charitable Trust which support efforts of developing countries to examine health issues useful to policymakers.

The forum for the presentation of the final results, according to PIDS Vice-President Dr. Mario Lamberte who formally opened the dialogue, is also a venue where important issues on health can be raised as inputs to a health policy agenda for the next administration.

"Doctor, Doctor I Am Sick"

When a person gets sick, he has several options. He either goes to a government provider of health care or a private one. If he chooses a private provider, he either pays out-of-pocket or waits for care. In an HMO set-up, the consumer need not worry of outright costs as he would in a traditional set-up, but the provider controls the consumer's use of the system.

Based on the findings of the study "Health Maintenance Organizations As Alternative Financing Schemes in the Philippines," Dr. Alfiler found out that HMOs reduce cost of health care but only for people who can afford it. HMOs, she said, operate in a relatively uncontrolled environment and gain considerable profits because they are able to stress the need to keep members healthy. Furthermore, the risk associated with costs of any member (now kept to a minimum) is spread across a large group in a risk-sharing mechanism.

HMOs' operations combine financing and delivery of health care, thus, eliminating third party payment. HMOs hire providers or enter into contractual arrangements with them. They have relative advantage over other forms of health financing because with the pooled share of members, providers are encouraged to give care in a controlled utilization process. From the consumers' point of view, HMOs are desirable because they include outpatient services, do not entail out-of-pocket costs and allow flexibility of choices.

Face-to-Face with HMOs

As of the period of the research, there were 19 HMOs with an estimated combined membership of 400,000. Sixteen of these were investor-based, two were consumer-based and the other one was employer-initiated. There were also two innovative schemes -- the government pilot project wherein the Philippine Medical Care Commission (PMCC) entered into a tie-up project with two HMOs, and the unique private-government health plan of Makati.

HMOs either operate their own hospitals or affiliate with insurance firms. They affect the supply and demand for health services and, thus, the pricing of medical costs. Despite positive feedback from the clients, there were many areas where the operations of HMOs can be improved. HMO members, for example, complain of (1) exclusion of some diseases in the coverage; (2) conflicting diagnosis by staff doctors; (3) unavailability of hospital rooms; (4) "second class" treatment by accredited doctors; and (5) not-so-ideal relationship of HMOs and doctors/hospitals.

Although the two innovative schemes earlier mentioned are not HMOs in a strict sense, Dr. Alfiler also included them in her study. She learned that the PMCC-HMO project provided Medicare members with outpatient services and increased their fee ceilings at no additional cost. The project which covered only Metro Manila-based companies ran for two-and-a-half years and ended in February 1991. It has not resumed pending full evaluation of its viability.

The Makati Health Plan, on the other hand, is the contract entered into by the Makati municipal government with the Makati Medical Center, a premier private hospital, to provide health services to indigent residents and municipal employees of Makati. It is the only existing scheme of its nature.

When dealing with HMOs, the government could choose from among the policy options drawn from the study. These choices range from a staid adopt-no-specific policy to a stern recommendation of complete government regulation of HMOs. Dr. Alfiler, however, recommends an in-between option whereby government monitors the operations of HMOs and consumers could easily obtain information needed in making the right choices.

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MAKING HEALTH CARE AFFORDABLE TO ALL

Social health insurance is sensitive to the economic development of a country. If given the chance, the government wants to provide affordable health care to everybody but then coverage always encounters a setback whenever the economy experiences a crisis.

The Baseline Studies for Health Care Financing Project of the Department of Health and PIDS therefore includes a study on "The Performance of Medicare I: An Economic Evaluation" by Ma. Luisa Beringuela. The study will assess the effects of the Medicare program on the equity and efficiency of the utilization, delivery and financing of health care.

Ms. Beringuela presented her framework in a seminar held on 15 April 1992 at the NEDA sa Makati Bldg. The framework examines the following Medicare features: (1) effects of Medicare on the distribution of health care among different population groups and whether it has succeeded in covering a significant number in the lower income brackets (coverage); (2) effects of Medicare on the utilization of health resources, structure of the health delivery system and rationale for covering outpatient care (benefit package); (3) benefit utilization and support value (Who benefits from Medicare?); (4) financing (Who actually pays for the payroll tax imposed on the members?); and (5) cost inflation in the health sector (reimbursement scheme).

The Medicare Scheme

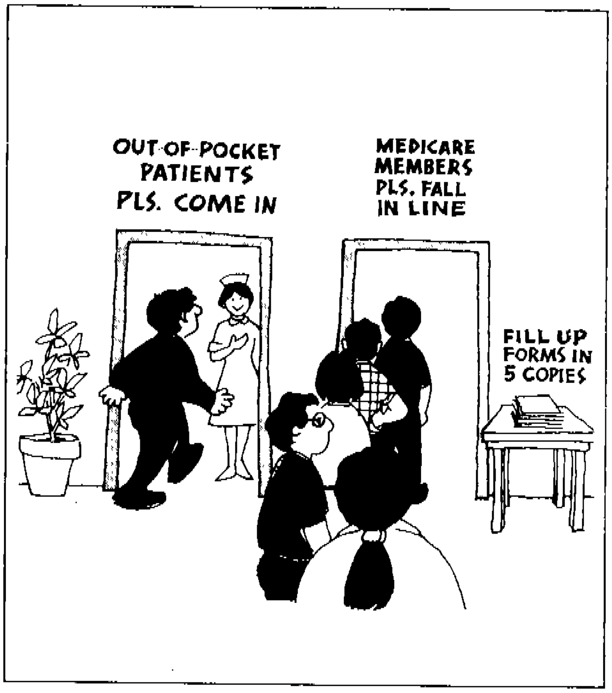
Medicare, the social health insurance in the country, was created in 1969 when then President Marcos signed R.A. 6111 known as the Philippine Medicare Act. The program was to provide medical care to Filipinos in a revolutionary way by offering them a viable financing mechanism. It was implemented through the construction of Medicare community hospitals in rural areas and the provision of hospital insurance.

For Medicare Program I, membership includes the employees of government and workers in the private sector, including those who are self-employed (effected in 1983 when self-employed workers who choose to join the Medicare under the SSS were included). Members automatically remit premium payments equal to 2.5 percent of their salaries. Employers pay an equal share.

A member can avail of hospital benefits by filling out the form provided by the hospital. Medicare shoulders part of the hospital bill, and the patient is required to pay the balance. From the start, Medicare did not aim to fully cover all hospital expenses. Its target support value has always been 70 percent. The patient, however, can choose the hospital, doctor, dentist and drugstore as long as these are duly accredited by the Philippine Medical Care Commission (PMCC).

Three agencies are directly involved in implementing Medicare Program I. PMCC, which is the overall policymaking body, and the two systems, Social Security System (SSS) and Government Service Insurance System (GSIS) are responsible for the day-to-day operations of the program.

Program II is envisioned to cover the rest of the population. Implementation has been shelved since PMCC foresees major difficulties in its implementation.



A Question of Equity

Future expansion of coverage depends on the economy's ability to sustain growth and on the achievement of structural transformation. In terms of regional coverage, 50 percent are in the National Capital Region. Expectedly, regions with higher Gross Domestic Product (GDP) have more workers employed in the formal sector and, thus, have higher Medicare membership.

The observed drop in membership as a percentage of total employment points to the fact that in times of crisis, formal

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Rational Drug Use

Filipinos' behavior on medicine use is an unexplored area. The study, "Determinants and Policy Implications of Drug Utilization Behavior in the Philippines" by Ms. Bautista is an attempt to see the pattern of drug choices by households and the prescription behavior of physicians. These information are relevant particularly when prices of drugs are escalating. Surely, with some 12,000 brands in the market today, Filipinos should know which drugs are the cheaper yet effective ones from among the lot.

The study was conducted at a time when the country was moving toward the adoption of a generics law as part of the national drug policy. It underscores the role of government in providing a legal framework from which consumers and providers make right decisions in the pharmaceutical market.

Choosing for Wrong Reasons

In a study of 270 urban and rural households, 78 percent perceive that cheaper drugs are less effective than the more expensive ones. Factors such as morbidity, supply of health services and population of an area bear on the attitudes and beliefs of consumers and, ultimately, on their health status.

On the other hand, socioeconomic factors do not figure significantly on these choices. Self-medication as a recourse, for instance, is largely due to the consumers' exposure to media and previous prescriptions more than to their income or education.

Families allot a miniscule portion of their income to medical care, even smaller than the allotment for alcoholic beverages and tobacco. Surprisingly, this is most glaring among families of low income.

Doctors Know Best?

These irrational practices and perceptions have their counterpart in the level of physicians. For example, some doctors categorize drugs into "those for the poor and those for the rich" regardless of their efficacy.

Furthermore, some doctors still prescribe drugs that have long been banned in many countries because of their high index of risk over benefit. Ten percent and 8.5 percent of total drugs prescribed contain butazone and glafenine, respectively -- toxic drugs for muscle pain.

The study partly traces the root of this irrational prescription to the existing relationship of doctors and producers or drug manufacturers. Despite shortcomings of the drug industry, many doctors rely heavily on information supplied by these companies. Since consumers' choice of medicine ultimately depends on what doctors prescribe, the study recommends an evaluation of the nature of such information.

Reforms Through Generics

The study supports generics. Medicines sold with generic names are five times cheaper than those with brandnames. Generic- prescribing weakens the relationship of doctors and drug companies since providers prescribe on the basis of effectiveness and consumers choose the most affordable product of the same drug indication. It also eliminates the double standard used by doctors and corrects the perception that cheaper drugs are less effective.

There is room to improve the implementation of the Generics Law; yet, that the rational drug use policy has become a national concern is in itself already an achievement.

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in NCR public investment. He warned against jumping into an unfounded recommendation such as privatization of the transport industry because even if this may reduce operating and capital costs, it may nonetheless result in monopoly pricing. A better policy would be to account for transport costs and address the causes of hidden costs.

The increasing number of competitors in grains trading does not justify additional infusion of resources into the National Food Authority. However, Dr. Medalla, said that "monopoly behavior" could still happen if the needed information are concentrated among a few traders.

There's More to Be Desired

Despite some reforms in agricultural lending, there's much to be desired, according to Dr. Mario Lamberte, PIDS Vice-President. The study component on **monetary and credit policies** failed to elaborate why agricultural loans as a ratio to gross value added and to total loans have declined since 1985.

Efforts should go beyond addressing the Central Bank deficit, rehabilitation of rural banks and easing bank entry and branching policies. A closer look at the portfolio of rural banks, for example, reveals that the share of non-agricultural loans to total loans has been increasing faster than that of agricultural loans. Guarantee schemes have likewise failed to substitute collaterals.

While Dr. Lamberte lauded wholesale lending through cooperatives and self-help groups and easing of bank entry and branching, systems must be put in place to guarantee their long-term viability.

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NIC STATUS POSSIBLE FOR THE PHILIPPINES

Will the status of a newly industrialized country (NIC) remain a dream for the Philippines? What are the conditions to drive its economy toward unprecedented growth?

The overall potential of the Philippine economy in the twenty-first century was the subject of discussion during a session of *Pulong Saliksikan sa PIDS* held on 23 April 1992 at the NEDA sa Makati Bldg. with the theme, "Recent Philippine Economic Development: An ASEAN Perspective." Dr. Gonzalo Jurado, PIDS Visiting Senior Research Fellow, compared the country's economic performance in the past 12 years with that of the other Asian nations and suggested the kind of performance standards that would allow the Philippines to become another NIC, that is, to attain an annual per capita income of approximately $2,000 by the year 2010.

Distress Indicators

Problems that beset the Philippines are in no way unique. Other Asian countries have several problems, too. In economic parlance, the country's distress indicators--fiscal deficit, current account deficit, terms of trade, foreign debt, inflation rate--were akin to those of the six Asian nations during the period 1980 to 1988.

Budget deficit, for example, was not an exclusive problem of the Philippines. Three other nations--Indonesia, Malaysia, and Singapore--shared this predicament. In fact, at 1.3 percent of the Gross National Product (GNP), the Philippines' budget deficit was much lower than Malaysia's deficit of eight percent of GNP. Dr. Jurado, hence, commended the country's fiscal managers for keeping a tight ship, at least until 1988.

Neither was the current account deficit confined to the Philippines. Indonesia's and Thailand's deficits were worse. While the Philippines' current account was 1.8 percent of its GNP, Indonesia has -1.9 percent and Thailand, -3.4 percent deficit.

The terms of trade, a measure of the country's capacity to import, improved by 20 percent from 1985 to 1988. Other Asian countries, in contrast, experienced only a slight increase or even a decrease (see Table 1).

The Philippines' long-term external debt was not the heaviest in this part of Asia. In per capita terms, a debt burden of US $408 in 1988 was lighter than Malaysia's US $1,019. Its long-term debt to GNP ratio of 62.6 percent was only marginally greater than Indonesia's 61.7 percent. Also, its interest payments on the debt, which was 7.6 percent of the GNP, was less than one-half of Malaysia's 16.5 percent.

The opposite can be said of inflation rates. The Philippines experienced the highest rate (15.6%) among the six nations, which was almost twice that of the second most severely affected country, Indonesia (8.6%). However, Dr. Jurado qualified this finding by saying that inflation can, to some degree, spur growth by boosting the profit possibilities of enterprises provided the accompanying rise in input costs does not squeeze out profit possibilities.

Simply put, the Philippines was not the only country that experienced harder times in the past decade.

Demands of the Dream

Yet, compared to the rest, the Philippines saw itself at the "bottom of the heap" from 1965 to 1988. Indonesia, Malaysia and Thailand averaged a 7.5 percent annual Gross Domestic Product (GDP) growth rate in 1965-1980 and 5.3 percent in 1980-1988. The Philippines, on the other hand, registered less than six percent and around one-tenth of one percent during parallel times. While the three countries' GDP per capita was increasing by an average of 4.1 percent in 1965-1980, the Philippines' was only 1.6 percent. Moreso, the nation pales in comparison to the flourishing economies of Singapore, South Korea, and Hongkong.

The cause of this mediocre performance, Dr. Jurado said, was policy-related. For one thing, the import-substituting policies in the 1950s to the 1960s failed to provide

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Table 1. Selected Asian Countries: Distress Indicators

Country	Inflation Rate 1980-1988	Fiscal surplus/ deficit as % of GNP 1988	Current Account surplus/deficit as % of GNP 1988	Terms of Trade (1985 = 1.00) 1988	Long-term Debt as % of GNP 1988	Long-term Debt Interest as% of exports of goods and services 1988
Philippines	15.6	-1.3	-1.8	1.20	62.6	27.7
Indonesia	8.5	-3.5	-1.9	0.74	61.7	39.6
Malaysia	1.3	-8.0	4.9	0.85	56.3	22.3
Thailand	3.1	1.0	3.4	1.11	29.7	15.7
Singapore	1.2	2.7	7.1	1.00	-	-
South Korea	5.0	1.6	9.3	1.02	16.2	11.5
Hongkong	6.7	0.7	2.3	1.07	-	-

Source: World Bank, *World Development Report 1990* (New York: 1990).

NIC Status Possible...
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the Philippine industries with a sufficient market to stimulate industrial growth and prepare the industries to compete in the international market. For another, the liberalization policies that began in the 1970s and continued to the present have not produced a sharp break from the past that could jolt the Philippine industries out of their complacency or push them to take advantage of opportunities in the foreign markets.

How then can the economy in the 1990s improve its poor performance? Dr. Jurado proposed a three-fold scheme: (1) accelerate the liberalization process; (2) improve domestic resource mobilization to raise revenues needed to close the fiscal gap and increase savings to finance investment; and (3) boost exports to correct the current account deficit.

Speeding up the liberalization process will invigorate the private sector into action. It will, at the same time, eliminate the budget deficit and close the savings-investment gap, which in turn, can slow down inflation. Improving exports will lessen the burden of external debt as well as reduce the need for additional foreign obligations.

Putting More Muscles

Export-oriented NICs such as Hongkong, Singapore, Taiwan and South Korea succeeded in sustaining growth measured in terms of their economic indicators. They all adhered to free markets, relied on private initiatives with strong government support, and developed an energetic export drive. Three of these countries, however, achieved their high economic growth at the expense of the people's freedom and/or natural environment. The Philippines, according to Dr. Jurado, would not want to expose itself to the same pitfalls.

Dr. Jurado expressed optimism on the potential of the economy for accelerated growth based on its performance after the EDSA Revolution. From 1987 to 1989, GDP grew by as high as six percent on the average, while exports expanded by an average of more than 16 percent.

Attaining the level of NICs, in Dr. Jurado's assessment, is not a distant dream. It is possible by, say, 2010, but the country has to flex more muscles to attain the dream. First, the GDP rate for the next 18 years must average eight percent; second, population growth rate must taper off at two percent;third, gross domestic investment must reach 15 percent at least for the next five years; and finally, exports must grow by 10 percent.

Yes, the growth will be nothing but dramatic. But then, with the country's vital resources— physical and intellectual human resources--at its disposal, the dream can come true. The Philippines can, in many ways, fill up the gaps in its resource needs other than beg for aid. What it needs urgently at present is the collective will and determination to achieve its aspirations.

Are Stock Markets...
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months to one year. On the other hand, the decreasing profitability of a company is reflected in the bear market, also between six months to one year.

The New Efficient Market Theory

Dr. Vital does not fully subscribe to both efficient and inefficient market theories. He then presented the "new efficient market theory" which believes that stock markets, whether they revert to the mean or not, are efficient. Mean reversion is just a signal that stock markets are efficient because the behavior of stocks can be analyzed. The analysis, then, will enable investors to anticipate the price of stocks. The mean reversion of stock markets also implies that stocks are adjusting to the developments taking place in the economy. Dr. Vital pointed out that there will always be over- and underestimation of prices of stocks in the market. This is where profits or losses come in – which is precisely what makes the stock market more dynamic and efficient. But losses can be prevented by understanding the market and preempting moves by the "speculators."

Less Intervention, Please

Measures by the Central Bank to liberalize the foreign exchange have been most laudable. The period of transactions has been reduced from 30 to four days.

To further improve the investment climate, Dr. Vital suggested that policies should be market-free to enable companies to get equity for the stock market with less distortions. In addition, the government should put an end to placing fiscal agents in the board-of-directors of companies to allow them (companies) a free hand in issuing dividends and expanding capital.

Meanwhile, the listing and transfer requirements should be simplified. Many small and medium industries find it hard to comply with the requirements imposed by the Securities and Exchange Commission (SEC). Proper rating for companies should likewise be established. The government and the private sector should also develop a professional group of security analysts similar to the Certified Financial Analysts (CFA) in the US.

When Policies Affect...

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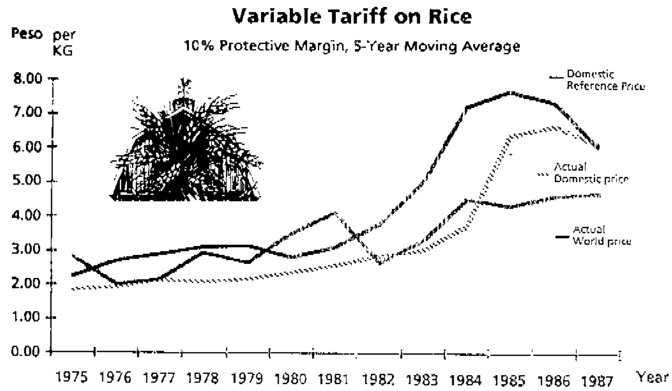

Meanwhile, PIDS Visiting Senior Research Fellow Dr. Gonzalo Jurado commented on the macroeconomic policies cited in the study. In general, suggestions to speed up liberalization and correct fiscal deficits and overvaluation of the currency are congruent to an environment conducive to growth. He made special mention of the potential of the country as a rice exporter which the study finds "unlikely." The problem, he said, lies not in the shortage of supply relative to demand but in the inflation of prices. Technological advances can help translate production targets into real economic gains.

On a related matter, investment incentives, if at all, must be export-oriented but agriculture-friendly and that reforms in monetary policies must be translated into concrete programs and strategies.

Dr. Cielito Habito, NEDA Deputy Director-General, analyzed public expenditures in agriculture. Although data are sketchy on the actual government expenditure to agriculture (GEA), it appears that the sector gets more on a share basis. The more relevant issue, therefore, is whether GEA is allocated efficiently and effectively. Given limited resources, a more pragmatic approach is to determine the factors that impede growth and identify the nature and level of expenditures that would best address these impediments.

Equally important in the analysis of public expenditures on agriculture are the (1) distributional impact of GEA; (2) degree of public sector involvement in agriculture; and (3) success of government in attracting private sector participation in agriculture.

Private participation in the aspects of pricing, trade and marketing, and investment was discussed by Dr. Cesar Saldaña of PSR Consultancy. He noted an industry-biased, interventionist policy in trade that inadvertently penalizes agriculture. Even policies in banking and infrastructure do not support agriculture. Hopefully, ongoing talks to restructure policies in the industry sector vis-a-vis agriculture will prosper.

More of Equity and Capital

The country should rely less on debt and more on equity in financing development projects. It should explore the possibility of trading quasi-debt issues in the market. This can be done by government firms going private like the Philippine National Bank (PNB), National Steel Corporation (NSC) and the Philippine Airlines (PAL). In terms of public works projects, investing in bonds which can be converted to equity and traded in the stock market is a promising measure. This will require a separate body in the stock exchange to monitor bond trading just as it has been done successfully in the West.

Mutual funds may also be developed to help the stock exchange in generating capital. However, there are a lot of things needed to develop mutual funds. The net asset value (NAV) performance of companies should be monitored daily. There should be a good rating agency for fund operators and good management of funds. In addition, there is a need for an agency which will oversee enforcement of appropriate rules rather than regulate capital formation. A separate body that will conduct more research on incentives should likewise be established. In other words, the present atmosphere is not yet ripe for the development of these requirements in the country.

A Unified Stock Exchange

Meanwhile, talks of unifying the Manila and Makati stock exchanges have been brewing. After all, there are a lot of advantages in having a single stock exchange.

First, there will only be one standard closing price for all stocks in the country. Second, a lot of time will be saved in terms of messengerial work, systems and procedures as well as bank clearing. Third, it will be relatively easy to settle transactions in one place.

Concomittantly, if the stock exchanges are to be unified, transactions should be computerized. In addition, both the stock exchanges should come up with a single list for procedure for all stocks.

Unifiying the two stock exchanges, however, poses a political question. Who will survive to manage the new single stock exchange? Nevertheless, even with two separate stock exchanges, the stock market will always remain profitable and attractive for those who know how to analyze the market.

TOWARDS A COMPETITIVE PHILIPPINE INDUSTRY

To intervene, or not to intervene. This is the query of a current PIDS project, the Development Incentives Assessment (DIA) research program.

The DIA is a three-year research program that commenced on 15 July 1991. It scrutinizes trade and investment policies in the Philippines, with a special focus on government intervention. It aims to formulate an overall trade and investment policy framework that will enhance the efficiency of the industrial sector. The program is funded under the Technical Resources Project, a project grant agreement between the National Economic and Development Authority (NEDA) and the United States Agency for International Development (USAID).

The project's framework and preliminary findings based on the review of literature and initial analysis were discussed in a seminar-workshop held last 19 March 1992 at the Operations Room, NEDA sa Makati Bldg. The presentors were DIA Project Director Dr. Erlinda Medalla, also a PIDS Research Fellow, and Ms. Lorelei de Dios, PIDS Research Associate.

Looking In

Industries are shaped by policies in trade, investment, and those covering the progressive manufacturing programs. In the 1950s, the country adopted an inward-looking, import-substituting industrialization strategy. This led to a limited labor absorption that resulted to limited industrial growth. Trade was liberalized as the years passed, but not enough to elevate industries to international levels. Biases against and penalty to exports remained, and the effective protection rate (EPR) structure stayed uneven.

Free Trade Begets Investments

Philippine experience tells a sad story — protection, tariff and import controls in the past hampered investments. Not even an investment incentives system could improve the inflow of resources which were badly needed for industrial growth.

An investment incentives system was institutionalized with the enactment of the 1967 Investments Incentives Act, supplemented by the 1970 Export Incentives Act. These two laws underwent many amendments through the years. A related law, Batas Pambansa 391, was passed in 1983. The latter law and the amended Incentives Acts were codified by Executive Order 226 -- the 1987 Omnibus Investments Code. The Board of Investments (BOI) administers the investment incentives system.

In all the component studies of the DIA project, one truth stands out -- the cornerstone of trade reform is an environment conducive to industrial growth and productivity. This, according to Dr. Medalla, can be accomplished by eliminating policy-induced distortions.

The DIA project recommends greater trade liberalization and a near-uniform tariff structure across commodities. These reforms plus quantitative restrictions prompted only by security and health reasons constitute a neutral policy environment which is not bad for a start.

The overall industrial policy must aim to create a conducive neutral environment, complemented by industry-specific assistance, more efficient forms of intervention and specific criteria for decisionmaking.

Government Hand Once More

Dr. Medalla acknowledged that government intervention in itself is not bad. What matters is the timing and manner of intervention. The recent past **shows** that untimely interventions caused fatal distortions in the economic climate.

Government would do well to limit intervention to a select few industries (not more than 5), intervening at a rate of one industry at a time. Moreover, intervention which should only last for a prescribed period, must result in the attainment of dynamic efficiency according to international competitive standards. After the lapse of such period, intervention must stop whether dynamic efficiency was achieved or not; then it would be time to intervene in another industry.

Investments from Tax

The DIA project proposes to raise the level of investments by amending the Tax Code to incorporate incentives for all enterprises -- small-, medium-, and large-scale. In this manner, there would be a source of investments outside the BOI. Tax incentives may be in the form of accelerated depreciation as widely practised in the US or reduced income taxation with respect to the use of unskilled labor. However, implementing the Tax Code with these incorporated incentives requires additional administrative work, something the Bureau of Internal Revenue (BIR) cannot handle at the moment. For the meantime, the granting of incentives is lodged solely on the BOI. The next Congress might find the propriety of these proposals and amend the Tax Code accordingly. O

A REVIEW OF THE REMAINING REGULATED COMMODITIES

by *Lorelie de Dios*
Research Associate, PIDS

The import liberalization program has been implemented in two phases: the first one in 1981-82 and the second in 1986-88. Despite the interruption caused by the 1983 economic crisis, deregulation, to some degree, occurred between the two phases. Figure 1 shows this trend. It also shows the annual number of commodities regulated from 1970 when the Central Bank issued Circular 289 defining the commodity groups as they are used today, until 1984 when regulations stopped. Regulations were most pronounced in 1970, 1982 and 1983.

The major commodity classifications of the goods ever regulated as well as those liberalized (as of this writing) are given in Table 1. Almost half (47.6%) of all commodity Philippine Standard Code Classification (PSCC) lines were subject to some form of regulation anytime between 1970 to 1984. The most frequently regulated items were beverages and tobacco at 93 percent and food at 85 percent. Miscellaneous manufactures, commodities not elsewhere classified (n.e.c.), and manufactured goods were the next highly-regulated items. On the other hand, of those regulated, beverages and tobacco, and animal and vegetable oils have been completely liberalized while food, crude animal and vegetable materials, manufactured goods, and miscellaneous manufactures groups have almost been totally liberalized.

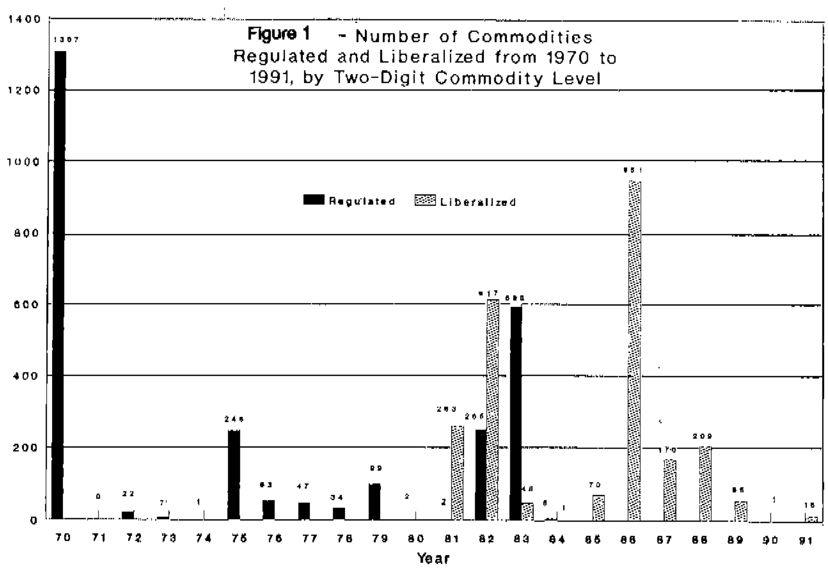

Figure 1 - Number of Commodities Regulated and Liberalized from 1970 to 1991, by Two-Digit Commodity Level

What Remains to Be Seen

The remaining regulated commodities officially consist of those (1) recommended for liberalization (List A), (2) for review (List B), and (3) for continued regulation for reasons of public health, safety and/or national security (List C). Table 2 details these lists, and gives the licensing agencies as well as the value of 1991 imports. Lists A and B which consist of 299 commodities that are in the liberalization pipeline, make up 12.12 percent of total 1991 imports. List C has 106 goods, and it is only 0.81 percent of the 1991 total imports.

More than one-third (38%) of the remainder consists of machinery and transport equipment, and another third (31%) is food. The rest is made up of chemicals and chemical products (15%), petroleum and coal (4.4%), commodities n.e.c. (4.2%), miscellaneous (2.4%), and manufactured goods classified by material (2.4%). Frequency tabulations are, of course, inadequate indicators of the importance of the restrictions; nonetheless, the composition of these items shows which are the "hardcore" either by accident,

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Table 1 - Number of Regulated and Liberalized Commodities by Major Commodity Group

Commodity Group	Total No. of PSCC Lines	Number Regulated		Number Liberalized	
		Total	% of Lines	Total	% of Reg.
0 Food & Live Animals	739	628	85.0	594	94.6
1 Beverages & Tobacco	71	66	93.0	66	100.0
2 Crude Materials	481	65	13.5	64	98.5
3 Mineral Fuels	59	22	37.3	4	18.2
4 Animal & Veg. Oils	59	3	5.1	3	100.0
5 Chemicals	678	166	24.5	107	64.5
6 Manufactured Goods	1568	848	54.1	838	98.8
7 Machinery & Transport Equipment	1013	234	23.1	145	62.0
8 Miscellaneous Manufactures	874	589	67.4	576	97.8
9 Commodities, n.e.c.	90	58	64.4	5	8.6
TOTAL	5632	2679	47.6	2402	89.7

policy intent or because of effective lobbying by the industries affected.

On the other hand, actual import shares are not an ideal reference for the strength of the restriction because many are essential imports or are part of local assembly programs. For example, the bulk of 1991 imports consists of consumer electronic product parts (5.15%), refined petroleum products (1.9%), passenger cars (1.8%), and fertilizers (1.17%). Together, these items share only 12.92 percent of total imports. Dangerous drugs are excluded since they are classified according to generic names rather than commodity lines.

Licensing agencies allow importation of regulated commodities if there is insufficient domestic production of local substitutes of the same quality and at a comparable price. This regulation, usually backed by an industry-protective rationale, results in low import shares and rampant smuggling. Furthermore, it usually covers consumer goods making these relatively scarce; smuggling, thus, becomes profitable because quality differences between the local and imported products are wide.

To illustrate the idiosyncrasies of import regulations: (1) frozen meat imports are allowed up to 50 percent of the amount applied for, and only by meat processors and hotels; (2) canned meat products are banned; (3) *bangus* is not allowed; (4) garlic, onions, potatoes, and cabbages are limited only to planting materials; (5) coffee beans and processed coffee are not allowed except for hotels; (6) phosphatic fertilizer of the locally-produced type is not allowed; (7) white sugar is allowed only for food processors; (8) completely-built-up cars, buses, and trucks are not allowed; (9) automotive spare parts are allowed if the local association gives its consent; (10) consumer durables are allowed if not in commercial quantity and for end-use purposes only, and if the association gives its consent; (11) used trucks below 18 tons are not allowed; (12) unavailable grades of coal and coal derivatives are allowed. Inspite of these restrictions, foreign brands of a number of these "disallowed" imports abound in the market.

There are legal bases for these restrictions. At least two of the restricted product groups are covered by laws, citing numerous justifications for the restriction among which is industry-protection: R.A. 1296 enacted in 1955 for potato, onion, garlic, and cabbage and R.A. 2712 of 1960 for coffee. Used clothing, just liberalized in 1986, is now covered by another law, citing national dignity as a justification. Game cocks are regulated because they are a luxury, and color reproduction machines are restricted because of the likelihood that they will be used in counterfeiting operations.

Apart from the R.A.-backed product lines -- which attest to the difficulty of dismantling restrictions -- there is a group of commodities listed under Memorandum to Authorized Agent Banks No. 37 issued by the Central Bank in 1983. The CB regulation, supposedly a temporary measure to discourage the outflow of foreign exchange, empowers the BOI to monitor imports of some 300 previously freely-importable, high-tariff items. Nine years after, however, fresh, frozen, dried, or smoked *bangus*, smoked sardines, fresh or preserved shrimps and prawns, canned herring, canned salmon, sugar, glycerin, live chickens, live ducks and geese, live turkeys and other live poultry, breeding cocks, and rice and corn are still regulated.

The most entrenched restrictions which are likely the last to be dismantled are those covering machinery and transport equipment because of the progressive manufacturing programs initiated in 1973. Import restrictions are an essential aspect of the programs, and despite the clamor for removing these or even converting them to tariff, liberalization is not yet possible because of the need to assure the car assemblers of a return to their investments.

More Grey Areas

Another area of contention in import liberalization is the consistency of evaluating an import application. Discretion is probably narrower for items regulated for reasons other than protection, e.g., public health and safety, and national security. Obviously, a person evaluating an import application for such reasons has very exact guidelines on which to base his decision and, therefore, be less arbitrary than the one who has to think about local demand and supply balances, quality and relative prices. Examples of goods regulated for public health and safety reasons are animal and animal effects, chemicals, antibiotics, pesticides, pyrotechnics, used tires, floating structures and ammunitions and firearms. Rice and corn, refined petroleum products, fertilizers, used vessels and warships, and banknotes and coins are regulated for national security reasons although there is an industry-protective element in restricting some of these.

Likewise, discretion is possibly wider for goods regulated for protective purposes precisely because the criteria used

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Table 2
1991 IMPORTS OF THE REMAINING REGULATED COMMODITIES

2-digit PSCC	Commodity	List	Number of Items	Licensing Agency	Imports (CIF $)	% of Total Imports
00	Game cocks	A	1	CB, BAI	131,519	0.001
	Animals & animal effects	C	15	BAI	5,946,331	0.05
01	Meat	C	16	BAI	18,852,423	0.15
	Meat products	B	31	BAI	296,010	0.002
03	Fish & fish preparations	B	36	BFAR	5,581,883	0.04
04	Rice and corn	C	12	NFA	202,283	0.002
05	Potato,onion,garlic,cabbage	B	4	BPI	10,605	0.00009
06	Sugar	B	3	SRA	29,659	0.0002
07	Coffee	B	9	ICOCA	68,625	0.0005
26	Used clothing	B	1	DSW, DOH	183,473	0.001
32	Coal & derivatives	B	3	ERB	77,178,534	0.60
33,34	Refined petroleum products	B	15	ERB	245,312,479	1.90
51	Chemicals for explosives,	C	6	PC-FEU	35,844,904	0.28
52	other chemicals	C	6	DOH		
54	Antibiotics	B (to C)	23	DOH	41,481,539	0.32
56	Fertilizers	B, C	19, 1	FPA	149,965,071	1.17
57	Pyrotechnics	C	2		2,341	0.00002
59	Pesticides	C	7	FPA	25,263,091	0.20
62	Used tires	B, C	2, 6	BOI	2,207	0.00002
66,69	Raw materials for consumer electronic products	B	2	BOI	6,881,254	0.05
72,74	Consumer durables, &	B	20	BOI		
76,77	electronics products	B	17	BOI	20,532,438	0.16
76,77	Parts of consumer electronic products	B	49	BOI	662,707,310	5.15
75	Color reproduction machines	C	3	CB	4,826,109	0.04
78	Passenger cars & jeeps	B	20	BOI	231,937,965	1.80
78	Trucks & buses	A,B	2,9	BOI	52,721,917	0.41
74,78	Motor vehicle parts	A,B	5,9	BOI	2,130,187	0.02
78	Motorcycles & bicycles	B	10	BOI	33,509,634	0.26
78	Motor vehicle accessories			BOI	21,438,228	0.17
77	Lamps & batteries	B	8	BOI	5,232,200	0.04
79	Floating structure	B	1		50,827	0.0004
	Used vessels and warships	C	5	MARINA	902,438	0.01
89,95	Ammunitions and firearms	C	24	PC-FEU	3,269,273	0.03
89,96	Banknotes and coins	C	2		9,153,465	0.07
94	Animals	C	1			
no PSCC	Dangerous drugs	C		DOH	1,661,666,222	12.92
		List A			18,969,184	0.15
		B			1,538,414,380	11.97
		C			104,282,658	0.81

are variables and there is actually an inherent need to limit imports. On the other hand, the opposite may be said of commodities regulated for public health and safety reasons--narrower discretionary powers but no inherent need to limit imports.

Lesser Imports, Higher Prices

To find out the effects of import restrictions on relative prices, the ratio of domestic to world price (Pd/Pb) was computed for 145 commodities from 1985 to 1990. Data on domestic wholesale prices from the National Statistics Office (NSO) and on unit import values in Hongkong were used as Pd and Pb, respectively. A typology of goods (Tables 3a to 3d) depending on their price ratios (whether lesser or greater than one) and import levels (whether or not in excess of $100,000, which is taken to be a substantial amount) helps explain the behavior of price relatives and imports of both restricted and liberalized commodities.

Domestic prices below border prices characterize goods listed in Tables 3a and 3b. Imports are insubstantial for those listed in Table 3a, and the commodities are either nontradable or exportable. There was no change in the price ratios after deregulation, perhaps because prices depend on demand patterns, while import movements were either positive or zero. In Table 3b, where imports are substantial, the goods are tradable with quality differences; liberalization pulled down relative prices and boosted imports.

The expected results are exhibited by goods in Tables 3c and 3d, where price ratios exceed one. Substantial imports are shown by commodities listed in Table 3c which carry high tariffs, and are either nontradable, perishable, or have high weight-to-value ratios, i.e., the natural import-substitutes. Liberalization may have narrowed the price gaps but the import changes were not unidirectional. The most normal results are for goods listed in Table 3d, where import levels are substantial. Here, price ratios dropped and imports went up for some goods and down for others.

Most of the remaining regulated goods whose price ratios were computed behaved as expected, with Pd/Pb exceeding one and imports remaining at low levels. Surprisingly, many of these ratios were on the decline.

There are a number of cases where the tariff exceeds the price ratios, involving 12 liberalized and five regulated items. This phenomenon is caused either by large quality differences that are reflected in low domestic prices, or by smuggling which renders the tariffs redundant. Where imports are zero or nil, the tariff is also redundant.

On the whole, liberalization narrowed price

$\frac{Pd}{Pb} < 1$	Table 3a	Table 3b
	Imports < $100,000	Imports > $100,000
L81-L84[1/]	bread lettuce, other vegetables red hot pepper shortening narra chairs plastic clutch bag skirt, wash and wear cotton blouse rubber slippers piano phono record	table salt steel bed
L85	pineapple charcoal	cheddar cheese
L86	fresh fish dried/salted fish tomatoes bananas avocado papaya choco/caimito/watermelon rice bran ice cream gin rum rice sacks, synthetic	soft drinks beer rubber tire, truck steel bars
L87	glass, table top	yarn, cotton grey
L88	canned mackerel/tuna chunks	cigarettes edible oil woven fabrics, rayon knitted fabrics, nylon
SR[2/]	fish crabs cabbage perfect gro fertilizer radio receiver, transistorized	beef 2nd class rice ammonium sulfate radio phono, transistorized

[1/]Liberated as of 1981, 1982, and so on
[2/]Still regulated

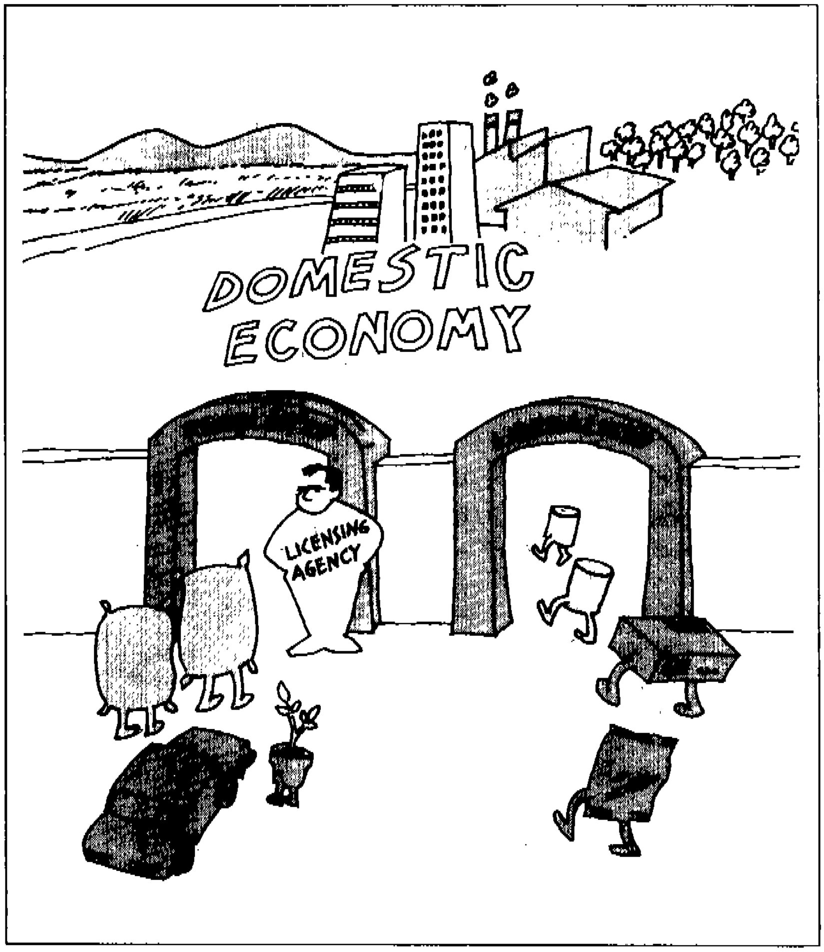
> *"Discretion is possibly wider for goods regulated for protective purposes because of the inherent need to limit imports...the opposite may be said of commodities regulated for public health and safety reasons."*

relatives for majority of the liberalized commodities and even for many of the remaining restricted items. The behavior of imports was harder to pin down and was in the expected direction only for the goods listed in Table 3b.

The Likes of the Establishments

Table 4 shows the size, average employment, capital-labor ratios, value-added, and concentration ratios of the industries producing the remaining regulated commodities from the NSO 1988 Census of Establishments.

Pd --- > 1 Pb	Table 3c	Table 3d
	Imports < $100,000	Imports > $100,000
L81-L84	eggs, lechon, & duck soda crackers butter cookies mixed pickles calamansi syrup cocoa butter margarine laundry soap detergent toilet paper dry cell battery rubber foam mattress luggage travelling bag cotton undershirt nylon brief panties men's socks matches canvas shoes	noodles orange concentrate sugar ground cocoa soy sauce sodium hydroxide toilet soap stainless spoon & fork dining set handkerchief rubber shoes candles toothbrush plastic buttons
L85		fresh milk powdered milk evaporated filled milk sweet condensed filled milk butter
L86	desiccated coconut mango mango preserves vinegar glycerine caustic soda rope, abaca leather working gloves	chicken, broiler, live yellow corn grain wheat flour poultry feeds whisky soybeans rubber tire, car umbrella
L87	mimeo/bond paper adding machine paper sheerglass, window	kraft paper
L88	cotton woven fabric	live swine ramie tetoron knitted fabrics, cotton porcelain lavatory, water closet
L89		newsprint cement
SR	bacon ham, cooked frankfurters vienna sausage liverspread, potted meat potato garlic onions coffee beans ground /instant coffee gasoline kerosene glycerine acetic acid air conditioners TV set electric fan electric bulb flourescent tube car, CKD	chicken, live weight pork, 2nd class fuel oil diesel oil lubricating oil LPG freon urea insecticide



About half of the industries have 10 or lesser establishments; one-fourth, 11 to 30 establishments; and the rest have more than 50 establishments except for a few which have 31 to 50. Only one is extremely large -- rice and corn milling with 521 establishments.

One-fifth of the industries employ 50 or lesser workers; another one-fifth, 51 to 100; one-sixth, 101 to 200 employees; and the rest, 201 to as many as 900 workers. Compared to the average employment for all of manufacturing (74.6), the protected industries are relatively large employers. Capital-labor ratios are given by the value of fixed assets per worker column. About one-third of the industries (that is, excluding those with suppressed figures) exhibit ratios larger than the manufacturing average of P115,220.

Slightly more than half of the industries have value-added averages that are higher than the manufacturing sector average of P11.6 million. Only five industries contribute less than P1 million on the average.

A three value-added concentration ratio (3-VACR) refers to the share of the top three firms' value-added in their industry total. Majority of the protected establishments are highly concentrated with 3-VACRs of at least 70 percent.

High capital-labor ratios characterize industries with smaller number of establishments, but average employment varies from one extreme to the other. Many, if not most of the industries from small to large, contribute immensely to value-added, having high average CVAs. These same industries tend to be big employers, too. On the other hand, the industries with fewer workers tend to contribute less to CVA and have lower capital-labor ratios. The bigger industries also tend to be less concentrated. For instance, rice and corn milling which consists of 521 establishments, has the lowest VACR of 16.16; it also is one of the smallest employers.

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Table 4

ESTABLISHMENT CHARACTERISTICS IN THE PROTECTED INDUSTRIES

5-Digit PSCC	Manufacturing Industry	Number of Establishments	Employment per Establishment	Value of Fixed Assets per worker (P)	CVA per Establishment (P 000)	3-VACR 1983	3-VACR 1988
31111	slaughtering	7	52.4	13580	5044.0	93.77	97.11
31113	dressing of poultry	5	424.2	86821	95798.6	100.00	97.38
31114	meat processing, curing, preserving, canning	58	106.8	53245	11138.7	75.81	83.92
31119	slaughtering, preserving meat prods., nec						100.00
31151	canning of fish, other marine prods.	28	374.4	84962	34146.8	92.03	41.79
31152	drying of fish, other marine prods.	21	20.4	50613	1508.4	25.71	92.65
31153	smoking of fish, other marine prods.	4	53.5	27368	6050.2	53.50	99.78
31154	fish paste & sauces	25	26.3	59758	708.2	93.33	72.73
31159	processing of fish, nec	26	90.1	40487	11509.8	92.20	52.12
31180	rice & corn milling	521	15.7	60025	1015.2	35.90	16.16
31231	sugarcane milling	42	509.2	196794	97347.4	35.43	23.21
31232	sugar refining	6	906.5	138689	226950.0	100.00	98.01
31233	muscovado not on farm	6	10.7	7500	114.2	90.90	72.98
31270	coffee roasting & processing	9	383.4	233860	58335.7	99.61	97.50
3512	fertilizers	10	262.0	4139222	180880.3	86.13	99.61
3514	pesticides, insecticides, fungicides, herbicides	16	82.2	165371	48763.1	68.70	70.30
3522	drugs & medicine	98	143.1	90131	62741.3	44.43	34.50
35294	explosives & fireworks	8	49.2	401693	36599.9	100.00	87.07
35300	petroleum refineries	4	607.8	1579906	2018779.7	100.00	98.58
35400	miscellaneous petroleum prods. & coal	16	34.5	88335	8569.1	84.77	74.81
35511	tires & tubes	22	156.4	201820	51380.5	98.75	71.67
35512	retreading plants	37	74.8	198160	24438.4	38.51	82.92
35592	industrial & molded rubber prods	48	46.3	98331	3848.3	40.54	64.73
38159	fabricated wire prods. nec	28	44.8	43532	1632.0	54.13	53.36
38212	engines & turbines	S	S	S	1563.0	100.00	100.00
38293	sewing & embroidery machines	4	154.2	30024	9643.2	86.70	99.93
38298	refrigerators, domestic or industrial	3	747.0	73334	43178.0	100.00	100.00
38313	transformers	10	95.9	139335	10719.4	78.80	91.22
38321	radio & TV receiving sets, sound recording & reproducing equipment	16	284.1	74655	56485.1	82.18	81.02
38322	gramophone records & prerecorded magnetic tapes	6	100.7	31362	9461.5	88.81	77.15
38323	electrical communication eqpt.	6	206.2	235859	20264.7	99.93	98.59
38324	radio & TV transmitting, signalling & detecting apparatus	S	S	S	3175.0		100.00
38325	parts & supplies for radio, TV, communication eqpt.	51	642.6	96901	82810.2	46.75	34.07
38331	household electrical cooking eqpt.	S	S	S	69607.0	99.19	100.00
38332	electric fans, vacuum cleaners, floor polishers	6	171.8	34630	14631.8	96.58	89.72
38333	electrothermic cooking appliances, electromechanic kitchen appliances	S	S	S	585.0	100.00	100.00
38339	electric appliances & housewares, nec	13	56.2	82011	18248.3	86.95	94.54
38340	primary cells & batteries	6	101.5	177153	99151.5	79.01	90.49
38361	insulated wires & cables	12	141.5	46398	14765.3	86.88	77.01
38362	current carrying wiring devices, conduits & fittings	19	238.9	73437	19567.8	74.25	94.41
38369	electric wires & wiring devices					100.00	100.00
38391	electric lamps & fluorescent tubes					68.40	90.10
38392	electric signalling eqpt. for motor vehicles	20	90.8	135468	13452.2	100.00	100.00
38413	cargo vessels	7	117.4	27012	11540.3	65.98	90.53
38414	shipbuilding, passenger vessels	8	83.9	1493115	8022.5	94.11	80.25
38415	ship & boat repair	25	72.4	134307	5659.7	77.92	77.61
38419	ship bldg. & repair, nec	6	253.7	209832	17535.3	96.08	93.12
38430	manufacture & assembly of motor vehicles	24	150.5	91877	54436.6	60.27	71.97
38440	rebuilding & major alteration of motor vehicles	61	19.5	30580	935.3	31.52	24.91
38450	motor vehicle parts & accessories	72	41.1	58437	5214.8	49.78	67.56
38461	motorcycles	S	S	S	29036.5	89.11	94.38
38462	bicycles & tricycles	9	18.0	11728	563.2	37.68	79.41
38463	motorcycle engines & parts	S	S	S	3031.0	86.53	100.00

VACR - Value Added Concentration Ratio
S - suppressed data (only one respondent)

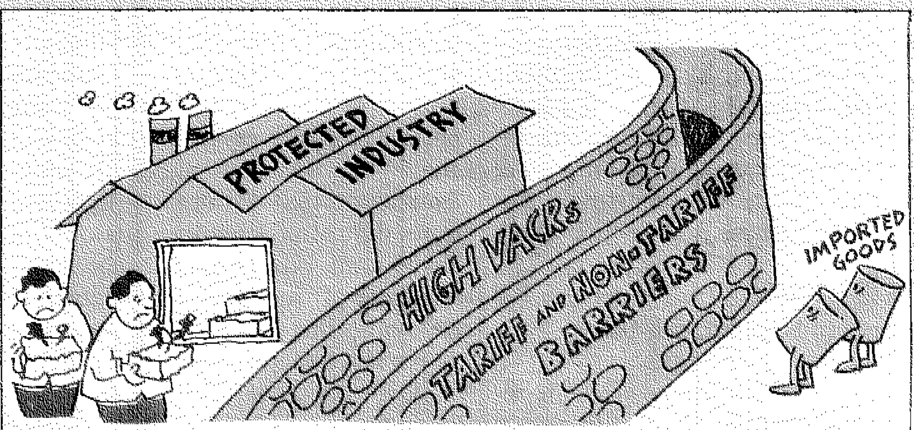
Changes in industrial concentration can be gleaned from the VACRs in 1983 and 1988. Two-thirds of the industries either became more concentrated or did not show any substantial change in their already high ratios. The other third became less concentrated; five had low VACRs to begin with, while two -- fish and tires -- were liberalized in 1986.

'Deregulation is known to help loosen up some industries, lower domestic prices, provide a wider choice of goods and disperse industries.'

VACRs for liberalized industries were also examined, and the average 1988 VACR was much lower at 62.6 than the 81.11 average for the remaining regulated industries. Ratios dropped for about one-third of the liberalized industries, and remained the same for about one-fourth, perhaps because many of the commodities were deregulated only in 1988 and changes have not been registered. For industries whose ratios grew, one possible cause is that imports drove smaller firms away, leaving fewer establishments and a higher industrial concentration.

While liberalization is not the only reason for VACRs of many of liberalized items to change, it is an important indicator of change for dairy products, flour milling, wine and soft drinks, desiccated coconut, integrated textile mills, paper articles, soap and cleansing preparations, and rubber footwear.

The combination of high VACRs and continued protection in many sectors is still a major concern especially where production is inefficient and results in high-priced, poor-quality goods. Deregulation is known to help loosen up some industries, lower domestic prices, provide a wider choice of goods and disperse industries which together contribute to a healthier economic environment. Even if these effects are not obvious right away, there are many compelling reasons for complete implementation of the import liberalization program: (1) it has been chosen as a policy and initiated a decade ago; (2) incomplete implementation may have worse effects; and (3) the economy has already undergone the initial transition effects, both positive and negative. If ever government decides to retain some import restrictions, the decision should be based on objective economic criteria and not because of accident or lobbying. ○



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sector employees who get laid off revert to the informal sector.

Past studies have judged Medicare coverage as inequitable. The formal sector-employed has the widest choice of financing sources followed by the self-employed. The unemployed, on the other hand, has only three options—community financing, government provided and out-of-pocket expenses. Community financing is probably negligible so that the unemployed, the poorest group, has only one recourse, that is, to go to a government facility.

The benefit package of Medicare is also wanting. On the beneficiary side, exclusion of outpatient care only encourages unnecessary hospitalization and bypassing of lower level facilities. This pattern of utilization consequently encourages providers to supply more hospital care and Western-trained doctors. This could however, be done away with in the treatment of the most prevalent diseases which are communicable. In their early stages, these diseases could be treated in an outpatient basis. In addition, the increasing health needs of the population call for the expansion of benefits to more routine outpatient and preventive services.

Payment and Repayment

Income is obtained from the collection of payroll taxes. The premium contribution structure shows that the tax, equal to 2.5 percent of the worker's income, is shared equally by the employer and the employee. The payroll tax would have been proportionate if not for the ceiling on the contribution base. Beyond the ceiling, tax is regressive.

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Reimbursement scheme, the method by which insurance carriers pay providers, falls under two general categories: retrospective and prospective. Retrospective scheme reimburses the providers for all allowable costs incurred by the insured patient. This is the usual practice of traditional health insurance companies. Although this type of payment scheme has not been proven to increase cost in the US, it is commonly associated with high medical costs.

Prospective reimbursement scheme, on the other hand, presets the reimbursable amount payable to providers per service rendered. Providers have the incentive to economize since they will absorb the losses if the cost of the services they deliver exceeds the amount they will receive from the insurance company.

Medicare's reimbursement scheme falls under the second category since it sets maximum allowable limits for each service rendered. However, it is not so easy to predict its effect on providers' behavior. While it is expected to produce incentives which will help contain costs, providers can still expect to get fully paid since the patient pays all costs in excess of the Medicare benefits. For this reason, studies show that Medicare contributes to cost inflation in the medical sector. Macro data, however, does not support this contention.

PMCC Reform Initiatives

The PMCC actually invited private health insurance companies and Health Maintenance Organizations (HMOs) to join in an experimental scheme wherein Medicare members will enjoy more health benefits at no additional premium. Only the latter gave proposals, thus, a pilot project between the PMCC and HMOs was initiated in Metro Manila.

Upon assessment, it was recommended that the project be continued based on the following criteria: (1) it provides more benefits to members and providers; (2) it is financially viable and attractive to the HMOs; (3) it meets the overall objectives of PMCC; (4) favorable results cannot be achieved by other means; (5) problems arising from the experiment can be corrected; and (6) costs for correcting the problems will not exceed the benefits of the program.

"The introduction of user fees or other payment schemes in the public health sector is likely to alter health care utilization and demand."

In spite of the positive assessment of the pilot project, PMCC was advised to go slowly in fully endorsing the scheme due to several considerations. First, utilization was relatively low because the HMOs probably did not fully inform members of the benefits. If utilization, therefore, increases in the future, the tie-up may not be as profitable to the HMOs as it was during the pilot test. Second, there are difficulties in expanding the tie-up to rural areas where HMOs would naturally shun. Third, HMOs do not affect the efficiency by which hospitals produce medical care and consequently lower hospitalization rates. Finally, despite inclusion of outpatient benefits, patients still incur high out-of-pocket expenses during their clinic visits.

Patterns of Health Care Use

Under conditions of severe resource constraints, the health sector seeks ways to generate more resources through fee charging or user fees, improve current use of available resources, and mitigate the heavy burden of out-of-pocket payments with risk-sharing schemes. The introduction of user fees or other payment schemes in the public health sector is likely to alter or influence the pattern of health care utilization and demand for medical care. With this in mind, the Project Management Office (PMO) of the Health Care Financing Project commissioned Ms. Ma. Cristina G. Bautista to look into the current patterns of health care expenditures, utilization and demand in order to determine the impact of financing reforms, particularly user fees and risk-sharing payment mechanisms.

The study, "Patterns of Utilization, Expenditure and Demand for Health Care Services in the Philippines," will look into the demand for health care from two analytical perspectives (1) the choice of health care provider for curative and preventive care; and (2) the determinants of hospital and clinic use by households. Current utilization and expenditure patterns will serve as bases for estimating demand equations.

In a seminar held on 15 April 1992 at the NEDA sa Makati Bldg., Ms. Bautista identified the issues to be addressed. How sensitive is health care demand to price changes? Will charging of fees reduce utilization? Otherwise, households may absorb such fees at the expense of non-health care needs. How will various population groups be affected? Prices may affect the poor and non-poor differently, the same for women and children. Analysis of the pattern of health seeking behavior will enable us to examine the equity problems associated with policy interventions that alter spending patterns in health care. What are the other determinants of medical care demand? Knowing the factors that influence demand for medical care will provide us with policy handles to counter the ill effects of policies that alter the costs faced by consumers of medical services.

The Right Choices

Earlier studies show how weak economic factors are in determining demand for health care. The uncertainty of the impact of economic factors on health care demand may lie not only in methodological and data problems but also in the conceptual and empirical difficulties of distinguishing demand from utilization. The usual economic approach where the consumer decides on a utility maximizing goal relative to his budget constraints, and where demand is reflective of the consumer's willingness to pay, neglects the fact that the ordinary consumer lacks the technical capability to link health care with a desired health outcome, therefore, affecting his capacity to make consistent preference choices.[1]

The consumption of health care itself is not the object of utility or satisfaction. What matters is the improvement in well-being due to the consumption of health care. There are costs in getting the information regarding the amount of health care needed for a desired state of health. The role of the provider very much constitutes this derived demand for care.

The existence of this agency relationship, where the provider of care can shape the pattern of demand by consumers, points to the usefulness of using the utilization concept. Utilization takes into account that consumers rely on information from the provider or supplier for consumption choices in health care. While demand studies consider medical care as efficacious and that increasing utilization leads to higher states of satisfaction, utilization studies focus on the influence of the supplier of service and the composition of interaction between consumers and providers.

Through the use of multivariate techniques, the proposed study will identify the determinants in the decision to seek curative and preventive care from various sources in the country, the actual number of hospital-days once hospitalization has been advised/sought, and the composition of outpatient visits, with particular reference to choices based on assessment of quality.

To Each His Own

The household model of health care demand is a useful tool to identify the determinants of health care use and the impact of changes in health financing schemes.

This framework presupposes that the individual's decision to seek care when sick is based on his valuation of the benefit he will derive from consuming medical care and the costs of that care *vis-a-vis* his consumption of these goods. Once the decision to seek care has been made, he is presented with a finite set of alternative providers, including self-treatment. The benefit he can derive from the choice of provider is the expected improvement in health. Such benefit can be gained at a price, i.e., with inputs of goods and services purchased in the market and with his own time.[2]

After assessing his income against the prices of alternatives, the consumer chooses the provider who yields the highest expected utility.

Research Methods

This research, according to Ms. Bautista, traces health seeking behavior in a continuum. The complexity of issues has suggested various methodological explorations. First, determinants of the market-entry choice--decision whether to seek care or not, given that a health complaint or being sick has been expressed---will be examined. Second, once the decision to obtain care has been established, the determinants of the choice among providers will be estimated. Third, to examine demand for preventive services, cases where no complaint has been reported (but the presence of pregnant household member or children 0-6 years in the family is accounted) will also be examined. Fourth, to explore further the role of physicians and the agency relationship, a dichotomous model that specifies whether the clinic or outpatient visit is not the first visit will be used provided there are sufficient number of respondents. Lastly, to provide a more comprehensive picture of demand for health care, an expenditure shares model based on secondary data will be estimated.

The expenditure shares model will utilize secondary data, particularly with the merging of the National Health Survey and the Labor Force Survey with the Family Income and Expenditure Survey. The primary data to be

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used will be a household survey designed specifically for this demand study and complemented by a facility users' (clinic and hospitals) and community's surveys. This gives the study a unique advantage.

The study will also estimate facility-level prices from the perspective of households (on the basis of recall or actual expenditures) and from the perspective of the users. This will give a more accurate picture of health care prices and countercheck understatements or overstatements in households' recall of expenditures.

While the measure of health status is a problem, the study hopes to gather sufficient information needed to explore hedonic techniques rather than direct measures. Overall, the study will show how households finance health care.

Endnotes

1. A. McGuire, J. Henderson and G. Mooney, *The Economics of Health Care: An Introductory Text* (London: Routledge and Keegan Paul, 1988).
2. G. Becker, "The Theory of the Allocation of Time," *Economic Journal*, 75 (1965): 493-517.

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For interested parties, please contact *Dr. Mario Lamberte* at tel. no. 810-6261.