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OUTLOOK 2017

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Labor Outlook 2017



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Dutertism and the Rise of Alt-Leaders

Wilson Fortaleza

Change is coming. So here comes the man entrusted by 16 million Filipinos to do the difficult job which started July 1, 2016. Rodrigo Roa Duterte, the 9th Philippine President, did not only get the plurality of votes he needed to win against his three main rivals. He also got a commanding approval of his plan to get things done in a different way and in the shortest possible time.

President Duterte was voted overwhelmingly into power because he was an alternative type compared to the usual faces in the mould of traditional politics. He is a different kind of a leader. He is tough a man of dynamic action. He admittedly has no economics but he, nevertheless, represents justice to the oppressed. He is an old trapo by many standards yet he holds a distinct oddity that suits a specific clamour for strong order. His victory, therefore, was defined not by a searing anti-trapo tide but by a clever presentation of himself from that successful campaign narrative of crime and corruption centred explicitly on drugs. It was from that successful narrative that the name Duterte became a message on its own as the problems that ail the Philippine society require a strong, none yellow or a Noynoying type of leader. The Punisher is what the country needs at this particular point in time.

The 2016 election narrative could have been manipulated with the wide use and propagation of alternative facts (alt-facts). But spreading fake news is everybody's game during elections and beyond. Everyone knows that every party has its own dirty tricks department that manipulates every opportunity for their own advantage. Donald Trump, in fact, got the biggest share of this alt-fact fame when Politifact declared his misstatements "The Biggest Lie of 2015" so that later, some political commentators believed he won the US Presidential election in November 2016 from this kind of manipulation. President Duterte has recently admitted the use of social media during the election campaign.

And his online army, many believe, continue to operate zealously up to this moment.

One year into the office and we Filipinos got the reality of what we were told to expect from Duterte: A bloody presidency. He made true his promise to kill thousands of people under his drug war. The slaughter has already left more than ten thousand victims, mostly addicts and pushers from poor communities. Accounts from both the mainstream and social media, local and international, indicate a ruthless pattern of extra-judicial killings both under the so-called legitimate police operations and those that were carried out by hooded gunmen.

Yet the promised six months to solve this problem was extended by another six months, then came a rude admission that six months or six years may not even be enough to complete his mission. However, despite the failure and the crassness of his foul mouth, the people continue to reward him with overwhelming trust, something unmatched in the history of Philippine Presidents.

The declaration of Martial Law in Mindanao as a response to the Marawi crisis initiated by Daesh-inspired Moro radicals can only supplement a nation's hunger for a strong leader who is capable not only of breaking the backs of organized crime but also of ending the long-running Muslim rebellion and communist insurgency in the country. In fact, the idea of extending the martial law regime in Mindanao and expanding its coverage nationwide has gained wide approval, most notably from both houses of Congress and the local government units. Subsequently, the Presidential legal counsel in the person of Salvador Panelo would opine that the drug problem may likewise be considered a crime similar to rebellion which can be used as basis for expanding the coverage of martial law nationwide. Thus a disquieting concern: Will President Duterte really place the entire country under martial law?

Duterte does not even hide that his

penchant for authoritarian rule and martial law is only one of his options. Repeatedly he also floats the idea of establishing a revolutionary government to make things done in one stroke. But who can think at this point in time of resorting to political extremism when one almost has total control of both Houses of Congress? What's the need for martial law when one can strip the opposition of power one by one? What's the need for martial law or revolutionary government when what he thinks and what he does have the support of the 89%?

A leader who has a firm grip of power and enjoys tremendous public support may no longer need to resort to extreme measures in pushing for his agenda. But remember this President keeps on saying one thing to mean a different thing. He could have resigned already after failing to stop the drug menace after six months and once a member of his family is dragged into any controversy. He invokes independence in foreign policy yet he already has conceded many things to China. On the political side he still has federalism and charter change to drive as well as a complicated peace process with rebel groups to consummate. The moment these pieces don't fall into places where he wants, his political devices will surely cross the path of extreme possibilities. And whether he likes it or not, he has to deal strongly with a tiny but very vocal opposition which, in one way or another, is capable of destabilizing his weak political base.

The Rise of Duterte

Thirty nine per cent (39%) of voters picked Duterte on May 9, 2016. With that, he won by a landslide vote over his closest rival, Mar Roxas. Furthermore, despite his leftism and anti-elite rants during the campaign period, his 16 million votes showed some sort of a consensus even from those at the top of the social pyramid. According to an exit poll, Duterte was the choice of the rich and the middle class (45.9% of class ABC); class D (39.6%); and class E (35.3%). He even was the choice of

a consensus even from those at the top of the social pyramid. According to an exit poll, Duterte was the choice of the rich and the middle class (45.9% of class ABC); class D (39.6%); and class E (35.3%). He even was the choice of the millennials. President Duterte, in short, was voted into power not only by mere plurality but also by the consensus of the different social classes in Philippine society.

Why was that? Duterte is not a politician of a new type. He's an old trapo based on common standards known to masa. In fact he tried presenting himself during the campaign as a poor public servant through a kulambo trick when everybody knew he really was not. He was the son of a former governor and his family ruled Davao by dynasty for over 20 years. His style does not differ that much from other known local warlords.

He is a friend to Gloria Arroyo, Estrada and other political big wigs and his glorification of the Marcoses did not waver over time. His victory, therefore, can neither be considered a rebellion or an insurgency against the existing order of trapo rule nor an expression of support to his declared 'socialist' inclination. The conclusion that it was a protest vote against trapo politics and 30 years of Edsa may be correct but could partly be wrong in the sense that his votes as well as those cast for other national positions like the VP, senators and the local positions cannot confirm the extent of that rebellion. His victory is more akin to the situation in 1998 when the ruling Lakas-NUCD-UMDP of Fidel Ramos and Jose De Venecia and the unprepared, disorganized run by Raul Roco, Miriam Santiago, Juan Ponce Enrile and Alfredo Lim failed to stop the eruption of Joseph Estrada.

The people voted for Duterte because he is the strong leader that they want. His Davao playbook was what differentiated him mainly from his rivals. Violence pair off his name but he is Mr. Justice, nonetheless. He made Davao a better place to live. He's tough, harsh but caring. He is unrefined, unusual but in the eyes of the many, he can be a redeemer for this country long ruled by

elite, corrupt, and boring politicians.

Some attributed his victory from his successful social media campaign built around the objectives of spreading fake news and alternative facts. Duterte did not deny employing such a strategy but the extent and magnitude to which it was utilized is something that has yet to be confirmed in exact details. What cannot be denied is the fact that his keyboard army remain actively organized even after the elections and in some way was able to get institutionalized in the bureaucracy with some of their effective social media campaigners getting appointed to key positions in the communications office.

The Duterte camp, according to an Oxford University study, spent around PhP10 million during the campaign reportedly to fund the operations of some 400 to 500 cyber troops. Their work includes creating fake sites and social media accounts to promote Duterte or destroy his detractors online. Now that Duterte is in power, it can only be assumed that his online warriors are enjoying that power, including a steady source of resources.

Is alt-fact a new game?

President Duterte himself employed alternative facts to justify his deadly war on drugs. First, he over-magnified the number of drug dependents to create a pandemic image of the problem. The country having four million drug addicts and pushers, according to the President, has no factual basis to stand. It was only based on police's intelligence reports. The official data from the country's Philippine Drug Enforcement Agency (PDEA) puts the number to only 1.8 million based on the 2015 Nationwide Survey on the Nature and Extent of Drug Abuse in the Philippines released in September 2016. This wide discrepancy in numbers has in fact caused the head of PDEA after he was sacked by the President "for contradicting his own government." Yet if we analyse the numbers closely, the four million "addicts" are far higher than the 2.7

million total number of unemployed Filipinos and the 3.1 million families who were experiencing involuntary hunger. Is it possible that all the poorest of the poor were into it or were subsidizing the drug trade, according to the President?

Second, he presented the drug problem as the root of all evil in this country and therefore the most important agenda that warrants his full attention and state resources. However, surveys done before and after the 2016 elections dispute this claim. In 2015, the Filipinos' top national concerns include controlling inflation (45%), improving or increasing the pay of workers (42%), reducing poverty (38%), creating more jobs (34%), fighting graft and corruption in government (34%), peace and order and fighting criminality (25%). In September 2016, just three months upon the assumption of President Duterte to office, another survey showed the Filipinos top concerns were improving or increasing the pay of workers (46%), creating more jobs (38%), controlling inflation (37%), fighting graft and corruption in government (32%), and fighting criminality (31%). And in the September 2017 survey, controlling inflation got 50%; 42% for increasing workers pay; and 36% for fighting criminality.

Propagating alternative facts is both an antiquated and modern form of psychological manipulation. What is new and dangerous in its praxis today is that they come along with the rise of so-called alternative leaders who represent anti-democratic alternatives to chronic social problems.

Emperors and kings of ancient societies ruled not only by force but also by deception. They also used alternative facts in official forms to rationalize, vindicate and sustain their autocratic rule. For thousands of years, these rulers were able to keep their thrones, their wealth and their slaves because the latter were pacified and cultured into blind submission to their masters' 'divine right' as rulers. Ancient religions, no doubt, have played a key role in promoting alternative facts towards this end.

Moreover, alternative facts were not only the antiquated tools that served the purposes of the old order as their utilization transcended different societies. In fact, modern capitalism has the most sophisticated ways of using alternative facts through different platforms. It has the media, the schools, the corporations and other institutions that can serve the agenda of promoting false information. Market economists from reputable schools can argue in confidence that a high-wage regime is bad for the economy. Manufacturers promote junk foods and harmful chemicals as safe for consumption through creative advertisement. Producers of war machines sell their arms in the name of peace. Transnational corporations promote free trade in the name of social progress.

Alternative facts of course are also part of modern politics. They can make and unmake politicians, promote hatred, destroy a country or eliminate a particular race. Germany's approval of Hitler's extermination campaign against the Jews was based on systematic racist propaganda against the latter. Stalin justified his terror, the Great Purge, by branding his detractors as "enemies of the people" while creating his own personality cult. George Bush peddled lies about weapons of mass destruction to justify his planned invasion of Iraq. And what is achieved when Muslims are painted as terrorists, Russians as bad guys, the Americans as benevolent brothers, women as weak?

When President Duterte launched his deadly war on drugs, he has to manufacture a menacing number (3 - 4 million) of drug addicts which is double the official number presented by the drug enforcement agency. Worst, he posed the drug menace as if the only solution to the problem is to launch a campaign of mass slaughter -- happy to kill 3 million making Hitler as reference. He even went too far by encouraging the public to do the killing themselves.

Again, deception remains to be a potent

weapon both in local and global politics. In other words, the weight of utilizing alternative facts in yesterday and today's politics remains the same. So why worry about this old game now? Is there a disturbing feature of it today that should concern the labor movement?

One just needs to look at how alternative facts in the form of fake news flood the social media today. Everyone, except for those who are not connected to the internet or those who have no access to smart gadgets for their FB, Twitter, and Instagram accounts, has encountered fake news. Many even share them devotedly to their friends and the general public, otherwise, connectivity in the social media is nonsense without sharing. This is the unique context that makes the spread of alternative facts more pervasive and social than before.

The cyber revolution and access to smart gadgets made this thing possible. The world has reached seven billion in population in 2011. But according to published reports, there were 11 billion connected devices today and by 2025 it may reach to as high as 80 billion. In the Philippines, the penetration rate for smartphones may grow from 40 million last year to 90 million by 2025. Yet as of this moment, despite having the slowest internet connection in the region, the Philippines is fittingly considered as the world's social media capital.

Smart gadgets and internet connects people today in an unprecedented level. Through this virtual connection, the flow and process of information became more direct and personal. This is a major leap from before when people process the information within traditional routes like the media, the family, school, church, at work, and from organized clubs, unions and associations. This is where discussions and exchanges of opinions were made. These were the traditional venues where questions, issues, and social concerns are raised and discussed. Today volumes of communication land directly before the very eyes and ears of the individual. Processing these information became very

eyes and ears of the individual. Processing these information became very personal. The cyberspace became the regular rendezvous of people while the social media became the fastest source of information, fake and useful.

There is, however, the positive side of this revolution. Smart gadgets and the internet did not only become the fastest but also the cheapest source of information for all. But enjoying that in today's context would also mean the fastest and cheapest way for the greatest number of people in getting fake news and alternative facts. Under this era, deception is made extensively possible. The game of trolls is here and the labor movement around the world can only respond to this challenge by mobilizing thousands if not millions of its members to become its own internet warriors.

The bigger picture

Many of the world's people now seem to be craving for authoritarian leaders. There is in fact a noted rise in electoral preference in recent years for right wing parties in Europe and elsewhere. To illustrate this trend, The New York Times, The Telegraph, The Economist, The BBC and other organizations have produced their respective interactive charts to show how serious Europe is veering into the right as shown by the growing electoral preference for right wing, nationalist parties.

The European Union (EU), a social project that was supposed to herald peace and prosperity under the regime of free trade across the formerly warring states of Europe is also facing nationalist backlash from among its members, notably because of the Eurozone crisis and the mounting refugee crisis. Brexit is one example at how the British people think about their future outside of EU. There could have been Frexit in the making had Marine Le Pen of France's National Front won the ballot last April. The Netherlands, Germany, Austria and other Nordic countries also face the same threat of a

rising far right.

In the US, it was the startling victory of Donald Trump over Hillary Clinton followed by the rise in open activities of regenerated alt-white movements across several states. Meanwhile in Asia, aside from the rise of Duterteism in the Philippines, the slide towards authoritarianism is less visible due to the fact that most countries in the region are still under authoritarian rule. The same is true with most countries in Africa, Middle East and in some cases, Eastern Europe and Central Asia. On the other hand an increasing number of people from failed, destabilized states in the Arab world are seen embracing extremist organization in response to foreign aggression and the failed, traditional rule of Islamic leaders.

Scholars argue on whether this trend can be considered as a strategic retreat to the 20th century fascism or may just be a fretful reaction to the failure of globalization and liberal democracy to address new threats and the old age problem of poverty and inequality. In particular, it is seen as a reaction to austerity measures being imposed in advanced capitalist countries due to the prolonged economic crunch. The mounting migrant and refugee crisis created by this global recession and the long war on terror particularly in the Middle East compound this worsening humanitarian crisis further, driving people in many host countries to pressure their governments to build fences to safeguard their own national interests, including security. Unfortunately, it is the populist and right wing politicians and the extremists to some degree who're gaining mass support from this swelling discontent.

Authoritarianism in other words is regaining social acceptance in many countries as it is customary for right wing parties and authoritarian leaders to propagate anti-Muslim and anti-immigrant hysteria, promote ultra-nationalist or nativist platform, and campaign for the establishment of strong states. Here in the Philippines, Duterteism is seen as a reaction to the failures of post-Edsa regimes to address chronic

poverty and largely on the failure to combat corruption and organized crime.

Extremism

The conditions referred to earlier economic crisis, wars, terrorism and migrant crisis can always be considered as pretexts to the rising tide of authoritarianism and extremism in many parts of the world. But let us bear in mind that these were no new crises to contend with, with the world having survived great depressions, world wars, genocides and a long *détente* after the Second World War. The post-war economic boom and the triumph of neoliberalism and liberal democracy should also have ushered a new era of greater peace and stability in the whole world. But why are we confronted with these same problems again?

The rising tide of authoritarianism and extremism effectively defied the logic of the 'final form of governance' prophesied by Francis Fukuyama in the early 90s. In his essay 'End of History and the Last Man' after the fall of Berlin Wall in Germany and the collapse of former Soviet Union in 1989, Fukuyama suggested that the evolution of mankind has reached the final form of governance with the triumph of liberal democracy - the triumph of the West - under the capitalist system. The Cold War, he said, ended because the liberal capitalist democracy has finally prevailed over fascism, communism, and wars. Fukuyama's work instantly became a bestseller during that time. But who really believes in the theory of end of history?

The stars eventually signed off on Fukuyama when the history that he thought has ended in Berlin and Moscow rightly suffered 'boredom', a phenomenon he also anticipated mockingly at the end of his essay. The Gulf War broke out in 1999 which was followed immediately by the 9/11 terrorist attack. The picture of fascism and communism that disappeared from his mind reappeared in the form of extremism by radical Islam against Western powers which

resulted to what is now being described as 'the long war' against terrorism. The West, led by the US closed ranks against what they perceive as new threat by launching brutal campaigns of actual invasions and regime changes, resulting to devastating civil wars in several countries in the Middle East, North Africa and Asia. These wars created a great humanitarian crisis with hundreds of thousands of refugees leaving their war-torn areas into the safer gates of Europe. And while the West wages war and imposes blockades against the immigrants and refugees, a new breed of extremism develops in the Muslim world with the emergence of more radical Islamic and fundamentalist groups. The ISIS is only one of its forms and the Philippines is now getting a dose of this kind of rebellion in the case of Marawi, according to military reports.

Political extremism, either religious or political, can only be understood in the manner of how they exercise their beliefs, attitudes and activities. It can be in the formal form represented by a leader or a party that embraces authoritarianism or anti-democratic policies, or in radical forms espoused by extremist political or religious groups. In many cases, authoritarians and extremists have to feed each other in order to survive politically. Authoritarians create or magnify external and internal threats to justify their rule while extremists need authoritarian order or create a condition for it to rationalize their extremist actions. Wars and violence are perfect conditions for the emergence of this kind of rule. But the growing adherence to extremism and authoritarianism in many parts of the world was made more possible because of flawed democracy and the continuing crisis of capitalism.

Challenges facing the labor movement

Extremism and authoritarianism must be considered as serious threats to workers as they both justify the use of anti-democratic measures -- one in the interest of war (violence) and the other in the interest of order (iron rule). Both must be opposed. This kind of rule, although pronounced and apparent effectively conceals the social reality of capitalism as being the most organised system of exploitation and being the ultimate explanation on why poverty and inequality persist amidst abundance and technological advances of humanity.

Authoritarians create false narratives to advance their main agenda of establishing absolute control over the people. They magnify or invent threats to justify order; employ violence to create fear among the people; and promote hatred to specific class, group or personality to justify strongman rule. The growing acceptance of right-wing politics in Europe and the US as discussed earlier is both symptomatic and actual manifestations of the growing frustrations by many people on the failure of the status quo which today is represented by the neoliberal order to create more opportunities, protect jobs, address inequality and to secure their national identities and boundaries against unwanted immigrants and Muslim 'terrorists'.

But while terrorism is real and migration tends to drive down labor standards and suck up resources in advanced countries, this narrative is a false rationalization of what the US and EU truly represent. Weren't the conservatives Ronald Reagan (US) and Margaret Thatcher (Britain) who facilitated the first neoliberal projects such as tax and budget cuts, liberalization, deregulation and privatization of services, as well as the deliberate destruction of trade unions? Wasn't globalization a 'consensus' of these great powers? In other words many people were supporting right-wing leaders not because they despised capitalism, Reagan or Thatcher but mainly because they hated the immigrants and the austerity measures.

Countering these false narratives appears to be the biggest political challenge facing the global working class movement today. Back here, Duterte blames drugs and narco-politics as the root of all evil in this country and paint the failures of the post-Edsa regimes as all 'yellow' but he's keeping plutocracy intact and the economy continuously ruled by oligarchs. Yet to a certain degree, Duterte remains the "change" in peoples' minds absent the manifestation of new force which is strong enough to alter the 'revolution' which F. Sionil described as uniquely Filipino. At least we have a national artist who truly believed that Mr. Duterte's assault on the rotten status quo, which according to him has begun with the war on drugs, "will go deeper into the matrix of our society and government as police, politicians, and powerful Filipinos are subjected to the harsh scrutiny of the revolution. Eventually the highest enclaves of privilege will feel its impact for the simple reason that rampant corruption also afflicts our business and banking sector."

Well, it remains to be seen. But the opposite question should rather be on whether this 'revolution' will ever reach the fortress of those who are in the highest enclaves of privilege. Or this will simply slide down unnoticed in the workplace and dark alleys of our poor communities.

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Economic Background

Czar Joseph Castillo

Much of the optimism in the Philippine economy stems from its unprecedented performance in the past six years. The Philippine economic growth exceeded expectations as it not only surpassed the country's growth figures in the past two decades but also beat its regional neighbors. Fast economic growth was also one of the reasons for the credit upgrade, from non-investment to investment grade, the Philippines received from various international credit ratings agencies. Similarly, employment, especially in wage and salary jobs, was created. And most importantly, poverty incidence had significant reduction. The International Monetary Fund and the Asian Development Bank are optimistic that this growth trajectory will be maintained in the medium run and the Philippine economy will still be one of the fastest growing in the region.

This paper aims to provide an analysis of the Philippine economy vis-à-vis the development in the labor market.

The discussion in this paper is organized as

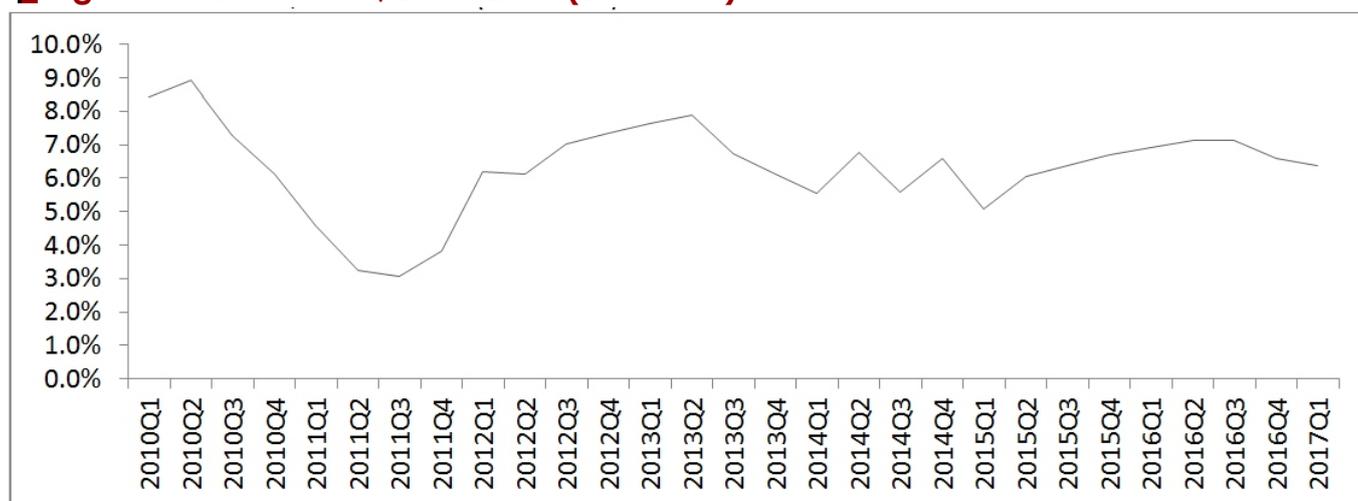
Follows: Section 1 examines the characteristic of growth experienced in the first year of the Duterte Administration, and the developments in the labor market; Section 2 discusses the government economic policies; and finally Section 3 presents an economic outlook.

Macroeconomy

The Philippine economy grew by 6.4 percent in first quarter of 2017, slower compared to the same quarter in 2016 at 6.9 percent. This minor slowdown is expected following a spending shock from 2016, which was an election year. Nevertheless, this level of growth remains positive and considering that over the past medium term, the average economic growth outpaced population growth. In this case, a real increase in per capita income is expected.¹

The structure of the economy is virtually unchanged. Consumption spending in the first year of Duterte administration still accounts for about 60 percent of aggregate demand while investment spending contributes about 22 percent. Government spending retains its share of about 10 percent and this figure barely grew from the previous year which suggests the persistence of the perennial problem of limited absorptive capacity of the bureaucracy.

Figure 1. GDP Growth, 2010-2017 (2000=100)



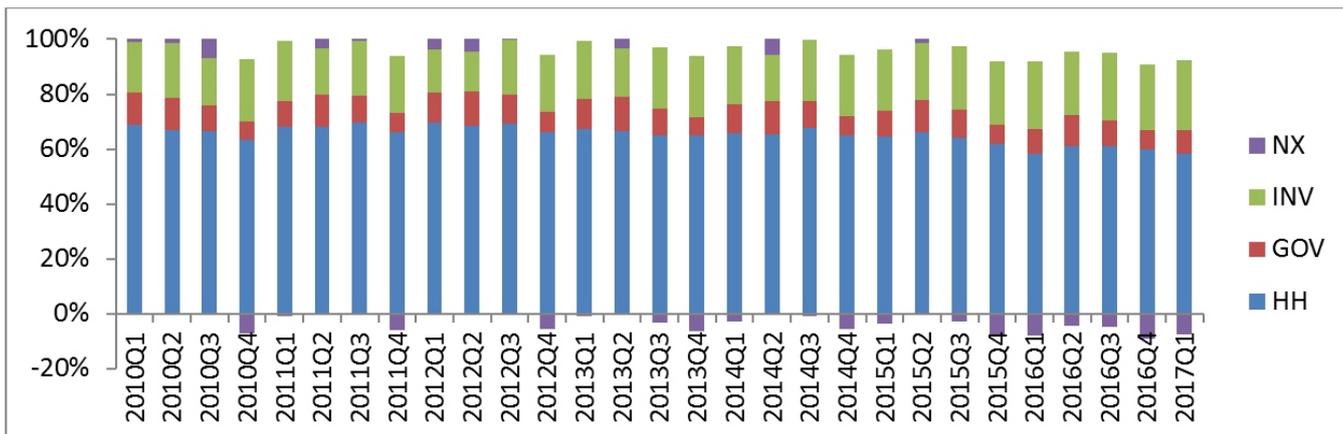
Source: Based on data from PSA.

¹However, per capita income, as an indicator, disregards distribution. Economist Cielito Habito claims that the fast growth experienced between 2010 and 2015 was not inclusive. Recall that in 2012, poverty incidence hardly changed. Thus, it is very likely that economic growth was not distributed across the population.

Meanwhile, like in most periods in the past, the country remains hounded by trade deficit that constitute about 9 percent of GDP in Q1 2017. Recall that an open economy needs to earn foreign exchange to be able to import goods. Export of goods and services earns an economy the needed foreign currencies; thus, persistent balance of payment deficit may pose serious problem. The Philippines relies not only on export of goods and services for foreign

2017 is at its highest since 1984. Moreover, the past two years saw more substantial contribution of investment spending to the economic growth. This pattern suggests a gradual shifting of the economy toward an investment-led growth path. Many economists credit this trend to the improving investor confidence in the economy owing to the strong macroeconomic fundamentals displayed in the last five years under an investment-led growth path,

Figure 2. Share of Components to Aggregate Demand, 2010 - 2017



Source: Based on data from PSA.

Note: NX = net exports; INV = investment spending; GOV = government spending; HH = consumption spending. Capital formation is used as a proxy for investment spending. Share is computed as the ratio between the values of a certain component and the sum of all components.

exchange but most especially on the remittances from overseas Filipino workers (OFWs). Paderanga (N.D.) finds that OFW remittances contributed to the improvement in macroeconomic fundamentals of the Philippines. It is also important to note that remittances provide a vital source of income for OFW families and support consumption spending which accounts for the largest share in aggregate demand.

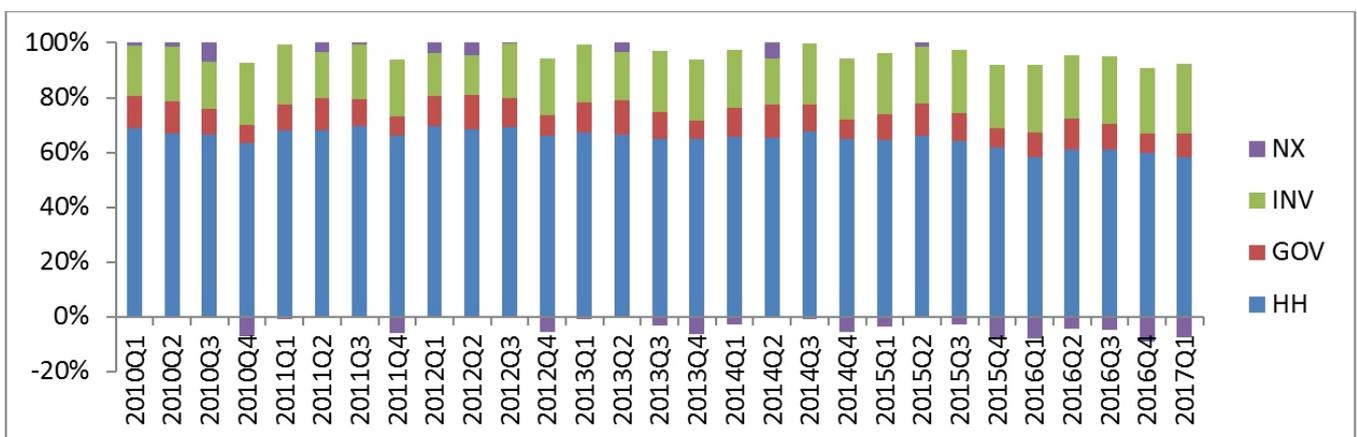
Economic growth in the past 2 years was mainly driven by growth in the consumption and investment spending. The contribution of investment spending on growth is remarkable. The share of household spending remained stable in the past year (Figure 2). This is not surprising because consumption is an integral part of any economy. What is more interesting is that investment's share to total output has been slowly increasing in the past two years. In fact, the average share of investment spending to total output from Q2 2016 to Q1

investments in fixed capital assets are the primary driver of economic development and one of its indicators is the investment-to-GDP ratio (Hong, 2016). The average investment-to-GDP ratio in Q2 2016 Q1 2017 is 28 percent, the highest in three decades. There has been a slowdown in the formation of fixed capital (8 percent in Q1 2017 from 31 percent in the same quarter of 2016); however, this does not diminish the strong performance of investment spending especially in the last 8 quarters. If the same macroeconomic conditions are maintained, the Philippines is likely to continue on this path. Hong (2016), however, notes that investment-driven economies tend to produce for "production's sake" and cause fluctuations in growth as what was seen in the case of China (Hong, 2016: p186). The reason is that unlike consumption-driven economies where rising consumption demands more production, which in turn creates growth, investment-driven economies tend to produce for "production's sake" and cause

fluctuations in growth as what was seen in the case of China (Hong, 2016: p186). The reason is that unlike consumption-driven economies where rising consumption demands more production, which in turn creates growth, investment-driven economies tend to produce “goods and services that are not consumed and therefore cannot contribute to real GDP” (Hong, 2016: 186). Given such, a consumption-driven model is still desirable in terms of stability.

On the supply side, the economy remains services-based with more than half of the GDP due to service activities dominated by retail. The structure of the economy is virtually unchanged one year into Duterte's government. One remarkable trend however is that on the average, industry, which grew by 7.6 percent, outpaced services and agriculture which grew by 7.3 and 1.2 percent, respectively, between Q2 2016 and Q1 2017.

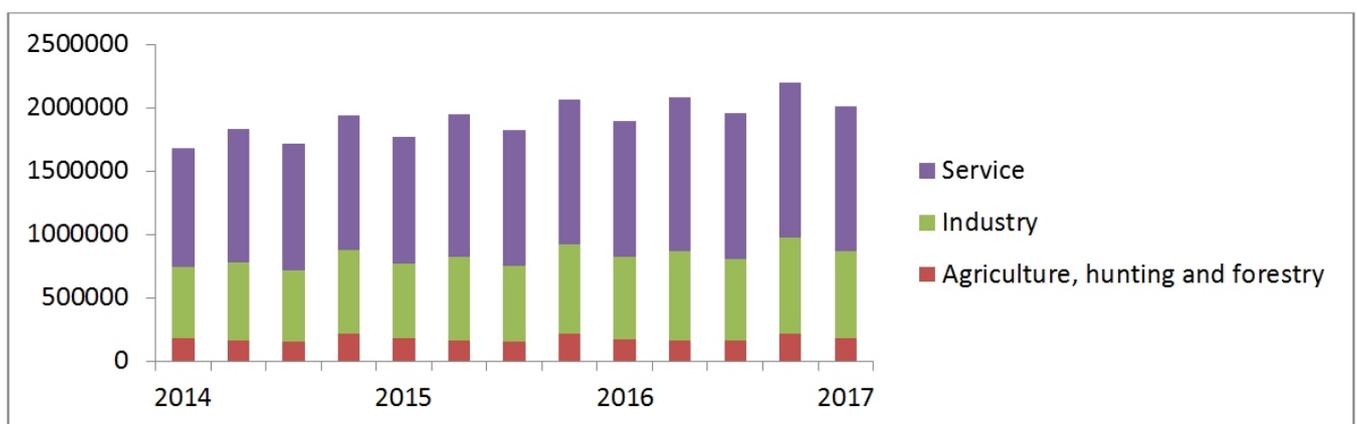
Figure 3. Sources of Growth



Source: Based on data from PSA.

Note: NX = net exports; INV = investment spending; GOV = government spending; HH = consumption spending. Capital formation is used as a proxy for investment spending.

Figure 4. GDP by Industrial Origin, 2014 - 2017



Source: PSA.

Labor Market

A growing economy generates employment and that is what was observed in the past five years. A remarkable result is the growth in wage and salary employment which accounted for more than half of employed workforce. Wage and salary employment is commonly used to represent the size of employment in the formal economy where the level of wages and benefits are relatively higher, apart from being protected by labor regulations and laws. Also noticeable is the movement of workers from agriculture to higher value-added services or manufacturing activities as a result of expanding investment spending of firms and the optimism in the economy, in general. The succeeding parts examine the performance of the labor market under the Duterte government.

The labor force participation rate (LFPR) measures the size of the labor force, i.e. workers who are actively looking for work or who are employed, relative to the number of individuals of working age. The LFPR is sometimes used to indicate the workers' optimism in the labor market about finding

work especially during economic downturns when employment is also at a slump. Table 1 presents the working age population, labor force, employment and unemployment from 2016 to April 2017². In April 2017, the LFPR was 61.4 percent. Roughly speaking, there were 61 individuals in the labor market for every 100 individuals 15 years and above. The LFPR in the same quarter of 2016 was 63.5 and this suggests that participation in the labor market fell. In absolute terms, the size of the labor force fell in 2017 and this caused LFPR to decline. This may be explained by the decline in women's participation in the labor market. Across sexes, in April 2017, male labor force increased by 0.1 percent only to be offset by female labor force contracting by 3.6 percent. Recall that in Filipino households, men are usually the breadwinner. In periods when the earnings of the breadwinners are increasing, the other spouse may forego work in the labor market and concentrate on unpaid work, mostly reproductive work, in the family. This arrangement may be acceptable to some households but disregarding women's limited participation in the labor market may have adverse implications on income distribution between males and females overtime.

Table 1. Labor Market Indicators, 2016 2017.

Indicator	2016					2017	
	Ave	Jan	Apr	Jul	Oct	Jan	Apr
Household Population 15 years and over	68,310.6	67,160.4	68,166.7	68,443.3	68,743.0	69,413.6	69,605.1
Labor Force	43,360.9	42,520.1	43,289.3	43,286.0	43,724.4	42,108.8	42,713.7
Employed	40,998.0	40,051.6	40,664.0	40,953.8	41,684.8	39,347.4	40,271.1
Underemployed	7,512.5	7,880.7	7,430.7	7,134.4	7,510.1	6,397.8	6,468.5
Unemployed	2,363.0	2,468.5	2,625.3	2,332.2	2,039.6	2,761.4	2,442.6

Source: Based on data from PSA.

² PSA adopted the 2013 Master Sample Design starting April 2016 and population projections based on the 2010 Census of Population and Housing. There may be difficulty in comparing LFS results from previous years because of these adjustments.

Both employment and unemployment rates fell as a result of withdrawal of workers from the labor force. The net effect is a slight increase in employment rate from 93.9 percent in April 2016 to 94.3 percent in April 2017. Male workers still dominate employment and there are more men in full time employment than women. In general, however, the number of workers who worked less than 40 hours increased from 13.4 million to 15.2 million.

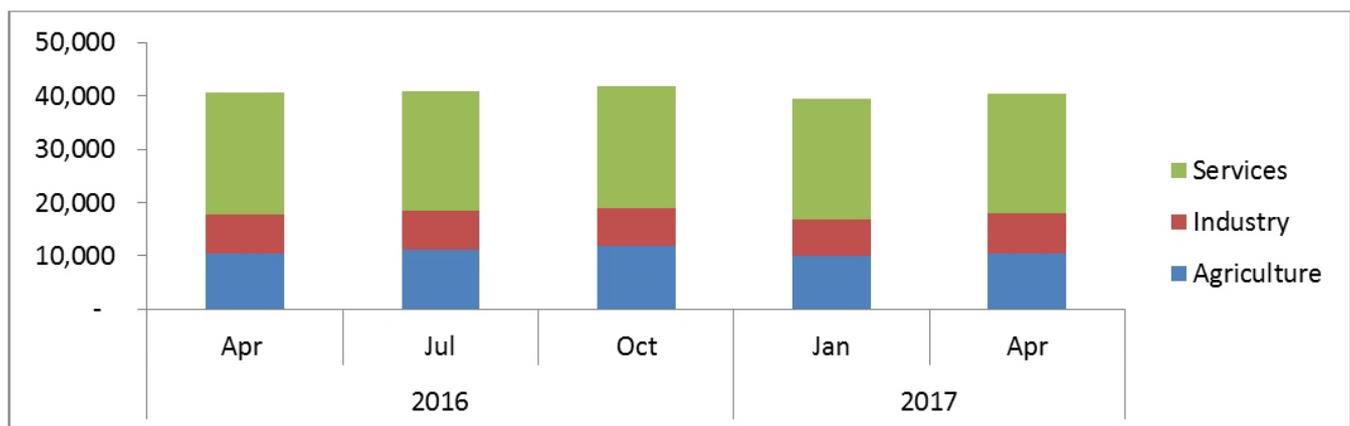
The length of time spent on work has important implications on earnings. Given a constant wage rate, a worker will take home more earnings if he/she works more hours. Workers who do not work full time and whose earnings are not enough are forced to look for additional work. The result is visible underemployment. However, based on the

underemployment in April 2017 was only a continuation of an existing trend.

Figure 5 shows the distribution of work across sector. Clearly, the structure of the labor market remains unchanged as majority of workers are still employed in services. There was a slight increase in employment in agriculture and industry in April 2017. Employment in industry and services is likely to increase in the medium term as resources continue to be poured on new investments as well as the on government's massive infrastructure program.

In terms of class of workers, most of employed workers are in wage and salary employment. In April 2017, however, the share of wage and salary employment fell while own-account work increased.

Figure 5. Employment by Sector, 2016-2017 (in thousands)



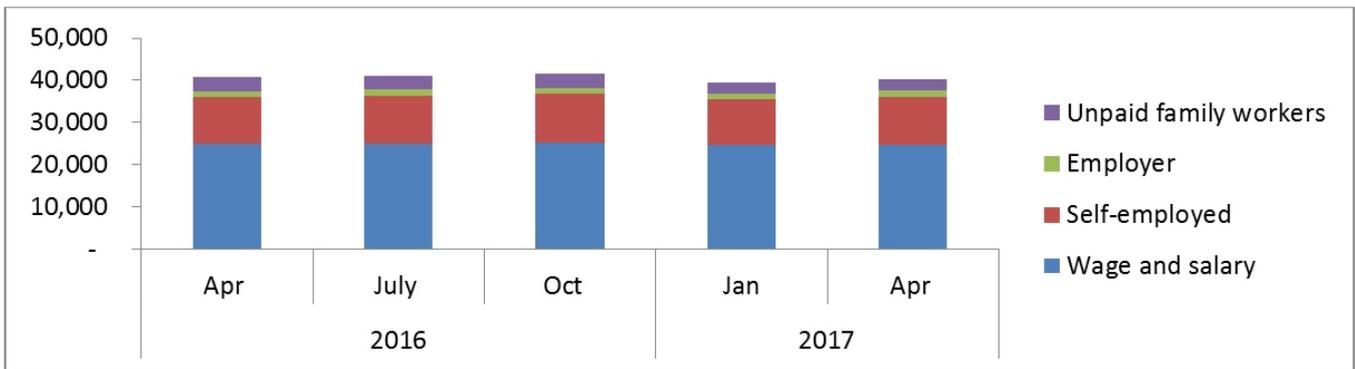
Source: Based on data from PSA.

results of the April 2017 Labor Force Survey (LFS), visible underemployment even fell. This implies that even as hours of work are reduced, workers still do not look for additional work.

Perhaps one plausible explanation for this puzzle is the labor market shock that occurred in 2016 during the election season. In April 2016, as a result of demand shock, the number of workers who worked part time dropped significantly. However, such an effect was only temporary so the result was an increase of part-time employment to its normal level. Meanwhile, the labor market has been experiencing improving underemployment rates for an extended period of time. The decline in visible

Wage and salary employment is often used as an indicator of the size of employment sector. While a shrinking wage and salary employment implies deteriorating working condition, what occurred in the second quarter of 2017 is not yet a cause for alarm as it is more likely an adjustment following the labor market shock from the election season last year. Meanwhile, the share of unpaid family continues to fall which is a positive development.

Figure 6. Employment by Class of Workers, 2016-2017 (in thousands)



Source: Based on data from PSA.

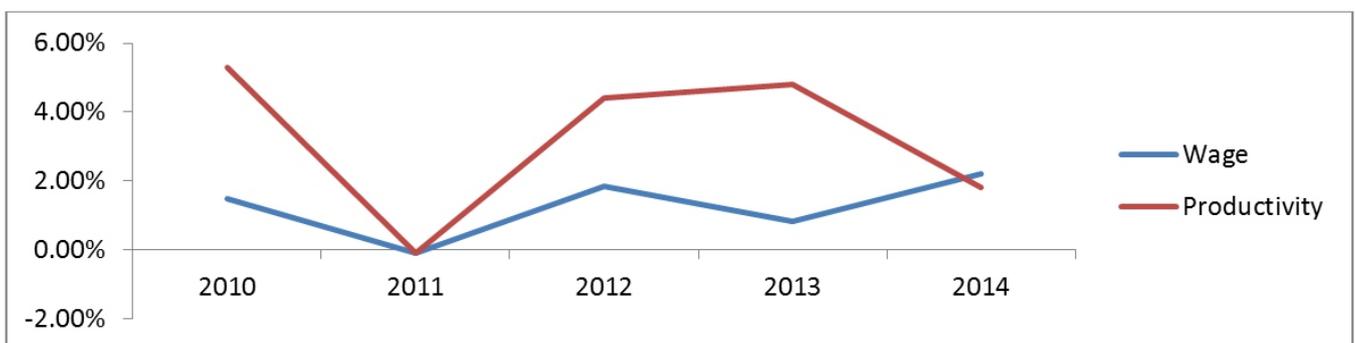
Productivity and Wages

Low productivity is commonly blamed for the low level of wages in the country. This stems from the mainstream economic thinking on how wage is determined in a competitive market. While the labor productivity growth in the country has really been low (Serrano, 2016), real wage growth is also low. Serrano (2016) finds that only in 2010-2013 did the country have an increase in real wages. Moreover, at the aggregate level, the link between productivity and wages is obscure.

Low wages can be caused by a lot of factors. Perhaps the most important factor is the lost bargaining power of workers in an era of increased contractualization

and non-regular work. In the 2000s, the number of non-regular workers gradually increased that it almost doubled by 2012 despite existing regulations on labor-only-contracting. Workers under non-regular working arrangements have little bargaining power because of their works' precarious nature causing downward pressure on wages. Meanwhile, the situation is aggravated by the weakness of trade unions. Based on the Philippines Statistics Authority (PSA) integrated survey, there may be more non-regular workers than trade unionists now³ and this is unlikely to be reversed even with the new Department Order 174 by DOLE.⁴ If there is anything that will sustain wage growth in the medium term, it is the continued improvement in the employment rate. However, this will result to mediocre wage growth rates unless workers are able to regain bargaining power.

Figure 7. Growth of Average Daily Wage and Productivity, 2010-2014 (2006 = 100)



Source: Based on data from BSP and PSA.

Towards the end of the Aquino administration, the government conducted a national survey to determine a set of collective goals reflecting individuals' aspirations for themselves and for the nation, dubbed as “*Ambisyon*”. The survey questionnaire used was based on focus group discussions conducted among marginalized groups in 10 different regions in the country. The survey was conducted among 10,000 Filipinos ages 15 to 50. The results were summarized to what is now known as *Ambisyon Natin 2040*.

According to the National Economic and Development Authority (NEDA), the long term aspirations of Filipinos can be summarized as a goal that must be achieved by 2040: “...stable and comfortable lifestyle, secure in the knowledge that we have enough for our daily needs and unexpected expenses, that we can plan and prepare for our own and our children's future...freedom to go where we desire, protected and enabled by a clean, efficient and fair government” (NEDA, 2016). In short, Filipinos aspire for a middle class lifestyle.

And who would oppose that aspiration? The only question we have now is how to get there. When the Duterte government assumed office last year, as practiced in the past, NEDA started working on the government's medium term economic plan. Early this year, NEDA released the Philippine Development Plan (PDP) 2017-2022. NEDA boasts that it is the first PDP anchored on the *Ambisyon Natin 2040*, obviously because there had been no “visioning” exercise, such as the *Ambisyon*, done in the past.

PDP 2017-2022

The Philippine Development Plan 2017-2022 is the first medium-term plan anchored in *Ambisyon Natin 2040*. It aims to *lay down the foundation for inclusive growth, a high-trust and resilient society, and a globally competitive knowledge economy*.

The current plan aims to reduce poverty

incidence from 21.6 percent to 14 percent by 2022 through its 3 main pillars: *Malasakit* or enhancing the social fabric; *Pagbabago* or inequality-reducing transformation; and, *Patuloy na Pag-unlad* or increasing growth potential.

Malasakit: Enhancing the Social Fabric

One of the major national development pillars of PDP 2017-2022 is the enhancement of the social fabric in order to build the foundations for a high-trust society. This means that the government will ensure a people-centered, clean, and efficient governance. In order to achieve this, corruption will be reduced by promoting public awareness on anti-corruption drives, implementing prevention measures, and strengthening the deterrence mechanisms. Likewise, a seamless service delivery will also be achieved. It entails the adoption of a whole-of-government approach in the delivery of key services, the implementation of regularity reforms, and the improvement of the productivity of the public sector. The administrative governance will also be enhanced through: rightsizing the bureaucracy; and, strengthening the results-based performance management, public financial management, and accountability. It also aims to achieve a people-centered government that fully engage and empower its citizenry by promoting participatory governance, ensuring public access to information, institutionalizing response and feedback mechanisms, and implementing electoral reforms. Efficient governance promotes the strengthening of civil services by sharing public service values, improving human resource management systems and processes, and developing and investing in human resource.

The government will also pursue a swift and fair administration of justice. The development plan highlighted the need to address the civil, criminal, commercial and administrative systems.

³See PSA Integrated Survey on Labor and Employment 2014. Results from previous years surveys can be found in BLES Integrated Survey.

⁴D.O. 174 replaces D.O. 18-A.

This includes the institutionalizing of the justice sector coordinating council, strengthening of the economic justice should, and real-time delivery of justice. The administration also sees the need to improve the sector efficiency and accountability by delivering fair and equal justice, enhance accountability through an engaged citizenry, and deliver justice that response to the demands of the public.

Enhancing the social fabric toward a high-trust society entails building better relations for social cohesion among people. Part of it is promoting Philippine culture and values. The government will implement services that will value the diversity of our culture; advance the value of creative excellence or *Pagkamalikhain*; inculcate the values for the common good; and, uphold a culture-sensitive governance and development.

Pagbabago: Inequality-reducing Transformation

Pagbabago intends to reduce inequalities and increase opportunities in economic development for the Filipinos. One of its goals is to expand economic opportunities in agriculture, forestry, and fishery (AFF). In order to accomplish this, the AFF productivity within ecological limit will be improved, and AFF-based enterprise will also be increased. Small farmers and fisherfolk will also have increased access to economic opportunities by escalating access to value chains, innovative financing, technology, and land and water resources. Likewise, *Pagbabago* concentrates on expanding the economic opportunities in the industry and service sectors. The government will focus on increasing the local and foreign investments, boosting innovativeness and resilience, improving market access, and ensuring the consumer's access to safe and quality goods and services. The government plans to increase the access to economic opportunities in industry and service for MSMEs, Cooperatives, and OFs. This encompasses the improvement and access to production networks, finance, productivity, efficiency, and resilience.

major aspect in achieving the *Pagbabago*. This includes the improvement of health and nutrition for all by guaranteeing that care at all life stages; an access to functional service delivery; and, sustainable health financing. In addition, there will be an increase in income-earning ability of the Filipinos. This comprises the improvement of employability, productivity, labor mobility, and income security. The development plan intends to ensure lifelong learning opportunities for all through achieving a quality, accessible, relevant, and liberating basic education for all. This can also be achieved by improving the quality of higher and technical education and research for equity and global competitiveness.

Finally, *Pagbabago* entails the building up of socioeconomic resiliency. The development plan targets to reduce the vulnerability of individuals and families by implementing programs that will achieve a universal and transformative social protection (SP) for all, in the aspects of different risks including the following: individual, economics, natural hazards, governance and political, and cross-cutting strategies. Included also is the building of safe and secure communities by widening the access to affordable, adequate, safe, and secure shelter in well-planned communities.

Patuloy na Pag-unlad: Increasing Growth Potential

Under this national development pillar are the strategies to be implemented in order to reach the demographic dividend or demographic transition. Demographic transition occurs when a large portion of the population belong to the working age group. If this happens, there will be an increase in production and income of a country. Thus, the government shall implement services that will improve the health and skills of its citizenry.

The government will also accelerate the demographic transition in the Philippines by reducing the mortality and fertility rates. Strategies will be implemented to maximize the gains of the demographic dividend.

This includes the improvement of the quality of human capital, reducing the unemployment of the youth sectors, improving the savings build-up, and refining the population and development integration. The government will promote and accelerate the adoption of technology by utilizing Science, Technology, and Innovation (STI) in agriculture, industry, and service sectors. Also, investments in STI-based start-ups, enterprises and spin offs will also be increased. Innovations will be stimulated by enhancing creative capacity for knowledge and technology generation, acquisition, and adoption. Open collaboration among actors in the STI ecosystem will also be strengthened.

Enabling and Supportive Economic Environment

In order to expand the economic opportunities discussed above, the development plan supports these by creating a sound macroeconomic policy that will implement strategic trade and fiscal policy, maintain macroeconomic stability, and promote competition. The government will sustain a sound, stable, and supportive macroeconomic environment with responsible, strategic, and supportive fiscal sector; resilient and inclusive monetary and financial sectors, and strategic external policy regime. Likewise, the government plans to improve consumer welfare and market efficiency by diminishing anti-competitive practices, reduce entry barriers, and reduce limitations to entrepreneurship.

Foundations for Sustainable Development

The foundation that will support the 3 national pillars is ensuring peace and security. The government aims to achieve a cohesive, secure and progressive nation by attaining just and lasting peace, and by ensuring durable security, public order, and safety. The government aims to negotiate and implement peace agreements with all internal armed conflict groups. At the same time, it intends to protect and develop the communities in

conflict-affected and vulnerable areas.

In achieving the overall goal of the development plan, the administration plans to implement security measures that will ensure the public order and safety of the Filipinos within and outside the country. This includes the upholding of sovereignty and territorial integrity of the Philippines, eliminating all forms of criminality and illegal drugs, and ensuring the security and safety of overseas Filipinos.

The government will put high importance in accelerating infrastructure development in the country. This effort will form part in achieving the vision for 2040. Nevertheless, the government will also ensure the protection of a clean and healthy environment. Hence, the administration will increase its spending on public infrastructure, implement strategic infrastructure, ensure asset preservation, and intensify research and development (R&D) on technologies that are cost-effective over the whole project life-cycle. The Duterte administration aspires to be known as the “Golden Age of Infrastructure”.

The PDP 2017-2022 includes more aggressive strategies to rehabilitate and restore degraded natural resources, and protect the fragile ecosystems while improving the welfare of resource-dependent communities. The government will implement policies and programs that will ensure an ecological integrity, clean and healthy environment by sustaining biodiversity and functioning ecosystem services, improving environmental quality, and increasing adaptive capacities and resilience of ecosystems.

The PDP during Aquino's term did not have a chapter on labor unlike the previous medium term economic plans. Instead, the Department of Labor and Employment (DOLE) came up with the Philippine Labor and Employment Plan anchored on International Labour Organization's (ILO) decent work framework. The Duterte government reverted to the previous practice of incorporating the labor policy in the medium-term plan. While this may give a semblance of "coherence" with other policies, one of its consequences is the dropping of decent work as framework for the government's labor policy.

The current PDP's labor policy highlights human capital development, which ensures that there is adequate supply of labor needed in the market (Figure 8). The government's policy centers on addressing the perennial challenges in the labor market such as underemployment, youth unemployment, limited labor force participation of women, migration due to limited employment opportunities, and low productivity among others. To address these, the government proposes the usual supply-side approach, i.e. human capital improvements such as improving health, education and skills of workers. The demand side is left to the other chapters of the PDP that tackles investment promotion.

Figure 8. PDP's Strategic Framework for Accelerating Human Capital Development.

Accelerate Human Capital Development					
Nutrition and health for all improved			Income-earning ability increased		
Care at all life stages guaranteed	Access through functional service delivery ensured	Health financing sustained	Employability improved	Productivity improved	Labor mobility and income security enhanced
Provide quality nutrition and healthcare intervention at all life stages	Ensure functional and efficient networks of health care providers	Expand health insurance coverage and improve benefit packages	Encourage skills development and retooling through continuing education and training	Strengthen implementation of the two-tiered wage system	Provide income support and emergency employment
Improve health-seeking behavior and target the most vulnerable	Upgrade and equip health facilities, and improve human resources for health		Strengthen employment facilitation services	Ensure safety and health in the workplace	Enhance the efficacy of the minimum wage policy
Invest in e-Health and data collection mechanisms for decision-making to address data gaps			Strengthen and expand internship, apprenticeship and dual training programs	Nurture workplace harmony	
Elicit multisector, multi-stakeholder support for nutrition and health			Implement programs that encourage women to participate in the labor market		
Lifelong learning opportunities for all ensured					
Quality, accessible, relevant, and liberating basic education for all achieved			Quality of higher and technical education and research for equity and global competitiveness improved		
Strengthen early childhood care and development programs	Develop and improve intervention to keep children in school		Enhance community-based training for special groups	Integrate 21st Century competencies	Improve research and innovation and extension services
Pursue full implementation of K to 12	Continue curricular reforms		Provide access to quality and relevant TVET opportunities	Promote creative arts	Expand Government-Academe-Industry collaboration
Strengthen inclusion programs	Enhance teacher competencies		Ensure globally competitive TVET programs	Strengthen Quality Assurance Mechanisms	Promote excellence among HEIs
			Expand access to higher education		

Source: Adapted from the Philippine Development Plan 2017-2022.

Whether the PDP is an effective instrument to transform the country into a middle class society or not is being debated. Purugganan (2017) opines that much of the PDP retains the same market-oriented policies of the previous governments that prioritize business interest and liberalization. He further underscores the contradiction between these policies and the goals, such as correcting economic inequality. Chandra, et al (2016) find that in Asia, globalization and market-oriented reform are among those that contribute to greater inequality.⁵ Moreover, the PDP's silence on building on the previous government's attempts to revive manufacturing activities through the various industrial roadmaps signals policy discontinuity which is likely to derail, if not totally displace, the efforts to strengthen the industrial sector.

Expansionary Fiscal Policy: Build, Build, Build

Government spending is a critical element in an economy's growth and vibrancy in both crisis periods and ordinary times. There are conflicting views about the size of government spending on the economy and its impacts on economic activities. Typical conservative point of view discourages large government spending for the fear of stifling private economic activities. Keynesian view, on the other hand, sees fiscal policy as an important economic tool that stimulates economic activities, creates jobs, supports consumption spending and promote growth.

It is common knowledge that the Philippines lags behind its neighbors in terms of infrastructure (Manahan, 2017). Bad infrastructure negatively affects an economy's competitiveness and increases the cost of doing business. According to the WEF Global Competitiveness Report 2017, infrastructure is one of the aspects where

the Philippines lags the most (the country ranked 95th out of 138 in 2016 and 97th out of 137 countries in 2017). It is natural for the government to embark on a massive infrastructure program to address this inadequacy; after all, the impacts of infrastructure programs are long term. Moreover, investments on infrastructure directly create income opportunities and jobs especially when labor-intensive technologies are used (ILO, n.d.).

“Build, Build, Build” is the government's infrastructure program to be undertaken in the next five years. The program, which is composed of various projects from road networks, drainage systems, bridges, mass transport systems and air and seaports, to even economic zones.⁶ The estimated cost of the program is 8-9 trillion pesos. But it is all worth it if the infrastructure program actually produces result such as reduction of poverty to 14 percent by 2022.

The Duterte government sees the 'Build Build Build' program as a means to achieve the development targets of increasing the economy's “productive capacity, creating jobs, increasing household incomes and strengthening the investment climate leading to sustained inclusive growth”. The program adopts a so-called “hybrid PPP” strategy---the government will build and finance infrastructure projects to later auction them off to private entities who will then operate and maintain the infrastructure---because apparently, the previous government's public-private partnership, where the government outsources the building of a project to private sector, was too slow.⁷ The strategy rids the private sector of the risks involved in the construction of the project.⁸ However, the hybrid-PPP resembles more closely the typical privatization schemes observed in the past, albeit occurring at a much shorter span of time (transfer to private sector occurs after construction).

⁵See also Zhuang, J., Kanbur, R. and Rhee, C. (2014). *What drives Asia's rising inequality?* In Kanbur, R., Rhee, C. and Zhuang, J. (eds), *Inequality in Asia and the Pacific: Trends, Drivers and Policy Implications*. Routledge. London.

⁶The full list of projects is available at the Build Build Build website, <http://www.build.gov.ph/>.

⁷The government claims that disputes and protracted negotiations slowed the implementation of PPP programs of the previous government.

The program is not without criticism, though. First, it is interesting to note, however, that the priority infrastructure projects under the BBB remain concentrated in Luzon, despite the President's continuous insistence to develop the regions in the south (Manahan, 2017). Moreover, Manahan (2017) argues that projects especially those that involve matters related to right-of-way such as the building of road networks, etc. often affect poor households who live in urban poor communities, not to mention the possibility of cutting trees to accommodate construction activities. Also, the planned building of additional economic zones might have an adverse impact on the rights of workers to freedom of association and adequate wages, not to mention the potential loss in tax revenues from companies operating in economic zones because of tax breaks.⁹ Lastly, the massive cost of these infrastructure programs requires serious funding. The involvement of Chinese ODA already raises a red flag considering the experiences of some countries in Africa and even in Southeast Asia, including the Philippines' case over the NBN-ZTE deal during the Arroyo administration (Manahan, 2017).

Hype TRAIN: Tax Reform

To finance the various projects of the government, including its massive infrastructure program, the government is seeking a reform in the tax system. The Department of Finance is looking at legislating five tax packages that aim to raise revenues. The first package was signed by the President in December 2017. This tax package tackles certain aspects of the National Internal Revenue Code of 1997. Among those that stirred people's sentiments are personal income tax adjustments and excise taxes on fuel, automotive and sugar.¹⁰ The main point of

the tax reform package is to lower personal income tax so individuals will have more disposable income, and to raise consumption taxes. Even before being appointed by the President into his current post in Department of Budget Management, Secretary Diokno has already called for the lowering of personal income tax, which he thought was one of the highest in Southeast Asia.¹¹ Then, the context was different. The credit upgrades the Philippines received---commonly attributed to reforms brought about by the Aquino government---allowed the economy to cut taxes, it was just that the government of Noyonoy Aquino was not interested. Secretary Diokno allayed fears of the possible budget deficit that would arise from tax cuts. In the first place, he notes, the government was underspending for some reason. Incurring fiscal deficit was not seen in the horizon. Second, the country's foreign debt-to-GDP ratio is at a record low and there is enough supply of foreign reserves from remittances and BPO revenues. Secretary Diokno claims that reducing personal income taxes motivates more consumption, reduces labor cost, and generates more jobs; thus, income tax cuts make good economics.

In TRAIN's first package, the income tax cut serves as the rallying point for popular support. The other controversial tax items---fuel excise tax, automotive vehicle tax, and sugar tax---were met with opposition. Fuel excise tax has long been opposed because of its potential inflationary impacts that hurt most especially poor households. The DOF claims that the proposed increase in fuel excise tax has little impact on inflation. Moreover, the DOF claims that higher income households tend to consume more petroleum products so raising the excise tax on petroleum will not necessarily hurt the

⁸ See <http://www.dof.gov.ph/index.php/hybrid-ppp-to-complement-infra-buildup/>.

⁹ In the Philippines, economic zones are found to have little linkages with local firms, and when there is any, these are in low value added activities. This is because most of companies in economic zones are importers (Manasan, 2013).

¹⁰ The first package covers personal income tax, estate and donor' tax, value added tax, excise taxes on petroleum and vehicles and tax on sugar-sweetened beverages. See <http://www.dof.gov.ph/taxreform/index.php/pit/>.

¹¹ See for instance, <http://www.bworldonline.com/content.php?Section=Opinion&title=cutting-income-taxes-is-good-politics-and-good-economics&id=116524>.

poor. The excise tax is also seen as a way to control emissions by indirectly influencing the behavior of those who use petroleum products.

The same motivation applies on the proposed excise tax on vehicles. Automotive vehicles are commonly consumed by high income households so the effect of excise tax is indirectly targeted to higher income households. This move however has been opposed by both car-manufacturing companies and workers' organizations fearing that it will result to job loss. Moreover, the excise tax on vehicles will directly run against the government's CARS program that seeks to subsidize production of car models so as to create more jobs. Similar criticisms are hailed against the proposed excise tax on sugar, which will reduce demand for sugar-sweetened beverages, and thus, would also have adverse impact on employment. The government views the excise tax on

sugar as a health policy with the purpose of cutting household consumption of sugary beverages so as to reduce the incidence of diseases related to these food products. Unfortunately, there is an inevitable adverse impact on jobs in the beverage manufacturing sector.

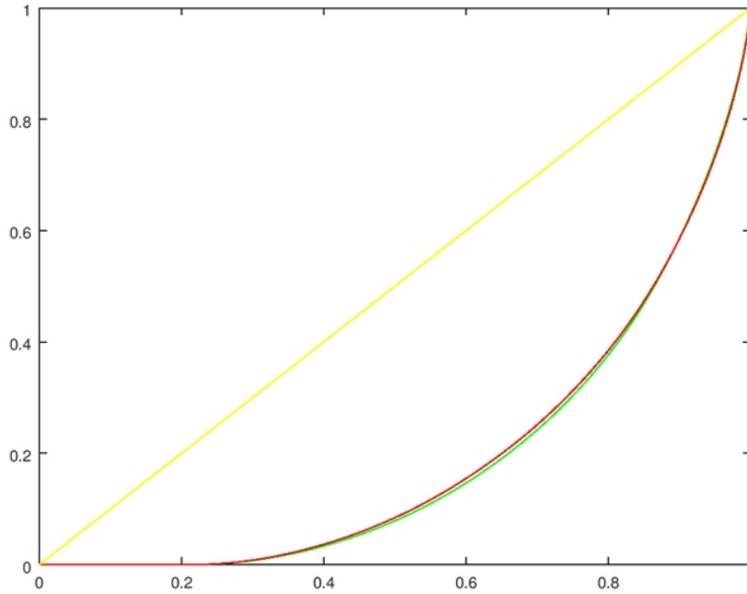
In general, one of the overarching goals of the income tax reforms is to correct inequality. Below we examine the effect on income distribution of the proposed new tax brackets and rates. The Department of Finance proposed a tax bracketing system that generally lowers the tax rates and adjusts the bracket limits. The Senate version of TRAIN, as well as the legislation that passed had some differences with the original proposal. Table 2 compares the existing income tax brackets and rates and the proposed new scheme. If passed, these rates will apply in 2018 to 2020. For the succeeding years, the rates are further reduced in the HOR version.

Table 2. Old and Proposed Tax Rates under TRAIN for 2018

Old	
$X \leq 10000$	$0.05 * X$
$10000 < X \leq 30000$	$500 + 0.1 * (X - 10000)$
$30000 < X \leq 70000$	$2500 + 0.15 * (X - 30000)$
$70000 < X \leq 140000$	$8500 + 0.2 * (X - 70000)$
$140000 < X \leq 250000$	$22500 + 0.25 * (X - 140000)$
$250000 < X \leq 500000$	$50000 + 0.3 * (X - 250000)$
$X > 500000$	$125000 + 0.32 * (X - 500000)$
Senate Version	
$X \leq 150000$	0
$150000 < X \leq 250000$	$0.15 * (X - 150000)$
$250000 < X \leq 400000$	$15000 + 0.20 * (X - 250000)$
$400000 < X \leq 800000$	$45000 + 0.25 * (X - 400000)$
$800000 < X \leq 2000000$	$145000 + 0.3 * (X - 800000)$
$X > 2000000$	$505000 + 0.32 * (X - 2000000)$
Actual rates from the TRAIN law	
$X \leq 250000$	0
$250000 < X \leq 400000$	$0.2 * (X - 250000)$
$400000 < X \leq 800000$	$30000 + 0.25 * (X - 400000)$
$800000 < X \leq 2000000$	$130000 + 0.3 * (X - 800000)$
$2000000 < X \leq 8000000$	$490000 + 0.32 * (X - 2000000)$
$X > 8000000$	$1450000 + 0.35 * (X - 5000000)$

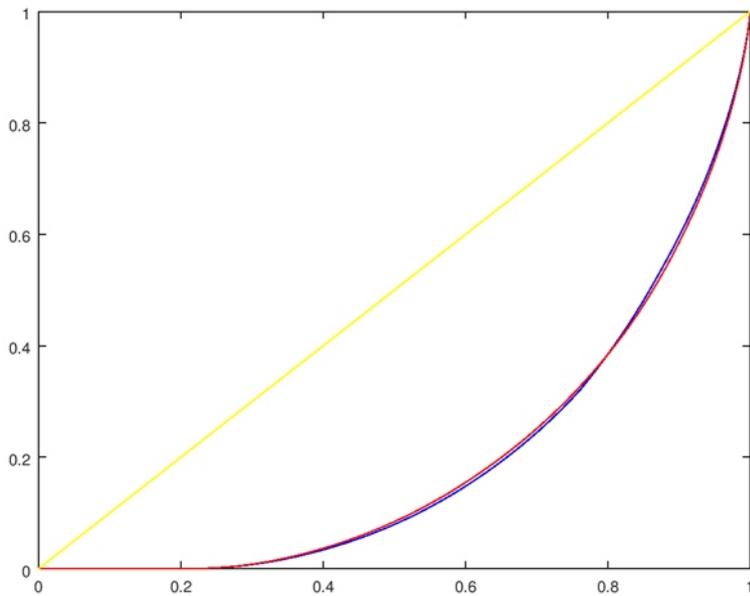
Source: HB5636, SB1592, National Internal Tax Code, TRAIN Law.
 Note: X = compensation income.

Figure 9. Impact of HOR's Proposed Tax Brackets and Rates on Compensation Distribution.



Source: Author's own computation using data from FIES 2015.

Figure 10. Impact of Senate's Proposed Tax Brackets and Rates on Compensation Distribution



Source: Author's own computation using data from FIES 2015.

The HOR and the Senate versions have different bracket limits. In the Senate version, compensation tax exemption ends at 150,000.00 pesos; whereas, the HOR version allows exemption until 250,000.00 pesos.¹² The minimum taxable compensation under the HOR version imposes 20 percent tax, short of 15 thousand pesos in the Senate version. Until the last bracket, the HOR version imposes lower rates than the Senate version. Incomes in the top bracket are imposed higher tax rate even compared to the existing scheme. The legislated TRAIN Law maintains the bracketing system under the HOR bill except for the top two brackets. At first glance, the HOR version may be more progressive compared to the Senate version or even the recently signed TRAIN Law.

It is easier to visualize the effect on income distribution of the proposed tax schemes by simulating the effects of these tax schemes using the compensation income distribution from the 2015 FIES.¹³ Figures 9, 10 and 11 show the impact of the proposed compensation tax schemes by the Senate and HOR and the TRAIN law. The vertical axis represents the cumulative income share of individuals while the horizontal axis represents the cumulative share of individuals ranked according to their incomes. The yellow diagonal line represents line of perfect equality, i.e. for instance, 1 percent of population accounts for 1 percent of income. The red, blue and green curves are called Lorenz curves. They show how much

of total wealth is owned by the bottom x-percent of the population. In general, if the curve is closer to the yellow line, the distribution of income is more equal. As the curves tend toward the horizontal and the vertical axis on the right side, incomes become more unequally distributed.

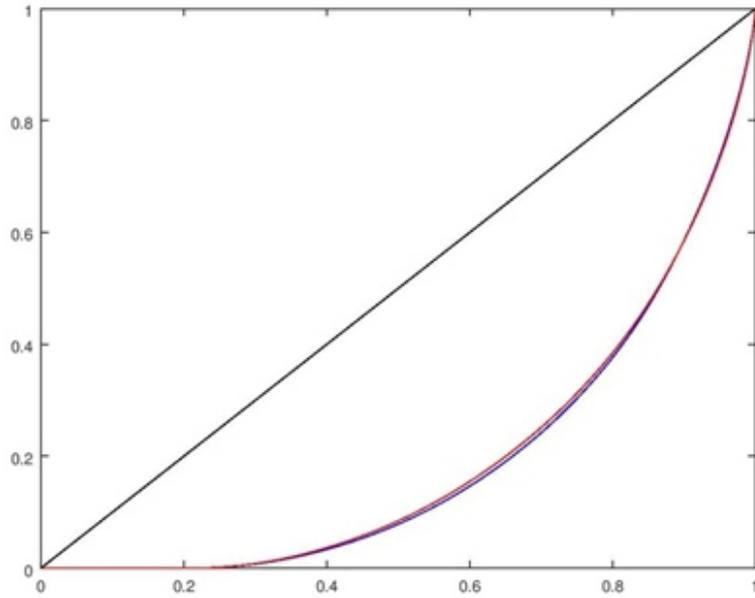
In Figures 9 and 10: the green curve represents compensation income distribution under the HOR tax scheme; the blue curve represents compensation income distribution under the Senate's proposed tax scheme; while, the red curve represents compensation income distribution under the old scheme.¹⁴ Under the proposed tax scheme, income distribution becomes more unequal. This is not surprising considering that a sizeable number of individuals are already tax exempt, thus, further tax cuts will mostly benefit higher income households. Under the HOR tax scheme, the Lorenz curve shifts downwards particularly for the lower 80 percent of the individuals. This implies that the tax scheme will make compensation income distribution more unequal. Meanwhile, the Senate's proposed tax scheme shows an almost similar effect. The tax scheme pivots the curve such that the lower 80 percent of the population have less income share, while the top 20 percent have higher income shares. The legislated TRAIN law will also likely worsen income inequality. Figure 11 shows that that share in income of bottom 80 percent of household will decrease under the new tax structure.

¹²The HOR version reiterates that minimum wage earners are exempted from income taxes.

¹³The use of the 2015 income figures from the FIES is for illustrative purposes only. We assume that there is no major departure from the distribution of income in 2015. This simulation also disregards any increase in incomes.

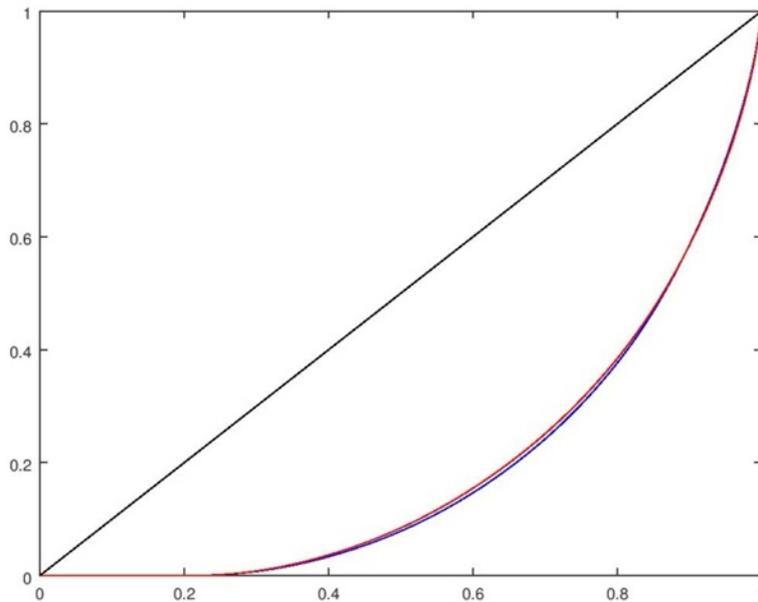
¹⁴The HOR compensation tax scheme is the same as the scheme proposed by the DOF.

Figure 11. Impact of TRAIN Law Tax Brackets and Rates on Income Distribution



Note: Red line represents old scheme. This estimation includes compensation income, entrepreneurial income, dividends and interest income, and other receipts.

Figure 12. Simulated Tax Revenues under the Old Tax Scheme and the TRAIN Law



Source: Author's own computation using data from FIES 2015. Note: Black line represents revenue under the old tax scheme. Red line represents tax revenues under the TRAIN law.

The HOR version of the tax reform package provides for a mechanism to transfer cash to low-income household through a social benefit card that will cover the poorest 50 percent of the population. The Senate version of the bill provides a specific amount---300 pesos per month over three years---to the bottom 10 million poorest households. The TRAIN law provides for a transfer amounting to 200 pesos per month for the first year and 300 pesos per month for the second and third year. The transfer covers the lowest seven deciles (lowest 70 percent) of households.¹⁵ Without these transfers, the tax reform program will exacerbate income inequality in the country.

Figure 13 shows the economic growth projection for 2017 and 2018. The red line represents the mean growth while the green line represents upper bound for growth and blue line represents lower bound for growth. The economy will likely sustain positive, although slower, growth for 2017 and 2018.

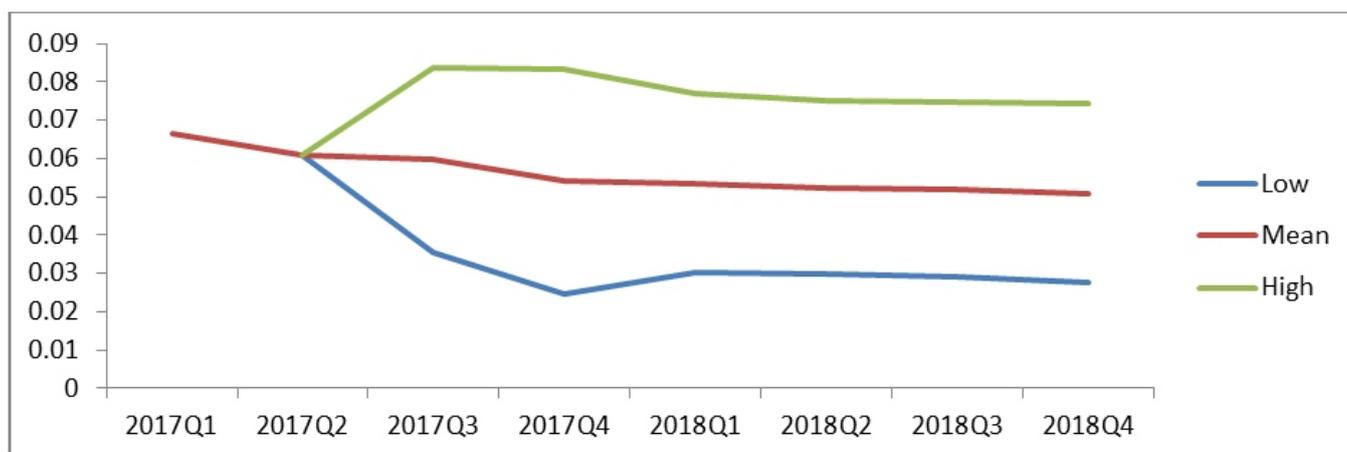
In the previous years, growth has been due to increases in investment spending and

consumption spending. Slower growth rate may be corrected by an increase in government spending. We expect this to happen especially when the government's massive infrastructure program fully rolls out. However, this is only possible if the government is able to address its limited absorptive capacity.

We also expect investment spending to contribute more substantially to growth as a response to the government's increased spending on infrastructure. The contribution of investment spending to growth has been stable in the past 2 years. If this is sustained, the economy may grow faster than expected.

Meanwhile, consumption spending is seen to contribute less to growth especially when the proposed taxes on commodities take effect. Although the government plans to reduce income taxes, this does not guarantee that in general, there will be an increase in the take home pay of workers especially that there is conscious effort to depress wages (first, by the attack on minimum wages and second, by persistent contractualization).

Figure 13. Short-term growth forecast



¹⁵The coverage of the transfer is based on the National Household Targeting System for Poverty Reduction (NHTS-PR), Pantawid Pamilyang Pilipino Program, and the social pension program.

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