An exegesis of mediocrity: Institutions and inclusion in the Philippines

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Poverty of public goods and noninclusive outcomes are fellow travelers in the development landscape. High-quality public goods are inclusive—they induce the increase in the size of the economic pie through investment, and they open up opportunities and jobs for the poor. Among the many things that characterize the Philippines, a poverty of public goods is clearly salient. In this Policy Note, we connect the poverty of public goods with noninclusive and poor economic performance through the concept of collective action.

Public goods provision is a collective action problem: selfish agents left to their own devices will end up with bad social outcome. Collective action problems are repositories of social optima that deliver social improvements but these require unlocking. Economic development is a narrative of how a society has seized or wasted the social bonanza at the heart of collective action problems. The state is the key that unlocks these bonanza.

The state is the most important collective action institution of every society. Indeed, from Adam Smith (1776), we know that solving collective action challenges is the raison d’être of the state. The state promulgates formal rules (statutes) that try to align behavior toward the social end. What social ends these are and how effective the formal rules are in their pursuit depend on the nature and capacity of the state. Paul Samuelson’s (1954) “benevolent central planner” being omniscient, omnipotent, and benevolent always manages a solution.

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and benevolent states manifest their capacity by solving collective action problems in the form of high-quality public goods. An example of a collective action problem turned into a social bonanza was the periodic deadly floods by the Yangtze River. The massive Three Gorges Dam in the People’s Republic of China now controls the flooding and delivers 23 gigawatts of power—enough to supply the whole Philippines’ needs twice over.

Most least developing countries are not strong and benevolent; rather they are ‘weak states’ lacking either the autonomy and/or the competence to solve collective action problems. They engender the poverty of public goods. Weak states are tenuous political settlements between disparate groups each vying for advantage in zero-sum pie division games. These settlements being marginally stable, a weak states’ decisions, promulgations, and its very existence are subject to constant challenges by aggrieved groups. Because they cannot resist the pressure to act or refrain from action, many government programs become wasteful entitlements to different groups, and government failures arise in their wake.

We vivify the relationships among these concepts by employing the Fishing Game, a collective action problem, which under laissez-faire will not attain the social optimum. We focus on state interventions—statutes—that try to attain the social optima. Statutes do this by aligning member behavior toward the social end. Success is very likely when the state combines strength and benevolence and very unlikely if the state is weak.

The role of the ‘social class’ (elites and nonelites) in the promulgation of formal rules becomes important if the state is weak. The weak state or its organs can be captured by the elite and used for noninclusive pursuits. We argue that the elites are not so much either ‘good or bad’ as ‘both good and bad’ with the ‘bad phenotype’ being an adaptation to the weak state environment. The elites in strong states, by contrast, have served as vanguards of development and inclusion. The ‘bad elite’ narrative is at best incomplete.

We illustrate the role of the social class in the Class Game where the social optimum is also the inclusive social optimum (the Rawlsian optimum). In these games, the elites have incentive to block the inclusive social optimum. When the state is strong, the elites’ behavior accords with the social optimum; they behave responsibly, and inclusive social optimum is attained.

In a weak state, the elites have the power to influence the nature of rules and/or their enforcement. They can lobby to block or scuttle good statutes and the inclusive social optimum goes begging. The masses of people can thus be excluded by ‘elites behaving badly’. But it is the weak state that triggers this behavior.

Because every meaningful reform is itself a collective action problem where strong
pushback is the natural course, meaningful reform is difficult and contentious. Positions of command and leadership are jealously guarded by the centurions of the weak state status quo. Well-meaning leaders may be compromised in their ascent to power. If by good fortune, such a well-meaning leader emerges, he/she has to rely on weak state instruments such as lobbying and even bribery to enact good reform statutes. We argue that reformers in weak states must play the weak state game or end up being demobilized. Niccolo Machiavelli (The Prince) was right that the greater good must always be pursued even at the cost of some bad. Even President Abraham Lincoln, the purest of reformers, found wisdom in the use of bribery and patronage to ensure the passage of the Anti-Slavery Amendment to the Constitution in 1864.

The journey to reverse state weakness without an unconstitutional power grab is slow and littered with past failures. The very weakness of the state partly stems from its taking on too much and thus doing so poorly. Weak states overreaching into economic domains where the market has superior competence produce the dreaded marketization of rules. Strategic retreat of the state from such domains—such as the privatization of water services in Metro Manila and the dismantling of the Oil Price Stabilization Fund (OPSF)—has produced unmistakable economic and social gains. Fewer commitments mean better monitoring, higher wages, and better results. This retreat defies political wisdom but the state retreat from the OPSF, the water distribution in Metro Manila, and the state ownership of power assets, which resulted in tangible social benefits, proves that it can be done. These and other retreats allowed ample fiscal space that made fiscal inclusiveness in the Aquino presidency possible.

A state safely ensconced behind its core competence will, by definition, perform better. There will be more resources dedicated per program, perhaps higher salaries, better equipment, better training per employee, and a higher morale among the troops. More importantly, taxpayers’ willingness to pay taxes is enhanced with better services. Increasingly, if by degrees, the state will become associated with respectable performance, prudent fiscal spending and credible commitments. This does not mean that the government spending as percentage of gross domestic product will fall. It just ensures the larger ‘bang for the buck’ for of taxpayers’ money. The exact opposite reputation has been built by the Philippine state in the last half a century: whatever it touched turns into muck. ‘Letting go’ furthermore promises to free up considerable fiscal resources for more worthy ends.

The expanded conditional cash transfer program and the PhilHealth programs, as forms of fiscal inclusiveness, are beneficiaries of strategic retreat of the state. In the light of the Piketty (2014) thesis that market economies tend to worsen income inequality,
fiscal inclusiveness becomes even more compelling. The understanding of *Matuwid na Daan* as fiscal inclusiveness is trailblazing for the Aquino watch.

Reversing the descent toward state fecklessness requires a strategic retreat to core competence. The following are the simple take-away lessons:

1. The weaker the state, the closer to core competence should its radius of activities be. Less accomplishes more.
2. Maximizing the public interest many times requires the state ceding activities to the market or to public-private partnership.
3. With a smaller agenda, the weak state becomes more efficient and consequently stronger.
4. When faced with a true market failure, premium should be put on identifying and implementing the simplest modality of address first and, if shown ineffective, incrementally augmenting.

Though the efficiency rule points to a Philippine state with a much reduced compass, the rationale is not the ‘ideology of limited state’ as in Nozick’s (1973) ‘night-watchman state’, which says that an expanded state inevitably infringes on inalienable individual rights. The limits to the state here is due purely to pragmatic considerations along the lines of Deng Xiaoping: the state can be as large as its comparative competence allows but no larger.

**References**


