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WHY DOES POVERTY PERSIST IN THE PHILIPPINES? FACTS, FANCIES, AND POLICIES

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INTRODUCTION

Addressing the widespread poverty problem is the single most important policy challenge facing the Philippines. Not only is poverty high compared with other countries in East Asia, but also its reduction is so slow that the country has become the basket case in the region.

Proposals peddled to address the poverty problem are plenty — and they keep on growing. At one end of the spectrum are proposals contending that the root of the problem is simply the lack of respectable economic growth. Putting the economy on a high-growth path is prescribed as all that is needed to beat the poverty problem. At the other end are proposals asserting that the poverty problem is nothing but a concrete manifestation of gross economic and social inequities. Redistributing wealth and opportunities is viewed as the key to winning the war on poverty. A variant of such proposals holds that economic growth does not at all benefit the poor. Focusing on growth rather than on redistributive reforms is seen to exacerbate inequities, which could lead to the further erosion of peace and social stability. Between these extremes are views that consider economic growth as a necessary condition for poverty reduction and recognize that reform measures have to be put in place to enhance the participation of the

poor in growth processes. Most advocates of poverty-reduction ideas, including proponents of the so-called "pro-poor growth", belong to this mold, although not necessarily sharing common ground on what, conceptually and operationally, constitutes pro-poor growth processes.

How do these proposals stand in relation to evidence and policy research? What are facts and what are fancies? Given the country's fiscal bind, what policy levers can be expected to generate high returns in poverty reduction?

This chapter attempts to answer these questions. It does this by examining the Philippine experience in poverty reduction from an "international" perspective. The next two sections characterize the nature, pattern, and proximate determinants of poverty reduction during the past twenty years. The fourth section examines the economy-population-poverty nexus, specifically the quantitative significance of the country's continued rapid population growth for long-term income growth and poverty reduction. Some concluding remarks are given in the final section of the chapter.

THE GROWTH-POVERTY NEXUS

Sustained increases in national income — that is, economic growth — is required for poverty reduction. Claims to the contrary are, however, periodically heard from civil society groups and non-government organizations (NGOs). Recent development experience presents clear evidence: every country that has chalked up significant achievements in poverty reduction and human development has also done quite well in securing long-term economic growth.[1] Indeed, viewed from a medium- to long-term perspective, there is an almost one-for-one correspondence between growth in the incomes of the poor and the country's average income growth. This correlation is not unexpected: economic growth is an essential condition for the generation of resources needed to sustain investments in health, education, infrastructure and good governance (law enforcement, regulation), among other things.

While economic growth in most East and Southeast Asian countries has been remarkably rapid during the past twenty-five years, the same cannot be said of the Philippines. The country's economic growth has been quite anemic, barely exceeding the population growth rate, which has continued to expand rapidly at 2.3 per cent a year for most of the past two decades. Economic growth quickened in the first half of the present decade, but questions about the sustainability of this growth linger. Even at the present pace, it can hardly be argued that the Philippines has come close to the growth trajectories of its neighbours. It is thus not surprising that serious students of Philippine development contend that shifting the economy to a

TABLE 9.1
Levels and Growth Rates of GDP per capita, 1980–2005

	GDP per capita (PPP $, in 2000 prices)		*Annual growth rate (%)*	
	1980	*2005*	*1980–2005*	*2000–2005*
Philippines	4,160	4,381	0.63	2.50
Indonesia	1,462	3,402	3.70	3.25
Malaysia	4,047	9,687	3.65	3.00
Thailand	2,488	7,862	4.59	4.13
Korea, Rep.	4,557	18,316	5.53	4.56
Vietnam*	Na	2,683	4.87	6.10
China	762	5,643	8.49	8.56

* Data start in 1985.
Sources: World Development Indicators 2006; ADB Outlook 2006.

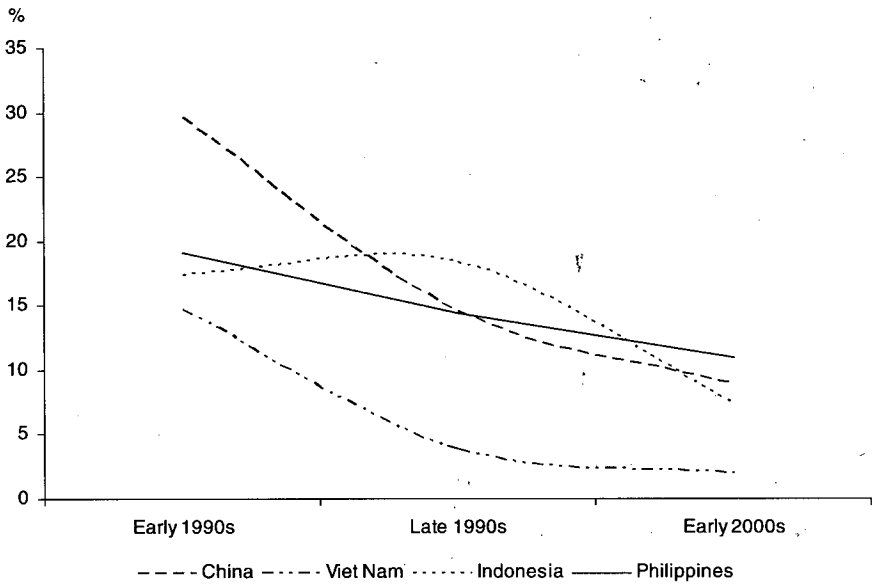
higher growth path — and keeping it there for the long term — should be first and foremost on the development agenda.

The country's dismal economic record shows up even more vividly on the poverty front. Poverty reduction in the Philippines lagged far behind those of its East Asian neighbours, particularly Indonesia, Thailand, Vietnam, and China (Figure 9.1). Both China and Vietnam started with higher levels of poverty incidence than did the Philippines during the early 1980s, but their absolute poverty soon dwindled and became much lower than the Philippines' during the early 2000s. Both Malaysia and Thailand also had virtually eliminated absolute poverty in the past twenty years. Interestingly, while the average income in the Philippines in the mid-2000s (PPP $4,381) was much higher than in Vietnam (PPP $2,683) and Indonesia (PPP $3,402), its absolute poverty was actually much higher than in either of the latter countries.[2]

Clearly, the unenviable performance of the Philippines in poverty reduction has to do largely with its inability to achieve — and sustain — an income growth substantially higher than its population growth. But is this all that can be said about the poverty problem in the Philippines?

The poor performance of the Philippines in economic growth and poverty reduction has often been attributed in part to the relatively large variation in access to infrastructure and social services across regions and island groups. A widely held view, for example, is that development efforts have favoured Luzon and discriminated against the Visayas and (especially) Mindanao. Proponents of this view say that this development pattern has led to substantial regional differences in access to economic opportunities, in rates of poverty

FIGURE 9.1
Poverty Reduction in East Asia



Note: Figures pertain to proportion of population with income per capita below US$1 a day (in PPP).
Sources of data: World Bank and ESCAP.

reduction, and in the incidence of armed conflict. For instance, the *Philippine Human Development Report 2005* shows that measures of deprivation — such as disparities in access to reliable water supply, electricity and especially education — predict well the occurrence of armed encounters.[3]

Table 9.2 shows the patterns of poverty across regions of the Philippines from 1988 to 2003, as well as the contribution of each region to national poverty. As one would expect given the regions' very diverse growth records (see the last column), considerable variations occured. However, Metro Manila consistently had the lowest poverty while Bicol, Western Mindanao, and the Visayas had the highest. In 2003, poverty incidence was roughly ten times higher in Bicol and Western Mindanao than in Metro Manila. Some significant re-rankings also occurred, such as the Autonomous Region of Muslim Mindanao (ARMM) becoming the poorest region in 2003 when it was the third least poor region (out of sixteen regions) in 1988. Even more significant is the differential evolution of poverty over time. In two regions, Western Mindanao and ARMM, poverty — both in incidence and

TABLE 9.2
Poverty Incidence and Income Growth, Philippine Regions, 1988–2003

Region	*1988*	*1991*	*1994*	*1997*	*2000*	*2003*	*Contribution to national poverty, 2003*	*Annual per capita income growth rate, 1988–2003*
Philippines	34.4	34.3	32.1	25.0	27.5	26.1	100.0	2.7
NCR	9.5	5.9	5.6	3.5	5.5	4.8	2.6	2.1
CAR	39.1	46.5	26.6	22.1	19.8	14.8	1.0	2.3
Ilocos	25.5	24.3	26.4	20.8	20.3	16.8	3.4	2.3
Cagayan Valley	39.2	39.1	41.8	30.1	29.9	26.9	3.5	3.3
Central Luzon	15.3	15.4	24.3	13.2	16.1	13.7	5.4	2.2
Southern Tagalog	31.7	22.9	28.6	19.6	19.5	20.9	12.2	3.9
Bicol	60.9	62.2	50.2	45.6	53.3	45.6	10.8	2.9
Western Visayas	34.4	31.6	34.5	21.8	28.1	26.5	8.2	3.6
Central Visayas	55.2	53.2	42.8	35.2	39.4	37.5	10.4	3.3
Eastern Visayas	53.7	54.4	51.5	50.6	46.8	45.6	8.8	4.3
Western Mindanao	47.6	47.1	47.1	35.2	47.0	48.9	7.6	2.0
Northern Mindanao	44.9	55.7	34.4	26.0	27.3	30.3	4.2	1.7
Southern Mindanao	46.9	56.8	30.4	26.7	25.4	27.2	7.4	3.5
Central Mindanao	35.8	46.9	45.2	33.1	38.0	34.0	4.3	2.8
ARMM	23.4	34.0	48.7	50.5	60.7	60.5	6.1	–0.5
Caraga	30.1	45.7	41.0	37.0	33.8	38.4	4.1	2.1

Note: The provincial composition of the regions has changed over the years. For comparability over time, the provinces are grouped consistently according to the 2000 regional classification. Estimates are not comparable with official figures.

Source: Author's estimates based on data from the NSO *Family Income and Expenditure Survey* (various years). Details of the estimation method employed are shown in Balisacan (2003*b*).

in depth — was higher in 2003 than in 1988. This rise also shows up in measures reflecting human development deprivation, particularly in the areas of health and education.[4] Towards the close of the 1990s, these two regions, particularly ARMM, were at the centre of violent confrontations between the military and armed dissidents.

The long-term relationship between Philippine poverty and income growth is even more evident in data on the country's seventy-seven provinces. This is shown in Figure 9.2, which plots the change in poverty incidence between 1985 and 2003 and the corresponding percentage change in real family income per capita, adjusted for provincial cost-of-living differences.[5] Clearly, as noted in the cross-country data above, the pace of poverty reduction at the provincial level is closely linked to local economic performance. However, there are significant departures from the fitted line (that is, provinces not conforming to the "average pattern"), suggesting that factors other than the rate of local economic growth are influencing the evolution of poverty.

Elsewhere, using provincial data covering the country's seventy-seven provinces between the years 1988 and 2003, Balisacan (2007) traced the quantitative significance of the channels by which income growth, together

FIGURE 9.2
Income Growth and Poverty Reduction, Philippine Provinces, 1985–2003

with a host of other factors, influenced poverty reduction. In his model, these other factors affect the speed of poverty reduction directly by changing the distribution of a given economic pie, or indirectly by expanding the economic pie for each person in society (that is, by way of economic growth). These factors can be grouped into two types:

(i) *Initial economic and institutional conditions (in or around 1988).* Initial mean provincial per capita income; initial distribution of per capita income; initial human capital stock; political "dynasty" (as proxy for political competitiveness); and ethno-linguistic fragmentation; and
(ii) *Time-varying policy variables (difference during 1988–2003).* Simple adult literacy rate; agricultural terms of trade (as proxy for economic incentives); access to infrastructure (represented by electricity and good-quality roads); and Comprehensive Agrarian Reform Program (CARP) implementation.

The regression results reveal cracks in poverty reduction efforts. The policy variables and the variables representing initial conditions, except those pertaining to human capital and infrastructure, are found to mainly exert an indirect effect on poverty reduction through their effect on overall income growth. For infrastructure, particularly transport, and initial human capital, both direct and indirect effects are operative and, taken together, have a positive impact on the pace of poverty reduction. Particularly remarkable is the lack of direct response of poverty to CARP. Considering that the agrarian reform programme is touted as an equity tool, this result is not only surprising but also inconsistent with earlier findings.[6] This is not to say that CARP has no effect on the poor. It has, but its effect is mainly through the income growth channel. Taken together, the regression results show very limited direct effects of recent policies and institutions on the speed of poverty reduction; their effects get transmitted to poverty reduction indirectly, mainly through overall income growth.

Another interesting observation from the above study, as well as other studies using the same provincial data (for example, Balisacan and Fuwa 2004), concerns the extent to which poverty responds to overall income, after taking into account the influences of other factors noted above. This response can be aptly summarized by what is referred to as "growth elasticity" of poverty reduction. This elasticity clusters around 1.3 to 1.65 — a 1 per cent increase in the income growth rate increases the poverty reduction rate by roughly 1.3 to 1.6 per cent. Significantly, these estimates are much lower than those reported for other developing countries. For example, using parameter

estimates of inequality distribution for each country, Cline (2004) obtained growth elasticities of 2.9 for China, 3.0 for Indonesia and 3.5 for Thailand.[7]

Ravallion (2001) obtained a growth elasticity of 2.5 for 47 developing countries, based on a bivariate regression of the proportionate changes in their poverty rates and mean incomes. A similar bivariate regression of the data employed by Balisacan (2007) gives an elasticity of 1.5. Hence, by all these indications, the growth elasticity in the Philippines is quite low by international standards.

Clearly, the very low income growth achieved in recent years is a key factor in the country's sluggish rate of poverty reduction. Still, even this modest level of income growth could have delivered more poverty reduction than what had been actually realized if the growth elasticity in the Philippines had come close to those in neighbouring countries. Why is this so? What conditions need to change, and what policy responses need to evolve, to make poverty reduction more responsive to economic growth? Put differently, what does it take to improve the quality of growth?

SHARPENING THE RESPONSE OF POVERTY TO LOCAL ECONOMIC GROWTH

Both theory and evidence suggest a strong connection running between agricultural and rural development and poverty reduction. Investments in social services, especially in basic health and education, especially in rural areas, have also high payoffs in terms of poverty reduction. Serious students of Philippine economic development also call attention to the need to address the country's rapid population growth, since there is a strong link between economic performance, on the one hand, and economic growth and poverty reduction, on the other. These channels to poverty reduction are elaborated below.

As in most of Asia's developing countries, poverty in the Philippines is a largely rural phenomenon. Two of every three poor persons in the country are located in rural areas and are dependent predominantly on agricultural employment and incomes (Balisacan 2003*a*). Even poverty in urban areas is largely a consequence of low productivity and slow expansion of employment opportunities in rural areas; that is, extreme deprivation in rural areas induces rural-urban migration.

Recent development experience demonstrates that rural development fuelled by rapid productivity growth in the agricultural sector holds the key to sustained poverty reduction.[8] In developing countries where agricultural growth was rapid, sustained, and broadly based, growth of farm incomes was

sustained despite farm price declines in world markets; domestic food prices remained low; rural employment diversification was enhanced; and, consequently, poverty reduction was robust.

Prior to the country's accession to the World Trade Organization (WTO) in 1995, the performance of the agriculture sector was quite poor compared with those in other Asian countries. During the period 1980–94, Philippine agriculture grew at a measly 1.5 per cent a year, the lowest among the major developing Asian countries (Table 9.3). The growth was even less than the rate of population growth then (averaging about 2.4 per cent a year). The mediocre growth mirrored the poor performance of the overall economy.

In the period following the country's accession to the WTO, the country's agricultural growth improved to 2.4 per cent a year, although this still paled in comparison with the averages for China (3.5 per cent) and Vietnam (4.2 per cent), two of the most aggressive globalizers in the Asian region. The figure is surprisingly higher than the averages for Malaysia and Indonesia and comparable with Thailand's. Note, however, that in both Malaysia and Thailand, the relative importance of agriculture in national income had declined substantially during the past two decades of rapid economic growth, while in Indonesia, the Asian financial crisis of 1997–98 left a deep puncture in the economy and the agriculture sector.

What Table 9.3 suggests is that, contrary to popular claims, especially by many NGOs and influence peddlars in government, the country's accession

TABLE 9.3
Average Agriculture Growth (%), 1965–2002

	1980–1994 Pre-WTO Accession	*1995–2003 Post-WTO Accession*
Malaysia	2.44	0.64
Sri Lanka	2.71	1.19
Indonesia	3.51	1.74
India	4.12	1.75
Philippines	1.49	2.40
Thailand	2.87	2.78
Nepal	3.36	2.94
Bangladesh	2.29	3.41
China	5.16	3.50
Pakistan	4.12	3.52
Vietnam	3.24	4.25

Note: Data for Malaysia start only in 1971, Nepal in 1966, Vietnam in 1986.
Source: World Bank, *World Development Indicators 2005.*

to the WTO could not be a compelling reason for the comparatively poor performance of agriculture in recent years. All the other major developing countries in the Asian region operated in a similar global trading environment as the Philippines but had significantly higher agricultural and overall economic growth rates than those achieved by the Philippines.

Production growth could come from either expansion of the cultivated area or from increases in output per unit area. The former is no longer a practical option for the Philippines mainly due to conversion of land to non-agricultural purposes. Hence, output growth would have to come from productivity growth through sustained technological improvements.

A comprehensive measure of productivity growth is total factor productivity (TFP) growth. This measure represents output growth net of the growth in all production inputs. It is thus an appropriate indicator of efficiency (and competitiveness) improvement. The available TFP data for the 1970s suggest that the Philippines at that time fared comparably with Thailand and Indonesia (Table 9.4). However, the succeeding two decades saw productivity stagnating in the Philippines (0.1 per cent a year) but continuing to grow in Thailand (1.0 per cent a year) and Indonesia (1.5 per cent a year). China, on the other hand, enjoyed a very high TFP growth rate of 4.7 per cent per year during this period, although the figures pertain to grains only. At this rate, it is not surprising that China increasingly has become a major producer of cheap agricultural commodities in the world commodity markets. Also, at this rate, China could well afford to reduce tariff protection for its farmers even before it acceded to the WTO, without reducing farmers' net incomes.[9]

Low productivity growth in agriculture, where the bulk of the poor are located and on which they depend for incomes and livelihood, mirrors what would be expected on the evolution of farm incomes, household incomes in

TABLE 9.4
Growth of Total Factor Productivity (TFP) in Agriculture (% per year)

Period	*China*	*Thailand*	*Indonesia*	*Vietnam*	*Philippines*
1970–1980	Na	1.3	1.6	na	1.0
1980–2000*	4.7	1.0	1.5	2.0	0.1
All Period		1.2	1.5	0.2	

* 1979–95 for China (covering rice, wheat, and corn only), 1981–95 for Thailand, 1981–98 for Indonesia, 1980–98 for the Philippines, and 1985–2000 for Vietnam (rice only).
Source: Mundlak et al. (2004) for Indonesia, Thailand, and Philippines; Jin et al. (2002) for China; ICARD (2004), cited in FAO (2006*b*), for Vietnam.

general, and poverty. As recent experiences in Asia and elsewhere suggest, productivity growth in agriculture exerts a strong direct and indirect influence on poverty and food insecurity.[10]

More importantly, increases in agricultural productivity and farm incomes stimulate the growth of non-farm activities and, hence, employment opportunities. Put differently, while agricultural growth directly reduces rural poverty and food insecurity, the indirect effects on the rural non-farm economy, as well as urban economy, through demand and supply linkages can be even more important sources of food security and rural poverty reduction in the long run.

Drawing on the Asian experience, the response of rural non-farm areas (as well as urban areas) and, hence, of rural poverty to agricultural growth, including export or urban demand expansion, requires a number of things. These include investments in rural infrastructure and human capital, removal of public-spending biases favouring large farmers and agribusiness enterprises, promotion of small-scale enterprises, improved access to land and technology, and macroeconomic and political stability. The Philippine record in virtually all these things is far inferior to those of its East Asian neighbours. Specifically, the country has neglected to invest in what recent economic history has shown as "deep determinants" of rural growth and poverty reduction: market-friendly institutions, rural infrastructure, and health and education.[11]

Besides fostering agricultural and rural development, what else can government do to maximize returns — in terms of poverty reduction — to government expenditures? Given the fiscal bind, what menu of government spending would yield high returns for the poor? Put differently, what programmes would have comparatively high chances of benefiting the poor and therefore should receive comparatively more support in terms of government outlay? Table 9.5 provides such a guide to national government spending. The list is by no means exhaustive, but it includes areas that have been extensively demonstrated — both in the country and elsewhere — as effective vehicles for directly influencing the welfare of the poor, while keeping the fiscal burden of poverty reduction programmes to manageable levels by reducing leakages of the benefits of such programmes to the unintended (non-poor) groups.

THE OTHER BIG BUT NEGLECTED PROBLEM — RAPID POPULATION GROWTH

One particular feature of the Philippine society is its failure to achieve a demographic transition similar to what its Southeast and East Asian neighbours

TABLE 9.5
Indicative Areas for National Government Spending on a Poverty Programme

Areas to spend more	*Areas to spend less*
1. Basic education, especially teaching materials; technical education and skills development esp. in rural areas	Tertiary education: cost-recovery (but with scholarships for the poor)
2. Basic health and family planning services	Tertiary healthcare: impose cost-recovery
3. Rural infrastructure, especially transport and power (but w/ coordination)	Public works equipment programme (except for short-term disaster relief)
4. Targeted supplementary feeding programmes and food stamps	General food price subsidies
5. R&D and small-scale irrigation systems	Post-harvest facilities (private goods)
6. Capacity building for LGUs and microfinance providers	Livelihood programmes (except for short-term disaster relief)
7. Impact monitoring and evaluation	

went through during the past three decades.[12] In all these countries, including the Philippines, mortality rates declined almost at broadly similar rates, but fertility rates declined much more slowly in the Philippines than in its neighbours. Consequently, while population growth rates declined substantially to below 2 per cent a year in such countries as Thailand, Indonesia, and Vietnam, the rate hardly changed from a high level of 2.3 per cent a year in the Philippines. The working-age population of East Asian countries was 57 per cent in 1965 and 65 per cent in 1990, increasing four times compared with the number of dependents. In contrast, the Philippines had a working-age population of below 60 per cent, with 52 per cent in 1980, 55 per cent in 1990, 56 per cent in 1995 and 58 per cent in 2000.

Compelling evidence demonstrates that the demographic dividend has contributed immensely to the rapid economic growth in the so-called "East Asian miracle" countries during the past three decades (World Bank 1993; Bloom et al. 1999; McNicoll 2006). Bloom et al., in particular, estimated this contribution to be roughly one-third of the observed growth rates of per capita GDP.

In the Philippines, the population issue remains highly contentious. At the centre of the debate is whether population growth has any bearing on economic development and poverty reduction. At one extreme is the Catholic Church's strong opposition to any reference to population growth as a contributory factor to the country's transformation to a basket case. Philippine administrations, particularly that of President Arroyo, have been very sensitive to the Church's stand on the issue, especially concerning population policy and population programmes. Surprisingly, despite its obvious importance in this debate, empirical work examining the quantitative significance of the economy-population-poverty dynamics in the Philippines is quite scarce. Until lately, what exactly the country has missed in terms of economic growth and poverty reduction by way of the demographic dividend has not been known.

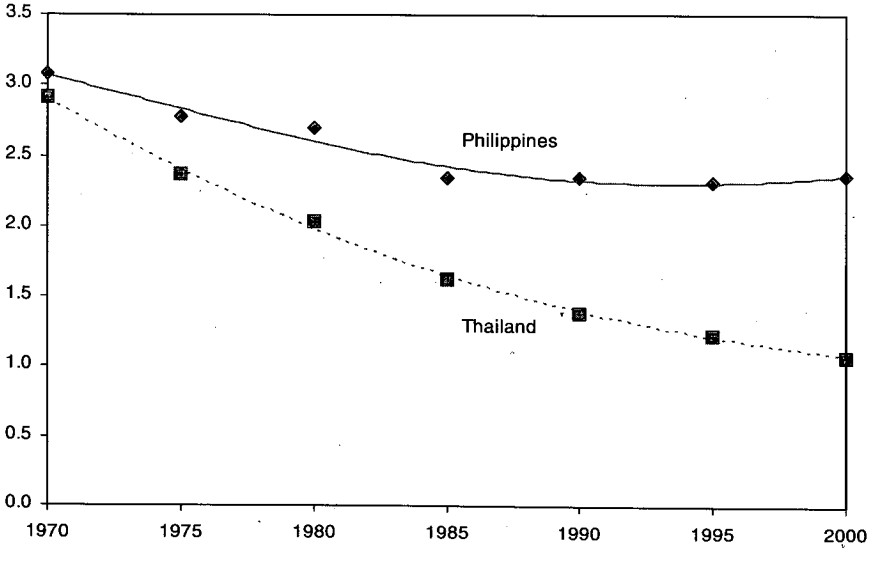
In a recent study, Balisacan et al. (forthcoming) attempted to fill this gap by using a combination of estimation techniques and data to "discover" the relationship of population growth and the demographic transition with economic growth and poverty reduction. They used data from eighty developing and developed countries covering twenty-five years. Their focus was on long-run effects, thus the reason for their use of a relatively large time series data. To the extent allowed by available data, their estimation has controlled for the influences of factors other than population growth, including institutions, trade regimes, and income inequality. Some highlights of their findings are:

- Total population growth rate has a negative and significant impact on economic growth.
- Workers' population growth has a positive and significant impact on economic growth.
- Heath status of the population has a positive and significant impact on economic growth.
- Openness to trade has a positive and significant impact on economic growth.
- Quality of public institutions has a positive and significant impact on economic growth.

Of particular interest here is the result of the comparison between Thailand and the Philippines. These two countries are interesting cases because they have many things in common: land area, economic structure, natural resources, and goods traded in the international market. In the mid-1970s, the two countries had roughly the same population: 43 million in the Philippines growing at about 2.6 per cent that year and 41 million in Thailand growing at about 2.7 per cent. The Philippines was ahead in terms of average income: Per capita GDP in the Philippines was US$1,502 (in PPP), about twice the per capita GDP of Thailand at US$805 (in PPP).[13] During the period 1975–2000, the Philippines' GDP grew at an average of 4.1 per cent only, doubling income after seventeen years. Thailand's GDP, on the other hand, grew at an amazing average rate of 8.8 per cent for the same period (more than twice the growth rate of the Philippines), doubling income after only eight years. In 2000, per capita GDP in the Philippines was US$ 3,971 (in PPP) — about 2.6 times the initial GDP per capita in 1975. Thailand's 2000 per capita GDP was US$ 6,402 — 8 times its 1975 per capita GDP.

While Thailand and the Philippines had also roughly similar population growth rates in 1975, as Figure 9.3 shows, the former was able to manage its population growth during the twenty-five-year period, growing annually at an average of 1.6 per cent only. The Philippines, however, maintained its relatively high population growth rate throughout the period, growing at an average of 2.4 per cent per year in the 1990s. Hence the total population of

FIGURE 9.3
Population Growth: Philippines *vs* Thailand (% per year)



Source: National Statistics Office census for various years (Philippines); International Data Base (Thailand).

the Philippines ballooned to about 76 million in year 2000 while Thailand's was about 61 million only.

To what extent does the difference in population dynamics between the two countries account for the stark difference in their economic performance? Table 9.6 provides the results of a "growth accounting" required to identify this contribution. The first column in the table identifies the relevant variable. The second column corresponds to the actual values of the variables for the Philippines, and the third column reports the values for Thailand. The last column gives the additional growth rate that the Philippines would have enjoyed if it had Thailand's values (column 3) rather than its own values (column 2). Thus, the last column provides the estimate of the foregone economic growth. The results show that differences in the population growth rates between the two countries account for about 0.77 percentage point of foregone growth for the Philippines.[14] This figure implies that had the Philippines followed Thailand's population growth path during the period 1975 to 2000, the country's growth in the average income per person would have been 0.77 percentage point higher every year.

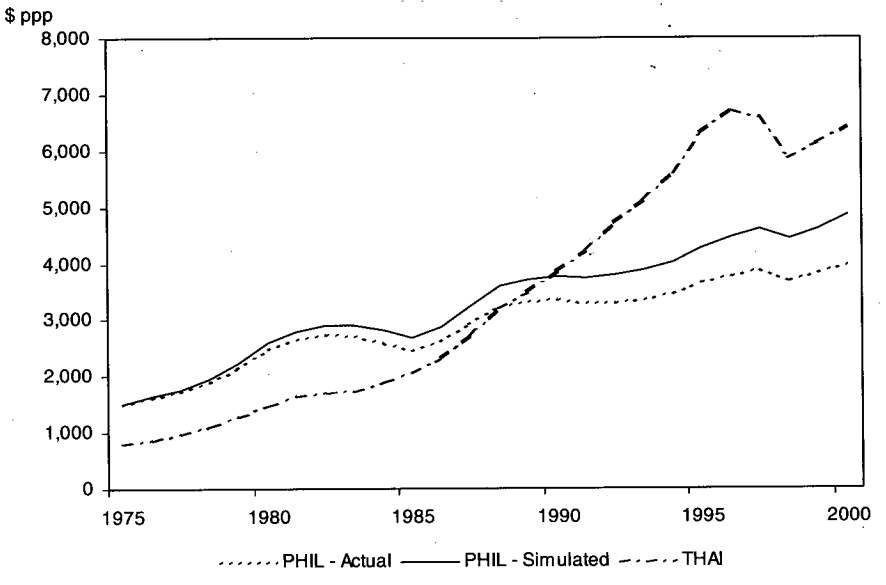
Combining this result with those of previous studies estimating the effects of growth in the income per person on poverty reduction, Balisacan et al. also showed that poverty incidence in 2000, had the Philippines followed Thailand's population growth, would have been lower by 5.3 percentage points. Put differently, given that the population in 2000 was 76.5 million, about 4.05 million would have escaped poverty, if only the Philippines had followed the population growth dynamics of Thailand during the period 1976–2000.

TABLE 9.6
Why the Philippines Grew So Slowly

Variable	*Philippines*	*Thailand*	*Foregone Growth*
Population growth (%)			0.77
Total	2.36	1.58	
Workers	2.85	2.53	
Other included variables* (%)			2.07
Total growth differential accounted by model (%)			2.84
Actual GDP per capita growth rate, average of 1975–2000 (%)	4.10	8.84	4.74

* The other variables included in the model are initial income (GDP per capita in 1975), trade regime, savings rate, health status, education, institutions, and location.
Source: Balisacan et al. (forthcoming).

FIGURE 9.4
Per Capita Income in the Philippines had the Country Followed Thailand's Population Dynamics



Source: Balisacan et al. (forthcoming).

CONCLUDING REMARKS

The persistence of poverty in the Philippines has to do largely with its inability to achieve — and sustain — an income growth substantially higher than its population growth. Contrary to popular claims, economic growth has been beneficial to the poor — as well as the non-poor.

However, while economic growth is good for the poor, it is not good enough. The response of poverty reduction to income growth in the Philippines has been quite muted by international standards, especially in comparison with the country's neighbours. Hence, the Philippines's unenviable record in poverty reduction in recent years is the outcome not only of its comparatively low per capita GDP growth rate but also of its weakness in transforming any rate of income growth into poverty reduction. The quality of economic growth has to be improved to enhance the benefits of growth to the poor.

Even given the fiscal bind, there are wide avenues for improving the response of poverty to overall income growth. Evidence suggests, for example, a strong connection running between agricultural and rural development and

poverty reduction. Investments in social services, such as in basic health and education especially in rural areas, have also high pay-offs in terms of poverty reduction. Serious students of Philippine economic development also call attention to the need to address the country's rapid population growth, since there is a strong link between economic performance, on the one hand, and economic growth and poverty reduction, on the other.

The very high spatial diversity in the Philippines is quite remarkable. Some pockets of the country have human development outcomes comparable with those found in more economically advanced countries; for example, Metro Manila's Human Development Index (HDI) for 2003 is comparable with that of Thailand, and the province of Rizal's with Ukraine's. However, many other areas have outcomes comparable with those found in the poorest countries of the world; for example, the ARMM provinces have HDI scores comparable with those of Sudan, Ghana, and Myanmar. In recent years some regions have done quite well in attaining high per capita income growth and reducing poverty, but others — disturbingly — have experienced falls in their average per capita income and an increase in poverty. Viewed from an international perspective, such disparities could breed regional unrest, armed conflicts, and political upheavals, thereby undermining the progress in securing sustained economic growth and national development.

The good news is that the growth processes in recent years have allowed the lagging regions to catch up with the leading ones. Balisacan (2007) shows that there is a tendency for convergence of provincial mean incomes over the long term. Infrastructure, human capital, economic climate, trade regime, and agricultural relations are the key drivers of provincial income growth. Improvements in access to roads, electricity, and health and schooling have positive effects on provincial income growth rates. Policy regimes that do not unduly reduce the profitability of agriculture relative to non-agriculture also help boost provincial income growth. Likewise, improved access to productive assets and technology by way of CARP is an important source of provincial income growth.

What is disturbing, however, is the finding that certain policy levers that have often been identified as tools for achieving equity objectives — human capital and asset reform through CARP — have no discernible direct effects on poverty reduction; their effects are felt mostly indirectly through the income growth process. In other words, even programmes supposedly targeted at poverty such as CARP have actually been neutral from an income distribution viewpoint. One interpretation of this result is that the implementation of such programmes has actually been poorly targeted. There is evidence to support this proposition as regards many of the country's direct

anti-poverty programmes such as food, credit, irrigation and seed subsidies, and housing and schooling subsidies.

Even more disturbing is the government's posture with respect to the rapidly growing population. Policies and programmes concerning population have remained captive to the Catholic Church's stand on the issue. The consequence of such posture on economic growth and poverty reduction has been staggering: it has contributed to the country's transformation to being Southeast Asia's basket case. This stance has to change, if only to improve the country's chances of moving the economy to a higher growth path and winning the war against poverty.

Notes

1 See Deininger and Squire (1998); Sachs (2005); Deaton (2005); Kraay (2006).
2 PPP is the preferred measure when comparing incomes of different countries. It takes into account differences in the prices of goods and services and is used by multilateral institutions such as the World Bank.
3 See HDN 2005.
4 Ibid.
5 Poverty estimates are those used in Balisacan (2007) and Balisacan and Fuwa (2004). These are not comparable with official data released by the National Statistical Coordination Board. As shown in Balisacan (2003*b*), the official estimates are not quite an accurate guide to ascertaining changes in absolute poverty over time or across regions — or provinces, or between rural and urban areas — of the country.
6 See Balisacan (2003) and Deininger and Squire (1998). Balisacan and Fuwa (2004) also found that CARP had a positive direct effect on poverty reduction rate, although the estimate was marginally significant only. It is probably the case that the implementation of the programme evolved quite differently in recent years. There is evidence, for example, that CARP is implemented more vigorously in areas with high growth potentials (Edillon and Velarde 2004).
7 Cline's estimate for the Philippines was 2.2. While higher than the other estimates quoted here, it is still low by Asian standards.
8 Rosegrant and Hazell (1999); Timmer (2005)
9 See FAO 2006*a*.
10 See Rosegrant and Hazell (2000); Timmer (2005); Balisacan and Fuwa (2007).
11 See David (2003) for an analysis of the factors influencing the performance of Philippine agriculture.
12 Demographic transition is a change from a situation of high fertility and high mortality to one of low fertility and low mortality. This change results in sizeable changes in the age distribution of the population. The change can create the "demographic dividend", that is, the increases in per capita income as the bulge

in the age pyramid moves, over time, from young people (infants and children) to prime age for productive work and savings.

[13] Data are drawn from the World Bank's World Development Indicators.

[14] The population factor comes out as the second most important component — after initial income — accounting for the income growth difference between the two countries.

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