

Reform
FIRST PERSON By Alex Magno

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There is an underside to the euphoria over our growth rate exceeding 7% in the first half of this year: there could be less drive to push ahead with the difficult reforms that would expand economic freedom in the country.

Not that there has been a strong drive for deepening economic freedom to begin with. Both the Philippines' rating and ranking in the Economic Freedom Index has been deteriorating since its best performance in 1995.

The Index is a framework for measuring economic freedom across countries that has been continuously refined since the project began two decades ago under the leadership of Milton Friedman, possibly the most influential economist of the 20th century. In its monumental turn-of-the-millennium report on the state of humanity, *The Economist* employed the Index as its main reference and analytical tool.

With over 200 institutions collaborating globally, the Index has become a most reliable instrument for comparing economies. The mass of empirical information accumulated by this global effort has established several firm generalizations - the most important of which is that the greater a country's economic freedom, the better off its people are.

In bar charts, that conclusion is most stark.

The first quartile of the "most free" economies had nearly triple the per capita income of the second quartile in the rankings. Life expectancy at birth in the "most free" quartile was 78.7 years while those in the second quartile had a life expectancy of 69.9 years. The figures drop dramatically as we go down to the third and fourth quartiles to the "least free" economies.

The Philippine ranking is in the third quartile and in danger of falling into the fourth as other countries have reformed their economies faster than we have. On some indicators of economic freedom - access to sound money, freedom to trade internationally and regulation of credit, labor and business - the ratings for the Philippines have sharply declined since the year 2000.

Among the other truly startling bar charts comparing the world's economies from "most free" to "least free", the one that measures foreign direct investments (FDI) as a percentage of GDP should be interesting to us. For the quartile of "most free" economies, FDI

constituted 15% of GDP. Compare this to only 4% for the second quartile and 2% for the third.

Imagine how much faster our GDP growth would be if we had the free economic policy regimes of countries in the "most free" quartile.

The corruption index is also telling. With 10 as the highest score for the "most clean" regimes, economies in the "most free" quartile rated 7.4, significantly higher than the 4.1 of the second quartile. Or the third quartile of economies, the rating was 3.8. It was a measly 2.7 for the fourth quartile of "least free" economies.

The implication here is clear as day. The freer the economy, the less prone it is to corruption. The less the corruption, the better the income distribution. The better off the people are.

Hereabouts, our approach to solving corruption is mainly by "going after the big fish." That does not solve the problem in any permanent way if incentives to corruption and opportunities for the corrupt remain large. The real solution to corruption is to liberalize the economy and reinvent our regulatory systems.

In 1995, with the economic reform effort of the Ramos administration in full swing, the Philippines achieved its best ranking and rating in the Index. In that year, we rated 7.1 in economic freedom and ranked 26th among all economies measured by the Index.

In the last Index, our rating declined to 6.6. Our ranking dropped even more dramatically to 69th.

Of course, more countries have been included in the survey. Researchers in China have even gone ahead to compare economic freedom among that country's provinces - which are, after all, whole economies in themselves given their size and variances in economic policy.

But more countries in the list does not excuse the remarkable deterioration of our ranking. It simply tells us that the newly free economies are moving faster than us in their ability to renovate - and therefore to improve the wellbeing of their people.

There is much to learn from the mass of information in the Index that will help reduce the volume of economic superstition that continues to bedevil Filipino public opinion and policy-making. As part of the general effort to help educate both our public and our government, the Foundation for Economic Freedom and the Naumann Foundation have published a Philippine edition of the 2007 Economic Freedom of the World.

This book will be launched tonight at 7:30 at the Dusit Hotel ballroom.

I was asked to write the Introduction to the Philippine Edition of this great report and will present the highlights of the latest version of the Index. After that, we can have a free and open discussion about what holds us back from keeping pace with a world that is dramatically moving ahead towards greater economic freedom.

I know it will not be possible to accommodate all who might want to come. But I do wish our economic policy-makers, opinion leaders and legislators who have received their invitations would make time to attend this forum.

I cannot promise all the guests free copies of the report, but I can assure the discussion will be as unrestricted as civility would allow.

Last month, the Foundation for Economic Freedom launched Jose Almonte's *Levelling the Playing Field*. The book has since attracted much interest. I am sure the Philippine edition of the *Economic Freedom of the World* will provoke as much discussion about where we should be taking our country.