



CHAMBER OF REAL ESTATE &
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FRAMEWORK FOR ECONOMIC & SOCIAL ADVANCEMENT: RECOMMENDATIONS

of the
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Our economy has been down on its knees since the 1997 economic crisis. The unemployment level is currently at 13%, underemployment is at 23%. The monthly per capita income for a family of six stands at only P6,800. The consumer price index has risen by 130% from its 1990 level. The peso purchasing power is down to only 58%. Some 4.5 million families are homeless. And some 40% of the population subsist below the poverty line.

The prospect of economic recovery in the near-term is extremely doubtful in the face of such woes as the exorbitant rise in power cost, severe deterioration of peace and order, political instability, and the institutionalization of graft and corruption at all levels and all spheres of Government.

Clearly, no less than a political, economic and social reorientation and redirection is imperative if an appreciable improvement in our people's lives is to be achieved.

Toward this end, we recommend the following:

MONETARY, CREDIT & EXCHANGE REFORM MEASURES

1. **INTEREST RATE STABILIZATION.** ~ In our country, the claim that interest rate levels are dependent on market forces is largely a fallacy. Our banking system's lending rates are based on Treasury Bill rates, which are in turn dictated by the Bankers' Association of the Philippines based on the so-called intermediation cost and banking spread ~ the determination of which, under our banking laws that are heavily biased in favor of the banking system, is highly susceptible to manipulation.

Consequently, our country's interest rate level is perennially one of the highest worldwide, even as it is highly susceptible to sudden spikes. This has penalized the entire nation in terms of unreasonably high prices of goods and services, high

levels of bankruptcy, low levels of investment and employment, low per capita income and severely eroded purchasing power, low savings generation, and a host of other ills.

The end result is endemic mass poverty.

As a remedy, it is recommended that an interest rate ceiling of 6% per annum be imposed via legislation, with the proviso that bank lending transactions shall be exempt from income tax, VAT and documentary stamps tax in order not to impair bank viability.

This measure will considerably reduce the cost of doing business and thus serve to re-energize the business sector ~ the nation's engine of growth, Government's main source of revenue, and the people's source of livelihood and income. It will directly benefit Government in terms of substantially reduced debt servicing burden, even as it would pave the way for the reduction of prices of all goods and services. It will enable businesses to sustain an increase in wages, and thus increase purchasing power ~ which will in turn spark demand in all markets and consequently trigger expansion in production and investment activity levels.

Needless to say, a revitalized business sector would also considerably improve the government's revenue-generation performance. The banking system itself will benefit in terms of greater business prospects, reduced incidence of non-performing loans, and opportunity for increase in savings levels.

2. **DEVELOPMENT-ORIENTED MONETARY & CREDIT POLICY.** ~ The Bangko Sentral Act should be amended towards:

- a) Reorienting the objectives of the BSP to enable it to effect monetary, banking and credit policies that are supportive of the broader goals of socio-economic development (i.e. rising levels of production, employment and real income) as mandated by the Constitution; and
- b) Authorizing the BSP to purchase government bonds secured from future taxes, as a tool for increasing money supply for developmental purposes without need of resorting to foreign borrowings.

In addition, the Banking Act should be amended towards:

- a) Prohibiting banks from imposing the requirement for Joint and Solidary Security (JSS) clause currently being imposed on corporate loans, which is wholly unnecessary in view of the banking system's stringent collateral requirements and appraisal/loan-to-value practices, even as it represents an onerous and unjust burden for the individual officers and principal stockholders of a corporation;
- b) Imposing stricter controls and limitations on DOSRI loans, and rationalizing provisions that are conducive to cartelization of the banking industry or interlocking equity/directorates within the banking system (as

well as between banks and industrial/commercial conglomerates) ~ situations that prevent equitable diffusion of credit throughout the entire economic spectrum, particularly in the small- and medium-scale business categories.

It is further recommended that legislation be passed to effect the following:

- a) Abolition of the 20% tax on interest income from bank deposits. This will encourage greater savings.
- b) Expansion and strengthening of existing loan insurance and guarantee schemes extended to SMEs and other sectors covered by government-imposed credit allocations, in order to allay fears of possible lending risks.
- c) Establishment of a shelter finance system as earlier proposed by CREBA ~ not only to address the ever-worsening housing shortage, but also to re-energize the housing and construction industry in order to trigger its unparalleled multiplier effect on 65 other industries, increase investment and employment levels, and provide a rich source of revenue for government.

3. **EXCHANGE RATE STABILIZATION AND EXCHANGE CONTROLS.** ~ Harrowing experiences in our country and elsewhere have proven that the system of “floating exchange rate with discretionary intervention” is highly detrimental to developing economies, particularly in situations where the GIR ~ as in our country ~ is perennially too limited to afford flexibility vis-à-vis largely uncontrollable global market forces, or to allow successful Central Bank intervention in the face of currency attacks.

This system should therefore be discarded in favor of a pegged currency band ~ similar to that obtaining in China, Japan, Malaysia and other countries ~ under which the peso may be allowed to fluctuate vis-à-vis the dollar only within a realistically manageable band or level.

To help ensure success of the pegged currency band, movements in foreign portfolio investments (FPI) should be regulated through, among others, a 90-day holding period and/or an exit tax. For, though FPIs contribute to the GIR, the danger to the economy ~ in terms of sudden capital flights and susceptibility to speculative attacks on the currency ~ far outweighs the benefit they afford. It is understood, however, that foreign direct investments (FDIs) which are highly beneficial to the economy shall be exempt from such controls.

4. **DEBT CONDONATION.** ~ US President Bush is currently pushing for the condonation by the IMF, World Bank and other creditors of 2/3 of the foreign debts of Iraq and Afghanistan. The administration should work towards convincing the US to include the Philippines in this debt condonation effort, considering that our country ~ having been a staunch ally in the US anti-terror campaign and other US initiatives ~ perhaps deserves far greater patronage than the US' former enemies Iraq and Afghanistan.

INVESTMENT & EMPLOYMENT REFORM MEASURES

1. **EQUITABLE LAND ACCESS.** ~ The agrarian reform program not only has failed to deliver the expected improvement in the lives of the peasantry, but worse, has been one of the major impediments to economic development.

Its wrongful implementation by the DAR has locked up virtually all of the country's lands in the CARP. Releasing lands needed for residential, industrial, commercial and various other non-agricultural activities has become exorbitantly costly if not near impossible under the DAR's bureaucratic processes.

To ensure equitable land access for all economic endeavors without jeopardizing the agricultural development and agrarian reform programs, an Executive fiat should be issued such as would preclude the DAR from assuming jurisdiction over lands which, under RA 6657 and other existing laws, are either exempt or excluded from CARP coverage.

2. **PREFERENTIAL TREATMENT FOR LOCAL INVESTORS.** ~ We have no quarrel with government attracting foreign direct investors. It should not, however, be carried to such extent where foreign investors are accorded all sorts of incentives not equally accorded to local investors.

If meager government resources preclude the grant of subsidies or other forms of assistance to local producers, at least a parity of incentives for both local and foreign investors should be effected. For in the ultimate analysis, local investors have a much greater stake than foreign investors in the strengthening of our economy and the advancement of our people.

Besides, no less than the foreign investors themselves, in a research by the foreign chambers of commerce, have indicated that their major consideration for investing in a country is not the fiscal perks but rather the following factors, among others: (a) peace and order, (b) political stability, (c) cheap labor and industrial peace, (d) infrastructure, and (e) streamlined bureaucracy.

Toward this end, it is proposed that the recommendations of the Department of Finance, as endorsed by no less than the IMF, towards scaling the fiscal incentives for foreign investors be immediately implemented ~ otherwise, such incentives should be similarly made available to local investors.

3. **POWER SUPPLY STABILIZATION AND RATE REDUCTION.** ~ The power-sufficiency program started during the Marcos administration should be revived. Otherwise, a 20-year program should be immediately developed to ensure availability of ample, stable and cheap power supply, exploiting to the fullest alternative energy sources.

GLOBAL COMPETITIVENESS MEASURES

The Philippine government is leading a bloc of 22 developing countries of the World Trade Organization (WTO) in efforts to pressure the more developed WTO members into leveling the playing field under the General Agreement on Tariff and Trade (GATT).

Though laudable, these efforts may prove futile.

Every government is duty-bound and expected by its own constituents to promote and protect their interests first and foremost, and to the fullest extent possible ~ the consequences to other countries is but a minor concern, if at all. Such being the case, it would be wishful thinking for a developing country to expect a developed country to lower ~ let alone withdraw ~ whatever trade protection the latter extends to its own citizens whether in terms of tariff, subsidy or otherwise.

In the ultimate analysis it is up to developing countries, as is their right and duty, to devise and implement their own trade protection measures that will allow their constituents to adequately cope with imbalances under the GATT environment, if not enhance their global competitiveness ~ all towards advancing the welfare of the citizenry.

Our own Constitution ~ which should prevail over any international agreement or foreign-imposed policy ~ demands nothing less.

1. **TARRIFICATION.** ~ Pursuant to the Constitutional mandate to protect Filipino enterprises against unfair foreign competition, tarrification should be fully exploited in a manner that would facilitate the inflow and reduce the cost of essential imports, and at the same time discourage importation of non-essentials and goods that local producers can adequately supply.

Additionally, the MAV should be dispensed with.

2. **RATIONALIZED AGRO-INDUSTRIAL DEVELOPMENT.** ~ The country's agro-industrial program should be reviewed and revised towards effecting the following:
 - a) Only the production of high value crops and other exportable products which can globally compete in terms of price, volume and quality should be encouraged by Government through technical assistance and fiscal incentives.
 - b) Production of items whose production costs are prohibitive or difficult to sustain and which are better substituted by cheap imports, should be phased out and discouraged.
 - c) To achieve economies of scale as envisioned under RA 8435, small lands should be consolidated into large estates ~ rather than the opposite under RA 6657 ~ through various arrangements tenable under the agrarian reform mandate of the Constitution.

- d) Agricultural infrastructure development as envisioned under RA 8435 should be more actively pursued and supported with sustained funding. Private sector participation in this effort should be encouraged through build-operate-transfer arrangements, fiscal incentives and other means.
- e) Government should intervene via legislation and/or executive fiat to ensure complementation of production activities among agro-industrial sub-sectors, with the goal of limiting to the bare minimum the importation of production inputs.

For instance, meat processors should be required to source their supply from local livestock/cattle/poultry raisers rather than from imports, while the raisers should be required to source their animal feed inputs from the local production of farmers. The same arrangements may be imposed on other interdependent sub-sectors.

To ensure success, a coordinative machinery should be installed towards (1) effectively monitoring local production, (2) monitoring importation activities in order to thwart technical smuggling and/or dumping by foreign countries, and (3) coordinating governmental efforts in adequately addressing and delivering on a sustained basis the agricultural infrastructure and technical assistance requirements of the various sub-sectors.

GOVERNMENT REFORM MEASURES

1. **STREAMLINED BUREAUCRACY, GOVERNMENT TRANSPARENCY.** ~ A government reorganization/ rationalization program should be seriously implemented towards (a) trimming the bureaucratic fat, (b) reduction of the bureaucratic layers and red tape, (c) limiting to the minimum the documentary requirements in various regulatory processes, (d) simplifying procedures towards efficiency and cost-minimization, (e) reducing regulatory fees, and (f) eliminating opportunities for graft and corruption.

Towards greater transparency in government and as an anti-graft and corruption measure, legislation should be enacted to require that prior to approval of government contracts, the proposals therefor should be publicized in detail in newspapers or other media of general circulation in order to inform the public and afford it the opportunity to express legitimate concerns.

2. **CONSTITUTIONAL AMENDMENTS.** ~ The proposal to amend the Constitution through a CON-ASS should be pursued. In this regard, the following amendments are recommended:
 - a) Establishment of a parliamentary system of government. This would facilitate legitimate, peaceful and orderly changes in government when an administration has lost the people's confidence, even as it may preclude polarizing and disruptive EDSA-type upheavals or coup attempts.

- b) Granting foreign nationals the privilege of land ownership, exploitation of natural resources and operation of public utilities ~ subject to reasonable safeguards that will ensure diffusion of benefits to the local citizenry, and only until such time that local capital and technological know-how are adequate for the Filipinos to take full control of the development of the national patrimony.
3. **SQUATTER VOTE DISQUALIFICATION.** ~ Vote-buying and flying voters during elections have become endemic, to the extent that election results reflect no longer the true will of the people, but rather, of those who engage in the same. These malpractices have subverted the cause of good governance at all levels and in all spheres by entrenching incompetence, patronage and worst of all, corruption in government ~ all at the sacrifice of the people's socio-economic advancement.

Squatters ~ comprising some one-half of the population in urban centers, and capable of delivering some 10 million votes which is more than sufficient to considerably influence election results ~ are the most susceptible to vote-buying and, having no legal residency, form the bulk of flying voters.

As laws penalizing these acts have been ineffective, Government should immediately push through with the earlier reported move by the COMELEC to disqualify squatters from voting.

The constitutional provision on voter residency ~ as invoked by some quarters to block this move ~ may not be applicable in the case of squatters, as this provision clearly contemplates "legal residency". A squatter, being an illegal occupant of another's property, cannot be said to enjoy legal residency.

SOCIAL MEASURES

1. **INCREASE IN MINIMUM WAGES.** ~ One year after the effectivity of the interest rate ceiling, the legislated minimum wage should be increased gradually ~ by 40% in the first year, 30% in the 2nd year and 30% in the 3rd year. If this process is later repeated as the economy continues to improve, it may yet pave the way for the development of a strong middle class that is not only essential in the flourishing of capital markets but also serves as the nation's backbone.
2. **POPULATION CONTROL.** ~ The country's population now stands at almost 80 Million. A reasonable and effective population control program based on choice rather than religious dicta should be unwaveringly pursued, before the problems associated with unregulated population growth reach unmanageable proportions.

TAX MEASURES

The budget deficit currently stands at P230 Billion. Generation of additional revenues is thus an imperative, if vital government programs are to continue. However, revenue

generation must be undertaken in such a way as would neither aggravate the suffering of the poor nor serve as another disincentive to more productive business endeavors.

Toward this end, the following tax measures are recommended:

1. A 90% increase in taxes on liquor, cigars and cigarettes. This will generate some P17 billion annually, even as it would give credibility and teeth to the government's drive to ban or otherwise encourage moderate consumption of these "sin products" which have, after all, been proven harmful to health and safety.
2. Higher tariffs on imported non-essential or luxury items ~ such as fancy cars, jewelry, designer clothes, shoes, perfumes, cosmetics, accessories, fancy wines and liquor, etc. This may serve to discourage the rich from wasteful or decadent spending in the midst of abject poverty, even as it would minimize the drain on our foreign exchange reserves.
3. Increase in the Idle Lands Tax from the current 5% to a graduated 20% to 50%, subject to reasonable exemptions. This would effectively discourage land speculation and encourage landowners to put their lands to productive use.
4. Legalization, franchising and taxation of jueteng. This would net some P100 Billion annually for Government, even as it would enable regulation of this activity in order to protect bettors comprised mostly of the poor, and eliminate a lucrative source of graft among government officials who protect gambling lords.
5. Abolition of the following taxes: (a) Minimum Corporate Income Tax (MICT) under Section 27E of the NIRC; (b) Creditable Withholding Tax (CWT) on real property sales under various BIR Revenue Regulations; (c) VAT on bank services and interest; and (d) VAT on real property sales consummated abroad in foreign currency.
6. An effective tax program that will integrate the informal economy or underground sector (which comprises 40% of the entire economy) into the mainstream of taxation.
7. Taxation of game shows dependent on "texting" or cellular phone calls (such as Game Ka Na Ba, etc), computed on the basis of daily receipts and prizes.

EDUCATIONAL PROGRAM REALIGNMENT

The educational, manpower and skills development programs should be reviewed towards effective alignment with economic goals, needs and imperatives, and development of a manpower resource endowed with a high level of flexibility in responding to global economic trends. It is of course understood that inculcation of the basic 3 Rs, as well as socio-cultural enrichment, shall be strengthened in order to maintain the nation's image as one of the most literate and civilized in Asia.

Adoption of the foregoing measures will pave the way towards minimizing, if not completely eradicating, endemic mass poverty. A substantial improvement in the peace and order situation, and stabilization of the social and political climate, can be expected to follow as a matter of course.

Notwithstanding, Government should exhaust every effort to conclude long-term peace arrangements with the NPA and the MILF, subject to Constitutional and legal dictates. Failing in this effort, a well-planned and effectively orchestrated campaign should be relentless waged to finally and permanently rid the country of these lawless elements.