THE ASIAN FINANCIAL CRISIS AND FILIPINO HOUSEHOLDS:

IMPACT ON WOMEN AND CHILDREN

FOCUS on the Global South

Save the Children UK

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FOREWORD

The desire to make children more visible in the discussion of macroeconomic policies/issues served as the strongest motivation for this study. It is the children and the women household members, after all, who bear the brunt of macroeconomic crises such as that experienced in 1997. This study was conducted from March 1999 to March 2000, with the firm- and household-level surveys taking the bigger chunk of time. While the study was done against the backdrop of the previous (Estrada) administration, the findings and recommendations remain relevant in the current administration. It is hoped that the recommendations advanced in this report will serve as a good foundation for drafting child-friendly measures whether designed to directly address long-standing issues or to mitigate the effects of adverse macroeconomic conditions.

The able support of the other members of the Research Team, in particular researchers Naina Shakya and Jocelyn Pendon, is hereby acknowledged. Likewise, we thank Jenelyn Torres who helped in initial secondary data gathering, and Io Aceremo who headed the firm-level survey. We also appreciate the hard work of the fieldworkers – Kalayaan Talam, Rosenda Villamin, Rosario Aznar, Edgardo Reyes and Marcelino Talam, Jr. – who braved the heat of the sun, far and complicated places, and odd hours, to finally reach the households of the retrenched workers. We also recognize the others who extended various forms of assistance: Jamela Chavez who encoded data for the firm survey; Mae Sta. Ana who did the style editing; and Allen Mariano who finalized the layout design. Shalmali Guttal, Kamal Malhotra and Nepo Malaluan provided useful comments on the design and earlier drafts of this report, and for this we are truly grateful. The report likewise benefited from the inputs of participants in the roundtable discussion organized by the *Save the Children (UK) Philippines* and the Psychosocial Trauma and Human Rights Program of the UP Center for Integrative and Development Studies in November 2000.

We thank the 39 firms who participated in the survey. Most of all, the study draws much of its substance and inspiration from the 48 households who generously opened their doors for us, entertained our questions, and candidly shared their experiences with us. We give special acknowledgement to the few child respondents who sat with us.

Finally, this study would not have been possible without the generous financial support from the *Save the Children (UK) Philippines Office*, and the overall encouragement from colleagues at *Focus on the Global South*.

Ideas presented in this report, as well as all mistakes and oversights, remain the sole responsibility of the author.

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Executive Summary

I

Several studies have tried to explore the social impact of the crisis in the Philippines. The World Bank conducted a study in February 1998 to assess the socio-impact of the crisis with focus on wage and unemployment, credit market, health and education. The United Nations Development Programme study in June 1998 highlighted the drastic effects of the crisis on employment in urban and rural areas for both males and females. And in June 1999, the Asian Development Bank conducted focus group discussions and household surveys all over the Philippines as part of its region-wide study on the social impact of the crisis.

The Philippine Office of the Save the Children-United Kingdom and Focus on the Global South agreed in early 1999 to do a similar study, with special focus on Filipino households and children. The study had the National Capital Region as the geographical focus, and looked into employment as the main transmission mechanism linking the macro to the micro impact of the crisis. The study looked into the social impact of the crisis on households that experienced job layoffs and retrenchments in 1998.

While the study looked into other transmission mechanisms (prices, the national budget, etc.) as well as macro policy questions, the choice of employment was justified based on two major considerations. First, there was a dramatic increase in unemployment in 1998, the number of the new unemployed more than doubling from the year ago level. Second, the significant adjustment in employment can be rooted directly to the crisis. This was highlighted when firms faced a credit squeeze, suffered losses from the devaluation of the peso, encountered depressed consumer demand and lost confidence in the economy. The study looked into the problems and the adjustments firms faced in 1998.

With the loss of employment come losses in household income. The study dwelt on the many adjustments households have had to undertake, and what these mean in the long run. Special attention was given to the inordinately heavier burden placed upon the women and child household members.

The study used various methodological approaches, including a review of literature, analysis of secondary data, firm- and househol-level surveys, in-depth interviews with select households, and key informant interviews. It consisted of two parts. The first is the Macro Report which details the different streams of analysis used to explain the crisis, and how the Philippines figured in the crisis. The second part is the Micro Report which discusses the methodology and findings of a survey conducted on firms and households directly affected by the crisis. Capping the second part is a section on prospects and recommendations for advocacy.

II

The events of July 1997 marked the collapse of the Asian "miracle" economies. The domino effect of the Asian economic crisis swept across the East and Southeast Asia region with the failed attempts of countries to defend their currencies against the US dollar. The Indonesian rupiah, the Malaysian ringgit, the Korean won and the Philippine peso followed the depreciation of the Thai baht.

The deep economic turmoil spurred business bankruptcies, tight liquidity and soaring of interest rates. While most analysts held globalization and domestic policies resulting in the expansion of private capital flows to developing economies responsible, others put the interplay between international finance capital and domestic policies to blame. Before the crisis, these high-growth Asian economies were characterized by impressive records in productivity, physical and human capital, and manufactured exports. From 1984 to 1989, the net private capital flows to developing countries averaged US$17.5 billion but these hiked to an annual average US$128.8 billion for 1990 to 1996. The economic success of Asia was identified as the reason for the huge volumes of capital inflows to the region.

The currency turmoil was followed by clear reversals in private capital flows, especially short-term loans. Private capital flows dropped by 113 percent in South Korea, Malaysia, Indonesia, Thailand, and the Philippines.

The twin problems of reversal in private capital flows and steep devaluations proved very painful for East Asia. The local currency value of the foreign liabilities of domestic banks and firms ballooned. Huge losses and serious liquidity problems were accompanied by increased lending rates and decrease in consumption and investments. Crisis countries suffered economic contraction.

The social impact of the crisis was even harsher. Households experienced unemployment and reduction in household income due to closure of firms and retrenchment of workers. All crisis countries experienced high inflationary pressures. Reduction in government services was inevitable as there was less revenue generated than what was projected in their budget programs. Quality of life in adversely affected households deteriorated, prompting households to make painful adjustments. The impact of the crisis on households is long-term as the effect expands to the decline of nutritional status, education, household savings and investment, productivity and earning capacity.

III

The Philippine peso immediately came under attack along with other currencies in the region. The first line of defense by the Bangko Sentral ng Pilipinas (BSP) was to intervene in the foreign exchange market by selling dollars from its international reserves, and to increase its overnight borrowing rates. Increase in the reserve requirement of banks and opening a non-deliverable forward foreign exchange facility to commercial banks were other levers implemented by BSP in its policy agenda. But the pressure kept mounting and in due course, the peso devalued.

Yet critics had long been putting to question the sustainability of the growth posted by the Philippine economy. The principal source of concern was the expanding trade deficit and current account deficit. The overvaluation of the Philippine peso made imports cheap and the country's export uncompetitive in the global market. Overvaluation of the peso also boosted the country's appetite for foreign currencies. In the mid-1990s, the trade and current account deficit was being financed by short-term capital flows. Juxtaposed with weak financial regulatory mechanisms, this exposed the country to grave financial risks which explained its vulnerable position when the crisis hit.

In 1998, the Philippines experienced the deepest impact of the crisis. Economic performance deteriorated as government consumption turned negative for the first three quarters and capital formation contracted in every quarter of 1998. Significant contraction in investments, slowdown in consumer demand, and high non-performing loans of banks, further added to the economic problems.

The biggest economic headache in 1998 was the crippling increase in interest rates, stalling business initiatives and halting production. The immediate impact on households was observed by way of increased unemployment. The crisis led to closure of 338 establishments in 1997 and 642 in 1998.

The financial crisis gravely affected the fiscal program of the government in various ways. It also exposed the government's weaknesses and inadequate response, especially when it made indiscriminate budgetary cuts in early 1998, and when it was slow in adjusting the fiscal program to allow for higher deficit spending.

IV

To assess the micro impact of the crisis, two surveys were done: one at the level of the firm, the other at the household level.

The firm survey questions intended to surface insights into the differential impact of the crisis on firms, the employment-related coping mechanisms adopted by the firm, the factors considered by the firms when laying off workers, and the firms' views on issues related to the crisis.

The household survey questions intended to surface insights into the conditions of retrenchment, the employment status of the head of the household after retrenchment, the employment status of other members of the household after retrenchment, the impact of the retrenchment on household income, household adjustments in response to the crisis and coping mechanisms adopted, impact on the well-being of women and children, and general perceptions on issues related to the crisis.

The firm survey worked on a population listing of 1430 firms operating in the National Capital Region (NCR) that filed retrenchment notices, without closure, with the Department of Labor and Employment in 1998. The household survey worked on a population consisting of the households of 50,058 NCR workers who were reported in DOLE to have been either permanently or temporarily retrenched in 1998.

Efforts were made to get a representative sample of the affected firms and households. Though the target numbers were not met, the surveys yielded good results and make for a very good case study for the region. Thirty-nine firms and 48 households responded to the study surveys.

Following are the major findings of the survey:

- The steep peso devaluation and high interest rates became the biggest problems of firms in 1998. The results were higher cost of doing business, lack of capital, and weaker demand for the firms' products. As a result, firms had to cut production.
- For workers, this meant retrenchment, reduction in working hours and/or salary freeze.
- Membership in labor unions generally provided workers added protection against retrenchment.
- There were indications of differential treatment between men and women workers. Retrenched women workers had higher education and skills level than male retrenched workers, even as they were among the first to be laid off under a retrenchment program.
- Violation of labor rights and standards, including mandatory notice of retrenchment and separation benefits, was pervasive.
- The retrenchments in 1998 produced prolonged unemployment, particularly for women. While the same proportion of men and women were re-hired by their old firms, more men not re-hired found new jobs. But the women who found new jobs found them faster than the men.
- As a result of income loss, dependent households also suffered as remittances to them were cut.
- To cope with income loss, households borrowed, sold property, took advantage of government assistance, and took on more work.

- There is evidence that for poor households, the additionality of women's income is significant. Households of male retrenched workers reported lower decline in income compared to households of female retrenched workers.

- The most significant impact of retrenchment was household stress, manifesting in strained marital and parents-children relations. There is significant correlation between reductions in child-specific expenditures and children's interest in studies and overall physical well-being.

- Though children generally stayed in school, some dropped out to help augment household income. Others engaged in part-time informal work. Children are encouraged even by the small amounts they earn which they use for their own needs (allowance money), as well as share with the family.

These results were generated from a survey of households that had access to formal employment. The choice of sample was purposive, since it was the aim of the study to establish direct connection between the financial crisis and household adjustments. To the extent that these households enjoyed better working conditions, job security and higher pay than those in the informal sector, and that firms in the formal sector had better access to markets (credit, consumer market, etc.), it is reasonable to infer that the impact of the crisis on the informal sector is even more acute. The irony here is that many of those in the formal sector affected by the crisis through layoffs went to the informal sector.

V

Finally, the study highlighted six challenges that must be addressed to render the country and its peoples less vulnerable to crises.

First, there is the challenge of immediately restarting economic growth in the country, both to start mending the debilitating impacts of the crisis, and for the country to carve a more sustainable path to development.

Second, there is urgent need to cultivate more stable sources and foundations of growth. This means putting in place structures and mechanisms that will ensure similar crises will not cripple the national economy again in the future.

Third, there is the challenge, both to government and civil society, of establishing safety nets against crises.

Fourth, efforts must be made to build the resilience and capacity of peoples to withstand crises. Better organization (e.g. labor unions) and means by which people can be more flexible (e.g. constant skills upgrading) are examples of how this can be achieved.

Fifth, serious emphasis should be placed on the informal sector as a source of income for many households, and as part of the backbone of the local economy.

Finally, government and civil society must also work to protect the most vulnerable groups, especially women and children.

These challenges have corresponding promise in terms of areas for possible action and advocacy.

CHAPTER 1
THE ASIAN CRISIS

I. Introduction

The benchmark event that initiated the domino-like collapse of Asian "miracle" economies was the announcement by the Central Bank of Thailand on 2 July 1997 that it had abandoned the baht's peg to the US dollar. This occurred following strained efforts to defend the baht against strong speculative attack. Immediately, the Thai currency depreciated from 24.5 baht to the dollar to around 29 baht to the dollar.

The event sent waves across East and Southeast Asia. Malaysia floated the ringgit on 14 July 1997. The Philippine Bangko Sentral abandoned its defense of the peso. A month later the Indonesian rupiah was also floated. On 16 December 1997, it was the Korean won's turn. In terms of the yearly average exchange rate, the Philippine peso in 1997 depreciated by 11.0 percent from the 1996 level. For the same period, the Malaysian ringgit depreciated by 10.6 percent, the Indonesian rupiah by 19.5 percent, the Thai baht by 19.2 percent, and the Korean won by 15.4 percent. The level of depreciation for 1998 from the 1996 level more accurately tells the story. For this period, the Philippine peso and the Malaysian ringgit depreciated by 35.9 percent, the Indonesian rupiah by 76.6 percent, the Thailand baht by 38.7 percent, and the Korean won by 42.6 percent *(See Table 1)*.

Table 1
Exchange Rates of Asian Crisis Countries, 1995 to 1998
(Local currency/US$; period averages)

Period	Philippines	Malaysia	Indonesia	Thailand	Korea
1995	25.7144	2.5044	2248.6	24.915	771.27
1996	26.2157	2.5158	2342.3	25.343	804.45
1997	29.4707	2.8133	2909.4	31.364	951.29
1998	40.8931	3.9244	10013.7	41.360	1401.44

Source: Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators. April 1999.

The huge foreign exchange movement was only the more visible aspect of a deep economic turmoil. At about this time bankruptcies were hitting businesses, liquidity was tight, and interest rates were soaring. Soon enough the macroeconomic numbers (in consumption, investments, and output) were already reflecting the crisis. The worsening of social indicators, particularly in employment, was not far behind.

Against this backdrop the Philippine Office of the Save the Children-United Kingdom and Focus on the Global South collaborated to do a study on the impact of the financial crisis. This study aims to present the different perspectives on the Asian crisis, its different interpretations, and what these meant in actual fact. The study also aims to show how the crisis manifested in the Philippines and how the government and other actors responded to them. The main focus of the study is the impact on households, with special focus on women and children. Owing to the complexity of the crisis, the study was limited at the outset to focus on employment as a transmission mechanism from the macro level to micro reality.

II. Streams of Analysis

Before the crisis, Asia was making waves as the seat of economic miracles. In 1993, the World Bank published the book ***The East Asian Miracle***, outlining its understanding of the development path taken by eight high performing economies[1] in Asia. To the World Bank, the essence of the miracle was rapid growth with equity. Indeed, the high-performing economies of Asia outpaced all other country groupings in terms of growth. From 1965 to 1990, these economies were averaging 5.5 percent annual growth even as other country groupings managed only between 1.8 percent and 2.3 percent. Such rapid and sustained growth allowed these countries to improve human welfare and dramatically reduce poverty *(See Table 2)*.

The World Bank attributes the success of the Asian high performers to a mix of policies that promoted sound economic fundamentals. These include maintaining macroeconomic stability through prudent fiscal policy, moderate inflation, stable real interest rates, and manageable external debt; implementing productivity-enhancing policies in agriculture; investing in human capital; and keeping price distortions within reasonable bounds.

What was remarkable in the World Bank assessment, though, was its admission that market-based policies were complemented by systematic government intervention in the economy. These included targeting and subsidizing credit to favored industries, keeping deposit rates low, protecting import-substituting industries, and active promotion of exports. The result was what set the Asian high performing countries apart. Their economies were characterized by high rates of growth in productivity, physical and human capital, and manufactured exports.

But within four years since the publication of the World Bank's rave review, Malaysia, South Korea, Thailand and Indonesia — four of the eight Asian high performers — came crashing. The Philippines, which was belatedly trying to join the high-growth pack, came down with them.

The events of 1997 drew myriad analyses of what went wrong in Asia. Most analyses put at their center the interplay between international finance capital and domestic policies and conditions. They differed, however, in their assessment of why finance capital behaved the way it did and how finance capital, in turn, affected the Asian crisis countries.

A. The Massive Inflows

Most analysts agree that globalization and domestic policies contributed to the expansion of private capital flows to developing economies, including those in Asia. Beginning in the 1980s, the environment for global movement of private capital changed radically. The advance in information and communication technologies enabled private capital to operate globally at greatly reduced costs. This resulted in intensified world activity in integrated production through foreign direct investments, and in capital markets through increasing portfolio flows.

The technology factor was complemented by equally substantial changes in national policies towards international capital. Liberalization became in vogue among developing economies, partly in response to the debt crisis, which pushed developing countries to look at foreign investments as an alternative source of foreign finance. This was complemented by structural adjustment polices imposed by the International Monetary Fund and the World Bank on indebted countries. These structural adjustment policies included the liberalization of investment regimes.

For developing economies, net private capital flows averaged US$17.5 billion yearly from 1984 to 1989. This annual average jumped to US$128.8 billion

[1] *These economies are Japan, Hong Kong, South Korea, Singapore, Taiwan, Indonesia, Malaysia, and Thailand.*

Table 2
Macroeconomic Indicators of the Asian High-Performing Economies Before the Crisis

Indicator	Period	Thailand	Indonesia	Korea	HongKong	Japan	Malaysia	Singapore	Taiwan
Real GDP Growth	83-89	8.1	5.5	9.6	7.2	4.1	5.4	6.9	9.2
	90-95	9.0	8.0	7.8	5.0	2.1	8.8	8.7	6.4
	90	11.6	9.0	9.5	3.4	5.1	9.6	9.0	5.4
	91	8.1	8.9	9.1	5.1	3.8	8.6	7.3	7.6
	92	8.2	7.2	5.1	6.3	1.0	7.8	6.2	6.8
	93	8.5	7.3	5.8	6.1	0.3	8.3	10.4	6.3
	94	8.9	7.5	8.6	5.4	0.6	9.2	10.5	6.5
	95	8.7	8.2	8.9	3.9	1.5	9.5	8.8	6.0
	96	5.5	8.0	7.1	3.9	3.9	8.6	7.0	5.7
Inflation	83-89	3.1	8.1	3.8	4.9	1.4	2.0	1.0	1.2
	90-95	5.0	8.7	6.6	6.7	1.7	3.5	2.7	3.8
	90	6.0	7.8	8.6	9.3	3.1	2.8	3.5	4.1
	91	5.7	9.4	9.3	9.7	3.3	2.6	3.4	3.6
	92	4.1	7.5	6.2	11.6	1.7	4.7	2.3	4.5
	93	3.4	9.7	4.8	9.3	1.2	3.5	2.3	2.9
	94	5.1	8.5	6.3	8.5	0.7	3.7	3.1	4.1
	95	5.8	9.4	4.5	8.1	-0.1	3.4	1.7	3.7
	96	5.9	7.9	4.9	8.7	0.1	3.5	1.4	3.1
Private Savings Rate	83-89	25.4	23.2	32.7	6.0	31.9	29.4	42.0	35.0
	90-95	34.4	28.9	35.3	33.6	32.7	31.3	46.9	28.2
	90	32.6	27.9	36.1	33.5	33.5	29.1	44.1	29.3
	91	35.2	28.7	35.9	35.8	34.2	28.4	45.4	29.5
	92	34.3	27.3	35.1	33.8	33.8	31.3	47.3	27.8
	93	34.9	31.4	35.2	33.8	32.8	33.0	44.9	27.7
	94	34.9	29.2	34.6	34.6	31.4	32.7	49.8	27.1
	95	34.3	29.0	35.1	33.1	30.7	33.5	50.0	28.0
	96	33.7	28.8	33.3	30.4	31.3	36.6	50.1	28.0
Investment Rate	83-89	27.7	24.3	29.4	23.6	28.4	28.5	38.1	20.4
	90-95	40.4	27.2	36.7	28	30.0	37.7	33.8	22.8
	90	40.2	28.3	37.1	26.4	31.7	32.4	31.8	22.4
	91	41.6	27.0	38.4	26.6	31.4	36.4	33.3	22.2
	92	39.2	25.8	36.6	27.4	30.5	36.0	35.6	23.2
	93	39.2	26.3	36.0	27.3	29.5	38.3	35.0	23.7
	94	39.9	27.6	35.7	29.8	28.6	40.1	33.6	22.9
	95	41.8	28.4	36.6	30.5	28.5	43.0	33.3	22.9
	96	41.7	28.1	36.8	31.3	29.7	42.2	36.5	21.0
Export Growth	83-89	17.6	0.8	16.7	20.1	10.4	12.0	12.4	17.4
	90-95	18.9	12.7	12.6	15.6	8.4	19.9	17.9	9.3
	90	14.9	15.9	4.2	12.3	5.0	17.4	18.1	1.6
	91	23.2	13.5	10.5	20.0	9.5	16.8	11.9	13.4
	92	14.2	16.6	6.6	21.2	8.0	18.5	7.6	6.9
	93	13.2	8.4	7.3	13.2	6.6	15.7	16.6	4.0
	94	22.7	8.8	16.7	11.9	9.6	24.7	30.8	9.6
	95	25.1	13.4	30.3	14.8	11.6	26.0	22.1	20.0
	96	-1.3	9.7	3.7	4.0	-7.3	5.1	5.7	3.7
Budget Surplus/GDP	83-89	-3.0	-1.3	-	1.6	-0.4	-4.0	4.8	1.3
	90-95	3.0	0.05	-0.4	1.6	-0.05	-0.3	12.2	0.5
	90	4.4	1.3	-0.9	0.7	2.9	-2.2	11.4	0.8
	91	4.2	-	-1.9	3.2	2.9	0.1	10.3	0.5
	92	2.6	-1.2	-0.7	2.5	1.5	-3.5	11.3	0.3
	93	2.1	-0.7	0.3	2.3	-1.6	-2.6	14.3	0.6
	94	2.0	-	0.5	1.1	-2.3	2.5	13.7	0.2
	95	2.6	0.8	0.4	-0.3	-3.6	3.8	12.0	0.4
	96	1.6	1.4	0.3	2.2	-4.3	4.2	9.1	0.2

Source: *Jong-Wha Lee and Changyong Rhee. Social Impacts of the Asian Crisis: Policy Challenges and Lessons. Occasional Paper # 33.Human Development Report Office. UNDP: New York. 1999.*

for 1990 to 1996, representing a sharp growth of more than six folds (IMF 1998).

Asia contributed significantly to such movement in private capital. Net private capital flows averaged US$13.1 billion annually from 1984 to 1989. This average grew to US$56 billion for 1990 to 1996, reaching levels of US$64.8 billion in 1994, US$91.7 billion in 1995, and US$100.2 billion in 1996 (IMF 1998). Beyond the common factors, analysts ascribe varying degrees of importance to other factors in explaining the magnitude of private capital that found its way to Asia *(See Table 3)*.

Spurred by success. Many analysts identify the success of the Asian high performers as the principal driving force behind the relatively higher volume of inflows to Asia. Successful economies offer high yields and profits to international investors. Given an open channel, foreign investors will flow in (Griffith-Jones 1998).

But what set Asia apart was the perceived solidity of its success. The World Bank (1993) observes that macroeconomic management among the Asian high performers was "unusually good". Budget deficits were kept manageable, the exchange rate was kept competitive, external debt was kept under control, and real interest rates were stable. Along with government intervention that worked, these resulted in high domestic savings, rapid export expansion, and ultimately, high levels of economic growth.

The solidity of Asian success meant a very high investor confidence in the region. The sustainability of the Asian success was, in the early 1990s, unquestioned. Riding on high investor confidence, Asia attracted all forms of private flows, with growing amounts of portfolio investments and foreign credit.

Moral hazard. Krugman (1999) asserts, however, that the massive flows of private capital to Asia did not entirely represent free private-sector decisions. The process was helped a lot by a moral hazard problem, or what Krugman alternatively calls crony capitalism.

Central to this perspective is the character of the financial intermediaries that served as the channel for capital flows (Krugman 1998). Local financial institutions were able to borrow heavily abroad not principally because they were able to direct finance to the most productive uses but because they were perceived as having the right political connections.

The political connections provided an implicit government guarantee that the local institutions would be bailed out in the event that any of them ran into financial trouble. At the home front, the implicit guarantee induced aggressiveness in lending. The guaranteed intermediary invested in areas that could yield high returns even if the risk of losses was high. On the external front, the creditors did not mind, confident that the liabilities of the local institutions were guaranteed by government.

Table 3
Net Private Capital Flows
(US$ billions)

	1984-89	1990-96	1994	1995	1996	1997	1998/a	1999/a
Developing Countries								
Net Private capital flows	17.5	128.8	136.6	147.3	190.9	131.8	87.6	104.1
Net Direct Investment	12.2	57.9	76.3	86.3	108.6	126.7	106.2	96.2
Net portfolio investment	4.9	51.1	85.8	22.2	52.5	51.8	38.0	18.9
Other net investment	0.4	19.8	-28.6	38.8	29.7	-46.6	-56.6	-11.0
Asia								
Net Private capital flows	13.1	56.0	64.8	91.7	100.2	21.5	-18.3	-7.3
Net Direct Investment	4.5	32.9	44.4	51.0	60.2	60.2	45.1	35.0
Net portfolio investment	1.5	6.7	11.5	10.0	10.1	7.5	-6.5	-3.0
Other net investment	7.0	16.4	9.0	30.8	29.9	-46.3	-56.9	-39.3

Source: *International Monetary Fund. World Economic Outlook and International Capital Markets: Interim Assessment. December 1998.*

Finance capitalism. Bello, et al. (1999) explain the movement of private capital as reflecting the changing character of global finance. One important aspect of the changing character of global finance was the swift accumulation of finance capital in the developed countries that was not matched by their absorptive capacities. Wade (1999) provides the example of Japan as evidence of this phenomenon. Japan registers very high domestic savings that do not entirely find their way to domestic investments. Such excess is channeled to foreign countries as investments.

The second important aspect is the development of new instruments of finance capital. Bello, et.al. observe that capital was being "shifted from the real economy to squeezing value out of already created value in the financial sector", that is, from longer-term foreign direct investment to short-term financial instruments. With the change in the structure of capital flows, the movement of capital is now governed in large part by short-term price differentials, particularly interest rates, exchange rates and stock market prices. Krugman (1999) cites the prevalence of exceptionally low interest rates in advanced countries in the early 1990s to have pushed investors outward to look for higher yields.

B. The Reversal

The currency fall in Asia only reflected the tremendous reversal in private capital flows. From US$100.2 billion in 1996, the net private capital inflow to Asia dropped to US$21.5 billion in 1997, representing a 78.5 percent drop. The biggest change happened in short-term credit (IMF 1998). The reversal was even more dramatic in the crisis countries of South Korea, Indonesia, Malaysia, Thailand, and the Philippines. Private capital flows dropped from US$93 billion in 1996 to -US$12.1 billion, or a 113 percent fall. Again the biggest reversal was in private credit, from US$74 billion to -US$7.6 billion *(See Table 4).*

Financial panic. For Radelet and Sachs (1998), the reversal was due to financial panic. This means that the reversal represented an irrational behavior on the part of finance capital. The irrationality lies in the observation that the pre-crisis macroeconomic and microeconomic fundamentals in the Asian crisis countries were sound. Government budgets were in surplus; inflation rates were at single digit levels; domestic savings and investments rates were high; and foreign exchange reserves were comfortable. In addition, external factors were not problematic. World interest rates remained low and commodity prices were stable.

Table 4
External Financing of Asian Crisis Countries
(US$ billions)

	1996	1997	% Change
External financing, net	92.8	15.2	-77.6
Private flows, net	93.0	-12.1	-105.1
Equity investment	19.1	-4.5	-23.6
Direct equity	7.0	7.2	0.2
Portfolio equity	12.1	-11.6	-23.7
Private creditors	74.0	-7.6	-81.6
Commercial banks	55.5	-21.3	-76.8
Non-bank	18.4	13.7	-4.7
Official flows, net	-0.2	27.2	27.4

Source: Stephany Griffith-Jones. Stabilizing Capital Flows to Developing Countries. Institute of Development Studies, Sussex University, Brighton, England. July 1998.

Radelet and Sachs admit that there were imbalances showing up, such as the growing current account deficits, overvalued exchange rate, and slowing export growth. The financial sector was also showing signs of vulnerability with the rapid growth in short-term foreign borrowing. They argue, however, that it was possible to address such without triggering an extensive panic. Moderate adjustments and appropriate policy changes — such as an earlier float of the currency as well as a longer-term and comprehensive strategy for bank restructuring – would have worked to contain the magnitude of the crisis to a minimum.

The analysis that the Asian crisis was the result of financial panic is thus very critical of the policy choices made at the onset of the crisis, particularly by the International Monetary Fund. Radelet and Sachs, in particular, assert the following:

(1) The policy of immediate suspension or closure of banks only deepened the panic by triggering bank runs and refusal by foreign creditors to roll-over credit. A better approach would have been to implement a longer-term strategy for bank restructuring. This would have retained confidence in the financial system.
(2) The push for rapid recapitalization of banks resulted in undue credit squeeze. The better approach would have been greater forbearance on capital adequacy ratios, with clear longer-term schedule for return to full compliance.
(3) Raising interest rates and reducing domestic credit availability to defend the exchange rate led to severe economic contraction, with the intended effect on the exchange rate not materializing. The better approach would have been to allow the interest rates to seek their natural level, which was expected to rise anyway, and not insist on an even higher rate.
(4) The demand for an initial fiscal surplus was uncalled for, given that fiscal policy had been prudent across the region.

Weak fundamentals/Bursting bubble. In contrast to the "financial panic" analysis, Corsetti, et al. (1998) advance the view that the currency and financial crisis in 1997 only reflected fundamental imbalances in the Asian crisis economies. This view is shared in large part by Krugman, the International Monetary Fund (1999), the World Bank (1998) and the Asian Development Bank (1999). Among the macroeconomic pressures pointed out were:

- A widening current account deficit immediately prior to the crisis. In 1995, the current account deficit stood at 8.8 percent of GDP in Malaysia, 4.3 percent in Indonesia, and 5.1 percent in the Philippines. Korea had a current account deficit of 4.8 percent in 1996.Thailand's current account deficit was worse, rising from 5.7 percent of GDP in 1993 to 6.4 percent in 1994, 8.4 percent in 1995, and 8.5 percent in 1996.
- Financial sector fragility, characterized by currency and maturity mismatches. There was a rapid growth in short-term foreign currency borrowing, with a big proportion flowing to nontradables, particularly the property sector. There was a build-up in banks' non-performing loans.
- Misaligned exchange rates, resulting in loss of competitiveness and the slowdown in export growth.
- Asset price bubble, particularly property and stock prices.

But why did these vulnerabilities develop?

The "weak fundamentals" analysis emphasizes the role that moral hazard and cronyism played in undermining the economic fundamentals of the Asian crisis countries. The thesis is that the public guarantees (through subsidies, directed credit, and bail-out mechanisms) to the private activities of favored entities induced these entities to overlook the costs and risks of their investment projects. The results were disastrous: risky and low-profit investments and sustained capital accumulation financed by excessive private short-term borrowing (Corsetti, et al. 1998).

Krugman (1998) elaborates on a particular negative effect of the moral hazard problem. The overinvestment that it induced became more troublesome because a big chunk did not go to areas using capital goods in perfectly elastic supply. Instead, they went to assets in imperfectly elastic, even completely inelastic, supply. The result was inflating asset prices, ready to burst once the speculative rise in price ceases.

Alongside moral hazard and cronyism, the multilateral financial institutions identified mistakes and inadequacies in economic management by the crisis countries. The currency peg prior to the crisis is blamed for having resulted in misaligned exchange rates. The financial sector weakness, for its part, went unchecked because of poor prudential regulation and supervision.

The foregoing analysis underlies the principal corrective intervention favored by the multilateral institutions. To them the key is to bring the financial sector back to a sound footing at the soonest. To them, this requires that non-viable institutions be closed, viable ones undergo restructuring and comply with financial best practices, and prudential regulation and supervision be strengthened (Fisher 1998).

As for the immediate stabilization of the crisis economies, the IMF programs supported a float in the currency coupled with the use of high interest rates to cushion the currency fall. Also, to restore credibility, the IMF mobilized funds to help the crisis countries meet their foreign obligations falling due (Fisher 1998).

Financial volatility. From the point of view of Bello, et al., the crisis that hit Asia was to be expected. Such crisis is inherent in the volatile nature of contemporary global finance. Its movement is driven by the search for higher relative yields brought about by price differentials across countries.

Thus, the "weak fundamentals" of an economy finds meaning only when related to the fundamentals of other economies. They explain the movement, but does not root out the problem. Neither does the "financial panic" thesis explain the problem since the movement of capital finds its logic precisely in price differentials across countries.

From such analysis, what is wrong has been the over-reliance by the Asian crisis countries on global capital as the engine of growth. The measures intended to attract foreign capital – keeping exchange rates stable through currency peg, the removal of capital controls, and indiscriminate integration into the global economy – served to set these countries up for the inherently unsettling character of global finance.

The key response to the crisis, then, is to undertake a "fundamental reorientation of an economy toward a more inner-directed pattern of growth" that would entail its limited de-globalization. Concretely, this strategy will involve complementing capital controls with measures promoting greater reliance on domestic savings and investment, and making the domestic market the engine of development (Bello, et al. 1999).

III. Impact of the Crisis

A. Economic Impact

Aside from the steep currency depreciation, another immediate effect of the massive withdrawal of private capital was the play-out of the currency and maturity mismatches *(See Tables 5, 6 and 7)***.** The depreciation extended beyond a mere correction of any currency overvaluation that existed prior to the crisis. This mainly resulted from the failure to stem the general loss of confidence in the crisis countries.

This is where the criticisms of Radelet and Sachs (1998) discussed earlier assume significance. To them the IMF-sponsored response of trying to drastically fix the financial sector, as well as the fiscal and monetary policies intended to defend the currencies, fanned the panic more than they restored confidence.

The IMF (Lane, et al. 1999), on the other hand, explains the unfavorable reactions of the market to its programs[2] as having resulted from the longer than expected time to establish the credibility of the corrective policies, the inherent difficulty in reassuring private creditors, and the increasing awareness of the vulnerabilities of the crisis countries. In addition, the program countries lacked the resolve to implement the program measures, in the process undermining credibility.

In any event, the steep depreciation increased the local currency value of the foreign liabilities of banks and firms. Coupled with the maturity and currency mismatches, the result was huge losses and serious liquidity problems. Lending rates increased, with Indonesia suffering the biggest rise. Consumption and investments dropped. All the crisis countries suffered serious reduction in gross domestic investments. The net result was the deep economic contraction in the crisis countries. In terms of gross domestic product, Malaysia suffered an economic contraction of 6.2 percent in 1998. Indonesia's economy contracted by 13.7 percent for the same period, Korea by 5.5 percent, Thailand by 8 percent, and the Philippines by 0.5 percent *(See Table 8).*

[2] *In Korea, Indonesia and Thailand.*

B. Social Impact

Households felt the impact of the Asian crisis in three major ways. The first is through unemployment and reduction in household income; the second is through higher consumer prices; and the third is through reduced government services.

Unemployment and reduction in household income. The wave of bankruptcies and the general production slowdown all worked to immediately increase the rate of unemployment in the crisis countries *(See Table 9)*.

Lim (1998) noted that in the Philippines, 65 percent of the workers laid off during the first quarter of 1998 were from the manufacturing sector. Most of the factory workers live in the urban areas, where the cost of living is high and all food needs are purchased. In Thailand, the biggest number of layoffs (60% of reported layoffs for the last semester of 1997) happened in the construction sector. The sector employed only 35 percent of the working population (Pernia and Knowles 1998).

The extent of people forced out of jobs was dramatic in South Korea in view of the sweeping restructuring of its corporate sector. The Korean Confederation of Trade Unions (KCTU) Report of 1998 stated that since the time of the crisis up to the early part of 1998, approximately 200 companies were being closed everyday. This accounted for about 4,000 employees finding themselves unemployed daily. An agreement was arrived at between government, employers and unions for legalization of layoffs. Shortly after the agreement, plans to reduce the 163,000 civil service by 10,000 was disclosed by a special committee in charge of streamlining the government bureaucracy. Parallel to this event, speeding industry restructuring and corporate layoffs was enhanced by the passing of twelve new bills by the cabinet (Bello, et al. 1998).

In Thailand, a significant pattern of reverse migration was observed. A UNESCAP (1999) study found that a fraction of the retrenched population joined the urban informal sector while the other part returned to rural areas for livelihood, primarily in agriculture. In contrast, at the time that Thailand was experiencing a boom, it was estimated that more than six million rural workers migrated to Bangkok in search of jobs.

Table 5
Short-Term External Debt and International Reserves in Asian Crisis Countries, 2nd Qtr of 1997

Country	Short Term Debt ($ billions)	International Reserves ($ billions)	Debt-Reserve Ratio
Korea	70.18	34.07	2.06
Indonesia	34.66	20.34	1.70
Malaysia	16.27	26.59	0.61
Philippines	8.29	9.78	0.85
Thailand	45.57	31.36	1.45

Source: *Asian Development Bank. Asian Economic Outlook 1999.*

Table 6
Corporate Financing in Asian Crisis Countries, 1996

	Debt-to-equity ratio		Ratio of short-term debt to total debt	
Country	Mean	Median	Mean	Median
Indonesia	1.88	1.83	0.54	0.57
Korea	3.55	3.25	0.57	0.59
Malaysia	1.18	0.90	0.64	0.70
Philippines	1.29	0.93	0.48	0.49
Thailand	2.36	1.85	0.63	0.67

Note: Data derived from a sample of 5,550 Asian firms.
Source: Asian Development Bank. Asian Economic Outlook 1999.

Table 7
Corporate Debt Composition in Asian Crisis Countries, 1996
(Percent distribution)

	Foreign Debt		Domestic Debt	
Country	Short Term	Long Term	Short Term	Long Term
Indonesia	20.5	19.6	31.4	28.5
Korea	29.4	17.0	27.7	25.8
Malaysia	32.1	11.0	35.7	21.2
Philippines	19.7	21.3	25.5	33.5
Thailand	29.6	12.3	32.0	26.1

Note: Data derived from a sample of 5,550 Asian firms.
Sources: Asian Development Bank. Asian Economic Outlook 1999.

Table 8
Selected Economic Indicators in the Asian Crisis Countries

	Malaysia	Indonesia	Korea	Thailand	Philippines
Real GDP Growth					
1996	8.6	7.8	7.1	5.5	5.8
1997	7.7	4.9	5.5	-0.4	5.2
1998	-6.2	-13.7	-5.5	-8.0	-0.5
Gross Domestic Investment/GDP					
1996	41.5	30.7	38.4	41.7	23.1
1997	42.0	31.3	35.0	35.0	23.8
1998	33.2	18.0	29.0	24.4	19.3
Lending Rates					
1996	9.01	19.22	8.84	13.40	14.82
1997	9.53	21.82	11.88	13.65	16.22
1998	10.61	32.16	15.35	14.42	18.39

Source: Asian Development Bank. Asian Economic Outlook 1999.; Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators. April 1999.

Table 9
Unemployment Rates in the Asian Crisis Countries
(in percent)

Country	1993	1996	June 1998
Indonesia	2.7	2.6	5.0
South Korea	2.8	2.6	7.6
Malaysia	3.0	2.5	6.7
Philippines	8.9	7.4	13.3
Thailand	1.5	1.1	4.4

Source: Ernesto M. Pernia and James C. Knowles. Assessing the Social Impact of the Fianncial Crisis in Asia. EDRC Briefing Notes Number 6. Asian Development Bank. November 1998.

Those returning to the rural areas comprised largely of the unemployed factory and construction workers.

Jong-Wha Lee and Changyong Rhee (1999) observe that the employment effect of the crisis was felt greatest by marginal workers, particularly the women, young workers, and the less educated. They report that between April 1997 and April 1998 in Korea, employment among women dropped by 7.1 percent, far higher than the 3.9 percent employment drop among men. The greater rate of employment decline occurred among workers aged 15 to 29, again with greater frequency among women workers. Finally, based on educational attainment, the largest rate of decline in employment occurred among workers who were unable to finish secondary education *(See Table 10).*

Many migrant workers in Malaysia, notably those from Indonesia, lost their jobs. The Philippines was also vulnerable owing to its large number of overseas workers. Pernia and Knowles (1998) estimated that the deployment of migrant workers from the Philippines fell by 23.4 percent in the first quarter of 1998 compared to the year ago level.

The households experiencing job loss in the family obviously faced an immediate reduction in household income. But the decline in real wage was not confined to such households. There were workers who, while not retrenched from work, consented to the reduction of working hours and wage and benefits cuts in order to keep their jobs.

Higher consumer prices. In all the crisis countries, the rates of inflation increased in 1998. This came at the heels of having achieved a reduction in inflation rates for 1997 in Indonesia, Thailand, Korea, and the Philippines. The rise in consumer prices was exceptionally acute in Indonesia, with prices more than doubling in 1998 *(See Table 11).*

The inflation rate data, however, may not reflect high price increases in certain imported goods. While many of these goods may be considered non-essentials, such as cars and durable equipment, others are important household consumption items. These include medicines, petroleum, and even certain foodstuff.

Against a backdrop of severely clipped employment opportunities, rising inflation had the effect of further eroding the household's purchasing power. Not only did households have less to pay for its needs, the price of these goods and services even became more restrictive, resulting in weaker consumption of the same goods and services.

Reduced government services. The Asian crisis affected the fiscal position of the crisis-country governments in various ways. First, with the unanticipated economic slowdown or contraction, the governments generated less revenue than what was projected in their budget programs. Second, the depreciation of their respective currencies increased the local cost of foreign debt service as well as the imported component of projects. Inflation also increased program costs.

Under such a situation, the crisis-country governments faced the choice of having to make cuts in their programmed expenditures or borrowing to finance the shortfall, in the process breaching their fiscal balance targets. Expenditure cuts translated to less capital spending (principally infrastructure) as well as reduction in the extent of ongoing programs.

The countries that entered into a program with the International Monetary Fund were initially forced to maintain a very tight fiscal policy. The original IMF programs called for a surplus (0.3 percent of GDP in Indonesia for 1997/98 and 0.2 percent of GDP in Korea for 1998), and allowed a very minimal deficit of 0.1 percent of GDP in Thailand for 1997/98. But the fiscal balance targets in Thailand and Korea even represented a tightening from year-ago levels! In Korea, the 1998 fiscal surplus target takes off from a balanced budget in 1997. In Thailand, the 0.1 fiscal deficit in 1997/1998 takes off from a fiscal deficit of 1.1 percent from year-ago levels *(See Table 12)*.

Table 10
Employment by Gender, Age, and Educational Attainment in Korea

By age group	April 1997 (In thousand workers)	April 1998 (In thousand workers)	Percent Change
Men and Women			
All	21,219	20,127	-5.1
15 – 19	398	335	-15.8
20 – 29	4,811	4,162	-13.5
30 – 39	6,007	5,915	-1.5
40 – 49	4,825	4,802	-0.5
50 – 59	3,161	2,973	-5.9
60 +	2,017	1,939	-3.9
Men			
All	12,446	11,976	-3.8
15 – 19	150	137	-8.7
20 – 29	2,513	2,178	-13.3
30 – 39	3,867	3,841	-0.7
40 – 49	2,893	2,912	0.7
50 – 59	1,910	1,805	-5.5
60 +	1,112	1,103	-0.8
Women			
All	8,773	8,151	-7.1
15 – 19	248	198	-20.2
20 – 29	2,299	1,985	-13.7
30 – 39	2,139	2,074	-3.0
40 – 49	1,933	1,890	-2.2
50 – 59	1,251	1,169	-6.6
60 +	904	836	-7.5
By Educational Attainment			
Without High School Diploma	7,715	6,870	-11.1
With High School Diploma	9,163	8,582	-6.2
With College Diploma	4,341	4,675	7.2

Source: *Jong-Wha Lee and Changyong Rhee. Social Impacts of the Asian Crisis: Policy Challenges and Lessons. Occasional Paper # 33.Human Development Report Office. UNDP: New York.1999.*

The IMF program targets were off-key. The exchange rate and GDP growth assumptions widely missed reality. For example, in Indonesia the IMF projected a GDP growth of 5 percent for April 1997 to March 1998 and 3 percent for April 1998 to March 1999. In reality the Indonesian GDP grew by 4.9 percent in 1997 but contracted sharply by 13.7 percent in 1998. The wrong projection meant that the change in fiscal balance due to the economic environment was much worse, requiring the program country to make equally large cuts in outlays and social safety nets to maintain the target fiscal balance.

Table 11
Inflation Rates in the Asian Crisis Countries (In percent)

Country	1996	1997	1998
Malaysia	3.5	4.0	5.2
Indonesia	7.9	6.6	58.2
Thailand	5.9	5.6	8.1
Philippines	9.1	6.0	9.7
Korea	5.0	4.5	7.5

Source: *Asian Development Bank.. Asian Economic Outlook 1999.*

Table 12
Fiscal Balance in the IMF Programs

	Indonesia [1/]				Korea [2/]				Thailand [3/]			
	Original		Recent 4/		Original		Recent 4/		Original		Recent [4/]	
	97/98	98/99	97/98	98/99	1997	1998	1997	1998	96/97	97/98	96/97	97/98
Fiscal Balance (level) [5/]	0.3	0.5	-0.9	-10.1	0.0	0.2	0.0	-5.0	-1.1	-0.1	-1.6	-5.1
Change in fiscal balance	-0.9	0.2	-2.2	-9.2		0.2	-0.3	-5.0	-3.3	1.0	-4.0	-3.5
Change due to:												
Economic environment	-1.3	0.3	-4.2	-11.1		-0.4		-1.9	-1.1	-0.9	-0.3	-3.1
Exchange rate	-1.4	0.2	-3.5	-6.4		-0.3		-0.9	-0.2	-0.9	-0.2	-2.0
GDP growth	0.3	0.1	-0.5	-4.0		-0.1	-1.0		-1.0	0.0	-0.1	-0.9
Oil price	-0.2	0.0	-0.2	-0.7		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Policy changes	0.3	0.2	2.7	1.7		-0.1		-2.8	-1.2	1.9	-2.6	-0.6
Outlays	0.2	0.4	2.7	3.8		0.1		-1.1	-0.6	1.8	-1.9	2.6
Social safety net	0.0	0.0	0.0	-1.0		-0.2		-2.1	-0.6	0.0	0.0	-0.6
Bank restructuring	-0.5	0.0	0.0	-1.6		-0.8		-1.4	0.0	-1.1	-0.7	-2.0
Statutory revenue												
Change	0.6	-0.2	0.0	0.5		0.8		1.8	0.0	1.2	0.0	-0.7
Residual (Unexplained)	0.2	-0.2	0.7	0.2		0.7		-0.4	-1.0	0.0	-1.1	0.1
Memo items:												
Nominal GDP growth	13.2	13.1	19.8	43.4		6.6	7.9	0.1	10.1	11.3	6.1	5.3
Real GDP growth	5.0	3.0	4.6	-12.1		2.5	5.5	-7.0	2.5	3.5	-0.4	-5.0

1/ Program Year for Indonesia is Fiscal Year 1997/98 covering the period April 1997 to March 1998.
2/ Program Year for Korea is Fiscal Year 1998 covering the period January 1998 to December 1998.
3/ Program Year for Thailand is Fiscal Year 1997/98 covering the period October 1997 to September 1998.
4/ Calculations as of July 1998.

Source: Timothy Lane, et al. IMF-Supported Programs in Indonesia, Korea, and Thailand: A preliminary Assessment. International Monetary Fund. January 1999.

As the extent of the Asian crisis unfolded, the IMF had to belatedly, in July 1998, accommodate a relaxation in the fiscal component of the programs.

Household adjustments. The effects of the Asian crisis on employment, consumer prices, and government budget reduced the quality of life in the adversely affected household in various ways. The following were only some of the adjustments that households made:

- **Adjustment in the consumption of non-essentials.** During the boom years in the Asian crisis countries, the increasing income of households allowed an expansion of spending in goods and services that may be considered non-essentials. These included automobiles and household appliances as well as spending on leisure. As household income contracted, the first cuts in consumption spending were on the non-essential goods and services.
- **Adjustment in the consumption of basic needs.** For the households that suffered job loss in the family, the reductions in household income were of such magnitude as to affect household spending on basic needs, including food, shelter, and education.
- **Adjustment in household savings and investment.** As household income contracted, the proportion of income saved or invested decreased.
- **Household dislocation.** Certain households were forced to relocate in order to find alternative livelihood. This represented an uprooting of families from their known communities.

These household adjustments have had adverse effects not only on present quality of life but on the long term as well. The deterioration in nutritional status among family members, the forgoing of education, and the reduction in household savings and investment have long-term negative effects on future household productivity and earning capacity.

The debacle in Asia has clearly been a crisis within a crisis. Swamped with foreign inflows it was unable to manage, Asia just prior to 1997 was on a binge that was adjudged unsustainable by many analysts. The almost manic encouragement of foreign flows, juxtaposed with vested interests and weak regulatory institutions, rendered Asia unprepared for the unraveling of finance capital. The resulting collapse, fanned by the panic of erstwhile over-enthusiastic finance investors, was the worst that Asia has ever experienced. The drastic fall in the value of domestic currencies was matched by increasing interest rates and huge debt burdens falling due. Unfortunately, when the IMF came into the picture it had grossly misread the crisis and managed to prescribe painful austerity measures so fast that it sent economies spinning, even as it was slow to realize its mistakes. The result was economic contraction, which led to painful social repercussions. The contraction was most widely felt in rising unemployment and income declines. This was accompanied by soaring consumer prices and interest rates. Governments, unfortunately, were hard pressed to follow IMF dictates and relaxed their fiscal targets too late. By then, growth prospects had been severely set back, gains in poverty reduction rolled back, and households had already been pushed into making painful adjustments that curtailed not only their current consumption but their long-term viability as well.

CHAPTER 2
THE PHILIPPINE CASE

I. Tracking the Baht

After the decision by the Central Bank of Thailand to float the baht on 2 July 1997, the Philippine peso immediately came under attack along with other currencies in the region. The peso was under extreme pressure to depreciate following a large increase in the demand for dollars caused by the withdrawal of foreign portfolio investments as well as the shift from peso to dollar assets. At the same time, fresh inflows of portfolio investments began to dry up.

Like Thailand, the initial reaction of the Philippine government, particularly by the Bangko Sentral ng Pilipinas, was to defend the currency. The first line of defense was to intervene in the foreign exchange market by selling dollars from the BSP's international reserves, and to increase the BSP's overnight borrowing rates to as high as 32 percent in July 1997 from 15 percent in June 1997. But the pressure kept on, so that by 10 July 1997, the Executive Department through then Executive Secretary Ruben Torres conceded that the peso-dollar rate had to be allowed to reach its real value. After such pronouncement, the peso immediately depreciated to PhP29.45 per US$1.00 from PhP26.40 per US$1.00.

The realization that a depreciation was inevitable was impelled mainly by the fact that the BSP did not have enough international reserves for sustained dollar sales. By end July, the gross international reserves of the BSP had shrunk by 13 percent from US$11.19 billion to US$9.72 billion *(See Table 13)*. From then on the peso depreciated further until it stabilized at the PhP39.00 to PhP43.00 per US$1.00 band *(See Table 14)*.

The continued fall of the peso did not mean that the BSP had abandoned its defense of the local currency. In a speech before the Rotary Club of Manila on 8 January 1998, BSP Governor Gabriel Singson identified having to restore confidence in the economy as the most important task, which he said "will never be achieved unless the peso is somehow stabilized." By "stabilized" the governor meant bringing the exchange rate close to pre-crisis levels.

Leading in the order of his menu of policy response were (1) the launching of new modes of market intervention to provide immediate liquidity to the dollar market, and (2) the maintenance of tight monetary policy to reduce the incentive to convert peso to dollar assets. He also urged the National Government to maintain a tight fiscal stance to "reduce the competition with the private sector for more limited domestic resources" (Singson 1998).

In varying intensities and policy mix, the BSP used the following levers to implement its policy agenda:

- Intervention in the foreign exchange market by selling dollars from the BSP's international reserves.
- Reduction in over-the-counter dollar sales without BSP approval from US$100,000 to US$25,000.
- Increase in the BSP's overnight borrowing and lending rates.

- Increase in the reserve requirement of banks.
- Opening a non-deliverable forward foreign exchange facility to commercial banks.

II. Differentiating Similar Problems

A. Official Analysis

The insistence of the BSP on defending the local currency proceeded from its conviction that the fundamentals of the Philippine economy were excellent. In the words of BSP Governor Gabriel Singson:

> "*The economy was doing reasonably well in the first half of 1997. The economy was growing very respectably at around 6 percent. Inflation was in low single-digit of less than 5 percent. The fiscal position was in surplus. The trade deficit was progressively narrowing as exports continued to grow strongly and imports substantially slowed down. Official international reserves were still in excess of US$11.0 billion. The peso was very steady. The external debt service was just 11 percent of exports of goods and services*" (Singson 1998).

From this standpoint, the analysis had to be that the pressure on the peso was coming from unfounded speculation and panic, fanned mainly by the depreciation of the Thai baht. The BSP argued that foreign investors unreasonably looked at Southeast Asia as a homogeneous regional portfolio. Thus, the immediate task was to restore confidence in the Philippine economy by undertaking defensive actions and by differentiating the economic fundamentals in the Philippines from the other countries hit by the financial crisis.

The Ramos administration adopted the BSP analysis as its official position. In a boxed section of the official document ***The Philippine National Development Plan: Directions for the 21st Century*** released by the National Economic and Development Authority, the government noted that there were critical factors that differentiated the Philippines from other countries in the region. The investors, in their rush to pull out of the region, overlooked such critical differences. The government identified these factors as:

- Moderate real estate exposure of the financial system.
- Low vacancy rate in the prime commercial districts, disputing the existence of a property glut.
- Foreign exchange liabilities of commercial banks were owed to residents.
- A large share of FCDU (foreign currency deposit units) loans were by exporters, indicating that loans were adequately hedged against export earnings.
- Proportion of short-term external debt was lower than that of Thailand.
- Expansion of commercial bank credit was in line with its asset growth.
- The current account deficit was manageable,

Table 13
Gross International Reserves of the Bangko Sentral ng Pilipinas (In US$ millions)

End of Period	1997	1998
January	11,103.06	8,530.92
February	11,789.16	9,132.40
March	11,833.02	9,236.97
April	11,560.97	10,725.27
May	11,422.56	10,733.31
June	11,190.91	10,448.02
July	9,723.86	10,273.49
August	10,302.97	9,822.57
September	10,846.96	10,502.85
October	9,957.23	10,395.82
November	9,754.88	10,387.74
December	8,649.63	10,684.07

Source: Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators. April 1999.

Table 14
Peso-Dollar Exchange Rate 1996-1998

End of Period	1996	1997	1998
January	26.185	26.344	42.41
February	26.177	26.333	40.364
March	26.197	26.367	37.081
April	26.173	26.369	39.979
May	26.222	26.374	38.899
June	26.203	26.384	42.091
July	26.228	28.968	42.016
August	26.202	30.165	43.874
September	26.257	33.873	43.809
October	26.285	34.938	40.831
November	26.287	34.655	39.462
December	26.288	39.975	39.059

Source: Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators. April 1999.

Table 15
Balance of Payments, 1990 to 1998 (In US$M)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
I. Current Account	-2567	-869	-858	-3016	-2950	-3297	-3953	-4303	1287
A. Trade in Goods and Services	-3281	-1696	-1675	-3715	-3886	-4179	-4542	-5383	852
a. Trade in Goods	-4020	-3211	-4695	-6222	-7850	-8944	-11342	-11127	-28
Exports	8186	8840	9824	11375	13483	17447	20543	25228	29496
Imports	12206	12051	14519	17597	21333	26391	31885	36355	29524
b. Trade in Services	739	1515	3020	2507	3964	4765	6800	5744	880
Receipts	4842	5624	7443	7497	10550	14374	19006	22835	13917
Payments	4103	4109	4423	4990	6586	9609	12206	17091	13037
B. Transfers	714	827	817	699	936	882	589	1080	435
Inflow	717	828	826	746	1041	1147	1185	1670	758
Outflow	3	1	9	47	105	265	596	590	323.
Capital and Financial Account	1776	1878	1850	2820	4547	3393	11072	6464	956
A. Long Term Loans	674	835	633	2455	1313	1276	2841	4688	2850
Inflow	4575	3622	7432	5205	4369	3927	6540	7427	5791
Outflow	3901	2787	6799	2750	3056	2651	3699	2739	2941
B. Trading in Bonds in Secondary Market	0	0	0	0	0	0	-37	-676	-1082
Resale of Bonds	0	0	0	0	0	0	4148	3072	3308
Purchase of bonds	0	0	0	0	0	0	4185	3748	4390
C. Investments	480	654	737	812	1558	1609	3517	766	1672
a. Non-Resident Investments in the Phils.	498	681	931	2135	2492	2944	3621	847	2016
a.1 Direct Investments	550	556	776	1238	1591	1459	1520	1253	1752
Placements	550	556	776	1238	1591	1459	1520	1253	1752
Withdrawals	0	0	0	0	0	0	0	0	0
a.2 Portfolio Investments	-52	125	155	897	901	1485	2101	-406	264
Placements	152	227	566	2257	2979	3861	6687	6947	4297
Withdrawals	204	102	411	1360	2078	2376	4586	7353	4033
b. Less: Resident Investments Abroad	18	27	194	1323	934	1335	104	81	344
D. Purchase of Collateral	0	0	-469	0	0	0	0	0	0
E. Short Term Capital	19	349	660	-148	1002	-56	540	495	-1521
F. Change in Commercial Banks' NFA	603	40	289	-299	674	564	4211	1191	-963
III. Others	1018	632	657	544	254	81	-5	-360	96
Monetization of Gold	218	245	130	113	154	177	198	105	118
Revaluation Adjustments	800	387	527	431	100	-96	-203	-465	-22
IV. Net Inclassified Items	-320	462	-157	-514	-49	454	-3007	-5164	-980
Overall BOP Position	-93	2103	1492	-166	1802	631	4107	-3363	1359
GNP (US$M)	44073	45656	53889	55321	65742	76180	87084	87038	68210
Trade deficit as % of GNP	-9.1	-7.0	-8.7	-11.2	-11.9	-11.7	-13.0	-12.8	0.0
Current account deficit as % GNP	-5.8	-1.9	-1.6	-5.5	-4.5	-4.3	-4.5	-4.9	1.9

Source: *Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators 1997 Yearbook..*
Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators, April 1999.

with robust export growth and significant remittances by overseas Filipino workers.

B. Dissenting Opinion

Not everyone shared the official line. By 1996 the call for the Bangko Sentral to shift its policy direction intensified. The academe, particularly those coming from the UP School of Economics, and independent policy analysis groups such as the Action for Economic Reforms, put to question the sustainability of the growth posted by the Philippine economy.

Table 16
Philippine Real Effective Exchange Rate
(1986=100)

Year	Nominal	REER Against Major Trading Partners	REER Against Malaysia, Indonesia and Thailand
1986	20.3857	100	100
1987	20.5677	93.98	108.83
1988	21.0947	92.6	111.5
1989	21.7367	100	121.83
1990	24.3105	98	121.6
1991	27.4786	96.58	122.8
1992	25.5125	107.6	133.59
1993	27.1198	103.85	134.7
1994	26.4172	110.66	142.19
1995	25.7144	116.36	145.04
1996	26.1956	126.91	149.34

Source: Computations made by Action for Economic Reforms, Philippines.

The critics' principal source of concern was the rapidly expanding trade deficit, and consequently current account deficit. In 1996 the trade deficit jumped to US$11.3 billion from US$8.9 billion in 1995. Current account deficit was 4.5 percent of GNP *(See Table 15)*. The worsening trade and current account balances have been the sources of weakness of past boom episodes cut short by an economic bust.

The critics contended that the widening trade deficit was only a manifestation that the Philippine peso was overvalued. The overvalued peso made imports cheap and Philippine exports uncompetitive in the international market. In 1996, the group Action for Economic Reforms estimated that the peso was overvalued by 26 percent against its major trading partners, and 49 percent against its ASEAN competitors *(See Table 16)*.

What made the trade and current account deficit in the mid-1990s notably worrisome was the fact

Table 17
Foreign Currency Deposit System
Loans and Discount Assets and Deposit Liabilities (in US$M)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Loans and Discounts (Net)	930	783	1735	2385	3491	5332	10830	10643	7985
Resident	930	782	1727	2385	3491	5220	10607	10376	7805
Public	622	502	563	641	589	540	505	318	595
Private	308	280	1164	1744	2902	4680	10102	10058	7210
Non-Resident	0	1	8	0	0	112	223	267	180
Deposit Liabilities	2560	3160	4372	5614	7716	9116	14524	14537	15075
Local	2312	2963	4117	5298	6920	8254	12619	11476	12800
Foreign	248	197	255	316	796	862	1905	3061	2275

Source: Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators. 1997 Yearbook.
Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators, April 1999.

Table 18
Outstanding Foreign Exchange Liabilities (In US$M)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
By Type of Debt	29955	31392	32089	35535	38723	39367	41875	45433	47817
a. Medium and Long Term	25579	26565	26833	30500	33526	34088	34668	36994	40632
b. Short-Term	4376	4827	5256	5035	5197	5279	7207	8439	7185
Trade	4099	4589	4937	3495	3401	2674	4096	4032	2551
Non-Trade	277	238	319	1540	1796	2605	3111	4407	4634
By Borrower	29955	31392	32089	35535	38723	39367	41875	45433	47817
A. Banking System	7913	7739	4709	3298	4144	5452	8632	10664	11215
a. Central Bank	5525	5368	2337	0	0	0	0	0	0
b. Bangko Sentral	0	0	0	1288	855	1212	1415	2499	3437
c. Commercial Banks	2388	2371	2372	2010	3289	4240	7217	8165	7778
Government	677	569	924	1489	2308	2240	1838	2187	2368
Private	1711	1802	1448	521	980	2000	5379	5978	5410
B. Public and Private	22042	23652	27381	32236	34580	33915	33243	34768	36602
Public	18256	19614	22406	26940	27721	26664	24131	22271	24506
Private	3786	4038	4975	5296	6859	7251	9112	12497	12096

Source: *Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators. 1997 Yearbook.*
Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators, April 1999.

that it was being financed to a considerable extent by short term capital flows. In 1995, net foreign portfolio investments amounted to US$1485 million, representing 17 percent of merchandise trade deficit and 45 percent of current account deficit. This jumped further to US$2101 in 1996, equivalent to 19 percent of merchandise trade deficit and 53 percent of current account deficit *(See Table 15)*. Given the volatility of short-term capital flows, the critics pointed out that the country was living beyond its means.

The short-term capital flows undermined the economic fundamentals in other ways. First, the large volume of capital flows expanded the balance sheets of banks, making them embark on aggressive lending to the domestic market *(See Table 17)*. This exposed the banking sector to greater market risks. Foremost of this is the foreign exchange risk. When banks maintain large foreign currency-denominated liabilities but lend in domestic currency, a sharp devaluation threatens bank profitability. Even when the foreign exchange risk is passed on to borrowers by lending in foreign currency, a sharp depreciation still threatens bank profitability through an increase in non-performing loans.

Second, the stability of the Philippine peso arising from the exchange rate peg and the relatively lower world interest rates increased the appetite of the private sector for foreign loans. Short-term non-trade loans picked up beginning in 1993, and posted significant increases in 1995 to 1997. The private commercial banks were a big borrower in 1996 *(See Table 18)*.

On the policy level, the critics agitated for policies that would align the nominal exchange rate to its real rate. These policies include the aggressive buying of dollars by the BSP, the lowering of interest rates, and the introduction of short-term capital regulation to depress portfolio investment (Bordon, et al. 1997).

In the end, the exchange rate adjustment happened by the force of the market, with the BSP resisting it as far as its resources could carry. The critics insist that timely adjustment by the BSP would have spelled the difference between a smooth stabilization and a deeper economic contraction.

III. Impact of the Crisis

A. Economic Performance and Prices

While the effects of the crisis will be felt for the years to come, the deepest impact of the crisis in terms of economic performance registered in 1998. The growth in personal consumption slowed down. Government consumption turned negative for the first three quarters, with the biggest contraction occurring in the first quarter of 1998. But it was investments that sustained the heaviest toll. Capital formation suffered large contractions in every quarter of 1998, peaking with a 22.3 percent contraction in 1998. In terms of GDP by industrial origin, the agriculture, fishery, and forestry sector as well as the industry sector recorded considerable contractions *(See Tables 19 and 20)*.

The notable contraction in investment was only a manifestation of the double whammy that hit producers. Consumption demand slowed down even as production costs increased. The problem was most severe among firms that borrowed heavily in dollars. Liquidity problems became acute and the non-performing loans of banks shot up. By July 1998, the non-performing loans to total loans ratio of the banking system had reached double-digit levels *(See Table 21)*.

On the external front, imports expectedly contracted as import prices increased significantly. This was, after all, an intended effect of an exchange rate correction. The performance of exports, though, was disappointing. While the price adjustment ideally should have worked to the advantage of exporters, the 1998 record shows that the export sector failed to respond promptly. This can be attributed to the fact that exporters faced other problems, particularly the high interest rates resulting from the BSP's initial interventions. Exporters also faced stiff competition from the other countries whose local currencies also depreciated considerably against the dollar.

As for prices, inflation picked up in 1998, breaching double-digit levels beginning May *(See Table*

Table 19
Growth Rate, Gross Domestic Product by Expenditure

Type of Expenditure	1998				1999
	Q1a/	Q2	Q3	Q4	Q1
1. Personal Consumption	4.5	3.9	2.9	2.6	2.5
2. Government Consumption	-5.4	-2.4	-1.3	0.6	7.6
3. Capital Formation	-6.0	-18.2	-19.1	-22.3	-7.7
a. Construction	4.3	-2.4	-12.5	-12.4	-13.7
b. Durable Equipment	-1.5	-17.3	-22.5	-29.3	-14.4
c. Breeding Stock and Orchard Dev't	-2.4	2.3	0.7	0.7	-1.5
4. Exports	10.4	-13.0	-17.7	-31.5	-17.8
5. Less: Imports	5.8	-12.5	-15.7	-31.4	-21.0
GROSS DOMESTIC PRODUCT	1.1	-1.0	-0.1	-2.0	1.2

a/ growth rates are from year-ago levels.
Source: NEDA. The National Accounts of the Philippines, First Quarter 1997 to First Quarter 1999.

Table 20
Growth Rate, Gross Domestic Product by Industrial Origin

INDUSTRY	1998				1999
	Q1a/	Q2	Q3	Q4	Q1
1. AGRI, FISHERY, FORESTRY	-3.8	-11.5	-3.1	-7.8	2.5
a. Agriculture and fishery	-3.8	-11.5	-3.0	-7.6	2.6
b. Forestry	-15.2	-12.1	-18.2	-38.3	-14.1
2. INDUSTRY SECTOR	0.2	-0.7	-2.0	-4.7	-1.9
a. Mining and Quarrying	20.9	6.8	2.7	-17.4	-15.6
b. Manufacturing	2.0	-0.9	-1.5	-3.5	-1.0
c. Construction	-12.8	-5.1	-7.5	-8.5	-3.9
d. Elect, Gas and Water	7.2	6.1	3.2	-2.8	1.3
3. SERVICE SECTOR	4.5	3.6	2.8	3.2	3.0
a. Transport, Comm., Stor.	8.1	6.5	5.5	6.0	3.5
b. Trade	4.1	2.1	1.3	2.4	2.8
c. Finance	6.6	5.7	3.4	2.3	2.7
d. O. Dwellings and R. Estate	2.3	2.1	1.3	0.8	-0.4
e. Private Services	4.2	4.4	4.5	5.5	5.9
f. Government Services	2.5	3.0	2.5	2.4	2.7
GROSS DOMESTIC PRODUCT	1.1	-1.0	-0.1	-2.0	1.2

a/ growth rates are from year-ago levels.
Source: NEDA. The National Accounts of the Philippines, First Quarter 1997 to First Quarter 1999.

Table 21
Non Performing Loans to Total Loans Ratio

Period	Total Loans (in billion PhP)	Non-Performing Loans (in billion PhP)	Total NPL/ Total Loans
1997			
March	1451.490	57.274	3.946
June	1601.662	64.545	4.030
September	1686.584	80.215	4.756
December	1753.568	94.914	5.413
1998			
March	1692.031	138.228	8.169
June	1772.304	172.600	9.739
July	1729.753	180.112	10.413
August	1761.996	195.297	11.084
September	1770.703	204.838	11.568
October	1694.684	212.618	12.546
November	1684.750	209.006	12.406
December	1714.317	188.703	11.007

Source: *Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators. 1997 Yearbook.*
Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators, April 1999.

Table 22
Monthly Inflation Rates
(1994 = 100)

Period	1996	1997	1998	1999
Average	9.1	5.9	9.7	10.1
January	10.9	5.5	7.0	11.5
February	11.1	5.2	8.1	9.9
March	11.1	5.3	8.5	8.7
April	11.0	5.1	9.0	
May	10.2	5.1	10.1	
June	10.0	5.7	10.7	
July	9.4	5.8	10.7	
August	8.7	5.5	10.6	
September	6.4	6.5	10.0	
October	6.3	7.0	10.1	
November	6.6	7.5	11.2	
December	7.1	7.3	10.3	

Source: *Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators. 1997 Yearbook.*
Bangko Sentral ng Pilipinas. Selected Philippine Economic Indicators, April 1999.

22). The moderate inflation though did not reflect sharp increases in critical imported consumer items. For example, the prices of milk, medicines and petroleum were known to have jacked up considerably. The price changes in these critical goods must have entailed significant adjustments in household consumption.

The full extent of the economic problems may not be attributed to the exchange rate adjustment alone. The high interest rate cure adopted by the BSP appears to have deepened the crisis rather than resolved it. For one, the high interest rates failed to result in the intended effect of stemming the depreciation of the peso. Second, the exchange rate adjustment was long overdue anyway and the BSP erred in having tried to go against it. The high interest rates made credit very tight. The carrying cost of existing loans with variable interest increased sharply, resulting in defaults; new lending became unattractive; and banks tended to ration credit to avoid risks. By the time the BSP decided to reverse its interest rate policy, most of the damage had already been done.

B. Employment

The immediate impact on households came by way of increased unemployment. As firms felt the full impact of the crisis in 1998, closures due to economic reasons increased drastically to 642 establishments from 338 in 1997. As many as 2,320 firms reported retrenchments, from only 804 firms in 1997. The establishments closing down, retrenching workers, and adopting measures such as worker rotation due to economic reasons affected 155,198 workers, of which 76,726 were permanently laid off *(See Table 23).*

Being laid-off in times of crisis is particularly burdensome as the probability of finding new work immediately is small. This reality forces household to make prolonged adjustments, including migrating back to the rural areas. The severity of household adjustments also breeds conflicts within the families.

It must be noted that the data shown represents only the reporting establishments in the formal sector. To be sure, the crisis had equally adverse if

Table 23
Establishments Resorting to Closure/Retrenchment Due to Economic Reasons

Year	Number of Establishments Affected				Number of Workers Affected			
	Total	*Closure*	*Retrench-ment*	*Rotation, etc.*	*Total*	*Permanent Lay-Off*	*Temporary Lay-Off*	*Rotation, etc.*
1996**	**1,079***	**347***	**724***	**39***	**81,002**	**47,023**	**29,773**	**4,206**
Ist Quarter	338*	75	257	11	21,009	14,035	5,534	1,440
2ND Quarter	276*	71	198	9	19,615	8,611	10,667	337
3RD Quarter	347*	118	215	18	23,904	15,629	6,661	1,614
4TH Quarter	252*	93	157	5	16,474	8,748	6,911	815
1997**	**1,155***	**338***	**804***	**48***	**62,724**	**39,176**	**19,843**	**3,705**
IST Quarter	310*	103	198	14	15,850	**12,203**	2,596	1,051
2ND Quarter	270*	77	183	12	17,265	9,260	7,177	828
3RD Quarter	293*	63	227	9	11,847	7,253	3,824	770
4TH Quarter	390*	100	281	16	17,762	10,460	6,246	1,056
1998**	**3,072***	**642***	**2,310***	**293***	155,198	**76,726**	**50,744**	**27,728**
IST Quarter	1,132	**255**	829	88	52,191	22,844	20,739	8,608
2ND Quarter	804	148	591	84	31,661	17,079	8,703	5,879
3RD Quarter	939	134	751	83	45,218	22,332	14,345	8,541
4TH Quarter	786	120	627	66	26,128	14,471	6,957	4,700

**Details may not add up due to multiple reporting*
Source: *Department of Labor and Employment. Bureau of Labor and Employment Statistics 1999 Report.*

not more severe effects on the informal sector given the lower level of labor protection as well as unionization in the informal sector.

C. Fiscal Impact

The financial crisis affected the fiscal program of the Philippine government in various ways. First, the unanticipated economic slowdown, and subsequently the economic contraction in 1998 meant revenues far less than pre-crisis projections. On the expenditure side, the government faced higher project costs, particularly those with high import content. In peso terms, the debt service burden, both for foreign and domestic debt, increased considerably in the wake of the sharp peso depreciation as well as the increase in domestic interest rates.

This development presented the policy dilemma of whether to try to meet programmed expenditures by violating the programmed deficit targets, or to try to maintain the deficit target by imposing deep cuts in programmed expenditures.

While the policy dilemma was yet to be resolved, the Executive's immediate response was to impose a 25 percent reserve on total maintenance and operating appropriations of all national government agencies, as well as a 10 percent reserve on the internal revenue allotments of local government units. These measures were embodied in Administrative Order 372 issued in February 1998.

Reyes, et al. (1999) summarize the implications of the mandatory reserves on key expenditure items as follows:

Table 24
Revised Government Financing Program, 1998
(In million pesos)

Particulars	Original Program	Revised Program	Difference
REVENUES	531300	466080	(65220)
EXPENDITURES	526300	506080	(20220)
SURPLUS/(DEFICIT)	5000	40000	(45000)
FINANCING	37150	65082	27932
External	(8779)	31747	40526
Domestic	45929	33335	(12594)
CHANGE IN CASH	15864	(30021)	(45885)
Based on the following:			
91-day T-Bill Rate	17.00	17.00	0.00
Forex Rate (P/$)	42.00	42.00	0.00
LIBOR	5.80	6.10	0.30

Source: Bureau of Treasury.

Table 25
National Government Medium Term Financing Program CY 1998 to 2002
(In million pesos)

Particulars	1999	2000	2001
SURPLUS/(DEFICIT)	(68400)	(40000)	(15500)
NET FINANCING	86695	83592	74818
Foreign Borrowings (Net)	78623	18403	23553
Domestic Borrowings (Net)	8072	63188	51265
CHANGE IN CASH	529	4143	16127

Source: Bureau of Treasury.

- Preliminary estimates of actual expenditures on economic services amounted to only 70 percent of total program budget. The water sector was hardest hit, with only a 0.38 actual expenditure-to-program ratio. The transportation sector had the next lowest actual expenditure ratio of 0.64.
- The social services sector was relatively protected, with an actual expenditure ratio of 0.90. This was made possible by lifting the mandatory reserves for basic services by July 1998. But the effects on social expenditures differed across items. Education had the highest actual expenditure ratio at 0.95, health at 0.84, social welfare and employment at 0.75, and housing and community development at only 0.49.
- Within the health sector, the ratio of budget allotments to appropriations seems to tell a different tale from the relatively high actual expenditure-to-program ratio. The total allotment to appropriation ratio was only 0.75.
- The education sector had an even lower allotment-to-appropriation ratio of 0.63. Within the sector, the allocation-to-appropriation ratio for the purchase of desks, chairs, textbooks, instructional materials, tools, furniture, fixtures, computers and other equipment was a low 0.37.
- While most of the key expenditure items suffered cuts, the actual expenditure on debt service was 33 percent higher than program levels. This is because debt service is protected from cuts as debt service is by law automatically appropriated.

By the second half of the year, the government saw the inevitability of having to adjust its deficit targets. The national government financing program was revised, expanding the deficit target from P5 billion to P40 billion. Despite the change in the deficit target, the program expenditure still contracted by P20.2 billion. The increase in the deficit was financed by higher foreign borrowings. The government expects to incur huge deficits in 1999 and up to the year 2001 *(See Tables 24 and 25)*.

With its fiscal standing adversely affected, it was clear that the national government failed to provide the necessary safety nets when they were most needed by vulnerable groups. The situation was not helped at all by non-discriminatory cuts imposed in early 1998, as well as the late decision to revise the fiscal program to allow for higher deficit spending.

IV. Reversal of Gains and Aggravation of Long-Standing Crises

The Philippines has been facing the problems of poor growth, high poverty incidence, and skewed income distribution for a long time. The early 1990s showed some promise in the improvement of these trends, but the 1997 crisis stalled and effectively rolled back the gains that were achieved thus far.

While the Philippines was able to achieve the highest marginal rate of poverty reduction in relation to growth, the fact that the country grew the lowest among the ASEAN-4 was the biggest reason why it performed the worst in reducing the number of people living in poverty. The failure to grow is the biggest obstacle to a sharp reduction in poverty in the Philippines.

A short period of growth came with the administration of former President Fidel V. Ramos. Such growth was premised on the fast-track strategy that sought to usher the Philippines into NIC-hood by the turn of the 21st century. Such strategy made possible the 5.8 percent GDP growth, the highest achieved by the country in a long while. But it was the same strategy that rendered the country vulnerable to the reversals that happened in 1997-98.

The crisis eroded the income gains achieved during the moderate growth years, while it pushed the poor deeper in poverty. It also reversed the very small improvements in income distribution achieved in the early 1990s.

Table 26 shows the movements in poverty incidence from 1961 to 1997. In a period of 36 years, poverty incidence decreased by 27.2 percentage points, or an annual average of less than one percent (0.76%). Poverty reduction was fastest between 1961 and 1965 where the incidence fell 7 percentage points or an average of 1.75 percentage points per year. Poverty incidence remained constant until 1971, after which it started its slow but steady decline. The next big leap came in the period between 1991 and 1994 where poverty incidence decreased by 4.4 percentage points or an annual average decrease of almost one and a half percentage points. Since the population grows at a faster (almost thrice as fast) pace than the reduction in poverty incidence, the number of

Table 26
Movements in Philippine Poverty Incidence, 1961 to 1997

Year	Poverty Incidence (% Families)			Contribution to Poverty					
				Families			Population		
	Total	Urban	Rural	Total '000	Urban %	Rural %	Total '000	Urban %	Rural %
1961	59	51	64		30	70			
1965	52	43	55		26	74			
1971	52	41	57		24	77			
1985	44.2	33.6	50.7	4,355	28.7	71.3	26,231	29.7	70.3
1988	40.2	30.1	46.3	4,231	28.3	71.7	25,005	28.6	71.4
1991	39.9	31.1	48.6	4,781	38.7	61.3	28,120	39.3	60.7
1994	35.5	24.0	47.0	4,531	33.6	66.4	27,274	34.3	65.7
1997	31.8	17.9	44.4	4,511	26.8	73.2	26,768	27.9	72.1
Average Annual Reduction	0.76	0.92	0.54						

Sources:
1961-1971: World Bank. Philippines: A Strategy to Fight Poverty. 1996.
1985-1997: National Statistical Coordination Board. Philippine Poverty Statistics 2000 (with some computations made by author based on basic data).

Table 27
Income Decile Distribution of Families
Summary, 1991, 1994 and 1997

	Philippines			*National Capital Region*			*Outside NCR*		
	1991	**1994**	**1997**	**1991**	**1994**	**1997**	**1991**	**1994**	**1997**
First	1.8	1.9	1.7	2.5	2.8	2.2	2.3	2.4	2.2
Second	2.9	3	2.7	3.6	3.9	3.2	3.3	3.7	3.4
Third	3.8	3.9	3.4	4.4	4.7	4	4.5	4.7	4.2
Fourth	4.7	4.9	4.3	5.2	5.6	4.7	5.4	5.6	5.1
Fifth	5.7	6	5.3	6.2	6.6	5.6	6.5	6.6	6
Sixth	7	7.4	6.7	7.3	7.7	6.7	7.7	7.9	7.2
Seventh	8.8	9.1	8.6	8.8	9.2	8.1	9.2	9.5	8.7
Eight	11.4	11.8	11.4	10.8	11.3	10	11.4	11.6	11.3
Ninth	16.1	16.4	16.1	14.4	14.8	13.7	15.5	15.8	16
Tenth	37.8	35.5	39.7	36.8	33.3	41.7	33.9	32.2	35.8
Poorest 20%	4.7	4.9	4.4	6.1	6.7	5.4	5.6	6.1	5.6
Poorest 40%	13.2	13.7	12.1	15.7	17	14.1	15.5	16.4	14.9
Richest 20%	53.9	51.9	55.8	51.2	48.1	55.4	49.4	48.0	51.8
Bottom 50% / Highest 50%	0.23	0.25	0.21	0.28	0.31	0.24	0.28	0.3	0.26

Source: National Statistics Office. Family Income and Expenditure Survey 1997.

families and the number of people in poverty even increased between 1985 and 1997.

The distribution of incomes and assets in the country is very skewed. The income ratio of the bottom half and the richer half is 0.21, i.e., the richer 50 percent of families capture five times as much income as their poorer counterparts. Inequality is even more severe on a per decile comparison. Income of the richest decile is more than 23 times that of the poorest decile. Worse, distribution has remained stagnant since the mid-1980s. From 1985 to 1997, the income shares of the first seven deciles even decreased in favor of a 3.7 percentage point increase for the ninth and tenth deciles *(See Table 27).*

The GINI coefficient has not improved substantially either, traversing the narrow range of 0.45 and 0.49. The best improvements in the index were observed in the poorest regions of CAR, Region IX and Region XII from 1985 to 1997. Inequality worsened in Regions III and VI during the same period *(See Table 28).* While even the World Bank in its latest report on poverty in the Philippines said that the increase in inequality between 1994 and 1997 should not be mistaken for a trend, it is worth stressing that any fluctuation in inequality indicators is a justifiable cause for concern in a country where no major improvement in income distribution has taken place in the last two decades.

It took the country 16 years to recover the highest real per capita income it achieved in 1981. Real per capita GDP breached the US$1,000 line in 1997 to reach US$1,220. Unfortunately, even this achievement was short-lived. The financial crisis that started in 1997 reversed the country's economic performance, with GDP contracting by ½ percent in 1998. Before 1998, the country enjoyed modest growth for six years, a feat that was hailed all over especially coming from a downturn from 1990-92. The contraction that happened in 1997-98 therefore was the second the country experienced in less than a decade.

The crisis had the effect of reversing the gains in poverty reduction achieved between 1991 and 1997. According to the 1998 Annual Poverty Indicators Survey (APIS), price increases had been the most common impact cited by households, while 20.3 percent of households reported having lost jobs inside the country, and 17 percent experienced reduced wages. Families from the higher 60 percent income brackets experienced all three slightly more severely than the poorer 40 percent.

Beyond the income changes, however, the poorer 40 percent of families had to contend with deeper adjustments as a result of the crisis. More families from these income strata reported changes in their eating habits and increases in their working hours. They also reported a higher incidence of pulling their children out of school. Families from the lower 40 percent income bracket had more children (14%) aged 5-17 years old who were working, as against the richer 60 percent (8.2%). This percentage deteriorated further in the 1999 APIS where 20 percent of children aged 5-17 years old from the poorest 40 percent families were working. The explanation for this is straightforward: any income squeeze on households starting from already low incomes will have to be compensated by an intensification of work (by working even longer hours, increasing the total amount of work performed, and placing more members in the labor market) and deeper cuts in consumption. Unfortunately, government was ill-prepared in handling the crisis, with lack of safety nets mechanisms. Overall, the government was able to extend assistance to less than seven percent of families affected by the crisis in 1998.

Table 28
GINI Coefficients, 1985 to 1997

Region	1985	1988	1991	1994	1997
PHILIPPINES	0.4466	0.4466	0.468	0.4507	0.4872
NCR	0.4146	0.4258	0.4282	0.3967	0.4622
CAR		0.3741	0.4372	0.41	0.464
Region I	0.4011	0.3743	0.4039	0.3814	0.4257
Region II	0.3856	0.3962	0.4172	0.4056	0.413
Region III	0.3992	0.3861	0.4172	0.363	0.3638
Region IV	0.4058	0.408	0.4236	0.4016	0.4247
Region V	0.3798	0.3876	0.391	0.4116	0.4362
Region VI	0.4499	0.408	0.4031	0.4063	0.4412
Region VII	0.4537	0.4602	0.4604	0.4417	0.475
Region VIII	0.3904	0.4041	0.4149	0.4198	0.4457
Region IX	0.3947	0.4087	0.4057	0.3861	0.4684
Region X	0.4539	0.4424	0.438	0.4157	0.4944
Region XI	0.3932	0.4019	0.4348	0.4114	0.4495
Region XII	0.3709	0.3583	0.405	0.428	0.4491
ARMM			0.3197	0.3125	0.3406
CARAGA					0.4387

Gini Coefficient is a measure of income inequality, with values ranging from 0 (perfect equality) to 1 (perfect inequality).
Source: National Statistics Coordination Board. Philippine Poverty Statistics 2000.

CHAPTER 3
RESEARCH FRAMEWORK & METHODOLOGY

As discussed in Chapter 1.III.B, there were three main transmission mechanisms whereby households were affected by the crisis: (a) through unemployment and the consequent reduction in household income; (b) through higher consumer prices; and (c) through reduced government services.

Various studies have explored the social impact of the crisis in the Philippines. In February 1998, the World Bank (East Asia Pacific Regional Office) conducted a study assessing the socio-economic impact of the crisis with focus on wage and unemployment, credit market, and health and education. They found that the crisis had the following principal effects: (1) reduction in real incomes due to price increases; (2) higher unemployment and lower wages; (3) significant decrease in the government's budget allocation for health, education and other social sectors due to devaluation-related inflation and budget cuts; (4) greater difficulty in access to credit due to higher interest rates; and (5) greater vulnerability to disintegration of the social fabric.

Joseph Lim of the University of the Philippines School of Economics undertook another study in June 1998 under the auspices of the UNDP. Lim highlighted the drastic effects of the crisis in unemployment rates in urban and rural areas, for both males and females. Massive lay-off occurred in the urban and industrial areas. In the rural areas, a rising trend of unpaid family members engaging in agriculture and non-agriculture activities were observed. The study also showed increased participation by young women and men in the labor force and a significant increase in underemployment.

In June 1999, the ADB published its own study on the impact of the crisis. The ADB study conducted focus group discussions (FGDs) and household surveys that highlighted the social impact of the crisis. Some of the trends reported by the study were: (1) decrease in employment due to retrenchment; (2) adverse effects on families with respect to decline in health services and affordability of children's education; (3) significant changes in the lives of disadvantaged groups like the farming communities.

I. Focus on Employment

In addition to the macro analysis of the Asian crisis provided in part I, this study also hopes to contribute to the existing literature on the social impact of the Asian crisis. We intend to do this by further investigating the effects of the crisis on households, focusing on employment as transmission mechanism. Special attention will be given to vulnerable household members, particularly women and children.

At least two factors make the focus on employment as transmission mechanism logical. First, employment in the Philippines made significant adjustments in 1998. As discussed in Chapter 2.III.B, there was a dramatic increase in firms reporting closures and retrenchments. As a result, the number of workers permanently laid-off or retrenched more than doubled in number compared to 1997. We can safely assume that the difficulties faced by the reporting firms were experienced by a significant segment of non-reporting firms as well.

Second, the significant adjustments of employment in 1998 can be directly traced to the Asian crisis. The firms where closures and retrenchment took a dramatic leap cited economic factors as the reason for their action. Indeed, if we examine the economic adjustments that took place following the Asian crisis, it is clear that the production sector took the heaviest toll:

Firms faced a credit squeeze. At the onset of the crisis, firms faced a severe credit crunch. The supply of capital was heavily depleted by the flight of portfolio capital. The situation was worsened by the government's knee-jerk reaction of raising interest rates in an attempt to reverse the flow of capital. During the first quarter of 1998, domestic interest rates more than doubled, reaching a crippling 35 percent at one point. Compounding the credit situation was the fact that financial institutions suddenly turned conservative and became very selective in their lending.

Table 29
Change in Family Income (1997 and 1998)

Income Decile	1997 Family Income and Expenditures Survey	1998 Annual Poverty Indicator Survey	Percentage Change 1997-1998
PHILIPPINES	123,008	121,438	(1.28)
First Decile	20,659	14,644	(29.12)
Second Decile	33,064	26,852	(18.79)
Third Decile	42,611	36,689	(13.90)
Fourth Decile	53,101	47,211	(11.09)
Fifth Decile	66,291	60,176	(9.22)
Sixth Decile	83,224	76,641	(7.91)
Seventh Decile	106,919	100,170	(6.31)
Eight Decile	141,394	135,051	(4.49)
Ninth Decile	199,891	196,018	(1.94)
Tenth Decile	482,927	520,928	7.87

Source*: Reyes, et al. (1999).*

Many firms suffered losses from the peso devaluation. The firms that took advantage of the relatively cheaper foreign currency-denominated loans during the years of massive private capital inflow suffered losses when the peso depreciated sharply. The devaluation meant that these firms needed to earn more pesos to repay their dollar loans, badly missing their income and repayment projections in the process. Many firms defaulted on their debts as shown by the growth in the non-performing loans of banks. Many losing firms had to close shop or reduce operations.

Firms faced depressed consumption and most firms lost confidence in the economy. As discussed in Chapter 2.III.A, the impact of the crisis on consumption and investments manifested itself in 1998. Personal consumption slowed down, government consumption contracted, and capital formation suffered major reversals. The lack of business confidence in the economy has dragged on even when interest rates have already gone down considerably. Many firms still refuse to borrow and foot-drag on new investments and expansion. Thus, employment prospects remain bleak for the near term.

II. Household Adjustments

With the loss of employment comes losses in household income. Reyes (1999) notes significant drops in household income for households belonging to the first four income deciles (*See Table 29*). While the national average loss in household income in 1998 was only 1.3 percent, the poorest 10 percent of Filipino families lost as much as 29 percent of their income. Families in the second, third and fourth deciles suffered significant income reduction of 18.8 percent, 13.9 percent, and 11.1 percent respectively in 1998.

Each of the twin shocks of losing employment and income requires the household to make adjustments. The first broad category of adjustments refers to restoring lost employment to enable the household to recoup lost income. The retrenched worker can be expected to look for a new job, which entails significant search costs for the household. The search cost is naturally high at a time when the economy is depressed, often prompting the retrenched worker to settle for jobs of a quality lower than previous employment. Such lower quality jobs are characterized by less pay, low skills requirement, and lower labor standards. For instance, Reyes (1999) notes their observation in focus group discussions that workers had to settle for less working time is confirmed by the increase in underemployment rate from 19.4 percent in 1996 to 20.8 percent in 1997 and to 23.7 percent in 1998. Studies have also linked the crisis to the growth in employment in the informal sector, often characterized by lack of job security and poor labor standards.

Where the retrenched worker is unable to find a new job, or when the new job earns less than the previous employment, the household often resorts to increasing its supply of labor for paid activities. Other members of the family, significantly women and children, enter the labor market or increase their supply of labor for paid work.

The second broad category of household adjustments refers to mechanisms to cope with the drop in present income. Households changed their expenditure patterns to reflect the tighter budget constraint. Reyes, et al. (1999) note from their survey that households gave more priority to essential items such as food, education, health, transportation and housing, and reduced the percentage share of clothing and leisure. But even as essentials were given spending priority, expenditure cuts in the priority items were still made, thus reducing present and longer-term household quality of life.

In food consumption, changes included cuts in what were deemed non-essential food, shifts to cheaper food items, and greater reliance on home-prepared food. In education there was evidence of a lower growth in elementary school enrollment, a decline in enrollment in secondary schools, and of postponement of the enrollment of new entrants in the elementary and secondary levels. To cushion the consumption effects of the drop in income, many households resorted to borrowing and sale of assets (Reyes, et al. 1999).

III. Women and Children

Illo (1999) emphasizes that the impact of the crisis on households and individuals are likely to have a gender dimension reflecting the historical biases of the market against women. She points to gender-based biases of the market against women in notions of work and value as well as in the control of resources and producers' market. She observes that wage or paid work predominantly falls within the domain of men, while the production of goods and services directly consumed by households is predominantly assigned to women. Such production for direct household consumption predominantly assigned to women is not compensated and often regarded as "nonwork". In terms of resources and production, men are conventionally regarded as the primary producer, skewing resources and programs in favor of men.

Among the women-specific impact of the crisis are:

- The employment effects on women can be particularly harsh. Unemployment remains higher for women. There is also evidence that women were more willing to enter lower quality work than men. (Illo 1999)
- Women faced greater pressure to engage in compensated activities even as they remain primarily responsible for housework. The compensated activities are often in the informal economy – mostly service jobs such as petty trading and laundry. (Reyes 1999; Paunlagui 1999)
- Many women are forced to substitute their labor for goods and services that households previously used to purchase from the market. This is best exemplified in medical care. The increasing tariffs for private health facilities and the dearth of public health provision render households unable to access these services, thereby forcing women to take on the added responsibility of caring for sick household members. (Illo 1999; Reyes, et al. 1999)

- The responsibility of making expenditure adjustments fell on women. This responsibility can prove very stressful as it often involves making difficult decisions such as forcing children to drop out from school. (Paunlagui 1999; World Bank 1998)
- There is evidence of higher incidence of domestic violence against women resulting from household stress. (Paunlagui 1999; World Bank 1998)

The impact of the crisis can also be particularly harsh on children. While households generally try to protect children from the negative effects of the crisis, certain adjustments affecting children cannot be avoided. Effects on children include:

- Aside from having to drop out, postpone enrollment, or transfer from private to public school, children also face cuts in allowance for food, school supplies, and transportation. There have been observations of greater absenteeism, decline in interest in school, and drop in school performance among affected children. (Reyes, et al. 1999)
- Children have increased their supply of labor for both compensated and non-compensated work. Compensated work includes working as farm hands and as household helpers. There were even anecdotes of children being forced into prostitution. Helping out in small stores operated by the family, and doing household chores when the mother had to attend to informal economic activities, are unpaid. (Reyes, et al. 1999)
- Other adjustments that impact on children include changes in diet and reduction in health, clothing and leisure expenditures.
- Like women, children can also be targets of domestic violence.
- With heightened physical and time pressure on the adult members of the family, there is greater likelihood of neglect of children. This makes children more vulnerable to harmful influences such as drugs, alcohol, gambling, and petty crimes.

The impact on children is made more worrisome because of their long-term character. To the extent that education and nutrition status as well as value formation are affected, the crisis can severely undermine the future productivity, not to mention well-being, of children.

IV. Methodology

A firm survey and a household survey were conducted to investigate the effects of the crisis on households, focusing on employment as transmission mechanism.

The firm survey worked on a population listing of 1430 firms operating in the National Capital Region (NCR) that filed retrenchment notices, without closure, with the Department of Labor and Employment in 1998. These firms were categorized into the major industry groups, i.e., agriculture, industry, and services.

From the firm population, the research team targeted to cover a sample of 94 firms proportionally taken from the industry categories to yield statistically significant results with 10 percent sampling error.

The firm survey questions intended to surface insights into the following:

- The differential impact of the crisis on firms. The survey asked the firms to identify problems faced by the firms associated with the crisis, and to rate the gravity of these problems.
- The employment-related coping mechanisms adopted by the firm, such as retrenchment, job rotation, contractualization of labor, among others.
- Where retrenchment were resorted to, the factors considered in identifying whom to lay off. The survey inquired which among the factors such as gender, age, position and civil status of workers influenced the firm's decision in retrenchment selection, and the relative weights given by the firms to these factors.
- The firm's views on issues related to the crisis.

The household survey worked on a population consisting of the households of 50,058 NCR workers who were reported in DOLE to have been either permanently or temporarily retrenched in 1998. The research team targeted to track down 94 households of retrenched workers, again to yield statistically significant results with a 10 percent sampling error.

The household survey questions intended to surface insights into the following:

- Conditions of retrenchment, including the worker's pre-retrenchment employment status, retrenchment notice, separation benefits, and whether the retrenched worker was re-hired.
- The employment status of the head of the household after retrenchment.
- The employment status of other members of the household after retrenchment.
- The impact of the retrenchment on household income.
- Household adjustments in response to the crisis in terms of finding new work, changes in household consumption and expenditures, and coping mechanisms adopted.
- Impact on the well-being of women and children.
- General perceptions on issues related to the crisis.

The survey team sent the survey questionnaire to 150 firms and identified 225 retrenched workers for tracking in the hope of meeting the survey target of 94 firms and 94 households. Unfortunately the target sample was not realized. Of the 150 firms contacted 39 firms responded and returned the survey questionnaires. Of the households of retrenched workers picked for interview, 48 households were interviewed, 25 households refused to be interviewed, 42 transferred residence, and the rest were not located. Most of those who transferred went back to their provinces or moved in with relatives in Metro Manila. Majority of those that were not found were bed spacers or renters.

Since the target sample of firms and households were not met, the results cannot be projected to the population (firms that resorted to retrenchment in 1998, and workers that were retrenched in 1998). Instead the results should be seen as a case study for the National Capital Region.

CHAPTER 4

SURVEY RESULTS & FINDINGS

I. Survey Sample Profile

A. Firms

The survey sample comprised a mix of 39 firms that were affected by the crisis based on the notices of retrenchment they filed with the Department of Labor and Employment. The sample covered the major sectors of agriculture (1 firm), industry (22 firms) and services (15 firms). The firms that belonged to the industrial sector were in the manufacturing, construction, mining and quarrying, and electricity, gas and water sub-sectors. Those in services were in wholesale and retail trade, finance, insurance, transportation, storage and communication, and other services (entertainment, etc.).

Fifteen firms (38.5%) were single core businesses, nine (23.1%) were parts of groups of two or more related business, and nine (23.1%) were parts of diversified conglomerates. Three (7.7%) were subsidiaries of foreign firms. Twenty-one (53.8%) of the sample firms were established before 1986, while 11 (28.2%) were established in or after 1986 *(See Table 30).*

Less than a third of the firms had operations outside Metro Manila, particularly in Davao and Cebu. Eight firms had operations abroad.

Majority of the firms (22, 56.4%) were big businesses employing more than 100 workers. Fifteen (38.5%) were mid-sized firms with more than 20 but less than 100 workers, and only one had less than 20 workers.

On average, the sample firms employed more male workers. Three in five firms reported that men comprised more than 50 percent of their workforce, while two in five said that women comprised less than 25 percent of their workforce.

In terms of average age of employees, the firms did not exhibit significant differences between male and female employees. The same is true for the average age of the youngest workers. The average age of the youngest male worker is 21.97 years, with a range of nine years (18/27). The youngest female workers had an average age of 22.54 years, with a range of 18 years (18/36). But more firms retained older male workers (69.2%) than female (33.3%). The average age of the oldest male worker is 54.91 years, with a range of 37 years (35/72). The oldest female employees meanwhile had an average age of 49.14 years, with a narrower range of 32 years (33/65).

B. Households

The household survey involved visits to the households of 48 retrenched workers. Thirty-two (67%) of the sample workers were male, and 16 (33%) were female. Female retrenched workers were younger (32 years old) than the males (36 years old). Average household size was 5.6 members for households of male retrenched workers, and 4.8 members for the female. More than 85 percent of the sample were married, living-in, widowed or separated, and all but one had children *(See Table 31).*

Most of the workers lived in the cities of Quezon and Manila, and around the known industrial zones in the Caloocan/Valenzuela, Pasig/Cainta, Pateros/Malabon/Navotas and Paranaque areas. The rest lived in the Pasay/Makati areas.

Three in five of the sample workers were at least high school graduates, more than half of whom obtained a college degree. Eighty-eight percent, or 14 out of 16 women from the sample were at least high school graduates, compared to 47 percent, or 15 out of 32, for the men. Moreover, more of the female sample obtained college degrees (10 or 62.5% for the women and 5 or 15.6% for the men).

Majority of the sample workers held skilled jobs (54.1%) prior to retrenchment, and were directly involved in production (56.2%). A bigger proportion of the female sample was employed in skilled occupations, and directly involved in production, than their male counterparts. Next to production work, a significant proportion of the male sample held maintenance/security jobs before they were laid off. The second most significant job category for the female sample was administrative work *(See Table 32).*

Table 30
Summary Profile of Sample Firms

Characteristic	Number	Percent
Industry Classsification		
Agriculture	1	2.5%
Industry	22	56.4%
Services	15	38.4%
Not Reported	1	2.5%
Type of Firm		
Single Core Business	15	38.4%
Group of two or more related business	9	23.1%
Diversified Conglomerate	9	23.1%
Subsidiary of Foreign Firm	3	7.7%
Not Reported	3	7.7%
Year Established		
1916 – 1935	2	5.1%
1936 – 1955	2	5.1%
1956 – 1975	6	15.4%
1976 – 1985	11	28.2%
1986 – 1995	9	23.1%
1996 onwards	2	5.1%
Not Reported	7	17.9%
Areas of Operation		
International	8	20.5%
Domestic		
National Capital Region	39	100.0%
Outside NCR	12	30.8%
Metro Cebu	10	25.6%
Metro Davao	11	68.8%
Size of Workforce		
Less than 20 workers	1	2.5%
20 –49 workers	5	12.8%
50 – 100 workers	10	25.6%
101 workers and above	22	56.4%
Not Reported	1	2.5%
Size of Retrenchment in 1998		
Less than 20 workers	30	76.9%
20 –49 workers	5	12.8%
50 – 100 workers	1	2.5%
101 workers and above	2	5.1%
Not Reported	1	2.5%

Table 31
Summary Profile of Sample Retrenched Workers

Characteristics	*Male*		*Female*		*Total*	
	No.	*%*	*No.*	*%*	*No.*	*%*
Sample Size	32	66.70%	16	33.30%	48	100%
Average Age	35.8		32		34.4	
Average Household Size	5.6		4.8			
With children						5.7
Without children						4
Marital Status						
Married	26	81.30%	13	81.30%	39	81.20%
With children	26	100.00%	13	100.00%	39	
Separated	1	3.10%			1	2.10%
Common-Law	1	3.10%			1	2.10%
With children	1	100.00%				
Widowed			1	6.20%	1	2.10%
With children			1	100.00%		
Single	4	12.50%	2	12.50%	6	12.50%
Location of Residence						
Quezon City	6	18.70%	5	31.20%	11	22.90%
Manila City	9	28.10%	5	31.20%	14	29.10%
Pateros/Malabon/Navotas	2	6.20%	2	12.50%	4	8.30%
Caloocan/Valenzuela	6	18.70%	1	6.20%	7	14.50%
Pasay/Makati	2	6.20%	1	6.20%	3	6.20%
Pasig/Cainta	3	9.30%	1	6.20%	4	8.30%
Paranaque	2	6.20%			2	4.10%
Not Reported	2	6.20%	1	6.20%	3	6.20%

II. Impact on Firms

A. Immediate Effects

The firms were asked to identify the crisis-related experiences that they encountered in 1998. The most common experiences reported by the firms were:

(1) peso devaluation (84.6%);
(2) weaker demand for products (79.5%);
(3) higher cost of doing business (76.9%);
(4) higher interest rates (76.9%);
(5) lack of capital (74.4%);
(6) higher import costs (64.1%);
(7) lack of available credit (60%);
(8) lack of raw materials (46.2%); and,
(9) competition from imported products (41%).

Asked which experiences were encountered most often during the crisis, the respondents identified the following:

(1) higher interest rates (56.4%);
(2) higher cost of doing business (48.7%);
(3) peso devaluation (48.7%);
(4) higher import costs (41%);
(5) weaker demand for products (35.9%); and,
(6) lack of capital (35.9%).

B. Higher cost of doing business, lack of capital, weaker demand

This triple whammy summarizes the inter-related experiences that confronted firms immediately after the onset of the crisis. Firms faced drastic increases in their cost of doing business brought about by the devaluation of the peso and the sharp rise in interest rates. The devaluation made the price of imported inputs much more expensive. It also increased the peso equivalent of the debt service schedule of loans denominated in foreign currency.

Table 32
Educational and Work Profile of Sample Retrenched Workers

Characteristics	Male No.	Male %	Female No.	Female %	Total No.	Total %
Educational Attainment						
Some Elementary	3	9.3%			3	6.2%
Elementary	2	6.2%	1	6.2%	3	6.2%
Some High School	4	12.5%			4	8.3%
High School	6	18.9%	2	12.5%	8	16.7%
Some College	4	12.5%	2	12.5%	6	12.5%
College	5	15.6%	10	62.5%	15	31.2%
Vocational	1	3.1%	1	6.2%	2	4.1%
Not Reported	7	21.8%			7	14.5%
Industry Sector Employed In Before retrenchment						
Industry	18	56.3%	6	37.5%	24	50.0%
Services	14	43.7%	10	62.5%	24	50.0%
Level of Skill Required in Job Prior to Retrenchment						
Unskilled	4	12.5%			4	8.3%
Semi-Skilled	7	21.8%	3	18.7%	10	20.8%
Skilled	14	43.7%	12	75.0%	26	54.1%
Not Reported	7	21.8%	1	6.2%	8	16.7%
Type of Work Held Prior to Retrenchment						
Maintenance/Security	8	25.0%			8	16.7%
Administrative			3	18.7%	3	6.2%
Production	16	50.0%	11	68.7%	27	56.2%
Supervisory	1	3.1%	1	6.2%	2	4.1%
Not Reported	7	21.8%	1	6.2%	8	16.7%

The sharp rise in interest rates, for its part, made the carrying cost of the domestic debt of firms heavier. Local indebtedness of firms generally carry variable interest rates.

It was not surprising that lack of capital would also figure prominently among the crisis-related experience of the firms. The high interest rates made capitalization very expensive. The interest rates became particularly high for firms that did not enjoy preferred status among banks. Alternative sources of capital also dried up. Capitalists cut down on new investments. Initial public offerings (IPOs), a mechanism for capital mobilization that became in vogue during the growth period, lost their viability.

Finally, the slump in consumer demand set in. The drop in consumption started to register in 1998 and severely constrained firm output. While the devaluation would have given import-competing firms a price advantage, the substitution effect was not dramatic. Only two in five firms reported having experienced competition from imports in 1998, even fewer (one in five firms) reported that it was experienced often.

C. Cutting production

The survey revealed that the most common experience among firms in response to the crisis was reorganization and/or downsizing (82.1%). A significant number of firms also reduced the utilization of their productive capacity. Two in five firms reported to have reduced utilization of capacity.

III. Employment Effects

A. Retrenchment; work reduction; salary freeze

The adjustment in firm size and scale of operation directly affected employment in the firms. Reorganization, and especially downsizing, is very closely related to retrenchments reported by the firms. All firms in the sample had previous retrenchment experience; in fact many of them retrenched workers regularly in the course of business. A little over a third of the firms even claimed that the retrenchments in 1998 were not "*out of the ordinary*". Still, when asked about primary survival strategies used to adapt to the crisis, eight out of ten firms reported having resorted to retrenchment.

On top of retrenchments, firms undertook employment-related "*cost-cutting measures*." These included:

(1) freezing of salary increases (64.1%);
(2) hiring workers on a contractual basis (61.5%);
(3) enforcement of job rotation (48.7%);
(4) reduction of workdays/work hours (38.5%); and,
(5) enforcement of forced vacations (30.8%).

Only one in three firms admitted that "*layoffs are a first resort in times of crisis*". However, it was apparent that the sample firms in consideration did retrench workers in 1998 due to the crisis, even if that was not the first response they considered.

When asked to rank the significance of factors considered in the retrenchment of workers, the firms reported that the type of work and the skill of employees were the most important. It also appeared that educational attainment was only somewhat important, and age, sex, and civil status were even less so. Union membership appeared to have not been an issue at all. However, when asked to categorize the workers they retrenched in 1998, the proportion of workers that belonged to certain categories imply that age, sex, civil status, and union membership, were in fact material.

B. Greater protection for union members

While reported as an insignificant factor, union membership afforded relative protection to workers. Twenty-three firms (59% of sample, 72% of those reporting) claimed that the majority of the workers they retrenched did not belong to any union.

Union protection for labor comes in various forms. Unions are able to increase awareness among union members of their labor rights. They are able to provide members with legal assistance in cases of unfair labor practices committed by employers. Organized labor are also capable of securing collective bargaining agreements that provide greater job security and better terms for workers.

C. Discrimination

Retrenched workers tended to be the younger workers belonging to the 22-35 years age group. Although three in five firms would disagree that "*single employees are retained rather than married employees*", results showed that 64.1 percent of the firms reported that most of the workers they retrenched were married with dependents.

A significant number of firms reported that majority of the workers they retrenched were males (74.4%). But on average, the women had better education than the men. As already mentioned, 88 percent, or 14 out of 16 women from the sample were at least high school graduates, compared to only 47 percent, or 15 out of 32, for the men. Moreover, more of the female sample obtained college degrees (10 or 62.5% for the women and 5 or 15.6% for the men).

The differential effect on men and women employees suggests certain gender-based employment practices of firms. It appears that there are greater requirements of education and skill for women to be hired, even as they are more likely to be laid off under a retrenchment program.

D. Violation of labor rights and standards

Indicative of the forthrightness of the firms surveyed, some admitted to having resorted to schemes that were generally frowned upon and/or prohibited by law. Four firms said they implemented longer working hours without additional pay, and employed workers below minimum wage, particularly women workers. Three of these firms also admitted to have employed child labor, or children below 15 years old. These firms belonged to the manufacturing, wholesale/retail trade, electricity/gas/water, and transport/storage/communication sub-sectors. They were relatively big, two firms having between 50 and 100 employees, one with less than 50 employees, and one with more than 100 employees. Two of the firms also had operations in Cebu and Davao.

Although a legal requirement, some firms did not give adequate warnings when they laid off workers. Almost 30 percent of the workers reported having been retrenched less than a month after they were notified. This confirmed results from the firm survey that indicated that as many as one in eight firms violate the mandatory one-month retrenchment notice.

Seventy-seven percent of the firms claimed they gave separation pay to the retrenched workers, while 31 percent said they also provided bonuses and gratuity pay. Sixty percent of the sample retrenched workers reported having received separation pay, and 19 percent received separation bonuses.

Less than one-third of the firms said it was their practice to rehire retrenched workers. The same number claimed that they rehire workers only after a period of not less than six months. This response is significant insofar as the first line of workers that are retrenched are often those who have yet to attain regular employment status. They are then replaced by workers whose services are again terminated before a period of six months to avoid their graduation to regular employment status and their enjoyment of legislated benefits. This practice is commonly referred to as the "casualization" of labor.

IV. Impact on Households

A. Income loss

The most immediate impact of retrenchment on households is income loss. While some workers found new jobs immediately after retrenchment, they represent but a small percentage of the sample.

An overwhelming majority (75%) reported a fall in income in 1998. Most (85%) of the households reported the layoff/retrenchment of the primary income earners, and a small number (14%) reported the reduction in the number of earning members, as the main reason for the decline in income.

The survey demonstrated that the additionality of women's income was significant. Ninety-four percent of households of retrenched women workers reported a fall in income, while a smaller but still significant percentage (65%) of households of male retrenched workers reported a fall in income. The households of women retrenched workers also suffered greater income losses on average than did households of male retrenched workers. This was best shown with the finding that less households of male retrenched workers reported having reduced meal allocations overall than did households of female retrenched workers.

This differential impact is explained by the fact that more of the male workers who were retrenched found jobs immediately, and that there were varied choices for fallback jobs. While the same percentages of the sample male and female workers were re-hired by their old firms (one in eight workers), mostly to their old jobs, a smaller percentage of women not re-hired by their old firms found new jobs. Those re-hired waited for an average of 2.8 months before their old firms took them in again. Of those not re-hired, more men (53.1%) found new jobs than women (43.8%), but women found them faster (1.9 months) than did the men (3.4 months) *(See Table 33)*.

Retrenched women workers who found new jobs got them quicker than the men because of their willingness to accept a lower job level than previous

Table 33
Employment Status of Sample Workers

	Male No.	Male %	Female No.	Female %	Total No.	Total %
Number of Months Worker Was Gainfully Employed in 1998 (average)	5.8		5.9		5.85	
Retrenchment Status						
Permanent	23	71.8%	11	68.7%	34	70.8%
Temporary	6	18.7%	4	25.0%	10	20.8%
Others	3	9.3%	1	6.2%	4	8.3%
Workers Re-hired by Old Firm						
Number of Workers	4	12.5%	2	12.5%	6	12.5%
Length of Time Lapsed Before Being Re-hired (average, months)					2.8	
Workers Who Found New Jobs						
Number of Workers	17	53.1%	7	43.8%	24	50.0%
Length of Time Lapsed Before Being Re-hired (average, months)	3.4		1.9		3.0	
Workers Still Unemployed at Time of Survey (Sept-Oct. 99)						
Number of Workers	11	34.4%	7	43.8%	18	37.5%
Length of Time Unemployed Since Retrenchment (average, months))	13.5		15		14.1	

employment, and by the higher level of skills they had relative to their male counterparts. Still, both the men and women workers had to face demotion in their new jobs. While a majority (58%) landed in jobs that required the same skill, three in five accepted jobs that required lower skills and therefore paid lower wages.

Further, the findings reveal that it was almost immediate that female household members looked for jobs or tried to augment household income by informal means (vending, etc.) when the primary male income earners were retrenched. This ensured that the income decline experienced by the households was not as steep. If the females already worked, they still took on some more to make up for lost income. The reverse is not true. Overall, almost half (22, 46%) of the total households reported that women members had to take on other income-generating activities as a response to their or their husbands' layoff from work.

B. Prolonged Unemployment

Eighteen workers (37.5%) were still unemployed at the time of the survey, or an average of 14.1 months since they were retrenched. Most of those still unemployed were males (11, 61.1%), but the still unemployed women represented a bigger percentage of the female sample (43.8%) compared to the male (34.4%). They had also been out of work for longer than their male counterparts. The still unemployed women had been jobless for an average of 15 months, while the men were out of work for an average of 13.5 months *(See Table 33)*.

Households suffered more when unemployment was prolonged. More than the income losses that the households experienced, prolonged unemployment posed grave impact on the household's consumption and investment pattern which translated directly to decreased well-being. The impact becomes even more pronounced when other household characteristics of the still unemployed workers are considered. They had the biggest average household size and reported the lowest mean gross household income both before and after retrenchment. Their household income fell by as much as 100 percent, indicating that they lost almost all of the monetary income earned from formal employment. Further, it meant the loss of the only regular source of money income.

C. Dependent households also suffered

The survey revealed another impact of the crisis not commonly cited in other studies. The households of some retrenched workers provided financial assistance to other households. In particular, one in four households (27%) remitted a small part (an average of 15%, the highest reported being 21-30%) of their income to relatives in the provinces, and 10% sent financial support to relatives within Metro Manila. These remittances were expectedly temporarily cut upon retrenchment.

D. Adjustments in household expenditures

The results showed that basic household necessities like food were generally protected. Almost all households maintained three full meals daily. But while mealtimes in many households including snacks had been maintained, the biggest changes happened in the types of food being served. Forty percent of the sample reported cuts in their food budgets, indicating the use of cheaper food substitutes or lower quality food.

Box 1:

Coping With Prolonged Unemployment

More Than Just A Blow To The Ego

It cannot be denied that Filipinos have a certain brand of machismo. Men are expected to provide for the family while women play a supporting role. It is a big blow to a man's ego if his wife earns more than he does. Worse still if the man is unemployed while the woman acts as the breadwinner.

Nothing makes people accept their situation better than necessity. Cris is a 49 year old former machine operator for a wires and cable manufacturing firm. He is married with three young children. In June 1998, Cris joined the ballooning unemployed when management decided to close the department he was assigned in. Cris has not been lucky in his search for a new job. Wife Nimfa has been the sole income earner for more than a year.

Mang Danny worked for nine years in a publishing company before he was laid off fourteen months ago. The retrenchment, he said, was a big surprise, having received no notice at all from his employer. Worse, his separation pay has not been given to him in full. More than a year since his layoff, *Mang* Danny still awaits the remaining installments on his separation pay. To help defray everyday expenses, *Aling* Ester (his wife) opened a small food stall in front of their house.

Cris and *Mang* Danny now both stay at home to take care of the house and look after the young kids, tasks totally alien to them when they were still holding formal jobs.

Both Cris and *Mang* Danny have medium sized households, each having three children. The wives' earnings are not enough for their daily needs.

For *Mang* Danny, it helps that his children are all grown up. His eldest is already gainfully employed and contributes to the upkeep of the household. Another child would have graduated in March 2000.

It is a different story for Cris. All his kids are still young and totally dependent on them. One thing going for him is that they live with his parents, which saves them from paying apartment rentals. The household also takes advantage of the free social services provided by the local government (they live in Makati City), including hospitalization and medical services Nimfa received when she gave birth to their youngest child via a caesarian section.

Both households resort to borrowing from relatives and the office, and to pawning of pieces of jewelry to augment the household income. Both wives also work longer hours since their husbands' retrenchment. *Aling* Ester, gets up at four o'clock in the morning, while Nimfa has to do more overtime work.

Both Men admit that the change of pace has been rather abrupt for them. Cris in particular would feel a little sad when his children ask when he would get another job. They say they miss the *pasalubong* he used to bring home from work. Both men long for the time they can have a little extra cash so they can take their spouses out to dinner or to the movies.

Table 34
Adjustments in Expenditures for Non-School Age Children
n=26

Changes	Number	Percent
Withdraw children from child care/ nursery/play school	2	7.6%
Discontinue purchase of diapers	10	38.4%
Discontinue purchase of milk	7	26.9%
Discontinue medicines/visits to doctor	7	26.9%

Lower quality food almost always meant more carbohydrates and less proteins, or cheaper protein substitutes like cheaper fish for meat, or protein-rich vegetables like *mongo*. These substitutes, while not necessarily inferior in nutritive value, were considered less appetizing by the younger household members, which had implications on well being. Other substitutes included canned fish versus fresh produce.

Households cut down on non-essentials more vigorously. Two in three households cut budgets for adult clothing, while two in five cut expenses on children's clothing. More than half of the households said they cut budgets for snacks, dining out, leisure activities, transportation, and even medical expenses.

For households with non-school age children (children up to six years of age), the cutback in expenditures is more alarming because of the items for which budgets were cut. More than one in four households with non-school age children reported having discontinued purchases of infant formula, while the same number discontinued visits to health facilities or purchase of vitamin supplements in 1998 *(See Table 34)*.

E. Borrowing, selling property, availing themselves of government assistance, and doing more work in order to cope with income loss

The most immediate coping mechanism tapped by households is borrowing. A little over half (52%) of the households reported having borrowed money. The most popular credit sources were relatives and friends (42%) and local moneylenders (10%). Only one household approached formal credit institutions (pawnshop and bank).

Other households resorted to the sale of assets. One in five households reported having sold personal property like household appliances and pieces of jewelry. Three in five households reported having foregone planned purchases due to retrenchment. They cited price increases and change in priorities as part of the reason.

These household revenue adjustments were made to keep the reduction in consumption of necessities to a minimum. However, with borrowing, the protection afforded to current consumption is weighed down by the household stress resulting from the claims on future income. The stress is particularly acute given the high uncertainty of finding new work.

Awareness of government safety nets was high, especially those administered through the Social Security System (over 80%). More than 50 percent were aware of the relaxation of penalties on housing, salary, educational and calamity loans. However, availment of the packages was low. Thirty-one percent of households applied for the relaxed salary loan package, and 25 percent availed themselves of the employees compensation emergency loan program for laid off members. It should be noted that this high awareness is due to the fact that they were employed. Many of these safety nets were advertised by the Social Security System and the Department of Labor and Employment, and also implemented by them. Workers were also eager to know about the benefits and social security insurance they qualified for *(See Table 35)*.

Eventual retrenchment partially explains the low availment by the respondents. They were laid off from work even before they were able to take advantage of the packages (e.g. relaxed salary loans). Transaction costs related to transportation and food while doing legwork were cited for not having availed themselves of the benefits specifically designed for retrenched workers. Since they were no longer

Table 35
Awareness and Use of Government-Provided Safety Nets
n=48

	Awareness No.	Awareness %	Availment No.	Availment %
Enhanced Retail Access for the Poor (ERAP) Sari sari Stores	41	85.4	17	35.4
Rice Subsidy Program (RSP)	22	45.8	7	14.6
Free food services	12	25.0	4	8.3
Other subsidized food services	5	10.4	1	2.1
DSWD-Comprehensive & Integrated Delivery of Social Services	10	20.8	1	2.1
Relaxation of qualifying conditions for salary loan (SSS)	39	81.3	15	13.3
Employee's Compensation Emergency Loan Program for separated members	40	83.3	12	25.0
Condonation of penalties for housing loan delinquencies	27	56.3	2	4.2
Condonation of penalties for salary, education & calamity (SSS)	28	58.3	9	18.8
Phil JobNet	5	10.4	0	0
Financial Assistance DSWD	15	13.3	2	4.2
Free vaccination	34	72.9	27	56.3
Employed in public works projects	6	12.5	0	0

connected with the SSS member firms, the retrenched workers had to personally process their own claims.

Other than these, though, the sample households reported no significant awareness nor availment of other types of safety nets, for instance, services provided by the Department of Social Welfare and Development at the *barangay* level.

With less income, other members of the households were compelled to contribute either by looking for jobs outside the home, or by initiating income-generating activities. Most of those who were willing to do this were women, and even children.

F. Greater stress borne by women and children

The most significant findings of the study were with respect to family relations and household stress. Drastic declines in incomes translated into less incentive for children to study, and additional stress on female household members.

Only one in five households that experienced income losses made up for it through the reduction of their children's meals, cutting of the children's transportation allowance, and cutting down on school related expenses (school supplies, special school activities and uniforms). Still, the study found significant correlation between the reduction on child-specific expenses on food, transportation and education, and the child's interest in studies and overall health status (weakening, weight loss). Particularly disturbing for the school children was the inability to join special school or class activities like field trips. Another substantial stress factor came with the change in diet (related to reduced household food budgets).

Seven of ten households that experienced income decline reported significant stress factors, both perceived and noticeable, for female household members. Almost half (46%) of the households reported that female members were compelled to take on more household work, as well as think up income-generating activities. This meant a great reduction in already low leisure time (one in four households), deteriorating relationship with the children (one in four households), and more frequent conflicts between spouses (one in eight households).

Women were particularly affected by additional stress. Households of female retrenched workers reported less rosy figures on leisure time, stress factors, relationship with the children and the spouse, and optimism about the household condition, than

Table 36
Major Changes Experienced By Women Household Members

Changes	Frequency	Percent
Increase in household chores	16	33.0%
Pressure to stretch household budget	10	21.0%
Engaged in other income-generating activity	22	46.0%

did households of male retrenched workers *(See Table 36)*.

An added burden is the perceived change in the relationship between parents (especially mothers) and children. Parents reported being less patient with kids, noting that this brought some guilt. This change, however, seemed to have not mattered to the children much. All the child household members interviewed said there were no significant changes in parents-children relations, though they would complain of small cutbacks in school allowances.

For the sample households in consideration, children dropping out of school was not a common experience. Less than 10 percent of households reported having asked the children to drop out of school. The children were between 10 and 17 years old, and were in the elementary and secondary schools. Most of them were male children. One in three children who dropped out of school were compelled to look for jobs outside of the home. Being thus young, they entered precarious occupations like scavenging, and collecting *jueteng*[1] bets.

Work was also a recourse for children who stayed in school. With decreased household income, other children were encouraged to work outside of the home to augment their school allowance money, even if they were not forced to drop out of school. Working children shared their income with the household. The fact that some children started working during the crisis period, while studying at the same time, partly explains the positive correlation established between decreased household spending for child-specific expenditures and noticeable decline in children's interest in studies and overall physical well being.

[1] Jueteng *is a local numbers game.*

Box 2:

Eking Out a Living

Kids Do Their Share

At five o'clock in the morning, *Aling* Carmelita rouses her sons, Jerico, 9, Jefferson, 11, and Mark, 12, from sleep. The kids then run to a nearby bread shop to get their supplies of *pandesal* to sell in the neighborhood. By six, the three boys run back to the bread shop, remit their sales and return the unsold bread. In return, they get a few pieces of the unsold bread for breakfast. After school at two in the afternoon, the three boys go back to the bakery and peddle bread until half past three. On top of the free *pandesal*, the boys each get ten pesos (25 US cents) as earnings for the day.

This has been routine for the three boys since October 1998, when their father Enrico was laid off from his job as a forklift operator. *Mang* Enrico has since been working as an irregular part-time driver. Though thankful for the job, *Mang* Enrico laments that his income has been greatly reduced and his social security contributions have been stopped.

Aling Carmelita for her part contributes by selling rice cakes. Everyday she wakes up at three in the morning to prepare the rice cakes which she sells until seven o'clock. This job she rehashes in the late afternoon. Working on a 100 peso capital she borrows from a relative, she nets between 50 and 70 pesos daily.

According to *Aling* Carmelita, the family does not need much. They usually use up two kilos of rice everyday, but spend low on viands. They buy meat only twice a month. The kids, she says, are not picky about food and eat anything that she prepares, even if it is just boiled camote tops or *malunggay* leaves. They do not dine out. The only time the family dined out was in October 1998 when they went to a popular fastfood outlet after *Mang* Enrico received his separation pay.

She says that she does not compel her three older sons to sell bread, but that she can see how glad the boys are when they get their earnings. The boys are not the only ones who help in the household. There are two younger sons, ages 1 and 3, whom the only daughter, age 5, babysits when *Aling* Carmelita is out of the house or busy with other chores.

Aling Carmelita seems happy enough at how her family is faring. It matters little to her that she is not able to watch movies or buy new clothes for herself. Her only regret is not being able to provide fully for her children's needs. She feels sorry that one of her sons missed a school field trip because they did not have the money to pay the dues. And at the time of the interview, her house did not have electricity, forcing her sons to watch television in their neighbor's house.

V. Household Adjustment: Implications for Household Reproduction and Child Welfare

When households face fluctuations in income, they make revenue adjustments to keep the reduction in consumption of necessities to a minimum. These revenue adjustments include increasing the amount of paid work done by members, making more members work, contracting debts, and liquidating assets. Often these revenue-enhancing adjustments are accompanied with expenditure-minimizing strategies. Shifting to lower quality food, cutbacks in the intake of food, and movement from market to non-market consumption (e.g. mothers tend to sick children instead of visiting the doctor, doing household repair and maintenance, and substituting house-produced food for food normally bought from outside) are examples of such strategies. The net effect of both types of adjustment is to increase the disposable income available to the household.

But what may seem like a rational household response to loss of income has far- reaching implications, especially for its younger members. And if the crisis is prolonged, as in the case of prolonged unemployment, the impact may be devastating.

A. Reproducing the cycle of poverty

Children as the "poor man's asset" is a concept widely recognized in Filipino households. But beyond this recognition, there is need also to emphasize the "important link between poverty in one generation and unequal opportunities in the next generation."

Parents in insecure jobs, or parents with no work, will have no means to finance their children's "acquisition of qualifications and experience" (Atkinson, undated). Without such investment, the reproduction of poverty and poor opportunities is certain.

Qualifications needed are not limited to education, but also include physical well-being. The shift to lower quality food and the reduction in the amount of food intake, adjustments common during the crisis, affect younger household members more than the old.

B. Informal work dependent on regular income

As a response to dwindling incomes, households undergo work intensification, or the process of placing more members in the labor market and increasing the total amount of work performed by members (dela Rocha, 2000).

Two things are important to note here. First, the retrenchment of a household member from paid formal employment will either prompt that member to look for paid work in the informal sector (if he/she is unable to find another job in the formal sector), or drive other members to do informal work (if the retrenched primary income-earner finds a lower-paying job, or does not find another job at all).

Children dropping out of school to work in response to the unemployment of one or both parents is a form of work intensification. The manifestation of the crisis in the Philippines showed less in the dropout rates compared to other countries hit by the crisis. Still, children did join the informal sector *to stay in school*, i.e. to pay for school allowance and transportation money, and to pay for certain school-related expenses.

A UNDP study of household responses to lack of employment in 15 countries argues that "although children's work has been mobilized as a response to declining incomes, it is not clear whether or not it enhances household well being" but the "consequences for children can be devastating: imperiling their health and curtailing their educational opportunities" (dela Rocha, 2000).

The impact of having less time for children, or leaving children on their own while the mothers and/or older responsible siblings attend to income-generating activities cannot be underestimated.

The second aspect of informal work in relation to formal work pertains to the need for regular income from formal work to sustain informal income-generating activities, especially for very poor households. This concept was first advanced by dela Rocha (1999) in her study of the Mexican urban poor households in persistent poverty. According to her "people without regular income face enormous difficulties at carrying out self-provisioning activities". These are dependent on regular wages coming from the labor market. Households need money to invest in self-provisioning activities and household petty production. Hence, prolonged unemployment and continued job insecurity erode the household's capacity to do informal work.

And finally, even assuming that informal economic activities may be sustained in the absence of regular income from formal employment, it remains a valid fact that income from informal employment is highest when there is more formal income that goes around. That is, the informal sector derives most of its income from the formally employed.

C. Costs of maintaining support systems: reciprocity, responsibility

Support networks like circles of friends and family also imply costs. The network of support for the poor is based on mutual help, on reciprocity. Neighbors are able to borrow from each other as long as they honor the responsibility of paying back. If such arrangement is not maintained, the social network collapses. Hence, access to regular paid employment is crucial in the reproduction of support networks. Unemployment therefore also leads to other forms of social exclusion, because "the unemployed poor have less ability to engage in social relations" (de la Rocha 1999).

Children's place in the social support network though less obvious is quite significant. Asking for petty loans, either in cash or in kind, is usually done through them. Children are made to take the trip to the nearest *sari-sari* store to get food supplies on credit. The children are actually being used as shield by the parents, and are often at the receiving end of sharp words from the creditors. It is clear what the potential impact of this practice on children can be. Children are exposed to experience shame, verbal abuse and quite possibly guilt (if the loan-asking exercise fails). Chances for the negative experience are bid up if the support system is not well maintained, e.g. if the parents are not debtors of good standing.

D. Social exclusion

The concept of social exclusion was developed by labor advocates to express the wider impacts of unemployment. When people are not adequately integrated into society they experience what is called "exclusion". Exclusion happens when there is poverty but is not confined to it. Being denied access to social exchanges is also a form of exclusion. For instance, people with AIDS who are discriminated against suffer from exclusion. So do unemployed people who lack physical activity, time structure, and security that compound the diminution of self-worth.

Social exclusion has to be seen in the context of family and household. The concern is not just the individual who is out of work, but also the household in which he/she lives. It is not just a job that prevents social exclusion, but also the acceptability of conditions and prospects in the job. Social exclusion in consumption happens when pricing policies prevent households from consuming a certain good (e.g. utilities) (Atkinson, undated).

Hence, households that have to contend with long bouts of unemployment, or face insecure job prospects, may experience social exclusion. The impact of exclusion on children can be severe. If the precarious condition of the household is not reversed, the children's well-being is endangered and their future prospects are dimmed.

CHAPTER 5
CONCLUSIONS & RECOMMENDATIONS

The financial crisis has brought to the fore serious questions on the high-growth development strategy espoused by the past two administrations, as well as the current one. In the first place, the Philippines merely benefited from the otherwise impressive performance of its neighbors. Even in the growth rally of East and Southeast Asia during the 1980s and the 1990s, the Philippines remained the laggard. The Philippines was the least favorite destination of foreign direct investments, and exhibited the least impressive growth performance among the ASEAN-4 (Thailand, Malaysia, Indonesia, Philippines).

Nevertheless, it cannot be denied that the Philippines has made palpable improvements in the poverty situation as well as in specific social indicators. Life expectancy improved, and child mortality and malnutrition rates were pushed down. Bigger public investments both in social and physical infrastructure also increased the earning capacity of erstwhile poorer households via the trickle-own effect. Certainly this was limited, but it did help.

Unfortunately for the Philippines, even if it has not enjoyed the so-called Asian miracle to the full extent, the opportunity has already gone. The aftermath of the crisis saw foreign investors – the same investors who could not be left out of Asia just a decade ago – scurrying away from the region. Even after various emergency and other measures were taken up, and Asian countries displayed some degree of stability, investors were very slow in coming back. The truth of the matter is that Asia is no longer a hot spot for them, at least not for a while.

The Philippines does not fare any better. Even with the government's dogged determination to differentiate the Philippines from the rest of East Asia, the flow of foreign investments and general economic interest in the country followed the tenor that prevails in the region.

The strategy used to address the impact of the crisis thus needs to reflect this reality. Specifically, such strategy must work against a backdrop of a low-growth scenario. This takes a lot of doing, and requires that government recast its fetish for fast-track growth.

Finally, it has to be stressed that an economic plan, no matter how carefully drafted, does not automatically translate to social development directly. Social development is not an incidental aspect of development. It cannot simply be assumed within a given framework for economic growth. Social development should be given more active attention and emphasis, hopefully also given primacy over plain economic growth.

The impacts of the crisis proved generally very painful, be it on the middle class, the entrepreneurs and the business elite, or the marginal participants in the formal markets. Now that the dust of the crisis has finally settled, the country faces a number of formidable challenges. These challenges should be addressed to render the country and its peoples less vulnerable to crises.

First, there is the challenge of immediately restarting economic growth in the country, both to start mending the debilitating impacts of the crisis, and for the country to carve a more sustainable path to development.

Few things have been done in response to the crisis. The exchange and interest rates have been stabilized, and these need to be sustained. Beyond this the government should address daunting concerns.

Political stability is key.

Wars and internal conflicts take their toll on the country's energy and resources, as well as dampen the entrepreneurial spirit, therefore these should be addressed in the most judicious manner. It cannot be denied though that rebellions and insurgencies take deep roots from a long history of discrimination and neglect, and cannot just be willed away. Given this, government should act in a very decisive yet responsible manner, and not confuse the issue with simply winning public relations points outside the country.

Squarely face crucial governance issues so government can re-establish credibility.

Governments should govern. It is unfortunate that the current administration has been tainted by so many scandals and allegations of corruption and influence peddling that it is having difficulty convincing the people it means business. For anything substantial to come out of government, it must first and foremost try to establish its credibility by distancing itself from questionable policies and associations.

Bring back business confidence.

Stability and an acceptable governance structure, among other things, are crucial in bringing back business confidence in the country. As long as confidence is not fully restored, any attempt at recovery will always be undermined.

Second, there is urgent need to cultivate more stable sources and foundations of growth. This means putting in place structures and mechanisms to ensure that similar crises will not cripple the national economy again in the future.

Place greater emphasis on internally generated resources.

In the decade before 1997, mostly foreign resources helped propped up the economy even as huge outflows had also been experienced (mostly to pay for debt). The crisis showed how foreign finance is not a reliable source. The country should wean itself from foreign finance and rely primarily on the resources it is able to generate internally. The absence of foreign finance may serve as an incentive to rationalize and improve tax administration, without necessarily introducing more taxes if they are not needed.

Create internal markets as a source of demand.

For internal revenues to grow, it is imperative that people produce and earn enough so government can collect from them. The local socio-political and economic environment should support the creation of a domestic market via various physical and social infrastructure. Job security and consumer protection are also key ingredients to a vibrant domestic market.

Address long-standing structural issues.

Many structural concerns have been surfaced many decades ago but have yet to be fully addressed despite their urgency. Foremost of these is the asset reform and redistribution demanded by the clamor for agrarian reform, natural environmental rights, cultural domains, etc.

Create a macro environment conducive to growth.

At the start of the crisis and more aggressively in early 1998, macroeconomic handles were used indiscriminately in the defense of the currency. The interest rate was the most important policy tool at the time. Before the active intervention of the Bureau of Treasury the Central Bank supported the peso with a crippling interest rate. The policy devastated the local economy even as in the end the Central Bank had to concede its defense of the peso failed.

An interest-rate regime that is supportive of local industries, and an exchange rate regime not discriminatory to productive export industries are important in establishing a sound macroeconomic environment conducive to sustainable growth.

Establish regulatory mechanisms to guard against vulnerabilities highlighted by the crisis.

The crisis highlighted another weakness of the financial system. It is weak regulation. The stable peso skewed incentives and prompted banks to lend indiscriminately in foreign currencies, including to their own stockholders over and beyond what financial prudence might dictate. Unfortunately the government's regulatory mechanisms were weak and were unable to check the excesses of the system at the time.

Third, there is the challenge, both to government and civil society, of establishing safety nets against crises.

Insulate government budgets for social services from austerity measures and undue cuts.

The importance of this aspect cannot be overemphasized. Much has been said about protecting social spending, yet it needs to be stressed once again. Spending on social services (health, education) is quite low for poor households. They cannot be expected to buy privately provided health and education; they simply cannot afford them. Therefore government should assist in making these services accessible by investing in these. Public provision of health and education services has significant contribution to the household's capacity to generate income. Moreover, a healthy and educated population makes for better citizenship.

Publicly provided health and education services also free up women labor that may be used in other economically beneficial activities. Availability of these services will also reduce the burdens carried by women, particularly in stressful situations like retrenchment from work of a household member.

Encourage/enhance the role of local governments in the delivery of social services, and social safety nets in times of crisis.

One case in the household-level survey illustrated how effective local government units (LGUs) can be in dispensing social services. Since they are closer, and therefore more accessible, LGUs should be the logical first recourse for households. LGUs also have a comparative advantage over the national government in terms of its capacity to respond more quickly, less bureaucratic red tape, and a more hands-on approach.

Promote community involvement in targeted intervention.

Even granting that programs imposed from the outside may sometimes be more efficient and consistent than programs developed by the community itself, chances are programs and projects in which there is direct participation of stakeholders would tend to be more successful. Formerly underrated, the community's capacity to assess its own situation and to offer solutions, has slowly been given primacy in development circles.

Authorities should seek the active involvement of communities in the identification, implementation, and monitoring of safety nets programs. Communities should be encouraged to give inputs to wide ranging public concerns not only in the local but also in the national arena. An involved community promotes a more vibrant public life, and is a first step toward political maturity.

There is need to make direct transfers to people affected by crises

When a crisis causes severe impacts, the need for response is immediate. While these impacts usually have long-term repercussions, often the response can be given in the short or medium term. For adversely affected groups, direct transfers from government and other groups should be considered. For instance, to keep children of retrenched workers in school without unduly adding to the parents' and the children's burdens, school vouchers can be issued. These vouchers may be used to pay for reasonable school activities, school food, and school supplies. Food coupons may be given to households in extreme need.

Direct transfers are not easy to manage, but it is not an impossible task. For employment (or unemployment)-related transfers, the Department of Labor or the Social Security System may be tapped. Likewise, local government units will play crucial roles in screening and monitoring beneficiaries. For added impact, participation of civil society groups should be encouraged.

Direct transfers may also mean compensating very poor families for the opportunity cost of sending their children to school. Sending children to school can mean heavy pressure on their incomes, even if schools do not charge them any fees. Daily allowances and school-related expenses are the most obvious items that households have to pay for. A less obvious consideration for these households is the loss in potential income they face by sending kids to school. Children helping out in the household free up the time of parents, especially mothers, to seek income-based activities. Likewise children themselves can actively look for work.

The compensation suggested here would usually come in the form of direct transfers. Examples include the following: free or subsidized school supplies, and free or subsidized meals in school. The children avail themselves of these subsidies directly, or by the parents on their behalf (for instance, applying for the subsidy in qualified stores).

Fourth, efforts must be made to build the resilience and capacity of peoples to withstand crises.

Encourage better labor organizations.

Membership in unions affords many workers added protection and job security. If retrenchments or lay-offs are inevitable, union membership gives workers added leverage and negotiating support resulting in better benefits than would otherwise go to non-unionized workers. Worker organizations (unions, associations, cooperatives, etc.), therefore, should be encouraged and great efforts should be made to include all of the working class within the protective embrace of labor organizations.

Skills upgrading and retraining should be provided for better labor flexibility.

Unfortunately, many of the low-income workers are designated to certain jobs because of low education. Even those who are able to receive education are still vulnerable because they may not embody enough skills to make them a flexible resource in the job market. Firms normally invest in workers training, but only a handful actually gets such privilege. Some firms sometimes react very fast to production conditions, often to the detriment of workers deemed expendable. In the absence of job security in a job market that gets more and more fickle by the day, government should be able to provide avenues for worker retraining and skills upgrading. This will ensure that the workforce is kept updated and better able to seize opportunities when they come.

Use NGO support for capacity building.

Needless to say, capacity building is a key element in the previous two points. NGOs already working in support of capacity building activities, whether at the level of unions or unorganised individual workers, should be encouraged and supported.

Fifth, serious emphasis should be placed on the informal sector as a source of income for

many households, and as part of the backbone of the local economy.

> A better enabling environment for sustained and secure work for men and women in the informal sector, and enhancing their capacity to manage small enterprises should be created.

The survey confirmed findings in other studies relating to coping mechanisms adopted by households in times of crisis. One such coping strategy is the fallback position households assign to informal employment. However, more than just being a source of "parked" jobs (jobs taken until opportunities in the formal labor market are opened), or a net that catches the new unemployed, informal occupations contribute a significant percentage of income for poor households. Not a few households derive income mostly from informal sources. In many instances, these informal activities remain informal only to the extent that they are not formally registered and they do not pay direct taxes. But everything else connects to the formal economy, either through payment of value-added tax (VAT) and/or sales taxes, payment of local fees (*barangay* clearance, etc.), and the market that they ultimately service. Moreover, contrary to popular belief, income from informal activity is highest when the formal sector is at its most robust.

Finally, government and civil society must also work to protect the groups most vulnerable to crises, especially women and children.

> More proactive services should be targeted at working women.

Various studies have cited evidence of discrimination against women in the workplace. Survey results for this study give an indication that more is required of women (higher education, younger in age) even though they are compensated less and considered more dispensable (lower pay, first in the retrenchment line). Efforts should be exerted to guarantee that women get fair treatment in hiring and retrenchment decisions. Determination of wage/wage differential should be justified by the job requirements and skills, and the main criterion for retrenchment should be productivity, rather than gender or gender-indicated. While pertinent labor and other laws guard against gender discrimination, information is often lacking for women workers to weigh their options. More direct assistance to women workers is therefore in order. For instance, women's desks (similar to those attending to sexual harassment cases) that will attend to specific women worker concerns may be considered.

Based on the findings that the additionality of women's monetary income is substantial for any household, encouraging women to work outside of the home (operation of informal activities near or in the home are included) will go a long way in uplifting household welfare. Therefore, women's decision to work should be supported. Free or inexpensive public day-care services for children of formally or informally employed women, and appropriate timely information on job options and sources of credit (for informal activities), are just some of the services that will benefit working women or women who are contemplating on joining the labor force.

Services like day-care facilities also give very young children from poor households exposure and chances at socialization that will help them develop a positive outlook in life. Constructive environments, whether in or out of the home, always make for happier children.

> There should be more education work on children's rights to enlighten both parents and children, and the community.

Children should not be brought up in a "victim" culture, even if they are poor. Often this attitude is passed on to kids from their parents who themselves grew up in the same atmosphere. It is not wrong for children to want and to expect help from others, but this should be put in a healthier context. Children are the responsibility of society, not just of their parents, but in no way should this be taken as an absolution of the parents' obligations.

A more conscious effort of bringing the issues of children's rights will go a long way in developing appropriate ways to respond to children's concerns.

The rights approach is useful when viewed in terms of capacities different actors possess. Obviously, children have the least in terms of resources and capacities, and basic respect for their rights helps check this imbalance.

The Convention on the Rights of the Child is the most widely accepted and recognized international treaty. Yet, recognition is not equivalent to effective implementation. For developing countries like the Philippines, the challenge of implementing the Convention is even more pronounced. This highlights the importance of creating the proper environment first before the rights are enforced. This is where education would go a long way.

In this section, several recommendations are being put forward in keeping with several relevant articles of the Convention as follows:

Article 18, Sections 2 and 3: "…States Parties shall render appropriate assistance to parents and guardians in the performance of their child-rearing responsibilities and shall ensure the development of institutions, facilities and services for the care of children."

"States Parties shall take all appropriate measures that children of working parents have the right to benefit from child-care services and facilities for which they are eligible."

Article 24, Section 1: "…the right of the child to the enjoyment of the highest attainable standard of health and to facilities for the treatment of illness and rehabilitation of health…ensure that no child is deprived of his or her right of access to such health care services."

Article 27, Section 3: "…in case of need provide material assistance and support programmes, particularly with regard to nutrition, clothing and housing."

Article 28, Section 1: "…the right of the child to education…"

Article 42: "State Parties undertake to make the principles and provisions of the Convention widely known, by appropriate and active means, to adults and children alike."

Encourage school authorities to rationalize fees-based special school activities.

Many studies have found that one of the first things affected when households adjust to lower incomes are school-related expenses, particularly those that are not considered essentials. There is great merit in exposing school kids to various stimuli outside of the classrooms. Yet, some activities encouraged by school authorities imply financial outlays on the part of students, even as these activities have unclear learning focus. It is not uncommon, for example, for school-organized field trips to make side trips to live broadcasts of local variety shows, or to the malls. School authorities should be encouraged to reorient their special events program, both to have clearer learning focus and to lessen the financial burden on students.

Possible steps that can be taken towards rationalizing fee-based school activities is the drafting of clear guidelines on what these activities should involve and setting a limit on the implied costs.

Another possibility is the encouragement of assistance targeted at very poor students.

Encourage/Promote paid work/activities for children in more secure environments.

Children should enjoy their childhood. They should not be compelled to work. The sad reality for very poor households, however, is that children are being made to work or insist on finding work to help support the family. The reality of working children therefore cannot just be wished away. A word of caution: encouragement of paid work for children should be very sensitive to the fact that industrial and other heavy labor is never appropriate for children below an acceptable age (usually the legal age for them to be employable).

Children from many poor households take occasional paid work to augment the meager income of their parents. The additional income they earn goes to the household food budget, the children's leisure activities, and in most cases to the children's allowance money or school-related expenses.

Secure institutions — like churches, schools and community centers — should therefore be encouraged to "employ" children in their operation, whenever appropriate. Children can take on simple tasks in canteens and libraries. Admittedly, this type of intervention will have limited impact as children cannot be expected to take on complicated tasks, and cannot in any way substitute for the labors of more responsible adults.

There should be more private sector involvement in child-related work.

The business sector benefits from the investment in children today. Children, after all, represent the workforce that will sustain economic activity in the future. It is but fitting for the business sector to invest in and share in the well-being of today's children. Childcare facilities in workplaces, or in communities where there is a big congregation of factories and worker abodes (e.g. known industrial sites in Pasig, Marikina, etc.), and similar services should be provided with strong business sector support. Likewise secure "work" as discussed above appropriate for children may be provided in this context.

Strengthen the convergence concept and its application on a framework for children.

It needs to be emphasized that most of the services that will benefit children are the very same services needed by other groups. That is, while careful targeting is always needed, many of the necessary provisions children need are provisions that can be made for all anyway. The "convergence" concept was first tried in the Social Reform Agenda. Pending a comprehensive assessment of its success or failure, it can be safely said that the convergence concept has its merits and provides a good starting point in integrating child-specific concerns in a bigger social agenda. The concept simply means maintaining a meticulous focus in the preparation of any intervention. It also means tapping the synergy that can be had when different governmental agencies and private institutions work together instead of separately to achieve a common goal.

Locate child-focused intervention in the wider development context.

There is greater incentive to protect children than other groups against crises since they are not to blame for their own poverty or otherwise helplessness. The world all over also recognizes certain basic rights that must accrue to children. These rights must be protected at all cost.

However, more than just the rights framework, spending for child-focused intervention is an even bigger investment than is true for adult-focused intervention. The more resources poured into the rearing of children, the better the build-up of human capital. This translates to higher levels of skills and productivity the children will imbibe as they grow up. More careful focus on children also increases their physical, psychological and social security that help mold socially constructive behavior in their adult life. In short, pouring resources to child-focused intervention is a more efficient use of resources than concentrating on them when they prove ready to join adult society, say through the job market.

Since the 1970s the economic value of children has been given prominence, and greater recognition of women's economic contribution has been achieved. Children have also been a crucial component of the concept of investment in human capital. The security of the future depends on future productivity and economic growth, which is directly related to the future workforce. Hence investment in human capital, or expenditures made deliberately to create productive stocks embodied in human beings, is made to ensure economic and productive uses in the future. These provide the strongest economic justification given for the investment in children.

Still, it is not right to base any advocacy on the premise that children are an economic resource that need to be developed. It is to the loss of society if the question of "how much is enough" becomes the sole basis of investment in children.

How we support and nurture children should be done using a developmental approach. Against a backdrop of competing claims against limited resources, the best tack is always to provide timely and appropriate services. The foregoing recommendations are therefore immediate and imperative. It should be noted that, while questions may be raised against the judiciousness of providing special services, direct transfers to the unemployed for instance, there is little argument, if at all, against providing the same to children.

Children's rights perhaps are one of the most non-controversial areas of advocacy. Very few, if any, would contest that caring for today's children is necessary for the better functioning of a society in the future. Yet, it has to be realized that what rightfully must be given to children is just one of the many demands on government resources. Doing lobby work for the passage of crucial laws that would advance child rights is always noteworthy. But it is indeed sad that these initiatives will add to the many un-funded mandates of government.

The building of a future for today's children is a daunting task. In the conduct of child-focused advocacy, it is crucial for advocates to appreciate the competing claims on government resources, and to know how these competing claims may serve to retard or advance child welfare. In short, child welfare advocates should not only limit themselves with concerns that have children as their headings, but should also take part in other development and policy initiatives. Policies that protect children's consumption, especially in times of crisis, are not limited to the micro sphere. A better social and macroeconomic environment is the first defense against crises.

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