Issues on The Privatization Policy in the Philippines

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Privatization offers an alternative to the perceived excesses of organized government: uncontrolled growth, bloated expenditures, inefficient and wasteful public enterprises, incursion into private sector activities, and so on. The Philippine experience so far, and those of a number of countries tend to show that privatization may not give all the answers to government inefficiency. What is called for is a social sciences approach to the evaluation of privatization policy. Instead of just concentrating on what must be done to speed up the program, government needs to look into why it cannot go faster than it is going now; why the program cannot possibly raise the gargantuan sums it is supposed to generate, and why it cannot totally solve questions of government inefficiency.

Introduction

The trend among Asian and Pacific countries to privatize government activities is not an isolated phenomenon. It is part of the worldwide movement started by the industrialized countries like Britain and the United States which has spread quickly to the developing countries primarily through the multilateral lending and aid institutions. Thus, the privatization movement among developing countries is not only a response to internal pressures like large fiscal deficits and slowdown in economic growth; this is a response to external pressure and conditionalities as well.

Privatization offers an alternative to the perceived excesses of organized government: uncontrolled growth, bloated expenditures, inefficient and wasteful public enterprises, incursion into private sector activities, and so on ad nauseam. The pressure to limit unbridled government expansion is understandable. Nevertheless, the conditions under which governments in less developed countries have expanded their activities are different. Massive problems of underdevelopment have impelled governments to take a direct hand in responding to many social, economic and political problems. In other words, the development imperatives which provided governments of less developed countries a rationale for expansion are not the same as those which propelled uncontrolled government growth in industrialized countries.

In many developing countries, privatization has been the subject of lively debates among policymakers, legislators, academics and other concerned sectors. Questions have been raised on the ideological underpinnings of privatization, the mechanics and costs of implementation and impact on the

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labor sector. Issues on exacerbation of foreign control over developing economies have likewise been raised. Finally, the basic question of whether privatization is the answer to government inefficiency has been asked time and again.

While these questions are raised elsewhere, indepth discussion on the uses and misuses of privatization in the Philippines has been limited.\(^1\) There appears to be a consensus among the policymakers in the executive branch, the legislators and the private sector that privatization--Philippine style--is going to be good for the country. The main complaint raised against it is that "implementation is too slow." Thus, the House of Representatives has initiated investigations to find out what is slowing down privatization. Focus is on administrative and procedural issues and how to speed up implementation.

In a major speech delivered before business groups last year, President Aquino mandated that by the end of 1988, the process of privatization should be completed, and no ifs and buts.\(^2\) In a month's time, 1988 will come to an end. A discussion of issues related to privatization is therefore timely. These were culled from the round-table discussion on April 22, 1988 under the auspices of the Philippine Social Science Council. These issues were then related to current developments in the privatization scene here in the Philippines and abroad.

**Update On Privatization**

As of the first half of 1988, of the 296 government-owned or controlled corporations (GOCCs) inherited from the previous regime, the President has approved the privatization of 113, the abolition of 50, the retention of 35, and the regularization, conversion or merger of 39. The rest are being subjected to in-depth studies regarding their final disposition.\(^3\)

With respect to the 113 corporations approved for privatization, 76 have already submitted privatization plans, all of which have already been reviewed and approved by the Committee on Privatization.\(^4\)

The privatization program has generated an estimated P 12 billion in gross revenues of which P 2 billion are from the sale of government corporations. The balance of P 10 billion comes from the assets earlier transferred by the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP) to the National Government and disposed by the Asset Privatization Trust (APT).
As of August 1988, the following is the breakdown of the P10 billion revenue generated by APT from the disposition of these non-performing assets (NPAs):  

1. Remitted to the Bureau of the Treasury  
   - P3.57 billion  
2. With APT (in cash)  
   - P2.27 billion  
3. In escrow  
   - P4.16 billion  

Escrowed accounts include those awaiting debt-to-equity conversion, under litigation and/or awaiting settlement.

As of August 1988, 399 accounts or NPAs have been turned over to the APT, of which 270 is from DBP and the balance from PNB. Total booked exposure is P108 billion with a market value of P20-25 billion. There are 40-45 pending cases on owners claiming injunction on these NPAs, notwithstanding immunity of APT from injunctions as provided for in Proclamation No. 50.

As of June 30, 1988, the APT has disposed (full and partial sale) of a cumulative total of 130 accounts - 82 for 1987 and 48 for 1988 (6 months). Through five dispositive schemes (i.e. bidding, direct-debt buy-out (DDBO), Government Financial Institutions (GFI)-effected sales, GFI retrievals and redemption), the APT has achieved a cumulated gross recovery of P7.3 billion - P4.1 billion for 1987 and P3.2 billion for the 6 months in 1988. Including collections on retained assets, lease fees, interest earned on floats and other incomes, gross recovery by APT amounted to P8.6 billion as of June 30, 1988. Net recovery from these 130 accounts amounted to P7 billion - P3.9 billion for 1987 and P3.1 billion for the first half of 1988. Including income from other receipts, net recovery reached P8.37 billion. Total government exposure of these 130 accounts were at P24.5 billion - P14.9 billion for 1987 and P9.6 billion for 1988 (6 months). Thus, net recovery on full and partial sale divided by total booked exposure stands only at 28.5% - 26% for 1987 and 32% for 1988. Including income receipts from items other than sales, the percentage increases to 34%. With the possibility of closing accounts on those partially sold, net recovery over total booked exposure might increase but would not substantially deviate from the 30-35% range.

By the end of 1988, APT gross recoveries from NPAs are expected to reach P14 billion, representing 58% of its total commitment of P24 billion over five years.

In 1989, the privatization task of APT will include assets turned over by the National Development Company (NDC) and the Philippine Export and Foreign Loan Guarantee Corporation (Philguarantee).
Policy Issues

The need to clarify the rationale for privatization

What factors or events impel a government to embark on a policy of privatization? In the case of the Philippines, the privatization policy of the government was formulated in the wake of the economic debacle triggered by the debt crisis. It was rightly perceived that the public enterprises (government-owned or controlled corporations or GOCCs in legal terminology) accounted for a significant share of the public sector external debt. As described in a separate paper, the policy on privatization and restructuring of the GOCC sector was part of the package of conditionalities attached to a structural adjustment loan (SAL) for the public enterprise sector from the World Bank in 1984.

The World Bank recommendation for a privatization policy was given a strong push by the International Monetary Fund as part of its own package of conditionalities for a stabilization loan. Under the "Enhanced Monitoring Scheme" arrangement with the IMF, the annual review of Philippine economic and monetary performance, the arrangement specifically states that the extent of implementation of privatization will also be reviewed. The Asian Development Bank (ADB) is still another multilateral institution which has strongly endorsed privatization for the Philippines. Bilateral institutions like the U.S. Agency for International Development (U.S.-AID) have likewise declared support for the policy.

The privatization policy of the Philippines was a result of exogenous and domestic pressures. However, external pressures were much more impelling since badly needed loans were at stake.

What were the assumptions of privatization policy? The policy as enunciated was originally directed at the GOCC sector. It was assumed that the size of the sector expanded tremendously during the time of Former President Marcos and was invading areas which are the domain of the private sector. While the GOCC sector increased during this period, is it true that the sector is dominating the economy and giving serious competition to the private sector? A number of studies tend to show that the economy is dominated not so much by the GOCC sector as by transnational corporations. Likewise, views have been expressed that on the contrary, during the Marcos period, it was the private sector which raided the public sector and not the other way around. This is evident in the fact that admittedly, GOCCs were utilized as conduits for transferring public resources into private hands. In a sense, what happened was a distorted privatization of the GOCC sector, particularly financial institutions, for the benefit of a few.
What are the objectives of privatization? The general objectives of the privatization policy in the Philippines are fourfold: to reduce the financial burdens to the government due to losing and inefficient GOCCs; to reduce the involvement of government in economic activities; to promote greater efficiency in government operations; and to raise funds from the sale of GOCCs and assets to finance major government programs like the Comprehensive Agrarian Reform Program (CARP). An assessment of the privatization program would require the evaluation of accomplishments in terms of these objectives.

The increasingly desperate financial straits of the government has resulted in greater emphasis on the financial objectives, e.g., reduction of the financial burdens of government, and the generation of funds from sale of these GOCCs. Have these financial objectives been attained? In the process of raising urgently needed funds as quickly as possible, other issues have not been scrutinized.

The extent and coverage of privatization

As pointed out in the basic paper, the privatization policy was initiated during the last days of the Marcos regime. Actual implementation was started by President Aquino. As specified by Presidential Decree (P.D.) 2029 and P.D. 2030, the original focus of the policy was the GOCC sector. Recent pronouncements of President Aquino seem to indicate a much broader sweep of privatization which goes beyond the sale of GOCCs and the disposition of assets. It appears that the entire bureaucracy is the subject of privatization efforts. Thus, policy pronouncements talk about reducing the size of the entire bureaucracy, the turnover of certain governmental functions to the private sector, and contracting out of governmental programs in education, health and the social services to the private sector.

In a major policy speech, the President exhorted government executives to look at the private sector as a model, analyze what accounts for its vaunted efficiency and bring such methods and practices to government. These developments have generated concern since these touch on the basic issue of the role of government and go beyond the GOCC.

While policy declarations have broadened the sphere of privatization, actual implementation so far has been mainly concentrated on GOCCs and their assets.

Modalities of privatization

This issue is directly related to the extent and coverage of privatization, which influences choice of modality. Generally, four policy initiatives are associated with privatization. The first is what is described as "load-shedding
through privatization," or the transfer of a service or operation from a public agency to a private organization. The common example here is sanitation services. The second option is the reduction of government ownership of public enterprises, as in Great Britain. The third option is the sale of assets. The fourth option is “contracting”, where a traditional responsibility of government is maintained but conducted by a private firm. This is usually resorted to in social services.

Thus far, much of privatization activities have been concentrated so far on the second and third options.

Specific disposition schemes for GOCCs and their assets have been through bidding, direct-debt-buyout (DDBO), GFI-effected sales, GFI retrievals and redemption.

It is clear from the above modalities and schemes that a well-developed capital market is necessary to ensure “democratic” disposition of GOCCs and assets. As noted in the basic paper, the policy assumes that these properties will be sold to the private sector. But in the Philippines, who is the private sector? Opportunities to purchase such assets will not be available to many Filipinos. The market is very limited and almost exclusive. Worse, considering the size and scale of the GOCCs, only conglomerates and consortia of foreign investors will be able to afford these corporations.

Thus, in the case of Philippine Air Lines, a consortium of foreign investors organized by the Zobel group has indicated an interest in buying the national airline.

Again, because of the urgency and the desperation to dispose of assets and raise money as quickly as possible, disposition schemes like purchase of companies by workers, and opening of corporate shares to the general public are not often utilized.

The inherent weaknesses of the capital market, the undue concentration of wealth in the hands of a few, and the dominance of transnational corporations has raised questions of equity and foreign control of the economy.

Consultations with the labor sector

In the formulation of privatization policy by both the Marcos and the Aquino administration, consultations were carried out with various government agencies and even private sector groups. However, the sector which is affected in the most direct and painful manner by the policy has neither been consulted nor informed in both instances. This is the labor sector.

In other countries, the impact on the labor sector and implications for employment have been the subject of serious study by governments. In the
case of the Philippines, it was just assumed that the policy will have no untoward effect on the labor sector.

Last August 19-21, 1988 a Conference/Workshop on “Privatization: Its Impact on Labor Relations in the Philippines” was organized by the School of Labor and Industrial Relations (SLIR). It was attended by workers from various GOCCs, Department of Labor and Employment officials and policymakers. The result of the conference was a “Labor’s Declaration on Privatization” which urged suspension of the privatization program as mandated by Proclamations 50 and 50-A. The declaration also called for a tripartite review committee which should be convened by the Secretary of Labor. Finally, the declaration called for tripartite consultations in privatization proceedings, transparency in negotiations, training and retraining of employees and full protection of trade union rights and job security of workers.

Much concern has been raised about Section 27 of Proclamation No. 50 which states in part, “...none of such officers or employees shall retain any vested right to future employment in the privatized or disposed corporation, and the owners or controlling interest thereof shall have full and absolute discretion to retain or dismiss said officers and employees and to hire the replacement or replacements of any one or all of them as the pleasure and confidence of such owners may dictate.”

While this section protects the interests of the new owners and assures automatic termination of employer-employee relations, it impacts adversely on workers and their rights, particularly on existing unions and collective bargaining agreements.

Because of the problems which have arisen in earlier transactions, the APT is now taking efforts to protect the rights of workers by granting concessions to buyers in exchange for workers’ protection. Nevertheless, the fact remains that this particular section on Proclamation No. 50 has not been repealed and that there is no legal provision recognizing the rights of workers in privatized corporations.

Financial costs and losses in privatization

The latest reports on the privatization program which were cited in an earlier part of this paper stated that an impressive sum of ₱12 billion in gross revenues has already been raised from the sale of GOCCs and assets. Of this sum, ₱10 billion is from the sale of assets transferred to the national government and disposed of by the Asset Privatization Trust.

It is not the purpose of this paper to belittle the sums raised from such sales. These were raised as a result of dedicated and aggressive selling efforts
on the part of the concerned government agencies.

Nevertheless, we must relate the revenue raised from privatization in relation to the losses and costs which are borne by the national government as a result of the privatization policy. The report of the Commission on Audit on this subject is very revealing and educational.

In 1986, the following non-performing assets of three GOCCs (DBP, PNB and PNPP-1- The Bataan Nuclear Plant) were transferred to the national government:

<table>
<thead>
<tr>
<th></th>
<th>DBP</th>
<th>PNB</th>
<th>Sub-Total</th>
<th>PNPP-1 Grand-Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferred assets</td>
<td>61.3</td>
<td>47.0</td>
<td>108.3</td>
<td>33.7</td>
</tr>
<tr>
<td>Assumed liabilities</td>
<td>62.2</td>
<td>55.4</td>
<td>117.6</td>
<td>29.9</td>
</tr>
</tbody>
</table>

From the above it can be easily seen that the national government is already at a disadvantage since the assumed liabilities are greater than the value of the transferred assets. These assets are the object of the privatization activities of the APT. However, while these assets are not yet paid, the national government has to continue paying interest. In 1987 for example, the national government spent a total of ₱25.1 billion for the servicing of foreign and domestic liabilities of these acquired assets. While the GOCCs were relieved of their non-performing assets, the national government had to add ₱25.1 billion to its already heavy debt burden. This explains why the debt service burden of the national government, as reflected in the national budget suddenly went up in 1986 and 1987.

In 1987, gross revenue from the sale of physical assets and other revenue totalled ₱3.5 billion. The Commission on Audit (COA) related this impressive sum of ₱3.5 billion to total expenditure as follows:

<table>
<thead>
<tr>
<th>Amount</th>
<th>(in million pesos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross collection on disposal of non-performing assets</td>
<td>₱3,500.0</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
</tr>
<tr>
<td>Debt servicing of real liabilities</td>
<td>22,735.0</td>
</tr>
<tr>
<td>Debt servicing of contingent liabilities</td>
<td>2,380.3</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>25,115.3</td>
</tr>
</tbody>
</table>

January
Equity, Subsidy and Loans Outlay
  releases to APT and COP  211.1

Conservation expenses of PNB  25.4

Retention fees  31.7
Selling expenses  2.8
Loss on full sale of physical assets  1,900.0

Sub-Total  2,171.0

Total expenses on NPA-Related Transactions  27,286.3
Net decrease in government funds  ₱23,286.3

What is the implication of the COA analysis? While there was an increase in government funds due to the sale of assets in the amount of ₱3.6 billion in 1987, total expenses related to the non-performing assets transferred to national government amounted to ₱27.286 billion. Thus, there was a net decrease in government funds by ₱23.786 billion.

The COA report notes that with the transfer of non-performing assets to the national government for privatization, pathetic as it was before the transfer, "(the national government) has further sunk into a morbid state."

The net decrease of ₱23.7 billion does not include further losses from completed sales and actual losses incurred by government financial institutions in the disposal of some physical assets and in the non-collection of various financial claims.

Another way of looking at losses is to relate sales to total booked exposure. As mentioned in the earlier part of this paper, as of June 30, 1988, the APT recovered a net amount of ₱8.37 billion from a disposal of 130 accounts. However total government exposure in these accounts totalled ₱24.5 billion, thus showing a net recovery of only 28.5%.

Costs. So much for losses. How about costs? Expenses incurred in connection with disposition of GOCCs are called transaction costs. As can be seen from the preceding analysis, this can amount to huge sums. In addition to transaction costs, the literature on privatization also takes note of transition costs—costs of disruptions associated with the transition from a government entity to a private organization like costly labor problems, litigations, administrative costs, and so on.

The seemingly impressive financial returns from the privatization policy have been cited as the most powerful arguments in its defense. It is
ironical that the most serious criticisms against the policy are on financial losses and costs.

Cross-country experiences in privatization

Ardent disciples of privatization claim that it is practiced in over seventy countries of the world. At the time of the roundtable conference last April 22, information on the experiences of other countries was not very extensive. Since then, a number of regional and interregional conferences on cross-country experience in privatization have been held and much information has been generated.

Available literature tend to indicate that the problems and issues that have been raised in the Philippines are likewise felt in other countries which have embarked on privatization programs. The difference seems to be in degree of intensity of a particular problem.

Material on the experiences of industrialized countries like Great Britain, Germany and even Australia are generally available. The experiences tend to show that while privatization has its benefits the costs, especially financial, might be higher. It might be worth our while to learn from the lessons of these countries who have embarked on this road earlier than we did.

Constitutional rights, public accountability and other issues

In the United States, the issue of constitutional rights with regards to privatization has been raised. Harold J. Sullivan points out, “although the United States Constitution provides many protections for citizens against arbitrary government action and infringement of individual liberties, it provides no protection from abuses by the private sector.” He notes that under conditions of privatization, a regulated, privately-owned utility can deny service under conditions that would not be constitutionally permissible for a publicly-owned institution.”

The Philippine Constitution guarantees specific social services to the people. Concern has been expressed that contracting out of these services might dilute public accountability. Difficulties have been admitted in pinpointing accountabilities of private contractors performing public services. At the same time the matter of hidden monopolies has been brought out time and again. In the process of privatization, a shift might be made from the inefficiencies of a public monopoly to the dangers of a private monopoly. In public utilities, the case of the Philippine Long Distance Company, a private monopoly, is often cited. While it is a private firm, it is not exactly a model for efficiency and swift response to clientele needs.
Concern has been expressed that the redistributive and equity provisions of the Constitution may not necessarily be served by privatization if the government "sheds" off its responsibility for the provision of social services by entrusting these to the private sector. An Australian writer calls this trend as an "abandonment of public responsibility."18

Finally, questions have been raised on whether the larger interests of the country have been served in certain transactions. The Meralco direct-debt-buyout (DDBO) scheme is often cited. The transaction was approved by the Committee on Privatization (COP). However, in response to adverse feedback that the deal was not advantageous to the national government, the President created a technical committee composed of officials from government financial institutions (GFIs) to review the scheme. The conclusion was that indeed, government may be disadvantaged if the scheme is implemented. Secretary of Justice Sedfrey Ordonez, put matters to rest by issuing an official opinion that the transaction though "presumptively legal" may still be financially disadvantageous. Columnist Teodoro Locsin brutally describes it as a "scam" while Hilarion Henares uses even more colorful terminology.

Views have been expressed that the transfer of non-performing assets of GOCCs to national government for purposes of privatization has likewise been disadvantageous to the national government. The Commission on Audit Report bluntly states that "needless to say, the impact of the provisions of Proclamation No. 50 is quite onerous on the part of National Government...."16

"Nuts and Bolts" Issues

Aside from broad policy issues, "nuts and bolts" problems have surfaced with regards to the implementation of the privatization policy of the government. While these deal primarily with processes and procedures, they are no less important.

Organizational and administrative arrangements

At present, the Committee on Privatization (COP), a Cabinet committee, oversees the implementation of the privatization program. The COP reviews and approves plans for privatization. While the Asset Privatization Trust (APT) is the most visible of the entities engaged in privatization activities, actually there are about ten of them. This is because the GFIs like PNB, DBP and Government Service Insurance System (GSIS) are also engaged in privatization transactions. Likewise, other GOCCs like National Development Corporation (NDC) are disposing of their assets.
Because of the number of agencies engaged in individual privatization activities, problems of coordination and delay in approval of transactions have surfaced. The current difficulties between APT and COP have recently caught the attention of Congress. APT, in compliance with its mandate, is under pressure to dispose of GOCCs and assets as quickly as possible. Officials have committed to finish APT's task in five years. On the other hand, the COP is tasked not only with speeding up sales but also with protecting government interest. Hence, delays are inevitable, resulting in friction between APT and COP. What is at stake here are not mere "assets"; these are public properties which require certain procedures to assure transparency and protection of public interest. At present, steps are being taken to resolve these issues.

A related issue is the question of who gets the proceeds from privatization transactions. APT is required to turnover its sales to the national government. On the other hand, the GOCCs retain revenue from sale of assets which they dispose of themselves. This is considered as "unfair" to the national government which was saddled with P142.0 billion worth of transferred assets from just three GOCCs with P147.5 billion worth of assumed liabilities. The national government is burdened with assets which can only be sold at huge losses. On the other hand, these same corporations are disposing of other assets and retaining the revenues for themselves.

Valuation, accounting and auditing problems.

At present, four values are currently used on assets earmarked for sale: the book value as recorded in accounting records of the GOCCs, the transfer value when the assets are transferred from the GOCCs to the national government; the appraisal value which reflects valuation at market prices; and the sales price which is the actual proceeds from the sale. All these four values vary widely from each other and have created problems.

It is reported that some assets are sold from 10-30% of appraised values. Since the sales values are generally much lower than the transfer values and even the appraisal values, the problem of treating losses have arisen. If assets and subsidiaries are sold on a massive scale and losses are assiduously recorded, the impact of these losses on the national accounts could be staggering. Under the present accounting system, only revenue from sales are recorded; losses are not reflected at all.

At the same time, auditing problems have likewise arisen. Transactions involving disposition of GOCCs and assets are different from everyday government financial transactions. Auditing these necessitates review not only of financial transactions but raises questions on whether these were advantageous to the government or not. A performance audit of the privatization program would require an evaluation not only of financial returns.
government financial transactions. Auditing these necessitates review not only of financial transactions but raises questions on whether these were advantageous to the government or not. A performance audit of the privatization program would require an evaluation not only of financial returns but also implications in terms of the broad policy issues which were raised earlier.

Problems of litigation

A major problem in the disposal of assets is the litigation process which is tying up a number of assets. Since these assets were acquired by the DBP and PNB as a result of foreclosure, litigation has been resorted to by former owners and creditors. This has delayed efforts at disposal. Thus, the government's financial expectations about these assets may not be attained since a number of them have turned out to be "undisposable" due to litigation.

The Limits of Privatization: Is Privatization the Answer to Government Inefficiency?

It has been four years since the privatization policy was launched in 1986 with P.D. 2029 and P.D. 2030 by former President Marcos and Proclamation 50 and 50-A by President Aquino, also in the same year. The policy was launched after a difficult year-long process involving leading government agencies and representatives of the World Bank. This was part of the conditionality for a structural adjustment loan. Actual implementation was started in 1987 by President Aquino who wanted the task completed by the end of 1988, even as APT's life will legally expire in 1991.

Expectations have been very high. Privatization is expected to bring in its wake a rationalization of the GOCC sector, and greater efficiency in government operations. Recently, the government has increasingly pinned its hopes for financing of CARP from sales generated by APT.

Developments so far have indicated that such expectations may not be fulfilled completely. While the House of Representatives believes that delays and slowdowns were caused primarily by the feud between the APT and COP and what House Representative Mitra describes as "bureaucratic mumbo-jumbo", fundamental issues have actually arisen. The mechanics of disposal have turned out to be tedious and complicated as well as very expensive.

While financial returns have been impressive, the question of massive losses has to be settled. In addition, impact on affected employees, equity and redistribution issues, questions of public accountability and other problems have been brought up.

There is not much debate over the privatization activities of the APT. APT is concentrating primarily on the non-performing assets transferred by PNB
related to financial losses and costs, and impact on employees.

Greater concern has been raised over the government's inclination to privatize not only the GOCC sector but the entire bureaucracy as well. So far, privatization of GOCCs are mostly in the planning stage. Only ₱2 billion has been raised from GOCC sales. The implicit assumption on the inability of government to respond to the needs of the people has generated varied reactions. Is government necessarily inefficient, and the private sector necessarily efficient? This leads to the related question: if government is inefficient, is privatization the answer?

The Philippine experience so far, and those of a number of countries tend to show that privatization may not give all the answers to government inefficiency.

Are there other options? The trend among public enterprises at present is to turnaround ailing corporations and make them more efficient. For example, the Boston Area Public Enterprise Group (BAPEG) has documented many cases all over the world of losing enterprise being turned into efficient units by innovative management and dynamic policies. The International Center for Public Enterprises (ICPE) is also very active in turning around public enterprises and enhancing the efficiency of productive units.

What is called for is a social sciences approach to the evaluation of privatization policy. Instead of just concentrating on what must be done to speed up the program, government needs to look into why it cannot go faster than it is going now; why the program cannot possibly raise the gargantuan sums it is supposed to generate, and why it cannot totally solve questions of government inefficiency. Government has to ask what contributions privatization is making towards employment and stability in the labor sector, and how it relates to question of equity and redistribution. If we find the answers, perhaps we will end up with scaled down but more realistic expectations of what privatization can do and cannot do.
Endnotes

1Two of the seminars where privatization was discussed extensively were in the PSSC Roundtable Conference on April 22, 1988 and the Workshop/Conference on Privatization initiated by the School of Labor and Industrial Relations, on August 19-21, 1988.

2Speech by President Corazon C. Aquino at the Philippine Business Conference, November 14, 1987.

3The President's Budget Message for Fiscal Year 1989, Sharing the Economic Gains, Department of Budget and Management, Manila, p. 12.


5Testimony of Chief Executive Trustee Ramon Garcia before the Joint Meeting of the Senate Committee on Agrarian Reform and the Senate Committee on Government Corporations, Senate, Manila, October 1988.

6Ibid.


8Budget of Expenditures and Financing Fiscal Year 1989, Department of Budget and Management, Manila, pp. I-12 to I-13.

9Ibid.


11Speech by President Corazon C. Aquino before Members of the Cabinet, Undersecretaries, Assistant Secretaries, and Directors during the closing ceremonies, "Managing the Bureaucracy for Results Program," Development Academy of the Philippines, Tagaytay City, Philippines, June 9, 1988.


16Commission on Audit, op. cit., p. 7.