

Social Innovations for Inclusion and Sustainability

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Inclusion and Sustainability

- Growth spurts are a dime a dozen; sustained growth is rare
- Berg and Ostry (2011): economic recovery in jurisdictions with lower income inequality tends to be more sustained
- Less social unrest, more human capital investment which sustains growth
- What is Inclusion/Inclusivity?
- How is inclusion fostered?

Inclusion

- “No one left behind”; “Rising tide raises all boats”
- Inclusion as Income inequality: through
 1. Gini ratio (Kuznets) or the share of each income decile in total income
 2. Share of the top 1% over time, or of the top income decile in total income/wealth (Piketty)
- Inclusion improves if either falls

Poverty Reduction

- As Poverty Reduction: when Poverty Incidence (the share of the population living under a poverty threshold (say, \$1.25/day) falls.
- These two policy goals may not always agree.

Social Innovations for Inclusion

- Social innovations are a dime a dozen: win-wins are rare
- Social innovations that foster Inclusion are rarer, accompanied by strident opposition
- Must be evidence-based
- Oil Price Stabilization Fund (OPSF) caused infrastructure poverty and thus income poverty
- CARP fragmented farms and created the landed poor.

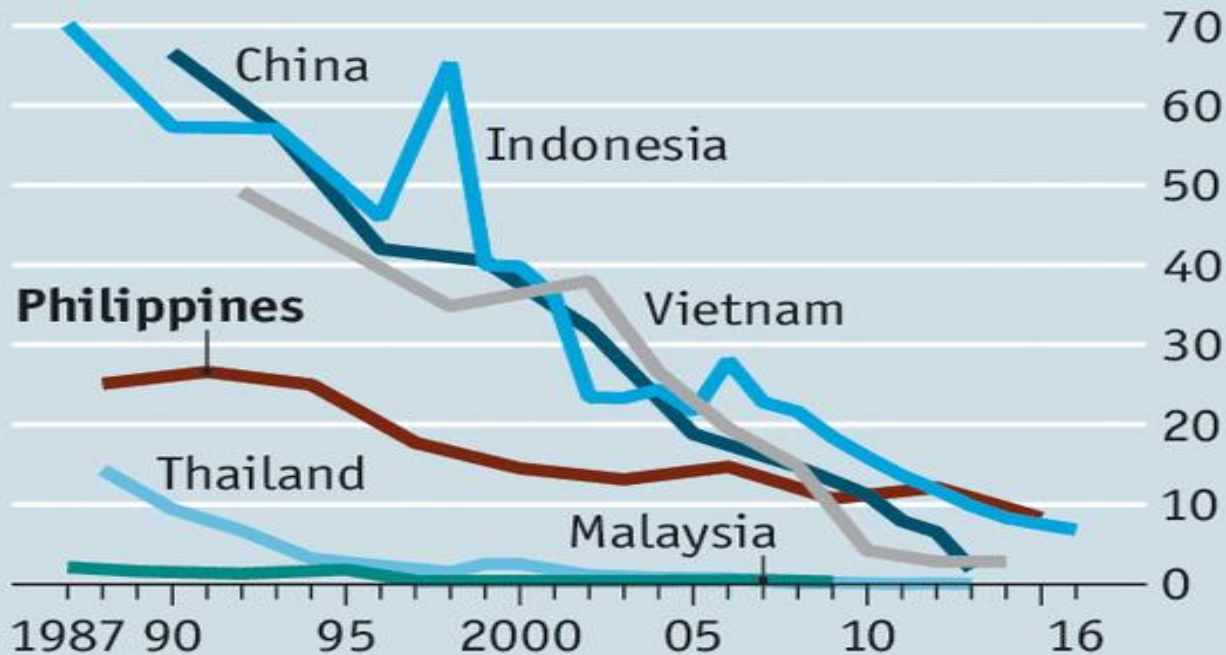
Woe #1: Slow Poverty Reduction

- Poverty Incidence is woe #1 because it is highest and has fallen least in East Asia.
- Income Inequality is **less** a woe because ours is a middling in East Asia as to level and reduction.
- Income inequality as Gini ratio remains high in galloping Singapore, Thailand and Vietnam without injury to prospects.

Woe #1: Slow Poverty Reduction

Slow going

People who make less than \$1.90* a day
% of total

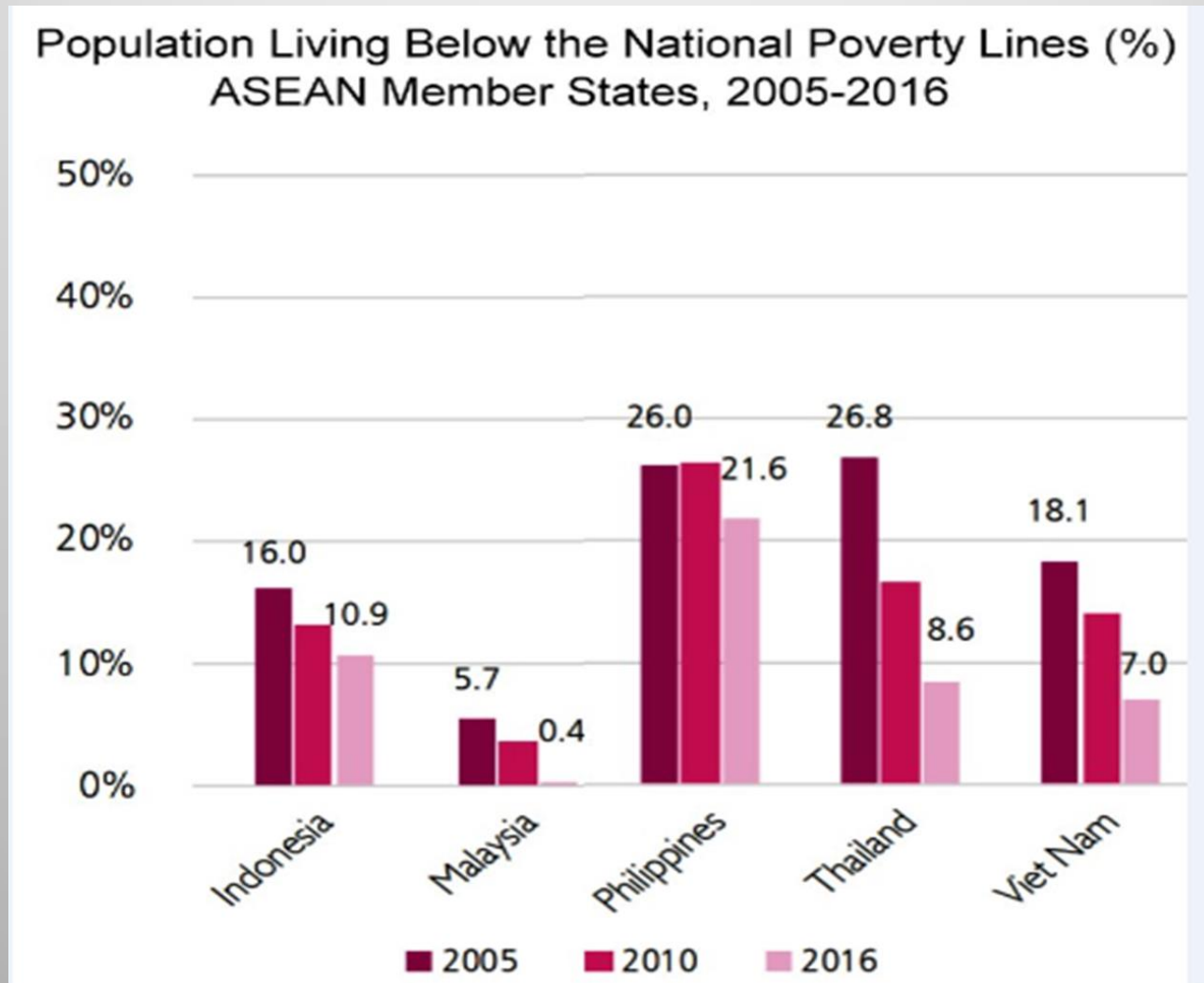


Source: World Bank

*At 2011 purchasing-power parity

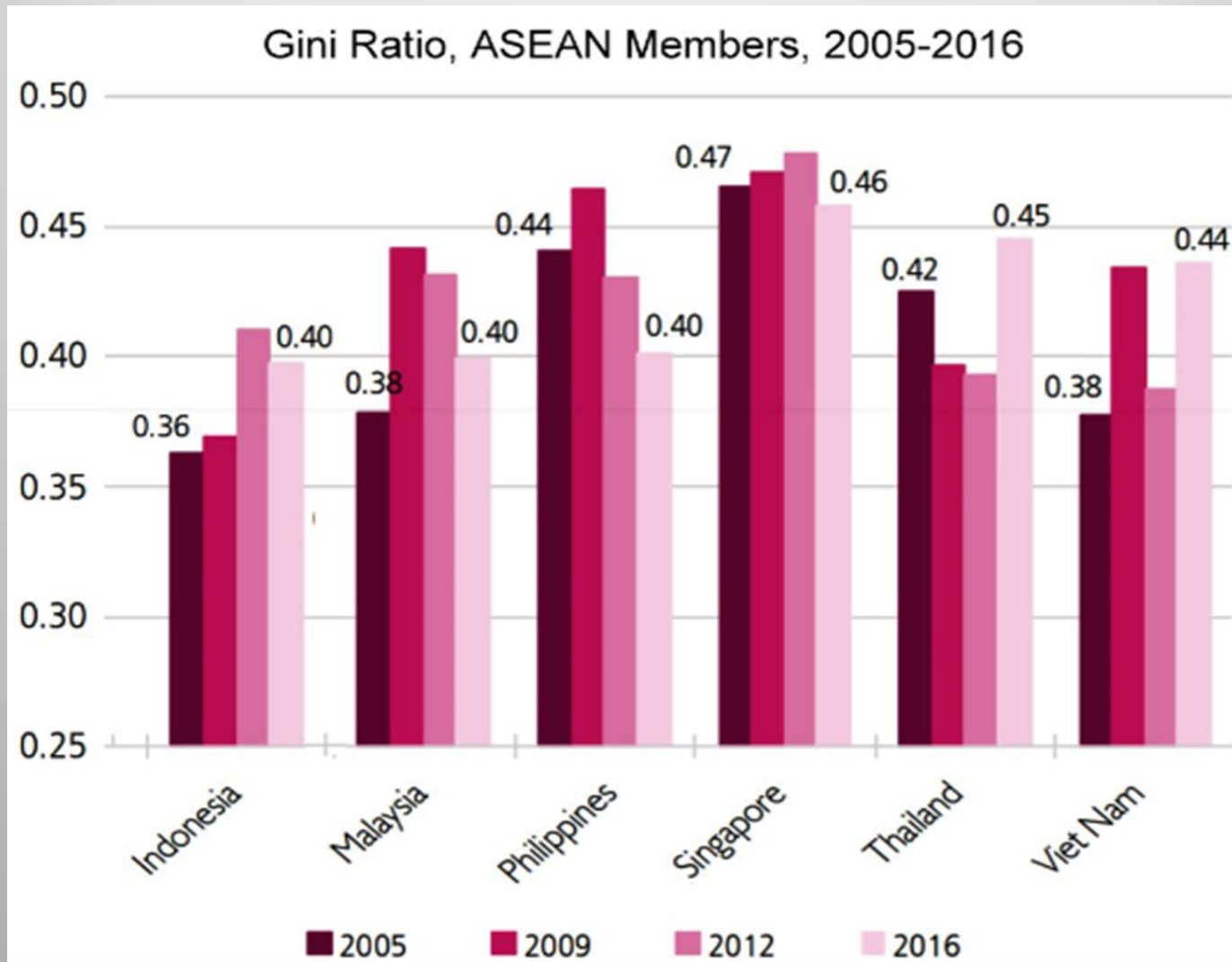
Source: *economist.com*

Trajectory of Poverty Incidence in ASEAN



Source: Asean-Key-Figures-2018.pdf

Trajectory of Income Gini in ASEAN



Source: Asean-Key-Figures-2018.pdf

Which to Choose in Conflict

- A policy can reduce both poverty and income inequality: A real estate tax to finance 4Ps
- A policy can also reduce poverty but raise income inequality: A well-designed investment incentives
- In case of Inclusion Dilemma, best to pre-rogate reduction of poverty
- People's Republic of China (PRC) reduced poverty from 64% in 1990 to 3% today but income Gini rose from 33% to 42%. PRC now has over 100 \$-billionaires but none then.

Factors for Inclusion

- Economic Growth proxied by per capita income
- Quality of Governance and Openness
- Development progeria (when in a low income economy, Services grows faster than Manufacturing), bad for Inclusion. For low income countries: share of tradables (Manufacturing) in GDP; reduced share of Services
- We first examine the latter (from Daway-Ducanes, Ducanes and Fabella, 2017)

Table 5. Correlates of Poverty Gap and Poverty Head Count Ratio: The Role of Manufacturing

	System-GMM			
	Poverty gap		Poverty headcount ratio	
	\$1.9/day	\$3.1/day	\$1.9/day	\$3.1/day
	1	2	3	4
Poverty measure (-1)	0.528 [0.010]***	0.685 [0.011]***	0.724 [0.012]***	0.872 [0.010]***
Manufacturing size	-0.063 [0.022]***	-0.077 [0.029]**	-0.155 [0.036]***	-0.059 [0.035]*
Services size	0.106 [0.009]***	0.145 [0.013]***	0.192 [0.033]***	0.262 [0.025]***
ICRG	-0.042 [0.008]***	-0.096 [0.006]***	-0.106 [0.012]***	-0.258 [0.013]***
Real GNI per capita	-0.001 [0.000]***	-0.001 [0.000]***	-0.001 [0.000]***	-0.001 [0.000]***
Number of observations	195	195	195	195
Number of countries	65	65	65	65
AR(2) Arellano-Bond test	0.753	0.715	0.419	0.423
Hansen p-test	0.477	0.54	0.54	0.582
Number of instruments	64	64	64	64

Robust standard errors in brackets

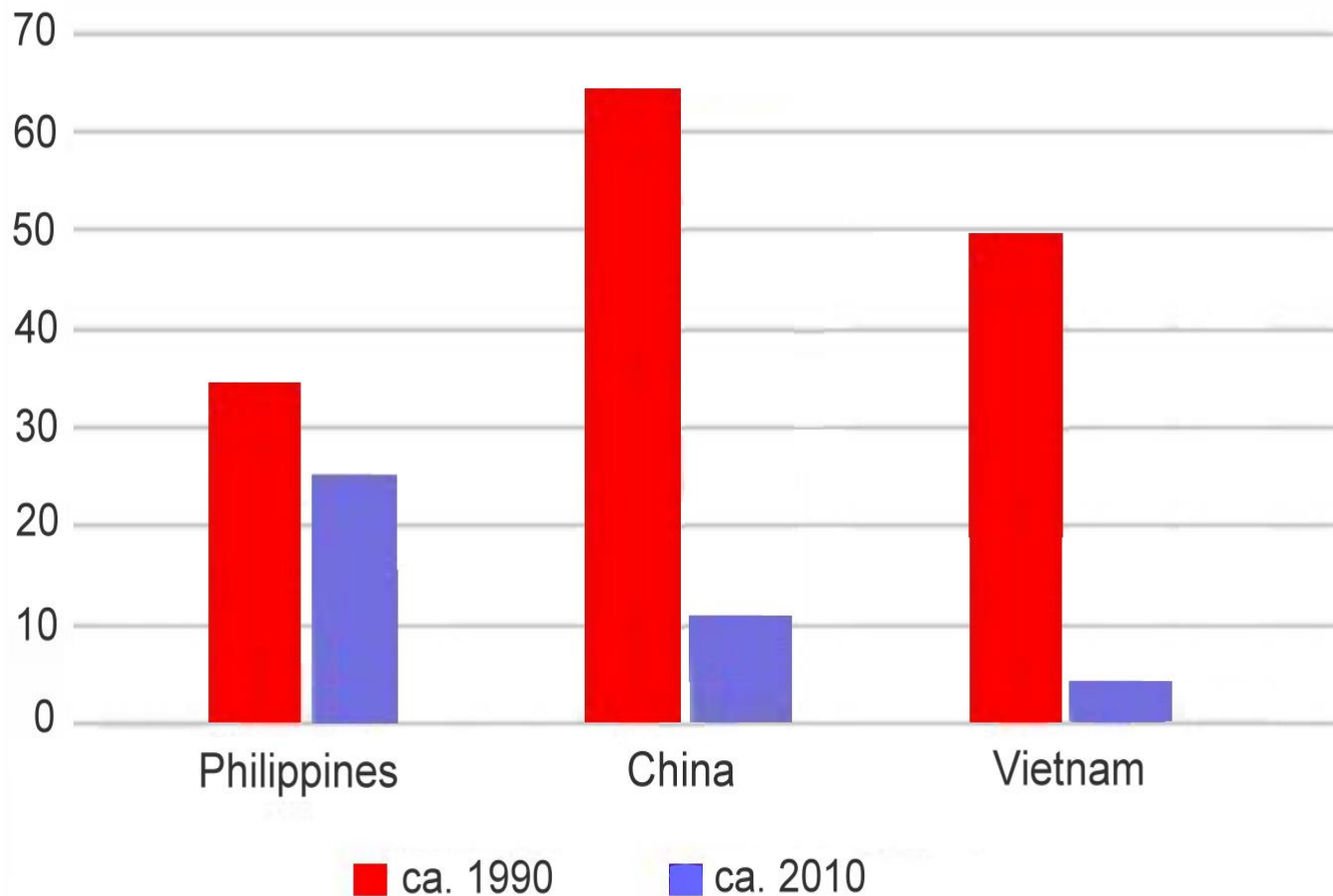
* significant at 10%; ** significant at 5%; *** significant at 1%

Note: The set of regressors included Period 2 to Period 6 (dummies) which are not shown.

Abridged Version Highlights

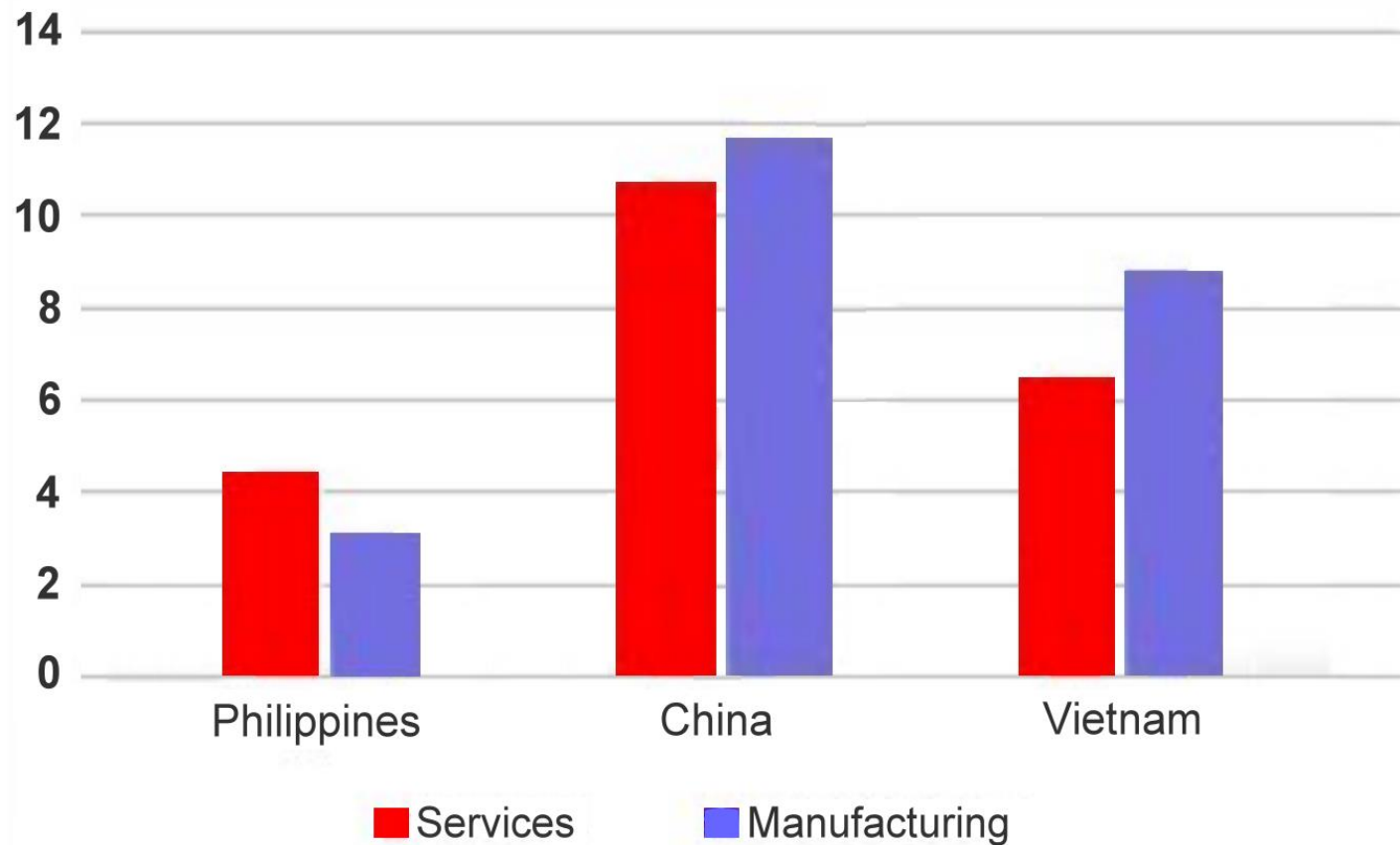
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Poverty Reduction: Philippines, China, Vietnam



Poverty Reduction (%): 1990-2010

Manufacturing vs. Services: Average Growth



Manufacturing and Services Average Growth (%): 1990-2010

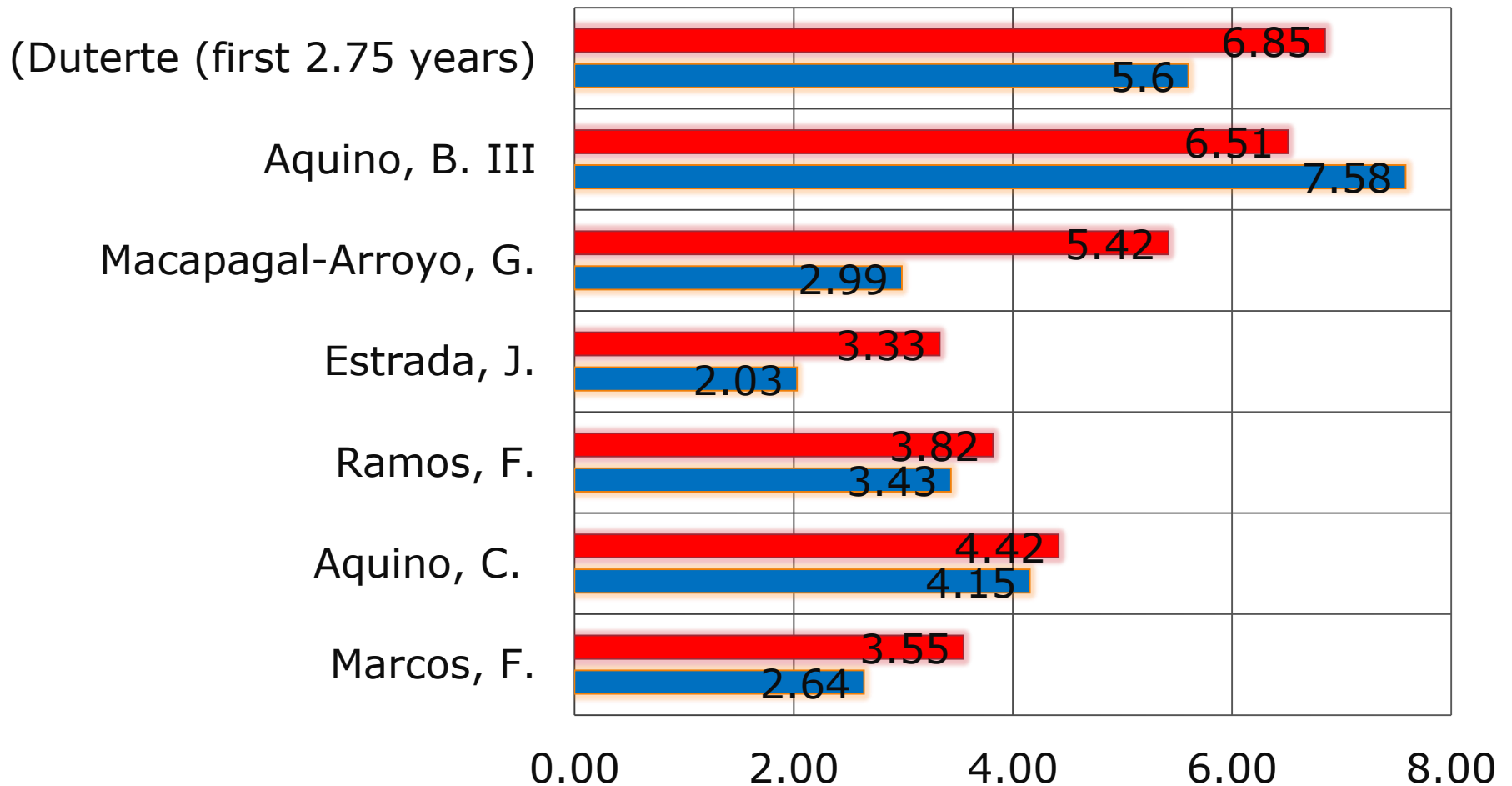
Summary: Manufacturing Growth and Inclusion

- It appears that the faster Manufacturing grows relative to Services (reversed development progeria) the more poverty-reducing is the economy.
- What happened in PHL?
- Under whose watch was Manufacturing faster than Services?
- Below gives the performance of Manufacturing and Service under past presidents.

Presidential Performance: Development Progeria

Manufacturing and Services Growth Performance under PHL Presidents

■ Services ■ Manufacturing



Observations

- Manufacturing grew faster than Services only under President B. Aquino III
- Which is why poverty incidence dropped from 26.2% to 21.6%
- Under President R. Duterte economic growth is still high but is losing quality and momentum as of 2019
- Only in Duterte's year 1 was quality and quantity growth achieved (Manu 8.4 vs. 6.8 Services). This reversed until 2019.

Federalism as Social Innovation

- Beware of “Innovation for Innovation’s sake”
- Poverty and corruption are endemic
- Constitutional Federalism: the proposed social innovation to reduce poverty and corruption
- What is the evidence on Federalism/inclusion?

Constitutional Federalism and Inclusion

(Fabella, Daway-Ducanes, Jandoc, 2019, De facto vs. de jure federalism in developing economies")

Dependent variable	Gini	Poverty headcount ratio			
		Poverty gap		ratio	
		\$1.90/day	\$3.20/day	\$1.90/day	\$3.20/day
Dependent variable (-1)	0.68***	0.51***	0.61***	0.66***	0.62***
Federal experience	-0.07***	0.11***	0.07	0.11**	0.06
Federal experience-squared	0.0003***	-0.001***	-0.0005*	-0.001***	-0.0004
Federal experience*Developing economy	0.04***	0.07***	0.06**	0.06	0.06
GDP growth	0.76***	-0.15*	-0.44***	-0.88***	-0.55**
GDP growth-squared	-0.08***	-0.01	-0.01	0.01	-0.04**
Developing economy	-0.13	0.05	0.97	0.86	1.95
Trade openness	-0.01***	0.01**	-0.01	0.00	-0.01
FI access index	11.12***	-1.18	-13.19***	-9.28**	-38.90***
FI access-squared	-10.06***	-1.28	7.38**	4.04	28.83***
ICRG	0.18***	0.04***	0.15***	0.14***	0.32***
<i>Region dummies</i>					
CA	-1.03***	1.08**	0.76	1.05	1.22
EAP	0.72*	-1.38*	-1.03	-1.56	-0.08
LAC	3.69***	0.26	0.13	0.70	1.33
MENA	-0.05	-0.06	-0.35	-0.00	1.04
SA	1.62***	-0.96	2.16	2.05	8.66***
SSA	4.78***	6.86***	8.48***	10.55***	18.86***
<i>Period dummies</i>					
1992-1996	-2.51***	-1.59***	-2.88***	-3.86***	-4.47***
1997-2001	-2.41***	-1.68***	-3.25***	-3.99***	-7.00***
2002-2006	-3.16***	-2.24***	-3.78***	-4.78***	-8.02***
2007-2011	-4.61***	-2.77***	-4.82***	-6.28***	-10.70***
2012-2016	-4.37***	-2.96***	-4.45***	-6.21***	-9.65***
Number of observations	303	316	316	316	316
Number of countries	104	107	107	107	107
Number of instruments	93	74	74	74	74
Arellano-Bond AR(2) test (p-value)	0.51	0.96	0.71	0.60	0.51
Hansen test (p-value)	0.35	0.43	0.36	0.28	0.43

*** significant at 1%; ** significant at 5%; * significant at 10%.

Constitutional Federalism and Inclusion: Summary

Highlights

Dependent Variable	Gini	Poverty Gap		Poverty Headcount Ratio	
		\$1.90/day	\$3.20/day	\$1.90/day	\$3.20/day
Federal Experience	-0.07***	0.11***	0.07	0.11**	0.06
Federal Experience * Developing Economy	0.04***	0.07***	0.06**	0.06	0.06
GDP Growth	0.76***	-0.15*	-0.44***	-0.88***	-0.55**
Trade Openness	-0.01***	0.01**	-0.01	0.00	-0.01
ICRG	0.18***	0.04***	0.15***	0.14***	0.32***

Fiscal Federalism and Inclusion

(Fabella, Daway-Ducanes, Jandoc, 2019, De facto vs. de jure federalism in developing economies")

Dependent variable	Gini	Poverty headcount		Poverty gap	
		ratio			
		\$1.90/day	\$3.20/day	\$1.90/day	\$3.20/day
Dependent variable (-1)	0.92***	0.66***	0.71***	0.66***	0.68***
Fiscal federalism	-0.19***	0.12**	0.27***	0.03	0.08*
Fiscal federalism-squared	0.003***	-0.002*	-0.004**	-0.001	-0.001
Fiscal federalism*Developing economy	0.001	0.05	0.04	0.02	-0.03
GDP growth	0.13	-0.34	-0.84	-0.22**	-0.44*
GDP growth-squared	-0.03	-0.03	-0.01	-0.00	-0.01
Developing economy	1.67	-1.91	-3.11	-0.52	0.89
Trade openness	-0.00	0.01***	0.02***	0.004**	0.01**
FI access index	1.97	-0.37	-0.99	0.19	-4.01
FI access-squared	0.65	-0.60	-0.71	-0.82	2.76
ICRG	0.06*	-0.04	-0.08	-0.00	-0.01
Regional dummies					
CA	-1.62***	1.51*	4.77***	0.41	1.01
EAP	-1.93***	1.46***	4.68***	0.35	1.25**
LAC	-1.10	3.65***	7.47***	1.03***	1.87**
MENA	-1.36*	1.79*	3.90***	0.53	1.33*
SA	0.00	0.00	0.00	0.00	0.00
SSA	2.60**	6.91***	14.36***	2.01***	4.75***
Period dummies					
1992-1996	0.20	2.33	5.42**	0.10	0.38
1997-2001	-0.26	4.23**	8.41***	0.86	1.72
2002-2006	0.13	2.13	4.67*	0.23	0.52
2007-2011	-2.39***	0.97	2.07	-0.16	-0.29
2012-2016	-1.79**	1.21	2.73	-0.04	0.14
Number of observations	141	143	143	143	143
Number of countries	63	64	64	64	64
Number of instruments	62	61	61	64	64
Arellano-Bond AR(2) test (p-value)	0.10	0.25	0.93	0.33	0.35
Hansen test (p-value)	0.90	0.95	0.91	0.99	0.97

*** significant at 1%; ** significant at 5%; * significant at 10%.

Constitutional Federalism (CF) and Inclusion

- Constitutional Federalism is not associated with reduced poverty incidence (head count) overall sample
- But CF associates with more intense poverty (poverty gap) in developing economies overall
- CF significantly associates with higher Income inequality and poverty incidence in developing economies
- Fiscal Federalism significantly associates with lower income inequality but higher poverty incidence overall; no association in developing economies

Quality of Governance and Trade Openness

- By contrast, Trade Openness and Quality of Governance (ICRG) are very positively associated with better Inclusion
- Thus, the Acemoglu-Robinson-North “rule of law”: protection of property rights and enforcement of contracts abides
- Social Innovations should target better rule of law especially the system of justice and Trade Openness

Woe #2: Poverty in Agriculture

- Poverty incidence in rural areas is 36% vs. 13% in urban areas
- Growth in Agriculture dismal over the years
- Why? Extreme farm size fragmentation: <1 hectare farm average size partly due to CARP
- No formal bank financing due to CARP rules: <5 hectares ceiling on ownership; non-tradable titles to land
- Private capital flight from agriculture

Social Innovation

Remedies:

- Attract private capital back to Agriculture by raising the ownership ceiling
- Support the bill raising the ownership ceiling to 25 hectares for households and 100-1000 hectares for private corporations
- Grant incentives to farm consolidation
- Transform DAR into DFACP (Department for Farm Consolidation and Productivity)

**Maraming Salamat
at Mabuhay Kayo!**