INTRODUCTION

WHY WE CANNOT LEAVE THE ECONOMY TO ECONOMISTS

MANAGING THE ECONOMY REQUIRES THE COLLECTIVE EFFORTS AND EXPERTISE OF PROFESSIONALS REPRESENTING VARIOUS DISCIPLINES, NOT JUST ECONOMICS; BESIDES, IF WE DID, IN THEIR OBSESSION WITH FREE MARKET, ECONOMISTS MIGHT JUST DO NOTHING AND LEAVE THE ECONOMY TO PROFIT-HUNGRY PRIVATE CAPITALISTS

Economic equality refers to the enjoyment of decent and livable standards of living for all, enabled by government economic policies implemented with fairness and respect for human dignity. It does not mean everyone becoming rich because in that case no one would do the needed hard and dirty work. It means everyone is happy or worry-free without being rich because protected by social insurance up to old age, as in the case of Nordic countries. If economic equality means everyone enjoying what really counts in life, which is not necessarily an abundance of material things beyond one's needs, then there is hope in attaining it. If so, can we leave to economists its attainment in the economy? Can we leave the economy to economists, to begin with?

In their fixation with free-market absolutism and government non-interference in business, free-market economists who dominate government economic policy-making seem to have become ***experts in having the government do nothing and letting capitalists do everything*** in the free-market economy. However, government economic managers should not let the free market on its own because the free market of today is different from that of yesteryears. It has been made much more complex by globalization, implemented with defective globalization tools, and polluted by ultra pro-rich economic philosophies—like trickle-down economics and maximization of shareholders' value—that originated from advanced countries with economic conditions different from ours.

Free market has evolved into highly pro-rich neoliberalism that benefits the minority rich at the expense of the majority poor. The country's 50 richest individuals owned 51% of the nation's gross-domestic-product (GDP) growth as of 2014 (Chapter 1, p. 2). Yet free-market economists, who pushed for privatization and deregulation of industries, have not offered the needed viable solutions to this lopsidedly pro-rich sharing of economic growth. This is the result of their advocated free-market economic policies, the misapplication of which will continue to worsen rather than alleviate economic inequality.

THIS BOOK IS ABOUT OUR STRUGGLES UNDER DEFICIENT DEFINITIONS OF ECONOMICS, POOR GOVERNANCE, DEFECTIVE GLOBALIZATION TOOLS, AND PRO-RICH NEOLIBERAL ECONOMIC POLICIES AS THE COLLECTIVE ROOT OF WEALTH AND INCOME INEQUALITY

Poor Governance Fails to Uplift the Living Conditions of the Majority Poor

If we had good governance characterized by honesty, competence, efficiency, as well as political will and best management practices in the government, it would have provided the kind of public services that the poorest of the poor need, like social spending for food, education, health care, low-cost housing, and poverty-eradication projects that could have uplifted their living conditions. This can be done through the solutions to economic inequality presented in this book, such as minimized corruption in government and enhanced progressive taxation with proportionately higher taxes for the rich. However, this is not the case. For example, Deputy Ombudsman Cyril Ramos revealed that the government is losing ₱700 billion a year from corruption (p. 368)—and what needs to be done to stop it is not being done.

Globalization with Defective Implementation Tools Anchored on Free Market is Highly Pro-Rich at the Expense of the Poor and Promotes Economic Inequality

Globalization is aimed at integrating the economies of nations into one global economy, where nations compete in offering the most innovative and best quality goods and services at the most advantageous prices, to the benefit of consumers. Its main instrument, the **free-market** economic ideology, has been the anchor of the following globalization tools:

(1) **free trade** through trade and currency **liberalization,**
(2) **privatization** that enables foreign investors with or without local partners to replace government corporations in privatized profitable industries, and
(3) **deregulation** that enables capitalists to charge highest prices, inequitably pay workers, and maximize profits without government intervention.

Unfortunately, ***globalization has been prescribed without guidance on how to properly implement it. Each nation has to blaze the trail on how to do it.*** The Philippines, for one, has implemented it through defective globalization tools, under highly pro-rich free-market economic policies that promote neoliberalism and contribute to inequality.

Here are examples of instituted defective globalization tools:

1. **PRIVATIZATION** of essential public services, like those rendered by power, water, and tollway monopolies which charge captive consumers profiteering rates, as betrayed by their unconscionable annual rates of return on equity (ROE), blatantly in breach of the 12% reasonable-return limit ruled by the Supreme Court for Meralco and other public utilities in 1966, reiterated on November 15, 2002 and affirmed on April 9, 2003 (p. 57). By logical extension, it should also apply to tollway operators and other public service providers.

Following are three privatized public-service monopolies with fantastic rates of annual ROE (based on audited financial statements), which equated to majority poor's high prices under existing neoliberal government economic policies:

Meralco	**Maynilad**	**NLEX Corporation**
(Power)	(Water)	(Toll Road)
2016: 26%	2008: 247%	2016: 46%
2017: 28%	2009: 147%	2017: 46%
2018: 28%	2010: 82%	2018: 39%

Based on its annual report to stockholders and the Securities and Exchange Commission (SEC), Meralco's after-tax net income was a huge **₱23 billion** in 2018. In the case of NLEX Corporation, based on its similar annual report, its total capital or Stockholders' Equity was **₱10.7 billion** as of December 31, 2017. Its net income after tax in the ensuing 2018 was **₱5.8 billion** or 54% of its equity at the beginning of that year. Despite its very high 46% return in 2017, the government unwarrantedly approved its toll-rate increase in 2018. This is how unsophisticated and unprotective of the public our economic system is, of which mainstream economists seem blissfully ignorant and awfully silent.

2. **DEREGULATION** of key industries, instituted on the wrong assumption that perfect competition will result and bring down high prices, as has been fallaciously done in the power generation, oil, and rice industries. In the power generation and oil markets served by oligopoly market players, there are no low prices from competition. To illustrate, the power generation industry was privatized and deregulated on the assumption that private power generation companies will compete against each other and drive power rates down. The assumption is not correct and the result is the opposite: recurring power supply disruptions with concomitant second highest rates in the region. Reason: as presented in Chapter 11, a really free market has perfect or true competition that emanates from indispensable requisite conditions, without which there is no competition and consequently no free market.

The prerequisites to competition that are lacking in the power generation industry are as follows:

a. **Ample power supply,** the lack of which enables the power generated by both high-cost oil-fired power plants and low-cost hydro and geothermal plants to be sold at unwarrantedly high rates just to meet total demand.

b. **Free choice** on the part of buyers and sellers, which applies to products that are not basic necessities and have elastic demand (demand decreases as price increases and vice versa), therefore buyers can harmlessly shift to cheap substitutes or forego purchase altogether.

c. **Competitive bidding system** that prevents bid-rigging and ensures the integrity of the bidding process in determining winning bid prices.

d. **Numerous sellers and buyers,** none of whom can control or unduly influence market price or supply. (In contrast, Meralco is a monopsony buyer and a monopoly seller in its large franchise area.)

e. **Facility of entry** of new competitors and **exit** of existing market players.

f. **Inclusion of government in free-market competition** as price setter and cartel breaker. Based on its lower prices, the government can spot cartelized high prices. It can act as a price setter at reasonable rates, which in turn can serve as benchmark prices to private market players—in the process fostering real competition and preventing cartels in the market.

Therefore, the gratuitous conclusion that introducing the economic stimulus *deregulated private oligopoly*—instead of regulated government monopoly—will produce genuine competition in the power generation industry is fallacious. This stimulus is not enough to overcome the opposite impact of the foregoing lack of requisites of perfect competition in a free market. Such lack resulted in absence of free-market competition in the power generation oligopoly, with concomitant high power rates.

3. ELIMINATION of GOVERNMENT from competition in the power industry under EPIRA (RA 9136), treated at length in Chapter 11. This feature of the law, which has remained untouched for 20 years, eloquently dramatizes the folly of blind faith in the overrated free market—because this is the principal root of our perpetuated inadequate power supply at second highest rates in the region. Unimaginative free-market EPIRA proponents failed to discern a power-industry peculiarity that rendered the free market incapable of promoting enough power supply at low rates.

Unlike other products, power is unique. It can electrocute and, despite technological advances, it cannot be stockpiled as inventory for future emergency use. Consequently, as power is a basic necessity that should always have ample supply, in addition to operating power plants that generate power for normal demand, the power industry should have reserve plants that will be operated sparingly and will usually remain idle during the year. These will be operated only when one or more regularly operating plants are on scheduled or unscheduled shutdowns to make up for the lost power supply. However, since EPIRA inception in 2001 to this day, the power industry has never put up the acutely needed reserve plant capacity because it is a financially losing investment—and private capitalists are in business for profit, not public service. It is the government that exists for public service and, hence, should be the one to provide the spare plant capacity, but it cannot do that precisely because EPIRA has stripped it of its role in the privatized power-generation industry. It is imperative then that EPIRA is amended to allow the government to provide reserve plants that will end once and for all our recurring power shortages. Losses from the idle plant capacity can be recovered by having the government similarly own profitable low-cost hydro and geothermal plants.

4. REGRESSIVE TAXATION (p. 33) pursued by the government even if anti-poor. The new TRAIN Law reduced the individual income tax rates of the high-earning 30% of the population. To make up for the tax foregone, it raised consumption taxes that hit even the remaining not-rich 70% that did not gain from the income tax reduction. Thus, we should shift to constitutional **progressive taxation** (p. 33), under which the top income tax rate, the top income bracket, and the lower graduated tax rates and income brackets can be crafted to yield the targeted disposable incomes of rich and not-rich taxpayers.

Progressive taxation follows a hierarchy of taxability in the raising of taxes. ***It asks first the rich to give out of their affluence before asking the poor to contribute out of their poverty***. It adheres to the equitable benefit and ability-to-pay principles of taxation by shifting the focus of tax increases from indirect taxes, which hit the rich and poor alike, to one based on capacity to pay, that is, a direct tax on affluent taxpayers' surplus or residual income after providing for all essential expenses. To do this, the rich may be taxed to the hilt on their disposable income—or money left after provision for taxes and personal outlays—but not the poor's meager earnings that are not even enough for basic needs, like food, education, and health care. The rich will not invest abroad simply due to our higher income tax rates because they are also subject to Philippine income tax rates on their income abroad, less tax credits for foreign income taxes paid. Also, they can be required to invest abroad their own dollar earnings, not those earned by OFWs and exporters.

THE GOAL-ORIENTED DEFINITION OF ECONOMICS

THE STANDARD OF PERFORMANCE THAT REQUIRES ECONOMISTS TO SATISFY THE NEEDS AND WANTS NOT JUST OF THE MINORITY RICH BUT ALSO OF THE MAJORITY POOR, THEREBY SERVING AS CATALYST IN THE IMPERATIVE TRANSFORMATION OF THE PRESENT PRO-RICH NEOLIBERAL CAPITALISM INTO PRO-PEOPLE DEMOCRATIC CAPITALISM

From the author of our economics textbook, Nobel laureate Paul Samuelson: ***"Economics is the study of how people and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future among various persons and groups of society."***

As a crucial tool of governance, and in its most basic sense, economics is about feeding and sustaining society as well as satisfying its other needs and wants. To succeed in this goal, economics has to be defined not just from the viewpoint of theorist economists but also from that of result-oriented managers focused on attaining mission statements. Oddly, usual definitions of economics are silent on the goal of satisfying society's needs and wants. As a result, elected political leaders are unmindful of it, they did not exert conscious efforts toward it, and it is not attained. Therefore, toward attaining it, here is the goal-oriented definition: ***Economics is the study of how to satisfy society's needs and wants through the production and distribution of sufficient commodities at the least cost and with the most efficient use of scarce or costly-to-harness resources.***

The definition of Canadian academic and economist Richard G. Lipsey—an alumnus of University of British Columbia (AB), University of Toronto (MA), and London School of Economics (Ph.D.)—is brief but already goal-oriented: "***Economics is the study of the use of scarce resources to satisfy unlimited human wants."*** In his article—What is Economics?—posted to the Internet, British socialist and University of Oxford alumnus Adam L. Buick has this phrase: "If ***economics*** really was ***the study of how individuals and societies use resources to satisfy their needs and wants***...." However, its importance as the goal-oriented definition of economics seems to have escaped him. He did not use it in his own definition of economics. Thus, because popular definitions of economics did not highlight its objective, governments do not know what is utterly wrong in the now dominant neoliberal economic policies applied to unfettered free markets, which on a global scale satisfy the minority rich and dissatisfy the majority poor—a condition against the pro-majority Democracy enshrined in our Constitution.

"Since the turn of the century, the poorest half of the world's population have received just 1% of the total increase in global wealth, while the top 1% have received 50% of the increase." (Oxfam International: The Commitment to Reducing Inequality Index 2018, October 2018, p 3). Without the goal-oriented definition of economics, it did not become a mission of governance to equally satisfy the needs and wants of all. This allowed the dominance of neoliberal capitalism that enriches the minority rich but impoverishes the majority poor.

Maximization of shareholders' value and trickle-down economics with reduced taxes for the rich have become in vogue, both running counter to the aim of economics as they dissatisfy majority-poor consumers, victims of free-market overpricing by minority-rich capitalists. To end neoliberal capitalism and promote economic equality, the Head of State must mandate as **mission order** to government economic managers the attainment of the objective of the goal-oriented—nay **governance-oriented**—definition of economics. ***The economists' job is not done for as long as society has not attained equality under democracy-underpinned economics that satisfies both the minority rich and the majority poor.***

WHY SOCIAL SPENDING IS BOTH CAPITALISM AND SOCIALISM

Under the Goal-Oriented Definition of Economics, Democracy, and the Universal Declaration of Human Rights, All Economic Systems Must Do Social Spending to Satisfy Society's Needs

The goal of economics is difficult to attain because the resources needed to satisfy human needs and wants are scarce or costly to harness. Thus, there is no unanimity on the ideal economic system. The contending main systems are capitalism and socialism. Under capitalism, private capitalists own the means of production. Under socialism, the government or workers are the owners. ***As the goal-oriented and imperative definition of economics is about satisfying society's needs and wants, then, in pursuit of this objective, whether it is capitalism or socialism, the majority poor as part of society are entitled to government social spending for their basic needs like food, health care, education, and so on.***

The happy supposedly socialist Nordic countries—Sweden, Norway, Denmark, Finland, and Iceland—succeeded not from socialism but from capitalism with private ownership of industries and social welfare programs that, in reality, are **Otto von Bismarck**'s innovative and successful capitalism model introduced in the 1880s—when socialism was about government's complete control of the means and output of production, not just about social programs for the poor.

Democracy enshrined in our Constitution operates under the majority rule or ***the greatest good for the greatest number.*** Under it, governance must help through social spending the majority poor who cannot afford even their basic necessities—and this applies to all economic systems under democracy.

The United Nations General Assembly proclaimed the **Universal Declaration of Human Rights** on December 10, 1948 as a common standard of achievements for all peoples and all nations. Its package of rights and freedoms includes not only civil and political rights but also economic rights, like the right to enough ***food, clothing, housing, social security, health care and education*** under its Sections 25 and 26. Therefore, countries that adhere to the Declaration, especially the signatories to it, must include ***social spending*** for those economic rights in their economic system. Thus, ***both capitalism and socialism must include social spending as basic human right.***

HOW TO ADDRESS ECONOMIC INEQUALITY

We need patriotic and competent political leaders, elected and sworn to serve the people, to take charge of governance, resolve economic issues, and address economic problems through the method enshrined in our Constitution: Democracy

We need elected political leaders—public servants sworn to serve the people, not self-serving capitalists—to do what economists will not do: take charge of governance, give primacy not to the economic-ideology free market but to the political-ideology democracy, and moderate the greed of minority-rich capitalists. The minority rich lord it over the nation's economy at the expense of unprotected and overcharged majority poor consumers. They do so under the unbridled free market advocated by mainstream free-market economists, who lack skill in majority-rule governance, the antidote to pro-rich neoliberalism that breeds inequality. Pursuing pro-majority poor economic policies that lead to economic equality is imperative under democracy and the democratic State enshrined in our Constitution, right in its Preamble and Article II, Section 1.

Elected political leaders must enforce the pro-people political-ideology democracy in our economy. It must have primacy over the economic-ideology unfettered free market that promotes inequality. Otherwise, we will never attain economic equality because existing economic policies with regressive taxation and without profit-sharing for workers on excess profits are utterly anti-poor.

Managing the economy requires expertise in different disciplines that are the specializations of different professions, not just of economists—and failure to satisfy this need results in the government's half-baked solutions to problems

In crafting sound national economic policies aimed at synchronizing and synergizing the economic programs of the country's different regions toward our fast economic growth, we need a visionary and competent government central planning body—represented by the existing National Economic and Development Authority (NEDA). It should have experts in economics, finance, accounting, engineering, and other disciplines. Looking at national problems from their varying perspectives is needed in coming up with viable solutions.

Following are sample applications of expertise in each discipline:

1. **Economics**

Economics has two aspects: first, its end or objective—to satisfy society's needs and wants; second, the means to attain the objective—creation of wealth or production and distribution of commodities through the use of scarce or costly-to-harness resources. Strangely, the usual definitions of economics are about the means toward the objective but silent on the objective itself. Consequently, the objective of satisfying all members of society is not attained and, today, we have gross wealth and income inequality, with satisfied minority rich and dissatisfied majority poor. Therefore, a grasp of properly defined or goal-oriented economics is needed to address economic inequality. In brief, ***economics is the study of how to satisfy society's needs and wants through the use of scarce or costly-to-harness resources.***

On economic systems, in **communism,** the State owns all means and fruits of production. It has no private property. Under it, **"everybody owns everything but nobody owns something."** In **socialism,** the State or the workers own the means of production. Its slogan, **"from each according to his ability, to each according to his needs,"** is the root of its major defect—counterproductivity from **confiscatory taxation** (pp. 14-15, 448). This leaves **democratic capitalism** as the ideal system (pp. 19-21, 449).

In the 1880s, **Otto von Bismarck** introduced the first **capitalist** social programs in Germany that raised industry worker-benefit costs and prices but also motivated workers to increase productivity. He raised tariffs with consequent higher prices to protect German steel and agriculture industries from foreign competition (p. 298). Why cannot our government follow him in our rice farming industry, ravaged by legislated rice import liberalization?

The government should protect local industries like crude oil refining and rice farming that provide local jobs and create demand for local industries. Relying on importation is a short-sighted policy, done at the risk of supply disruptions in case of global political and economic upheavals. The 80% of consumers who buy high-priced well-milled rice (p. 289) can continue paying higher prices to avoid supply-glut from unbridled rice importation that unduly depresses palay prices and harm farmers, rice millers, and agricultural suppliers. The government should help consumers not through rice importation but by reducing inflationary diesel tax and high rates of basic necessities, such as power, water, tollway, and telecom services as recommended in this book.

2. Planning

Knowhow in planning is needed because the government must do this work to attain the combined objective of adequate supply at reasonable rates in key industries like power, water, and oil. If with the government's industry planning it was hard to maintain the supply-demand balance of basic necessities, how much more if there were no planning at all? In an unbridled free market, private capitalists will not do imperative industry planning. To begin with, no one among them can compile accurate industry data for planning purposes because each company keeps its data confidential. They will be interested only in the microeconomics for the firm based on each one's investment and marketing capabilities, not macroeconomics for the nation. Hence, short- and long-term industry planning for each basic necessity must be done by government planners representing varied disciplines. In the energy industry where I worked for more than two decades as part of the management team, I still have in my files the 149-page book on the government's energy roadmap, entitled: *Ten-Year Energy Development Program 1978-1987.* As its list of Contents showed, it was comprehensive as to covered types of energy sources as well as physical targets and financial programs. There were no recurring prolonged power outages then.

Our economists seem experts on economics for ***normal times*** but maybe not for ***turbulent ones.*** They appear lacking in adequate ***contingency planning,*** consequently, we are ill-prepared to withstand global political, economic, and natural shocks from wars, drought, famines, epidemic, and disruption of importations due to naval blockade of sea lanes. We do not have incentives for longer number-of-days oil inventory as well as diversified sources of oil supplies. We do not have exchange rate hedging on foreign loans of service providers in captive markets for basic necessities affected with public interest, thus consumers are at the constant risk of huge exchange losses. The Rice Tariffication Law (RA 11203) will set back the rice farming industry and make us highly dependent on huge rice importations, without regard to how agriculture greatly helped us fight hunger and survive during World War II.

3. **Management**

Management starts with a clear objective or mission statement—something not done in popular definitions of economics, hence the resulting economic inequality—and continues with a no-nonsense drive and passion to do what it takes to attain the objective. Exactly 20 years after EPIRA mandated the privatization and deregulation of the power generation industry in mid-2001, and 24 years after MWSS privatization in mid-1997, we have not yet achieved adequate power and water supply at lower rates—and yet, free-market economists are doing nothing, still waiting in vain for what will not happen. Resting without solving the problem is not the way of goal-oriented managers.

4. **Law** `

Practical experience in law is needed in the enforcement of the Supreme Court-ruled 12% reasonable return limit for Meralco and other public utilities (pp. 57, 121, 160-161), in guarding against government public bidding and project awards in violation of the Procurement Law (pp. 183-185)), and in prohibiting post-bidding changes in concession agreements (pp. 235-236).

5. **Accounting**

Knowledge of accounting is needed to discover multi-billion-peso annual double-billing under performance-based regulation (PBR) applied to the power distribution and water industries. It is also needed to know that the appropriate formula in reckoning the maximum rate of return of regulated industries is return on equity (ROE), not return on rate base (RORB) where rate base is interpreted as assets in operation—because there is excessive profit grant to investors under RORB that emanates from double billing to consumers on return attributable to assets financed by creditors (Chapter 9).

6. **Taxation as the easy method of "nationalizing" industries**

Socialist nationalization of industries, with State ownership and control of the means and fruits of production, is an administrative nightmare due to usual insufficient aggregate production and difficulty of enforcing an equitable system of distributing the limited fruits of production to the people. Instead of nationalizing the **means of production**, the government can "nationalize" the **net income** of industries via progressive taxation. ***Having a top individual income tax rate of say 70% on cash dividends to stockholders—net of reinvested earnings—is, in effect, making the government a 70% passive co-owner of industries, with big-time private investors still motivated to do the hard work because their after-tax net income still yields high per capita earnings in absolute amounts.*** Under capitalism with progressive taxation, investors can increase their per capita income by expanding their existing businesses and/or investing in other industries, thereby contributing to economic growth.

If pro-rich neoliberal capitalism with regressive taxation is replaced by pro-people democratic capitalism with progressive taxation, capitalists will still invest in businesses because they have no choice. The alternative is worse—socialism without private property and with confiscatory taxation (pp. 15, 448).

7. **Regulation**
Ignorance of the beauty of proper regulation in industries where it is needed is a root of blind faith in free market by mainstream economists. As stated, in their obsession with free-market absolutism and government's passive role in business, ***free-market economists seem to have become experts in doing nothing and letting capitalists do everything***. No wonder, we have today's worsening economic inequality. Therefore, ***proper regulation should be taught as a core subject in business courses*** as well as in public administration and governance. Expertise in model industry regulation is needed to avoid the case of regulated companies earning rates of return beyond the Supreme Court-ruled 12% reasonable return limit for Meralco and other public utilities, which should also apply to other public-service operators, like those providing telecom and tollway services. (pp. 119-120, 331-332)..

The academe has to teach the right and wrong ways of industry regulation to its business and public administration students. It should also teach them which industries to regulate or not regulate. This way, it will *not* produce half-baked economists who will do nothing and just naively ***let market forces set prices***—which could be fallacious because the result would be ***overpricing if the forces that made up the market included market malpractices*** like cartel, bid-rigging, hoarding, and other manipulations that vitiate free market and undermine the law of supply and demand. If taught proper regulation, its graduates would not believe either that the best regulation is less regulation. This belief suggests that they fail to imagine what things should be done that are not done in markets, like those for basic needs imbued with public interest. ***The best regulation is condition-oriented, appropriate, effective, and efficient. It does the necessary, does not do the unnecessary, and attains objective.***

8. **Systems and procedures**
Expertise in systems work could have avoided the staggering bad loans and bankruptcies in the 1997-1998 Asian crisis—because there were less disastrous alternative solutions that could have been instituted in lieu of bad-loan provoking ultra-high interest rates. Competent systems experts could have come up with the needed alternatives had they been tapped for the job and properly apprised of the problem intended to be addressed—capital flight by foreign fund managers and dollar speculation or hoarding by local banks and residents. Chapter 20 shows an application of systems work in problem-solving.

THE GLOBALIZATION TOOL FREE MARKET ENABLES PRO-RICH NEOLIBERAL ECONOMIC POLICIES THAT PROMOTE INEQUALITY

Globalization as a global prescription has been accepted by us, otherwise, we would be isolated from world trade because those who rejected it would be slapped higher tariff rates on their exports. Anchored on the free-market ideology, it came as free trade given impetus through trade and currency liberalization. It was reinforced by privatization that enabled foreign capitalists, with or without local-investor partners, to own or operate privatized companies that replaced government corporations in profitable industries. To enhance profitability, the privatized industries were deregulated and allowed to charge the highest prices that the market can bear. In sum, minority rich capitalists are given more freedom and profit-making opportunities that they do not waste. The result is inequality, which will never be reversed if we would rely solely on Adam Smith's free market. Private capitalists who dominate the market will never voluntarily yield part of their huge annual income to their workers and consumers. For them to raise wages and lower prices to reasonable levels, government intervention is needed.

Adam Smith's Free Market with Free Trade, Aside from Being Founded On the Wrong Assumption that it Will Self Regulate (It Does Not Because of Human Greed and Self Interest), Did Not Consider the Contrasting Conditions of Rich and Poor Countries; Thus, it is Not Always Right to Blindly Follow Free Market, As Shown by Alexander Hamilton and Otto Von Bismarck

Economist Hilarion M. Henares, Jr., former Chairman in the 1960s of the National Economic Council—today's NEDA—and a graduate of Ateneo de Manila, University of the Philippines, and Massachusetts Institute of Technology counseled against blind faith in free market years ago even before it promoted wealth and income inequality to the present intolerable levels. Here are some quotes from his column "Make My Day" in a daily newspaper (Hilarion M. Henares, Jr., "Adam Smith is Obsolete Like Ptolemy,' *Philippine Daily Inquirer*, October 7, 1989):

"Adam Smith, (is) billed as the father of Economics…. His *Wealth of Nations* in 1776 (postulated) on the benefits of Division of Labor on the basis of Comparative Advantage and… Free Trade. He argued against government regulation of business because the invisible hand of Market Forces and Whip of Necessity assure the greatest good for the greatest number—'Everyone who seeks his own self-interest automatically serves the interest of all.'

"Adam Smith even wrote that the United States had a comparative advantage in agriculture, and must therefore remain in agriculture and not industrialize at all.... Fortunately, the USA did not have the likes of (Filipino free-market economists) at the helm of the economy. The USA was blessed with **Alexander Hamilton**, Secretary of Finance, who dismissed Thomas Jefferson's Pastoral Economy (based on agriculture) and Adam Smith's Free Trade as... subversive of American national interest. Hamilton when asked by the Federal Congress to formulate the US economic strategy, opted for the economic nationalism of Europe, articulated by the eminent Jean Baptiste Colbert of France. These nationalists, who opposed *Laissez Faire* with their own Mercantilism, considered Adam Smith's Free Trade as something which would naturally work in favor of England, the leading industrial nation, but would decimate weaker economies. And so the Mercantilists limited and banned their imports to protect their industries, and subsidized their exports. Alexander Hamilton followed the Mercantilist line which reasons that Free Trade is a lethal weapon of Economic Imperialism. This was also followed by (Chancellor) **Otto von Bismarck,** the man who made Germany a modern industrial state. Originally seduced by the logic of the Free Traders, Bismarck realized eventually that underdeveloped nations have to defy market forces if they are to effectively plan their own development." He allowed free trade for German products that had advantage in the world market. He raised tariffs to protect the uncompetitive German steel and agriculture industries against importation.

Progressive Taxation, Not Regressive Taxation, Is the Path Toward Economic Equality

Here are some quotes from, and review of, an article on how to address inequality, written on September 3, 2017 by Ricky Sobreviñas, an alumnus of Ateneo de Manila University and Wharton Business School (UPenn) in the US. He worked on Wall St., with one of his clients a certain Mr. Donald Trump.

According to Mr. Sobreviñas: "Apologists for the ruling elite would say you've got to lower taxes for (the ruling oligarchs and their corporations), but we all know what has happened when tax rates were lowered in the developed world most notably the US. Look at the US in particular. Before (imposition of) income taxes in the US, for most of the Industrial Revolution days of the 19th Century, when there were no income taxes, the robber barons reigned supreme with tremendous inequality creating a very unstable society that resulted in five economic depressions and Great Recessions up to the first decade of the 20th Century. When the permanent income tax was ushered in by Woodrow Wilson in 1913, with top marginal tax rates in excess of 50%, it not only won the first World War but also unleashed the booming Roaring 20s.

"In the 20s, three successive Republican Presidents—Harding, Coolidge, and Hoover—slashed the top rates. (This) created so much income inequality that in turn caused market speculation from all the super incomes that it collapsed the market, destabilized the economy, and caused the unprecedented Great Depression. Entered Franklin Delano Roosevelt (FDR) who proceeded to raise the top marginal tax rate back to over 50% and as much as 92%. Rather than economic collapse as the elites predicted, this unleashed the greatest boom in economic growth that won the second World War and formed the economic basis of the unprecedented 'New Deal' that resulted in the development of the great middle classes in the history of mankind."

As Mr. Sobreviñas explained: "The high marginal tax rates allowed the basically honest government of the developed world—including Japan with top marginal tax rates of around 70% and over—high government revenues that led to the transfers of these funds in cash or in-kind to the middle classes in the form of government jobs, infrastructure development, education, social security, unemployment insurance, scholarships, and research, that led to the growth of the economy, development of the middle classes, prosperity to all, and at the same time, massively reducing inequality. But the New Deal lasted only until Reagan's tax cuts for the wealthy reducing the top marginal tax rates from 70%... to 28% that resulted in Reagan causing record massive government budget deficits in his eight years greater than… the deficits of… previous US Presidents…. Predictably, he unleashed instability still with us today that obliterated the middle classes…."

The contention of Mr. Sobreviñas on beneficial higher taxation for the rich is corroborated by the case of progressive Nordic countries. Denmark, Iceland, Norway, and Sweden have tax burdens on total income ranging from 36.4% to 45.9%, much higher than that of the US which is at 26% (p. 18).

Mr. Sobreviñas added: "Even (economist Thomas) Piketty's prescription to fix the inequality was to increase the relative income of the 99% as opposed to the 1% and there is no more effective way to do that than relatively high tax rates for the very wealthy—none! Just look at the two… developed countries with some of the highest per capita incomes in the world—Singapore and Hong Kong. You scratch behind the appearance of high GDP per capita for the two countries and you see a third world GINI index at 41% (the Philippines is 45%)." He concluded: "**No permanent egalitarian, low inequality society can be possible without the relatively high tax rates for the very wealthy, none whatsoever."**

STICKING TO THE SAME ECONOMIC POLICIES THAT PRODUCED INEQUALITY WILL NOT SOLVE THIS PROBLEM—NEW APPROACHES HAVE TO BE TRIED

The government has been obsessed with high economic growth, 50% of which has accrued to just a few minority rich lording it over our economy. In some cases, the rich derive fast economic growth from free-market overcharging of majority-poor consumers and underpaying of workers. The result is economic inequality, the real solutions to which are not in NEDA's economic program.

I have to write about this economic anomaly, rooted in instituted globalization and its tools, like free-market liberalization and deregulation, that bred pro-rich neoliberalism due to major defects in their implementation:

- Free market has been intended for all industries, including those for basic necessities in captive markets imbued with public interest, where government role is a *must* and cannot be abdicated to private capitalists.
- Regulation of public service monopolies is unsound because government economists seem neither educated nor experienced in price regulation.
- Privatization of basic-necessity industries lacks functioning safety nets against market abuses, causing a change for the worse, not for the better.
- The thrust toward economic equality is fast economic growth that benefits mainly the minority rich, without a fair share to the majority poor.

Our political leaders must give primacy to democratic governance. Economic wisdom must be judged based not on its mesmerizing complex theory but on what it does to society. If it produces inequality by benefiting the minority rich but harming the majority poor, like regressive taxation, it must be discarded.

As economist John Maynard Keynes said, in the long run, we are all dead. However, we are still alive, humanity still exists, so we have to go on with the problematical business of living. Along this line, each of us has talents not found in others, while others have talents not found in us. There is a host of reasons for this—so that we cannot stand alone, so that we will not be proud, so that we will need each other, so that we will love each other. We have to care for the majority poor and help them rise from their wretched conditions. We must help make their existence less miserable, more bearable, and somehow enjoyable. In other words, we have to work for economic equality. Truly, it is in helping others, in giving 'til it hurts, that we will receive the blessings of a meaningful and rewarding life.