

# The Social Conflict Hypothesis of Institutional Change and Long-Run Economic Performance

Michael M. Alba<sup>1</sup>

## 1. Introduction

Why are some countries rich and others poor? Arguably, this is the most important question in all of economics since the publication of Adam Smith's *Wealth of Nations* in 1776. Not only is it the holy grail problem of political economy according to Acemoglu et al. (2004), it is also the central object of inquiry of development economics and growth theory, if not economic history, and its resolution is the *raison d'être* of multilateral institutions such as the United Nations Development Program, the World Bank, and the Asian Development Bank, all of whom have specified as their overriding goal the eradication of poverty. To get a sense of the gravitas of this question, consider the possibilities if and when definitive answers are found. As Lucas (1988: 5) in his now oft-quoted remarks from his Marshall Lectures avers, "The consequences for human welfare involved ... are simply staggering: Once one starts to think of them, it is hard to think about anything else."

Why are a few countries rich and many others so poor? Taking the social conflict hypothesis of institutional change espoused in Acemoglu et al. (2004), this essay proposes the following answer: As maintained by North (1990), cross-country differences in long-term economic performance are fundamentally accounted for by cross-country differences in institutions. Differences in institutional configurations, however, are in turn determined by differences in the temporal trajectories of how conflicting economic and political interests within a country are resolved. The underlying thesis of this paradigm is that, because they have different endowments, values, beliefs, preferences, and experiences, people have conflicting interests that they try to advance against those of their rivals through different institutional setups. The prediction then is that what ultimately determines the long-term economic performance of a country are the interests of those who control political power: If these interests are consistent with economic institutions that protect broad-based property rights, long-term growth and prosperity ensues. Otherwise, the economy languishes, as the elites would rather maintain themselves in power, content with having a big slice of a small economic pie.

The rest of this essay is organized as follows: The next section briefly summarizes the emerging consensus that institutions are the fundamental determinant of long-term growth and prosperity. In the third section, North's new theory of the evolution of states is summarized and used as the springboard for presenting the analytical framework of the social conflict hypothesis. In the fourth and last section, this analytical framework is used to explain certain episodes in Philippine history and current events.

## 2. Institutions as the fundamental determinants of long-term economic growth

What are institutions? North (1990: 3) defines them as "the rules of the game in a society" or as "the humanly devised constraints that shape human interaction." The reason that humans formulate and

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adopt rules for and constraints in interacting with their fellows, North points out, is that there are endless ways to do so, which taxes the limited “computing” capabilities of people; moreover, uncertainties and misunderstandings—rife in a world without set ways of behaving—can lead to dire consequences.

As an aside and to make the discussion more concrete, consider money as an example of an economic institution. As is usually pointed out in introductory economics, money has four uses in a modern economy. It is the unit of account, medium of exchange, store of value, and a means of making deferred payments. Its use as the unit of account means that money is the numeraire good, i.e., the good in whose units the values of all other goods and services are indicated. With money, exchange rates between pairs of goods and services (say, between apples and oranges or a lecture on economics and a bus ride) become superfluous; once the monetary value of a thing is set, its value relative to that of everything else becomes evident. Money as the medium of exchange solves the double-coincidence-of-wants problem of a barter economy: No longer must a rice farmer in need of shoes find a shoemaker in need of rice. As a store of value, money can be used as a means by which the worth of wealth, i.e., its command over goods and services, is preserved over time (at some discount rate). As a means of making deferred payments, money allows the purchase or acquisition component (i.e., the transfer of ownership or use rights) of a commercial transaction to be temporally separated from its payment component.

The invention of money is thus a great convenience for and benefit to people. The rule setting it as the unit of account makes problems of relative valuations straightforward to solve. Constraining the medium of exchange to be money (thereby decoupling wants in an exchange transaction) expands the scope of trading activities and allows people to specialize in the production of goods and services in which they have a comparative advantage. The practice of using money as a store of value facilitates the accumulation of wealth. (Although not impossible, the endeavor would be more difficult without money, since the alternative used must have intrinsic value and must keep over time.) The norm that it can be used to make deferred payments affords consumption smoothing across time periods as people are able to draw on future resources for current spending.

What is less usually noted, however, is that money is, in the words of Samuelson (1958), a “social contrivance,” i.e., an artificial arrangement. This point is most readily seen in the case of paper currency, since it has no intrinsic value. Why is a certain set of printed papers of particular sizes, markings, colors, etc., and issued by certain institutions used as units of account, media of exchange, stores of value, and means of deferred payments? Only because everyone agrees to do so. In other words, the practice *is* a social convention. Paper currency as an economic institution rests on such a flimsy and whimsical base!

Indeed, the fragility and fickleness of norms on money emerge with a vengeance with the slightest hint that the rule may be broken. Consider the consequences of news that counterfeit one hundred peso bills are in circulation. Such notes (but not those with other values) almost immediately are not as easily accepted. People avoid transacting in the denomination because of the inconvenience in time (as the bills are more carefully scrutinized) or of possibly being embarrassed (should the bills be rejected by the other party). Moreover, time and resources are invested in learning how to distinguish genuine from fake notes.

Arguably, the problem at its core is not the circulation of fake bills per se, but the erosion of confidence in money norms that such news brings about, which reduces adherence to them. If everyone does not mind accepting the counterfeit bills, the problem vanishes.<sup>2</sup>

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<sup>2</sup> Of course, the national government and the central bank will object since bills in circulation are liabilities of the former and a policy concern of the latter. But these are different issues altogether.

To sum up the excursus, it can be said that institutions are arbitrary rules that society adopts, possibly for welfare gains.

But why are institutions claimed to be the fundamental determinants of economic prosperity or decline? The argument offered is that this is because institutions influence the incentives of agents in an economy. For instance, in a command economy that is organized on Marx's slogan, "from each according to his ability, to each according to his need," to the extent that consumption is a utility (i.e., desirable) and work a disutility (i.e., an activity that people tend to shirk from), agents have the incentive to demonstrate to the social planner that they have greatest need and the least ability.

What institutions promote growth and prosperity? The emerging consensus is that these are the ones that enforce (well formulated and clearly specified) property rights for a broad segment of the population. The reason: When property rights are well formulated and clearly specified, whether explicitly by law or implicitly by norms, and protected in an economy, individuals are encouraged to acquire skills and firms are motivated to accumulate physical capital, to innovate, and to adopt new technology in order to add value to their productive activities. In contrast, when institutional arrangements allow predation (e.g., thievery, extortion, and expropriation), scarce resources are diverted to unproductive uses, such as rents (e.g., booty from protection rackets), defensive outlays (e.g., building tall fences or hiring security guards), and fending off predators (e.g., hiring litigation teams or testifying in court).

But what accounts for cross-country differences in institutions? Why do some countries have institutions that promote long-run growth and prosperity, while most others do not? As mentioned earlier, this essay favors the answer provided by the social conflict hypothesis of Acemoglu et al. (2004), the framework of analysis of which is presented in the next section.

### 3. The evolution of the state and the social conflict framework of institutional change

#### 3.1. North's new theory

Why are human societies organized as states? For North et al. (2006 and 2007), the overriding concern throughout history has been to solve the problem of violence. What is surprising is that there have only been three forms of social orders: the primitive one of the hunters-gatherers, the limited access order (LAO) of almost all states over the last 10 millennia, and the open access order (OAO) of the two dozen or so states that, by a fortuitous series of events, were able to transition out of the LAO.

Where there is no state, violence is endemic: Some individuals or groups specialize in violence, and everyone must be prepared to defend his person, his possessions, or his rights, by force of arms if need be. The possibility of a LAO arises when the gains from peace to the warrior class become sufficiently large as to make mutual commitments not to wage violence credible. Once an arrangement for peaceful, albeit alert, coexistence is in place, the top dog of each army can move to exploit rents by assigning favored individuals exclusive rights to trade, production, education, and even worship. In time, an elite class is formed, which has complete control over the political, economic, educational, religious, and military affairs of the society.

Thus, in a LAO, the threat of violence is contained by the formation of an elite coalition that (a) manipulates the political system to limit entry and access (by non-elites) to activities that generate rents and (b) allocates the rents among elites to induce support for the political system. The interlocking nature of politics and the economy in a LAO makes it a very stable system, so much so that North and his co-authors refer to it as the *natural state*.

There are three types of LAOs. The *fragile* LAO can hardly keep itself together in the face of internal or external strife. Examples are Afghanistan, Iraq, and Somalia. The *basic* LAO has the state as the only durable organization in the society, so that all elite organizations are, in effect, extensions of the state. Burma, Cuba, North Korea, and many Arab states belong to this category. The *mature* LAO supports an array of nongovernmental organizations, but these have to be sanctioned by the state to limit entry and to ensure that rents are consistent with the preservation of the dominant coalition. Most Latin American countries, India, and the Philippines are mature LAOs.

The last social order, the OAO, is characterized by open access and entry (by citizens) to political and economic organizations, fostering competition for rents both in politics and in the economy. Since the sources for rents now come from technological and institutional innovations (rather than restrictions on entry and access), the competition for rents propels markets and the political system toward efficient outcomes. Countries in North America and Western Europe as well as Japan are OAOs.

Because the logic of the social order remains the same, movement by a state over the LAO spectrum (i.e., to and from the fragile, basic, and mature LAO) is easier than its transiting out of mature LAO status to OAO status, which involves transforming the internal logic of its social order. North and his co-authors posit that the transition process has two parts: First, a mature LAO evolves institutional arrangements that allow impersonal exchanges between elites to take place. These *doorstep conditions* consist of (1) a rule of law for elites, (2) perpetually-lived organizations (or organizations whose existence as legal entities does not depend on who their members are, so that in principle they can live forever), and (3) political control of the military. Second, the elite class finds it in its interest to expand the scope of impersonal exchanges so that access and entry restrictions are lifted marginally (to be eventually inclusive of all citizens).

How the transition process can be effected, however, is still not well understood. North *et al.* can only offer three logic requirements of such a transformation: First, at the start of the transition process, the institutions, organizations, and behavior of individuals must be consistent with the existence of the natural state. Second, during the transition process, changes in institutions, organizations, and individual behavior can only be the intended or unintended consequences of actions that are presumed to be consistent with elite interests. Third, the transition effects reinforcing changes in institutions and individual behavior that are consistent with the political and economic systems at each step.

### 3.2. A critique

The new Northian theory is impressive in its breadth and sweep, attempting to explain as it does the evolution of the state or of social orders throughout recorded human history. The observation that LAO, with its interlocked political and economic systems and therefore very stable equilibrium, is the natural state is deeply insightful. Nonetheless, there are certain shortcomings. Most crucially, as North and his co-authors admit, a yawning gap is the absence of a blueprint of transformation from LAO into OAO status. Moreover, the second logic requirement for making the LAO-OAO transition—that institutional and behavioral changes are consequences of actions that are consistent with elite interests—may be too general to be helpful. After all, the elite class may not be monolithic nor their interests mutually consistent. For instance, the English Civil War (1642–1651) and the Glorious Revolution (1688) were arguably intra-elite conflicts. In addition, it is certainly not the case that actions that lead to institutional changes during the LAO-OAO transition process are all taken with elite interests in mind, unless “elite interests” are very broadly construed. In Great Britain, for example, the expansion of the voting franchise (a necessary component of an OAO) came to pass only through a series of grudging concessions by Parliament, in view of the rising power of working class—to avoid an uprising similar to the February and October Revolutions in Russia in

1917. It may be recalled that the first forced the abdication of Nicholas II and the second allowed the Bolsheviks to seize power.

### 3.3. Acemoglu's framework

Instead of focusing on the LAO-OAO transition, Acemoglu et al. (2004) consider how the varied economic performances of LAOs can be explained. The framework they propose posits that institutions are collective choices that are determined within a dynamic, hierarchical system of institutions. More specifically, the choices on institutional forms are outcomes of the interactions of self-interested individuals and coalitions. Because interests are usually not mutually aligned, however, there persistently is conflict over the institutional arrangements, which is resolved in favor of those who hold political power. In effect, political institutions, both formal and informal, determine economic institutions.

#### 3.3.1. Description

Acemoglu's framework takes off from the view that, because they organize productive activities and influence the incentives of agents, economic institutions in time period  $t$  determine economic performance, in particular the size of the economic pie, in the same time period, and, through the distribution of factor payments and economic rents, the distribution of resources in period  $t + 1$ . Thus,

Economic Institutions ( $t$ )  $\Rightarrow$  Economic Performance ( $t$ )  $\Rightarrow$  Distribution of Resources ( $t + 1$ ).

Economic institutions, however, are endogenous, i.e., determined within the system. In particular, they are set up to advance the interests of those with political power:

Political Power ( $t$ )  $\Rightarrow$  Economic Institutions ( $t$ ).

Moreover, since a crucial concern of those with political power is to perpetuate themselves in power, they also set up political institutions that allow them to do so in the next period:

Political Power ( $t$ )  $\Rightarrow$  Political Institutions ( $t + 1$ ).

But political power is an agglomeration of de jure and de facto political power,

$$\left. \begin{array}{l} \text{De Jure Political Power } (t) \\ \text{De Facto Political Power } (t) \end{array} \right\} \Rightarrow \text{Political Power } (t),$$

where de jure political power emanates from the (formal) political institutions,

Political Institutions ( $t$ )  $\Rightarrow$  De Jure Political Power ( $t$ ),

while de facto political power, which is more nebulous, flits with agents or groups who have the wherewithal and the gumption to pursue "politics by other means," such as assassinations, coups d' état, and mass actions. Where de facto power comes from is therefore hard to say. (Consider, for instance, why large numbers of people do the bidding of a charismatic figure.) Since utilizing or working with informal political norms require resources, however, it is hypothesized that agents who have a larger share of resources have greater de facto political power:

Distribution of Resources ( $t$ )  $\Rightarrow$  De Facto Political Power ( $t$ ).

Thus, the full model may be represented as follows:

$$\begin{array}{l} \text{Political Institutions } (t) \quad \Rightarrow \quad \text{De Jure Political Power } (t) \\ \text{Distribution of Resources } (t) \Rightarrow \quad \text{De Facto Political Power } (t) \end{array} \left. \vphantom{\begin{array}{l} \text{Political Institutions } (t) \\ \text{Distribution of Resources } (t) \end{array}} \right\} \Rightarrow \begin{array}{l} \text{Economic Institutions } (t) \Rightarrow \text{Distribution of Resources } (t + 1) \\ \text{Political Institutions } (t + 1) \end{array}.$$

### 3.3.2. Persistence and reversals

Note that, in this setup, whoever controls the political institutions and the distribution of resources—the two state variables of the system—gets to determine its trajectory. In other words, the interests of those who hold political power are those that are advanced by the system and in the economy. This is reflected in two sources of persistence, in particular. First, perhaps because of their significance in buttressing the status quo, political institutions have an enduring nature. Consequently, radical changes in political institutions typically require tectonic shifts in the balance of political power. Second, an aspect of the initial conditions may get to be magnified over time. For instance, owners of fertile farmlands can use their control of resources, i.e., their de facto political power, to increase their control of the system and increase their wealth holdings relative to other groups.

Nonetheless, the trajectory of the system is not inexorable. One avenue for a reversal is that people at large (who outnumber the ruling elite) are able solve their collective action problem, thus increasing their de facto political power and their influence in determining the institutions of future periods. Indeed, thresholds may exist in this regard. For instance, as economic conditions worsen, a point may be reached when the discontented factions set aside their disagreements, form a common front, and engage in disruptive mass actions.<sup>3</sup> If so, the configuration of economic and political institutions may take a wholly different turn.

In addition, the system is not impervious to exogenous shocks. Advances in technology or even the occurrence of natural disasters can change the distribution of resources and political power and thereby open opportunities for effecting sweeping changes in political and economic institutions.

### 3.3.3. The Coase Theorem

A final aspect of the framework concerns a curious but insightful question: Why cannot economic institutions and economic performance be detached from this system? (Why is the economic firewall thesis of Governor Joey Salceda, the president's favorite financial adviser, incorrect?) Why is it not possible for various coalitions in a country to agree on a deal that, on the one hand, maximizes the economic pie and, on the other, establishes a system of side payments to compensate losers in the deal? In other words, what does the Coase Theorem predict about this system?

Recall the following standard formulation of the Coase Theorem: If transaction costs are negligible, parties to an externality problem can bargain to a socially optimal outcome, regardless of the initial assignment of property rights. As applied to this problem, the theorem thus asserts that, as long as the transaction costs of forging and implementing an economic agenda are low, the negative externality, i.e., the poor long-term economic performance, that the ruling class inflicts on the rest of society can be solved, regardless of whether the right to enjoy economic prosperity belongs to the ruling class or the people at large. That no such deals are made, therefore, implies that transaction costs are sufficiently large.

What large transaction costs are there? Possibly costs that have to do with setting up effective third party enforcement mechanisms.<sup>4</sup>

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<sup>3</sup> Mass actions, though, cannot be sustained over long periods. This implies that, to be effective, the de facto political power gained must be quickly used to change economic and political institutions.

<sup>4</sup> Enforcement mechanisms are methods and processes that ensure that a party to an agreement complies with its commitments and obligations. First-party enforcement means that the party in question takes it upon itself to fulfill its promises. An example is the announcement made by President Corazon Aquino during her speech before a joint session of the American Congress on 18 September 1986 that the Philippines would honor all its international debt obligations, even as there was tremendous good will in the world then to

Consider the following hypothetical problem. Suppose that it is conclusively determined that if a long-serving president steps down from office, the incomes of everyone else in the population doubles. Assume, moreover, that everyone (except the president) somehow agrees to give up half of his windfall gains to set up the president in a palace with a handsome pension in perpetuity.

Is this deal likely to be struck? Not likely, because in the absence of an effective third party enforcement mechanism, commitments made by each or the other party are hardly going to be credible. Suppose the president steps down. What is her assurance that a future government will not renege on its commitments or will not evict her from her palace to boot? Conversely, suppose everyone pays up. What is the people's assurance that, after receiving her largesse, the president is not going to use those resources to restore herself to power and expropriate the remainder of their windfall gains?

Unfortunately, setting up third party enforcement institutions is quite costly. In the first place, the contract between the president and the people must be well specified and formulated, which will require an enormous amount of work for lawyers. In addition, a special court may need to be established, judges wise, fair, and honest have to be found and kept on a payroll, and a powerful army loyal to the court may have to be formed and bankrolled to enforce the special court's orders. Moreover, safeguards have to be set in place to prevent the court and its army from exceeding their mandates.

#### 4. Applying the social conflict framework to some examples from Philippine history and current events<sup>5</sup>

Arguably, the Philippine conundrum—i.e., why the Archipelago has languished as a poor country—has its roots in historical developments in the last half of the 19<sup>th</sup> century. Prior to this, the Spanish colony that was founded by Miguel Lopez de Legaspi in 1565 was more or less holed up in claustrophobic *Intramuros* with the galleon trade with Mexico as its major source of livelihood. It is not clear why the Islands were spared the infliction of the large plantation systems that were established in Latin America and the Caribbean and maintained by slave labor. Most probably, it was because *Las Islas Filipinas* were too far away from Mexico, of which it was a province, for such ventures to be financially viable.<sup>6</sup> In any case, the *peninsulares* (European born) viewed their Manila posting as a short sojourn, an opportunity to make a quick buck by exporting Indian fabric as well as Chinese silk and porcelain to Mexico and importing Mexican silver to the Islands through their allotted *boletas* (cargo space) in the galleons.

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absolve at least some of the debt, especially with Mexico just having obtained a substantial debt relief. In the case of an individual, the mechanism that impels first-party enforcement is said to be the person's conscience. Second-party enforcement means that the other party compels the party in question to satisfy its [the party-in-question's] end of the deal. Second-party enforcement powers may include the other party's having a private army or judges on its payroll. An example of a second-party enforcement scheme is the medieval practice of sending a close relative of the borrower to live as a "hostage" in the household of the lender. Only when the obligations were fully discharged was the kinsman given his freedom. Third-party enforcement means that an entity independent of the contracting parties—usually the State—sees to it that the terms of the agreement are satisfied. An example of a third-party enforcement mechanism is adjudication by a court of justice.

<sup>5</sup> Historical details in this section are taken from Roces (2006).

<sup>6</sup> While Mexico was a Spanish colony, there was no direct trade between Spain and the Philippines. Given the existence of the Caribbean and Latin American plantations, however,

In terms of the social conflict framework, it thus may be said that no significant developments occurred, i.e., neither extractive institutions nor broad-based property rights were established because economic rents were small and the colonizers had no intentions of settling in the Islands permanently.

The mid-1800s, on the other hand, were another matter altogether. Early in the century, the galleon trade had ended, its demise a consequence of Mexican independence.<sup>7</sup> Forced to find new sources of income, the Islands had opened themselves up to the winds of international trade. Agricultural exports flourished and soon brought forth a wealthy class of *hijos del pais* (sons of the country), who considered the Islands, rather than mother Spain, home. Using their newfound resources to obtain an education, some in the best universities of Europe, scions of these wealthy families came to be known as *ilustrados* (learned and erudite men).

Thus, it was perhaps inevitable that tensions would rise between, on the one hand, the colonial government and the Spanish clergy—the defenders of the status quo—and, on the other hand, the *ilustrados*, desirous of equal treatment both under the law and the social norms.<sup>8</sup> The first line of battle was drawn in the administration of the parishes between the religious clergy, who were *peninsulares* to a man, and the secular priests, most of whom were Filipinos (i.e., *hijos del pais*). Perhaps due to concerns over lost incomes in the home country, the religious clergy engaged in a parish grabbing frenzy. Initially politicized as an issue of loyalty to mother Spain, the selection criteria for control of a parish quickly degenerated to outright and blatant racial discrimination.

Cudgels for the defense of the Filipino clergy were taken up by the brightest among its ranks, namely, Frs. Mariano Gomez and Pedro Pelaez, and, upon the latter's untimely death in 1863 from an earthquake that shattered Manila Cathedral, his protégé, Fr. Jose Burgos. Fr. Gomez was an activist who interceded for his parishioners against the machinations of a religious corporation that wanted to swallow up lands adjacent to its hacienda. Against propaganda instigated by religious clergy in Spanish newspapers, he along with like-minded comrades financed lobby efforts in Spain to defend the rights of Filipino priests. In contrast, Frs. Pelaez and Burgos were scholar-intellectuals who, using anonymously written pamphlets, engaged the religious orders in disputatious arguments based on canon and civil law.

The relentless insinuations of the friars eventually drew blood under the administration of General Rafael de Izquierdo. Using the Cavite Mutiny of 1872 as a pretext, Izquierdo hastily arranged to have Frs. Burgos and Gomez, along with Fr. Jacinto Zamora, a hapless friend and classmate of Fr. Burgos, tried by military court, convicted, and publicly garroted.

Unfortunately for Spain, the executions of the priests only widened the metaphorical field of battle. The grievance of the Filipino clergy against their Spanish confreres metamorphosed into the grievance of Filipinos against their Spanish colonizers. Indeed, the martyrdom of the three priests ignited a two-decade long propaganda movement (1872–1892) that in due course gave birth to a Filipino identity and consciousness that, by 1898, aspired for nothing less than national independence—through the American colonial period and the Japanese occupation.

Based on the frame provided by the social conflict paradigm, it thus may be argued that the opening up of the Philippine Islands to international trade (a change in economic institutions) improved

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<sup>7</sup> Ironically, the last galleon that set sail for Acapulco—in 1815—was the *Magallanes*.

<sup>8</sup> As a consequence of the Carlist Wars, the houses of religious orders were closed and their properties seized, but only in Spain. Traumatized by their persecution from anti-clerical elements among the ranks of liberals and reformists, the friars sought refuge in the Philippines and became rabid anti-liberals, fomenting against free speech, press, and assembly, individual rights, and the separation of church and state. Thus was the stage set between the bigoted Spanish clergy and the reform-minded *ilustrados*.



economic performance and skewed the distribution of resources in favor of the Filipinos (i.e., the non-*peninsulares*). In turn, the Filipinos used their newfound resources and de facto political power to advance their interests. Indeed, the brightest among the *ilustrados* studied for the clergy because, nominally, it offered the most open avenue for advancement compared to careers in the military or the government. (The policy of the Holy See even then was for the religious missionaries to train natives to eventually take over the administration of the parishes.) Since the church and state had interlocking mandates then, it can be argued that the fight for control of the parishes was a fight to change political institutions, the nature of which would have changed with Filipinos at the helm of important parishes.

The Spaniards felt sufficiently strong to use repressive methods. The unforeseen consequence of the execution of the priests, however, was that it galvanized the Filipino intelligentsia into launching the Propaganda Movement; that is, it created the conditions that in time gave birth to a distinct Filipino identity and set the Islands on the unremitting drive toward nationhood.

Alas, this national enterprise has time and time again been slowed, if not waylaid, by what Roces (2006) calls a “fatal flaw” in the Filipino psyche, viz., an inability to subordinate personal differences to the higher cause. The following incident is a good example. The first occurred in Madrid between December 31, 1890 and January 1, 1891. Divided into *Pilaristas* and *Rizalistas*, members of the Propaganda Movement could not choose a leader through five elections over the two days. With 19 of the 31 votes, Rizal needed only one or two more to surmount the two-thirds majority requirement. With only 10 votes, Marcelo del Pilar could not hope to win. Yet he could not find it in himself to give way to the younger, more brilliant man.

The experience so soured Rizal that he decided to leave Spain, which eventually set him homeward bound to found *La Liga Filipina*. The incident also led to the collapse of the Propaganda Movement in Spain and the demise of *Solidaridad*. Ironically, both Rizal and del Pilar were to die within months of each other in 1896.

The point in the context of the Acemoglu framework, though, is that Filipinos have been unable to solve their collective action problem to advance interests for the common good.

Fast forward to the present. The many attempts to impeach President Gloria Macapagal Arroyo have been defeated by her allies in the Lower House of Congress. As a result, these forces are emboldened by their apparent stranglehold on the formal political institutions and therefore on de jure political power. At the same time, the opposition groups—including Civil Society—continue to be unable to solve their collective action problem and therefore are suffering a diminution in their de facto political power. It seems a propitious time for Gloria’s allies to mount charter change initiatives by acting to turn Congress into a Constituent Assembly. Whatever may be the maintained justifications of these moves or the avowed purity of the congressmen’s motives, everyone believes that the proposals are brazen attempts by the politicians to perpetuate themselves in power (whether through a one year extension in their term of office, the elimination of term limits, or a change in the form of government).

There are two possible routes to a Constituent Assembly. Either the congressmen get 198 votes and the Supreme Court (now packed with GMA appointees) interprets the conditions laid out in the Constitution in the Lower House’s favor or two-thirds of each house of Congress vote for the charter change resolutions.

If the Assembly is constituted, will this stir the majority (who claim they are opposed to such a move) into solving its collective action problem to radically shift the balance of political power? Will the junior officers in the Armed Forces mount a coup (which is a show of de facto political power)?

To conclude: The poor long-term economic performance of the Philippines is due to the stranglehold of oligarchic families (latter day ilustrados?) on the formal political institutions and the distribution of resources. One consequence has been poor property rights enforcement (i.e., rampant corruption) that has severely hampered the country's total factor productivity. Unfortunately, no coherent plan has been put together to break the vice-like grip of the ruling class and to solve the collective action problem of the rest of the population.

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