Philequity Corner
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Tinkering with market forces

Consistency. We have repeatedly emphasized the need to be consistent with our policies. Nothing can really turn off investor interest more than the inconsistencies in policy pronouncements. It takes a long and tedious process before investors make up their minds about investing in any market or business. So, for the serious investors, changing rules midstream is a mortal sin.

However, some policymakers are impervious to this rule. Just last week, two major policy shifts were proposed and rattled the business community. We are referring to the planned imposition of limits to banks' oversold dollar position and the legislation to raise the minimum daily wage by P125 over a period of time. These proposals have negative economic repercussions.

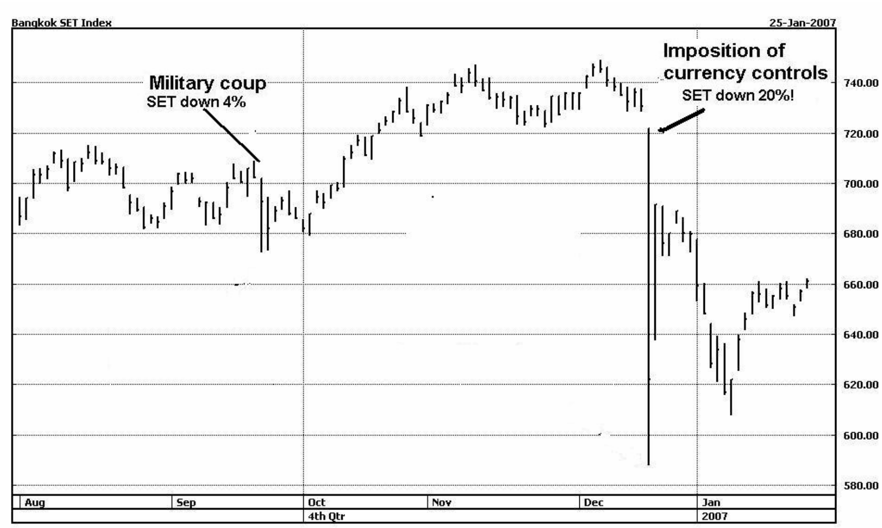
Calling a spade

Let us take the first policy proposal for instance. Instead of liberalizing the overbought position, a limit on oversold position was proposed. This makes matter worse. **For all intents and purposes, this is a form of currency control**. There is no other way to label it regardless of the intention. It is sad but it seems that we never learned from Thailand's recent experience. **Investors took greater issue with the currency controls imposed by Thailand's monetary authorities than with the coup d'etat that happened a few months earlier.**

Investor scare

To prove our point, just take a look at the chart below for the Stock Exchange of Thailand (SET). The SET index fell by just 4% right after the coup but managed to recover about 10% afterwards. This, after the new leaders assured investors and the public that little will change with the economic policies of the country. However, the announcement of the currency controls scared the hell out of investors as this was not only inconsistent with the leaders' assurance. It is a complete reversal of the previous market-oriented inclinations. Right after the announcement, the SET lost as much as 20%! The Thai central bank subsequently reversed part of the rule but the damage has been done. This only tells us that investors may tolerate whatever form of government for as long as the latter adheres to favorable market-oriented policies.

SET Index



Source: Technistock

Coming in the heels of Thailand's currency controls, the proposal by our monetary authorities to impose oversold forex limits is ill-timed. The mere mention of words like "limits" and "controls" scares investors. Thus, it is in this light that we take with great relief that instead of oversold limits, there is now a plan to liberalize existing restrictions on banks' overbought forex limit, simplifying the documentary requirements for buying foreign exchange and increasing the ceiling on residents' purchase of foreign exchange for investment abroad. This is a far better and more acceptable move than putting controls. The market appreciates reforms and liberalization rather than the institution of unreasonable restrictions. Our monetary authorities' efforts to consult the business and investor community on the planned changes are also laudable.

Legislating minimum wage

Of similar concern is the planned legislation of higher daily minimum wage. It is depressing that some policymakers are politicking by using this issue that that is so crucial to the economy.

In our article last June 5 (*Wage hikes: a matter for market forces*), we painstakingly enumerated our arguments why this should be left to market forces. Primarily, we said that ours is still an economy of micro- and SMEs, with more than 90% of our employers falling within this category. Unreasonable wage hikes would hit these employers and about 70% of our workforce. Imposing unreasonable wage levels could also force small firms to go underground and eventually evade paying taxes and the right wages, thus rendering the forced wage hike counter productive. In the end, it is the workers that suffer.

We are not disregarding the welfare of our workers. In fact, we strongly believe that they too should feel the benefits of our economic growth in more tangible terms. However, wages are matters of supply and demand and should therefore be left to negotiations. We say it again: we have a tried-and-tested wage-setting mechanism through the regional wage boards. If ever, let us improve, strengthen and not ruin this mechanism.

Hasty approval

What is also worrying is the manner by which the proposed minimum wage hike bill was approved. In the case of the Lower House, the bill's approval was obviously rushed before the adjournment last December. In the rush, legislators seem to have overlooked the economic impact of the bill and its retroactive feature which is prohibited under the constitution.

Following the Lower House's oversight, we had high hopes for the Senate. This was an opportunity for the senators to correct a glaring mistake by the Lower House. However, we were disappointed. Politics took precedence over responsible legislation. As per newspaper reports, the senate labor committee just adopted the House version entirely and passed the buck to President Arroyo. A senator's statement clearly showed that the wage hike was used as a ploy to put the President in a no-win situation. It portrays to everyone that one-upmanship takes precedence over the welfare of the country and the people. This is politicking at its worst. The welfare of our workers is everyone's concern, not just the President's. A policy proposal as serious as the minimum wage legislation deserves intensive deliberation and study.

Congress is the country's biggest policymaking body. But the impression that investors are getting is that there seems to be little deliberation and thought put on the legislation process. Rightly or wrongly, this also paints an unflattering picture of the quality of our legislators.

We would like to keep our hopes high as far as the entire Congress is concerned. A recall of the bill or an eventual veto by the President is certainly warranted.

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