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INTERVIEW

Social Science Diliman Conversations with Social Scientists:

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UP School of Economics
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Origin story

JCP: How did you become an economist?

ESD: When I was younger, I thought my strengths were in literature and in English in particular. I did pretty well in those subjects in grade school and high school while my math was middling at best. Then, however, I became involved in student activism from high school and began to read philosophy seriously. I took the activism beyond the local writings of the Left and read Marx. When I first entered college at the Ateneo, I enrolled where I thought my strengths lay—in Philippine Studies, a literature-based course. I was attracted to people there like Bienvenido Lumbera, Nicanor Tiongson, Virgilio Almario, all great writers who also happened to be Left or Left of center. Owing to some controversy inside that university, however, they were all eventually let go or resigned. Meanwhile, I had also dropped out of school to pursue full-time student activism. (To my parents' dismay, I thought formal studies no longer made sense in light of the declaration of Martial Law.) When I returned some years later to resume my studies, the original career path of literature I had considered no longer held an appeal because all

1 This interview was conducted via Zoom on July 25, 2023.

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the people I admired had moved on to UP. In the meantime, in the years since, I had developed a serious interest in learning economics, and this was the course I enrolled in at the Ateneo upon my "reintegration."

You will understand then that I initially came to economics not to learn economics per se, but actually to critique it—except that I thought that, in the process of a fair critique, one needed to understand the foundations of what was being criticized. From that arose my desire to understand mainstream, particularly neoclassical, economics. Acquiring that expertise required me to become familiar with the "language" of that tradition, which is quantitative methods and higher mathematics. That motivation stayed with me even as I entered graduate school at the UP School of Economics. While my sympathy for heterodoxy remained, I thought I had to learn mainstream economics where it was expounded and taught in the best way, which was at the School.

JCP: When you moved to UP, as I understand it, there was a lively Leftist tradition at the School of Economics. How did your attitude toward Marxian economics change?

ESD: Maybe it should be noted now as part of School history—the School for a time was a menagerie of different ideological persuasions. And there was enough room for a small Left tradition to flourish. Indeed when I enlisted in graduate school, the chairman was Gonzalo Jurado,[2] who was the most senior "Left" professor at that time. Aside from him, senior faculty like Linda Tidalgo and Casimiro Miranda were also Left-leaning. For us younger activists and scholars, the understanding and implicit support coming from such senior faculty was a source of reassurance. The more serious man of the Left in the School however was Ricardo "Dick" Ferrer, who at the time was assistant professor in the School of Economics. It was he who seriously took up the attempt to figure out the relationship between mainstream economics and Marxian economics especially as this applied to Philippine development. As younger graduate students, we had great conversations with Dick. There was actually a group of us in the faculty who were trying to take what you could of Marxian Economics—including the Left literature being produced locally—to see what was or was not reconcilable with mainstream economic theory or a least expressible in the more rigorous language used by mainstream theory. Among these, you would count some former and current faculty members like Manny Esguerra, Butch Montes, Joseph Lim, Orville Solon, and Joy Abrenica. We were essentially treading a course between Left politics and mainstream economics. More generally, what it did for us as later professional economists was to help us keep a healthy attitude towards mainstream theory, neither one of full acceptance nor outright rejection.

2 Professor Jurado passed away in 2016. See de Dios's memorial to him in "Gon: Not Forgotten," *Per SE*, August 4, 2016, https://econ.upd.edu.ph/perse/?p=5517.

Gradually, however, as a graduate student I came to appreciate the coherence and versatility of mainstream economics itself. And conversely, I came to realize the real-life sterility of some dearly-held Marxian concepts, such as the labor theory of value, as well as the theoretical and real objections to heavy-handed state intervention and socialism. In graduate school, I also came to appreciate the power of the tools economics uses and the value of formal models in analyzing social situations. This love for theory I got from José "Pepe" Encarnación Jr. It turns out the analytical tools that are the bread-and-butter of mainstream economics can also be used to elucidate social viewpoints quite different from and even critical of the standard perspective. In the end, therefore, it dawned on me that anyone who was serious about critiquing standard economics would do well to learn more, rather than less of it.

JCP: Who inspired you the most in your early career as an economist?

ESD: At the graduate school, definitely, the most inspiring teacher I had was Pepe—for several reasons. Pepe was looked upon as the paramount teacher of economics during that time. But he was also something of an iconoclast. He had a very clear understanding and mastery of mainstream economics, but at the same time had the ability to step back and take a critical, objective view of it. A lot of Pepe's writing was about debunking or correcting much of the received theory of rational choice—namely the expected-utility model of mainstream economics. Instead he thought his theory of lexicographic preferences—according to which people decided based on hard and fast priorities with limited room for substitution—was a better description of people's behavior. Pepe kept that critical literature alive singlehandedly, almost quixotically, throughout his career. That kind of critical, from-left-field approach to economics is what I found attractive and engaging in the way Pepe taught and curated economics. Even as he taught the material, he always pointed to shortcomings of the orthodoxy. He inculcated in us a healthy scholar's desire to think on one's own as much as possible and the need to constantly look for something better.

JCP: Can you tell me about your research interests and how they evolved?

ESD: Individual choice theory was the topic of my dissertation under Encarnación. The story of that was, I started out trying to do a thesis on applied international economics, in fact, the cement industry, but this was leading nowhere. And so, I was adopted by Encarnación who took pity on a floundering PhD candidate and casually said, "Why don't you do a dissertation on general equilibrium and lexicographic preferences?" So that's what I did, but in addition, I worked on the background of that concept—a kind of history of lexicographic thinking, which started me off on the path of the history of economic thought.

My other big interest at the time was international economics. The attraction was both practical and theoretical. On the applied side, my desire to study trade was motivated primarily by the question of trade strategies as these affected

development. On a theoretical level, it was the coherence of the theory of international trade that attracted me.

Slowly, however, I was drifting away from international economics, although even today I try to keep a casual eye on developments in the field. When the insights from new institutional economics (NIE) came around, I was ready and happy to subscribe to its larger view that something more systemic than trade strategies—or even the political economies associated with such trade strategies—determined development outcomes. It is not the type of trade regime (e.g., protectionist versus export-promoting) that leads to inferior institutions; it is bad institutions that lead to inferior trade regimes, whether such regimes are protectionist or market-oriented. It is the structure of broader institutions that matters, particularly whether social rules and conditions exist that can control the predilection of elites for internecine violence and expropriation, enough to leave space for investment and innovation to flourish. This type of thinking is not new: it harkens back to the old idea from Marx that systems of politics and economics hang together.

The raw material for institutional economics à la North is history, so it was from there that my interest in economic history arose. Another author whose ideas I followed closely is Joel Mokyr of Northwestern University. Mokyr is also an economic historian, specializing in the history of technology, especially how useful knowledge was produced and spread before and during the Industrial Revolution. As always, I organized my thoughts on these matters by following Seneca's advice—by teaching an economic history course.[3] These two things—institutions and technology—are now central to my own thinking about long-term development: how should society organize itself so that its institutions promote rather than hinder innovation and investment, preferably in a manner that benefits the masses?

Somewhat separately, I was also drawn to Philippine history. Though I would have wanted to do it, Philippine *economic* history is a more difficult subject to teach and organize—especially along analytical NIE lines—since much of the empirical work needed for a coherent narrative and theory simply does not yet exist. This has been the justified complaint of our colleague and long-time friend of the School, the formidable Jeffrey Williamson of Harvard. Jeff, as you know, has been urging me and younger colleagues like yourself to devote more time to laying down the facts of the Philippine economy and welfare, especially in the periods of Spanish and US occupation. I think we have only begun that work and should try to make more progress in the coming years. Nonetheless, even before that work has progressed far enough, a more urgent need has arisen—the need to set the economic record straight regarding the Marcos regime in the face of disinformation and historical revisionism. Our joint paper with Corina Gochoco-Bautista, and of course, your

3 Seneca the Younger wrote, "Men learn while they teach."

own book *False Nostalgia* are, if I may say, creditable initial responses to this need. But more must be done, perhaps by extending the analysis to the problems of the post-Marcos era. From experience, unless one lives as a hermit, it is rare that one can proceed on a neat and systematic work program undisturbed from start to finish. Rather, emergent societal, political, and intellectual imperatives—and at times simple requests from friends and colleagues—will require you to deviate from your neat original plans and instead jump into the fray of current debates. That is just the reality of a scholar's imperfect existence and part and parcel of our social responsibility.

Social responsibility is also what pulled me into my long-term involvement with the Human Development Network (HDN), founded by Solita "Winnie" Monsod. Okay, so Winnie's persuasive persona is half of the explanation for my involvement. But also the fact that HDN's advocacy is built on welfare concepts originated by A.K. Sen and Mahbub Ul-Haq. I had already found in Sen's writings the kindred soul of a social liberal—as I did with Kenneth Arrow. So it was both an attraction and a challenge to use his ideas to elucidate the problems of human development in the country. Over the years, the HDN has put out reports covering social questions like education, gender, institutions, conflict, and socioeconomic mobility. I regard these reports as a major part of my work in applied economics.

The UP School of Economics (UPSE)

JCP: Let's talk about the UP School of Economics (UPSE). After serving as dean for two decades, how transformative was Pepe Encarnación and his leadership?
ESD: At the academic level, it was he who actually set a high standard for education, but especially graduate education. That filtered down to undergraduate education, because he came down hard on the faculty. He recruited good faculty and required them to teach well because he set a personal example. Besides pedagogy, he set a high value on academic integrity. The faculty were motivated, almost impelled, to set those high standards for the students because of the example Encarnación set. In cases of cheating, for example, he never compromised. Encarnación also set high expectations for the faculty to do research. Over lunch, he would always ask, "Oh, what are you writing now? What is your latest publication?" Such simple questions were enough to prick a faculty member's conscience and keep them on their toes.

Pepe was a stickler for rules, particularly those meant to preserve the integrity of academic existence. Through his example, he showed that the value of academic life was transcendent, notwithstanding financial and other challenges. If it seemed you were less than fully committed to academe and you showed it by staying away, then, it was okay to say goodbye. Pepe's words and opinions carried weight

because he himself embodied the life of a dedicated academic, one who brooked no distraction from the serious mission of teaching and research. Pepe's exacting standards—both moral and intellectual—cascaded to the rest of the faculty, and the School gained a collective reputation in the University for high moral standards. To be invited to join the faculty then was an honor, and that was how I perceived it. This created a virtuous circle where the School's reputation for quality attracted the best minds and the most serious scholars, which in turn reinforced the reputation.

JCP: In terms of teaching, what should be UPSE's priority: undergraduate or graduate studies? Where does our comparative advantage lie?

ESD: What would be ideal is if the School maintained a small but highly selective undergraduate program and a sizeable graduate program focused on research. One must realize that the School's principal mission is not to deliver undergraduate education. Our specialization or competitive advantage is really our graduate program. Other institutions are now able to deliver undergraduate programs that are pretty good, perhaps even as good as ours. But I am sure even today that nobody in the country delivers a Master's—much less a PhD education—as well as the School does. So perfecting our undergraduate program offerings—say by expanding subject offerings and devoting more faculty resources in it—may not be the very best use of our resources.

At the moment, I think Dean Joy Abrenica has managed to cope admirably, despite expanded curricula and our straitened faculty resources, by tapping high-quality lecturers and retired faculty for the undergraduate programs. Despite the challenges, Dean Joy has done a much better job than previous deans (me included) in producing PhDs. All the criticisms of the current state of the School notwithstanding, we are producing more PhDs now than in the past.

JCP: How can UPSE improve its PhD program?

ESD: The most important step is to guide students in writing their theses or dissertations so that they get over the finish line. The rate of PhD completion is the acid test for the faculty's quality because success in this measure depends on many ingredients coming together. For example, the faculty adviser must be up-to-date in the field and must fruitfully sustain the student's interest and effort. The faculty must also be sufficiently committed to academic work to devote the time needed for advising. Students must also be assured of some predictability of completion so that they themselves will choose to devote the needed effort to finish. Financial support for thesis writers is desirable, of course. But more important, I think, is that the faculty should demonstrate that it can regularly produce quality PhDs in two to three years after course work.

JCP: In the past, UPSE had plenty of graduate students from different Asian countries, especially those in ASEAN. Why is this so? And what do you think changed over the years?

ESD: What changed, JC, was the level of funding. Many of those students were

funded by foreign agencies, for example, Ford or Winrock. Winrock was mainly funding students from South Asia, and Ford was doing it for people from Southeast Asia. In my entering class, for example, I had classmates from Nepal, Pakistan, Bangladesh, Indonesia, Malaysia, Thailand, and even Japan. I think it was the view of funding agencies that the School could serve as a cost-efficient alternative or first stop before they sent these third-world country students directly to universities in the developed nations. In time, however, I think the strategy of many of these funding agencies changed and the third-world countries received funding directly to support their students studying in developed-country schools.

Apart from funding drying up, however, related to it is the fact that the Philippines failed to live up to its economic promise, a fact that ultimately rubbed off on the reputation of its country's academic programs. Like it or not, an economics education in a country with an anemic growth record will not seem attractive to a foreign student who is offered other choices. The dire economic conditions also affected the faculty, a number of whom left for better-paying jobs.

If some way could be found to support students—house them, give them decent allowances—I think you might still attract foreign students to come to UP. The University itself must become more welcoming to international students.

JCP: Besides teaching, what do you think would be UPSE's most influential or consequential contributions in terms of economic policymaking and nation-building?

ESD: Ideally, our aim should be to turn out enough high-quality economists (Master's and PhD holders) to populate the most important centers of social decision-making—which includes the civil service and the highest levels of government, of course. The hope is to improve the quality of economic and financial decision-making in those important sectors so that society can achieve rationality and more coherence in its efforts for welfare and development. In the process of fulfilling this academic mission, we ourselves are able to contribute to the analysis of society and its problems. *Docendo discimus*, to paraphrase Seneca again.

It also follows that the main job of the faculty is not to offer their services to government. I'm ambivalent about active faculty joining the government, especially when we're so short-staffed. I suppose now and then, it might be useful for the odd faculty member to join government, a multilateral, or even a private corporation. But we should always hope they return to the academe and remember that we did not join the faculty as a stepping stone to become functionaries or politicians. We are here to educate.

I'm also aware the School faculty has become publicly known for their collective positions and commentaries on controversial issues. But valuable as these are, the School's value should not be judged based on the frequency or infrequency of such statements. The School's value abides even absent such public statements. If it performed its job consummately then influence and significance would follow as a

matter of course. And that job, as I said, is to produce quality graduates. That may not seem as glamorous a role for the School as some people might want or think. But I honestly think it is what we should be doing.

JCP: UPSE is almost like a factory of technocrats. Yet the country has been left behind by our ASEAN neighbors over the decades, and we have severely underperformed. Where do you think this disconnect is coming from?

ESD: What it should tell you is that even if qualified economists and well-meaning economists were in the NEDA (National Economic and Development Authority), it's obvious that their opinions have not always mattered a lot. The best example of this is the Marcos regime, where technocrats really served only as cake decoration. But it's also wrong to say, I think, that the country has not made progress or "severely underperformed." Like it or not, I think the liberalization episode after Marcos yielded some results. I don't want to minimize the still unresolved problems we face—particularly the institutional challenges. But objectively, the country has held up pretty decently in terms of growth especially in the last fifteen years before the COVID crisis. This has happened in ways that were not predicted by the earlier technocrats. I wrote about this in a recent article.[4]

Advice for younger economists

JCP: What advice would you give to younger scholars in economics? Should they be specialists or generalists?

ESD: I don't know if my eclectic experience is the best example to follow. What is always true, however, is that you must ultimately follow your interest and passion. But first of all, you must steep yourself in the basics, the fundamentals of the discipline. Pepe Encarnación once received a visitor and Pepe asked him, "Oh, what is it you do?" The visitor said, "Sir, I'm a forestry economist." Pepe looked at him then said, "You're either an economist or you're not." The point is that if you have good foundations, you don't have to restrict yourself to being an XY or AB economist. One is an economist, period. With a solid grasp of foundations, you can engage in any field that interests you, and specialize in it. For a well-formed economist, no specialization should be inaccessible. Others may not agree with this view and want to immediately immerse themselves—even in their early years—in learning certain specific skills or narrow fields. But, for me it's always good to be more versatile and adaptable.

JCP: What would you say to your younger self—the activist drawn to Marxian economics? How would you talk to your younger self?

4 De Dios, Emmanuel S. 2022. "The Economy Fifty Years Since Martial Law: Changing Landscapes, Unchanged Views." In *Martial Law in The Philippines: Lessons and Legacies, 1972-2022*, edited by Edilberto C. de Jesus and Ivyrose S. Baysic. Quezon City: Ateneo de Manila University Press, 318-346.

ESD: I would say, to quote a phrase, "Well grubbed, old mole!" Studying economics was no bad decision. It probably saved society from another mediocre would-be writer. In particular, to come at it from "left field," as it were, was not a bad path at all. It prevented me from being a victim of ideology from either side. I did not become a wide-eyed free-trader nor a dogmatic Marxist. My exposure to economics gave me tools to understand comparative or contrasting worldviews, and find my own voice.

On the future of economics

JCP: Over the past decades, economics has turned decidedly more empirical and experimental. What do you think of this?
ESD: I think it's healthy. But it does mean that my own way of doing things—or Encarnación's way of doing it—may become less and less noted or even publishable. I think the reason this has happened is that computing power and data availability have simply improved by leaps and bounds. In the past, when computing power was limited, you had to anchor your hypothesis tightly to some existing theory, whether it was a priori or something generated by the literature. When you wanted to test something, it was very difficult to even do a regression, estimate systems of equations, much less solve computable general equilibrium systems. But now all of that has become much easier. The bonus now is being able to start from what is empirically observed, rather than always beginning with a priori theoretical suppositions. What is the place for theory in such a situation? The question for the empirical-first strategy is, where will you get the concepts with which to explain the patterns you observe? That has to come from somewhere. Therefore, studying theory is still needed.

The trend towards greater empirical and experimental orientation also allows us to move away from some of the admittedly over-simple models we use. Take for instance the behavioral economics movement started by the contributions of Daniel Kahneman, Amos Tversky, and Richard Thaler. A lot of this makes us confront our simple theory of behavior directly with reality, and theory is often actually falsified or needs to be modified because human behavior is diverse and cannot be shoehorned into one model. In time, therefore, we might move away from the very rigid, rational choice standard based on maximizing expected utility. That model of behavior has served us well and is still useful in many market-related contexts, but it is far from completely describing the totality of human experience.

The greater premium on observation will also mean a greater openness to applying methods that are more naive and less structured, such as factor analysis or latent class analysis, or more generally, machine learning. This latter is something you pioneered in your dissertation, JC. It is still one of a kind in economics locally for using the newer methods of machine learning. I'm happy that your training

at the School has allowed you to pioneer in these approaches, although much of this has really been discovered due to your own efforts. Ideally, however, such new techniques should already be introduced at some point to our graduate students and already form part of their quantitative repertoire upon finishing coursework.

JCP: What fields do you think are most exciting moving forward? What kinds of papers are you excited to do in the coming months and years?

ESD: Not necessarily papers by me! At this point I'm more of a cheerleader than a player. I'm especially interested in the interface of economics with psychology and anthropology, and this can span behavioral economics, experimental games, and neuroeconomics, among others.

I think the climate crisis is a topic that deserves special mention owing to its urgency. The question is how the climate crisis, and climate change in general, will affect the country's future development. Economists have a large role to play in estimating the costs of mitigation and adaptation and the tradeoffs involved. How far must settlements move inland? What energy choices need to be made? What are the effects on productivity? The climate crisis is *the* problem for our time.

Another long-term trend is the changing social structure. The Philippines is now a majority middle-class society, and so the needs of the population are changing. Rather than conditional cash transfers, most people will soon start needing more comprehensive care, health insurance, and retirement beyond the token safety nets that now exist. We've justly been focused on poverty in the past, but the poor will become a smaller and smaller share of the population. So social demands will predominantly involve the needs of the middle class.