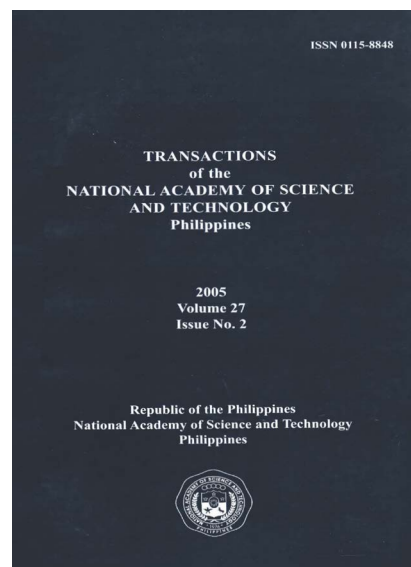


Transactions NAST PHL, is the official journal of the National Academy of Science and Technology Philippines. It has traditionally published papers presented during the Academy's Annual Scientific Meeting since 1979 to promote science-based policy discussions of and recommendations on timely and relevant national issues as part of its functions as a national science academy. Starting in 2021, this journal has been open to contributions from the global scientific community in all fields of science and technology.



Transaction Costs of Exchange of Assets and Property Rights

Ramon L. Clarete

Professor, School of Economics
University of the Philippines Diliman
Quezon City

Citation

Clarete RL. 2005. Transaction costs of exchange of assets and property rights. Transactions NAST PHL 27(2): 227-229. doi.org/10.57043/transnastphl.2005.4627

Copyright

© 2005 Clarete RL

Philippine Agriculture 2020: A Strategy for Poverty Alleviation, Food Security, Global Competitiveness, Sustainability, Justice and Peace

**TRANSACTION COSTS OF EXCHANGE OF ASSETS AND
PROPERTY RIGHTS**

Ramon L. Clarete
Professor, School of Economics
University of the Philippines Diliman
Quezon City

First of all, I would like to thank the Academy, particularly, Dr. Javier, for inviting me to provide comments on the draft of the Philippine Agriculture 2020. I think it is a great draft document and I would like to congratulate the people behind the drafting of this particular report for its very comprehensive nature and the report is moving in the directions I would personally like Philippine Agriculture to be moving to.

My comments actually would be more like a complement in terms of the philosophy of the particular document and I would like to highlight a framework that is gaining ground in the academic circles, at least in the economics profession, the concept of transactions costs. We do have poverty in the rural areas and that, in particular, poverty is the result of the underdevelopment of the rural areas and of our agriculture. And I think it hinges on the fact that people are not exchanging assets as frequently or as fast or as substantially as it should. There are farmers, for example, who own lands; they have a lot of neighbors but, unfortunately, are not utilizing much of these resources. And there is a very good reason why they are not doing this. It is because there is no sense in increasing your productivity if you cannot sell this to the market, and that highlights the first concept of transactions cost, which is really cost associated with exchanging assets, especially for agriculture. This is very important because we are moving products across space unlike in industry where factories in the urban centers and the markets are nearby. We do have a very important challenge in agriculture on how to do this very well. In the past 25 years, we have rightfully called for investments on infrastructures, highways, ports, transport

systems in order to reduce this particular cost. And we have actually succeeded a bit but we need a larger degree of success. I think this draft document Agriculture 2020 is moving in that particular direction.

But let me highlight the fine points with respect to this first type of transactions costs. This is the whole business of logistics, moving the product across space in a way that actually makes the product competitive at the final end of the market. There would be some need not only on just public infrastructure, the highways, the bridges, the ports etc. We also need investments in some local private goods such as common service facilities. If they are not there, this is going to sort of block the flow of the goods from the rural areas to the population centers of our country and across our borders. We can address this problem by pooling together several players in the supply chains that have their own self-interests, coordinating their investments to form one effective system in producing the product, processing the product and bringing this product across space to the market. This is actually a very important innovation that we should promote and study very well. There is no single model because this particular idea will work with the environment it is in. That's why we need comparative institutional analysis on what works. This calls for researchers particularly those in the agribusiness department of the universities to analyze models that work, why they work, and how they effectively reduce the transactions costs associated with exchanging assets from among stakeholders in Philippine Agriculture.

The second point is on another concept of transactions cost, that of property rights. Before we are going to deal business with one another, it is important to know whether or not we are going to be protected with respect to our property rights. There's even a prior concern about whether or not property rights are well defined. One of the pillars, for example, the second pillar that I recall is about returning forest land to forest dwellers and we need legislation for that. This is very good because these forest dwellers can be mobilized to protect the environment, but without assigning the property rights to them, they will not be able to do that. Thus, defining property rights is a very important first step to do.

Of course, there is the business of enforcing property rights especially when you are going to make investments. Since these are large investments that would last for years, you need to make sure whether your interest as owner of this particular money that is about to be invested is going to be protected with existing laws and that the judiciary system is efficient enough

to enforce those property rights. Now if that is very weak in the system, even though we have the infrastructure to cross space and move products from rural areas to the population centers, there would not be major investments in Philippine agriculture by private businessmen.

I would like the framers of PA 2020 to consider one important role which is really the role of coordination. The role of a coordinator is to bring various players who should be part of the supply chain. These include the scientific community who developed the technologies, and others that are needed in order to bring the right product and to process them more effectively and efficiently. They too need to be part of the supply chain. The coordinator could be one of the leading investors in a supply chain. The coordinator does not have to be from the Philippine government or the DA but we need people who have developed skills in this area who can identify what actually is needed, what works and who to contact, and who to share this information that he has for business opportunities for Philippine agriculture. Thus, coordination is actually an antidote to the underdevelopment that is there. Many resources are underutilized and they are underutilized because the owners of these resources do not know how best to use these resources for private gain. The coordinator may have the advantage of getting, of knowing this information and we need more of this kind of people for Philippine agriculture.

I was really glad to hear the speech of Sec. Yap basically expounding on his own experience as secretary of agriculture towards this end. I think he really showcases what we have been trying to understand on what works in this particular area of underdevelopment in the rural areas. In the end I would just like to share the optimism of the framers of the PA 2020. It is just right to aim for something that may be ambitious to others but it is always good to have some fighting targets. But I think it is important to focus on strategy, on how to do this, and my own contribution, I think, to this is really to highlight these two concepts of transaction costs—one, the costs associated with exchange of assets and second, property rights. Thank you.

