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# **SOCIAL SCIENCE INFORMATION**

**VOL.12 NO.4** 









in this issue:

**\*A HISTORICAL AND CURRENT PERSPECTIVE OF PHILIPPINE** ECONOMIC PROBLEMS **\*PSSC CHAIRMAN'S ANNUAL REPORT** 

May be opened for postal inspection

**JANUARY - MARCH 1985** 



## editorial



## Message to the Graduates of Class'85

Cesar P. Macuja Chairman PSSC Executive Board

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On this day of your commencement – the beginning of your endeavor in the professional world – I would like to share with you some reflections on the meaning of your education and its relevance in the working life of a professional.

I believe there are three qualities that reflect the substantive worth of those gifted years in school and represent the most meaninful relevance in one's professional life... *integrity, competence* and high principles of *public service.* 

In these times, there is more and more talk of what the business community describes as "self-dealing", – the promotion of one's personal interests in professional transactions. There are hundreds of examples and many forms of "self-dealing" in all fields of professional endeavor.

To combat the temptations for "self-dealing", the working professional must reflect on a most important personal cognizance – his hierarchy of values. To my mind, a strong conviction on the proper hierarchy of values will enable the professional to resist the easy temptation for personal gain in professional transactions.

Utilizing mass communication techniques of today, there is available to the professional, the competence of accomplishment through press releases and printed brochures; as well as the publicity of consumer awards, testimonial awards, and even peer manifestos. There is also the competence of accomplishment by mandate. Some men would prefer to manipulate rather than contend with countervailing forces in order that the stated accomplishment can be mandated.

I believe the competent professional openly accepts checks and balances, and takes effort to understand a differing viewpoint. He must not become indifferent to the outcome of his decisions, especially those that affect a majority of less privileged persons.

High principles of service is the kind that is based on equality -a service rendered by a friend to a friend. This is to be differenciated from servitude - the service which the weak renders to the strong; or patronage the benevolence bestowed by the superior to his inferiors.

I believe the principle of service can be distinctive - service to others on humanity terms, meaning, that of person to person. This principle of service gives each one opportunities for human development, and therefore "creates equality among the unequal". Such is the service of a teacher to his students.

Many years from now, when the graduates of Class '85 reflect on their respective career endeavors, how will they define their achievement? Will they be able to say that they have served with integrity and have resisted the temptation to enrich themselves through self-dealing in their professional transactions? Or will they take pride in having been smart enough to build new luxurious suburban houses on middle-income tax returns?

Will they be able to say that they have served with competence or that they have not chosen the easy way out and simply bought accomplishment through "PR" or "PD"? Will they be able to claim that they have done

Excerpts from the Commencement Address of Cesar P. Macuja before the graduating high school class of '85 of the Ateneo de Manila University, March 31, 1985.

# Summary of the Chairman's Annual Report for Calendar Year 1984

Nineteen eighty-four proved to be a unique and challenging period for the Philippine Social Science Council, and for the whole nation, in general. The impinging realities of a national crisis necessitated a certain level of resiliency towards change and a readiness to make necessary adjustments. At the same time, it called for enough strength to be able to maintain normalcy in operations and to continue in pursuing set goals.

It is this same challenge that motivated the Council to organize the First National Social Science Congress (FNSSC) in November 1983 with the two-fold aim of pursuing excellence in the social science professions, and of using this acquired capability in seeking solutions to the country's problems. A mandate was then given which impelled the Council as an organization of social scientists and scholars to vigorously pursue its advocacy function and its lead role "in sharpening and applying the nation's capacity to reflect, evaluate and innovate."

Consequently, the 1984 Executive Board created the Social issues Committee (SIC) whose aim is for social scientists to reach a consensus and a united stand on various issues confronting the nation. To achieve this, the committee resolved to prepare and disseminate national situationers or empirically-based exposés on contemporary social issues. Among those

Taken from the Philippine Social Science Council Annual Report (CY 1984) presented by Dr. Sylvia H. Guerrero in the Council's Annual Meeting held on December 15, 1984. that have already been prepared are situationers on the national minorities, environmental concerns, free access to information, general amnesty, public accountability and government responsiveness. The committee has also negotiated with *Veritas* on the regular publication of essay contributions from social scientists on important national issues.

Alongside with the SIC's efforts, the Institutional Development Committee (IDC), organized the PSSC Forum Series to facilitate a common channel through which policymakers, the academe, and the private sector can have enriching and fruitful dialogue.

For this year, three sessions were conducted revolving around the theme: "Social Science and Government," The first session featured the "Report on a Survey of Opinions of the Membership of the Philippine Economic Society (PES) on the Current Economic Crisis" and was presented by Dr. Mahar K. Mangahas. In the second session, Dr. Sylvia H. Guerrero, 1984 Executive Board Chairman, presented the "Statement of Concern and Proposals for Social Change," which contained the Council's sentiments and positions on issues considered of great importance. Lastly, Dr. Burton T. Oñate delivered his paper "Information Control and Economics" Corruption in the Council's third session.

Aside from pursuing its advocacy role, the Council continued in its main thrust of promoting quality and relevant research in the country through its active support to its Research Consortia Program. This program is aimed to 'develop research institutions in the regions and to build up their research capabilities to a certain level in which they could independently plan and handle their own projects.

After four years of its existence, the Consortia Program has achieved much of its objectives. In the Visayas, the Visavas Research Consortium (VRC) successfully completed two major studies: "Faces of Philippine Poverty: Four Cases from the Visayas" and "The Floating Mass: A Study of the Variety and Forms of Labor Mobility in the Visayas." Furthermore, the VRC regularly conducts research trainings and project-specific workshops for junior researchers. The University of San Carlos, for example, is currently running a monthly workshop series for VRC-affiliated faculty members and other researchers.

In Mindanao, the Eastern Mindanao Research Consortium (EMARC) has likewise undertaken two major researches namely: "A Multi-Purpose Study of Selected Fishermen Households in Four Fishing Villages in Eastern Mindanao" and "Dimensions and Determinants of Poverty among the Coastal Fishermen in Eastern Moreover, the EMARC Mindanao," has innovatively created a graduate program in Applied Social Research at the Ateneo de Davao Graduate School for EMARC-affiliated faculty and staff. The graduates of this program will be tapped for direct research involvement with EMARC, to promote gradual development of the research capacity of the region.

On the other hand, the Bicol Research Consortium (BREC) has just finished its project on the costs of borrowing and the role of credit in improving the production of small farmers in Camarines Sur and Albay. The second project of the consortium is a study on the "Barangay Integrated Workers' Project" sponsored by the Commission on Population.

Aside from the Consortia Program, the Council continued to conduct its other regular activities for research development such as the Summer Research Training Program (SRTP) and the Discretionary Research Awards Program (DRAP).

The 1984 SRTP Advanced Level was held from April 26 to May 31, in collaboration with the Ateneo de Department Manila University of Sociology and Anthropology. The program offered courses on Evaluative Research. Intermediate Statistics and Data Analysis. On the other hand, the Council awarded sixteen research grants under the DRAP. Financial assistance for the DRAP grants are provided by the Fund for Assistance to Private Education (FAPE).

Moreover, to enable the Council to directly engage in research endeavors of wider scope, the PSSC Research Committee planned to conduct a series of surveys that could immediately measure the people's perception on relevant national issues. The project is envisioned to initiate an expanded research program and to provide a mechanism that would enable the Council to immediately respond to urgent national concerns. The project shall start in 1985.

Hand in hand with research development is the Council's complimentary thrust of information dissemination. For this year, the Publications Committee has identified the criteria for selecting research studies to be published by PSSC. These are: 1) contribution to knowledge; 2) marketability/audience interest; 3) publishability, and 4) objectivity. Policies have also been set governing publication of research studies funded by PSSC. In this connection, standard acknowledgment formats were formulated by the committee for PSSC-funded studies that are going to be published outside of PSSC.

The committee also approved the publication by the PSSC of the VRC project entitled "Faces of Philippine Poverty: Four Cases from the Visayas." Moreover, the first two issues of the PSSC Social Science Information have already been published while an issue on the last half of this year shall be issued soon.

With regard to marketing of social science publications, the PSSC Central Subscription Service (CSS) recorded a total gross sales income of P82,015.61 from October 1983 to September 1984.

In an effort to develop the PSSC library and the libraries of research network members for an integrated research and publications network, the Council actively pursued the proposed Information Network (INFONET) project. Funding proposals have already been submitted to the United Nations Development Program (UNDP), the UNESCO Documentation Centre and the International Development Research Centre (IDRC).

In terms of administration and management, a management audit of the PSSC Secretariat was conducted in May 1984. Mr. Cesar P. Macuja, Chairman of the Management Audit Company, served as consultant. A revised organizational chart was proposed and was finally approved in September after a series of discussion. The structure is envisioned to enable the Secretariat to fully respond to the Council's needs and requirements, and to effectively carry out its objectives and policies.

On finances, the Finance Committee came up with a fund accounting system for more systematic planning and implementation of the Council's activities.

As in the past years, the Council divides its funds according to two categories. The General Fund include those that derive their sources from the regular and other incremental operations of the Council; while the Special Fund comprise grants received from local and foreign funding agencies namely, the Ford Foundation (FF), International Development Research Centre (IDRC), Fund for Assistance to Private Education (FAPE), National Science and Technology Authority (NSTA), Philippine Institute for Development Studies (PIDS), Agricultural Development Council (ADC), Midwest University Consortium for International Activities (MUCIA) and the Washington State University (WSU).

In 1984, total sources of funds of the Council amounted to P2,241,000. On the other hand, total expenditures reached up to P2,414,000, leaving a deficit of P174,000. However, the Council recorded a surplus at the end of 1983 of P1,793,000, thus offsetting the deficit and leaving a fund balance of P1,437,000. At present, the Council pursues a vigorous campaign for major programs and a more aggressive marketing of its center facilities to augment its sources of funds.

It is equally important to mention that the Council has expanded this year by welcoming five social science institutions as associate members. These are the Institute of Social Work and Community Development, University of the Philippines; Social Research Center, University of Santo Tomas; Philippine Business for Social Progress; Social Research Office, Ateneo de Davao; and the Philippine Association of Nutrition, Inc.

On the other hand, the Council maintains its linkages with foreign universities by administering their fellowship programs in the Philippines. These institutions are the Agricultural Development Council (ADC), the Midwest Universities Consortium for International Activities, Inc. (MUCIA), and the Washington State University/Indonesia (WSU). Although the MUCIA and the WSU/Indonesia Fellowship Programs have already expired in June of this year, the Council hopes to service fellowship programs of other associations who have shown interests in having their programs administered by the Council.

## newsbriefs

#### **PSS** National Convention Held

The Philippine Sociological Society held its National Convention and Annual Meeting last January 4 and 5 at the Social Science Center, Xavier University at Cagayan de Oro City. The theme of this year's convention was "Coping with Crisis: The Filipino in Mid-'80s."

The two-day convention was divided into 5 sessions, namely: 1) A Nation in Crisis; Some Perspectives; 2) The Floating Mass and Other Disadvantaged Groups; 3) The Labor Scene; 4) Cultural Communities; and 5) Coping by Rural Households.

Aside from the papers presented, the Convention conducted a workshop discussion on Participatory Research Methods. A slide show on "The Case Study Approach for Phase I of the IFPRI-XU Nutrition Research in Southern Bukidnon" was also presented by the Institute of Market Analysis (IMA) of the Xavier University.

\* \* \*

## Lagmay Receives Distinguished Service Award

Dr. Alfredo V. Lagmay was given the 1984 Distinguished Service Award by the Association for Anthropological Diplomacy and the Society of Third World Anthropologists. The award was presented on November 16, 1984 during the 85th Annual Meeting of the American Anthropological Association held in Denver, Colorado.

Other awardees are Professors Emeritus George Spindler and Cora DuBois.

During the ceremony, Prof. Mario Zamora of the College of William and Mary spoke of Dr. Lagmay's contributions to cross-cultural psychology by integrating anthropological models and concepts with those of psychology. In response, Dr. Lagmay announced the implementation of a new international journal of cross-cultural psychology.

Dr. Lagmay was elected Chairman of the PSSC Executive Board in 1973 and is currently a Professor of Psycho-

#### logy at the University of the Philippines.

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## PPSA National Conference Held

The Philippine Political Science Association held its National Conference last February 21-22, at Siliman University, Dumaguete City.

The theme of the Conference was: "The Politics of Policy Making: Issues and Problem Areas for Development". Dr. Onofre D. Corpuz served as Keynote Speaker.

The four sub-areas with their corresponding speakers are:

- A. The Role of Politics in Philippine Economy
  - a) Prof. Merlin Magallona (UP College of Law)
  - b) Prof. Felipe Miranda (UP Department of Political Science)
- **B. Social Services** 
  - 1. Health Delivery
  - a) Shirley Advincula (Ateneo Department of Political Science) for Prof. Maria Concepcion Alfiler (UP College of Public Administration)
  - b) Mila Reforma (UP College of Public Administration)
  - 2. Education
  - a) Prof. Socorro Reyes (PNOC)
  - b) MP Emilio C. Macias II (Negros Oriental)
- D. Accountability of Public Officials a) Prof. Leonor M. Briones (Secretary to the COA)

The PPSA also discussed the following important topics during the Conference:

- 1. The Report of the President (including the Financial Statement)
- 2. Establishment of Pug-wash Committee
- 3. Organization of the Sixth Regional PPSA

#### First National Philippine Studies Conference Held

The Philippine Studies Association held its First National Philippine Studies Conference from February 11 to 13 at the PSSCenter in an effort to promote interdisciplinary dialogue, exchange of research methods, findings and perspectives, and fruitful interaction. It was commonly felt that a conference on Philippine Studies held for the first time in Philippine soil would facilitate deeper exploration of the extent, development and needs of Philippine Studies.

Other activities lined up by the Association include the formation of regional chapters, organization of seminars and symposia, and the publication of research in Philippine Studies.

#### Seminar on 1985 Rules on Criminal Procedure Conducted

A special seminar on the 1985 Rules on Criminal Prcedure was conducted at the UP Law Center from January 14 to 19.

Speakers were Justice Conrado Vasquez, Manuel Pamaran and Dean Jose Feria who presented the various amendments incorporated in the 1985 Rules on Criminal Procedure; and Justice Deputy Minister Ricardo Puno who discussed the preparation of briefs and appellate practice for law practitioners.

The seminar was divided into two groups; the first group was composed of law practitioners, while the second included fiscals, State Prosecutors and the Tanodbayan prosecution staff.

#### \* \* \*

#### Maria Lanzar Carpio Lectures Continue

Dr. Estrella D. Solidum, First Maria Lanzar Carpio Professorial Chair Holder, presented her paper on "The Pacific Community in Search of a Form" during the Second Lecture of the Maria Lanzar Carpio Professorial Chair in International Relations, International Organization and Foreign Policy. The activity, which was held on January 31 at the UP Law Complex, was sponsored by the UP Department of Political Science and the Academy of Asean Law and Jurisprudence.



## A Historical and Current Perspective of Philippine Economic Problems\*

Probing the Philippine economic malaise

The present economic crisis is a manifestation of the seriousness of the Philippine economic malaise. The cumulation of economic and other factors that contributed to the crisis is like a

\*Excerpts of the paper delivered before the 21st Annual Meeting of the Philippine Economic Society, December 8, 1984, at the Philippine International Convention Center, Manila.

A complete version of the paper shall be featured in a forthcoming issue of the Philippine Economic Journal.

\*\*The author is formerly Professor of Economics and Regent, University of the Philippines, Minister of Economic Planning and Director-General of the National Economic and Development Authority, and Chairman, Philippine National Bank. He was President of the Philippine Economic Society in 1967-1968 and Editor of the *Philippine Economic Journal* from 1965 to 1974.

#### **GERARDO P. SICAT\*\***

convergence of the many tributaries and streams into a mighty river. A review of a common trait that can be traced to economic factors will show that in many instances, the problems that arise are the result of a cumulation of situations in which interventions in the market system made the economy less efficient. Deviations from the price mechanism as the prime element of solving essentially market problems have aggravated national problems rather than lessened them. With the worsening of some problems, the ability of the government to cope with other more basic duties was also affected adversely.

In one sense, the resulting situation deviated from the actual direction of promotion of free private enterprises. The existence of too many regulations and controls had distorted an essentially private enterprise economic system with too many hindrances to private initiative by impeding the exercise of initiative.

Economic crises have not been an uncommon phenomenon since indepen-

dence. These crises were often signaled by large balance of payments deficits. The balance payments position served as a gauge of the state of health of the economy. It reflected on the nature of domestic economic balance with that of the international. The influences operating on an open economy would somehow eventually give way if pressures are continually being exerted on prices or on imports.

Persistent balance of payments deficits indicated that somewhere in the economy, imports kept exceeding the earnings from exports, and that insufficient voluntary capital inflows could be found to finance these deficits. A chronic problem exists when these deficits occur recurrently. Therefore the analysis of the malaise must first look at those factors that have caused the persistent deficits.

Now, any sensible economist (or doctor) would recognize that the symptom is only a clue to the possible disease. There are other more important reasons. Like any good mechanic trying to analyze the reasons why a car fails to optimize performance on the basis of manufacturer's claims, it would be essential to look at those factors that are responsible for the economy's below par performance.

It is possible to weave oneself into any of the theoretical constructs and explain the Philippine economic malaise from their respective viewpoints. But there is a much simpler route which has the most powerful explanation for the cumulation of problems that the economy has encountered. This is the role of the market mechanism.

The market mechanism can play a most constructive role in relieving government and policymakers of cumbersome problems. Many allocation problems get solved in an impersonal way. Provided efforts are made to see to it that a competitive solution is being arrived at, many of the intractable problems of economic development can be solved. Very often, the distrust of so-called market solution is one borne of ignorance. Some policymakers are afraid that the market solution is the one made by monopolists using their monopoly power over powerless people. If monopoly is the problem, the market solution should promote conditions of greater competition. Sometimes, however, the greater mistake is to attempt to dismantle an otherwise competitive set-up, installing a public monopoly which in turn becomes the source of market oppression and scarcities. In a market set-up in which competitive forces are in operation, as any economist knows, excessive profits are erased, more goods become available in the market at relatively cheaper prices.

The message of the market was lost along the way in the development economics of the last 40 years because of the alleged excessive preoccupation with "planning." Yet, as W. Arthur Lewis and other distinguished economists would remind us, there could be planning with the help of the market. The market simplifies large problems. In fact, the message of the market, as a prime allocator, is found in the success stories of many countries in the Asian region. These countries, led by Japan, are the so-called NICS or newly industrializing countries of South Korea, Taiwan, Hongkong and Singapore.

In the Philippine case, there have been times when shifts toward better pricing policies have occured. Over time, decision-makers reverted to policies that contrived situations out of a competitive market policy setting. There is a persistent tendency to postpone market-liberalizing decisions The prolonged clinging to price controls and the introduction of regulations which increased monopoly power of some state and private enterprises reduced the role of the market mechanism and introduced monopolies in the Philippine setting.

If the policies were more marketdirected, the economy would have been able to realize the virtues of encouraging ventures in agriculure and in industry which would have been more labor-using. This certainly would have encouraged a surge of exports based on comparative advantage during the first and second decade of independence. As we all know, by the end of that first decade of independence, capital entrepreneurship in the country was already steeply entrenched in industries that were supposedly replacing imports by consuming. instead of adding to our scarce foreign exchange resources.

#### Probing the Philippine economic malaise

It is useful to deal more concretely with the Philippine case. Induced by demand in the US market, the Philippines rapidly expanded during the colonial period. That period produced an unbalanced development which was closely linked to the fortunes of the US business cycle. Towards the end of American rule in our country, the economy was highly geared towards exports. The country needed to diversify the economic structure. This included diversifying industries that earned export revenues. It was a major task of economic policy to develop a framework that would put the relationship with the US economy on a healthy and more diverse footing. This meant diversifying exports to other products in addition to, but not in place of, the major primary exports which already had an entrenched market.

The principal cue was missed. The trade adjustment program from 1946 to 1974 which included preferential trade with the US was seen by some policymakers not as an advantage but one that promoted a relationship of economic dependence upon the US market. It was a set-up that favored the continuation of primary export dependence. So, they decided that there was a need to develop industries that weaned the economy from the preferential framework as soon as possible. The preferential trade agreement was seen largely as a US imperialist design to continue trade domination of the country. Whatever may have been any imperialist designs of a former ruler, the country had enough options to take care of new directions for the future.

The special preferential tariff patterns favored imports from the Philippines into the American market. The grand opportunity to explore new export possibilities presented itself. This would have meant developing an industrialization strategy based on comparative advantage. But the opposite was undertaken. The government, through the policies of exchange and import controls and protection, decided to promote import replacing industries instead. This shortsightedness produced the contrary effect.

The experience of the East Asian NICS (newly industrializing countries) presented itself as a possible pattern that should have been followed. That would have been somewhat more painless in the case of the Philippines.

The mechanism for it was available – the so-called Bell Trade Agreement and later, the Laurel-Langley Agreement which revised the former. This was uniquely a Philippine advantage. Other countries had no such preferential market to work with, except later in the 1960s and 1970s through the general system of preferences (GSP of the UNCTAD, which, compared to the Philippine preferential trade with the US, was a fairly limited form of concession and from which the country also benefited.

The Philippine opportunity was unprecedented. The preferential trade agreement was with the most prosperous, openly trading, and largest single economic market. Instead of this opportunity, Philippine policy makers saw ghosts of the dependent relationships that were unequal and perceived incorrectly the possibilities offered by the opportunities. Have we ever heard any voice today which does not blame unequal relations with the US as a cause, partly of our underdevelopment? In my view, those who nourished the policies of controls and import substituting industrialization of the past still decry this pattern

After independence, a series of grand policy mistakes followed. These could only be attributed to erroneous perceptions of our economic problems. Consequently, the years whittled away resources and natural advantages that were in our hands. Many of our countrymen who tend to blame outside forces for our economic problems should attempt to review this phase of our economic history and the arguments put forward to protect the policy choices in those days.

What we tried to do in the early 1970s, to gain as much labor-intensive industrial exports to the US market, was to move two decades too late into the strategy of trade and development that preferential trade arrangement with the US offered. By then, our neighbors, the NICs, had already preempted a large ground in our potential markets. Also, the climate for growth of international trade which was so conducive to the growth of these same neighbors became altogether different and certainly somewhat more restrictive.

The main culprit responsible for failing to perceive the advantages of developing according to comparative advantage was the movement away from a market-determined, or realistic, exchange rate policy. This was the critical policy variable for export and trade realignment. Exchange rate policy would impact strongly and immediately on domestic and foreign prices. Its effects therefore are quick and sharp.

Of course, any missteps could be corrected. The government, sensing the ill wind that controls brought, dismantled them and freed the exchange rate. Once-over steps always have an effect in realigning economic forces. The failure of our development policy in this regard was to work with a given exchange rate, support it for a while even when it became an overvalued rate.

The corrective action seemed to lag rather than to lead. Even when the policy was to "float the peso," it was a "dirty" float, as others have observed. Actual market signals which tended to show it was overvalued were ignored. As a result, the buildup of distortions and other obstacles to development cumulated.

After political independence was secured, and specifically when central banking was introduced in 1949, the monetary and financial linkage with the world market, specifically with the US economy, was partly disrupted. The setting up of an independent monetary system is a necessary act of sovereignty. This is a universal experience for all newly independent countries. They have to devise their own institutions in order to develop alternative means of assuring that normal economic activities are not disrupted. In fact, of course, independence represents a historical discontinuity that all nations have to face.

The strength of capital flows which would have emanated formerly from the direct and indirect guarantees of American financial institutions was therefore disrupted. A degree of monetary and financial isolation was necessarily the price of independence and of central banking. But central banking policy need not have been any more autarkic than before.

For instance, with independence, Singapore devised her financial relations with the world by having a more open financial system. This had implications on the way other economic policies had to be directed. Singapore freed many sectors of economic policy and although they adopted financial regulations, their system was an open international financial system. This system was based on preserving monetary stability and included a conservative fiscal and monetary policy.

The route chosen by our central bank was different. It could have taken advantage of the opportunities of the market, by linking the peso to its true international value and not to peg it sentimentally with its prewar parity with the US dollar. Initially, such depreciation would have been seen as a weakening of the peso then. In the long run, that would have created a stronger Philippine peso today.

At that crosscurrent of history, the economic course of the country could have altered. The Philippines could have been further helped by other auspicious circumstances. These would have been its relatively high level of international reserves at the end of the war, propitious world trade events, and large US military spending for goods and services that lasted through the end of the Vietnam war in the early 1970s, and other spendings notably by American military aid. All these could have laid the foundations of industrial growth that instead took place in Hongkong, South Korea, and Taiwan one decade later, the 1960s.

Of course, part of the problem was that in the early years, like some features of Philippine-American economic relations, our full monetary autonomy was not with us. We could not even touch the value of the peso without the consent of the American president by the provision of the Bell Trade Act. This was, as correctly pointed out by many observers, an infringement of Philippine sovereignty by a country that was supposed to be its benefactor. It was clear that such infringement was instigated by the need to fully protect the interest of the nationals of the former colonial ruling class in the newly independent country and constituted a mistrust of the future course of development.

As an independent country, we were not short of methods which made us achieve what we wanted to do as policies in any case. The independent action of imposing the exchange and import controls to preserve the value of the peso was one such sovereign act. In fact, US interests complained to their government about these. And they presented a vested front whose views were considered by their government within the framework of the negotiations to revise the Bell Trade Act.

I attach to foreign exchange policythe act of delayed adjustments in the value of the peso – as the most serious economic policy error of our independence. In those days, the common wisdom among economists in the country was that we needed those measures to conserve resources. In adopting stringent exchange and import controls, we led ourselves into the domain of the pernicious cousins of all kinds of price controls that we would find ourselves encountering throughout our independent history even during the present.

In attempting to conserve resources, they were practically squandered. These resources were not properly and fully priced through the market. If government policy had insisted on their proper market values, the resources would not have been consumed soon enough either through the mechanism of feeding them as raw materials to newly promoted industries or simply through outright expenditure for consumption. Foreign exchange resources were made cheaper, through an overvalued exchange rate, or government policy wished them to remain cheap to feed to preferred users. The result was massive misallocation of resources.

Some parties who could, through closeness to the powers in government who approved licenses to import, got their foreign exchange and import allocations rather cheaply. The assembly plants that they built were thought to be the beginnings of a sound industrialization. But in effect, they were largely fed by raw materials that were imported. They were borrowing capital also very cheaply, at rates which were lower than the scarcity value of capital, through the development finance institutions set up by government.

Hence, these industries received the highest form of protection through the control of competing imports, the availment of cheap credit and of foreign exchange. In this sense, they were nurtured to monopolize a limited market. When the foreign exchange resources became scarce because the trade system was largely consuming foreign exchange and not producing it (witness the persistent balance of payments deficits), these industries became very vulnerable. Their raw material base became too expensive or were cut off. The result was that the same industries floundered and many failed to survive harsher times.

The cousins of economic controls

therefore had their heyday in the early years of independence and have been nurtured to the present. As will be shown in the following, their early beginnings and their continued survival in the economic policy package even today began with good intentions.

## Good intentions behind government interventions

Government actions are initiated with good intentions behind them. This is especially true prior to the adoption of any new policy before any vested groups get established.

Some undesirable results may accompany a particular policy because it may be inadequate or misdirected. The policy may actually end up achieving a result different from what was intended. In this case, it leads to some effects that are not foreseen.

With respect to the operation of the market, this is how the patterns arise. There is dissatisfaction with the resulting situation in a particular sector. This dissatisfaction leads sometimes to the joke that the government repeal the "law of supply and demand." This dissatisfaction sometimes is perceived as an inefficient or cruel result of certain factors operating in the market. Perhaps the presence of monopolies or inequitable distribution of benefits are too obvious in the way activities are perceived.

On the ground that it is a public duty to improve the set-up, the government sets up its own intervention. That could be in trying to influence directly the reasonable prices or margins that private enterprises could be made to comply with. Such prices may be on goods or on factors of production. They could be price controls or guaranteed buying prices or minimum wages, in the case of labor, and maximum lending rates, in the case of credit. So long as the government follows the market in setting these price targets, things would go all right.

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In principle, a realistic intervention could lead to this. But most often it does not. The temptation is always there to delay any desirable change. Once controls on prices are established, pressure groups are polarized. At one extreme are those who insist on maintaining the same policy or delaying any action, or reducing the extent of any proposed adjustment. There is the other group that would seek alterations in current policy. This latter group is normally adversely affected by the policy. A market adjustment would be much simpler to attain. But with controls in force, the adjustments made are in hidden activities such as the reduction of the quality of service and the reduction of other associated costs, such as those in marketing. For instance, marketing costs could be shifted to the buyers or other enterprises operating in the distribution system. There can be a shortening, for instance, of working capital credit. Such hidden adjustments eventually lead to quality inflation which is not revealed by price regulation.

#### Wage Policy

When minimum wages were set initially in 1951, the idea was to raise a working wage to a "normative" level. This level was determined by the policymakers, which was the Congress. What constitutes a decent working wage is an important question of public policy. But it is an intractable one. This measure deflects from the more fundamental and tractable question of promoting the employment of every one seeking employment in the labor force. When the initial industrialization set off in the 1950s, entrepreneurs were led by the existing policy to choose import replacing activities and to shun the export-oriented labor intensive industries. The minimum wage and cheap credit worked together to favor mechanized operations in industry rather than the greater use of labor. To some extent the same attitude was promoted in the modernized sectors of agriculture.

When the tripartite meetings of organized labor, employers, and government meet, the objective is to come out with an agreed form of indexed minimum wage package (including allowances, etc.). This package is in keeping with certain norms determined in the past (the working wage). Organized labor and relatively well to do employers in the private sector, refered to some extent by government, undertake what looks like a bilateral monopoly bargaining process on that wage package. In this bargaining, these millions of unemployed, or those employed in marginal occupations and therefore wanting better employment and the thousands of enterprises that can ill afford to pay any more new wage increases, are excluded from this process. If the government did all it could to police the implementation of what it orders in the first place, many more enterprises would go out of operation.

As a consequence, a large amount of new unemployment results. It is far better for government to pretend to implement laws by justifying and setting up a large bureaucracy in addition to formally studying the matter, such as expanding the ministry of labor and its bureaus. This sometimes allows the slowdown of the implementation process. Confronted with the reality of a high unemployment rate, as the one experienced in the country, the government often finds itself trying to close its eyes and turning deaf ears to the full and strict implementation of the wage laws. In this way, a greater disruption in employment is avoided. But there is one result of this. It breeds contempt for the law and radicalizes all the more the labor sector which complains of exploitation. Hence, it contributes to the breakdown of respect for government and its policies.

Yet, when the proposed wage package is presented to the President of the Philippines for his ultimate approval. much of the bargaining process for wage setting has almost come to an end. The approval, which is expected, becomes the apex of a political process. It elevates an economic issue into the political arena. The president can disapprove the settlement or return this to the bargaining table. The course of least resistance is to show the concern for a sound bargaining process and therefore to approve what is presented as the bargain. The wage bargaining and indexation, which comes with the process of technical computations by government in service of the negotiating process, has put the president in some sort of a political trap. He would be faced with predetermined figures that he would in the end have to approve.

In short, the economic process of wage-setting has become politicized. The same politicization of prices occurs whenever the government steps in and mandates price ceilings and floors, in order to express a policy adjustment. The experience in this regard is very unfortunate in the long run.

It can be argued that the ill effects of one policy, in this case, wage policy, can be offset by other policy interventions. The record of past policies, however, had been to exacerbate the bias of policies against employment creation, which is the major ill effect of minimum wages. Even today when great strides have been taken to do away with some of the other undesirable aspects of economic policy, this bias against employment is still a major defect of overall economic policy.

#### Interest rate policy

Good intentions have kept interest rates under control for many years. This can be traced in fact to the antiusury law in effect since the first decade of American colonial rule. As early as (page 15 please)

## pssc activities

#### PSSC 1984 Annual Business Meeting Held

The Annual Business Meeting of the Council was held on December 15, 1984 at the PSSCenter Auditorium. All the Council representatives, 12 Executive Board members, 12 representatives of Associate member institutions and 6 other guests attended the whole-day activity.

The highlights of the meeting are:

 Presentation of "A Statement of Concern and Proposals for Social Change (Parts I & II)"

The said paper, which contains the Council's consensual positions and common sentiments on relevant national issues, was presented to the Council members by the Adhoc Task Force Committee. After some discussion, they decided to expand the paper in terms of additional empirical support and a wider and more varied bibliography.

- 2. Presentation and Adoption of the Chairman's Annual Report, the Proposed 1985 Budget and the Treasurer's Report
- 3. Election of New Executive Board Members

The six newly-elected Board members are the following:

- Carolina G. Hernandez Political Science
- Benjamin V. Lozare Mass Communication
- Virginia A. Miralao Sociology Evelina A. Pangalanan – Social Work
- Nestor N. Pilar Public Administration
- Caroline I. Sobritchea Anthropology

## **1985** Executive Board Officers Elected

The PSSC Executive Board elected its officers for CY 1985:

- Chairman: Cesar P. Macuja, Assistant to the Prime Minister for Government Corporate Affairs
- Vice-Chairman: Carolina G. Hernandez, Chairman, UP Department of Political Science
- Secretary-Treasurer: Ruben F. Trinidad, Deputy Director, National Tax Research Center

The Board also appointed the following Committee members:

#### STANDING COMMITTEES

1. *Membership Committee:* Helen R. Tubangui (chairman), Consuelo L. Gutierrez, and Emy M. Pascasio.

2. Nominations Committee: Lourdes A. Carandang (chairman), Gloria D. Feliciano, and Romeo V. Cruz.

3. Finance and Business Affairs Committee: Ruben F. Trinidad (chairman), Dante B. Canlas, Andrew B. Gonzalez, FSC, Benjamin V. Lozare, Raul P. de Guzman and Emmanuel T. Velasco.

4. Institutional Development Committee: Carolina G. Hernandez (chairman), Cynthia B. Bautista, Juan R. Francisco, Gabriel U. Iglesias, Sylvia H. Guerrero, Bonifacio P. Sibayan, Lydia G. Tansinsin, and Cesar P. Macuja (ex-oficio)

5. Social Issues Committee: Carolyn 1. Sobritchea (chairman), Evelina A. Pangalanan, Presidents of Regular Member Associations, and Ponciano L. Bennagen (ex-oficio)

6. Research Committee: Virginia A. Miralao (chairman), Delia Barcelona, Mila Guerrero, Patricia B. Licuanan, Mahar K. Mangahas, Manuel Navarro, Fe T. Otañes, Cristina P. Parel, Nestor N. Pilar, Corazon Raymundo, Realidad Rolda, Ma. Corazon Veneracion, and Felipe B. Miranda (ex-officio)

7. Publication Committee: Benjamin V. Lozare (chairman), All journal editors, and Thelma Lee-Mendoza (exofficio)

#### SPECIAL COMMITTEES

1. By-Laws Committee: Andrew B. Gonzalez, FSC (chairman), Leslie E. Bauzon, Felipe B. Miranda, and Domingo C. Salita

2. Awards Committee: (to be appointed as the need arises)



Oath-Taking of New Executive Board Members: Dr. Sylvia H. Guerrero, Outgoing Chairman, swears into office the newly elected Executive Board members, namely: Evelina A. Pangalanan, Carolina G. Hernandez and Virginia A. Miralao. Looking on are Loretta Makasiar Sicat, Ruben F. Trinidad, Andrew B. Gonzalez, FSC and Cesar P. Macuja. Not in photo are Benjamin V. Lozare, Caroline I. Sobritchea and Nestor N. Pilar.

#### 12/PSSC SOCIAL SCIENCE INFORMATION



#### Guerrero Receives First Agham Panlipunan Award

Dr. Sylvia H. Guerrero was recently given the Agham Panlipunan Award by the Council for her outstanding leadership and service as Chairman of the PSSC Executive Board for CY 1983-84.

The statuette award was presented in a testimonial dinner held in her honor on February 15 at the PSSCenter's Patio. Dr. Guerrero was the first social scientist to be given such award.

Other outgoing 1984 Executive Board members were also honored in the said testimonial dinner, namely, Dr. Victoria A. Bautista, Prof. Ponciano L. Bennagen, Prof. Thelma Lee-Mendoza, Dr. Cesar M. Mercado and Prof. Felipe B. Miranda.

In the speech she gave during the testimonial dinner, Dr. Guerrero shared the recognition with all the Board members who played equally important roles in making the group dynamic and successful.

#### **PSSC** Forum Series Continue

As a continuing endeavor to provide

an open channel between social scientists and lawmakers, the Council held its fourth and fifth forum sessions on the theme "Social Science and Government."

On February 2, the fourth session featured the paper entitled "The Socialization of Students into A National Identity through the Public Elementary School System: A Case Study and Analysis" by *Dr. Maria Luisa C. Doronilla* of the International Studies Institute of the Philippines.

Discussants were Prof. Merlin Magallona of the International Studies Institute of the Philippines and Dr. Priscila Manalang of the UP College of Education.

The study reveals the failure of the public elementary school system to genuinely instill in students a national identity and a sense of nationhood.

The data even show that "no real ideological changes are being pursued and what appears to be the hidden agenda of the program can be summarized as the perpetuation of the pervasive colonial consciousness of the population (i.e., parents, teachers, textbooks, writers, students)."

On the other hand, the fifth session was held on March 15 in joint sponsorship with Ugnayang Pang-Aghamtao (UGAT). *Ponciano L. Bennagen*, UGAT President, delivered his paper entitled "A National Situationer on National Minorities."

Discussants were: Hon. Jesus M. Paredes, Deputy Minister of the Office for Muslim Affairs and Cultural Minorities; Fr. Anton Postma, S.J., Executive Secretary of the Episcopal Commission for Tribal Filipinos; and Atty. Donna Sape, member of the Paralegal Service Center for National Minorities.

The national situationer historically traces how past Philippine governments, beginning with the Spanish colonial period, have responded to the problems of the national minorities.

It then focuses on the present

government, and evaluates the policies and the performance of agencies created on the matter. Lastly, the paper gives recommendations to improve the conditions of the national minorities.

#### **IDRC Officials Visit PSSC**

Dr. David Steedman, Director for Social Science Division and Dr. David King, Rural Development Specialist of the International Development Research Centre visited the PSSC last February 28.

They came to discuss with the PSSC Executive Board the proposal for the PSSC Research Consortia Program: 1985-1988. The proposal was approved in principle.

#### **Consortia Update**

Groundwork has been laid for the Phase II of the PSSC Research Consortia Program. This Program will cover three years starting July 1985.

In connection with the funding, a joint meeting was held on March 22, at the PSSCenter. Dr. Thomas Kessinger, Regional Representative of the Ford Foundation, Mr. Mario Feranil of the Philippine Institute for Development Studies (PIDS) and Dr. David King of the International Development Research Centre (IDRC) met with Officers of the PSSC to discuss the budget details of the Consortia.

The proposed budget amounts to P6,960,904. This will be a joint funding of the IDRC, Ford Foundation and the PIDS.

The Consortia's Research Proposals include: "The Impact of the Shift in Current Development Strategies on Rural Households in Eastern Mindanao" by the Eastern Mindanao Area Research Consortium; and "The Impact of the Economic Crisis on Visayan Households; Focus on Women and Children" by the Visayas Research Consortium.

## announcements

#### 4th Philippine Linguistics Congress Set

The 4th Philippine Linguistics Congress will be held on May 20 to 22 at the UP Faculty Center Conference Hall. The theme of the Congress is "Appropriate Language Planning for the Filipinos."

Edgardo J. Angara, President of the University of the Philippines System, will be the Keynote Speaker. Other speakers include: Dr. Bonifacio Sibayan, Dr. Nelia Casambre, Dr. Consuelo Paz, Dr. Victor Balbuena, Dr. Ma. Clara Ravina, Dr. Romeo Cruz, Dr. Jonathan Malicsi, Prof. Ponciano Bennagen, Jesus Fer. Ramos and Luzviminda Cagus.

Registration fee is P100. For further information, contact the Department of Linguistics, Faculty Center, UP Diliman or call Tel. Nos. 994825 or 976061 loc. 419.

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Lambatlaya/Network for Participatory Development is sponsoring a "Conference-Workshop on Enhancing People's Participation Through Community Organizing and Participatory Research"on May 9-11 at the Philippine Social Science Center.

The activity is being undertaken by Lambatlaya in cooperation with other organizations to:

- 1. provide a forum for sharing experiences in community organizing (CO) and participatory research (PR) among representatives of non-government organizations (NGOs);
- 2. draw lessons from the experiences in CO and PR;
- 3. further develop the theory and practice of CO and PR; and
- 4. identify the needs and resources of NGOs which will serve as bases for program planning.

Lambatlaya is a network of people's organizations, development agencies and professional institutions committed to

promoto the principles and practice of participatory dovelopment. It is currently based at the institute of Social Work and Community Development (ISWCD), with ISWCD Dean Sylvia H. Guerrero as chairman of Lambatlaya's Ad hoc Coordinating Committee.

#### **Ateneo Opens Summer Field School**

As part of its skills enrichment program, the Department of Sociology and Anthropology of the Ateneo de Manila University shall conduct a field school in social anthropology this summer from April 15 to May 25.

The six-week program provides intensive training on qualitative and quantitative techniques commonly used in field work situations. After a week's orientation at the Ateneo, participants proceed to Mount Banahaw for a month to learn field work skills and complete a research paper under the direction of a senior anthropologist. The last week will be spent evaluating the month-long field work and to present research results.

The course is open to graduate students, social science researchers and program personnel who want to enhance field work skills. Participants may receive an equivalent of six units of credit for participation in the field school. Dr. Prospero R. Covar directs the course.

For further information, call the Department Chairman, 982541, local 151.

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Seminar on People-Based Development Scheduled

A Seminar on "Alternative Roles of Social Scientists in People-Based Development" will be held on May 27 to 31 at Tagaytay City. About 35 social scientists from within and outside Southeast Asia are invited to participate in the seminar to explore, analyze and draw conclusions about the various roles social scientists play in support of people-based development; and to develop strategies to consolidate and expand social scientists' roles in peoplebased development.

The seminar is sponsored by the Joint Committee for Southeast Asia, thru the initiatives of prominent social scientists like Mary Racelis-Hollnsteiner and David Szanton.

#### Diamond Jubilee Lecture Series Launched

The UP College of Social Sciences and Philosophy and the UP Department of Sociology launched the Diamond Jubilee Lecture Series in honor of Prof. Ofelia R. Angangco. Its inaugural session was held last March 13 at the UP Faculty Center Conference Hall. Dr. Mercedes B. Concepcion presented her paper on "Trends in Philippine Sociology" in the said session.

The lecture series revolve around the theme "Trends in Sociology as a Discipline and a Science". Forthcoming sessions are scheduled as follows:

April 12 – "The Contribution of Public Administration"

Dr. Victoria A. Bautista, UP College of Public Administration

- May 10 "Crisis and the Philippine Social Science"
- *Prof. Randolf S. David,* UP Department of Sociology and Third World Studies Center
- May 27 Prof. Gelia T. Castillo, Department of Agricultural Education, UP at Los Baños

#### **Call for Papers**

The second conference of the Association for Women in Development will be held from April 25 to 27 in Washington, D.C. The aim of the Conference is to seek new visions and perspectives on the development process particularly on the roles of women in solving present economic problems. The Conference revolves around the theme "Women Creating Wealth: Transforming Economic Development."

In this connection, the AWD invites papers and ideas for panels, workshops, and other sessions that explore the relationship between human, natural and capital resources and the ways in which they can be harnessed to ensure equal rights and opportunities for women. The organizers encourage student participation and invite the submission of student papers. Prizes will be awarded for outstanding student papers which will be highlighted at the sessions.

For information, write to Rita S. Gallin, AWID Program Chair, Office for Women in Development, 202 International Center, Michigan State University, East Lansing, MI 48824-1035.

#### New Publications Available

#### **First National Social Science Congress**

The book on the First National Social Science Congress is finally off the press. Edited by Profs. Laura L. Samson and Ma. Carmen C. Jimenez of the UP College of Social Sciences and Philosophy, the book contains papers and proceedings of the Congress on the following topics: 1) Overview of Social Science in the Philippines; 2) Social Science Structures in the Philippines; 3) Instruction, Human Resources and Institutional Development; and 4) Research, Extension and Research Dissemination and Utilization.

Copies are available at P100 each at the Central Subscription Service, Philippine Social Science Center, Don Mariano Marcos Avenue, Diliman, Quezon City.

#### **Carlos Bulosan and His Poetry**

The Ateneo de Manila University Press has just published Carlos Bulosan and His Poetry: A Biography and Anthology by Susan Evangelista. The book contains a comprehensive account of Bulosan's life, his times, and the development of his political views, plus an essay on Bulosan as a Third World writer. The anthology, on the other hand, contains his most famous works, together with 20 other poems which were never before published.

The book is available at leading Metro Manila bookstores and at the Ateneo de Manila University Press in Quezon City.

#### **Publications on Social Change**

Manila 1900-1941: Social Change in a Late Colonial Metropolis is a pioneering socioeconomic study of Manila from the turn of the century. Written by Daniel F. Doeppers, a social and historical geographer who specializes in the study of urban phenomena, the book focuses on the processes and careers that produced and changed the structure of Manila society from 1900 to 1941.

Copies are available at the Ateneo de Manila University Press or at leading Metro Manila bookstores.

On the other hand, a special issue of the *South Asian Anthropologist*, which deals in social change, is now off the press.

Devoted to the theme Social Change in Modern South Asia (Essays in Honor of David G. Mandelbaum), this issue of September 1984, Vol. 5, No. 2 is edited by Prof. Mario D. Zamora of the College of William and Mary, Virginia, USA.

For copies, write to Dr. P. Dash Sharma, Managing Editor, South Asian Anthropologist, Department of Anthropology, Ranchi University, Ranchi, Bihar, India. Prices: Single issue, \$6.50; Institutional, \$11.00; and Associate, \$8.00.

#### **Book on Public International Law**

The UP Legal Resources Center has recently released *Public International Law* authored by Justice Jorge R. Coquia and Judge Meriam Defensor Santiago.

This book answers the need of law schools in the country for a contemporary work on public international law by local authors. Moreover, in this treatise, basic as well as emerging principles are presented and elaborated. It includes illustrative cases, so that the law student can have access to basic materials in one handy volume.

*Public International Law* is now on sale at leading bookstores in Metro Manila.

#### **UNESCO RASSAP Series**

The UNESCO Office of the Regional Adviser for Asia and the Pacific announces some its latest publications:

- 1983 Women's Studies and Social Sciences in Asia. Report on the Meeting of Experts, New Delhi, 4-8 October 1982, 148 p.
- 1983 Youth Related Indicators. Report on the Workshop, Colombo, 10-14 January 1983. 141 p.
- 1983 Teaching and Research in Philosophy in Asia and the Pacific. Report on the Meeting of Experts, Bangkok, 21-25 February 1983. 40 p.
- 1983 Training of Barefoot Architects. Report of the Workshop, Bangkok, 30 May – 4 June 1983. te p.
- 1984 Sythesis Meeting: A Comparative Study on Swidden Cultivation In Asia. Report of the Meeting of Researchers, Chiang Mai, 19-23, September 1983, 29 p.
- 1984 Unesco Programme in Social Sciences in Asia and the Pacific: Report for the Triennium 1981-1983. 77 p.

## A Historical and Current Perspective of Philippine Economic Problems

#### (continued from page 10)

Such actions have put the leadership under long-term disadvantage. Perhaps in retrospect, in the light of what some of the excesses had brought upon the nation when the economic crisis struck and exposed the problem in the open, such practice could only have been regretted. They happen because of the tolerant atmosphere in favor of the close circles within the ruling group. Such tolerant view could not happen if there were more institutional checks functioning well without exception. But that seemed to be the crux of the matter. Institutional checks simply meant that the proper procedures of getting the relevant agencies of government pass on their recommendations before any decision is taken. This procedure is standard, but exceptions could, and did, occur. In fact, for special groups, a bypass of this essential procedure could only explain why some expected results did happen. In these circumstances, the institutional process of advice and coordination was left with situations of fait accompli.

In any government, it is not unusual for any groups with special access to those in political power to promote their own interests. Normally, however, it would be difficult to point any evidence of special favor. Silent patronage is the most effective norm. The exercise of patronage need therefore not appear in the books of government. Under the setting of absolute decrees, when these are not carefully used, there could be lapses that would allow special discrimination. For instance, some officers of government have to perform certain tasks that are not in accordance with existing policy. Only a direct order from higher authority enables lower officials to deviate from standing policy through exception. Sometimes these orders take the form of a decree or a letter of instruction.

Some groups in the private sector therefore have legitimate gripes when

they complain of discriminatory treatment against them. A government must show fairness to all concerned as a matter of equity. This is a legal, not an economic point. A government which relies more on the impersonal workings of the competitive market can assure its citizens of fairness by minimizing governmental interventions, including the giving of direct favor.

For too long, the proposition that a country like ours cannot tolerate competing enterprises because of a limited domestic market has been interpreted to mean to allow few competitors or only a monopoly. This leads to an undesirable result. It allows unfair advantage to be derived by a producer over a captive market. The competitive solution is to allow some degree of tariff protection while imports are made to compete with the domestic manufacture. The efforts at tariff restructuring are clearly in the direction of improving the setup.

The element of monopoly privileges is still allowed by government to be exercised under the guise of protection. While enormous incentives are already available to help out enterprises, certain privileges, like requiring tariff certifications prior to importation to ascertain the availability of domestic substitutes, are given to agencies. These agencies, in turn, would make a decision based on information supplied by the affected company as to the availability of adequate local supplies.

Just recently, the new Philippine cocochemical venture was given the exclusive privilege to import alkyl benzene, a petrochemical product used in the production of synthetic detergents. If one has the patience to review the tariff code, it would be easy to find provisions of the following kind: a commodity import would be entitled to a lower rate of tariff if certified by the Board of Investments.

Ultimately, this procedurally means that the Board of Investment, with

consultations or judgment on its part, would determine if company X is capable of supplying the competing domestic product. If the producer is persuasive enough, or if a bureaucrat determines independently that in any case the product is produced locally, the imports could be judged as unnecessary and wasteful, even if the price is better and the quality more assured. In such cases, it is really so much better if actual tariff rates, compensating taxes, and antidummy duties (if dumping could be proven) could be applied, given a prevailing exchange rate which is presumably not overvalued. This is far from the so-called "free trade" solution that some careless critics on the scene harpon as the main objectives of the tariff restructuring program.

The price mechanism would therefore play its role and no government regulator need ever control the process through his signature or assent. It is monopoly power of the regulator, or as transferred by this regulator to the private enterprise, which reduces the urge and therefore competitive penalizes the whole country in the end. When a company, which is already given generous tax and other investment incentives, is further given additional control over the life and death of companies consuming a product that it produces, through privileges granted by the state or its instrumentalities, it creates conditions that make them automatically earn profits even without half-trying. The instruments of protection or antidummy tariff measures should be made to fulfill certain tasks. But the power to determine the fate of other competing users should not be left to them or to the state bureaucrat. This is the kind of power which is promoted by the use of tariff certification procedures which those in the private sector who need imports to sustain part of their operations all too well understand. As

early as 1970. I argued the need for a fundamental reform in this area so that the real interest rate would always be positive. And it was only towards the end of my work in the policy making end that interest rate reforms finally took hold. It was not persuasive economic argument on our part which worked. World interest rates soared. The country was engulfed in a world in which capital-rich countries also raised their interest rates. The successful economic miracle cases in our region spearheaded initially by high interest rates added to the validity of this policy direction. Hence, the only success was in bringing the discussion to the open.

While the exchange rate sought relatively market-determined levels, during the period of managed exchange rate float, interest rates were cheap. The interest rates at which the banking system and the state financial enterprises could dispense their funds were unrealistically low, sometimes even negative when the inflation rate was taken into account. Therefore, borrowing from government financial institutions was an especially lucrative proposition if a project could be developed.

To obtain loans, therefore, it helped to have government connections. And the large category of "projects under government behest" even in the portfolio of these institutions indicate the magnitude of this problem. Today, these government behest projects are classified largely as nonperforming assets of these institutions. It will take enormous write-off losses for these institutions to put themselves back into operating capability. And in the process, they would need new infusions of government equity.

On the other hand, there was a free commercial paper (money) market in which interest rates practically floated. The government control of interest rates led to this highly dualistic setup, which was the natural result of financial repression in the formal markets.

The waste of domestic capital has cumulated over the years. The present state of the state financial institutions that have undertaken this lending is a testimony to the ill-advised policies of artificially depressing interest rates in the thought that this would induce capital formation and produce the kind of enterprises needed by the nation for economic development. The policy had managed to make some individuals only richer by borrowing low cost development loans. It has been a joke in the early 1970s (when I was new in government) that some piggery loans had financed some houses in Forbes Park. This may be an exaggeration with a grain of truth somewhere.

Sometimes this was done not so much in terms of the enterprises that they had set up. The capital and raw material procurements used in running these enterprises and the device of concentrating management to their associated companies have squeezed money and capital out of these existing enterprises. Also, the high rates of return in the money markets channeled private funds, including those obtained at low cost from the formal sector, like the governmental financial institutions. This produced additional fortunes for those who had access to the low cost funds. If interest rate calculations had been more severe, some of these projects would have been eased out by calculations of viability.

The triumvirate of factor pricing policies which were controlled by government – minimum wages, interest rates, foreign exchange and import controls and, later, a managed exchange rate float – was undertaken therefore because of good intentions. They were the result of an activist and compassionate role that government decided to undertake in handling the pricing matters with respect to various perceived needs in the main affected sectors. They may have been devised as shortterm policies initially. But they eventually created monsters for the long term. These are the monsters that the present and future governments will have to grapple with. Their costs to the whole nation, as the present crisis is showing, are painful. Any one who fails to believe this will only have to recall the travails of the nation since the last few years while our neighbors in the ASEAN are having an unprecedented surge of growth. And we are embarrasingly south of the most progressive countries in East Asia - Taiwan and South Korea. The problems that wrong policies have engendered and cumulated over the years cannot be wiped out overnight.

## Deviations from Competition and Uniformity: Private Monopolies

There have been cases of exclusive privileges within the private sector that have no public utility justification. Some commentators, including the critical press, have lumped this under the topic of "cronyism." A large segment of the deadweight loss of the Philippine economy can be identified with some prominent cases that have been associated with this phenomenon of "crony capitalism." But the phenomenon extends to a wider set of persons and entities when put in the context of some general policies. The biggest industrial failure, the Marinduque Mining and Industrial Corporation, for instance, could not have qualified under the category of cronyism. It was a bold industrial venture mistimed with the energy crisis and the world recession of the 70s.

The practice of special favor may have been encouraged by the absolute nature of the decree-making power. When the institutional checks are not fully in place or when there is confidence such power could be relied upon when needed, the practice of favor could spread. Certain parties close to the ruling class were able to manipulate their advantage at the expense of others. The Planning and Implementation Processes: Resources and Public Expenditure Control

Under martial law, the capacity to generate public resources to pursue government programs became better. Early in the 1970s, organizational changes in the planning machinery made it easier to streamline the activities and functions of government. The planning machinery was strengthened. Compared to previous years, there was greater coordination of the economic programs. Government corporations were revitalized and some new ones were created. These changes were designed to carry the mandate of development more effectively.

The taxable resources of government improved. Changes in the domestic tax system were made. An enlargement of the tax base was achieved, covering, for instance, a wider field of agriculture, trade, real property ownership and other hitherto untaxed areas. The basis for the kind of dedicated, no-nonsense development that had taken place in such authoritarian governments in East Asia that are now classified as NICs became available to us.

To some What went wrong? extent, the failures of policy to use the market more effectively, which is the theme of what has been said so far. has a big story to tell. But all that is not sufficient. Many other factors converge together to concoct a kind of "witches' brew" in the emerging saga of Philippine contemporary history. Shifting priorities, changing expenditure strategies, towering personalities: all of these contributed to this concoction which led to the results. We shall briefly discuss aspects of this brew by relating it to the planning and implementing process. In this way, it is possible to examine the effects of these developments on the nation.

The improved capacity to raise financial resources through taxes and other forms of saving was not matched by the same quality of control over public expenditure and private investment. Among the important reasons for this phenomenon, it is possible to refer to two: (1) overconfidence and (2) defects in the economic decisionmaking machinery. These points require elaboration.

The government in the early 70s was in possession of viable governmental programs designed to raise the level of the public and private investment. The country built a good credit standing from external creditors and foreign investors. Public confidence in the development orientation of the government was built by demonstration. Such confidence also emerged somewhat from that unquantifiable variable that can be associated with the term "political stability."

The initial results of martial law led many to believe that economic discipline and progress were at last to follow. Inspite of the oil shocks, the programs designed to improve the overall infrastructure in transport. agriculture and irrigation, power and industry continued to dominate the picture. This gave a coherently confident picture of the way the economy was being managed: government investments were being made for productive activities. Thus, the direction of these investment programs exuded confidence among local business. Among international business seeking opportunities of profitable expansion overseas, the Philippines was becoming an attractive proposition. In such condition, private investment was growing.

At this point, the country's international credit rating was in good standing. Loans for many projects including those in the private sector became much easier to obtain, especially if these were obtained under government guarantee. The public borrowing program was worked out with the international public agencies, the World Bank and the Asian Development Bank, and the bilateral public sources, principally the development assistance institutions of the United States, Japan, and other friendly countries. These loans were largely designed to finance projects identified in the Development Plan. All of these loans were basically prudent and well within the long-term repayment capacity of a growing economy.

"Overconfidence" breeds further exuberance. One very influential sector in the government arose to affect the directions of public spending. This was a sector that propagated the theme that finance is only money and that money is no problem. Ergo, there must be concern for beauty and elegance, whatever the cost. As any one will recognize, that is hardly a theme that could be attributed to the prime minister or to his co-workers in the economic management team.

The result of this misdirected activity was the undertaking of nonproductive investments associated with the government, arising out of competing programs of expenditure that were neither found *directly* in the budget nor ever conceived in the development plan. They utilized government resources, through support of programs undertaken by public corporations whose funding was raised either through equity funding by government or through bond financing.

If there is any negative influence on the credit rating of the country which could be attributed to a factor that could have been controlled, this is the sector. But this was under the control only of the leadership. It is this sector that has given the country the image of extreme profligacy before the world. This image was very hard to reconcile with the relative poverty of the nation and with the efforts to finance the development program by supplementation from foreign savings. With widespread travels and retinues, elegant celebrations and festivals, high profile, supposedly people-oriented programs involving expensive public

subsidies, the more was seen, the more was said. And the result was not complementing on the development efforts of the nation.

These projects may seem peanutsized in their direct effect, considering the total magnitude of government undertakings. But they have a large indirect impact. One side effect is that it has encouraged a culture of extravagance in many ways within government. When examples are available for the faithful followers, imitation becomes a cheap and accessible art.

These activities must surely have cost the country a margin of higher cost in international credit circles. The cost of Philippine debt in the international finance market, which rose as other factors had made international lending more difficult, could have been affected partly by the high profile extravagance in some sectors of government. The government could not finance projects of large size which are not even mentioned in the development plan and, at the same time, promise before interlending institutions national the counterpart peso financing for development projects (which was getting difficult to raise). Given this ostentatious situation, international lenders would not give the country a high rating. Hence, they were constrained to tighten their terms, implying higher risk premiums, for loan syndications involving the Philippines and its institutions.

Of course, other governments all over the world are guilty of sustaining aberrations in their expenditure systems. Such aberrations are obviously justified in some other contexts, for instance, political. These are the areas that are normally not treaded by the economic adviser. In any case, they affect the quality of the turf in which the whole government operates.

Many projects undertaken in the private sector during the 1970s, especially those that require a large quantum of capital investment as the later experience revealed, had been of poor quality. It is fair to state that some fortunes were made by those who only projects and procured initiated machinery rather than by running enterprises. In some cases, the viable operation of the enterprise was not a major consideration of the project proponent. This explains part of the problem within some segments of the private sector, especially those with access to large loans and guarantees. This is not to condemn the private sector but to point out that some segment was more interested in the aujck profits from procurement. In some cases, it seemed easier to default on the obligations and leave the government financial institutions holding the bag.

This was, of course, far from the intentions of the government. The private projects were supposed to add to the productive capacity of the private industrial sector so that the economy could be stronger. Prime Minister Virata had tried to explain this matter in what turned out to be a statement too difficult for a man of his position to make, when he appeared about two months ago before the Philippine Chamber of Commerce and Industry.

Neglect is too strong a term to use. Overconfidence and misjudgment would be more apt in failing to estimate soon enough the impact of the impending problem. The signs of these were already large during the Dewey Dee fiasco, which happened during the full year of 1981 and late 1982. This affair had caused the government to undertake defensive measures that were strong but not strong enough to cure the large problems that by then had cumulated. One signal that could have helped but did not was the country's foreign exchange reserves. They turned out to be much lower than they were reported to be. The magnitude was large enough - later reports put it at about one billion US dollars - as to create a self-deluding effect on the quality of the economic management of the crisis.

If the signals were properly read soon enough, the painful measures of retrenchments and adjustments would have come sooner, too. The added pressure of salvaging private companies that did not manage their affairs correctly actually reduced the fiscal flexibility of the government. Already, the legitimate development projects in the pipeline had suffered by then.

#### Disruption of planning and coordinating

It is now essential to go to the main point about the disruption of the economic decision-making function. One effect of the enlargement of the government machinery and the expansion of the public corporate sector is the creation of different centers of coordination. The ultimate coordination should have been exercised within the NEDA and the Cabinet. In the 1970s as well as today, the normal institutional controls had already been in place, either by development or by past tradition. If these controls are relied upon in the assessment of governmental projects, a greater degree of consultation and accountability in the government can arise. These are the very essential attributes that improve the soundness of public undertakings. But these steps are at the cost of speed in decision-making. At the beginning, coordination was relatively strong.

This form of control was weakened as the 1970s rolled on. Stronger personalities in the government began to gain much more direct access to higher authority for their pet projects and proposals. By allowing the bypassing of this institutional network of the government, the planning and decisionmaking machinery which began auspiciously early in the decade was weakened. As a result, many new institutions were established. Some of these institutions carried powers and functions which ran counter to some established policies of the government.

For instance, the most common violations were those that pertained to tax exemptions and the power to borrow. Eventually, these decrees were corrected partially, to conform with financial policies. But the financial sector was only part of this problem. This was easier to prevent because the direct costs of tax exemptions to governmental operations through a drop in revenues or lack of control of borrowing authority could be forecast more quickly. Hence, the Ministry of Finance was able to manage some of these problems into the fold. It was harder to monitor the implications of changes in the composition of cabinet committees designed to review certain problems especially in cases when the coordination process got weakened. Such would happen when the lead agency failed to lead or took it upon itself to work without the others.

As odd as it may seem, such cases often occur. It was inevitable that, with the lightning quickness of the decree-proposing sectors, whose proposals were not properly sieved through discussion and debate, a large part of the work of the major economic officers was taken up in what could be euphemistically called "firefighting." It is a large misallocation of time when the major economic officers are fighting fires rather than managing large issues and strategic problems. Firefighting could be reduced by appropriate coordination.

Perhaps the absolute decree-making powers had sometimes encouraged the bypassing of institutional consultation. Proponents of new laws can be very impatient and blame "pussyfooting" on the institutional network of the bureaucracy. It was therefore very tempting for higher authority, given this pressure, to decide before sound advice came or was resorted to.

The result of this was the premature buildup of expenditures by some

government corporations ahead of those that would naturally have come from the normal investment and expenditure pipeline. There were cases in which less desirable projects or activities would get the financing ahead of those pinpointed in the development plan. Recognizably, in any government, there are pushes and pulls everywhere. But when the tugging and pulling are not within sight or control of the coordinating agencies, there is no effective redress or defense. Thus, instant approvals for some projects happened.

The gradual determination of basic services in government is accounted for partly by these factors. In recent years, too many projects of marginal value had diverted the use of normal budgetary resources that should have gone to basic governmental ministries, such as education, public health, and police. These services should have grown in quality as well as quantity. Over time, the salaries of government employees have deteriorated in real terms because of inflation. These workers in these ministries have suffered much more, and to some extent have even lagged behind those of the average governmental salaries.

A high point in 1978 was reached when the Ministry of Human Settlements was created. Eventually, the coordination of the economic programs of government became more difficult. In any case, the flow of budgetary resources moved in a predictable direction: larger budgetary flows were funneled through this ministry, including the coordination of some budgetary activities of several ministries, and several new corporations that emerged under its wing.

This year marks the first time that we again are importing rice. The climatic factors of 1984 played an important part. Typhoons greatly damaged rice growing regions. But more than this is involved. The rice growing program of the government has, suffered from relative inattention because in the last few years much of the support and funding for programs has been directed to the programs that were pushed under the Ministry of Human Settlements. Since mid-1981, all of government was talking and channeling resources, especially in the rural areas, to KKK livelihood programs. Traditional programs such as rice growing, which received so much impetus from governmental support before, began to get less attention. In fact, the extension services had been partly affected by the shifting priorities and programs being developed to support the KKK programs. Even the NFA, which has been much discussed, was devoting more attention to new programs like kadiwa and wheat procurement.

In due time, many analysts will have to turn their attention to this interesting, and very unfortunate phase of Philippine economic history. Those in the field of government and public administration, with the help of economists, would have a field day analyzing this topic. The Batasan hearings on the 1984 budget, especially in connection with this ministry, and recent news about some corporations under it, have brought into the open some interesting activities that may show only the tip of a large iceberg. Within this ministry is the conglomeration of the most: dispensable public corporations in the present government. They have cost the nation a considerable sum. And if liquidated today to save for the future, such liquidation will still cost the nation more.

#### Conclusion

External circumstances have made the economic performance less favorable to growth. They were not sufficient to cause a crisis if strong adjustments were made early enough.

The basic health of the economy had been eroded by years of inattention to the most critical problems requiring economic reforms and by the postponement of policies that would have been helpful. The active pursuit of unnecessary market interventions and the monopolization of several critical sectors, rather than competition, conferred special privileges to certain sectors. This in turn helped to stifle incentives and contributed no less to the frustrations and inefficiencies in the private sector.

To add to these, certain sectors of government followed a parallel and competing program of expenditure which was wasteful by any economic standards. This was done by wasting government resources in projects of little social and economic productivity. Competition with productive investments of this profligate program reduced the effectiveness of government efforts in several areas.

In addition, there is a tendency to undertake ill-conceived mass projects, for instance, in the guise of "livelihood generation," as if that term were only recently discovered. These projects ignored the lessons of past failures. Catchy acronyms accompany these projects so that they could partly be illuminated through high profile public relations media advertising. In the end of course, true development proceeds only when people have improved employment and income and when they begin to learn self-reliance, in a meaningful sense.

The development program which emanated from the planning sectors of the government had been generally of sound direction. Because the competing programs of wasteful sectors of government had edged out some funding for other more productive investment, the average productivity of government resources fell. The effectiveness of government suffered in undertaking its task for increasing economic and social productivity.

The lack of faith in the possibilities of the market is a major failing of Philippine economic policies in the past. If the market had been more vigorously relied upon in the years following independence, instead of the unfortunate policies of exchange and import controls and the pastiche of patch-up solutions for every economic problems that had occurred, it is likely that the Philippine economy would look very different today. There would be greater national progress. The cumulation of massive waste of capital in the economy is similar to having lost a costly war through the partial destruction of the nation's productive capacity.

Much talk continues on the problems we have in dealing with external institutions, like the IMF, for the critical economic adjustment that has to be done. This deserves a few pointed direct comments.

First, the substantive problem that we face today amounts to a large economic crisis. Much of this crisis is of our own making. It is not that of other external institutions and countries. Their involvement is that they get caught in the web of our problems. The crisis can be traced to certain concrete steps undertaken by the nation's government in responding to challenges. It can be traced to historical roots and in this sense the culpability extends to a long line of decisions.

There was lack of trust in market solutions, which would have relieved the burden of government in handling intricate problems and kept the government busy where it mattered – providing basic services of public investment in social infrastructure, keeping public health, education and peace and order. What the government did was to undertake unnecessary expansion in some sectors. The faith in market solutions would have encouraged rather than inhibited the private sector. It would have made the country better developed, in industry, agriculture, and commerce than we are today.

Second, the responsibility of government to see to it that the nation, including the government's total fiscal programs, live within its means. This also requires that government entities must be fully accountable for their actions. We must learn to control total spending, to have a very responsible fiscal policy. We must make ministries and government corporations and semipublic monopolies accountable for their activities. Appropriate fiscal restraint has to align with financial and monetary prudence. The problem arises when too much lipservice is paid to controlling the excesses of government spending when, as the public has found out in recent years, some sectors of government are allowed their merry way in spending on wasteful projects.

Even if there were no conditionality attached to the extension of new loans for the economic adjustment program, the government needs to demonstrate sincere restraints in spending especially in cases where an act can be symbolic and therefore meaningful. The IMF facility and the restructuring of the external debt which has been negotiated can only provide some temporary relief. There is need for sacrifice together with an ultimate strategy that is sound. A great regard for true economy and economic effectiveness would be needed in the years to come. Therefore, there should be no room for wasteful spending.

Nationbuilding has its ups and downs. Temporary setbacks, such as the present crisis, can give severe lessons for us. The pitfalls can be avoided if they are known. Some useful rules may hopefully result which can save us. An optimistic look at the present conditions would be to imagine that we have been dealt a wound that, in time, has taught us an important lesson. After healing, the body can rebuild again, hopefully with greater vigor.

## editorial

### (continued from page 2)

service to their fellowman for the greater interest of the common good?

Meeting these worldly challenges you will encounter is the relevance in your professional life and the meaning of your education. In the final reckoning, the question is: How solid is your foundation for Christian Stewardship? It is certain that you will become the stewards of the country's resources and will command your individual special talents. The issue will be: How well did you use those resources and these talents? In the message of a university president to graduates of Class '85... "you are a privileged lot... Never forget that from those to whom more has been given, more will be required."

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