REVERSING A VICIOUS CIRCLE ABOUT ECONOMIC GROWTH WITH THE HELP OF STATISTICS

by

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The intention of this paper is to reverse a vicious circle and, at the same time, to draw a constructive lesson about the requirements of quickened economic progress from certain well known statistics. I shall first state my case briefly and then develop it, adducing my evidence.

The chief terms of the problem under consideration are people in relation to the produced goods available for their well being. It is the old, everyday economic problem; goods are scarce but people are plentiful. The rate of growth of population in the Philippines is among the world's most rapid. Moreover, population will continue to grow here at a very fast rate. The average Filipino is a poor man. In order that he not become poorer, the rate of increase of the national income must at least match the rate of increase of population. It is the rate of new net investment which measures how quickly the national income will grow. In recent years it appears that the amounts of new investment have been just about enough to save per capita income from decline. The rate of growth of the national income has just about kept pace with the rate of growth of population. Often this low level of investment is explained by means of a vicious circle: Filipinos are poor because they are poor. That is, being poor, they can spare very little out of their income; they need to consume almost all of it. Because saving is low, investment is low. Low investment causes Gross National Product to grow slowly, keeping per capita incomes low and consequently, keeping savings low. Thus the circle makes its full turn. A glance at statistics on saving reveals that the vicious circle thus stated has nothing to do with the case. If there be a vicious circle, it runs just the opposite way: saving is low because investment is low, not vice versa. Our lesson is this: Far and away the most fecund generator of capital for new investment has been the successful business enterprise. The more successful enterprises are brought into being — regardless of their nationality — the more savings will there be for expansion and for still more enterprises. Circles can be made beneficent.

The more familiar statistics need not detain us. The official Census figure of 27.456 millions for the population in February 1960 is a good 10% higher than previous population estimates. Consequently, the rate of growth of population has had to be revised upward, beyond 3% a year. This rate is the resultant of a birth rate which has remained high — close to 50 per 1000 per year — and of a death rate which has been steadily lowered during the life time of men no older than fifty. Dr. Victor Heiser estimated the death rate in the first decade of this century to be between 40 and 50 per 1000. This opinion is consistent with the estimate of Dr. Enrique Virata that between 1903 and 1918 the average annual death rate was about 32 per 1000. It would have been considerably above that average in the earlier years. That is to say, as recently as the start of this century, the Filipino people needed a very high birth rate to guarantee their survival. Since the birth rate is the effect of profound social habits amounting to a kind of second nature, reinforced by morality and religion, it is not to be expected that it will recede quickly. Yet, there is plenty of room for the death rate to fall from its present level slightly below 20 per 1000 to a level below 10 per 1000 already reached in Japan and in a number of northern European Countries.

Our first conclusion thus emerges: Not only is population growing here at one of the world's most rapid rates but it will go on growing rapidly. Indeed, it has been predicted that about a decade from now the rate of growth may reach as high as 3.4% a year.

What has all this to do with economic progress? The purpose of economic activity is to support people. The national economy has as its goal to provide people with a rising level of living. Table 1 shows that the current per capita income is little more than ₱365 a year, or about ₱1 per person per day.

This is very little and assumes that the national income is evenly distributed. We know that it happens to be a very unevenly distributed. Figure 1 presents comparative Lorenz curves for 1948 and 1957 showing that things got worse rather than better in the course of that ten year period. In 1957 the poorest 35% of the people received only 10% of the income: on the average, about 30 centavos per person per day. The richest ten per cent got about forty per cent of the income — but notice that even this, on the average, amounts to only ₱4 per person per day. Tables 2 and 3 provide the data from which the Lorenz curves were drawn.

We are now in a position to draw a further conclusion. Income is low and is unevenly distributed. Very few are rich, very many are poor. Yet, the problem is not one which can be solved by evening out of the distribution of income. If everyone gets his one peso a day, everyone is reduced to poverty. The economic problem of this country is, first, how to produce bigger stock of goods and, then, how to give to the poor more generous shares.

Income is low precisely because output is low. The low level of output can be attributed in part of unemployment, in part to underemployment and in part to low productivity per employed worker. An economy is prosperous to the degree that all its resources are employed and to the degree that the workers' productivity is stepped up by the help of capital tools and equipment. All along the line one senses the importance of energetic investment both to employ idle hands and to raise the productivity per hour of the hands employed.

The problem can be stated more narrowly. Population is growing at a rate just in excess of 3% a year. The economy presently provides for each Filipino about ₱365 worth of goods and services a year. To raise this per capita income, the rate of growth of the National Income must certainly be higher than 3% a year, indeed, higher than any further increase in the birth rate induced by economic growth. In the past ten years several economies have manifested smashing growth rates, notably Japan and Germany. Nevertheless, a rate of growth of 3% a year is not contemptible by American or British standards. Over long periods of time—a half century or a century — the United States has not done better than this. The United Kingdom has not done nearly so well.

The rate of growth of the National Income depends upon how much the economy manages to save out of its National Product and apply to investment. From 1951 to 1959, on the average, 8.1% of the Gross National Product was saved and invested. For the past three years the average is 8.9%. This is not new net investment but Gross Domestic Investment, the available statistic. The Philippines is fortunate that so low a ratio of Gross Domestic Investment effected so notable an increase in the National Product. But it is not at all surprising that the economy's growth merely kept pace with the growth of population. We have had to exert ourselves to keep from going backwards. This points up the economic significance of the rapid rate of population increase. It makes urgent and difficult the matter of economic development and progress.

Capital is formed by the process of investment in three steps. First, there must be saving; some part of the National Income must not be consumed. Second, there is need of the complexus of financial institutions to pool savings and to pipe them to investors. Third, enterprising investors must be present in good numbers, ready to put the community's savings to work. The country is weak under all three headings, but our attention is focused on the first, namely, saving.

Not only have the savings of the community been below 10% of the Gross National Product but there is a more revealing statistic: the bulk of saving is done not by households but by firms. In 1960, of a Gross National Product of ₱11.988 billions, ₱1.046 was saved. In that year some saving was accomplished by the Government — ₱224 millions — but almost four-fifths of it was private: ₱822 millions. Of this, ₱990 millions was contributed by business firms, while a substantial amount was eaten away by dissaving of private households — ₱168 millions. The same tale emerges from the accounts of the two previous years; dissaving out of personal income amounted to ₱12 millions in 1959. That is, wealthier families have been able to save but the poor — spending beyond their frugal incomes — have dissaved considerably more than the rich have managed to save. In 1958, personal dissaving totaled ₱90 millions.

Business firms save in two ways: in 1960, depreciation allowances accounted for ₱611 millions and undistributed profits for the remainder, ₱379 millions. Tables 4 and 5 carry the relevant statistics for the years 1958, 1959 and 1960.

It is worth while to single out and underscore the plain conclusion. We should not count on personal domestic saving as a large source of capital for investment. Savings come chiefly from business firms.

What, then, becomes of the vicious circle that, because incomes are low, savings are small and, consequently, investment too are small? The incomes which tend to get used up quite completely in consumption are disposable personal incomes. But there is no tendency whatever on the part of corporations to consume depreciation allowances or retained earnings. Yet, these are the prime sources of investible funds.

This condition is not peculiar to the Philippines. It is the same the world over. Successful business generates capital. The parallel experience of the United States — please look at Table 6 — is most instructive. In a thirteen year period of vigorous growth, from 1947 through 1959, firms in the United States made outlays of $300.2 billions on plant and equipment. Internal sources of business financing — depreciation allowances and retained earnings — provided $286.7 billions, equivalent to 96% of the funds invested in plant and equipment.

The big conclusion is obvious. Nothing generates capital so abundantly as a successful business. The more enterterprises we have — successful ones — the more savings we will have for still more enterprises. Businessmen the world over know this but all must learn it, especially policy makers, and shape their policies in accordance with it. It is a fact of outstanding significance because it points out the path to a beneficent circle. The more an economy invests, the more it is enabled to save. Saving is low because investment is low, not vice versa. Saving and expansive investment are as much the result as the cause of economic development.

We can get a cycle working in our favor. Once development has started and has gained momentum, it becomes an upward spiral. Gunnar Myrdal has described the phenomenon in biblical words: to him who hath is given. W.W. Rostow is but one of the many students of economic development who look to a stage of self-sustained economic growth. In the case of capital there is recognized what has been called a "feedback": capital breeds capital. It may be remarked by the way that the same is also true of entrepreneurial and managerial abilities. Men learn by doing. Tomorrow's tasks are made easier — and are attacked with considerably more confidence — because of the experience gained today.

Saving is low because investment is low. It is stunningly clear from the experience even of such an economy as that of the United States that the saving on which investment depends is not related at all closely to per capita incomes but rather to the level of corporate depreciation allowances and retained earnings. Students of economic development are aware that, when identifying the forces on which investment depends, it is narrow minded to single out one for exclusive attention. Investment depends upon saving indeed, but it depends upon many other factors as well — material, technical and personal. It should greatly encourage us that, just as capital grows from use, so do all the other bottlenecks to development get opened up little by little thanks to new undertakings.

One of the striking features of economic development in any growing country on earth is this — let it be broadcast loudly: Every successful enterprise is a seed bed of further growth. No generator for forming capital and management has ever proved more fecund than the firm itself, once successfully established, in any economy in the world. The Philippines is rich with examples of this. Incidentally, it makes no difference what the nationality of the original capital or enterprise happens to be. As a matter of fact, in the beginning, very little capital in this country was Filipino. Now far and away the greater part is.

To solve the economic problem of this country, there must be saving and the formation of capital. This kind of investment creates new jobs and raises the productivity of workers. Firms are good at saving and forming capital; in fact, no other entities are comparably good. Therefore, let us have more and more of them. In practice, let the manifold obstacles to the establishment and expansion of business firms, whether by Filipinos or by foreigners, be removed in the best interests of this economy.

FIGURE 1

LORENZ CURVES OF PHILIPPINE PERSONAL INCOMES, 1948 AND 1957

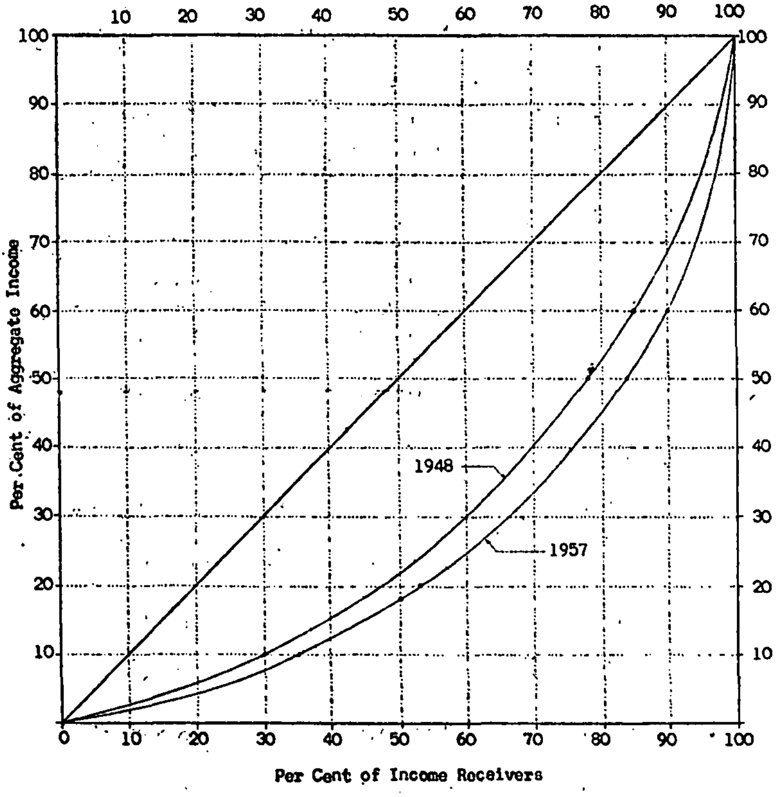

TABLE 1

PER CAPITA NATIONAL INCOME OF THE PHILIPPINES AT CURRENT PRICES

CY 1946-1960

Calendar Year	Population[1/] (thousands)	Per Capita National Income
1946	18,934	221.93
1947	19,392	276.61
1948	19,862	277.46
1949	20,358	268.40
1950	20,891	283.47
1951	21,439	302.60
1952	22,000	297.91
1953	22,577	310.71
1954	23,209	317.85
1955	23,910	318.86
1956	24,632	336.47
1957	25,376	345.37
1958	26,142	356.63
1959	26,943	362.54
1960	27,796	377.05

1/ Preliminary Population Estimates for the Philippines as of July 1, 1944-1946.

Source: National Income Branch, OSCAS, NEC.

TABLE 2

PERSONAL INCOME DISTRIBUTION: PHILIPPINES MAY, 1957

Income Class (Yearly income)	Aggregate Income		Income Receivers	
	Amount (thousand ₱)	Per Cent Distribution (cumulative)	No. of Households (in thousands)	Per Cent Distribution (cumulative)
Under ₱250	30,200	.5	164	4.1
₱ 250 — 499	279,674	5.3	727	22.5
500 — 624	212,325	8.9	378	32.1
625 — 749	234,605	12.9	343	40.8
750 — 874	247,184	17.1	306	48.5
875 — 999	239,340	21.2	255	54.9
1,000 — 1,249	435,373	28.7	389	64.7
1,250 — 1,499	364,000	35.0	265	71.4
1,500 — 1,749	392,789	41.7	242	77.5
1,750 — 1,999	320,867	47.2	172	81.8
2,000 — 2,499	456,216	55.0	205	87.0
2,500 — 2,999	364,054	61.3	133	90.4
3,000 — 3,999	555,908	70.9	162	94.5
4,000 — 4,999	282,609	75.8	64	96.1
5,000 and over	1,409,152	100.0	154	100.0
Total	5,824,296		3,959	

Source: Philippine Statistical Survey of Households, March 1957: Family Income and Expenditures. pp. 22-23.

TABLE 3

DISTRIBUTION OF REPORTED PERSONAL INCOME AND RECIPIENTS BY SIZE OF INCOME, 1948 1/

Income Range (₱)	Income Receivers		Total Income		Average Income per Recipient (₱)
	Number (thousands)	Per Cent	Amount (₱ millions)	Per Cent	
Under 600	2,045	39.4	716.8	14.9	351
600 — 1,080	1,701	32.7	1,324.3	27.5	779
1,080 — 1,800	899	17.3	1,232.6	25.6	1,372
1,800 — 3,600	470	9.0	1,072.3	22.2	2,282
3,600 — 6,000	61	1.2	275.9	5.7	4,496
6,000 — 14,000	19	0.4	156.9	3.2	8,087
14,000 — and over	2	—	43.7	0.9	17,720
Total	5,197	100.0	4,822.5	100.0	928

1/ "Reported personal income" comprises cash income and a part of income in kind.

Source: William I. Abraham: **National Income of the Philippines and Its Distribution,** p. 24.

TABLE 4

COMBINED CAPITAL ACCOUNT, CY-1958-1960
(At Current Prices in Million Pesos)

	1958 r/	1959 r/	1960 p/
Gross domestic investment	960	1,038	1,050
Net lending abroad	(71)	111	(4)
TOTAL (Gross Current Saving available for Investment)	889	1,149	1,046
Private saving	160	365	211
Government saving	230	230	224
Depreciation	499	554	611
TOTAL	889	1,149	1,046

r/ Revised   p/ Preliminary   ( ) Negative

Source of Basic Data: Cooperating government agencies and private firms.
NIB, OSCAS, NEC. 3/21/61 PSR

Table 5

RELATION BETWEEN GROSS NATIONAL PRODUCE, NATIONAL INCOME, PERSONAL INCOME, DISPOSABLE INCOME, AND PERSONAL SAVINGS, CY 1958-1960

(At Current Prices in Million Pesos)

Item		1958 r/	1959 r/	1960 p/
GROSS NATIONAL PRODUCT At Market Prices . . .		10,684	11,376	11,988
Deduct :	Depreciation	499	554	611
	Indirect taxes less subsidies	749	807	885
Equals :	NATIONAL INCOME At Factor Cost	9,436	10,015	10,492
Add :	Transfer payments by the government	67	90	110
	Net donations from abroad	59	86	119
Deduct :	Property income of government	66	79	75
Equals :	PRIVATE INCOME	9,496	10,112	10.646

Deduct : Other Private Income (Private Corporate Income)	367	547	543
Undivided corporate profit	250	377	379
Corporate profit taxes	117	170	164
Equals : PERSONAL INCOME	9,129	9,565	10,103
Deduct : Personal direct taxes	237	203	210
Equals : DISPOSABLE PERSONAL INCOME	8,892	9,362	9,893
Deduct : Private (Personal) consumption expenditures	8,982	9,374	10.061
Equals : PERSONAL SAVINGS	(90)	(12)	(168)

r/ Revised   r/ Preliminary   ( ) Nagative

Source of Basic Data: Cooperating government and private agencies. NIB, OSCAS, NEC. 3/24/61.

TABLE 6
SOURCES AND USES OF CORPORATE CAPITAL, 1947-59

(Thirteen-Year Totals)

Sources	**Billions**	**Per Cent**
Depreciation	$ 164.8	35.2
Retained Earnings	121.9	26.0
Internal Sources	286.7	61.2
New Stock Issues	32.7	7.0
Long-term Debt	72.6	15.5
Short-term Debt	76.6	16.3
Total	$ 468.6	100.0
Uses		
Plant and Equipment Outlays	$ 300.2	64.1
Inventory Growth	47.2	10.1
Other Working Capital Growth	121.2	25.8
Total	$ 468.6	100.0

Source: U.S. Department of Commerce.