DISCUSSIONS ON FR. MCPHELIN'S PAPER

ON REVERSING A VICIOUS CIRCLE ABOUT ECONOMIC GROWTH

A comment was made to the effect that the outlook for Filipinos is dismal: the expected rate of economic growth can hardly outrun the rate of growth of population. What is the way out of this seeming impasse? The problem appeared to Father McPhelin as one rather for a demographer, but he suggested that historical attempts to lower the birth rate by means of a direct policy of contraception have been futile. People must first be brought to a desire for smaller families, before any means of achieving smaller families can be effective.

Dr. P.B. Patnaik , U.N. principal advisor of the Statistical Center, doubted whether the view expressed by Fr. McPhelin that larger investment would lead to greater savings was applicable to countries with underdeveloped economies. For, he said that the additional income formed by increased investments need not necessarily result in domestic savings as most of the households were at the subsistence level. Also with regard to the additional income received by factories, business houses and corporations from their investments, the state could siphon out most of the income through taxes and spend it on administration, social services or other unproductive types of expenditure, thus leaving with them only a small part of savings for investment. Dr. Patnaik was of the opinion that unless there was a drive for savings through administrative and publicity measures, any savings would be spent away on consumer goods or utilized for unproductive investment like building construction.

How can we get more and more resourceful firms in operation? By getting out of our own way. Fr. McPhelin replied that the cycle of investment leading to savings has been amply verified in the United States. He also said that in the Philippines, there were agencies like Mutual Funds to encourage people to save. Instances were cited of the dependence of entrepreneurs, whether Filipinos or foreigners, on the good will and cooperation of government bureaus — notably the N.E.C. and the Monetary Board — in order to open a new firm or to expand an existing one. Instances were also cited of delays and obstacles put in the way even of eminent and influential Filipinos.

Mr. P.J. Rosauro, Senior Statistical Coordinator, OSCS, NEC, pointed out that by comparing Lorenz curves for 1948 and 1957 Fr. McPhelin wanted to show that "things got worse rather than better" in the course of that ten-year period". That is, the Lorenz curve for 1957 as compared to that for 1948 shows a greater curvature, thus implying a greater disparity in the distribution of income in the Philippines.

The question was raised as to whether the two Lorenz curves compared are truly comparable or not at all. In the first place, are the two aggregates (reported personal income as estimated by Mr. Abraham from the 1948 Census and the family income as estimated by the PSSH in 1957) reasonably identical in concept or coverage to permit valid comparison of their distributions? In 1956, the personal income as estimated by the National Income Branch of the OSCAS, NEC, exceeded the family income as estimated by the PSSH by more than two billion pesos.

Considering further the question of comparability, do the two Lorenz curves presented follow the same method of distribution? The 1957 distribution (Table 2) considers the household as the unit of distribution and covers the total household population of the Philippines. On the other hand, the 1948 distribution (Table 3) takes the individual as the unit of distribution and limits coverage only to persons receiving income, a selected segment only about 26 per cent of the population.

Fr. McPhelin countered that the imperfections of the data themselves — both sets — should trouble National Income statisticians much more than reconcile manners of tabulating them. The curves are but "straws in the wind".

To this, Mr. Rosauro answered that if discrepancies occur or seem to occur in the results obtained from two independent statistical sources, it would be probably quite unfair to consider their statistics as mere "straws in the wind". These statistics are products of detailed planning and careful deliberations. It may be mentioned that the 1948 Census and the 1957 PSSH Survey of Household Income and Expenditures (from which the Lorenz curves presented by Fr. McPhelin are based) are two undertakings of major significance towards the development and strengthening of the statistical system in the Philippines.

Dr. R.W. Hooley, commenting on Fr. McPhelin's paper, had the following to say:

"Fr. McPhelin has provided an unusually stimulating approach to the old "vicious circle of poverty" notion by inverting the line of argument. Investment is low not because saving is low, but because investment is low. He points — quite rightly — to the fact that the main generator of investment funds in countries for which we have accurate data on saving is the retained earnings of the business sector.

But the fact that this situation characterizes economies such as Great Britain and the United States, does not prove conclusively that it is equally true for economies at all stages of development. The available statistical evidence seems inadequate to settle this question with regard to the Philippines. The points which bother me most about estimates of the major saving components in the Philippines are as follows:

1. The estimate of household saving computed from National Income data for 1960 is (negative) ₱168 million. This figure is calculated by deducting personal consumption expenditures from personal income. However, personal consumption expenditures is itself a residual figure, obtained by deducting gross investment from national income. There

is very strong evidence that the gross investment figures are badly understated, and as a result, it is doubtful if the figure for household savings comes anywhere near the true figure.

The Statistical Survey of Households data on family income and expenditure show (positive) household savings of around ₱500 million for the period ended March 1957. My own studies would suggest that this estimate, despite shortcomings, is more realistic, but still on the low side.

2. Taking the 1960 figures of ₱990 million private business investment as published, it is not clear that this represents business savings. Business units may have invested more than they saved, and covered the difference by adding to the supply of financial instruments outstanding. Although figures for depreciation of plant and equipment are contained in the National Income accounts, they are based on a rough guess of the depreciation for a benchmark year, which has been extrapolated as a percentage of gross investment to cover all other years.

3. There is the possibility that whatever the level of business saving in recent years has been, it may represent entirely saving **generated** in the business sector. The existence of an official rate of exchange well below the equilibrium rate has had the effect of a subsidy to domestic enterprises. Manufacturers (for example) have had the special privilege of buying machinery and raw materials in a cheap market and selling in an artificially dear one. Particularly in the 1956-57 period this had the effect of transferring existing saving (in the form of foreign exchange reserves) to the business sector where it appeared in the form of retained earnings.

In closing I would like to say that Fr. McPhelin has presented Philippine researchers with a forceful challenge to the accepted notion on the relationship between saving and investment, and one which points the way toward research that could result in exceedingly fruitful work in the field of capital formation.