

PHILIPPINE ECONOMIC PARADOXES*

By

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Friends and Fellow Members:

Before anything else, I would like to felicitate each and everyone of you for being friends or members of the Philippine Statistical Association, which is one of the most active and successful professional organizations in the country today. Indeed, I feel a deep sense of pride in being counted among its founding and life members, and to speak before a distinguished group such as yours is both an honor and privilege.

What may be a unique feature of our organization is the fact that, varied as our individual interests or careers may be (there are economists, businessmen, agriculturists, engineers and even doctors of medicine among us), we are all drawn together by the recognition of the essential function that the science of statistics performs in our respective lines of endeavor. As an economist, I am especially aware of the vital role that the science of statistics played in the evolution of economics; thanks to the contributions of statistics, the study of economics has become more meaningful and useful after economists learned to measure whatever was quantifiable and countable, to use statistical data and methods to test and refine theories, and to apply the science for the achievement or improvement of the material well-being of mankind.

Time magazine recently quoted a mid-18th century remark by Edmund Burke who said, "The age of chivalry is gone; that of sophisters, economists and calculators has succeeded."¹ We like to think that the age of enumeration and quantification is better equipped to face material problems than the ages

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¹*Time*, 26 June 1964 (vol. 83 no. 26), p. 26.

which are past, and perhaps this is true in general. Yet there sometimes arise situations which defy simple aggregative quantification, and for whose explanation one must look around and beyond the obvious statistics to get to the underlying social realities.

Such are certain contemporary problems dominating the local scene which I would now like to discuss with you. While these problems taken individually seem deceptively commonplace and anything but new, yet, taken as a whole and viewed in the general context of economic behavior, they present a problem which has defied simple explanation and which has inveigled local businessmen, economists and members of the press into great argument. With your indulgence, therefore, I shall devote the next few minutes, firstly, to the identification of the paradoxical economic situations currently existing in the country; secondly, to the determination of the probable causes of these conflicting trends; and finally, to suggesting possible solutions to these problems.

The Philippine economy is going through a curious and crucial period, the main feature of which is the existence of prosperous sectors booming alongside tight sectors which are undergoing noticeable market and financial difficulties. While the general indicators depict rising prices, expanding money supply (until fairly recently) and brisk selling of foreign exchange, there have been insistent complaints of money scarcity, poor market prospects, and hard times. Consequently, an incongruous situation has developed wherein these complaints are made against a backdrop of flourishing communities indulging in frenzied spending on real estate, consumer durables and foreign exchange.

There is both visual and statistical evidence to attest to these contradictory conditions. Let us first identify the boom sectors.

As expected, the export sector which stood to gain the most from the decontrol program showed an outstanding performance. Concomitant with the favorable conditions created

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by the change in exchange rate from \$1 : P2 to about \$1 : P3.50, and by world market developments, the volume of exports rose by more than 41 per cent between 1959 and 1963, largely concentrated in the latter year. The peso value of export shipments, despite a 3.5 per cent decline in world market price, soared from P1.06 billion in 1959 to P2.53 billion in 1963, an almost 140 per cent increase in gross receipts for this major sector representing magnitudes attained nowhere else in the economy.

With sugar and logs leading the others, practically all major export products enjoyed rising peso prices and expanding sales receipts. The wholesale prices of centrifugal sugar, copra meal and logs in Manila increased by 140.6 per cent, 73.3 per cent and 46.5 per cent, respectively, between 1959 and 1963. At the lower end, unmanufactured abaca and cordage registered a small rise of 2.0 per cent and a decline of 6.2 per cent, respectively. In between are the other products such as copra, coconut oil, leaf tobacco, lumber and others which registered price increases ranging from 10.0 per cent to 30.7 per cent during the same period. Base metal average unit values, on the other hand, suffered a slight 1.4 per cent decline during the same period.

Logs and lumber together showed the largest increment, in absolute terms, in their export receipts of P369.21 million; while sugar, copra and coconut oil followed with increases of P322.81 million, P281.49 million and P129.10 million, respectively. Export shipments of base metals f.o.b. rose by P117.8 million, but actual foreign exchange receipts from them rose by only P74.2 million, possibly because of lags in the remittance of payments.

TABLE 1

WHOLESALE PRICES OF MAJOR EXPORT PRODUCTS IN MANILA
Selected Years, 1941-1964

(In pesos)

Year	Copra Resecada (100 Kg.)	Sugar Centri- fugal (picul)	Abaca unmanu- factured (picul)	Coconut oil (Kg.)	Lumber (1000 Bd. Ft.)	Logs (1000 Bd. Ft.)	Leaf tobacco (115 Kg.)	Desic- cated coconut (Kg.)	Pine- apple canned (Kg.)	Copra meal (Kg.)	Cordage (Kg.)
941	6.17	4.81	8.09	.14	66.38	51.21	15.02	.21	.21	.02	.37
1959	46.66	14.89	58.31	.80	228.89	177.46	112.16	.73	.39	.15	.81
1963	54.09	35.83	59.47	.88	299.11	259.93	137.94	.90	.60	.26	.76
1964 (average 1st half) ...	56.55	32.55	69.14	.95	323.09	279.15	143.76	.96	.63	.22	.82

SOURCES OF BASIC DATA: Bureau of Commerce; Export Department, Central Bank of the Philippines; and private firms.

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TABLE 2

EXPORT RECEIPTS OF THE PHILIPPINES

1959 and 1963

(Million pesos)

Commodity	1959	1963	Absolute Change	Per cent Change
T O T A L	<u>1,010.22</u>	<u>2,459.95</u>	<u>1,449.73</u>	143.5
Copra	251.54	533.03	281.49	111.9
Sugar	230.82	553.63	322.81	139.9
Abaca, unmanufactured	83.24	122.43	39.19	47.1
Coconut oil	45.10	174.20	129.10	286.3
Logs and lumber	144.22	513.43	369.21	256.0
Leaf tobacco	6.36	41.25	34.89	548.6
Desiccated coconut	40.72	64.77	24.05	59.1
Pineapple	14.24	29.42	15.18	106.6
Copra meal or cake	10.64	37.77	27.13	255.0
Cordage	6.54	12.14	5.60	85.6
Base metals	92.70	166.88	74.18	80.0
Others	84.10	211.00	126.90	150.9

SOURCES OF BASIC DATA: Authorized agent banks

TABLE 2a

EXPORT RECEIPTS OF THE PHILIPPINES

1959 and 1963
(Million U.S. dollars)

Commodity	1959	1963	Absolute change	Per Cent change
T O T A L	<u>505.11</u>	<u>698.85</u>	<u>193.74</u>	<u>38.4</u>
Copra	125.77	151.43	25.66	20.4
Sugar	115.41	157.28	41.87	36.3
Abaca, unmanufactured	41.62	34.78	— 6.84	— 16.4
Coconut oil	22.55	49.49	26.94	119.5
Logs and lumber	72.11	145.86	73.75	102.3
Leaf tobacco	3.18	11.72	8.54	268.6
Desiccated coconut	20.36	18.40	— 1.96	— 9.6
Pineapple	7.12	8.36	1.24	17.4
Copra meal or cake	5.32	10.73	5.41	101.7
Cordage	3.27	3.45	.18	5.5
Base metals	46.35	47.41	1.06	2.3
Others	42.05	59.94	17.89	42.5

SOURCES OF BASIC DATA: Authorized agent banks.

Along with the export industries, agriculture in general benefited from recent developments. Manila wholesale price indices of home consumed agricultural products rose by 28.9 per cent between 1959 and 1963. Agricultural export products did even better, rising by 53.6 per cent during the same period. That agriculture as a whole should be carried along with the fortunes of the export sector is not entirely unexpected since the Philippines is largely a primary product raw material exporting country, although it is true that rises in prices of export goods need not be accompanied by rises in prices of goods primarily meant for domestic consumption. Since a price paid by someone represents income received by someone else, these rising prices have meant a considerable expansion of income in agriculture, and the question now becomes how that income is distributed.

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TABLE 3

SECTORAL WHOLESALE PRICE INDICES IN MANILA
Selected Years, 1959-1964

(1955 = 100)

	HOME CONSUMPTION		EXPORT	
	Agricultural	Non-Agricultural	Agricultural	Non-Agricultural
1959	103.5	109.9	141.7	115.2
1963	133.4	126.9	217.6	129.8
1964 (average				
1st half)	145.3	130.1	221.1	132.0

SOURCES OF BASIC DATA: Bureau of Commerce
Bureau of Fisheries
Private firms
Public markets

In addition to the aforementioned statistical facts and figures, the visible affluence of the sugar producing and logging communities lends further plausibility to the booming prosperity of these areas. The epitome of such communities is Bacolod City, and while all the fabulous stories about it may not be strictly true,² they are not entirely baseless either.

Also conspicuously on the uptrend are the real estate and construction industries which made appreciable gains these past few years. Real estate sales and mortgages in Manila and suburbs alone amounted to more than ₱250 million and ₱550 million, respectively, in 1963 as against only ₱218 million and

₱183 million registered in 1959. Real estate price increases ranging from 15 per cent to 60 per cent within a year's time were not at all unusual in suburban Manila in 1962-63. A lot on a Makati residential subdivision which was bought at ₱75 per sq. meter in 1962 was selling easily at ₱120 in 1963.

The construction boom resulted in a 67.9 per cent expansion in the value of new construction between 1959 and 1963 in Manila, its suburbs and chartered cities all over the country. In 1963, there were more new residential constructions than non-residential ones in Manila and suburbs taken together. In other chartered cities, however, the value of new non-residential constructions exceeded residential ones by 8.4 per cent. Manila, which led the country in the value of new constructions in 1959, has now fallen behind both its own suburbs and chartered cities in the rest of the country. These last in 1963 attained a level nearly double that of Manila, racking up an increase of 118 per cent in four years.

²Hyperboles like "In Bacolod they don't count money any more, they shovel it", or "In Bacolod everyone has a car, nobody but the maids and the hired help uses the city taxicabs" are often bandied about good-humoredly.

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TABLE 4

VALUE OF NEW CONSTRUCTION IN MANILA,
MANILA SUBURBS AND CHARTERED CITIES

1959 and 1963

(Million pesos)

I t e m	1 9 5 9	1 9 6 3	Per cent change
Manila	58.9	63.9	8.5
Residential	18.6	26.4	41.9
Non-residential	40.3	37.5	— 6.9
Suburbs	37.4	69.5	85.8
Residential	19.1	47.5	148.7
Non-residential	18.2	22.0	20.9
Chartered Cities	55.9	122.1	118.4
Residential	34.3	58.6	70.8
Non-residential	21.6	63.5	194.0
Total	152.2	255.5	67.9
Residential	72.0	132.5	84.0
Non-residential	80.2	123.0	53.4

SOURCES OF BASIC DATA: Department of Engineering & Public Works
City Engineer's Office, Manila
The Bureau of the Census and Statistics

Rising faster than the general retail price level in Manila, the prices of construction materials increased by 22.2 per cent between 1959 and 1963. Retail prices of cement, lumber and wooden doors, in particular, were between 40 to 47 per cent above their 1959 levels, while paints and G.I. sheets registered increases of about 20.4 per cent and 13.4 per cent, respectively. Following this industry's upward movement, the index and employment in the construction industry increased from 157.5 in 1959 to 161.5 in 1963 (1955 = 100).

TABLE 5

RETAIL PRICE INDEX OF CONSTRUCTION MATERIALS

1959 and 1963

(1955 = 100)

Commodity	1959	1963	Per cent change
Cement	99.9	144.7	41.2
Adobe, sillar	96.0	106.3	10.7
Lumber, yakal	106.6	154.3	44.7
Lumber, tanguile	96.7	127.7	32.1
Lumber, apitong	102.0	145.3	42.4
Plywood	108.8	118.6	9.0
G.I. sheets	122.6	139.1	13.4
Paints	97.7	117.6	20.4
Door, wood	95.2	139.6	46.6

SOURCES OF BASIC DATA: Bureau of Commerce and private firms

With the windfall gains made in the boom industries, unbridled buying of consumer durables particularly of automobiles, and foreign exchange, was observed. While total imports increased by only 18.1 per cent between 1959 and 1963 imports of consumer durables such as TV sets, radios and electrical appliances increased by 48.6 per cent. Automobile importations in particular deserve special mention for registering an increase of over 300 per cent during the same period, despite the extremely high taxes on cars. (Tight money, they say.)

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TABLE 6

IMPORTS CLASSIFIED BY END USE

1959 and 1963

(F.O.B. value in million U.S. dollars)

Item	1959	1963	Per cent change
TOTAL IMPORTS	<u>523.6</u>	<u>618.2</u>	18.1
Producer Goods	<u>460.7</u>	<u>524.1</u>	13.8
Machinery & equipment	81.4	101.0	24.1
Unprocessed raw materials ..	49.2	105.7	114.8
Semi-processed raw materials	255.7	288.7	12.9
Supplies	74.4	28.7	— 61.4
Consumer Goods	<u>62.9</u>	<u>94.1</u>	49.6
Durable goods	3.5	5.2	48.6
Non-durable goods	59.4	88.9	49.7

SOURCES OF BASIC DATA: Bureau of Customs, Reparations Commission, National Development Company.

TABLE 6a

PHILIPPINE IMPORTS OF TRANSPORT EQUIPMENT

1959 and 1963

(F.O.B. value in thousand U.S. dollars)

Item	1959	1963	Per cent change
T O T A L	40,976	66,714	62.8
Railway locomotives & parts ..	989	1,813	83.3
Automobile & parts	3,640	14,646	302.4
Road motor vehicles & parts (except automobiles)	17,456	39,760	127.8
Other road vehicles other than motor	589	1,024	73.9
Aircraft	2,769	1,488	— 46.3
Ships and boats	15,533	7,983	— 48.6

SOURCES OF BASIC DATA: Bureau of Customs, Reparations Commission, National Development Company.

Foreign exchange expenditures on invisible items expanding several times over those for merchandise or visible items in 1963 reached the \$572.2 million mark, which is more than 3-1/2 times their 1959 level. The size of expenditures for services and foreign travel together in 1963 was around 4 times their 1959 levels. Foreign exchange expenditures for miscellaneous items which include loan repayments and, possibly, capital transfers amounted to over \$390 million in 1963 or roughly 14-1/2 times those of 1959. What had happened to the supposed deterrent effect of devaluation?

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TABLE 7

INVISIBLE PAYMENTS OF THE PHILIPPINES
1959 and 1963
(Million U.S. dollars)

Item	1959	1963	Per cent change
Services	7.96	42.01	427.76
Travel	8.67	25.20	190.66
Educational subsistence	6.38	9.42	47.65
Phil. Gov't. expenditures abroad ..	11.48	13.31	15.94
Outward investment remittances ¹ ..	97.97	87.42	-10.77
Donations & contributions	0.44	4.21	856.82
Miscellaneous	<u>27.00</u>	<u>390.65</u>	<u>1,346.85</u>
T o t a l	<u>159.90</u>	<u>572.22</u>	<u>257.86</u>

SOURCES OF BASIC DATA: Authorized agent banks and Foreign Exchange Department, Central Bank of the Philippines

¹ Inclusive of special financing items.

Now, let us glance at the so-called tight sectors.

Constrasting sharply with the effusive buoyancy of the boom sectors, the banks, the stock market and many non-agricultural industries, particularly those producing for the home market, seem to be either in the throes of financial strain or in the economic doldrums.

Banks have been losing reserves, and excess reserves of the banks have fallen to such an extent that an unprecedented reserve deficiency of ₱11.4 million was actually registered at the end of April this year. Timely Central Bank action helped the commercial banks get back in the black in May, when their excess reserves were ₱28.9 million.

Interest rates, moving in the opposite direction, pushed up the costs of borrowing. Market interest rates as measured by the average weighted interest rates on total credits granted by the banking system increased steadily year after year from 7.7 per cent in 1959 to 8.4 per cent in 1963.

With credit difficult to get and interest rates rising, stock trading activities, although erratic, showed signs of downward market trends. With the stock price index dropping from 101.8 in 1959 to only 96.6 in 1963 (1955 = 100), the value of total stocks traded on the stock exchange declined from an aggregate figure of around ₱215 million in 1959 to only about ₱186 million in 1963.

Also on the debit side of the economic ledger are the non-agricultural industries, particularly those catering to the home market which have not kept abreast with the advance of the agricultural sector. While the wholesale prices of home consumed farm products rose by 42.1 per cent between May, 1959 and May, 1964, non-farm prices have risen by only about half as much or 20.5 per cent during the same period. As a matter of fact, a definite shift in the terms of trade in favor of agricultural commodities as against non-agricultural goods has been observed during the past five years. The shift is borne out by the fact that the ratio of agricultural price indices to non-agricultural price indices consistently rose from 94.2 in 1959 (1955 = 100) to 105.1 in 1963 and to 110.7 in May, 1964. Small wonder, then, that the non-agricultural industries producing for local consumers have been vocal about the difficulties of obtaining funds from the banks or from sales receipts.

Yet such difficulties did not seem to be uniform throughout the economy. Credits granted for various purposes by the commercial banks showed widely divergent rates of increase. Credits granted for manufacturing as a whole went up by less than 17 per cent in 1963 over 1962, but those for contract construction went up by 61.5 per cent, for domestic trade over 46 per cent, for real estate by nearly 40 per cent, for public utilities by 52 per cent, for logging by nearly 70 per cent, for coconut by 46 per cent, and for sugar by 17.5 per cent.

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TABLE 8

TOTAL CREDITS GRANTED TO SELECTED INDUSTRIES

BY OTHER BANKS

1962 — 1963

(Thousand pesos)

Industry	1962	1963	Per Cent change
Manufacturing	1,797,457	2,100,473	16.9
Contract construction	78,063	126,075	61.5
Foreign Trade	1,096,954	1,645,243	50.0
Export of sugar & related products	286,541	311,661	8.8
Export of coconut & coconut products	73,994	131,531	77.8
Export of forest products	86,879	172,833	98.9
Domestic trade	634,693	927,703	46.2
Real estate	79,936	111,767	39.8
Public utilities	114,590	174,340	52.1
Log production	87,840	149,112	69.8
Sugar production	293,089	344,255	17.5
Coconut production	62,424	91,069	45.9

SOURCES OF BASIC DATA: DER Form 2.2.2 (Report on Credit Transactions) submitted by Other Banks consisting of commercial banks, savings banks (excluding Postal Savings Bank) and rural banks.

Loans granted by non-bank financial institutions in the same period showed decreases of over 10 per cent for industrial purposes and over 8 per cent for commercial purposes; at the same time, however, there was an increase of over 24 per cent for agriculture and of 26.5 per cent for real estate.

TABLE 9

LOANS GRANTED BY NON-BANK FINANCIAL
INSTITUTIONS CLASSIFIED BY PURPOSE
1962 — 1963
(Million pesos)

Purpose	1962		1963		1963/1962
	Value	Per cent distribution	Value	Per cent distribution	Per cent change
Agriculture	6.93	1.74	8.62	2.01	24.39
Industrial	1.21	0.30	1.08	0.25	-10.74
Commercial	7.67	1.93	7.04	1.64	- 8.21
Real estate	99.60	24.98	125.99	29.43	26.50
Consumption	282.62	70.90	284.81	66.52	0.77
Others	<u>0.61</u>	<u>0.15</u>	<u>0.62</u>	<u>0.15</u>	1.64
T o t a l	<u>398.64</u>	<u>100.00</u>	<u>428.16</u>	<u>100.00</u>	

SOURCES OF BASIC DATA: ACA, GSIS, SSS, reporting private insurance companies and pawnshops operating in the Philippines and mutual building and loan associations operating in the City of Manila

The slowness in non-agricultural business activity has also been evident in the fact that the aggregate value of net capital increases of corporations and partnerships showed a contraction from ₱80.1 million in 1959 to ₱63.1 million in 1963, which represented a decline of 21.2 per cent. Another indicator is the fact that in Manila and suburbs, where industrial activity is concentrated, the increase in non-residential construction fell way behind that of residential construction. As a matter of fact, in Manila new non-residential construction dropped by 6.9 per cent between 1959 and 1963.

In the face of all these paradoxical developments, several nagging questions come to mind.

Specifically, why has the prosperity of the indicated sectors not spread out generally into the economy, but only to real estate, construction, consumer durables and foreign exchange expenditures?

Is it because of maldistribution of income, especially in the agricultural areas? I have long held that there is a mutual-

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ity of economic interest between the rural masses and the urban industrial entrepreneurs, for it is these masses who must form the mass market for the output of factories in the cities. Yet, if agricultural incomes suffer from maldistribution, the rural masses can hardly be expected to form such a market, for⁵ much of the income that should go to the rural areas would actually be siphoned to the landlords rather than to the peasants.³

Is it because income flows are channelled to non-users of banking facilities, such as those in the agricultural sector? During the decade of the 1950's, when the country undertook its first spurt of industrialization by means of its import substitution policy, income flows were being diverted from the traditional recipients to the rising new class of industrial and commercial entrepreneurs, who were substantial users of banking facilities. Thus, the rise of this class meant also an increase of financial flows into the commercial banking system. With the reversal of these flows and the diversion of income flows back to their traditional recipients, monetary flows to the commercial banks may have been substantially reduced. Coupled with the withdrawal of certain government deposits from the private banks, this has placed some of them in a difficult position.

Is it because there is a concentration of financial resources in trust and insurance funds of the SSS, the GSIS and the private insurance companies which are traditionally mortgage leaders? We have already seen that non-bank financial institutions kept increasing substantially their real estate and agricultural loans even as they slowed down on industry and commerce. Likewise, it is instructive to note that of the loans outstanding of such institutions over half were concentrated in real estate and about one-third were devoted to consumption. All in all, nearly 89 per cent of total loans outstanding in 1963 of these institutions went to these two purposes.

³See also my "Foreign Exchange Decontrol and the Redirection of Income Flows," *The Philippine Economic Journal*, I, no. 1 (First Semester 1962), 18-27, esp. p. 26.

TABLE 10

LOANS OUTSTANDING OF NON-BANK FINANCIAL
INSTITUTIONS CLASSIFIED BY PURPOSE

1962 — 1963

(Million pesos)

Purpose	1962		1963	
	Value	composition Per Cent	Value	composition Per Cent
Agricultural	78.02	11.03	79.33	10.01
Industrial	1.96	0.28	2.01	0.25
Commercial	2.79	0.39	3.10	0.39
Real estate	346.10	48.92	435.02	54.92
Consumption	273.62	38.68	267.84	33.81
Others	4.94	0.70	4.88	0.62
Total	<u>707.43</u>	<u>100.00</u>	<u>792.18</u>	<u>100.00</u>

SOURCES OF BASIC DATA: ACA, GSIS, SSS, reporting private insurance companies and pawnshops operating in the Philippines, and mutual building and loan associations.

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Or is there a reversion to the pre-war so-called "sugar republic", with expenditure patterns partial to real estate, conspicuous consumption and foreign travel? And do these trends suggest that the economy is veering towards the agricultural raw material export structural pattern of pre-war days and away from the industrialized, import substitute oriented structural pattern which the 1950's sought to establish and nurture?

To these questions, we can only offer tentative explanations and suggest possible courses of policy action.

There have been indications, as already suggested earlier, that the major policy measures starting with **de facto** devaluation in 1960 and going on through decontrol in 1962 have radically shifted income flows away from new industrial bank-using entrepreneurs, back to the former colonial raw material producing agricultural landlords and loggers whose expenditure patterns are oriented to real estate, luxury goods and foreign travel.

One of the indicators supporting this view is the fact that currency in circulation, the money supply component employed by non-users of banks, has recently been increasing at a rate faster than deposit or bank money. Thus, the currency component of money supply increased from 45.3 per cent at the end of April, 1963 to 46.1 per cent on December 31, 1963 and 47.7 per cent on May 31, 1964.

TABLE 11

MONEY SUPPLY AND ITS COMPOSITION
END OF SELECTED PERIODS, 1959-1964

(Million pesos)

End of Period	Money Supply			Ratio (%) to Money Supply	
	Total	Currency in circulation	Peso deposits subject to check	Currency in circulation	Peso deposits subject to check
December, 1959	1,845.3	897.3	948.0	48.6	51.4
June, 1960	1,802.9	855.8	947.1	47.5	52.5
December, 1960	1,895.8	952.9	942.9	50.3	49.7
June, 1961	2,028.6	946.2	1,082.4	46.6	53.4
December, 1961	2,219.3	1,049.6	1,169.7	47.3	52.7
June, 1962	2,198.6	1,005.9	1,192.7	45.8	54.2
December, 1962	2,504.7	1,172.9	1,331.8	46.8	53.2
June, 1963	2,704.8	1,195.8	1,509.0	44.2	55.8
December, 1963	2,954.3	1,363.4	1,590.9	46.1	53.9
May, 1964	2,627.6	1,253.6	1,374.0	47.7	52.3

SOURCES OF BASIC DATA: Statements of Condition of the Central Bank, commercial banks and rural banks.

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The agricultural sector, which is the main beneficiary of the shift in income flows, is an unlikely source of industrial capital and entrepreneurship. Studies made by Fr. John J. Carroll⁴ found that Philippine industrial entrepreneurship comes mainly from the commercial and manufacturing sectors. So far, there are no indications that there has been a radical change in the Filipino pattern of investment to lead one to expect significant industrial investment from farmers or hacenderos.

In this situation, monetary policy, which seeks to influence economic activity through management of the money supply, which in turn is achieved by the regulation of banks, cannot be the full answer. In the first place, the reach of monetary policy is limited for it can only directly affect sectors which avail of bank credit facilities. Philippine banking and money markets are not yet sufficiently pervasive and widespread to provide the foundation and environment necessary for more efficient and effective monetary management. In the second place, and more important still, across-the-board effects of money supply which signify anything strong enough to regulate the boom sectors might also unavoidably strangle the tight sectors.

A selective credit policy is not the answer either. For selective credit measures are too easily evaded and would require the detailed control of the banks by the Central Bank to be reasonably effective. Such control is devoutly to be avoided.

⁴ John J. Carroll, S.J., "Industrial Background and Entrepreneurial Performance", *The Philippine Statistician*, XII, no. 2-3 (June-September, 1963), 72-81; "Filipino Entrepreneurship in Manufacturing", *Philippine Studies*, vol. 10 no. 1 (January 1962), 100-126. See also my "Stages of Growth and the Philippine Experience" in *Symposium on Economic and Social Problems of the Far East* (ed.: E.F. Szczepanik), Hong Kong University Press, 1962, pp. 180-192.

Under the circumstances, therefore, fiscal policy action is needed. Through fiscal policy measures, revenue can be raised from the sectors which can afford it, and redistributed to achieve a more equitable flow of income. Selective taxes, such as those levied on major raw material exports as advocated by the World Bank since early 1962, would not only provide the necessary funds but would also shift incentives from raw material exports to processed goods, and thus help prevent the economy from falling back on its colonial raw-material export production pattern. An alternative (or possibly even a supplement) might be a land tax.

It is sad to note, however, that Congress has not passed new revenue measures since 1959. On the contrary, it has been exempting previously taxed industries (the new textile law), earmarking existing revenues (the new tobacco law) and piling up new appropriations (for example, it raised its own outlay between 1959 and 1964 by 216 per cent). Although the Lower House has passed tax legislation, these bills have been held up in the Senate. Relief measures for industry, such as tax exemption for certain manufactures and increased funds for long-term lending, may be palliatives but cannot alter the fundamental features of the economy.

PHILIPPINE ECONOMIC PARADOXES

TABLE 12

BUDGETARY OUTLAYS FOR CONGRESS¹
Selected Fiscal Years, 1959-1963

(Million Pesos)

I t e m	FY 1959 (Actual)	FY 1963 (Actual)	FY 1964 (Estimate)	Per cent FY 1964 FY 1959
TOTAL	13.04	33.93	41.20	216
Senate	3.53	5.52	9.50	169
House ²	9.51	28.41	31.70	233

SOURCES OF BASIC DATA: Budget Message, FY 1961 and 1965

¹ Based on obligations.

² Excluding a contingent fund in the amount of ₱5.95 million for FY 1963 and FY 1964.

It is of common knowledge that major vested interests—landlords, sugar barons, loggers and other exporters — are well represented in Congress. As long as Congress is dominated by such groups, it seriously doubted that any meaningful fiscal policy can be adopted. Unless fiscal policy takes the direction dictated by national and not sectoral or individual consideration, economic prosperity cannot be shared equitably by all.⁵ On the contrary, simply to keep up with the expanding needs of government in a growing country may require the imposition of a crushing burden of taxation on the already adversely

⁵ A bill, already passed by the Lower House, reinforces the impression of agricultural landlord dominance in Congress. This bill would raise the minimum wage for non-agricultural pursuits by 50%, but would leave agricultural wages untouched at the level set last year by the Land Reform Code. Yet there is a *prima facie* case for raising the latter rather than the former.

affected sectors of the economy, if the present beneficiaries of recent economic policies and their creatures in the legislature persist in their dog-in-manger attitude by which they will neither invest in industry nor allow themselves to be taxed so that development can proceed.

If the undesirable drift away from industrialization and the eventual realization of our development goals and ambitions is to be arrested, then these beneficiaries must learn to conform to the exigencies of policy direction required by economic development and growth. Otherwise we shall simply relapse into our former colonial primary exporting economy. Until all sectors recognize and comply with their individual and sectoral responsibilities and the sacrifices required of them by the national interest and the common welfare, this country cannot be assured of success in the struggle for economic development and social upliftment.

In summary, we find in the economy today boom sectors in exports, agriculture in general, construction, real estate, consumer durable and foreign exchange expenditures. Concomitantly, we find tight sectors in domestic manufacturing, in banking, and in the stock market. A probable explanation for this is the radical change in income flows brought about by the *de facto* devaluation of the peso starting in 1960. This brought about a fundamental realignment of incentives in the economy, dried up the stream of investment into domestic manufacturing, and constricted the flow of funds into commercial banks. Instead, purchasing power showed up in real estate, construction, consumer durables, and foreign exchange. The radical change in income flows back to their pre-war recipients means that the country is in grave danger of relapsing into a colonial type of economy specializing in the exports of primary products. Since the recipients of the new windfall incomes have not been and are not sources of industrial entrepreneurship and investment, the only way to prevent such a relapse would be to institute a system of taxation on recipients of such incomes in order to proceed with economic development and industrialization.