

**SOME ASPECTS OF THE RICE POLICY OF THE
PHILIPPINES WITH EMPHASIS ON THE ECONOMIC
RATIONALE OF RICE IMPORTS**

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If we were to assess Philippine agricultural policy on rice during the last 65 years, and its significance to the Philippine economy, an examination of rice imports during this period can be useful.

The official statistical record of the Philippine Government states that in 1903, when the population of the Philippines was estimated at 7,639,800, the country imported 334,339 metric tons of rice. In the succeeding year (1904) the importation was 265,754 metric tons. From then on up to 1964 the the country imported rice annually except in 1953 and in 1962.²

From these data, we can infer that the policy has been aimed at giving opportunity to a large number of our people to obtain food sufficient to satisfy at least their minimum dietetic needs. As evidenced further by other records, the problem confronting the country during the last 65 years, has been to supply rice to the people in such a way that no one is prevented from obtaining at least his minimum food requirement by reason of poverty or of excessively high prices.

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² Agricultural Economics and Statistics Digest, Vol. II, No. 3.

While it is also the aim of the government to provide local rice farmers the opportunity for a reasonable standard of living in return for their efforts, as the producers of the staple food, it is the belief that this purpose should not be the main aim. It should be a subsidiary purpose because it serves to solve only a sectional problem and not a general one; and that the main aim should be to eliminate undernourishment, if the country is to achieve progress and economic stability.

This question has been asked time and again: "Should production be for consumer's satisfaction or producer's benefit?" The role of prices in this connection invites attention.

While the traditional price mechanism of "supply and demand" in a perfectly competitive market secures that production satisfy effective monetary consumer's demand, the all-inevitable growth of monopolistic organizations, the imposition of monopolistic margins, and the growth of speculation usually tend to break the competitive system. To endeavor to remove, by any sort of prohibition, the disturbing elements, in order to set the price mechanism in working order, is not a way of approach that has much promise of success, because there is an inevitable tendency for these disturbing elements to reappear.

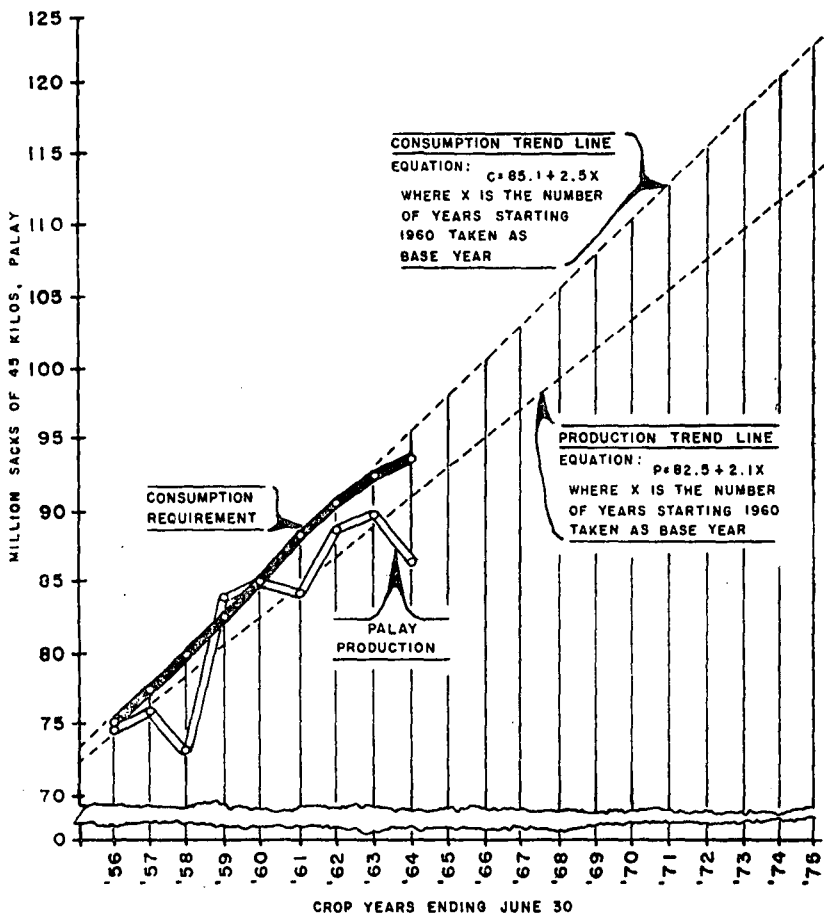
It is becoming increasingly common-place in economic theory to break down the classical relationship between the price for the farmers and the price for the consumers. The old economic theory interrelated these prices in a cast-iron grip. If an article was expensive to produce, then, however desirable it might be, it must be expensive to buy. Shall we admit this? If it is highly desirable that a commodity, an everyday necessity, especially a life-sustaining commodity should be freely available to the population at a relatively cheap buying price, then ample supply must be made available; if the provision of ample supply and reasonable return to producer demands a high producer's price, then producers must be given

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a high price; and if there is a gap between total receipts from sales and total payments to producers, this gap must be met by the national government. If there is a net loss, there is nothing to be alarmed about. Modern economic theorists would find reason to agree that actually allowing this loss to occur and financing the deficit by short-term loan or by progressive direct taxation, would be a useful weapon in the attempt to secure full employment, to control the trade cycle, and to provide a continuously rising standard of living in our country. Although the general principle must always be to secure as much of imported rice as possible to meet our needs at the least expense of foreign exchange, when the question of how much foreign exchange should be spent arises, it is well to remember that food is not a postponable demand. To be able to eat two meals tomorrow is not a substitute for no meal today. Yet, ironically, food production or rice production, for that matter, is essentially a seasonal process.

Based on the figures of the DANR, from 1956 to 1964, our production has always lagged behind our national requirement in rice, except in 1959 when production was 83.74 million cavans and the national requirement was estimated at 82.7 million cavans. Diagram I below indicates that the trend of production during the period 1956 to 1964 shows an annual average rate of increase of 2.1 million cavans of palay while the annual average rate of increase of our national requirement was 2.5 million cavans. If this present trend of production and national requirement continues, the gap between food production and food requirement will widen. This is a technical problem of production. Technical improvement during the last 5 years increased the productivity per hectare but the increase was rather slight. According to the Department of Agriculture and Natural Resources, in 1956 the yield per hectare was about 27.1 cavans and in 1964 it was 28.3 cavans. In effect, the productivity increase per farm worker, did not increase appreciably.

DIAGRAM 1—PROJECTED PALAY PRODUCTION
AND CONSUMPTION REQUIREMENT IN THE PHILIPPINES
1956 — 1975



SOURCE OF BASIC DATA: INTER-AGENCY COMMITTEE ON RICE AND CORN PRODUCTION AND CONSUMPTION (NEC)

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It seems that the rate at which we are shifting our rice supply curve to the right is very much slower than the constant rate of shift of the demand curve brought about mainly by our annual population increase. If we are to maintain a stable price for rice, the shift of the supply and demand curve should be at least of the same rate, and if local supply cannot meet this condition, it becomes necessary to obtain rice from elsewhere. Diagrams II and III below graphically illustrate the effect of shifting the demand and supply curves on prices.

DIAGRAM II

An increase in the demand is shown by a movement of the demand curve $D-D$ to a new position D_1-D_1 . This means that for existing supplies, consumers are willing to pay higher prices. The price will rise from P_1 to P_2 and the quantity sold will increase from OA to OB .

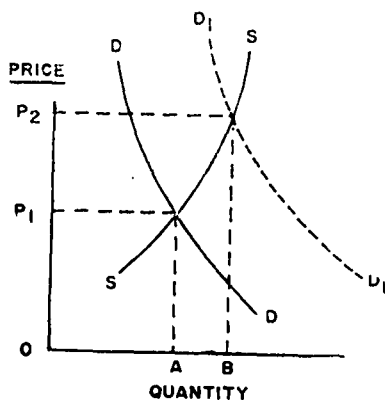
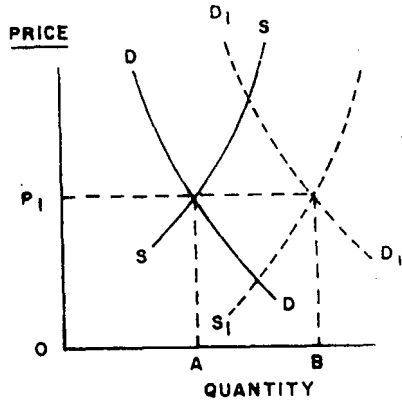


DIAGRAM III

An increase in the demand is shown by a movement of the demand curve $D-D$ to a new position $D_1 D_1$ and an increase on the supply curve $S-S$ to a new position $S_1 S_2$. This means that the present effective demand represented by $O-A$, increased to $O-B$ and additional supplies represented by $A-B$ were brought into the market to maintain the price of the commodity at its original price of P_1 .



Aside from this complicated problem of shifting the demand and supply curves, the elasticities of the respective curves would be another point to investigate. Rice is one of those agricultural commodities in which the effect of production programs on the revenue from the sale of the crops depends, to a significant degree, upon the elasticity of the demand for such crops; and the effect of the price stabilization program on the total revenue from the sale of the crops depends primarily upon the curvature of the demand curve of the crop and upon its elasticity. Most demand curves for agricultural products, are inelastic, so that, other things remaining the same, reducing the size of the crop will increase the total revenue and increasing the size of the crop will decrease the total revenue.

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As a consequence of the natural scissors of supply and demand, consumers are adversely affected when there is a short crop production and are benefited whenever there is a large crop production.

The 1962 survey of the Philippine Statistical Survey of Households disclosed that 17% of the families of the country receives income less than ₱500.00 a year; 29.3% receives income between ₱500.00 to ₱999.00 a year; 17.8% — ₱1,000.00 to ₱1,499.00; 12% — ₱1,500.00 to ₱1,999.00; 10% — ₱2,000.00 to ₱2,999.00; 7.4% — ₱3,000.00 to ₱4,999.00; 5.8% — ₱5,000.00 and above. These figures indicate that majority of Filipino families belongs to a low income group. This situation calls for a program with emphasis on increasing the income of the families.

The man in the street will not ordinarily say, "I want a higher standard of living." He is more likely to say, "I want more money." But he wants more money really in order to have more to spend to raise his standard of living. If he had say, 20% more, and the prices of all the things he wanted to buy were 20% higher, he would be no better off; if prices were more than 20% higher, it will be worse for him. On the other hand, a fall on the prices would improve his standard of living by as much as the corresponding rise in his income. Being able to buy a commodity at a lower price is just like having an increase in the real income of the family, particularly if it has been buying a great deal of the commodity; and with a higher income, the family could afford to buy more of other goods.

The statistical survey conducted by the Philippine Statistical Survey of Households last May, 1961 revealed that 78.5% of the total population used rice as their staple food, 20.9% used corn, and 0.6%, other foods like bread, "camote", "cassava" and other root crops. A little more than half of the households consuming rice did not produce palay; and 27% of the households consuming rice produced palay but their production was short of the amount needed by them. The

households whose palay production is equal to or in excess of their estimated consumption requirements made up only a little more than 1/5 of the total.

At this point it may be well to reflect on the following observation of Professor Kenneth E. Boulding, which I quote :

“Raising agricultural price, however, does very little to help the poor farmers, because the main reason why they are poor is that they have very little to sell, and they have little to sell because they produce very little. Also, the poorer the farmer, the smaller the production of his produce he sells off the farm and the more he consumes at home and farm prices are significant only for the portion that he sells. In the extreme case of a completely self-subsistent homestead, it sells nothing off the farm, so income is completely unaffected by prices, **for nothing multiplied by nothing is still nothing.** So a policy of raising farm prices thru some artificial means — that is, by some kind of subsidy from the rest of society — helps the rich farmer much more than it helps the poor farmer.”

In addition, we must realize that the lower the income of the family, the higher the proportion it spends on food, so that any savings it can make in the purchase of rice in the free market would tantamount to a higher proportion of savings than would accrue to a higher income group family which spends a lower proportion of its income on food. The net effect in the increase in the real income of the low income group families can be tremendous and over the long run it can boost the industrialization program of the country, as it has been proven that in any developing economy, industrialization **for the home market** can make little progress unless industry is progressing vigorously at more or less equal pace with agriculture. If agriculture is stagnant, industrialization cannot progress. Agriculture and industry should be complimentary to each other.

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We can therefore conclude that much more has to be done to boost our palay production to meet the ever-increasing demand for rice. There is a fear that the world supply of food-stuffs will be barely, if at all, sufficient to meet the rising demand of a fast expanding world population. There may come a time when the Philippines may be unable to import food from overseas, and our food policy may well be determined by the most efficient utilization of our own resources, including land, labor and capital. Yet, during years of abundance in other sectors of our economy, we may be prone to look forward to the possibility of shifting the emphasis of our food policy away from the achievement of our people merely to obtain the optimum possible from their land, to meet their additional requirements, if any, through a world trade determined by the principle of comparative cost.