

PLANNING FOR ECONOMIC DEVELOPMENT: THE PHILIPPINE CASE

By

WALTER KRAUSE *

Discussion of the present-day economic situation in the Philippines generally proceeds in the vein that there are present a *number* of basic economic problems, each distinct and somehow unrelated or only casually related to the others, and each meriting its own special line of attack by way of possible solution. Specific reference is customarily made to a relatively low level of per-capita production and real income, to the existence of widespread unemployment and underemployment, and to forces which eventuate in balance-of-payments deficits. Actually, there is but *one* basic economic problem, for it can readily be shown that the manifold difficulties customarily cited are but fragmentary aspects of a larger problem. Within the total context each is either subsidiary to, an outgrowth of, or a particularized surface manifestation of what in reality constitutes a single fundamental and all-pervading economic problem. This root problem is found in the *structure of the economy* itself.

The objective of this presentation is to show *how* the structure of the economy figures in the country's present-day economic difficulties, and to show *what* action is warranted in the face of this situation.

The Structure of the Economy

The Philippines is frequently referred to as being an underdeveloped country. Usage attributes to the word "underdeveloped" the meaning that the country to which the label is ap-

* Chief, Economic Development Division, International Cooperation Administration in the Philippines. This article is based on an address delivered under auspices of the National Economic Council, April 24, 1956. The article is reproduced in its entirety from a monograph published under auspices of the International Cooperation Administration.

plied is economically poor per-capita, relative to the performance in production of one or more other countries. The word, however, connotes something more; there is present the clear implication that a higher level of performance is possible, all relevant considerations taken into account.

It is an obvious truth that a situation of low production leaves much to be desired, especially when the environment is one in which a better performance is clearly possible. And, it follows that to the extent a higher level of production, aggregate and per-capita, can be brought into being, the country's economic position is capable of being bettered. After all, production is basic; in the absence of production, or the possibility of production, there is very little to talk about along economic lines.

Examination of production in the Philippines today reveals that the economy is overwhelmingly agricultural. The agricultural production, at least insofar as this pertains to the market economy, is found to be heavily biased toward a relatively few products, which with rare exception are destined largely for export. This situation, entailing as it does a relative lack of diversification in the domestic economy, results in, among some other things, an extreme dependence upon sales in foreign markets and a heavy dependence upon imported goods, both of manufactures and of consumer goods. Towering over all else, however, is the fundamental fact that the production which now does occur is of a magnitude far short of what allows for an adequate utilization of the manpower and other resources currently available within the economy (and hence the resultant per-capita real income is of necessity relatively low).

A logical question arises as to whether the country's present-day economic status could not give way to something better via an intensification of productive effort along agricultural lines. The answer is that such an intensification of effort obviously could prove of economic benefit; however, the question is left unanswered as to just "how much" benefit could thereby be expected. A relevant consideration in this connection is that the *level* of production which can prevail is intimately related

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to the *pattern* of production from which it arises. If a country's structure of production is "inappropriate", attempts to increase production within that structure, and thereby to attack subsidiary problems, are automatically handicapped as to their potential effectiveness, currently *and* in the future. Viewed in this context, there is good economic reason to doubt whether an approach concentrating very heavily upon agriculture offers potential for maximum economic gain; perhaps another approach—one involving conscious structural change—has more to offer.

The Alternatives

In the final analysis, the task of determining the particular course which is economically most advantageous for a country can best be approached by weighing the benefits potentially obtainable from the alternatives open to it. In the case of the Philippines, two basic alternatives merit attention.

Alternative I: The first course open to the Philippines is for it to retain its present structure of production—meaning primary and overwhelmingly emphasis on agriculture—but to effect such improvements as are clearly possible within this basic framework. It cannot, of course, be maintained that the country's agricultural output is today at the maximum level possible, viewed in a physical sense. Better utilization of lands now cultivated and improved methods of agricultural production can result in greater output; in addition, there are some lands still available which are not now utilized in any economically meaningful fashion. This physical situation clearly offers scope for considerable additional production.

However, an important question arises: If the Philippines wants to achieve a higher level of income for its people, can it accomplish this on a long-run basis by depending on agriculture *alone*? The answer is that great difficulties are involved—difficulties of a type and magnitude such that one is obliged to conclude negatively. The point is that in order to raise income (*per-capita* real income), productivity per person must rise, i.e., total production must rise *faster* than population growth; and, it is highly doubtful whether such is pos-

sible via a concentrated approach upon agriculture alone. The difficulties involved which warrant the foregoing statement stem, basically, not from any lack of physical ability to increase the country's agricultural output (for the country clearly has such ability), but from the obstacles which confront the country in its attempts to dispose of the output. The particular complicating element at issue is that the demand for the output is weak (relative to supply); this situation in demand encompasses aggregate effective demand (as it pertains to present or likely primary products) and, closely related, the country's overall terms of trade (which, given present or likely primary output, do not appear favorable, viewed either in an immediate sense or in terms of the foreseeable future). Significantly, when demand is weak (relative to supply), growth in production is handicapped; and, if total production does not rise *faster* than population growth, productivity per person must fall, and with it per-capita real income.

Assuming first that the country's present relatively undiversified pattern of agricultural production is continued, definite obstacles exist which limit the possibility of increased production. While present production encompasses many commodities, there is heavy concentration of effort upon production of a relatively few "major" commodities. These "major" commodities almost all (rice is an important exception) find their way very largely into export markets, in part because they cannot possibly be marketed domestically in any such volume, but more particularly because they were produced in the first place with an eye on the export market. Production for export, of course, is meaningful only if exportation is possible; more pertinently, in the present connection, an *increase* in the production of export products is economically warranted only if the added output can be disposed of abroad to good advantage. The real question, then, concerns the status of the market into which the country's present export products enter. But, world market conditions and trends being what they are, the prospects for very substantially increased foreign sales on the basis of the country's present pattern of exports do not appear particularly bright. If the ability to increase export volume in the present export products is low or weak,

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the ability to benefit via an increase in their production is automatically impaired. First, the very reason for added production in these lines is undermined when exportability is thrown into doubt; and, it is important to recall that production must rise faster than population if productivity per person, and per-capita real income, is to increase (and if opportunities for productive employment for a growing labor force are not to lag). Second, unless exportation occurs, the related capacity to import is impaired; and, it is important to recall that an undiversified economy tends to be heavily dependent upon a variety of imports—so that the resultant situation is not one likely to ease balance-of-payments pressures.

Assuming next a move toward diversification in the country's agricultural economy, the question arises whether a basis is thereby created for marked increases in production. Again, the pertinent consideration does not center on the country's physical ability to proceed in this direction (for the ability exists), but rather it concerns the demand aspects which constitute a precondition to physical production. In evaluating the prospects in this connection, serious doubt exists whether additional agricultural export crops of any number or importance can be successfully developed; as a minimum, it is doubtful whether total export volume can be markedly increased along these lines. The relevant fact here too is that an increase in exportation is necessary if an increase in production is to be sustained; and, it follows that whatever limitations were previously cited in connection with the problems of an undiversified agricultural economy apply also at this point. In another vein, somewhat more would appear possible in the way of diversification aimed at greater sales in the domestic market (an effort intended in part to reduce the country's import requirements in food), but here too limitations of demand are certain to be faced fairly quickly under present circumstances.

The crux of the matter, in any event, is that in order to raise the per-capita real income of a population it is necessary to raise total production at a pace faster than population growth, i.e., productivity per person must rise; anything less can at best merely amount to a "spreading" of income, not an increase. But, in order to bring about such an increase in in-

come, sufficient demand must exist to absorb advantageously the required volume of output. When applied to agriculture in the Philippines, a dilemma arises; while supply can rather readily be increased, demand is relatively weak. *Combining* all likely possibilities in agriculture—sales abroad and/or domestically, under either non-diversification or diversification—total demand potentials definitely appear insufficiently great to underwrite the level of production which can positively assure over time the increase in productivity per person needed to give a rising level of per-capita real income. Since production, viewed in relative terms, is itself then “inadequate”, the number of opportunities arising for productive employment of a growing labor force also leaves something to be desired; moreover, the resultant production-exportation picture, in the face of a continuing and possibly rising import demand for manufactures not produced domestically, most likely cannot be expected to give rise to a situation in which balance-of-payments pressures will positively ease.

The foregoing does not mean that much more effort should not be made along lines intended to develop agriculture. The inference is simply that an approach in which concerted effort in agriculture *alone* is viewed as “the way out” of the country’s economic difficulties cannot in the final analysis be counted upon to do what is needed. This would constitute no economic tragedy if it were abundantly clear that no other course of action could offer more. With this thought in mind, the second cited basic approach can be examined for its relative merit.

Alternative II: This second course would strive to supplement effort to bring about improvement in the agricultural sector with a major effort to promote marked growth in the industrial sector. The intent would be to reap whatever benefits accrue from additional agricultural development, but in view of limitations inherent in this approach, the intent in proceeding one step farther would be to gain *also* the benefits which can accrue from industrial growth. In essence, the intent would be to foster an economy in which industrial and agricultural progress proceed together, in a sense *reinforcing* one another. An effect over time would be to increase aggregate

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production, both industrial and agricultural; significantly, there would result a re-shaping of the economic structure so that industrial output would come to account for a rising proportion of total production, while agricultural output, though not diminishing in an absolute sense, would come to account for a lessening proportion of total production.

The crucial consideration in this connection is whether the development of industry can have the effect upon the economy of bringing about an increase in productivity per person (and hence in per-capita real income). There is good reason to believe that this can be the case, both in the short-run and in the long-run. By way of preliminary argument, it should be noted that to the extent industrial output is simply *in addition* to agricultural output (a reasonable situation whenever the prevailing level of agricultural output occurs without relatively full use having been made of the available factors of production—say, labor, raw materials, etc.), an increase in productivity per person is an automatic result. Beyond this, it should be noted also that in numerous instances the resultant productivity arising in the industrial sector can be expected to prove higher than the average existing in agriculture (a point already demonstrated on the basis of some industry which has come into being).

Proceeding to a more detailed analysis of the situation, one finds, from a short-run standpoint, that the demand-side as it affects industry appears quite favorable on the whole. First, sufficient domestic demand is known to exist on the basis of present-day imports to support considerable growth in the foreign-exchange-saving category of industrial enterprises. Such enterprises appear to hold special promise in the textile and food-processing fields, but are not limited to these fields. Second, there is prospect also for substantial growth in the foreign-exchange-earning category of industrial enterprises whose products enter the world market in finished or semi-finished form. Examples are enterprises founded on the exploitation and processing for export of the country's timber and mineral resources, to name but two lines of activity. Significantly, the supply-side of the picture, as it relates to foreign-exchange-saving and foreign-exchange-earning enterprises, also appears

favorable (particularly in light and medium manufacturing); The country's known supplies of factors of production (a subject treated more fully below) are of sufficient quantity and/or quality to allow considerable production which can then move against the cited demand, either now existent or capable of ready development.

Returning to an earlier observation, to the extent that new and greater production is possible via development in the industrial sector, this represents a *net addition* to national product (and hence higher productivity per person); moreover, the resultant productivity in some enterprises or industries is likely to prove higher than the average existing in agriculture. Under the circumstances, higher productivity per person (and hence higher per-capita real income) appears possible; and, so also does added productive employment, and an eased balance-of-payments structure (by virtue of new foreign-exchange-saving and foreign-exchange-earning capacity). Beyond the resultant beneficial effects arising in a direct sense, benefits of a secondary nature also tend to accrue (e.g., added production and income can stimulate greater domestic production in other lines, including agriculture; a shifting production pattern can help "loosen" institutional rigidities and thereby stimulate other growth; etc.). In short, industrialization as an important adjunct to agriculture has something definite to offer in the immediate future.

In the long-run, of course, the question arises as to *how much* industrial production will be needed, along with some level of agricultural production, in order to achieve that level of aggregate production which can give a rising level of per-capita real income. A second, and related, question arises as to whether the required level of industrial production (or, for that matter, the required level, agricultural plus industrial) will prove possible, and thereby preclude declining per-capita real income. The reply is that precise answers to these questions cannot now be ascertained. What is known now is that *some* industrial growth is possible; and, since some industry can be introduced in economic fashion in the short-run, it is of economic advantage to the country to get this industry started as soon as possible. After industrial growth is well on its way,

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the question of "how much" industry and the question of "balance" between industry and agriculture can then be taken up.

In an important sense, promotion of an accelerated rate of industrial development today is in the nature of a pioneering effort; the development is geared to the opening of a new frontier—an *economic frontier*.

Conclusion: Two points appear basic: First, an economic case can be made for the development of the industrial sector of the economy alongside what now exists or can be developed in agriculture. Second, industrial growth, via its primary and secondary effects, is capable of contributing importantly to the economic welfare of the country.

It follows that effort should be directed to development in the industrial sector in order to supplement in important fashion whatever further development proves economically feasible in agriculture. *Combined effort* in industry and agriculture constitutes *the* most fruitful approach—in terms of what can be done by the economy, now *and* in the future.

The Bases for Industrial Growth

In considering the possibilities for greater industrial production today (i.e., viewing the matter from the supply-side), an element of assuredness prevails, supported in the main by the quantity and/or quality of factors of production available for use in production. An appraisal of the factors in terms of today's environment would indicate that capital is clearly in relatively shortest supply, probably followed next by entrepreneurship, and that, in comparison, raw materials and labor are relatively abundant. The raw-materials picture is not altogether unimpressive (raw materials of some types and in varying amounts do exist, particularly bright spots being the country's timber and mineral resources, and products arising in agriculture but capable of processing); where important gaps exist, it is possible (and feasible to a point) to "round out" the situation with supplementary importations. Scope for development in industry would appear to be present, especially as this development relates to light and medium manufacturing. Labor, of course, is abundant in supply, and either already pos-

sesses an adequate degree of skill or is capable, under favorable circumstances, of attaining such in relatively short order. Entrepreneurial talent exists, in some instances of a rather high order; the actual extent of such talent, however, is now unknown, but it is known that available entrepreneurial resources are not now fully utilized (a fact evidenced by the fairly common occurrence of situations in which would-be entrepreneurs fail to proceed for the basic reason that they are unable to obtain adequate capital supplies).

The relatively scarce factor of production, under present-day circumstances, is capital. Capital, in real terms, means "investment goods", but in practical everyday terms this means local currency (pesos) to cover the cost of domestic supplies and foreign exchange (dollars) to cover the cost of required imports (e.g., of industrial-type machinery imports vital to development in the industrial sector, but unobtainable domestically). The peso supply does not, in the final analysis, pose a dilemma of the same magnitude as does the supply of foreign exchange. The significant difference is that a country has it within its power, within very broad limits, to create local currency whenever it so wishes, but it can obtain foreign exchange only by earning it (in the absence of loans or grants). The result is that when it is said that the relatively scarce factor of production is capital, what is really meant is that foreign exchange is the item of relative scarcity.

The supply of foreign exchange available for use in the development of the industrial sector is dependent upon the total balance-of-payments picture, so that in reality the balance of payments is the "straitjacket" which precludes or permits immediate effort. Fortunately, however, the present Philippine balance-of-payments structure, though it definitely is restrictive in nature by virtue of its size and composition, offers a basis for industrial growth (in fact, its restrictive nature may well be a major argument for attempting such development). The potential for industrial growth lies, at least in the first instance, in the development of two major categories of enterprises, those which are foreign-exchange-saving and those which are foreign-exchange-earning. The first *save* foreign exchange on the basis of domestic production which sub-

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stitutes for what was previously imported; in order to "save" foreign exchange, of course, total foreign-exchange outlay for the item in question must be reduced. Examples, previously cited, would include enterprises in the textile and food-processing fields. The second *earn* foreign exchange on the basis of additions to the country's exports. Examples, previously cited, would include enterprises based on the exploitation and processing of the country's timber and mineral resources.

In all this, of course, a necessary prelude is that the foreign exchange currently accruing to the economy will be employed in a manner such that one certain consequence is a relatively high level of importation of the vital ingredients, particularly industrial-type machinery, needed to support the desired development.

Development Planning

When a country holds as one of its objectives the promotion of economic development at an accelerated pace, and especially when this development entails structural change (e.g., a significant shift toward greater emphasis upon growth in the industrial sector), it is important that the public policies which prevail be of the type conducive to the desired development. The public policies best suited to achievement of this end vary among countries, basically because the countries themselves differ from one another. In some countries the public sector looms very large, the government being directly responsible for a relatively large proportion of national output; in other countries, in contrast, the direct responsibility of government for total production is relatively small, much the greater part of national output arising from the private sector. In a country of the second type, public policies—if they are to prove successful in promoting rapid economic development and in moulding this growth along desired lines—need to be geared to generate and influence action within the private sector.

The Philippine economy falls within the second category: Private enterprise is the rule, and whatever level or pattern of production prevails is the result predominantly of the combined productive efforts of relatively numerous private individuals.

The scale and nature of these efforts are influenced by factors found in the environment in which producers operate, and this environment, in turn, is affected by public policies (and the public action—implementation—arising therefrom). In short, in a predominantly private-enterprise economy the public policies which prevail affect the overall "climate" in which private producers operate; and, it is fundamental for this reason that the public policies pursued be of the type likely to evoke desired reactions from the private sector of the economy.

The question arises as to what public policies are appropriate to the Philippines today. Comprehensive treatment would, of course, necessitate the formulation of a fairly lengthy list; however, the present discussion can well be streamlined to limit reference to two policy areas—foreign-exchange policy and monetary and fiscal policy—which individually represent basic cornerstones in any public-policy framework and which jointly constitute the very core of what matters when economic development is the objective.

Foreign-Exchange Policy: Exchange control should be maintained and strengthened—if an accelerated rate of economic development is a national objective. Exchange control is needed for what it can do in assisting economic development. To the extent that exchange control is weakened now, the process of economic development itself is impeded. Not until some future date, when the process of economic development has had time to result in substantial improvement in the economy, can exchange control be safely dropped.

Basically, exchange control has two merits. First, exchange control offers a positive method for channeling available foreign exchange into the specific uses in which it can render maximum benefit to the economy. Unlike the procedure under free exchange conditions where the end use of foreign exchange is the chance result of the interaction of free market forces, exchange control proceeds on the assumption that, in the absence of sufficient foreign exchange to cover all possible uses, a planned allocation procedure is economically justified since it can best ensure that available foreign exchange will be used for those purposes deemed of greatest potential

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value to the economy as a whole. An essential ingredient in the process of economic development is capital goods (specifically, industrial-type machinery and equipment) which are now obtained from abroad, thereby requiring that foreign exchange be made available for sale to those who require it to make such importations. The situation should be avoided in which available foreign-exchange supplies can be used for the importation of low-priority consumer goods or for the financing of capital flights to the exclusion of the importation of high-priority capital-goods supplies needed for economic development.

Second, exchange control is necessary if devaluation is to be avoided. In the absence of exchange control, devaluation would be automatic; a rate other than the present one would of certainty prevail under free conditions in the exchange market. Such a devaluation would adversely affect the course of economic development. It would increase the domestic cost of imported capital-goods supplies, thereby discouraging their importation, and along with this desired investment in the new productive enterprises basic to economic development. Significantly, offsetting benefits would not accrue to the economy as a whole in consequence of devaluation. Increases in total foreign-exchange earnings resulting from such action would be relatively small at best, since the country's present export pattern is heavily biased toward commodities confronted by an inelastic demand in the foreign markets they now enter. Whatever added foreign-exchange earnings did accrue would in essence be "purchased" by the economy at the "cost" of reduced economic development along lines of structural change.

Since exchange control is a necessity, it is preferable that it be managed effectively. Minimum requirements for effectiveness are two-fold: (1) on the supply-side, all foreign exchange actually earned by the economy should become part of the country's foreign-exchange reserves, and (2) on the demand-side, the foreign exchange deemed spendable should be used in accordance with a well-worked-out plan designed to give maximum advantage to the economy as a whole. What does this mean, in practical terms, for the Philippines?

In connection with the first point, this means that such obvious leakages as arise through deliberate undervaluation of exports and overvaluation of imports need to be checked. Only careful administration can preclude leakages of this type. Beyond this, however, a problem exists in the form of the No-Dollar Import Law. This law allows exporters, under certain circumstances, to enter into private barter arrangements in their foreign-trade dealings, and it allows holders of undeclared foreign assets to make unlicensed imports, to a point, on the basis of these assets. The effect of this law, when it is pushed to its limits, is to undermine the entire system of exchange control, thereby posing the threat of eventual devaluation. Since exchange control is needed for the assistance it can give to economic development, the advisability of the No-Dollar Import Law should be carefully reconsidered.

In connection with the second point, foreign-exchange allocations should be made in terms of a framework designed to promote economic development. This means that the country needs to formulate and adhere to an appropriate foreign-exchange budget. Such a budget should be prepared in annual terms, but for ease of administration the annual amounts can be subdivided to apply to shorter periods, say, quarter-year periods. The budget should list a relatively few major categories of foreign-exchange demand—say, industrial-type machinery, other capital goods, raw materials, high-priority consumer goods, other consumer goods, and invisibles—and a clear understanding should exist as to what each category includes. Once the decision is reached as to the amount of foreign exchange available for allocations during the ensuing year, this amount should be apportioned among the major categories listed. (In event the country is the recipient of external assistance, via either loans or grants, an amount stemming therefrom can be integrated within the total framework, along with the amount held available on the basis of current exchange earnings or accumulated reserves.) The overall objective in formulating a foreign-exchange budget should be to allot as much of the available foreign exchange as is practical to the category or categories rating a relatively high priority in the economic-development scheme, and the category or categories deemed of re-

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latively lower priority in the economic-development scheme should be treated as residuals. This would mean, for example, that industrial-type machinery imports would definitely be regarded as preferable in the scale of values to the category "other consumer goods." Within the total context, provision should of course be made for the raw-material requirements via importation of new foreign-exchange-earning and foreign-exchange-saving enterprises; and, in the case of direct private foreign investments, the demand of an eligible and approved enterprise for foreign exchange to effect remittances needs to be met, but this amount should be held within the limits of foreign exchange actually earned or saved for the country by the enterprise.

Once a given foreign-exchange budget is deemed appropriate and is accepted, a determined effort should be made to adhere to it. When the amount available for allocations in a category of relatively low priority becomes depleted, there should be no replenishing it through the simple expedient of dipping into the amount allotted to a category standing above it in the scale of values; nor should the process of up-grading individual items by shifting them from a lower to a higher category be condoned, since this practice would undermine the entire procedure.

The basic merit of a foreign-exchange budget of the type described is that it offers the best procedural framework yet devised for correlating available foreign exchange with the needs of economic development. It offers a way of assuring that the impassé will likely not arise in which a prospective importer of high-priority industrial-type machinery has to be told that no foreign exchange is available for him because the necessary foreign exchange has been used up in taking care of importers of, say, relatively low-priority consumer goods.

Monetary and Fiscal Policy: When an accelerated rate of economic development is a national objective, both monetary policy and fiscal policy should be geared to the requirements of the situation. In practical terms, what does this call for?

In the realm of monetary policy, a desired objective is an increase in the amount of credit available for use by entre-

preneurs who want and are able to undertake new high-priority productive operations. It is important, however, that such credit be offered on terms which actually will allow prospective borrowers to use it. The present situation is that the total supply of credit is insufficiently great, the result in the first instance of the relatively low volume of domestic savings. In addition, the credit now available finds its way very largely into the financing of trading and speculative activities rather than into the financing of investments which could result in additional domestic production. Banking and financial facilities are now geared largely to service the short-term credit needs of landowners, importers, and domestic traders, but the long-term credit needed by prospective entrepreneurs, who could provide additional output and jobs through investment in new lines of productive activity, is not now available in any substantial amount. Under the circumstances, there is need for a moderate monetary expansion, at least to the minimum extent of providing financing for such new facilities as give rise to additional marketable output, either foreign-exchange-earning or foreign-exchange-saving in character. There is need also for an accompanying readjustment in the financial structure of the banking community so as to result in credit in larger amount and on more favorable terms (especially better provision for long-term financing) being offered borrowers who want to undertake new additional production.

In the realm of fiscal policy, the government—through the instrumentalities of revenue collection, expenditure policy, and borrowing policy—can affect both the level and pattern of production. To the extent that government itself acts in an entrepreneurial capacity, production is affected directly; to the extent that government action conditions what does or does not occur in the private sector, production is affected indirectly.

The total direct effect upon production in consequence of government expenditures has typically been relatively small. Since the Philippine economy basically is one of private enterprise, the production of marketable goods and services has characteristically been left to the private sector. Only to a limited extent has the government acted as an entrepreneur; instead, it has concerned itself primarily with rendering what

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traditionally is referred to as public services, encompassing activity in such fields as education, health, defense, road construction and maintenance, etc.

Given this concept of the role of government, it is fairly apparent that any direct effect upon the aggregate output of marketable goods and services can at best be only rather incidental. However, ways are open to the government, even when it envisages its role as being fundamentally non-entrepreneurial in character, which can indirectly lead to an increase in the level of aggregate output. Such is the case whenever government creates a situation in which private entrepreneurs cannot fail but to undertake greater output.

One possibility is that expanded production in the private sector can be induced in consequence of a particular pattern of outlays undertaken by government in the course of rendering a variety of public services. Examples would include the possibility of expanded production because of governmental outlays having been made upon certain so-called "impulse sectors," e.g., irrigation facilities, power facilities, and developmental roads. There is no denying that it is possible for such outlays to yield secondary effects, including those of a desired sort. However, it should be recognized that included among such expenditures are those which are made, and which presumably will continue to be made, very largely because the projects or functions involved are regarded as desirable in their own right, irrespective of what secondary effects they do or do not yield. Moreover, it should be recognized that such secondary effects as do accrue from expenditures customarily falling in this category may, and probably do, benefit the agricultural sector as much, or more, as the industrial sector. Therefore, if an essential aspect of economic development is industrial growth, is there not a more clear-cut and positive way to bring about the crucial "turning point" which then results in greater investment being made in new industrial facilities? The answer is that there clearly is such a way open to the country. It involves a procedure in which the government undertakes to correlate its fiscal policy with the credit needs of private entrepreneurs willing and able to invest in new high-priority productive enterprises.

If large-scale investment is to occur in the private sector of the economy, an adequate financial arrangement is imperative. Such an arrangement must of necessity follow a two-pronged approach. First, as discussed earlier, the foreign-exchange budget must be framed to assure availability of the foreign exchange needed by prospective investors in obtaining abroad the required machinery imports. Second, sufficient peso loan funds must be made available on workable terms to enable prospective investors requiring financial assistance to undertake new investment. Considering present inadequacies in peso financing, a logical and workable approach is found in the procedure whereby the government would earmark some amount of public funds (obtained either from regular revenues or, more pertinently, from the use of public credit) for use on a loan basis to make possible new private investment of the desired types. It should be noted that under this approach funds would be handled on a loan basis; since repayment is involved, the funds, once authorized for this purpose, can become part of a revolving loan fund (unlike the "one-shot" operation involved when government simply spends on various "impulse sectors").

The procedure outlined is particularly attractive from an administrative standpoint since it can operate through existing institutions and in accordance with present banking principles. The government can simply place pesos as time deposits with commercial banks to correlate with loans extended to acceptable investors by the commercial banks themselves. Questions involving lending criteria, screening processes, interest rates, collateral requirements, acceptance of risk, etc., need to be resolved, and, of course, are capable of being resolved once the program takes shape. Whatever the precise nature of its subsidiary aspects, the procedure clearly has the special merit that it ensures commercial banks of funds to undertake desirable types of loans, and it ensures qualified borrowers of access to funds. Importantly, the procedure is known to work successfully in the Philippines; the procedure is fundamentally the same as that used now for more than a year in the "time deposit loan program" of the Industrial Development Center.

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However, the use of public credit to derive pesos for the purpose outlined is subject to one basic limitation, namely, the capacity of the economy to sustain the monetary impact of such financing. The problem is not one of the country's capacity to generate pesos; rather, the problem is one of the total amount of peso financing which can be successfully borne (given a particular pattern of peso utilization). In the immediate situation, heavy authorizations have already been made on the basis of the country's bond-financing program (in which Republic Act 1000 constitutes the most important bond act). Significantly, the authorizations are heavily weighted toward uses of relatively low productive impact. These prior commitments handicap the country's ability to put public credit to other uses (uses of potentially higher productive impact). It appears economically certain that the bond-financing program now scheduled, *plus* a heavy utilization of public credit for productive investments, cannot be pursued without thereby inviting very marked price rises.

The economics of the situation is that large government expenditures are much more likely to produce an inflationary effect if spent for relatively unproductive purposes than if spent for relatively productive purposes. In the case of an unproductive expenditure, the increase in the country's supply of goods (and services) is small; the result is an increased money supply in the face of a relatively fixed supply of goods, a situation conducive to sharp price rises. In the case of a productive expenditure, in contrast, output increases (although generally there is a slight time lag), so that added money comes up against more goods, thereby minimizing the potential for price rises. Considering the country's present relatively small productive capacity, it appears that the economy's ability to bear unproductive-type financing is distinctly limited, but the same limitation does not apply with anything like equal force in the case of productive-type financing. It would be something of a tragedy if heavy outlays of a relatively unproductive type were to result in sharp price rises, and thereby provide the rationale which might serve to "close the door" to the financing of new productive-type investments upon which meaningful economic development depends.

In viewing the dilemma posed by the country's bond-financing program, three distinct alternatives exist: (a) curtail in drastic fashion the present bond authorizations as a prelude to public-credit utilization for productive investment purposes, (b) forego the cited industrial financing based on public-credit utilization, or (c) offset the impact of the scheduled bond-financing program with new and appropriate taxes.

Conclusion: In short, economic development will occur in the Philippine economy when the basic environment confronting individuals in the private sector is one which encourages and allows them to channel their efforts into economically meaningful lines of activity. The necessary basic environment is very largely the product, in the first instance, of what government does or fails to do. It is in this connection that a coordinated framework of public policies, *plus* their required implementation, becomes crucial. Two of the more important areas of policy have been here cited and discussed. It is the task of those responsible for national economic planning to isolate each of the several areas of public policy which has an economic meaningfulness and to formulate and set in motion the called for measures of implementation upon which progress in economic development depends.

