OUR ECONOMY ISN'T AS BAD AS YOU THINK

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Writer claims we are on the "take-off" stage to better times

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THE PHILIPPINES is now an economy in transition. We can cite reams of statistics to support this statement, but for our purposes the more significant figures will suffice. To begin with, there is the aggregative measure, national income: the data show that this has about doubled in a decade. Then as to the origin of this income by industries, the earliest statistics carry us back to only 1938 and in that year, by the estimate of the Joint Philippine American Finance Commission, 65.8% of net national product originated in agriculture, 7.2 per cent in mining, but only 3.0 per cent in manufacturing.

Our study shows how agriculture has been expanding absolutely while declining in importance relatively; in 1946 it accounted for 47.8 per cent of national income; in 1950, for 42.2; in 1957 for 37.8 per cent. On the other hand the growth of manufacturing is a significant contrast: from 7.8 per cent in 1946, to 8.5 per cent in 1950, and 14.0 in 1957. The change can be seen more dramatically if we consider that manufacturing quadrupled from 1946 to 1957, and more than doubled from 1950 to 1957.

This shift in our economy is also reflected in employment patterns. In 1939, 75.6 per cent of our work force was in primary occupations (agriculture, fishing, forestry, hunting); in 1956 the Philippine Statistical Survey of Households showed that the proportion had gone down to 58.5 per cent. Workers in secondary industries (manufacturing, mining and quarrying, construction) went up from 9.7% of the total in 1939 to 15.3 per cent in 1956. In tertiary activity (trade, transportation, utilities, and other services) the rise was from 12.7 per cent to 23 per cent.

NEXT WE can turn to international trade, where our problems have been concentration in products and concentration in direction of trade. Briefly, whereas before the war three products (sugar, coconut, abaca) made up approximately 90 per cent of our exports, in recent years the list of major exports has expanded to five—coconut, sugar, forest products, base metals and abaca. Our pattern of export products is slightly more diversified.

More meaningful, however, is the diversification of markets, for this is a factor more susceptible to human remedial action and less dictated by natural endowment. Here commendable progress is demonstrated: we have become less dependent on the United States market. In the period just before the war, 80 to 85 per cent of our trade was with the United States; in 1956 this proportion fell to 56.6 per cent and in 1957 dropped further to 53.6 per cent.

Hirschman (in **National Power and the Structure of Foreign Trade**) has devised a measure of concentration in trade, where an index of 100 represents a situation when all of a country's trade is with one other country alone, and an index of zero means an infinite number of equal trading partners. Mr. Hirschman has suggested a threshold of 40 as the dividing line between undue concentration and proper diversification; from an export index of 78.0 in 1938 to 56.3 in 1957. This is no proof that our trade is properly diversified as yet, but is an indication that we are solving the problem.

If we consider the import side, we can use the familiar Central Bank classification of goods as capital goods, raw materials and consumer goods. From 1949 to 1957, consumer goods fell from 64.4 per cent of total imports to 21.9 per cent. Raw materials, on the other hand, rose from 9.4 per cent to 19.6 per cent. In terms of absolutes, the amount of consumer goods imported in 1957 was approximately one-third of that of 1949, but raw materials and capital goods were over two times the totals in 1949. It is true that the bulk of the raw materials is intended for conversion into consumer goods, but the point is that the final consumer-goods industries are located in this country, not in another.

One last set of statistics: the outstanding loans, discounts and overdrafts of commercial banks. At the end of 1950, 34.4 per cent of these loans were for agriculture, 35.5 for commerce, 13.2 per cent for real estate, and only 5.3 for industries. Seven years later, in 1957, outstanding loans were almost three times greater, and the distribution pattern was significantly altered; down to 27.8 per cent for agriculture, 32.4 for commerce, 8.4 per cent for real estate, and this is to be noted, a jump to 19.0 per cent for industry.

One can go on with a recital of statistics: the climb in indices of production, the rising tempo of capital formation, the shift in the government budget, the expansion of ACCFA credits, the growing activities of the more than one hundred rural banks. The point is not hard to make: this is a steadily expanding economy with an average rise in national product of 5 to 7 per cent per year, and while the advance is not spectacular, it is undoubtedly impressive. Furthermore, the country is growing in directions that promise a good future.

I think we all agree to consider as desirable goals an increase in per capita incomes, coupled with a more equitable distribution of those returns. These would be accomplished, on the one hand, by expansion and heightened efficiency in agriculture, and secondly, by a rapid rise in the industrial sector to absorb a population that will more and more be unable to find employment on the farms. By and large these are where we are heading.

LET ME put forth the argument more strongly. In W. W. Rostow's scheme (**The Process of Economic Growth**), there are three stages of economic development: the pre-condition state, the take-off of an agricultural economy into industrialization, and the period of self-sustained growth. I believe that the Philippines is now in the take-off stage to economic development. This is the phase when a bridge is crossed on the road to a sustained rise in per capita income. Here transformation take place in areas which work back their effects on economics —changes in psychological, sociological, political patterns. As for economic factors, we find emerging a significant number (though obviously not an over-supply) of entrepreneurs, a receptive climate for innovation, increasing pressure for the investment which will lead to enhanced production capacity.

How did this passage to the take-off stage come about? While I am sure a more detailed analysis of the transition is called for, perhaps that can be left for economic historians to undertake later when they can summon more perspective. At the moment, however, a summary survey of recent Philippine economic history can be revealing.

If we review the postwar years, a number of significant milestones stand out. We need not consider at length the years from 1945 to 1949 which are clearly part of the rehabilitation period; the bulk of physical reconstruction, of restoration of productio nand of financial and monetary stabilization was accomplished then, though plainly at the end of 1949 the reconstruction was not yet complete. The period began with confusion, but by 1948 some sort of stability in production and consumption had been attained, as evidenced in the price statistics. This was also a time of unprecedented windfalls in foreign exchange and of freedom in enterprise, especially in import and export trade. December 1949, however, when exchange controls dropped from above, definitely marks the end of that hectic and free-wheeling era.

The Quirino period from 1949 to 1953 saw the launching of economic development plans, and the government role in these, important as part of the pre-condition stage, has been unjustly neglected. In 1949 with the establishment of the Central Bank came a credit of ₱200 million to be used for government development projects—the Maria Cristina complex, Ambuklao dam, the NASSCO drydock to mention a few.

As is well known, as we have had a number of economic plans since independence, mostly compilations of the projects of individual government agencies, but in the Quirino period we began to see the partial implementation of these. In 1950 the Bell Mission took place. The tonic effect of their visit can not be underplayed: we have only to recall the 17 per cent foreign exchange tax, the minimum wage law, the creation of PHILCUSA as a counterpart of the American aid agency (then ECA, later MSA, FOA and ICA).

The foreign exchange tax balanced our budget and gave us the means to fight the Huks. The minimum wage law ensured mass purchasing power to absorb the goods we were going to produce. Aid from PHILCUSA and the United States—technical assistance as well as material goods—has had an incalculable effect on our economic advance.

ON THE private front, construction of the first oil refinery in the country began —a project calling not for a labor intensive process typical of an underdeveloped country, but for a highly technical, capital-intensive operation. However, even though much was done in the Quirino years, this was still the period when the inauguration of a zipper factory could draw rave notices from the press and the public at large. Evidently we were not yet at take-off; we were only *entering* the pre-condition stage.

It is in the Magsaysay era where, I believe, the pre-conditions were fulfilled and then we entered the take-off stage. Let us look at the year 1954. The peace and order problem was licked; the stage was set for concentration on productive activities. In May the retail trade nationalization act was passed. This carries meaning not because the law itself had economic justification, but because for the first time a Philippine president disregarded traditional modes of maintaining amity with closely-allied nations and allowed an expression of nationalism to come.

The impetus that this action gave to economic nationalism, which is almost an imperative for economic development in a country such as ours, cannot be disregarded. It is probable that the recession of mid-1956 may be traced in part to uncertainty and retrenchment among the Chinese (the other factor was very probably adverse turns in foreign trade—recession in the United States, a drop in the prices of abaca and other exports). But the recession was only a short-run consequence; for in the long run, the push given to Filipino entrepreneurs is a bigger contribution. Finally, in 1954, economic controls were for the first time consciously and on a significant scale used as instruments of national economic development policy—to channel investments, to protect industries.

The year 1955 was a continuation of *trends* emerging in 1954; the second year of peace and order, the second year of the new nationalism. The significant fact I would like to bring up here is the drop in the international reserve by more than $70 million in spite of controls —mute evidence of the pressures being generated with expanded incomes. These were pressures for consumer goods no less than for investment goods as businessmen began to grasp the profit opportunities opening up before them.

TO MY mind, however, the year 1956 is the most interesting yet in the postwar period. This was when the Laurel-Langley Act took effect; tariffs were imposed on American goods, our trade began to veer towards Europe and Japan. It was also the year of the "great debate" — when charges and counter-charges flew in profusion and seemed to reign, when the notion was widespread that the country was sliding downhill towards and unrelieved depression.

But to me it is plain that this is the year when the country was already in the take-off stage. The Philippine was not going to the dogs. Rather the contrary — exports were the highest ever; production, profits, businesses, bank deposits, tax collections, government expenditures were expanding; and in a word, national income rose by well over 9 per cent — surely a remarkable achievement outside of a rehabilitation period. All this was accomplished without a fall(but rather a rise) in our country's international reserves. It is striking that the loudest complaints seem to come when one is most prosperous—perhaps discontent is an indispensable ingredient for progress. And the vigor with which the economic issues were debated is to me evidence of the liberated energy of the people.

It was of course too good to last, and in 1957 the growing pains were sharp. The year 1958 is one of retrenchment. But while we have to pause for a breathing spell, and cast about for outside assistance, still I believe we are steadily moving toward the same goal. Of course a word of caution is in order: an apparent take-off can be abortive too. But short of catastrophe or gross mis-government, I do not anticipate this probability.

In the face of this experience of the last few years one can only be awed, excited and at the same time subdued. It is pertinent to remember that in many other emergent nations — Great Britain, the United States, Europe, Japan — economic development came even before the economists put in an appearance or at least made their presence felt. Surely, however, there is a place in our nation's economic development for more of honesty and good sense—businessmen, civil servants, economists—who will bend their efforts to the age that is before them.

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"Why didn't you take your medicine?"

"I couldn't, doctor. It says right here on the bottle 'Keep Tightly Corked.'"