The Philippine Review of Business and Economics Vol. XIV No. 1 June 1977

OVERVIEW OF DEVELOPMENT PROSPECTS

By

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The Philippines now has two able studies reviewing its development problems, the first being the ILO's *Sharing in Development: A Programme of Employment, Equity and Growth for the Philippines* (Geneva, 1974), and now the IBRD's *The Philippines: Priorities and Prospects for Development* (World Bank: Washington D.C., 1976). Both are reports of international missions, the latter headed by Russell J. Cheetham and Edward K. Hawkins of the IBRD staff. The two studies are said to be complementary, the former emphasizing historical analysis of the problems of Philippine development and the latter the financial aspects, with both reports endorsing the "significant shift in government policy toward greater concern for employment creation and income distribution."

Both reports agree that Philippine growth of per capita income in the 1950's and 1960's of about 2% to 3% was satisfactory, except that the pattern of growth was accompanied by large volumes of unemployment and underemployment, and a very unequal distribution of incomes, so that the past pattern "provided no basis for self-sustained, long-term development..." With the labor force increasing at an unprecedented 3% per year in the coming decade, the need for a growth rate of aggregate income of 7% (or per capita income of 4%) will require that gross capital formation as a share of GDP rise from 20% in the 1960's to 25% by the end of the 1970's — i.e., taking into account the programs of agricultural development, industrialization, increased public services, and public works required to create the jobs for the new labor force. The World Bank's volume concentrates on the financial aspects of these programs because the domestic financing for the enlarged program of investment and their import requirements may prove to be the two key constraints.

It estimates (p. 40) that between 1975 and 1985, employment must increase by about 5 million (holding open unemployment rate

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constant at 4.6%), with GDP per capita increasing from $363 (US dollars at 1975 prices) to $550, exports rising from 3.1 million US dollars to 15.9 million, government revenues as GNP shares from 16.2% to 21.7%, and investment as GNP share from 22.9% to 25.0%. The concern shown by the Bank on financial aspects of the new pattern of development is understandable when one remembers the chronic balance of payments, difficulties over the past decades, the inability of the government to raise sufficient revenues, and the poor performance of the financial institutions in mobilizing and allocating savings effectively.

Unlike the ILO Report, the book's emphasis on structural and institutional changes is notable. The chapter on the "Level and Allocation of Investment" is illustrative of this emphasis. It points out that "the chief determinant of foreign investment flows, particularly direct investment, is apparently not fiscal inducements" but "...long-term outlook for political and economic stability in the host country..." It discusses at length the importance of labor-intensive techniques in construction, particularly in employment creation and in rural development, and concludes that the success of labor-intensive construction will depend on the ability to plan and organize, and to manage and supervise such projects.

I would go even further than the Bank's emphasis on the need for improvements in structural and institutional performance. To put the point in an extreme way, if one can get all the institutional changes needed (as, e.g., outlined in the books), the fact that the gross capital formation failed to reach 25% of GNP by 1980 may be immaterial, for the other goals can be attained with a 20% share of capital formation; conversely, even if the 25% level is attained, the other goals may not be reached. Changes in institutions (in ways of doing and thinking) in the right direction can raise the efficiency in the utilization of not only new capital but of existing capital (which may amount to 3 or 5 times the new capital). How efficiently technology, capital, and physical resources (especially land) are used for production depends on how the labor force use them — the ways of producing.

This is particularly true in a strategy of labor-intensive growth, with top priorities assigned to creating employment and improving income disparities. The banks and other financial institutions can do a much better job of allocating capital; changes in the structure of incentives can promote greater industrial efficiencies and exports, thereby reducing excess capacities; labor-intensive construction of roads and irrigation can lower costs substantially, and decrease underemployment; and better management of irrigation works can raise the utilization of existing water resources by 30% as the book points out. And it has been said that the Philippine civil service is greatly overstaffed, perhaps by 50%. If viable farmers' organizations are established (as in Taiwan) the costs of credit, inputs, extension services, and others to the vast majority of farmers can be cut down. The same is true of organizations for small industries and services.

This is more than a matter of better management, as the volume seems to imply. For, what is management, if it is not the relationship between the managed and the managers. This relationship can be improved not only by concentrating on the training of managers but in innovating institutions which will take into account and/or modify social values of the "managed." Too often, managers are trained only in Western ways of management — ways which originated in response to capital-intensive, labor saving demands of Western economies operating in Gesellschaft societies. Japan may be cited as an example of how Western technologies were imported, modified, and adapted in relation to indigenous institutions which were themselves modified and adapted to Western technologies. The interplay between technologies and institutions in LDC's may be thought of as the key process in economic development. Shortages of natural resources and capital can be overcome with the right mix in a "package" of technologies and institutions, and surplus labor situations can be transformed into shortages as the experience of Japan and Taiwan in the postwar decades demonstrates. Economists have studied extensively the interdependence of land, labor, capital, and technology, but is it not time to study their inter-relations with institutions?

This is not to deny the importance of natural resources and capital. Capital will be needed to build roads and irrigation in the rural areas whether labor-intensive or not, and factories are required whether equipped with more or less machines per worker. But their efficient utilization can save capital by reducing the need for *additional* roads, irrigation, and factories. The same is true with natural resources, as in the case of multiple-cropping of existing land. As long as labor is in surplus, institutional changes and innovations can open the way to the more intensive and efficient use of existing capital and resources, thereby raising permanently the productivity of the total labor force. This is the meaning of the oft-repeated common sense phrase that economic development is the development of man in his ability to produce goods and services.

True, the marginal capital-output ratio in the Philippines has been fairly stable in the past decade. But this may be due to the minimal changes in the structure of the economy, in the strategy of development, and in institutions, during the decade. With substantial changes in the right direction, a given growth rate of aggregate income may be produced with a lower marginal capital-output ratio over the next decade, (from say 3.5 between 1963 to 1973 (p. 308) to 3.0 to 2.5 between 1975 to 1985.)

Monsoon Asia is characterized by the highest population densities, many times those of other regions. The high densities originate in the labor-intensive nature of planting and harvesting padi agriculture, which produces labor shortages in a few busy months and leaves labor surpluses in the rest of the year. The small farms are highly productive in terms of yields per hectare, much more so than in capital-intensive, larger farms. But the small family farms are too small in acquiring the economies of scale in the delivery of public services such as extension and credit and in the purchase of inputs such as fertilizer, insecticides, water, and in the marketing of output. These scale economies can be obtained by getting farmers together into larger groups. Unlike in the other regions, the benefits over costs of such large groups can be enormous due to the high population densities (short distances). And this is true for small industries and service outlets as well.

Moreover, because of high densities, cooperative arrangements with neighbors during months of high labor demand can mitigate labor shortages, while during slack months the concentrated location of surplus labor makes possible sufficient labor supplies for public works, small industries, and other activities. Thus, by appropriate institutional arrangements, the high densities can be made to yield benefits offsetting the disadvantages of small farm sizes, so that more than elsewhere, the institutional component in the production process plays a strategic role in Asia.

I am inclined to stress the importance of institutional changes in the complex interdependent factors in development because of another reason. In the postwar experience, nations like Japan and West Germany have sprung right back into leadership in growthmanship despite almost total destruction of their prewar capital stock, while countries like India, Ceylon, Spain, Argentina, Portugal, Cuba and others continue to flounder, and make slow progress despite the gains they made during World War II. Nor can the faster progress of

Japan and West Germany over other industrialized countries in Europe and elsewhere be attributed to human capital formation since the differences in the changes in educational attainment in all the developed countries have been negligible, as Denison shows in *Why Growth Rates Differ* (p. 91). It may be that peoples in nations like Japan and Germany have learned to work together, and have institutionalized ways of cooperative, and collective behavior while entertaining differences in views. There is always the danger that some nations may never pull out of the traditional state and others may never "make it" despite rich resources. Nations today grow in a highly competitive international order where the inability to keep up with the more dynamic of countries may be fatal to less dynamic countries.[1]

This point leads me to one query on the projections of employment, inequality, and growth in Chapter 2. To what extent is the fuller and more productive employment throughout the year of the rural population taken into account? The low calorie intake and the low family incomes reflect largely insufficient amount of productive work throughout the year. With the increasing availability of irrigation, rods, and electrification, more opportunity for productive work will be opened to members of rural families in the form of multiple-cropping, livestock, fishery, and forestry activities, off-farm employment, cottage industries, and services. This will mean additional income to the lower-income families, so that the multiplier effect can be large, and its impact on the demand for wage goods such as textiles, household utensils, and farm equipment may be substantial. Although the employment created by *construction* of rural structures is taken into account, the reduction in rural underemployment due to the use of new rural structures seems to be ignored. As the years move ahead and the middle of the next decade is approached, the reduction in underemployment may come up to a sizeable amount (as it is not a "once and for all" effect but cumulative) and can make the difference between a fully employed economy and a surplus economy. This can make for more optimism regarding the impact of the whole program on employment, income disparities and the over-all growth of the economy, if the structures come to be utilized efficiently and effectively.

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[1] If it is institutions which are holding back these countries and not capital and physical resources, then as growth rates of dynamic countries exceed those of less dynamic ones, and institutions change faster in the former countries, the latter may be forever doomed in a kind of a "low level equilibrium trap."

The foregoing are more matters of emphasis than of differences. The chapter on the "overview" and a quick thumbing through of other chapters indicate that the World Bank has produced a useful volume intended for a large audience going beyond just economists and specialists. This volume together with the ILO volume furnish for other countries in South and Southeast Asia broad guideposts and guidelines to be considered by peoples and officials as they move into a decade of exploding population and labor force, and limited physical resources. The stress on the need for instructional changes is a notable thrust of the IBRD volume and coincides with the conclusion of agricultural experts reporting on the Asian Development Bank's Second Agricultural Survey just issued.