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PHILIPPINE INCOME DISTRIBUTION: FACTS FOR
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by

Gerardo P. Sicat, 1965

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by *Gerardo P. Sicat*

I. INTRODUCTION

✓ A common observation about the current income distribution in the Philippines is that it is "very unequal". The Congressional Economic Planning Office (CEPO) has called the "income distribution problem" one of the "six crisis points"¹ of the Philippine economy. The following paragraph, circulated by CEPO, **represents a pessimistic, and yet quite prevalent, view of the income distribution problem in this country.**

More than 90 per cent of Filipino families have incomes ranging from zero to P5,000 a year; 7.5 per cent have incomes of P10,000 and less; and only 2.5 per cent of all Filipino families have annual incomes above P10,000 and beyond. (What this immediately shows is the oppressive maldistribution of income and wealth in our society. There is too wide a gap between rich and poor to permit anything else but make the rich richer and the poor degraded and miserable.) The political implications of such a condition are indeed grave, for no truly healthy democratic institution can flourish where there is an overconcentration of income and wealth in the hands of a few. Wealth is power, both economic and political, and what we call our democracy is actually as one pundit has put it, a rule "of the wealthy, by the wealthy and for the wealthy". In our present world, the drive of practically all developing nations is not only for the kind of liberal democracy that the West had known in the 19th century, but actually for a social democracy such as many emerging nations have adopted in the 20th.

¹Published in the Manila Metropolitan papers sometime in February 1969.

My reaction to this assertion in the context of the Philippines is contained below:²

..."The evidence about income distribution change over time is scanty, and whatever is available does not appear to show that income distribution today is drastically more unequal compared to about ten years ago There is some slight worsening of income distribution, i.e., a tendency to show that higher income groups own slightly more income at present than 10 years ago. But the evidence does not contradict the hypothesis that if there is more income inequality now, it may be because the rich have gotten richer and the poor, at worst, have remained as poor as before. It is not that they have become poorer, with the exception perhaps of some migrants from the farm who have suffered from severe poverty because of migration to urban sectors."

This paper extends and support this basic thesis. The final section deals largely on questions which are related to social, political, and economic policies.

II. INCOME DISTRIBUTION: AN INTERNATIONAL COMPARISON

A hypothesis advanced by Simon Kuznets³ concerns observed relationships between income distribution and economic growth. After studying long run and international data on income distribution, Kuznets concludes that as an underdeveloped country experiences growth over long run periods, the distribution of income

²G.P. Sicat, "Notes on CEPO's "Six Crisis Points of the Philippine Economy," School of Economics, University of the Philippines, April 1969 (mimeo.).

³S. Kuznets, "Economic Growth and Income Inequality," American Economic Review, vol. 45 (March 1955), pp. 408-16.

first widens, then stabilizes, and finally narrows.

Studies by I. Kravis⁴, H. Oshima⁵, and most recently H. Lydall⁶ support this finding. Kuznets explains that agricultural activity displays relatively less income inequality than industrial activity. The shift of economic activity towards greater industrialization and urbanization, both of which usually accompany economic growth, is likely to lead to more unequal distribution of income.

Table 1 presents comparative data of income distribution by the shares of specific ordinal groups in the income scale for the Philippines and a dozen other countries, some developed and others less developed. The data are based either on household income or tax returns and are directly derived from a summary table in a paper by Ohja and Bhatt.⁷ Philippine data are from the Bureau of the Census and Statistics Survey of Households

⁴I.B. Kravis, "International Differences in the Distribution of Income," Review of Economics and Statistics, vol. 42 (November 1960), pp. 408-16.

⁵H.T. Oshima, "International Comparison of the Size Distribution of Income with Special Reference to Asia," Review of Economics and Statistics, vol. 42 (November 1962), pp. 439-45.

⁶H. Lydall, The Structure of Earnings (Oxford at the Clarendon Press, 1968).

⁷P.D. Ohja and V.V. Bhatt, "Pattern of Income Distribution in an Underdeveloped Economy: A Case Study of India," American Economic Review, vol. 54, no. 5 (September 1964), Table 3, p. 715.

Table 1. PERCENTAGE SHARES OF ORDINAL GROUPS OF INCOME UNITS

Countries and Year	Shares of Ordinal Groups					Per Capita GNP (latest year, 1956 (US \$))
	Bottom 20%	Bottom 60%	Top 20%	Top 10%	Top 5%	
<u>Underdeveloped Countries</u>						
India, 1953-54 to 1956-57	8.0	36.0	42.0	28.0	20.0	90
Ceylon, 1952-53	5.1	27.7	53.9	40.6	31.0	150
Mexico, 1957	4.4	21.2	61.4	46.7	37.0	470
Barbados, 1951-52	3.6	27.1	51.6	34.2	23.3	400
Puerto Rico, 1953	5.6	30.3	50.8	32.9	23.4	1,090
<u>Developed Countries</u>						
United Kingdom, 1951-52	5.4	33.3	44.5	30.2	20.9	1,620
West Germany, 1950	4.0	29.0	48.0	34.0	23.6	1,200
The Netherlands, 1950	4.2	29.5	49.0	35.0	24.6	1,420
Denmark, 1952	3.4	29.5	47.0	30.7	20.1	1,830
Sweden, 1948	3.2	29.1	46.6	30.3	20.1	2,270
United States, 1950	4.8	32.0	45.7	30.3	20.4	3,520
Italy, 1948	6.1	31.2	48.5	34.1	24.1	1,030
<u>Philippines</u>						
1956-7	4.5	25.0	55.0	39.4	27.7	
1961	4.2	24.2	56.4	41.0	29.0	
1965	3.5	24.3	55.4	40.0	28.7	
1960 (JLETC)						
Before Taxes	4.2	24.2 ^a	56.0 ^a	42.2		
After Taxes	4.6	24.6 ^a	55.3 ^a	40.3		

Sources: P.D. Ohja and V.V. Bhatt, op. cit. The sources are cited in this paper.

For the Philippines, Bureau of the Census and Statistics, "Family Income Distribution and Expenditure Patterns in the Philippines, 1965," Journal of Philippine Statistics, vol. 1 no. 2 (April-June 1968).

Joint Legislative-Executive Tax Commission, A Study of Tax Burden by Income Class in the Philippines (Manila, Philippines, 1964), pp. 65-6.

^aRead off from a Lorenz curve.

(BCSSH)⁸ and from the study of tax burden of the Joint Legislative-Executive Tax Commission. The years when the data are available for all the countries differ.⁹

The countries are grouped in accordance with their levels of development. Their most recent per capita GNP levels, derived from the recently completed World Bank Atlas,¹⁰ are given in the last column. (Puerto Rico, by virtue of its high per capita income level would be considered a developed country today, but probably not in 1953, for which the quoted income distribution data are obtained.) Current Philippine per capita income per year in the World Bank estimate is US\$160; I put Philippine per capita GNP at US\$200, approximately.

The following are relevant observations on the basis of the data in Table 1. (It is of course obvious that the statements refer only to the countries included in the table):

⁸Bureau of the Census and Statistics, "Family Income Distribution and Expenditure Patterns in the Philippines, 1965," Journal of Philippine Statistics, vol. 19, no. 2 (April-June, 1965).

⁹H. Lydall's study (op. cit.) would give the clue to many more recent sources of data on income distribution, as his Appendixes 6, 7, and 8 will reveal. Unfortunately, because his study was designed to give an empirical test to a special theory he advances, Lydall's data are already in the form of dispersion measures from the median income, for all the countries he examines, not in terms of percentage shares of income groups on income.

¹⁰See Finance and Development, vol. 6 no. 1 (March 1969), pp. 30-42.

✓ (1) The shares of the bottom 20 per cent of income earners are relatively the same among developed and less developed countries, especially if India is excluded.¹¹

(2) The shares of the bottom 60 per cent seem also to be the same in value for both developed and less developed countries. However, the share of this group in the Philippines is on the low side. Only Mexico had a lower share of the bottom 60 per cent than the Philippines.

(3) The top 20 per cent has a very large share of income for the Philippines. It is above the reported share for all other countries, with the exception of Mexico. In the developed countries, the share of the top 20 per cent ranges between 44 to 50 per cent of total income. The disparity of the concentration of income among the less developed countries to a relative few (top 20 per cent) is not relatively very severe compared to the developed countries. It may be added that the Philippines tends to

¹¹The Ohja and Bhatt estimates for India reflect a relatively more equal income distribution compared to other countries and would seem typical of, say, more developed countries. This is in fact the reason for their (premature) rejection of the Kuznets hypothesis for India. The reader is warned that their results are the subject of controversy. For instance, alternative estimates of the share of the bottom 20 per cent are in the vicinity of 4 per cent, very similar to the percentage of the other countries in the Table. See the comments of (1) Eva Muella and I.R.L. Sarma and of (2) S. Swamy on the Ohja-Bhatt paper (and the latter's reply) in American Economic Review, vol. 50, no. 5 December 1965, pp. 1173-88.

display slightly more income inequality compared to the other less developed countries. But Mexico's 61 per cent certainly shows the highest concentration of income belonging to the top 20 per cent of income earners.

(4) The top 10 per cent of income earners own, in the developed countries, the range of 30 to 35 per cent of total income. In the less developed countries, a range of 28 to 47 per cent -- which is a much wider range. The top 10 per cent earns 40 per cent of income in the Philippines. This would seem relatively high, even for the less developed countries. But Mexico has a much more unequal distribution of income. The same pattern may be observed for the ownership of income of the top 5 per cent.

On the whole, the rates of income inequality is more marked in the less developed countries compared to the developed. With the exception of Mexico and Ceylon, the Philippines possesses a higher level of income inequality. Taxes appear to have a slight redistributive effect on incomes, as the before- and after-tax data for the Philippines show.

Table 2 gives the changes in the distribution of income through time for some developed countries. The initial periods for the industrialized countries are already at much later stages in their development. After several decades, a reduction in the share of the top income brackets to total income has been observed.

✓ Comparison with Japan

A brief comparison between the income distribution of Japan and the Philippines, two largely disparate Asian countries in terms of levels of development, may be useful. It is wellknown that Japan's development is characterized by the excessive concentration of economic activity -- especially in industry and banking -- in the form of cartels, more popularly known as zaibatsus in prewar Japan. After their dissolution by the Allied Occupation government of Japan after 1945, there has been a resurgence of a new form of integration known Japanese as the keiretsu,¹² which is largely an industrially-based form of integration. In terms of relative per capita incomes, Japan's is almost six times that of the Philippines. Japan's growth after 1950 until the present is almost twice the rate experienced by the Philippine economy.

We compare the data we have for the Philippines and superimpose them on Japanese data.¹³ Table 3 shows the percentage share of the ordinal income groups in Japan, by years. In spite of some disparity in data sources, relevant points for compari-

¹²On this, see for example, Yoshikazu Miyazaki, "Rapid Economic Growth in Postwar Japan," The Developing Economies, vol. V, no. 2 (June 1967), pp. 329-50.

¹³T. Ishizaki, "The Income Distribution in Japan," The Developing Economies, vol. V, no. 2 (June 1967), pp. 351-370.

Table 3. INCOME DISTRIBUTION IN JAPAN

	<u>1947</u>	<u>1949</u>	<u>1950</u>	<u>1952</u>	<u>1953</u>	<u>1957</u>	<u>1959</u>
Bottom 20 per cent	6.6	8.3	11.0	9.6	8.0	9.3	8.0
Bottom 60 per cent	34.0	37.4	39.7	38.2	35.4	38.0	34.0
Top 10 per cent	30.5	23.5	26.4	28.1	29.7	29.1	33.5
Top 20 per cent	44.9	41.0	40.2	41.9	44.0	42.0	47.0

Source: T. Ishizaki, "The Income Distribution in Japan," The Developing Economies, vol. V, no. 2 (June 1967).

Basic Data for Figure 1 (p. 12)

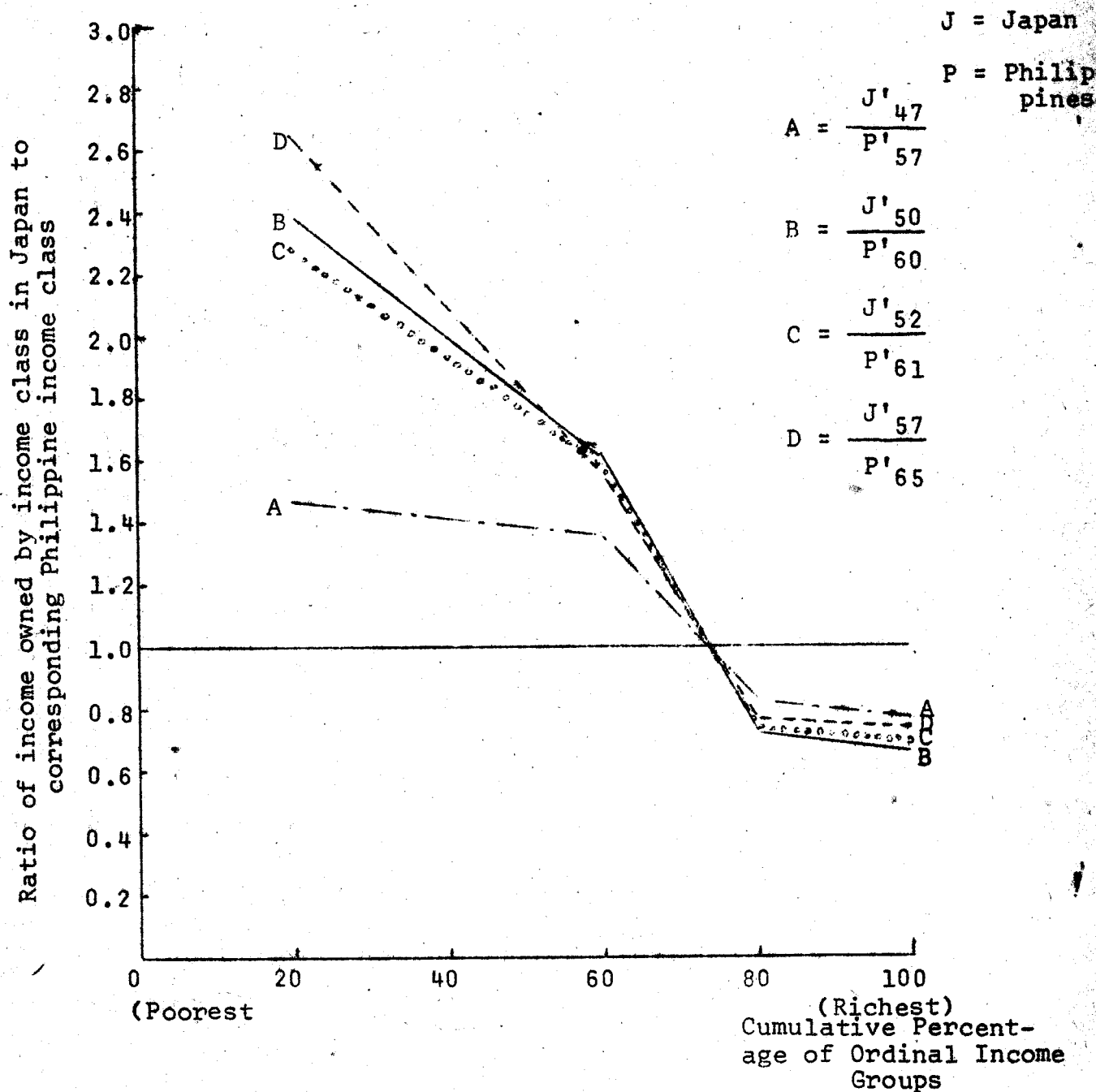
<u>Ordinal Group</u>	<u>R a t i o s</u>			
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Bottom 20%	1.47	2.39	2.29	2.65
Bottom 60%	1.36	1.61	1.58	1.57
Top 20%	0.82	0.73	0.74	0.76
Top 10%	0.77	0.66	0.69	0.73

son may be observed. The bottom 20 per cent in Japan share almost twice as much of the total household income as the same income class in the Philippines. But the bottom 60 per cent seem to be about one and a half times as much for Japan compared to the Philippines. Also, the top 20 per cent in Japan owns less income as the top 20 per cent in the Philippines do. These are best shown from the ratios charted in Figure 1.

✓ In other words, while in Japan there seems to be relatively "high" inequality of income when the top layers of income receivers are compared with the rest of the income groups, Japanese income distribution appears to be more equitably distributed than the Philippines. This disparity is probably explained by the relatively high level of development that Japan has experienced. The data we have just used would tend to support the hypothesis that even in a highly cartelized economy as Japan's, incomes tend to be more equitably distributed among the lower income groups. It may be that, more than any factor, the rapid growth of the economy has had a lot to do with this, coupled with the rapid absorption of labor into industry.

From all the above data, it would seem appropriate to expect that, given the current per capita GNP of about US\$160 to \$200 per year, the Philippines will experience relatively greater income inequality than now exists if she is to continue to experience economic expansion. However, as per capita income reaches a higher

Fig. 1. RATIOS OF SHARES OF JAPANESE TO PHILIPPINE
ORDINAL INCOME GROUPS



See basic data in page 10.

Note: The reader should note that the years for which data are derived are at least about 10 years apart.

level, perhaps between US\$500 to \$800 (at today's prices), which is still very far off from present levels of development, income distribution is likely to be relatively more equalized. At least Japan's experience tends to show this. The experience of other countries suggests that the movement towards less income inequality could be expected.

III. INCOME DISTRIBUTION STRUCTURE IN THE PHILIPPINES

Three different surveys of income and expenditure of households yield valuable information which enables us to examine the changes in income distribution over time and by income class.

Overall Patterns

A casual examination of the overall patterns of Philippine income distribution would yield little changes over the 10 years from 1957-1965. A comparison for these three periods (see Table 1 again) do not show any drastically noticeable change of income distribution, although there seems to be a slightly more unequal income distribution in 1965.¹⁴ This slight worsening is, however, matched by the following that may be deduced from the same data:

¹⁴This is probably best seen from Lorenz curves. The curves for three survey years are shown in BCS, op. cit., p. xiv.

✓1) A rise of median income from ₱924 to ₱1,648 from 1956/7 to 1965. Between 1956/7 to 1961, the median income rose by 20 per cent; between 1961 to 1965 by 49 per cent.

✓2) A rise of the average (mean) income over households from ₱1,471 to ₱2,541 from 1956-61. Mean income rose by 25 per cent from 1957-1961 and by 41 per cent from 1961-1965.

✓3) The relative dispersion of the incomes of households has remained relatively the same over this period. Mean income is about 1.6 times that of median income, which implies a very skewed distribution of income by households. The ratios of mean to median income are:

1956-1961	1.59
1961	1.63
1965	1.54

✓4) A rise of the consumer price index by 10 per cent between 1956/7 to 1961 and 24.8 per cent between 1961 to 1965. We therefore note that there has been a rise of real income among households.

Urbanization

Measures of the degree of urbanization¹⁵ are shown in

¹⁵The Bureau of the Census defines urban and rural areas as follows:

The urban areas include all chartered cities and provincial capitals, Metropolitan Manila (Manila and adjacent cities and municipalities) and

Table 4. Part A of this table shows the degree of distribution of household income by urban and total Philippine areas. Part B shows the distribution of households in urban areas. More than 50 per cent of Philippine income, which is concentrated in urban areas, is owned by about 30 per cent of total Philippine households. On a proportional basis, there appears to be a slight, re-

the poblaciones (centrally located barrios) of municipalities other than provincial capitals; while the rural areas include all barrios of municipalities except those of the provincial capitals.

It would seem that some urban areas would not qualify strictly as "urban" in the sense that sociologists and economists use it. For instance, the U.S. census bureau uses a definition which calls any community with a population of more than 2,500 as "urban". Although the US definition is arbitrary, it would seem that some (if not many) Philippine "urban" areas would qualify as rural instead under the US definition. Moreover, there was a change in the definition of urban and rural households, as shown by the following quotation from the Census:

"The definition of the urban and rural areas of the country adopted in the new sample design of the statistical survey of households, which was used beginning with the May 1965 survey, differs from that followed in the old sample design used in survey rounds up to the May 1964 survey. Some 66 percent of all households were classified as rural under the old sample design. Under the new design, on the other hand, rural households constituted about 70 percent of the national total. The difference in urban-rural definitions does not preclude, however, the making of comparisons of family living conditions in the urban and rural areas as revealed by the results of the three surveys mentioned earlier." (BCS, op. cit., p. ix).

Table 4. INDEXES OF URBANIZATION

				<u>Degree of Urbanization</u>	
	Total	Urban	Met. Manila	<u>Urban Total</u>	<u>Met. Manila Total</u>
A. INCOME (Billion Pesos, where applicable)					
1956-7	5.824	3.222	1.261	0.55*	0.22
1961	7.982	4.469	1.728	0.56	0.22
1965	13.023	6.696	3.016	0.51	0.23
B. NUMBER OF HOUSEHOLDS					
1956-7	3,959	1,308	292	0.33	0.07
1961	4,426	1,505	361	0.34	0.08
1965	5,126	1,520	458	0.30	0.09

Source: BCSSH

duction of urban income between 1956-1965.¹⁶ There is a slight rise in the proportion of the income share (by one per cent only) of Metropolitan Manila between 1956-1965. More households have been attracted to settle in Metropolitan Manila. This reveals a relatively slight growth of income inequality in the Metropolitan Manila region. It is unfortunate that Rizal province is not included within this region, because as shown in another study,¹⁷ the regional growth of Rizal has been the highest in recent years. Such a growth also attracted the highest immigration rates among all provinces in the Philippines.

✓ The degree of urbanization is also measured by comparing the rates of growth of urban and rural households expenditures. The average expenditure of urban households expanded by 72 per cent in 1961-1962 compared to the expansion of 60 per cent experienced by rural households.

Over-the-Median-Income-Classes

By comparing the degree of income distribution between rural and urban areas, marked dissimilarities are noticed. Ur-

¹⁶We are not sure whether such a reduction is due to the change in the sampling framework as noted in the previous footnote. These reports should not be surprising, however. I have worked out some explanations of the reduction of income growth in the agricultural sector after decontrol sector in my study of "Regional Economic Growth in the Philippines, 1948-1966," Discussion Paper 68-1 (January 12, 1968), Institute of Economic Development and Research, University of the Philippines.

¹⁷Ibid.

ban areas have shown more unequal incomes than rural areas. Figure 2 confirms usual data in other countries. Considering that further economic development will involve a more intense degree of urbanization in the Metropolitan Manila and other relatively less "urbanized" regions which are presently classified as "urban" by census definitions, the phenomenon of greater income inequality as a consequence of the economic growth process will continue to be observed in the future.

The relative changes in the family composition of different income classes are shown in Table 5. This table shows the rates of change of the number of households within each income class for the Philippines, Metropolitan Manila, other urban and rural areas. The growth of households in the higher income brackets is relatively more rapid and definitely exceeds the national average growth rate of households (recorded in the surveys).¹⁸ Looking simply at the number of households within each income class, there is a steady stream of new families moving into higher income classes. In particular, those families belonging to the income class from P2,500 to P2,999 increased relatively. This steady stream of new households from lower to higher income groups, however, bring down the average level of income for these income groups. Total income does not grow faster than the growth of mem-

¹⁸This might, of course, be the result of a sampling bias, thus obviating the effectiveness of any intertemporal comparisons.

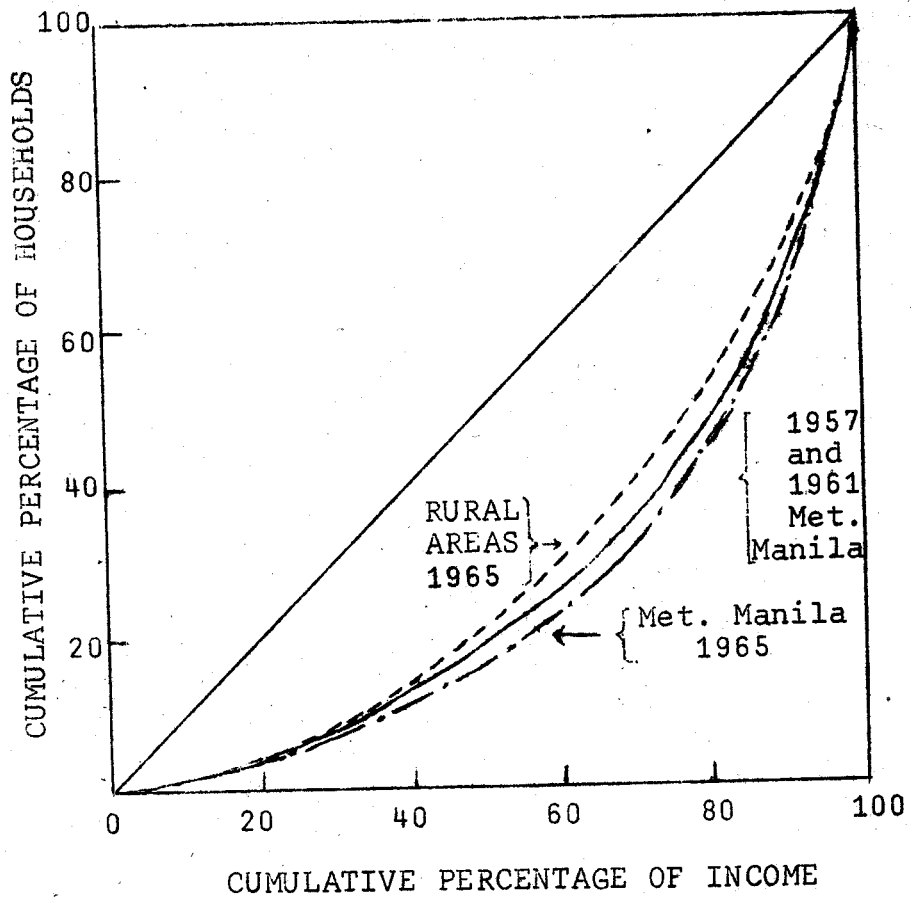


Fig. 2. LORENZ CURVES FOR METROPOLITAN MANILA (1957, 1961, 1965) AND RURAL AREAS (1965)

Table 5. RELATIVE RATES OF GROWTH OF NUMBERS OF HOUSEHOLDS BY INCOME CLASSES, 1956-7 to 1961, 1961 to 1965

Income Class	Philippines		Metropolitan Mla.		Rural Areas	
	1956-7/61	1961-65	1956-7/61	1961-65	1956-7/61	1961-65
Total (thousands)	11.80	15.82	21.96	26.87	11.02	23.45
Under P500	-15.60	-20.88	-25.00	-66.67	-18.34	-15.51
P500 to P999	1.09	-30.07	-22.73	-35.29	5.20	-24.90
P1,000 to P1,499	20.67	8.63	29.73	-50.00	32.93	23.50
P1,500 to P1,999	27.34	30.32	0	- 6.82	37.05	69.06
P2,000 to P2,499	44.17	70.71	25.81	41.03	62.89	105.70
P2,500 to P2,999	34.07	115.47	16.00	55.17	41.38	198.78
P3,000 to P3,999	36.41	106.33	17.07	41.67	54.72	217.07
P4,000 to P4,999	68.25	121.70	47.37	67.86	136.36	384.62
P5,000 and over	66.88	89.49	45.83	55.24	177.78	175.00
P5,000 to P5,999	-	82.28	-	32.00	-	190.00
P6,000 to P7,999	-	52.38	-	2.94	-	161.11
P8,000 to P9,999	-	148.39	-	107.14	-	366.67
P10,000 and over	-	114.52	-	109.68	-	133.33

Source: Computed from BCSSH.

bers within the income class. This conveys even without sufficient information that there is a tendency of the distribution within each income class to be skewed towards the lower income-end.

Interestingly, households that fall in the second half range of the median class (in a base period) have increased faster in number, relative to the ones originally in these groups. An example of this may be computed from column two of Table 5. This result, shown in Table 6, gives comparisons of the rates of growth of households within each income class to the total growth of the number of Philippine households between the year 1961-1965. The total number of households between the two survey years increased by 15.8 per cent.

The median income in 1961 according to the survey was equivalent to P1,105 per household. This median falls within the income class to P1,000 to P1,499. The number of households falling under the two income classes which are below the median class decreased in number. The rate of expansion of the number of households within the median class was only one-half of the rate of growth of households in the whole Philippines. The median class in 1961 is the first income class found in Table 6. The number of families grew only by a little over one-half of the national growth rate of 15.8 per cent. However, the relative growth of households in the higher income classes were much higher

Table 6. GROWTH OF NUMBER OF HOUSEHOLDS BY INCOME CLASSES, RELATIVE TO GROWTH OF NUMBER OF PHILIPPINE HOUSEHOLDS, 1961-1965

<u>Income Classes</u>	<u>Relative Growth Ratio</u>
P 1,000-1,499*	0.55
1,500-1,999	1.92
2,000-2,499	4.48
2,500-2,999	7.31
3,000-3,999	6.73
4,000-4,999	7.70
5,000-5,999	5.21
6,000-7,999	3.32
8,000-9,999	9.39
10,000 and over	7.25

*This was the median income class in 1961.

than this national growth, extending as high as 9.4 times in the case of the income class ₦8,000 to ₦9,999. Evidently, Table 5 shows the rapid increase of households by income class.

The same conclusion may be derived for households in the "higher-than-median-income classes" for both urban and rural areas.

On closer investigation, the rural areas have shown a more impressive change on this score. While this might be surprising on first glance, the information is consistent with the recent findings that the agricultural sector has grown relatively fast compared to other sectors. This growth of agriculture had favorable effects on household incomes in these areas. Secondly, the number of higher income households in the urban areas were already relatively larger to begin with in 1961 so that it was not as easy to expect the income classes to display much higher rates of growth in terms of numbers of households. The encouraging picture presented by these data is that there are more households in the rural areas that are beginning to fall under higher income brackets, probably as a result of (1) the growth of demand for agricultural products due to the expansion of agricultural industries and of the national economy, and (2) the growth of productivity in agriculture.¹⁹

¹⁹ This is also consistent with the income distribution implications of regional income change as a result of policy changes in the early '60s. See, for instance, the regional growth paper of this author cited in footnote 16.

Price Changes

It will now be our task to show the effects of prices. Earlier, we mentioned the change in consumer prices to indicate that overall, there has been an increase of real household income. Using year 1957 as base, the consumer price index (in per cent) was 110.3 in 1961 and 137.3 in 1965. The index had a rate of inflation of 10.3 per cent between 1957-1961, and 24.8 per cent from 1961-1965; over the whole period of 1957-1965 this inflation rate was 37.6 per cent.

The price weights of the consumer price index (as computed by the Central Bank) are based on average expenditure weights obtained in the 1957 survey of households. Since this is based on the "average", it is inaccurate to deflate the income figures by different income classes using the same price weights. As shown by Table 7, the average expenditure on food for the whole Philippines in 1965 was 53.7 per cent; for the income class ₱5,000 to ₱5,999, it was 48.2 per cent; and for the highest income class, 32.3 per cent. As is well known from statistical studies of expenditure patterns,²⁰ the proportion spent on "basic" consumption items are subject to declining weights as income rises. Some adjustments must obviously be made under each income class to take into account the basket of goods consumed by households of differ-

²⁰See H.S. Houthakker, "An International Comparison of Household Expenditure Patterns," Econometrica, vol. 25, no. 4 (October 1957), pp. 532-51.

Table 7. FAMILY EXPENDITURES (PER CENT DISTRIBUTION), 1965

	Income Classes		
	<u>National Average</u>	<u>P5,000 to P5,999</u>	<u>P10,000 and over</u>
Food	53.7	48.2	32.3
Beverages & Tobacco	4.8	4.7	2.8
Housing	17.2	17.2	30.2
Clothing	6.5	7.2	5.6
Others	17.8	22.7	29.1
Total	100.0	100.0	100.0

Source: BCSSH

ent income. Goods which are "basic" to the consumer have traditionally been subsidized in the Philippines through price stabilization policies.²¹ Those belonging to the consumption basket of the relatively rich, especially luxuries, have been allowed to seek their own price level. Thus, in general, the higher income classes were subject to more inflation from the standpoint of their consumption basket.²²

Adjustments are thus made in Table 8 to the rate of growth of household income by different income classes. This table assumes that the income class with household income under P999 was not subject to any price changes on the strength of the assumption that these households were probably too poor to be able to buy many goods sold in the market. It also assumes that the consumption basket of the income group P2,000 to P2,999 satisfies the consumer basket best exemplified by the consumer price index.

²¹Government policy has always tried to achieve price stability through the subsidization of "basic" consumer goods, especially rice and other "basic staples". On this see F. H. Golay, The Philippines: Public Policy and Economic Development (Cornell University Press, 1961), Ch. 16. See also G.P. Sicut, Import Demand and Import Substitution, Discussion Paper 69-2 (January 25, 1969), Chapter 5. The latter reference makes estimates of the rate of subsidization of the consumer goods marketed through NAMARCO. The conclusion is that the operations of the NAMARCO tended to subsidize middle and upper income classes because of the basket of goods purchased by NAMARCO procurement operations. In spite of this, however, in view of the changing consumption basket of these income groups which is related to their income levels, the conclusion about the higher income classes being more subject to inflationary pressures is just about accurate.

²²It is also very likely, of course, that the same classes must have had relatively higher rates of expansion of their money incomes.

Table 8. GROWTH OF TOTAL INCOME BY INCOME CLASSES, 1957-61 AND 1961-65

Income Class	P H I L I P P I N E S						M E T R O . M A N I L A					
	Unadjusted			Adjusted			Unadjusted			Adjusted		
	1957/61	1961/65	1957/61	1957/61	1961/65	1961/65	1957/61	1961/65	1957/61	1961/65	1957/61	1961/65
Under p500	-14.67	-30.78	-14.67	-30.78	-30.78	-30.78	37.03	-	37.03	-	37.03	-
p500 to p999	2.78	-27.94	2.78	-27.94	-27.94	-27.94	-21.68	-34.56	-21.68	-34.56	-21.68	-34.56
p1,000 to p1,499	22.04	8.33	22.04	8.33	8.33	8.33	33.35	-51.52	33.35	-51.52	33.35	-51.52
p1,500 to p1,999	28.13	30.53	28.13	30.53	30.53	30.53	-1.14	-4.81	-1.14	-4.81	-1.14	-4.81
p2,000 to p2,499	45.83	73.00	35.53	48.25	48.25	48.25	27.09	40.29	16.79	15.54	16.79	15.54
p2,500 to p2,999	34.87	113.17	24.57	88.42	88.42	88.42	12.58	55.54	2.28	30.79	2.28	30.79
p3,000 to p3,999	35.60	110.03	25.20	85.03	85.03	85.03	17.30	43.28	6.90	18.28	6.90	18.28
p4,000 to p4,999	62.25	125.06	51.74	99.82	99.82	99.82	45.12	69.66	34.61	44.42	34.61	44.42
p5,000 and over	77.25	103.83	66.49	77.97	77.97	77.97	48.54	97.98	37.78	72.12	37.78	72.12
p5,000 to p5,999		78.00		52.51	52.51	52.51		32.54		7.05		7.05
p6,000 to p7,999		56.27		30.53	30.53	30.53		2.88		-22.86		-22.86
p8,000 to p9,999		159.15		133.16	133.16	133.16		97.78		71.79		71.79
p10,000 and over		121.82		95.58	95.58	95.58		147.43		121.19		121.19
Total	34.7	63.2	24.4*	38.4*	38.4*	38.4*	37.1	74.5	26.8	49.7	26.8	49.7

* Rates of increase of consumer price index:

1957-1961 - 10.3 per cent

1961-1965 - 24.8 per cent

The rest are adjusted in accordance with a method appearing in the following footnote.²³

The assumptions enumerated may be criticized as being unrealistic because the higher income groups often belong to those with variable incomes, who in fact benefit from any inflationary pressures within the economy. For one thing, the higher income groups may in fact be saving more as a result of greater incomes generated. But it must be admitted that the assumptions are on

²³In order to be more realistic, we apply the following deflating method. The rate of inflation (p_j') applicable to income class j , is

$$p_j' = (1+d)^j p'$$

where d is an adjustment factor depicting price weight corrections for higher income classes, j the class index, where $j=0$ for all income classes up to P2,999. p' is the rate of consumer price index inflation. The following table computes the value of the class deflator assuming that $d_1=0.1$ and $d_2=0.15$:

VALUES OF INTRA CLASS INCOME DEFLATORS $(1+d)^j$

Income Class	j	Assumed Values of d	
		$d=0.1$	$d=0.15$
P2,000 to P2,999	0	1.00	1.000
P3,000 to P3,999	1	1.01	1.015
P4,000 to P4,999	2	1.02	1.030
P5,000 to P5,999	3	1.03	1.046
P6,000 to P7,999	4	1.04	1.061
P8,000 to P9,999	5	1.05	1.077
P10,000 and over	6	1.06	1.093
P5,000 and over*		1.04	1.069

*This is an open-ended class average based on other bounded income classes. We simply assumed here that d is the average of d for classes 3, 4, 5, 6.

the conservative side. They reflect situations which would have subjected the richer income classes to the severe negative effects of a rising price level.

Table 8 shows the rate of growth of total income by income groups for the Philippines and Metropolitan Manila. The effects of price inflation (as assumed above) have either been accounted for or completely unadjusted. This table may be compared with Table 5, in which the rates of growth of households by income classes are reported.

The growth rates of income by income classes adjusted for prices are relatively slower than the growth rates of households. This is not unexpected. Newcomers into higher income groups would naturally be located at the lower end of the income class. Thus, the distribution of households per income class would be relatively skewed to the lower end of the distribution. (It can be argued of course that with price adjustments being done, some families in a higher income class would slide back to the lower income class, but this cannot be verified with the data available to us.)

The unadjusted income growth rates in Table 8 show the most optimistic rates of increase of income. When the rates of growth are adjusted by the common increase of the consumer price index (which we have not done) the result is obviously the same. Newcomers tend to cluster at the lower income end of the income group.

There is substantially no difference in the growth of family income, between the Philippines and Metropolitan Manila. The major exception is, however, that the highest income groups in Metropolitan Manila display a much higher growth in real income -- about 1.3 times that of the same groups in the Philippines. All the above findings fit into the findings about growth of income in rural and urban areas already discussed.

CONCLUDING REMARKS: BEYOND AND WITHIN ECONOMICS

The following paragraphs will first summarize some salient points made in this paper. Then, some remarks will be made on other matters that go beyond the intent of this paper.

(1) The income distribution situation seen from a cross section of different countries places the Philippine income distribution in a relevant contemporary as well as historic perspective. As more development proceeds, starting from the lowest levels of per capita income, income inequalities would continue to grow. On the other hand, the relatively advanced countries have shown a narrowing of once widely unequal income distribution. This suggests that the transformation process of an economy helps to make adjustments in the pattern of income distribution. Of course, it would be fallacious to assume that it is economic development alone which has accounted for this pattern.

(2) Behind the facade of a rather stable income distribution pattern in the Philippines, there are dramatic changes which

are not seen. Income mobility is evident from the rapid increase of households within specific income groups. The median and mean incomes have been rising. And even when prices are fully accounted for, the rise of incomes of the "above-the-median-income-groups" is also evident. The growth of urban inequality is a phenomenon which is, on the other hand, observed almost everywhere during the growth process.

(3) There is a trade-off between growth and welfare policies designed to reduce income inequalities. This trade-off is more in evidence in relatively poor countries because the little resources that may be allocated for economic development might be squandered in programs which do not have any growth-inducing effects.²³ An important requisite for development is to channel currently available productive resources from consumption to savings. Increasing the rate of saving may be -- from a development standpoint -- the fundamental question which has to do with income distribution policy. Lack of awareness of the consequences

²³ An economist should, for instance, be able to point out how a straight subsidy worth hundred million pesos (which has no economic value of lasting character, a "palliative" in the politician's terms), would cost the economy in terms of new growth of output and of additional employment. If the social or private return to capital were known (I would place rough estimates of this from 15 to 20 per cent in our country), then the costs of the subsidy become rather clear. Or one can make studies of how policies which distort the prices of inputs in productive activities create an unintended bias in the choice of industries promoted within the country. This question has been answered in my other studies.

of the trade-offs oftentimes induce policy-makers to concentrate on the ill-conceived "welfare" objectives.²⁴

(4) A properly focused income distribution policy in an economy, starting from a relatively low level of per capita income and wishing to achieve a high rate of growth, must be in the area of social control of inequalities in consumption. Of course, if incomes are unequal, it follows that consumption must also be unequal. There is, however, a case for less inequality in consumption to reduce the external features of income inequality which lend themselves to social criticism. This is most effectively undertaken by an appropriate combination of incentives in favor of saving and by heavier taxation of high level consumption. The Philippines has had a negative experience with consumer price controls. First, their income redistribution effects are dubious (as we have earlier mentioned) if, as often stated, they are to protect low-income consumers from adverse price changes. Second, as shown quite clearly by the experience in the rice and NAMARCO subsidies, they had negative effects on producer incentives. They therefore adversely affected economic growth and employment. The question of how to discourage consumption and redistribute income is a complicated one. It leads us to tax and expenditure policy, which will not be discussed here.

²⁴For instance, see G.P. Sicat, "Labor Policies and Philippine Economic Development," Discussion Paper 69-4 (February 7, 1969), Institute of Economic Development & Research, University of the Philippines.

(5) Population control policy has potentially immense effects on income distribution. "Control", of course, has varied phases. Let us just concentrate on the population growth rate -- which is estimated at 3.5 per cent in the Philippines.

It is not necessary to go along with the dominant Malthusian pessimism that has characterized present discussions of Philippine population. We may take it as obvious that (a rapidly growing population requires rapidly expanding investments in social facilities -- schools, hospitals, social welfare services -- which compete with directly productive investments and with investments which would otherwise involve the improvement of currently existing social facilities. A program of population growth rate reduction is able to release more current resources for new investments other than maintaining "current facilities".²⁵ Therefore, it has a favorable effect on programs for economic growth.

Moreover, since growth as a rule creates absorption of more labor into new activities, the real wage would rise faster than in a situation of a rapid labor force expansion due to high population growth. It can be argued that population growth rate reduction will help to pull through a greater segment of the poor

²⁵Critics of the inequities of present income distribution who insist on ignoring the population "control" issue but who propose programs which are based on a set of "welfare policies", put themselves in a rather awkward situation vis-a-vis the question of income distribution. It seems to me that the Christian Social Movement and the welfare state proposals of other regular politicians fall under this category.

population into higher income levels. An obvious consequence of the above would show itself as a reduction of income inequalities.²⁶

(6) Critics of the economic system of private enterprise would suggest an alternative economic system which is basically characterized by relatively more equal income distribution, such as in a socialistic economy. [A socialistic economic system does not redistribute output equally to raise consumption standards of all citizens. In fact, if a high rate of growth is one of the most important goals of policy as is found almost everywhere (for instance, in China and the Soviet Union), the socialistic economy will find it necessary to have relatively low consumption standards for its citizens. These consumption levels are generally "more equal" compared to consumption distribution in other economic systems. Growth is more easily achieved by releasing more, rather than less, of currently produced resources for saving and capital accumulation; thus the pinch is on consumption standards. Redirection of resources may be done through the rationing of consumption (firstly, by determining the basket of consumption

²⁶For an imaginative statement of the comparative effectiveness of investments in population control compared to investment in physical capital formation, see Stephen Enke, "Economic Aspects of Slowing Population Growth," Economic Journal (March 1966), pp. 44-56.

goods to be produced²⁷ or by means of the tax system. Thus, the basic principles of development of the capitalistic and the socialistic economies are essentially the same, although the distributional implications are different.

(7) Many proponents of land reform associate the redistribution of large areas into smaller owner-cultivated fields as a solution to a bad income distribution pattern. This is, in any case, the Philippine (and apparently also, the Latin American) version of the problem. It is misleading to make a complete association between income distribution and land distribution. The strong political element linked to land reform programs apparently makes decisions on land policy based largely on grounds

27A turnover sales tax on goods reaching consumers in the Soviet Union has become an effective tax on consumption. For instance, Robert W. Campbell in his Soviet Economic Power (Houghton Mifflin Company, 1960), pp. 150-1, writes:

"The technique which Soviet planners have found most satisfactory for mopping up the excess purchasing power is the famous "turnover tax". The wholesale price which the producer receives is sufficient only to cover his costs and give him a small profit. In the wholesale distribution network, however, a heavy tax is placed on consumer goods, so that when these goods reach the retailers they are priced at levels much higher than they were when the wholesaler paid for the goods. The price paid by the consumer is nearly twice the cost of producing and distributing the goods, with the difference accounted for by the turnover tax."

See also F.D. Holzman, Soviet Taxation (Cambridge, Massachusetts, 1955).

other than economic. [The ownership of land represents ownership of an economic asset. However, it is the return on the asset which generates income, and it is not really very clear that large land ownership implies large incomes. One important argument which is fairly recently associated to land reform as a correction of "social injustice" is the productivity objective.²⁸

In any case, whether or not land reform corrects social injustice based on inequities in land ownership patterns and helps to push more economic development and industrialization (as the common argument goes), it is also true that the growth of industries in urban areas are accompanied by the growth of concentration of incomes.²⁹ Thus, as we have noted in the Philippines, the urban regions in fact display wide income inequality. For instance, in spite of the common claim that land distribution

²⁸See V.W. Ruttan, "Land Reform and National Economic Development," G.P. Sicat (ed.), The Philippine Economy in the 1960's (Quezon City, Institute of Economic Development & Research, University of the Philippines, 1964). Professor Edmundo Flores of the Universidad de Mexico, in a recent lecture at the School of Economics, U.P., has given this author the impression that the only alternative to a successful land reform program which puts into effect a transfer of land ownership (at least in the Latin American model) is confiscation through political revolution. Otherwise, only a developing country which is well on its way to further development can afford to subsidize a land reform program.

²⁹These impressions are confirmed by the findings of a study of Philippine industrial concentration that I shall report to the profession shortly.

is very unequal, the income distribution patterns in the rural areas of the Philippines is less unequal than in urban areas.

(8) Social and political eclectics -- especially the intelligentsia which is alarmed by the present income distribution -- would of course press for the "happy medium". In some quarters, this is represented by the mixed socialistic economies with emphasis on social welfare programs prevalent in the Scandinavian countries. Although the welfare programs of these countries are worthy of study, they are apt to be misleading models for the Philippines. (To begin with, these economies are relatively highly developed;³⁰ they can fairly afford expensive and extensive social welfare programs. The welfare state programs of these countries moreover are recent. Like all the rest of Western Europe, these countries had typically capitalistic economic systems during the early stages of their development.)

It may be that less developed economies like the Philippines have only a choice between the system such as the one it

³⁰The per capita incomes of Denmark, Finland, Norway, and Sweden are, respectively, US\$1,830, \$1,600, \$1,710, and \$2,270, according to the World Bank Atlas. These figures would place per capita incomes in these countries in the range of 9 to 13 times that of the corresponding figure for the Philippines. It may be added that in these countries, income distribution patterns are typically similar to other West European countries, if the data for Sweden is representative. (See Table 1, above).

now has, which is strongly tied to the enterprise economic system although with the characteristics of a "mixed" economy on the one hand, and one which is strongly similar to the socialistic economy³¹ represented by Mao's China and Fidel Castro's Cuba in order to merge income distribution objectives with rapid economic development.³²

But in the end the choice of an economic system is largely a political choice. It may be worthwhile to point out that the socialistic system has probably correctly interpreted one of the more famous platitudinous slogans of this century, Stalin's dictum "to each according to his need, ~~to~~^{from} each according to his ability" by adopting differential incentives to pay rewards to scarce resources (represented by citizens with special skills).³³

³¹It may be worth pointing out that our experience with government-operated enterprises in the Philippines has not been a very happy one. As it is usually admitted, the best entrepreneurial brains in the country are in the private sector. It will take an overhauling of the economic system -- a political revolution -- to change the current allocation of economic resources between "private" and "public" sectors.

³²Cuba is still in the throes of recovering from the immense transitional problems of changing from one political and economic system to another.

³³Even this transcends generational transfers of income and opportunities. David Granick has written of the fact that in the Soviet Union, children of executives and the intelligentsia have had greater opportunities of becoming executives than those of common factory laborers. See his Red Executive (Doubleday and Company, 1961), ch. 3. In a capitalistic enterprise system this is a fairly obvious observation. The literature on differential incentive systems in the Communist countries is a large one. On wage systems in the Soviet Union, the standard work is Abram Bergson, The Structure of Soviet Wages (Harvard University Press, 1954); on the system in Communist China which has many similari-

In summary, while we stress that policy questions, which have economic and social implications, are in the end political questions, it is also true that many such questions are resolved without any knowledge of the relevant economic facts. What this paper has done is (a) to interpret Philippine income distribution in the light of current information for other countries and of the long run historical experience of now economically advanced countries; and (b) to examine in greater detail the meaning of available income distribution data in this country. A final point tries to show that economic and social policy decisions must be made with a clear awareness of the trade-offs which are involved. It would seem now that the best way to achieve a more equitable income distribution in the future -- if we ignore the question of changing the economic system -- is to insist on policies that make the economy grow at the fastest possible rate and, second, to pay more attention to overt population control policy.

ties with the Soviet system, see Charles Hoffman, Work Incentive Practices and Policies in the People's Republic of China, 1953-1965 (State University of New York Press, 1967). These authors have extensive primary source materials listed in their works.

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IMPORT DEMAND AND IMPORT SUBSTITUTION IN THE
PHILIPPINES, 1953-1963

by

Gerardo A. Sicat, 1935-

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A C K N O W L E D G M E N T

This is one of the products of research ^{undertaken by this author} on Philippine industrial growth and structure since 1965. In addition to numerous papers, which have been reported in the Discussion Paper series of the Institute of Economic Development and Research, it is the last of three long studies which benefited from the author's visit at the Massachusetts Institute of Technology in the fall term of 1965-1966, as Guest in its Department of Economics. The other two monographic studies are:

Investment Demand in Philippine Manufacturing (with
Richard W. Hooley), Discussion Paper 67-2.

Industrial Production Functions in the Philippines,
Discussion Paper 68-18.

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But most of all, I must record my debt to my wife, Loretta. I only hope that my periodic absent-mindedness and thoughtlessness show their positive values in this study. Since this is a large work, I hope I can be forgiven for dedicating it to Hans, Michelle, Liza, and Jenny.

January 25, 1969
Quezon City

G.P.S.

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