

Economic Development
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OBSTACLES TO DEVELOPMENT IN INDONESIA
AND THE PHILIPPINES

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Indonesia and the Philippines are countries inviting comparison; there are enough similarities between them to give some hope of isolating cause-and-effect relationships among the differences. They are neighboring archipelagoes, perhaps even once part of the same land mass. Both are mountainous island economies. While the Philippines lie generally northward and eastward of Indonesia, their climates are much the same. Both countries have a variety of racial groups and languages, but in both the Malay stock and linguistic roots predominate. Overall density of population is much the same; Indonesia has some 82 million people and 576,000 square miles, the Philippines has about 22 million people and 116,000 squares. Thus Indonesia has roughly five times the area and four times the population of the Philippines. Both countries achieved independence after World War II following more than three centuries of colonial rule. Both were essentially "trading posts" for the metropolises until the late 19th century, and both began their life as sovereign nations with a heritage of wartime disruption and devastation.

Economic Problems and Development Plans

There are also common features in their economic problems and in their plans for dealing with them. The central problems in both countries

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are poverty, dependence on a few exports and consequent pressure on foreign exchange reserves, and unemployment. Solution of these problems in both countries is complicated by "technological dualism." Both economies are divided into two distinct sectors: an industrial-and-plantation sector that is capital-intensive, fixed-technical-coefficient, technologically advanced, and highly productive; and a peasant-agriculture-and-cottage-industry sector which has variable technical coefficients, is highly labor-intensive, is technologically retarded, and is low in productivity and income. Investment in the first sector tends to widen the gap between productivity and incomes in the two sectors, since it does not add proportionately to employment but permits more rapid population growth, adding to disguised unemployment in the other sector. There is no incentive for investment in the other sector.¹

Both countries completed five year plans in the course of 1956, covering the years 1957-1961. Both Plans are modest ones; both are essentially projections of current trends which do not provide a "big push," whether defined in terms of the ratio of investment to income or in terms of structural change. Both are optimistic in their estimate of the incremental capital:output ratio--2:1 in a plan directing the bulk of investment towards industry, power and irrigation, and transport.

Major Differences

Despite the hazards I shall attempt to divide major differences between those which are basic causes in terms of economic development,

¹Cf. B. Higgins, "The Dualistic Theory of Underdeveloped Areas," Economic Development and Cultural Change, January 1956.

and those which are effects. On the political side, the first causal difference is that both Hinduism and Islam preceded European colonization in Indonesia, while no advanced culture preceded colonization in the Philippines. The Javanese and Sumatran civilizations of the 16th century were highly developed in both a cultural and economic (trading) sense. Vestiges of this civilization remain to this day, and have their effects on attitudes and actions.¹ Islam has become a powerful political force. Both Hinduism and Islam constitute sources of resistance to certain kinds of change in Indonesia. In the Philippines, on the other hand, the Spanish seem to have encountered a cultural and economic vacuum. There was little resistance to the spread of Roman Catholicism among the people or to adoption of Spanish culture among the elite. Nor was there much resistance to the adoption of American ideologies, techniques, and accents after 1896. I have the feeling, moreover, that neither the Spanish nor the American culture is so firmly entrenched as to provide firm resistance to any powerful new ideology that might appear.

Secondly, there are the various differences between colonization by Spain and the United States on the one hand and by Holland on the other. In particular may be mentioned the Dutch system of "indirect rule" which prevented the establishment of a strong central government and the training of a modern civil service. Also important was the tendency of the Dutch to discourage indigenous entrepreneurship while leaving the religion and the culture largely untouched. In the Philippines,

¹See for example Clifford Geertz, "Religious Belief and Economic Behavior in a Central Javanese Town," Economic Development and Cultural Change, January 1956.

on the contrary, such rule as there was was highly centralized and the American or Spanish culture was quickly spread. Closely related to these differences is the third major political factor, viz. that the Philippines gained their freedom by evolution and Indonesia by revolution.

On the economic side an important difference is that while exports of both countries are highly concentrated on a few products, in Indonesia two mineral products--petroleum and tin--rank second and third after rubber, followed by coconut products and tobacco; while in the Philippines, all major exports are plantation products--coconut products, sugar, forest products, fruit and tobacco. Second, the Philippines faces a substantially higher rate of population growth. The estimated annual growth is $1\frac{1}{2}$ per cent to 2 per cent for Indonesia and $2\frac{1}{2}$ per cent to 3 per cent for the Philippines. Capital requirements for a given rate of increase in per capita incomes therefore tend to be higher in the Philippines than in Indonesia. Third, the Philippines has nothing quite like Java, with its incredibly fertile volcanic soil and assured rainfall, which permit two or three crops a year and the sustenance of two-thirds of Indonesia's population on this one small island, making it the most densely populated sizeable area in the world.

Turning to differences which might be regarded as "effects," and which are important for development planning, perhaps most important is the much more adequate supply of indigenous entrepreneurship in the Philippines. Not only does the Philippines have a sizeable group of able and ambitious entrepreneurs, but they have essentially American attitudes towards technical change. They also have a 19th century American attitude toward free private enterprise and toward the position

of the industrialist, financier, and trader in society. There is within the Philippines elite none of the reluctance that some Indonesian leaders still have "to sully their hands in trade." The relative prestige of private entrepreneurs and of government officials is just the reverse of what it is in Indonesia. A by-product of this attitude is that in sharp contrast to Indonesia, where the bulk of investment is still in foreign hands, in the Philippines over half the stock of capital is owned by Filipinos. In the government service too the Philippines is much better provided with well-trained people.

The relatively liberal policy of the United States in the Philippines, the encouragement of domestic enterprise, and the evolutionary achievement of independence has yielded other results as well. Where Indonesia is neutralist, the Philippines is one of three Asian members of SEATO. There is much less concern in the Philippines, too, over the use of foreign aid and foreign investment from the West in the achievement of development aims. I have sometimes tried to characterize the basic Indonesian conflict as a struggle between a "history-minded" group, mindful of Indonesia's recent past and fearful of Western influence in any form, and an "economics-minded" group, attaching top priority to economic development and willing to accept Western guidance and assistance in achieving development somewhat along Western lines.¹ No such conflict exists in the Philippines; even the Filipino leaders who are keenly aware of their history have little resentment against American behavior

¹B. Higgins, Economic Stabilization and Development in Indonesia, New York (IFR) 1957; and "Indonesia's Development Plans and Problems," Pacific Affairs, June 1956.

toward them in the past; current anti-Americanism arises rather out of the behavior of the United States at the present time; but even the anti-Americanism does not take the form of resisting development along Western lines or with Western assistance.

One offsetting feature of the heritage from Spanish and American colonialism, unfortunately, is the attitude towards corruption in the Philippines (presumably learned from the Spanish rather than the Americans?). Corruption among government officials exists in both countries, but the quality is different. In Indonesia, large-scale corruption in high places began only within the past three years, and was in the first instance a by-product of party politics. Moreover, the basic Indonesian attitude is that political corruption is sinful and should be punished. Quite different is the Filipino attitude toward "anomalies," the well-known synonym for corruption in that country. Corruption in high places is more often for purely personal than for political purposes, and the ordinary Filipino seems to take it for granted that people in positions of power will use the power to line their own pockets. One feels that in the Philippines the sin is not in diverting public funds to your own bank account but in getting caught. Perhaps more important, Indonesian-style corruption is less likely than Philippines-style to direct public policy away from general ends towards personal goals.

Turning to more purely economic factors, a difference which might be regarded as an "effect" of historical differences, is that per capita income in the Philippines is nearly double that of Indonesia, and is growing at a rate of at least 3 per cent per year. In Indonesia, it is doubtful whether per capita income is growing at all, and it is certainly

not rising more than 1 per cent or 1 1/2 per cent annually. The Philippines are also more advanced in terms of the structure of production (40 per cent in agriculture vs. 55 per cent) and of literacy.¹

These differences are reflected in the plans. Indonesia plans to invest only 6 per cent of national income for development, the Philippines 10 per cent. In Indonesia total government expenditure is expected to exceed 15 per cent of national income, in the Philippines it is to be limited to 11 or 12 per cent. More than half of total Indonesian investment is to be governmental, in the Philippines only 40 per cent of the total is public investment. However, it should be noted that the increase in the role of public investment implied by the plan is greater in the Philippines than it is in Indonesia. Indonesian public investment is largely for government enterprises, while in the Philippines government investment is mainly in "impulse" sectors with the express purpose of providing the basis for increased private investment. Similarly, the Philippines plan devotes much more attention to stipulation of policies to encourage and direct private investment--an aspect of planning almost totally ignored in the Indonesian plan. Finally, the Indonesian plan is essentially a combination of project and target planning, with little economic analysis. The Philippines development program has a highly sophisticated plan framework with a statistical-economic--almost econometric--

¹It will be noted from Table I that while a larger share of output comes from the agricultural sector in Indonesia, a larger share of employment is in agriculture in the Philippines. While the figures for both countries have a considerable margin of error, and the actual differences between the two countries may be less than these statistics suggest, the general picture suggested by them is what might be expected. Plantation agriculture in Indonesia is highly productive in terms of value produced per man-year, while productivity in industry and mining is higher in the Philippines. A more meaningful comparison might be peasant agriculture and cottage industry on the one hand and plantations, mines, and manufactures on the other; but figures are not available in this form. Superficial evidence suggests that productivity in peasant agriculture is about the same in both countries.

approach. The Philippines plan also provides for annual revision.

Obstacles: Indonesia

Since Indonesia is still essentially stagnant, the basic economic problem there is to generate a "take-off" into sustained economic growth. Capital, entrepreneurship, skills and foreign exchange are all bottlenecks, as in most underdeveloped countries.

In addition, however, Indonesia has a peculiar problem arising out of the regional structure of the economy, technological dualism, and of the product-mix. For the Javanese rural economy simply can not absorb Javanese population growth much longer without falling standards of living. Some increase in yields per hectare can still be obtained by seed selection, improved tillage, and cautious use of fertilizer, but such devices will give a breathing spell of only a decade or two at most. Continuing increases in productivity in Javanese agriculture can be obtained only through a shift to more extensive and more mechanized agriculture. Solution of the Javanese problem requires that somewhat more than the additional 300,000 families each year be absorbed elsewhere in the economy--into industries in Java or the Outer Islands, or into agriculture in the Outer Islands. All this is expensive. Providing, say, 400,000 jobs a year in any of these ways would cost at least Rp. 4 billion per year.

Total capital requirements for a "take-off" have been estimated by the M.I.T. Indonesia Project at Rp. 12 to 15 billion per year. The obvious lines of development are the creation of middle-sized import replacing industries on Java (where the market is) and carrying further the processing of export products of the Outer Islands (aluminum, tin smelting, pulp and paper, petroleum refining, etc.).

The Five Year Plan does not provide for investment on the scale or of the type required. The Plan proper covers only the central government's development projects of Rp. 12.5 billion for five years--little more than half of what is needed to solve the Javanese problem alone. The program includes Rp. 7.5 billion for community development and Rp. 10 billion for private investment, but no detailed projects have been presented in either of these categories, and in the case of private investment no suggestions are made for policies to encourage and direct this volume of investment.

The estimates of capital requirements for launching cumulative growth in Indonesia undertaken by the M.I.T. Indonesia Project suggest that the investment budget in Indonesia's first Five Year Plan is much too small.¹ This conclusion is in effect corroborated by the National Planning Bureau, which looks forward to the achievement of sustained growth only in the course of the fourth Five Year Plan. The Plan speaks of the sacrifice of the current generation for Indonesia's future. In fact, however, the Indonesian development plan involves neither a sacrificial effort for one generation nor an early take-off into steady growth. Only 40 per cent of the expected small increase in per capita income (1.3 per cent) is to be recaptured for future investment, and 60 per cent is to be made available for higher consumption. Thus no "belt-tightening" is called for; on the other hand, an increase in per capita consumption of three-quarters of 1 per cent per year, starting from the present low level, will not in itself generate enthusiasm for the plan.

One might argue that in a society that has been stagnant for generations (if not actually declining) it does not matter much whether cumulative growth starts now or in twenty years. However, the achievement of steady growth in twenty years depends on the increase of investment from 6.8 per cent of national income in the first Five Year Plan to 8.5 per cent in the second Five Year Plan, 12 per cent in the third five years, 16 per cent in the next, and 20 per cent by the end of the 4th Five Year Plan. Increases in investment are so small that with the

¹Cf. Eugene Grasberg, and Douglas Paauw.

imperfections of national income statistics it would be very hard to tell whether year-by-year goals are being attained or not; yet even these modest goals require a more rigorous fiscal policy--and thus some enthusiasm for the Plan. A stagnant economy is like a stalled car; leaning on it with gradually increasing weight is unlikely to get it started. It needs "a big push." The Indonesian approach will not change parameters enough to bring new attitudes, new behavior patterns and the like. This hesitancy in launching an effective development program is particularly unfortunate since the revolution itself injected a dynamic into Indonesian society that might well have been directed toward economic growth. If too much time is allowed to pass without a major developmental effort this dynamic may be lost.

Moreover, the political situation is clearly unstable. To satisfy the demands of dissident groups, and particularly of the Outer Islands, the government must either engender a united effort "to win the economic revolution," or provide noticeable improvements in the standard of living in the near future. In point of fact, considering the optimism with respect to ICOR it is doubtful whether the Plan will do more than keep pace with population growth.

Thirdly, the present Plan will not solve the employment problem. It leaves essentially untouched the growing discrepancies between per capita output in Java and on the Outer Islands, which can only aggravate frictions between the center and the outlying regions. It might be added that neighboring countries are doing better than Indonesia relative to their incomes. It is a question as to how long Indonesians will remain content with a development plan that brings such meager results.

If the modesty of the Plan represents a political judgement of what is possible at this stage, it would be brash indeed for any outsider to criticize it on these grounds. If it is based on the experience of such countries as India (the scale of the investment plan and the ICOR are the same as in the first Indian Five Year Plan), however, it represents a misapplication of this experience. Indonesia starts from a much higher per capita income and a much broader resource base than India, and can accordingly start with a larger program than was entailed in the first Indian Five Year Plan.

It is the author's belief that the main reason for the small-scale planning is that in Indonesia a "big push" would require decisions regarding the form of the economy and the society, relations of Indonesia to the West, and the like. Thus far Indonesian leaders have not been prepared to make decisions of this kind.

Back of the long delay in completion of the development plan and the limited scope of the plan as completed is the fundamental problem which confronts all aspects of Indonesian economic policy: the lack of resolution of the basic political conflict concerning the relationship of Indonesia to the outside world. Indonesia has not decided whether or to what extent it wishes to rely on foreign experts, foreign aid, and foreign investment in achieving its development objectives. Without such a decision, even the dimensions of the development programme are hard to determine. Determining its composition is even more difficult. Priorities cannot be established independently of the scale of developmental activity, and what projects can be financed depends a good deal on where finance is sought.

Only four parties--Nationalist, Masjumi (Moslem), Nahdatul Ulama (Moslem) and Communist--emerged from the elections with significant popular support. Even for the four major parties, however, it is not easy to characterize attitudes towards economic policy in general or toward economic development in particular. In any case, the major issues run across party lines. Each major party is split within itself on basic issues. While there are innumerable shadings of opinion, for analytical purposes it is convenient to divide the politically active and articulate Indonesians into two groups. One of these is a group led by relatively young, sometimes foreign-trained intellectuals who attach high priority to economic and social development of the country, who feel that this development must follow Western lines in large measure, and who are willing to co-operate with the West, at least to the extent of seeking technical and capital assistance from the West, in order to achieve this goal. This group might be labelled "economic-minded."

The other group is a mixture of Communists and of a larger number who are nationalist, conservative (in Western terms), and isolationist. Its leaders attach highest priority to "completion of the revolution" in the sense of eliminating the control on Indonesian national life exerted by foreigners through economic activity. While favouring economic and social development they attach great importance to retention of the national culture, language and religion and to abolishing the remnants of foreign influence. The attitudes of this group spring in large measure from the country's long history of resistance to foreign invaders, culminating in the postwar revolution. They might be labelled for convenience "history-minded."

While the "economic-minded" group tends to give priority to economic development, the "history-minded" group gives higher priority to "converting the colonial economy into a national economy." In short, one might say that the first group is more concerned with "making the pie grow" and the second with dividing it more evenly, especially as between nationals and foreigners.

Events during the first half of 1957 focussed attention on another important cross-party split: the "Outer Islands" against the Center. This split reflects a more severe form of the "states rights" cry familiar in the United States. Indonesia has rejected federation--at least for the time being--because Indonesians feel that the "United States of Indonesia" was a Dutch device for preventing their unification into a strong nation. Meanwhile, centralization of powers has been excessive, and has caused open resentment in the outlying districts.

Converting the colonial economy into a national economy

Despite differences in emphasis, all political parties in Indonesia are agreed on "converting the colonial economy into a national economy." A "national" economy does not mean "nationalized," but "Indonesianized." Most parties are not greatly concerned about "public vs. private enterprise." All of them, however, are concerned with increasing the share of Indonesians in the ownership and management of major enterprises. The necessary amounts of foreign capital--whether from private enterprise, from governments, from foundations, or from international agencies--must be obtained in a manner which is consistent with the "conversion of the colonial economy into a national economy" in this sense.

Social Goals and Problems

The political ambivalence with regard to development has roots deep in Indonesian society. As pointed out in an earlier article, even becoming "business-minded" has a negative valence to the Indonesian. One of the most often expressed ideals today in Indonesia is that of helping each other and working together. "Ramah-tamah," the quality of being familiar (family-like) and friendly, is perhaps the most-admired attribute.

Some Indonesian leaders fear the loss of this "family-like" atmosphere and its replacement with a "cold, materialistic, efficiency-centered, rationalistic, 'Western' spirit." They want to keep the "spirit of the revolution," the "Indonesian spirit" and "our way." Part of their concern is tied up with the fear of too rapid a change, or the inability of the people to shift modes of thought and behavior so quickly. Part also is a genuine desire to hold on to the graciousness and charm of the traditional modes.

The political expression of this conflict of social goals is the principal barrier to their achievement in Indonesia today. The leaders seek more "business-mindedness" on the part of their people, but are opposed by their own desire to hold on to the gotong-rojong and mutual-aid, familistic concepts. They would like a blend of the traditional village life, and the modern world of trade and commerce and advanced technology. Meanwhile, the wish to increase efficiency in government and business conflicts with the desire to retain the more positive aspects of paternalism, and development of local culture impedes the development of a unified national culture.

Until there is a clear determination by the Indonesian people-- or at least by their leaders--as to the kind of society they want to build, it is difficult for them to assess the relative merits of various development schemes that may be suggested. It is not only that no clean political decision as to the proper role of foreign enterprise has yet been made; it is also that the Indonesians are ambivalent about the role in their society of large-scale enterprise, of modern enterprise, of competitive enterprise, of individual enterprise. This lack of determination of aims with regard to social and economic organization makes it difficult at this stage to organize a "big push" towards sustained growth.

Obstacles: The Philippines

A casual glance at postwar figures of national income and output in the Philippines might lead one to conclude that economic development is no problem in that country. During the past six years national income has been rising by something more than 5 per cent per year, while the price level shows a gently falling trend. Here is a record of "steady growth" that has few rivals in economic history; at first blush one might feel that the record of the Philippines is one that other countries might well envy. However, behind this attractive facade are economic and social disorders that threaten not only economic stability but social and political stability as well.

There are four major economic problems in the Philippines. First, maintaining past rates of growth will become increasingly difficult as time goes by; signs of retardation of growth have already appeared.

Second, the rise in national income has thus far done little to relieve the extreme poverty of the vast majority of Filipinos. Third, the balance of payments continues in fundamental disequilibrium. Fourth, unemployment is high and apparently growing despite the rise in national income.

The Problem of Maintaining Growth

The Philippines has shared with other war torn countries the experience of obtaining very high rates of return on capital (very low "ICORs" in economist's jargon) during the reconstruction period. In the Philippines a large proportion of investment between 1946 and 1952 represented reclamation and replanting of agricultural land, a process bringing substantial increases in output with little or no outlay on capital equipment. Fertilizer provided through the foreign aid program brought quick increases in agricultural productivity. The repair of damaged machines, buildings, transport equipment and the like permitted the restoration of whole complexes of productive apparatus for very little cost. Large amounts of war surplus equipment were obtained at prices far below cost. All these conditions facilitated significant additions to output for relatively little capital outlay.

Such opportunities, however, will not arise again in the near future. On the contrary, when the time comes to replace this inexpensive capital, costs are likely to be much higher than they originally were. True, in a plantation economy the expansion of output (particularly of coconut products) can continue for some years after investments were made. Nevertheless, it is to be expected that over

the next five years capital:output ratios will be higher than they were during the reconstruction period. The figures of output indicate that the rate of economic growth has already tapered off to some degree, with a transition from "reconstruction" to "normal growth" somewhere around 1952.

The impression one gets of trends in the Philippines economy is very different if, instead of looking at only postwar figures of output and income, one converts production figures to per capita terms and compares present levels with prewar. The picture then obtained in the agricultural sector is one of restoration and subsequent maintenance of traditional relationships between the number of hectares under cultivation and total population, with little change in output per hectare. For plantation output, both hectarage under cultivation and output is lower in per capita terms than it was before the war. The picture for minerals is mixed, but in any case these still play a small role in exports and income.

Poverty

In 1950 the United States Economic Survey Mission (Bell Mission) noted the large and increasing inequalities in income in the Philippines. There is little evidence that income distribution has since improved. Between 1946 and 1954 entrepreneurial and company incomes rose somewhat more than wage and salary incomes. In the latter year, the proportion of national income going to entrepreneurs and property owners was much higher than in economically advanced countries--56 per cent of national income as compared to 44 per cent for wages and

salaries. Wages of skilled industrial workers in Manila actually fell somewhat between 1950 and 1955, while wages of unskilled industrial workers in Manila showed only slight improvement. The increase in daily wages of agricultural workers was not sufficient to raise rural wage rates much above prewar or to bring significant changes in their severely curtailed way of life.

The fiscal process does little to mobilize potential savings nor to redress the maldistribution of income. The Filipinos blithely refer to themselves as "the world's worst taxpayers", and the label seems to stick. Total tax revenues in recent years have run at only 8 per cent or 9 per cent of national income, as compared to 10 per cent in Indonesia (with per capita income half as high), 25 per cent in Burma, 16 per cent in Japan, 21 per cent in Ceylon, 22 per cent in the United States and Canada, etc. Tax evasion is widespread among the upper middle and upper income groups. Corporation and personal income taxes together accounted for less than 20 per cent of central government tax revenues in 1955, and only a small fraction of these was paid by Filipinos in the higher income brackets. More than half of the total revenues from income tax is represented by taxes on corporations, a substantial share of which is paid by foreign concerns. Of personal income taxes actually paid, less than half is paid by Filipinos, and these represent mainly deductions from wages in the form of a withholding tax. The tax structure as a whole is highly regressive; the great bulk of revenues come from commodity taxes of one kind or another which are shifted to the final consumer.

Underlying the unequal distribution of income is the concentration of land ownership, a social problem which has caused much concern among

the American advisers to the Philippines Government. Legislation of 1954 has improved the tenant's share of agricultural income, but the land reform law of 1955 does not seem to have had much effect on the distribution of land ownership.

By and large, it seems safe to say that the standard of living of the masses of the Philippines people has improved but little over prewar levels, despite the continuous rise in national income. Postwar increases in income, even more than wealth, have been concentrated in the hands of the upper income groups.

Balance of Payments

The Philippines has had a chronic import surplus ever since the war, and only large scale foreign aid, American expenditures on military bases and veteran's pensions, and the like have prevented more serious losses of foreign exchange than have actually taken place. Even with these extraordinary sources of foreign exchange, it has been necessary to make exchange controls increasingly rigorous to prevent foreign exchange reserves from falling to dangerously low levels.

The favorable balance of Philippines commodity trade before the war depended upon a narrow range of traditional exports, most of which were products of plantation agriculture: copra and other coconut products, sugar, forest products, fruit and tobacco. These commodities still provide the bulk of Philippines exports. Coconut products alone still account for about 40 per cent of the value of exports and the first four groups for over 80 per cent.

These plantation industries now face serious problems. As in Indonesia, the total area under plantation crops is still below the prewar level. The problems confronting the plantation industries of the Philippines are largely the same as in Indonesia: loss of productive land through destruction, squatters, blight, disease and inadequate maintenance, combined with increasing competition from synthetics and other rival products. However, whereas market prospects for natural rubber are reasonably bright for some years to come and the market for petroleum products is rapidly expanding, the outlook for the major exports of the Philippines is much more dim. The principle use of coconut products is the manufacture of soaps. In the American market, which absorbs 40 per cent to 50 per cent of Philippines exports of coconut products, soap is being increasingly displaced by detergents. Sugar remains the second most important Philippines export, but here the major factor is the American quota of 952,000 short tons. The present agreement with the United States Government ends in 1974; if then the arrangements are not renewed, the prospects for Philippines sugar exports would be dim indeed. Among all major Philippines exports, abaca (Manila hemp) has suffered the most severe setback from prewar days. The United States Department of Commerce Survey of the Philippines says, "So serious are the problems of the Philippines abaca industry that there is some question of its ability to survive." Meanwhile, no new exports have appeared on the horizon which seem capable of replacing the traditional ones in the short run.

Unemployment

The National Economic Council estimates the current (1956) level

of unemployment, including persons employed less than half time, at 1.9 million people, or 19 per cent of the labor force. When disguised unemployment is included, the figure could of course be much higher. As yet no reliable estimates of the trend in unemployment are available. The only published figure is in the Central Bank Annual Report for 1954-1955, which, in conjunction with the National Economic Council's new estimate of increase in the labor force of 275,000 per year, would give an increase in unemployment of more than 100,000 persons per year. However, it seems likely that the Bank's figure underestimates increases in rural employment; a better assumption might be that open unemployment is growing at 50,000 to 70,000 per year and disguised unemployment by 70,000 to 80,000 per year.

The increase in unemployment is made more serious from the social and political point of view by the tendency for disguised unemployment to move into the cities and become open. The postwar growth of Manila in particular has failed to produce a proportionate increase in a number of productive full-time jobs.

A particularly serious aspect of the whole employment picture is growing unemployment of educated people. With nearly 200,000 students in Philippines universities and some 600,000 students in high schools, it would appear that graduate of these institutions are being turned out faster than jobs are being created for them in technical, professional, and administrative positions. Indeed the total number of high school and college graduates each year exceeds the estimated total increase in employment. Moreover, the curricula of Philippines universities are not adapted to a developing economy. Law and humanities still account for a large proportion of university degrees, and relatively

few Filipinos receive vocational or technical training. Obviously university graduates and even high school graduate will be less content than uneducated children to return to the barrios if they do not find employment in the cities.

Conclusion

The task of economic development planners in the Philippines has four major aspects, conforming to the major problems to be solved:

(1) Past rates of economic growth must be maintained in the face of increasing difficulties. This will require substantial increases in net investment. While the general situation was mildly deflationary until recent months, the required increase in developmental investment could not be undertaken without inflation, unless it is financed by increased voluntary savings or taxes.

(2) A larger share of investment must be directed towards providing for the needs of the lower income groups, and the tax system and its administration must be reformed so as to permit the lower income groups to share more heavily in the increases in national income.

(3) The structure of production, and particularly the structure of exports, must be changed so as to provide new sources of foreign exchange. At the same time, import-replacing industries must be developed. In general, a much more rapid growth of the relative share of manufacturing in national income must be encouraged.

(4) Means must be found of increasing the rate of job creation. In part this can be done by increasing the total level of development investment, and in part by giving higher priorities in the development

program to enterprises (public and private) with relatively low capital: job ratios.

Development Planning in the Philippines

The preparation of development plans in the Philippines is the responsibility of the National Economic Council. Under Reorganization Plan #10, the National Economic Council is also assigned the function of advising the government on all aspects of monetary, fiscal, foreign exchange, tariff, reparations, and other policies relating to economic development.

The composition of the National Economic Council is a somewhat curious one. There are two Senators and two members of the House of Representatives; these positions are necessarily political in large degree. The Governor of the Central Bank and the Chairman of the Board of Rehabilitation Finance Corporation are ex officio members. There is then one representative each for industry, agriculture, and labor. Thus the National Economic Council combines features of the Council of Economic Advisers and the Joint Committee on the President's Economic Report, the Board of Governors of the Federal Reserve System, and the Russian Supreme Economic Council.

The National Economic Council has a sizeable secretariat, divided into three offices: Statistical Coordination and Standards, Foreign Aid Coordination, and National Planning. It is the last of these which is concerned with the actual work of putting together a development plan. The Office of National Planning in turn is divided into six branches: agricultural resources, services (utilities), social development, trade and commerce, industrial resources, and finance.

In comparison to the planning staffs in most underdeveloped countries, the Office of National Planning is in an enviable position with respect both to numbers and to quality of its personnel. Each branch has a chief with special training and some years of experience in his field, supported by varying numbers of qualified technicians. Moreover, the National Economic Council is able to draw on the expertise of the Central Bank, the Budget Commission, the Industrial Research Center, and other government agencies, although it has not always made the most of these opportunities.

The relatively large number of trained people, plus an unexplained Filipino passion for statistics, may explain the highly sophisticated methodology in the Office of National Planning. All the latest devices of the development planner's craft are brought to bear in the preparation of the Philippines Five-Year Development Program. The starting point is a target increase in national income, which has been set at 6 per cent, slightly above the average of recent years. The target national income is then broken down by major sectors, using the actual structural distribution in recent years as a starting point, and providing for desired structural change within the economy during the planning period. Estimates are then made of the incremental-capital-output-ratio in each of these sectors. Thus the income targets, together with the sectoral ICORs, provide the estimate of capital requirements.

The distribution of investment between the public and private sectors starts from the traditional distribution of investment within the country, but makes some attempt to undertake in the public sector as much investment in "impulse sectors" as can be counted upon to bring

with them increases in private investment as well. A separate estimate is made, using a rather refined multiplier formula, complete with marginal propensities to consume and import and the like, of the amount of deficit financed development spending that can be undertaken without creating an undesirable degree of inflationary pressure. Finally, in allocating foreign exchange, intermediate and long term credit, and tax privileges, use is to be made of a priority formula, which is an adaptation to the Philippines economy of the investment formula worked out by Hollis Chenery of Stanford University. In effect, this formula attempts to assign priorities according to the ratio between "benefits" in terms of net contribution to national income (including external economies), net contribution to employment, and net improvement of the balance of payments, to cost in terms of capital and foreign exchange. In the public sector, priorities are assigned mainly on the basis of advice from government departments and corporations, within the general framework worked out by the National Economic Council. It is possible, however, that the National Economic Council will at some stage decide to apply the priority formula in the public sector as well.

While this methodology is virtually beyond reproach, there are some unsatisfactory features of its application to the actual problems of the Philippines. These shortcomings reflect the political and social environment within which plans must be made rather than any deficiencies of technique among the professional planners.

The Economic and Social Development Program, 1957-1961

The Development Program starts, as it should, with an analysis of the problems which the plan is designed to solve. It proceeds to a

brief statement of the major objectives of the Plan. The public investment program is presented in some detail, which is proper, since this is the sector over which the government has direct control. There are separate chapters on Social Development, Finance, and Public Administration. The chapter on financing is brief, but this defect is perhaps inevitable in view of the wish to withhold presentation of the Fiscal and Foreign Exchange Budgets until the private sector of the plan has also been discussed. The chapter on administration has one glaring omission; it takes no account of problems of business administration, which may be as important as public administration in an economy such as the Philippines. Perhaps later versions of the plan could include some discussion of the training and recruitment of managers.

The chapter on financing private investment is in an appropriate form, but is somewhat uneven from one section to another as to substance. The sections on tax policy, reparations, foreign aid and foreign investment are well worked out; those on encouraging and mobilizing savings, on monetary and credit policy, on budgetary policy, and on tariffs are conspicuously lacking in positive proposals. However, the presentation in this chapter has the advantage of making it clear what the weak sections are, so that the National Economic Council can direct further research efforts to these areas in subsequent versions of the Program.

The inclusion of a foreign exchange budget and a fiscal budget for the whole five year period is a strong feature of the Program. Another significant feature is a separate part on Recommendations for Action by the Various Agencies of the Government.

A major problem underlying the Program is the lack of adequate data on past levels of national income and of investment. A discerning reader will soon discover that what the plan really proposes is a mere extension of the status quo. It is said at one point that the rate of increase in national income has been in excess of five per cent since the war, and in the last year or so has been about six per cent; yet the target is merely a six per cent increase in national income. Similarly, the report now cautiously states that net investment in the recent past has been less than ten per cent of national income, but the plan does not raise it above ten per cent of national income. Caution with respect to statistics is admirable; but the Program would be strengthened by a frank statement that the objective of economic development in the Philippines is not to accelerate the rate of increase in national income, but to sustain it in the face of increasing difficulties as the period of reconstruction recedes into the past; to distribute the fruits of economic growth more widely; and to translate the increase in national income into decreasing unemployment.

It is by no means certain that the present plan will achieve these objectives. Even with optimistic estimates of employment-creation, it would take thirty years of investment at the planned level to eliminate unemployment. With more modest estimates of employment-creation the planned investment would not reduce unemployment at all. Moreover, while the estimate of capital-cost-per-job is reasonable, it is by no means pessimistic; indeed \$2,000 per job would seem to be about the minimum reasonable estimate for the kind of program which is proposed.

The Program as published avoids reference to the underlying ICOR estimates. It is perhaps better to state the plan in general terms than to rely too much on ICORs of dubious validity. But there is always an implicit ICOR in any development plan that gives both an investment program and an income target, and this implicit ICOR is very much on the low side, about 2/1. This figure is a highly optimistic one for a program with the complexion of the one proposed in the draft plan. The Second Indian Five-Year Plan has an implicit ICOR of 2.2, and most of its critics are agreed that even this figure is too low. Yet the Philippines Plan is more heavily weighted with high-ICOR projects than the Indian one. It is derived from a quite unwarranted procedure. This problem requires further study.

All these shortcomings are of the kind which can be eliminated in subsequent versions of the plan as the statistical basis is improved and experience gained.

Conclusions

Indonesia and the Philippines face common obstacles to economic development. In both countries the achievement of sustained growth requires drastic structural change, involving the development of industrial exports and import-replacing industries. To reach reasonably high standards of living for the whole population, the structural change must be carried to the point of reducing substantially the proportion of employment in agriculture and shifting to more extensive and more mechanized techniques in the peasant agriculture sector. This latter form of change is more pressingly needed in Indonesia because of the limitations on further expansion of agriculture sector. This latter form of change is more pressingly needed in Indonesia because of the limitations on further expansion of agricultural output on Java with present techniques, and the concentration of population on that island. On the other hand the problem of unemployment would seem to be more serious in the Philippines, and the social problems accompanying unbalanced growth would seem to be more severe. Indeed the Philippines problem is one of maintaining past rates of increase in income, while achieving structural change, reducing unemployment, and spreading the benefits of economic growth.

For the accomplishment of development goals, Indonesia seems more blessed by nature and the Philippines more blessed by history. Indonesia starts her planned development with a wide range of natural resources which permit balanced growth without difficulty. But she also starts with a severe lack of trained and experienced public administrators, entrepreneurs and managers, and technicians; with the hampering influence of extreme nationalism; and with the knotty problem of population pressure on Java, which

is closely related to the problem of political disunity that is now occupying most of the energies of national leaders. In Indonesia the main requirement for economic development is the achievement of political unity so that the government can get on with the job.

On balance, it appears that the Philippines is in a stronger position than Indonesia for early achievement of sustained economic growth. The country is less plagued by problems of stabilization. Both the internal and external values of the currency have been kept stable for several years, and the mild inflationary pressure that has developed in the past year is not cause for great concern. While there is pressure on the external value of the peso, it is of a kind which is related to the long-run necessity of structural change rather than to short-run fluctuations in the foreign exchange market. Thus the Philippine authorities need not devote as much time and energy to stabilization as their counterparts in some other countries, including Indonesia. They are free to concentrate on problems of economic development.

Second, because of the relatively high per capita income, internal financing of the lion's share of investment requirements presents relatively little difficulty. Foreign exchange must be found for the raw materials and equipment needed for development, but further cuts in luxury imports could provide most of that. The concentration of income and wealth presents social problems, but it can be converted into a source of strength from the standpoint of economic development. It means that high ratios of savings and investment to national income can be achieved without reductions in the standard of living of the masses of the people. In the Philippines, diverting 12 per cent to 15 per cent of national income to public and private investment

purposes, which is necessary to launch a process of sustained economic growth, can be accomplished without imposing hardship on any group, even in the short-run.

Third, the higher standards of literacy and education while they produce social problems when unaccompanied by an appropriate development program, can become a major asset if such a program is formulated and executed. A high level of literacy is the basis for quick and widespread results in agricultural extension work, manpower training programs, and other measures designed to raise manhour productivity. The importance attached to higher education, with some redesigning of university curricula, makes it easier to provide the flow of managers and technicians needed for relatively rapid industrialization. Moreover, perhaps because of the decades of association with the United States, Filipinos are a good deal more "technology minded" than many of their neighbours; there is less resistance to technical change and more interest in new techniques than in many underdeveloped countries.

Finally, and perhaps most important, the Philippines does not as yet suffer from population pressure. The rate of population growth is high, but the base on which it takes place is still small relative to resources. Accordingly, the Philippines has been granted a "breathing spell" which many underdeveloped countries do not have, during which higher levels of productivity can be achieved so as to permit a rise in national income significantly higher than population growth.

Together, these factors provide a basis for rapid economic development in the Philippines that few underdeveloped countries enjoy. It is a matter of seizing the opportunity before it is too late.

TABLE I. The Indonesian and Philippines Economies
(1955 Figures Unless Otherwise Stated)

	<u>Indonesia</u>	<u>Philippines</u>
Population	83 million	22 million
Area	576,000 sq. miles	116,000 sq. miles
Average density	144 per sq. mile	190 per sq. mile
Maximum density	1050 (Java)	(Luzon)
National income ¹	\$9,000 million	\$3,900 million
Per capita income	\$100	\$180
Agriculture income in % of total	55	40
Agriculture employment in % of total	60	70
Major exports	rubber, petroleum, tin coconut products, tea, tobacco,	coconut products, sugar, abaca logs and lumber, iron ore, chro-
Major imports	sugar, textiles, rice, paints and dyes, fertilizer, paper, iron and steel	mite, textiles, mineral fuels etc machinery, base metals, trans- port equipment
Exports in % of GNP	10	10
Net investment in % net national income	5	10.3
Public investment in % total	50	25
Current Government Expenditure % GNP	13	7.3

¹Converted at official rates

TABLE II. Structure of Indonesian, Philippines,
and Indian Development Plans

	<u>Indonesia</u>	<u>P. I.</u>	<u>India (Plan II)</u>
Total net investment in % of National Income	6	10.6	9
Public net investment in % of total	55	40	60
Private net investment in % of total	45	60	40
Current Expenditures of Central Government in % GNP	12	7.3	
Structure of Public Investment (%)			
Agriculture	13	8.5	11.8 ¹
Irrigation	11	8.0	7.9
Industry and Mining	25	23.0	18.5
Transport	25	25.0	28.9
Public Works (and other)	--	12.0	4.3
Public Utilities (power)	14	16.0	8.9
Social Development	<u>12</u>	<u>7.5</u>	<u>19.7</u>
	100	100.0	100.0

Source: Five Year Plans.

¹Includes community development