



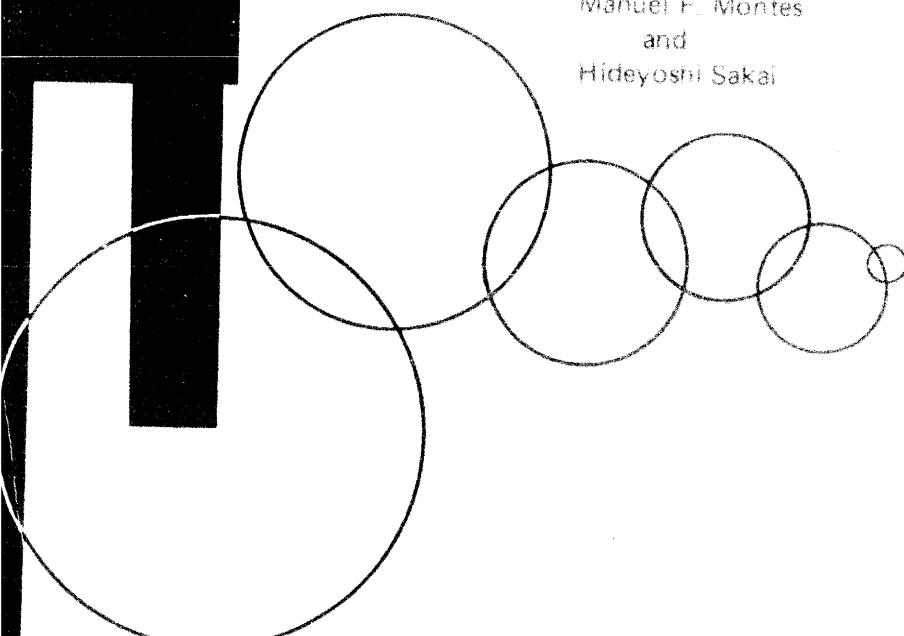
ASEDP No. 4

PHILIPPINE MACROECONOMIC PERSPECTIVE: DEVELOPMENTS AND POLICIES

by

Manuel F. Montes
Dante B. Canlas
Cayetano W. Paderanga, Jr.
Raul V. Fabella
Arsenio M. Balisacan
Hideyoshi Sakai

Edited by
Manuel F. Montes
and
Hideyoshi Sakai



Institute of Developing Economies
Tokyo 1989

PHILIPPINE MACROECONOMIC PERSPECTIVE: DEVELOPMENTS AND POLICIES

by

**Manuel F. Montes
Dante B. Canlas
Cayetano W. Paderanga, Jr.
Raul V. Fabella
Arsenio M. Balisacan
Hideyoshi Sakai**

**Edited by
Manuel F. Montes
and
Hideyoshi Sakai**

T3 BF

Table of Contents

Preface	i
Authors	ii
Introduction	iii
 Chapter 1. An Overview: Postwar Economic Development in the Philippines: Thrust, Zeal and Achievement by Hideyoshi Sakai	
1. Introduction	1
2. Postwar Philippine Development Plans	3
2-1. The Philippine Economic Plans, 1962-1967	3
2-2. Philippine Economic Program, FY 1967-1970	5
2-3. Philippine Development Plan, FY 1971-1974	7
2-4. Philippine Development Plan, FY 1972-1975	11
2-5. Philippine Development Plan, FY 1974-1977	14
2-6. Philippine Development Plan, FY 1978-1982	17
2-7. Philippine Development Plan, FY 1983-1987	21
2-8. Updated Philippine Development Plan, FY 1984-1987	22
2-9. Medium-Term Philippine Development Plan, FY 1987-1992	25
3. Summary and Conclusion	28
References	31
Annex I	32
Annex II	43
 Chapter II. Philippine Structural Adjustments, 1970-1987 by Manuel F. Montes	
1. Introduction	45
2. A Small Structural Adjustment Model	49
2-1. The Current Account and the Real Sector	50
2-2. The Capital Account and the Monetary Sector	54
3. Trends in Imports	58
3-1. Terms of Trade Effects	61
3-2. Structure of Imports	63
3-3. Import-Substitution Policies	66
4. Trends in Exports	67
4-1. Structure of Exports	68
4-2. Terms of Trade Effects	72
4-3. Export Promotion Policies	73

5. Trends in Foreign Financing	74
5-1. Patterns in Foreign Debt and Foreign Investment	75
5-2. Influence of Foreign Financing in Economic Policymaking ..	80
6. Political Constraints in Structural Adjustments	84
7. Overall Evaluation of Structural Adjustment Efforts	87
References	89
Chapter III. Fiscal and Monetary Policy in the Philippines: 1970-1987	
by Dante B. Canlas	91
1. Introduction	91
2. Macroeconomic Performance	92
3. Aspects of Government Behavior	93
3-1. Government Expenditures	94
3-2. Government Revenues	96
4. Budget Deficit and the Public Debt	99
5. Money and Output Effects	102
6. Money and Financial Intermediaries	106
7. Macroeconomics under the Aquino Administration	110
8. Some Contemplated Reforms	111
9. Conclusion	114
References	114
Chapter IV. Employment in Philippine Development	
by Cayetano Paderanga, Jr.	117
1. Introduction	117
2. The Philippine's Growth Record	119
2-1. Brief Review	119
2-2. Industrial Structure of the Philippines	119
3. Trade and Industrial Policies: Effects on Income and Employment ..	123
3-1. Brief Review	123
3-2. Control Period: 1949-1960	124

3-3. Decontrol and Devaluation: 1961-1969	125
3-4. Directed Strategy: 1969 to Present	127
4. Impact of Policies	127
4-1. Brief Review	127
4-2. Policy Impact, 1970 to Present	133
5. Interrelationships: Policies and Development	135
5-1. Output Growth	135
5-2. Employment Record	146
5-3. Public Sector Employment	154
6. Summary and Conclusions	156
References	159
Appendices	162

**Chapter V. Trade and Industry Reforms in the Philippines 1980-1987:
Performance, Process and the Role of Policy
by Raul V. Fabella** 183

1. Introduction	183
2. Major Trade and Industry Reforms (1980-1986)	185
2-1. Trade Policy Reforms	185
2-1-1. The Tariff Reform Program (TRP)	185
2-1-2. Indirect Taxes	188
2-1-3. Import Liberalization Program	189
2-2. Industrial Policy Reforms	189
2-3. Financial Sector Reforms (1981-1983)	189
2-4. Exchange Rate	191
2-5. Public Corporations and Privatization	191
2-6. Agriculture	191
2-7. Reforms under the New Dispensation (1986)	191
3. Major Players in the Restructuring Game	193
3-1. The Commitment Phase	193
3-1-1. The International Monetary Fund (IMF) and the Extended Fund Facility (EFF)	193
3-1-2. The World Bank (WB) and the Structural Adjustment Loan (SAL)	194
3-1-3. The Academic Technocrats	195
3-1-4. The Political Leadership	198
3-1-5. The Business Sector	199
3-1-6. A Happy Compromise	200

3-2. The Implementation Phase	201
3-2-1. A Dutch and Reverse-Dutch Disease View	201
3-2-2. The EFF (1976-1979) and the SAL (1980-1985) Years	201
4. The Academe in the Implementation Phase	203
4-1. The Rhetorics of Crisis	203
4-2. A Salvo for the Market	205
4-3. A More Positive Program	206
5. The Unfolding Scenario	208
5-1. Imports	208
5-2. Exports	211
6. Summary and Conclusion	211
References	213

Chapter VI. Philippine Agricultural Development in Historical Perspective

by Arsenio M. Balisacan	215
1. Introduction	215
2. Agriculture and Macroeconomy	215
3. Nature and Sources of Agricultural Production Growth	221
3-1. Patterns of Commodity Growth in Agriculture	223
3-2. Sources of Production Growth	225
4. Commercial Policies, Production Incentives, and Rent-Seeking in Agriculture: 1970-1985	227
4-1. Brief Review	227
4-2. Direct Government Interventions in Agriculture	227
4-3. Interventions in the Food Crop Sector	228
4-4. Interventions in the Export Crop Sector	230
4-5. Interventions on Livestock and Poultry	233
4-6. Interventions on Agricultural Inputs	233
4-7. Foreign Trade and Exchange-Rate Regimes: General Implications for Agriculture	234
5. Public Sector Investment in Agriculture: Social Returns and Some Political Economy Considerations	235
6. The Recent Policy Reforms in the Agricultural Sector: The First Three Years of the Aquino Administration	238
6-1. Brief Review	238
6-2. Comprehensive Agrarian Reform Program	240
6-3. Value Added Tax and Agriculture	241
References	243

AUTHORS

Manuel F. Montes

**Associate Professor and
Director for Research
School of Economics
University of the Philippines,
Diliman, Quezon City**

Dante B. Canlas

**Associate Professor and
School Secretary
School of Economics
University of the Philippines,
Diliman, Quezon City**

Cayetano W. Paderanga, Jr.

**Associate Professor and
Director for Fellowship and Graduate Studies
School of Economics
University of the Philippines,
Diliman, Quezon City**

Raul V. Fabella

**Associate Professor and
Director for Public Affairs
School of Economics
University of the Philippines,
Diliman, Quezon City**

Arsenio M. Balisacan

**Assistant Professor
School of Economics
University of the Philippines,
Diliman, Quezon City**

Hideyoshi Sakai

**Senior Research Officer
Institute of Developing Economies
Tokyo**