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PN- AAK- 428

A DEVELOPMENT PROGRAM FOR THE PHILIPPINES

REPORT OF A STUDY TEAM

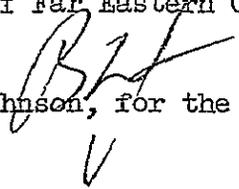
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JULY 31, 1961

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August 2, 1961

MEMORANDUM FOR: Mr. James R. Fowler, Acting Regional Director
Office of Far Eastern Operations

FROM:  Byron L. Johnson, for the Philippine Study Team

SUBJECT: Report of the Philippine Study Team*

Your Study Team is pleased to present the attached report, containing a development program for the Philippines.

In accordance with your instructions, the Study Team sought to learn from Filipinos what their hopes and plans for the future were, what steps they were taking to accomplish their objectives, what their problems were, what approaches were being taken to these, and what Filipinos thought the United States could or should be doing to assist in the acceleration of Philippine development.

After extensive preparatory study in Washington by part of the Team, and after Philippine study, travel and conferences by the entire Team from May 20 through July 14, we recommend this program as present priority in Philippine development.

Our report finds great potentialities for development in the Philippines. Both in human and physical resources, the country is ripe for accelerated development. This poses the fundamental question: Is it in the U.S. interests to accelerate the rate of progress in the Philippines? If the answer is affirmative, as the Team recommends, the cost is certainly within the capabilities of the U.S., for it requires a minimum of grants and a reasonable infusion of loans.

The chances for success of Philippine development move into high probability if the U.S. will now decide to provide leadership and support, suited to the tasks. The limitations which now hamper development can be removed as the U.S. Mission insists on a certain amount of rationality as the price of our participation. The structural reforms recommended in the report will help speed the process. The Team recommends that the U.S. Government agree to act favorably in support of this program.

We believe that this program reflects a substantial consensus of the views of informed Filipino leaders and that it provides a basis for a significant turn-around of the U.S. AID efforts in the Philippines.

The body of our report discusses the goals, the obstacles, the recommended program and the administrative action needed to implement the program. The Team has also prepared a series of appendices dealing at greater length with individual programs and special problems that it found.

Each of us joins in appreciation to you, to the Washington and field staff who were so helpful to us, to the many in the Embassy who lent us every aid, and especially to the Filipinos whose warm friendliness, and candid and courteous reception made the entire experience an unparalleled pleasure.

Attachment: Report - "A Development Program for the Philippines"

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I-1

A Report of the
Philippine Study Team

July 31, 1961

A DEVELOPMENT PROGRAM FOR THE PHILIPPINES

Chapter I - The Setting

Introduction

The Philippine nation has come a long way. The damage sustained during World War II is almost erased. The financial institutions have been growing rapidly, doubling in the past decade. New industry is in evidence; education is popular. There are more holders of some kind of college diploma in the Philippines than in any country save the U.S. Even the smaller towns have public and private schools. Schools run for profit, from tuition, are common and well patronized.

The population is not pressing heavily on resources. Although population growth is rapid, the country is so rich in resources that the growth can be easily absorbed. While much of the population seems not to move about, Manila is growing rapidly. The Island of Mindanao is receiving about 1,000 persons a week, one indication that its potential is being recognized.

The First National City Bank of New York, in its recent letter on the Philippines, is properly enthusiastic. It says, in part:

"Output in all sectors is rising; a restless spirit of progress pervades the nation There has been steady progress in the struggle to diversify production and strengthen the economy Foreign exchange reserves are being replenished The Government budget has been brought into balance Among favorable factors are bountiful natural resources, political stability, and a relatively high level of public health and education. The literacy rate is the second highest in Asia; mortality rates are among the lowest They have adopted free enterprise with its market-oriented economy The patent need is for investment capital to step up the development process.

"The Filipino people have responded well to the challenge of these formative years. They have achieved political stability and growing maturity of government. They have made continued progress in widening the economic base and improving living standards. They have willingly assumed international responsibilities The primary task now is to mobilize the nation's resources -- human,

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~~CONFIDENTIAL - EYES ONLY~~

./natural

natural, and financial -- in a concerted effort If present constructive policies continue, there is every hope that Filipino aspiration for a better life will be realized."

The Study Team did not attempt a detailed economic survey for two reasons. An IBRD Team was in the Philippines for that purpose during the same period, and its forthcoming report will no doubt provide an excellent current economic survey. Incidentally, the Study Team held informal consultation with the IBRD team, both in the field and in Washington, about many aspects of development in the Philippines. Secondly, an excellent historical analysis covering the major economic facts and issues has just been published by Cornell University Press. Persons interested in this background are referred to The Philippines: Public Policy and National Economic Development, by Dr. Frank H. Golay.

The U.S. in the Philippines

The peculiar history of Filipino-American relations provides a unique opportunity for effective cooperative action which could substantially influence all of Asia. Geography and history have both contributed unusual bonds of mutuality of great current value to both countries.

Four thousand years of individualistic Malay-Filipino tradition, 400 years of interaction with the Hebraic-Christian values of the Western World and 40 fruitful years of intimate participation in dynamic American life have uniquely equipped the Filipino for leavening the loaf of authoritarian Asian society.

Filipinos regard Americans as part of the same family. This dimension of deep and continuing sentiment has its roots in the Malayan bilateral kinship system very similar to Western European and American societies but very unlike other Asian cultures, and in the "compadre" system arising from the requirement of the Church for a co-sponsor of one's child during the Sacrament of Baptism. (See Appendix 2 for more complete discussion of the U.S. in the Philippines.)

Hence, Filipinos regard Americans as an intimate part of their family. They project toward them either fraternal or compadre sentiments with the network of responsibilities and obligations inherent in these sentiments. It would be difficult to overstate the degree to which this is a fact in Philippine life or to exaggerate the opportunities which these sentiments provide for effective Fil-American cooperative action.

When one Filipino friend, an editor and writer, said to us, "Do not underestimate your power here and do not hesitate to use it!", he was speaking of the depth of these sentiments.

The verity with which he spoke has been validated repeatedly during the last few years by various measurements of public opinion among

/legislators

legislators, university students, and the general population. The degree to which Filipinos have identified themselves with Americans and with the policies of the U.S. is startling. The degree to which official U.S. policies, programs and personnel have ignored this most elementary fact during the last few years is almost as amazing.

In all soberness, we need each other; each quite as much as the other. Our troops enjoy the use of Philippine bases. Our regional couriers are centered there. Our regional USIA press operates there. Our civilians participate profitably in their affairs. Indispensable elements for the defense of our mainland communities as well as the barrios and cities of the archipelago are there.

Therefore, U.S. purposes in the Philippines include the stubborn need that our sister republic not only prosper but move forward with vigor, releasing the creative potential of its people.

Ours is one of the really few choice relationships among peoples which magnificently transcend political ties, preferential treaties and military alliances. This relationship, established during the last 60 years, must be nurtured with wisdom and insight. To do less would be to betray both our heritage and our estate.

Whether we wish it or not, every Asian who looks to the Philippines sees not only the flag which is its own but also the Stars and Stripes of the U.S. In this fact there are inescapable obligations and opportunities.

This Study Team believes with conviction that creative policies and programs rooted in the historic depth of American involvement in the Philippines, in the warmth of personal relationships between our peoples, can enable our sister republic to project the American revolution into the fortresses of Asian oligarchy and imperialism.

Chapter II - Philippine Development Effort

The exigencies of war, the Japanese occupation, the widespread destruction, and the Huk movement after the war, all served to underline the urgency of concern for economic development in the Philippines. As a result of this, the Philippines have undertaken and accomplished not only a major task of reconstruction, but launched significant further steps in economic development. By Asian standards, great strides have been taken. By U. S. standards, much more remains to be done.

Philippine Goals

Planning.

The Philippines have a de facto plan, prepared by the National Economic Council, which has been serving as a general guideline to their development. Officially, the plan has not been formally approved by the NEC, but it is informally operative in guiding governmental action, and in influencing private action.

The NEC serves as the planning instrument. Its staff is of a high level of competence. However, the structure places limits on what can be accomplished. The NEC is a conglomerate board with a Chairman named by the President. (The present chairman, Dr. Jose Locsin, is a farmer-physician, an ex-Congressman and an ex-Senator). Majority and minority congressmen and senators serve, along with the Governor of the Central Bank, the Governor of the Development Bank, and public representatives from Industry, Agriculture and Labor. Other public officials sit in, as appropriate. The chairman serves on the fiscal policy committee of the government.

The NEC has some powers to approve foreign loans, but its success is largely dependent upon informal relationships between itself and the Budget office, upon the prestige of the Council in the Congress, and on the skill of the chairman and the staff in securing appropriate action in the private sector to accord with their plans -- in this they are aided by the bank representatives.

The NEC has not only the office of national planning, but also the office of foreign aid coordination, the reparations group, and an office of statistical coordination and standards. The foreign aid coordinator sits with the council. Officially, ICA operates with and through the NEC in its Philippine contacts, negotiations, and decisions.

The present emphasis of the NEC, according to the chairman, is to determine and follow up as governmental responsibility the priorities for infrastructure. The emphasis is also to encourage private sector activity in accordance with their priorities. Hence the encouragement to iron and

/steel,

steel, mining, chemicals, and power.

The NEC is now engaged in up-dating its plans and cost estimates.

The Philippine planning process is working but at less than maximum efficiency. There is reason to believe that the planning effort can be much more significant where the chief executive serves as the head of the planning unit. He cannot, of course, attend every meeting but his presence will be felt when he is absent.

The Philippine Government may wish to consider naming the President as Chairman of the NEC and it may wish to convert some of the present memberships into ex-officio, non-voting, and liaison status. Under the present structure, the executive function of planning will remain an open invitation to debate policy proposals in the wrong forum, and it confuses legislative and administrative staff roles. A better pattern might well be to create a separate presidential council of economic advisers and an executive planning organization, working closely together.

At this point it may be in order to enter a caveat.

The Study Team heard some critical remarks about NEC, contrasting it to the tight planning of the Government of India. This is a deceptively simple generalization which ignores the profound differences in social traditions and political operations between individual countries.

Peculiar and particular characteristics of the Philippine society are presented in Appendix 1. It is sufficient here to say that Philippine society is individualistic, non-authoritarian, almost anarchical; by contrast, Indian society is relatively collective and ordered. For thousands of years the Malay-Filipino family has been bilateral and extended; the Indian family unilateral and circular. Consequences of this ancient social structure in the Philippines result in a dynamic, shifting political scene, inherently individualistic and democratic. Legal and administrative power in the Philippines is indeed over-centralized; but actual political power is highly diffused and tentative. To the amazement of Latinos and neighboring Asians, the gentry seeking Philippine political office are at the mercy of the votes of their tenants, workers and servants.

Congressmen and governors are expected to deliver concrete governmental benefits to their localities or they may not be re-elected. Their opposition is always present, always vocal, and always campaigning to unseat them. Hence real political power rests with the provincial and municipal leaders. The political power of the President derives from his ability to hold the support of local leaders. Consequently, tight centralized planning and

/regulation

regulation is a political impossibility because of the essentially democratic character of Philippine politics.

Fortunately there is another kind of planning which is indigenously possible in the Philippines. It has a familiar American quality. This is planning for the release of the creative energy and imagination of individuals in the exercise of their private initiative in a free competitive economy.

The planning endorsed by the Study Team for the Philippines is of this kind, providing opportunities, releasing creative energy, establishing conditions and climate for economic growth and adventure, inviting participation of all Filipinos individually as managers or workers, or collectively as corporations or unions. On the broad outlines of this, they are doing quite well and with a modest amount of help along technical lines, in a few areas of interest, they will do very well.

Planning for Mindanao.

Attention currently is especially concentrated on planning for the development of the Island of Mindanao (an idea which goes back to the year 1936, at least), the plan which is in final stages of preparation will reportedly relate to all such matters as:

- Roads, bridges, ports, and harbors;
- Power, industrial and agricultural development;
- Water systems;
- Rural health units and hospitals, and malaria eradication;
- Education, school buildings, vocational schools and colleges;
- And other social and economic development.

The Study Team visited extensively across the Island of Mindanao, holding private and public conferences on development at Zamboanga, Iligan, Cagayan de Oro, and Davao. In addition, the Team visited Cotabato, and Marawa City, and observed much of the island from the air. The Team was deeply impressed by the richness of the agricultural and forest land, by the enthusiasm and drive of the people, by the abundance of power and mineral resources, and by the sense of adventure that permeates the island.

The recent passage of the Mindanao Development Act is a most favorable augury for the future of the island, which is the "new frontier" of the Philippines. The Team has full confidence in the wisdom of identifying this as a geographic area worthy of more intensive national interest in development.

However, the Team has taken as its focus the development of the

/Philippines.

Philippines. This report contains a program for the Philippines. Hence the Team does not recommend special attention to development in Mindanao except as part of national development. To choose otherwise appears a most unlikely course of action. Conditions among the Moros on the Sulu Islands may be more worthy. The destruction of forests on Cebu may be more serious. The population pressure in Luzon may be greater.

The Team hopes that the Philippine Government will make good, promptly, in Mindanao. However, the Team recommendations are directed at conditions throughout the country, not just at conditions on individual islands. Money to finance development on Mindanao will be forthcoming from the regular departmental budgets, from Japanese reparations payments, the IBRD, the Ex-Im Bank and other credit sources, for infrastructure and for power installations, inter-island shipping, and basic industrial plants. Public and private development spending and lending would accelerate the development of the region. AID grants and loans should be made at any given time, on the basis of priority status in the total development program of the Philippines, not just because of their regional location.

The Actual Goals

Typical Filipino response to inquiries about national goals were like Gompers' response as to the goals of labor, to wit: MORE.

Almost everyone agrees on priority for transportation to Unite The Islands, and on power to Light The Islands. Concern for improving production and income in rural areas is fairly widespread, but seems to suffer from substantial frustration because of repeated fumbles and failures in past official programs, such as promotion of rural credit, irrigation and fertilizer.

There is general recognition and agreement that a dairy industry and livestock promotion program (herds were drastically depleted by the war) would improve income and diets, and reduce the drain on foreign exchange for these purposes, thus indirectly contributing this support to the development process.

Almost no mention is made of education and health as goals for immediate attention (except as these relate to population growth and population movement to Mindanao), and little attention is given communications. Indeed, even when asked about education outright, most respond that there are plenty of trained or skilled manpower, or that ample facilities exist to complete any needs that arise.

Some attention is given by local officials and businessmen to the improvement of public services, especially policing in areas where banditry and piracy are being practiced.

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In the industrial sector, attention is most frequently focused on power, iron and steel, chemicals (especially fertilizer), mining, and petroleum.

The Philippines have had a period in which they made substantial public investment in industry, partly because the private sector was hesitant. The record of operation has been sufficiently spotty so that private management of many of these public investments is now being secured, and new private development is generally welcomed.

Major Obstacles and The Strategy for The New Program Political and Economic Obstacles

The chief political and economic obstacles to the accomplishment of the goals of the Philippines appear to include inadequate capital, over-centralization of government, and controls that inhibit development. Each of these will be discussed in order, together with the steps necessary to overcome these obstacles.

Capital Needs.

The need for capital is felt in all sectors. However, it is especially significant in the development of transportation and power, for without these, the development of industry, mining, agriculture, forestry, and all forms of commerce are delayed. PAL, the Philippines Air Lines, is prompt, efficient, and almost everywhere. It does very well on a modest investment. It is a natural development in an archipelago of more than 7,000 islands, over 800 of which are inhabited. But the highway system is incomplete, and the secondary, feeder, and farm-to-market roads are very inadequate. Rail lines are even more inadequate. Although the islands have the greatest highway in the world, which needs no maintenance -- the seas -- their ports and docks are inadequate, ships too few, and rates too high. Practically everyone mentioned that it costs less to ship from the United States to Manila than from Manila to outlying Philippines ports! Civilization follows transportation, and transportation builds markets.

The great power potential in the Philippines lies in falling water. Almost every island is really a mountaintop. Hence, the larger ones include great hydro-power potential, of which little is now exploited. Low cost hydro-power is essential, and could greatly accelerate economic development. Only limited amounts of coal, oil, and gas have been found thus far.

Capital is needed for both the basic purposes of transport and power, as well as for other development.

/Improving

Improving Capital Formation

Capital is the product of many forces. Development loans or grants should be the last resort, after every reasonable effort has been made to generate capital by internal financial practices, by import substitution or reduction, by export expansion, and by the attraction of foreign capital.

Filipinos fully understand that domestic capital is needed to pay for local labor and material, and that foreign capital or foreign exchange is needed in procurement of goods and services from countries overseas, for the external components of a development project.

1. Mobilizing own capital.

In recent years the rate of growth of investment funds through banking and insurance in the Philippines has averaged almost 15%, which indicates that much is being done. Mutual funds are also growing; yet savings and loan associations, credit unions, and various types of savings banks are barely known here. Active promotion of such additional forms of savings generating institutions would help teach the virtues of thrift, the sanctity of contract, and the need for monetary integrity. By ridding the country of currency controls and of the export tax, and keeping tariffs to the minimum, it is likely that more of the earnings from exports would be available for use in development.

The Central Bank has shown substantial sophistication in the handling of the money supply. The current high level of unemployment has caused the Bank to look with favor upon expansion of private and public credit. The Central Bank is the prime buyer of government bonds, so that public deficits are almost entirely equivalent to new money. Insofar as this course of action can be used to generate capital, the government is competent to use it. Events during 1959 and 1960 show that it is equally capable of credit restraint to fight inflationary tendencies as these develop.

The tax structure suffers from weakness in assessment and collection, especially of the property tax, but also, reportedly, of the income tax.

It has been suggested that AID might help by support for aerial mapping, to be used in conjunction with land mapping for both title registration and property tax assessment. If in addition, the local units of government had a larger interest than the 10% of yield now shared with them, the property tax yield might be significantly improved, and finance more public capital.

Income tax compliance might be improved in conjunction with a shift in the public works budget from "pork barrel" to shared revenues, so that taxpayer morale would not be hurt by what appear to some to be waste and abuses. (Discussed at greater length under decentralization, below.)

2. Import Reduction.

The supply of capital in the form of foreign exchange needed for machinery, etc., could be substantially improved by encouraging the production within the Philippines of those items now purchased outside, but easily capable of being produced internally. Foremost among these are foodstuffs. Notwithstanding the productivity of the soil, Filipinos are buying foreign rice, at times, as well as dairy products and meat. Though next to the sea, they also buy fish.

Feed Filipinos First ought to be the cry. Actually, the country is approaching self-sufficiency in rice. And it is just beginning to launch a dairy industry, with government encouragement. The beef cattle industry is getting a new start. Cattle shortages arising from the wartime slaughter caused President Magsaysay to secure passage of a law prohibiting slaughter of the carabao, the ubiquitous water buffalo. This animal is a docile cow, slow but willing draft animal, and practically a children's pet. Its milk yield is small. Not very efficient for milk, work, or meat, it does well as a compromise.

Pigs and chickens are getting increased attention, aided by past technical cooperation projects. These have now caused an increased demand for corn -- which, in abundance, can be also an export crop to Japan.

The Filipino's favorite way to fish is from fish ponds, traps, with nets, and with dynamite! The Moros are good fishermen, but do not have training or equipment to become commercial fishermen in major quantity. The widespread use of dynamite is deplored, but continuing. Every hospital near the sea has its maimed fishermen. The method is opposed in theory and by law, but continues notwithstanding that it destroys fish yields for the future. Some estimates are that only 10% of the kill are harvested.

Yet a floating fish cannery, secured as reparations from Japan, sat unused, together with tender boats, in the Manila harbor for so long it was a scandal. Finally, the canning equipment was removed, so that the boat could be used in inter-island shipping! Perhaps a technical cooperation program from Japan, Okinawa, or Iceland might be tried. If the Moros could become interested, this would be a significant industry to develop among the Sulu tribes, who are by-passed in most discussions of development.

Total food imports exceed \$70 million annually. Most of this could be avoided with improvement in Philippine agriculture. The single most significant improvement would be more widespread use of fertilizer -- preferably manufactured within the Philippines. Mechanization will also increase yields by as much as 60% in rice, according to one planter. Mechanization is slowly coming, but it should not be forced, at least until a labor shortage replaces the present unemployment. Irrigation development

/in

in the dry areas is getting government encouragement, and had ICA encouragement. The need for capital shows up here, too, in requests for pumps and pipes.

The development of their own iron and steel mills will greatly save on imports, as will development of oil and gas potential.

3. Export Expansion.

Sugar provides \$120 million of the \$530 million earned in 1959 from exports. Oil seeds, nuts, and kernels provided \$143 million (largely copra). Wood, lumber, cork, and wood products earned another \$100 million. The few large sugar interests have been complaining about their sugar quota -- they would gladly supply more, if the increased quota could be assured over a period of years. Philippine abaca sales are down from pre-war, and they could increase this production. Fertilizer would sharply increase copra yields without planting additional trees -- but oil seed demand may not warrant heavy increases here.

Rubber trees in the Philippines are high yield trees. This might be encouraged, at the outset for domestic use, and later for export as world demand increases.

Philippine mahogany makes up into beautiful plywood and other lumber products. Their hardwoods are among the best and toughest in the world. The 12-months growing season frees their trees from sharp growth rings. They have bamboo of a type that can get as much as 100 feet of growth in six months (shades of Paul Bunyon!), and makes into pulp and paper. Bamboo can also be split and treated into a fine hardboard, at low cost. Lumber, plus lumber products, now earn about \$100 million in foreign currency, and could easily yield more. But flights over the islands show great areas of slash cutting, of burning of hillside timber stands -- merely to grow crops worth far less than the timber yield. Watersheds are already being damaged badly, and floods are increasing.

Forests for Philippine's Future must become the theme of a much stronger conservation program. Official policy is swinging this way, but requires a much more zealous effort if these earnings are even to be maintained, to say nothing of being increased.

Young people, especially Boy Scouts, are being recruited for reforestation. But the Kaingeneros, a tribe that systematically burns forest cover to plant crops for a few years in virgin soil, and then nomadically moves on (having, perhaps, been paid to change forest land into agricultural land), are doing more damage than can be undone by reforestation.

/The

The President has recently recommended a Philippine Youth Corps, patterned after our CCC, to work in just such a program. Passage in the next Congress is expected.

Loggers complain of encroachments, of squatters, and of carelessness. Short-term leases have caused many loggers to slash cut, rather than practice sustained yield forestry. Present policy is to favor longer term leases, to secure better practices. But none of the revenue from logging goes to local governments so these often favor changing forest land into agricultural use. And the politicians always favor the larger number of voters, even if squatters. Hence; it may be essential that the forest tax be increased and shared with local government so that local officials are encouraged to take the "Long View", and support Forests for Philippines Future.

Iron ore is leaving here for Japan, and much more export of minerals can be expected in the future. A great laterite deposit contains a rich nickel supply along with iron. Molybdenum has been found here, and much mineral wealth is yet locked in these volcanic hills. 85% of the U.S. chromite supply comes from the Philippines, and ICA has proven an additional 4 years supply to the 10 years otherwise known. Exploration continues. Much could be done to expand mineral exports by further exploration, and by laws that would favor more foreign capital for this purpose.

4. Private Foreign Investment.

It is alleged by various persons who should be in a position to speak authoritatively that various potential foreign investors, including American firms, have been unwilling to invest in the Philippines at this time, largely because of the exchange controls. Naturally, any investor would like assurance that he could transfer earnings back home, on a reasonable basis free of discretionary controls and similar assurance as to his right of repatriation of capital.

The official climate of opinion favors legislation that will help clarify rights of foreign investors, and upon the final step of currency decontrol, the willingness of investors to come in should be much greater. Oil and minerals are among the most likely to attract attention, along with chemicals and fertilizer.

5. Foreign Assistance -- Grants.

There is only a limited demand for grants either from government or other interests at this time. A discussion of priorities for remaining grant consideration appears below.

/Foreign

6. Foreign Assistance -- Loans.

There is significant demand for foreign loans, and a willingness to absorb substantial sums in basic utilities, basic industries, and some infrastructure. There is a recognition that these loans are needed only for the portion of the activity that cannot be financed out of pesos. With the attention already being given to reduction of imports, and expansion of exports, there is every reason to be optimistic about the ability of the Philippines to support significant additions to their foreign loan account at reasonable terms.

Overcentralization

The Philippines is a highly centralized government; notwithstanding the instructions of President McKinley to favor local government, the U. S. authorities perpetuated the Spanish system of high centralization. When power was handed over to the Filipinos, they carried forward the same patterns -- some would say they immediately added to the centralization, especially in education.

The United States cannot and does not try to make all its decisions in Washington. Our Federal-state-local system encourages widespread diffusion of decision making. It liberates and energizes any nucleus of creative people in any given community. In recent years the program of community development, started under President Magsaysay, has resulted in giving to the barrios (little villages), to the cities and the provinces the beginnings of autonomous power to tax and spend, which is the essence of governmental power. Manila and a few other cities have charters giving them significant independent power. But as a rule, so much has to be decided by the central government that the habit of looking to Malacañan, (Philippine executive offices) is encouraged rather than discouraged. Initiative and self-help are virtually prevented by the structure of government.

The United States has itself to blame for the heavy centralization of this government.

Decentralization of Government.

With the appointment of the Presidential Assistant on Community Development (PACD) in 1956, and the passage of the Barrio Act of 1960, there is a most significant, if modest, beginning of the process of decentralization. The little village which is the barrio, is a gathering of people who walk out to their farm land, or work at village or even cottage industries. These barrios are now given 10% of property tax collections. But assessments are so low, and collections so poor, that this gives them very

/little

little real financial support. Most of the improvements that barrios are now undertaking are the joint product of local labor voluntarily mobilized by the barrio, and materials contributed by PACD out of ICA support and growing Philippine national budget appropriations.

The real importance of this community development is that it is encouraging the habit of self-help and local initiative. But it needs much more encouragement, help in the form of broader powers, and training in the process of self-government. The excellent field staff of the PACD are acclaimed widely throughout the country, except by the other government agencies of the national government who are a bit jealous of encroachment on their own powers and functions.

ICA help to PACD is being phased out, and this agreement should be kept, because this program ought to be supported by national and local funds. The final contributions by ICA may be treated as a loan fund by PACD, in order to maintain it intact as a pool of aid through loans. In this case, it may be appropriate to place additional pesos, generated through PL 480, into such loan fund, as evidence of our continuing interest in PACD.

The Poblaciones, or larger communities (small cities) need similar strengthening. Both barrios and poblaciones are within the structure of the provinces. The cities in the Philippines become independent of the provinces, and operate directly under the national government. As a result, the cities recognized by law here are among the largest, in area, in the world. A city may embrace quite a number of barrios, and even poblaciones. In that sense, a city is really an urban province -- and may be free from the annexation problems that plague American cities.

The public works budget of the Philippines is called, officially, the Pork Barrel bill. The funds are appropriated to each Congressman, to allocate among claimants within his district. However, the release of these funds is within the discretion of the Malacañan. It is alleged that members of the minority parties have more difficulty in securing their share. One waggish politician observed to the Study Team that the title meant that while the politicians get the pork, the citizens get the barrel. This item is roughly 30% of the national budget.

Clearly, decentralization in the Philippines means that the responsibility for more of the basic functions of government must be given to the lesser units of government in conjunction with appropriate changes in government budget policy. It may be desirable to have some grants-in-aid from the central government, but the bulk of the funds ought to be raised by the local units of government. A possible solution might take this form:

/a. Give the

a. Give the local units a larger share of certain central government tax collections -- say 50% of property taxes, and 25% of income taxes, and make other adjustments that would encourage taxpayer compliance and encourage local support for effective collections.

b. Abolish the pork barrel, and transfer the bulk of responsibility for secondary roads, water supply, policing, ports and bridges to local governmental units.

c. Give the local government independent tax power to permit them to go beyond the national support levels in public functions, and to undertake such added functions as they wish to support.

d. Permit every city to have its own port authority, and pledge port and wharfage fees in support of local bonds or port outlays. The national government could keep responsibility for any port that was not organized as a local authority.* But if the local authority was responsive to representatives of exporters, importers, shipowners, local government, and the community at large, it can be expected that each local authority would improve its own harbor and port just as quickly as circumstances warrant. Now, the local interests must await national budget action, and the public works budget for all port purposes is only some 20 million pesos generated from fees and charges. Local authorities should be given permission to alter fees and charges to meet local needs.

e. The national government now finances the entire cost of operation of the elementary school (first four grades) -- wherever local officials have provided a school building. Local government finances a 2-year intermediate school, and a 4-year high school, but mostly out of tuition. If local units had better tax sources and powers, they could improve education. Now if the central government considers any improvement, it must consider the cost nation-wide. If local units would be free to add to national levels, there could be substantial improvement in educational activity, and raising the standards in those areas that wanted to go ahead of national standards.

Every effort should be given to improving the quality of education, including the adoption of accrediting practices.

One of the areas for which grant assistance has been mentioned is public administration. A.I.D. assistance in support of decentralization,

/and

* As illustrative of attitudes, a bill to permit Manila to have its own port authority was rewritten in committee to create a National Port Authority. The bill was dropped, and the government will start again.

and help to institutions that will continue to build patterns of stronger local democracy, self-help, and local initiative are worthy of support.

Controls

Significant patterns of control have been developed to protect the limited supply of foreign currency against the high propensity of the Filipinos to consume luxurious foreign goods. This practice is aided by a highly liquid money supply (45% is currency), by the evident habit of conspicuous consumption, by the inordinate wealth of certain landed interests and traders, and by the lack of a strong sense of responsibility to use wealth for the good of the whole community.

The most important present control is the requirement for approval by the Central Bank of any expenditure of foreign exchange and of foreign loans. A second control is anti-alien legislation; the success of the Chinese merchants has fed a widespread opposition to them, and leads to such anti-alien legislation. Although Americans enjoy equality of opportunity for another 13 years, the Filipino First movement has also led to legislation preventing any new foreign banks, to requirements for Philippine participation in ownership and management of concerns. Uncertainty as to the application of controls in future remittance of earnings and repatriation of capital are frequently cited as limitations on foreign investment here.

There is a further control in the form of a tax upon exports. This has encouraged forms of smuggling of exports out of the country, easily accomplished with so vast a coastline. This, in turn, has encouraged piracy. The differential exchange rates are open to serious criticism. Theoretically, the peso is rated at 2:1 with the dollar. Most exports are given 2.75, while the official exchange for imports is 3:1, with an added 15% tax. The black, or free, market rate of 3.45 up to 3.75, therefore, means there exists adequate incentive to try to earn dollars or other foreign exchange by underestimating shipments out, and hiding the dollars out of the country.* So long as the central banks persist in supporting differential rates, in which preferred imports get to buy dollars at 2.75, while others pay 3.45 or more, there will be difficulties. x

The consequences of these controls is, of course, significant evidence of graft and corruption, both to take advantage of the opportunities they present, and to "expedite" favorable governmental action.

/Decontrol

* Estimates of the extent of such evasion run as high as 25% of exports: This would mean that the real loss to the economy through hidden export of capital exceeds \$100 million per year!

Decontrol

The official position appears to be that by 1964, there may be full decontrol, or a unitary exchange rate instead of multiple rates, and full convertibility. To wait three more years ^{1/} puts an un-needed damper on business activity, and permits a perpetuation of a system that provides a built-in incentive for favoritism, including favoritism purchased by those wanting it. Some who favor decontrol in theory worry about the importation of luxury goods that would follow decontrol now, and they would either wait, or impose "safeguards".

A single exchange rate, with open access to foreign currency, would give exporters a greater incentive to export, and would build into the economy the added capacity to service foreign loans. At the same time, ending the preferred rate for some importers would provide the brake upon imports that is sought.

With decontrol, it is expected that the Central Bank would allow the exchange rate to find its own level, now expected to be between 3:1 and 4:1 for the dollar.

Philippine authorities should be encouraged, instead, to move immediately to full decontrol rather than "cut off the dog's tail by inches". The IMF, or the U.S. if need be, should offer adequate standby credit to absorb any large short-run rush for exchange so as to prevent wild swings in the exchange rate. The Central Bank should be assured of help in an orderly transition to the exchange rate that market forces will produce. No single act would be more beneficial at this time to the economic development of the Philippine economy than immediate decontrol with this assurance.

The suggestion that luxury goods importation could be prevented with tariffs is to ignore the facts of geography. These seacoasts cannot be patrolled. If sumptuary taxation is needed, it should be upon all consumption of the disfavored type, whether domestic or foreign in origin. For example, if large cars are to be discouraged, a graduated tax upon horsepower or weight, levied annually, would be sufficient. And it could be enforced through annual licensing.

There are those who would still want to place some tax upon exports --and fail to see that this will often continue in hidden form a differential exchange rate, encourage smuggling, interfere with the growth of foreign exchange, and, therefore tend to fail of its purpose. If there are unearned

/increments

^{1/} Many expect another major step next year, but couple this with talk of "safeguards" that would open the door to a new set of controls, and continue their present problems in different form.

increments, these should either be accepted as the price of the shift, or sought out by better enforcement of income and estate taxes. Geography laughs at taxes upon either imports or exports in this archipelago.

However, reduction of tariffs, and abandonment of the tax on exports, will work a hardship on the budget. New revenue measures must be enacted as part of the decontrol program.

Decontrol, along with decentralization, are major structural reforms that will serve both to end major incentives to graft and corruption, and liberate the creative powers inherent in the business community. These would permit and encourage the talents of businessmen to be employed in more productive ways than simply outwitting public servants, or buying their favors.

Socio-Political Obstacles

The chief socio-political obstacles to economic development can be functionally described as inadequate sense of community, inadequate distribution of wealth, inadequate hospitality for the innovator, inadequate education for a democratic future and inadequate estate for citizens of the future.

Filipino leaders and citizens are unanimous in their intention to fashion their society upon the principles of democracy and social justice as they have known them during this century, participating in the dynamic American Community. They propose to achieve a Community of Filipinos who share mutually accepted goals and mutual concerns for their common welfare. And they are doing the right things to accomplish their goals.

Hence, their inadequacies are only measures of the job ahead. In many ways they are faults of their virtues as will be described in Appendix I. The Study Team found nowhere in the Philippines the sense of desperate urgency which was present everywhere ten years ago during the visit of the Bell Mission. Their most important decade of development is already behind them. However, the socio-political problems which do obstruct their intentions, need to be identified and certain proposals for action suggested.

Inadequate Sense of Community

The basic reason for an inadequate sense of community among Filipinos is their bilateral extended family which commands almost exclusive loyalty of its members. Historic reasons are the ethnic and linguistic differences of the groups which migrated into the islands and maintained their distinctive qualities; and finally, the feudalistic 'encomienda' system by which Spain exercised her control of the indios.

The bilateral, extended Filipino family will be described at some length in Appendix I. Adequate understanding of this unique Malay-Filipino institution is imperative for those who would live and work among Filipinos.

/It is

It is the source of some of the most important characteristics of Filipino life. Be it said in summary that it is an obstacle to a lively sense of community because of the exclusiveness of loyalty given to it by its members; preventing identification with other important groups at local or national level.

Fifty-five different ethnic groups have been identified as now resident in the Philippines in a total land mass area about the size of Louisiana. However, they are merging rapidly into what is known as "the Filipino blend". About 85% are "mestizo" -- have distinctive traces of Spanish, Chinese or American qualities.

Seventy distinct languages are used in the islands; 137 different dialects. However, the majority, being almost all the "Christian lowlanders", speak either Tagalog or Visayan and English. "Filipino", basically Tagalog, is spreading rapidly through the use of press and radio.

European feudalism of the 16th century was exported by Spain for control of its colonies in the Americas and the Philippines. With the isolation of Spain from the mainstream of affairs after the defeat of its Armada, and the geographic isolation of the Philippines, this anachronistic institution continued through the last century in Luzon and the Visayas of the Philippines.

King Phillip had been commissioned by Popes Alexander and Adrian to Christianize the indios. To do this, he sent the "friars", members of the missionary orders. Although the Council of Trent (the internal Catholic reformation) had forbid parish work without episcopal supervision (hence members of the orders could not serve parishes), an exception was made in the case of the Philippines. This resulted in de facto control of the Philippines by the friars which they successfully maintained, against the best efforts of the Crown and Archbishops to discipline them, because of their alliance with the Caciques (land-owners). This unfortunate and unhappy alliance of power resulted in the execution of three Filipino priests, Fathers Burgos, Zamora and Gomez, (who were agitating for greater Filipinization of the clergy in 1872) and of Dr. Jose Rizal (a gentle doctor who wanted only simple social justice) in 1896. The inevitable revolution began almost immediately. Admiral Dewey arrived May 1, 1898 and sank the Spanish fleet in Manila Bay before breakfast. After a brief unpleasant misunderstanding, the Filipinos achieved all and more than they had expected from Spain, by their participation in American life and society.

However, the anti-clericism which had resulted from friar abuses (which had been perpetrated against the specific orders of both Crown and Church), is deep in Filipino life. It sets Filipino against Filipino. Within the Church there is great suspicion of ecclesiasticism. Accommodation between the Church and other religious communities (about 40% of the population) is barely minimal. This unfortunate factor in Philippine society will delay unqualified commitment to common goals and purposes.

./Nevertheless,

Nevertheless, there are many positive and creative programs of action which are binding Filipinos together. The most effective single instrument for neutralizing tensions among peoples is public education. The public school is the pot in which differences are melted. This has already been true in the Philippines as in the United States. The public school is non-elite, non-class and non-sectarian. Public education in the Philippines, from kindergarten through University must receive first priority attention.

Accelerating the use of both English and Filipino (Tagalog) languages will bind Filipinos together, enable them to communicate with their heritage, both Malay, and Western (European-American). More efficient teaching of both English and Filipino is already underway. These efforts must also be supported as priority programs.

Decentralization of political administrative authority to barrio and municipality will persuade Filipinos that their family welfare can best be secured through participation in local community activities. Concern for the welfare of the larger group will reduce the exclusivism of family-centered loyalties and develop a sense of the larger Community.

These and similar programs are of major importance. Because without community there is no security, no progress, no hope for tomorrow. Without community each man has only himself, his family and his fear of others.

No single social factor is so determinant a pre-condition of economic growth and development as a community of men, freely and voluntarily accepting mutual responsibility for the common welfare. The validity of this is perfectly clear in the record. No authoritarian government, devoid of the lively sense of voluntarily accepted responsibility for common goals, has ever provided more than survival essentials for its citizens.*

Inadequate Distribution of Wealth

The encomienda system of socio-eco-political control, mentioned above, concentrated wealth in the hands of the cacique, doomed the tenant to perpetual poverty and prevented the development of a middle class of Filipinos. There were great changes during the period of American administration, including land-reform legislation in the 30s. Following the war, the caciques (Spanish mestizo) and commercial class (largely Chinese) set out to recoup their losses. Independence seemed to bring retrogression. But not for long. Filipino individualism, latent in his heritage and nurtured during the American period, asserted itself. One expression was the rebellion of the Hukbalahop guerrillas under communist direction, coordinated with other similar efforts in all countries on the perimeter of Asia. Other positive efforts were made through constitutional processes. But by 1950 the situation was desperate.

/The Bell Mission

* See Economic Development, by Benjamin Higgins, pp 10, 22, and others; and Politics of Developing Areas, edited by Gabriel A. Almond and James F. Coleman, pp 534, 537-8, 542, 564-8, 579.

The Bell Mission reported to President Truman that "the inequities in income in the Philippines, always large, have become even greater during the past few years. While the standard of living of the mass of people has not reached the pre-war level, the profits of businessmen and the incomes of large land-owners have risen very considerably." Legislation was recommended to protect the tenant, provide credit for the farmer, establish minimum wages, encourage trade unions (free from Communist, government and management interference), provide workmen's compensation, social relief for the needy, unemployment insurance and a public employment service.

With any fair historic perspective, it must be reported that the Philippine response was amazingly dramatic and effective. By 1955 it had achieved all these things by constitutional processes. It was as great a social revolution as our own during the depression years. This encouraging movement will be described more completely in Appendix 1. In summary, it may be said that minimum wages are paid by all of the larger employers; no major union is under either communist or management influence; compulsory arbitration is long past; tenant rights are secured through a variety of programs, most effective of which is the Tenancy Mediation Commission and the Court of Agrarian Relations. Indeed, both worker and tenant are well on their way to becoming an "elite" group with genuine political power in Philippine society. The Philippines is the only new nation where the landed gentry must court the votes of their tenants and servants in order to exercise their political proclivities.

Inadequate Hospitality for the Innovator

Economic decisions by members of a family-centered society tend to be conservative. An authoritarian climate discourages differences. So, even today, there is hesitation among Filipinos to be first to be different. Yet, economic growth depends upon some persons and elite groups functioning as innovators. This was described to members of the Team very cogently by the "young bucks" (as they are called) who organized and financed Filoil and other joint stock companies. Until eleven years ago, no corporation in the Philippines was other than family in control.

However, the Study Team did find in almost every town and city outside Manila, a group of young businessmen with ideas, some resources, and great impatience at the lack of attention to the "provincianos". It may well be that these dissatisfied young entrepreneurs will be the group motivated to really try their wings. They do not come, for the most part, from the older cacique families. The sons of caciques have long since gravitated to Manila. These are men whose families were usually set-up or encouraged by some American business man, who have some resources but are filled with ideas as to what to do with opportunities in their areas. And they know their areas much better than do the "wheelers and dealers" in the capitol city.

Consequently, the Study Team urges greater attention to this group. They are not quite so sophisticated, so they shall require assistance in

/preparing

preparing and presenting loan applications, for instance. But they are closer to the rich resources of the islands; they know their own people better. And most importantly, they are now feeling left out -- one excellent motivating ingredient in innovation.

The simple requirement that U.S. Assistance Lending be geographically spread -- and that loan officers be put on wheels to accomplish this -- might be the most important single factor in releasing their vigor, energy, and dissatisfaction. And what an excellent way this is to balance the growing political power of the "young bucks" in Manila. As attractive as they are, they do lack some virtues possessed by the "provincianos".

Inadequate Education for a Democratic Future

Consideration has already been given to education as the pot in which tensions separating Filipinos can be melted down. Focus upon education is again made partly for emphasis and partly because there are considerations which must be given to the particular function of school and university in economic development -- the adequate provision of manpower.

The Study Team is convinced that it would be impossible to exaggerate the value of non-elite, non-class, non-sectarian public education in the Philippines. The most magnificent monument of the United States in Asia is the Philippine Public School System. Its deficiencies are not of concept or neglect. Public education simply was not extended sufficiently into the Secondary School and Higher Education levels. The ratio of primary school enrollment to population in the Philippines is 2:9. (1:4 in the U.S.) Almost all are in the public schools. However, the converse is true of secondary school and university.

The demand of Filipinos for education since the end of the war is phenomenal. The number of Filipinos enrolled in colleges and universities, and the number holding degrees of some kind, in ratio to population, exceed that of any country in the world except the United States. The demand has far exceeded the capacity of government to provide facilities. Hence, schools beyond elementary level are private or parochial. The quality of teaching is inadequate according to all reporters.* Science teaching is woeful because it is too expensive to be financed from tuition. The private universities, widely known as "diploma mills" concentrate almost exclusively upon the traditional professions and government service. One Filipino estimated that for every job in government service there are 11 students preparing for it. Filipino leaders in education and business are aware of this problem and distressed by it.

/The Study Team

*Reference is made to: A Study of the University of the Philippines, by Hannah, Middlebrook, Reeves and Hamilton, published by U.of Philippines, April 1958; Higher Education in the Philippines, by A.L.Carson, U.S. Office of Education; and A Survey of the Public Schools of the Philippines - 1960, by joint team under the leadership of J.C.Swanson, by Bur. of Public Schools, Government of the Philippines.

The Study Team suggests that an outside Manpower Study be sponsored, not by a government agency, but by a Filipino business group such as the Chamber of Industries. They are the ones who have the greatest stake in having adequately trained manpower. They could give force and publicity to such a study and create a demand for necessary changes.

Encouragement and assistance should not be given to boards and institutes separated from the Department of Education and the public University which raid their personnel and detract from their functions. The Study Team viewed with grave concern assistance to the National Science Development Board. We would insist that to qualify for any further grant assistance it must be returned to the University of the Philippines so that its personnel may be restored to their classrooms and laboratories.

These proposals are intended for consideration as strategy for overcoming some major obstacles to economic development.

Inadequate Estate for Citizens of the Future.

The measure of population increase as established by the Census of 1960 of the Philippines was startling to many Filipinos. For several years the United Nations Demographic Reports had insisted that the Philippine census figures were in error. Consequently, when the preliminary figures of total population of 27.5 million was released, it was apparent not only that many Muslim and tribal peoples had been counted for the first time, but also that the rate of growth figures of the UN Demographic Mission were more nearly correct. Rate figures now given, although the census analysis is not yet completed, range from 3.2 to 3.7, with some feeling that it may be as high as 4.0. As an illustrative measure, Filipinas 45 years old have given birth to an average of 7.1 children.

Regardless of what the refined figures may be, the Philippines will have a population of 50 million by 1975 at the latest. Although there are still open lands for food production, Filipino leaders are now concerned. Vice-President Macapagal published an article on the problem in the Annual of the Manila Times, Progress - 1960, in January of this year.

The Study Team reports this population explosion, probably the highest rate in Asia, not as a present obstacle to economic development but as a potentially serious one and as a reason for urgency in stimulating the rate of economic development.

There are already processes at work in Filipino society which will tend to reduce the size of families. Industrialization with its social security, pension plans and higher incomes will provide security for the future other than that of a large family. Increasing enrollment in schools and universities will delay marriages beyond the point of greatest fertility and will shorten the period of fertility. Increasing employment of women, already significant, will almost automatically limit child-birth rates.

/And the

And the physical mobility of population required by a developing economy, bringing people to plants established at the sites of raw materials or power, will break up the extended family. Too many children in a home without grandparents will not be quite the comfort they are in the quiet barrio. Finally, with increasing sophistication, the personal choices of Filipinos for family planning will be made consistent with their culture.

The Study Team believes that these are the major socio-political obstacles to economic development in the Philippines; that many of them are faults of Filipino virtues; that consequently, Filipinos are already doing positive things about them; and that finally, assistance is needed only to accelerate what is already being done.

The feelings of the Study Team about Philippine progress are similar to those implicit in a legend told by the old folks in the barrios. After creation, Filipinos asked God for clear blue skies, beautiful women, a sea full of fishes and ripe and varied fruits. These four were granted. Their fifth request was for good government. This was not granted. To have done so would have turned the Philippines into something which would compete with Heaven itself.

Consequently Filipinos must accomplish this themselves -- self-help. They are.

Chapter III - Programs Promising Philippine Progress

In the course of the work of this Study Team, it has seemed clear that the Philippines must be energized by a series of Big Programs, that will inspire and accelerate constructive development action throughout the country. Progress will come faster if the present high priority sector goals are readily understood, identified and popularized. The Study Team suggests the following as the slogans for the future:

1. Decontrol and Decentralization
2. Unite the Islands
3. Light the Islands
4. Feed Filipinos First
5. Forests for Filipinos' Future
6. Encourage Educational Excellence

While many other programs are part of the total development effort, most of these are either well under control, or of lower priority, needing emphasis after these six programs are fully launched. Each of these slogans represents a family of related programs for the acceleration of Philippine development. Taking these in order:

Decontrol and Decentralization

U.S. support should be given to decontrol, including assurance of ample foreign exchange loans to bolster reserves during the period of pressures that is expected to follow in early days of decontrol. On the other hand, decontrol ought also to be part of the U.S. price for major development loans. Decontrol includes not only a unitary exchange rate in place of multiple rates, but also free convertibility. There should be a minimum of import or export taxes, to avoid new controls.

Decentralization needs more persistent support, including whatever technical support may be needed to improve local taxation and budgetary powers. Development loans for roads, bridges, and port development might also be the occasion to discuss with the Philippines the need for further decentralization of government. To the extent that such loans are to local units of government, they might be administered by a Philippine-American Joint Development Commission, discussed below.

Unite the Islands

The transportation problems of the archipelago are immense, and almost unique in the world. Typically, an island has coastal plains, and an occasional inland plain, or upland plains divided by one or more mountain ribs. There are more than 7,000 islands. The four biggest ones lie in sequence from Luzon to Mindanao, but there are other major ones from the Visayan Islands

/to the

to the Sulu Islands, lying to the west of the big four, across minor and major seas.

With the construction of a couple of major bridges, and addition of two strong ferry services, the big four islands could be united by road and by rail. The others will require inter-island shipping and air service. The major highway from north to south is planned to be completed within 7 years, at a further cost of 96 million pesos. It will require about \$7,000,000 for bridge steel, ferries, and construction equipment.

The Mindanao 10-year plan calls for 1,124 kilometers of road construction by the central government at a cost of 170 million pesos and \$34,185,000, or 272 million pesos in all. The present highway budget is 110 million pesos annually, based largely on a tax of 8 centavos per liter of gasoline, and annual license fees of 5 pesos per 100 kilograms of weight. 80 million pesos come from gas taxes, and 30 million pesos from motor vehicle license fees. Although efforts have been made for many years to tax diesel fuel, there is no tax at present, and more than 1 billion liters a year are burned (including ship bunker fuel, and agricultural machinery fuel).

A tax on such fuel of 5 centavos would yield 50 million pesos, or a tax of 8 centavos would yield 80 million pesos. To the argument that shipowners should not pay, the public works officials have suggested that the proceeds of a tax upon all such fuel might be divided, in reasonable proportion, to roads (based upon motor vehicle consumption), to ports (upon ship use), and to irrigation programs (based upon agricultural use). In face of the needs to generate pesos to accelerate these forms of development, this reform should be strongly pressed. If major loans are proffered for transportation development, this might well be a consideration in making the loan.

The highway unit of the public works department estimates an immediate need for another 54,000 kilometers of feeder roads. Spokesmen for the rural areas and the barrios always made it clear that there is widespread need for assistance to connect every barrio to a main highway. Otherwise, programs to improve agricultural output go for naught. If the farmer cannot bring his crop to market economically, he will simply seek self-sufficiency at the level of the barrio economy.

Acceleration of highways, secondary roads, and farm-to-market roads is largely a matter of peso generation by the national government, a matter of decentralization, and of mobilization of tax potentials within the Philippines. However, the construction requires road building equipment, and Filipinos prefer U.S. equipment. They also need U.S. replacement parts. The recent reports that significant numbers of machines are deadlined for lack of parts will be set aside as they spend the \$9,000,000 DLF loan for

/spare parts

spare parts and replacements. * They are happy in the cooperation they are getting from the U.S. Bureau of Public Roads in making the necessary arrangements.

Bridges and tunnels need equipment and steel forms not now produced in the Philippines. Ports, docks, and derricks call for foreign exchange. Ex-Im has a \$14,650,000 project for the Port of Manila. The IBRD is looking into inter-island shipping. The Study Team is convinced that decentralization, including the option of local port authorities in every port city, will help bring down freight charges, and improve the economy. No part of the Philippines is as much as 100 miles from the sea, nor much farther than that from a port. Most port cities have deep harbors. The seas are highways that require no maintenance. Encouraging their use should help immeasurably in the development of the whole country.

Japanese reparations may be helpful in providing more shipping facilities, and loans from them or from the IBRD will permit the accumulation of more ships. Whether freight and passenger rate structures will yield as readily is another matter. Apparently there is no strong anti-trust philosophy in the Philippines, and there appears to be a strong association of ship owners. However, if ports and docks are improved, cost of transport is lowered. If rates do not fall, then the major importers and exporters can consider the purchase and use of their own equipment. Moreover, as additional tramp steamers come into use, rates may be expected to yield to pressures of growing competition.

In face of the high costs, and existence of some banditry, and the water-land configuration of Philippine transportation, the Study Team suggests active consideration of planning and development of a kind of a strong, secure, joint piggy-back trailer unit. Such a unit could roll over the highways, as well as be carried on flat cars, on barges, on ships, or on car-ferries. Except for freight that is most economically carried in bulk, this seems to be a necessary development. Refrigeration of some of these units would permit their use for a wider variety of items.

As indicated elsewhere, the Philippine airlines seem to operate quite efficiently, with a minimum investment. No doubt improvements in navigation aid, lighted runways, and better paving of landing strips would permit flying after dark. The airlines now operate almost entirely upon a daylight schedule. For high value per volume freight, air traffic is clearly indicated, and already in use.

/Another addition

* One can be confident that Philippine mechanics can keep the equipment rolling, after he sees the great number of jeeps that have been converted into little 8-passenger busses, called "jeepneys"; these provide practically a taxi service for 10 centavos (3¢), along every major street, and in every town. The Study Team also observed many ancient busses still in use as trucks for produce hauling, and other evidences of their mechanical skills.

Another useful addition to the Philippine transportation system would be a low-cost, lightweight, efficient farm wagon. Many farmers still transport about 100 kilograms on a drag pulled by the carabao. Many still struggle personally with heavy, ungainly and awkward ox-carts. A light wagon that could be pulled by a small car, a small tractor, a jeep, or by farm animals, and sell (or rent) for nominal sums would be a significant addition to this economy.

The present high tariff upon transportation equipment is unfortunate, because adequate transportation is essential to economic growth, and these facilities are self-supporting. If there is some real need to discourage luxury cars, the use of a graduated annual license fee (graduated by horsepower and weight) might be a much better solution than high tariffs. Cabs are typically light Japanese or English cars, using a minimum of fuel. High tariffs are avoided by diplomatic immunity, and evaded by smuggling, and place valuable premiums upon both.

U.S. development loans to help unite the islands through transportation should have high priority in AID activity in the Philippines in the years ahead. An IBRD Team has been studying inter-island shipping requirements.

Light the Islands

The supply of low cost power is the measure of the possibilities for economic development almost everywhere in the world. The Philippines have only limited supplies of low grade coal, now used to produce cement. Only small oil strikes are reported so far, but the oil potential has not been fully explored. Most oil and fuel for thermal power is now imported.

Hydro-electric power is the most likely domestic source of power for a program to light the islands. The Study Team visited Iligan, and the adjacent Maria Christina falls and power plant. The Agus River falls 2300 feet in about 25 miles, from its head in Lake Lanao. This river is a power engineer's dream. The beautiful lake drains a large section of Mindanao, in an area which gets fairly steady rainfall. Hence, there is an assured steady supply of water, already dammed by nature. This one river would be able to produce more than 700,000 KW, instead of the 50,000 KW now installed. An IBRD project to develop it is being studied. Reynolds Aluminum is interested in a plant there. An electric iron and steel mill, which might use the extensive laterite ores to produce nickel as well as iron and steel, is under consideration.

But power is for more than heavy industry. It is for every home in every barrio. The impact of electricity in every home, in the simplest nipa hut, is a revolutionary force for economic development that must not be underestimated. A major effort to bring rural electrification to the Filipino deserves favorable consideration and action, whether through a joint development commission or otherwise.

/Because

Because the huts are usually clustered together within a barrio, it would be fairly easy to develop rural markets in advance of central station power by putting a portable diesel generator into the barrio, stringing up a distribution line, and installing line drops, meters and outlets in each house. This would encourage the growth of a market, which could be tied onto high lines as these come through. The whole island of Mindanao ought to be lighted from Maria Christina and related hydro-power. While no other single river will give so much power at such a low investment, there are other power potentials that deserve development.

Rural electrification will mean lights for study, and radios, both contributing to the better education of the rural family. It may mean small refrigerators to further transform the life and diet of the people. Cooking will be simpler. Cottage industries would develop, using motor driven machines and simple power tools.

While much of the capital needed for this development, however organized, is peso capital, there would be substantial need for dollars for generators and other electrical equipment. Preference for U.S. equipment is general, but U.S. terms should be competitive.

Feed Filipinos First

A major saving in foreign exchange drain would be accomplished by encouraging the development of a Philippine dairy and livestock industry, by encouraging fishing practices and fish culture that will make them self-sufficient in fish, and by similar measures. Agricultural imports should not be major items in so rich a country as this, with its fine soil and 12-month growing season. Loans are needed for irrigation equipment, fertilizer production, purchase of breeding stock, and for farm machinery importation; all deserve AID consideration. However, the irrigational loans should be conditional on substantial evidence that Filipinos were ready and willing to help pay for construction, operating, and maintenance of irrigation works, and that irrigation investment would be restricted to areas where the cost/benefit ratio fully justified it, rather than have it be a political plum.

Forests for Filipinos' Future

Air travel over the islands can be disturbing, if one looks down. The land clearance practices engaged in by the Kaingeneros are seen widely. They simply burn the trees off a hillside, and then plant crops in the virgin soil. Because such soil will not support many crops before erosion hurts it, they move on to repeat the process elsewhere.

Like our own countrymen in an earlier day, many Filipinos seem to believe that they have too much forest land, and not enough agricultural land. In the contest over which classification it shall have, forests

/usually

usually lose. Furthermore, some logging concessions have been short-term, and these have encouraged many loggers to use a slash and burn technique, so that the future crop is destroyed in harvesting this one.

Fortunately, there is a growing body of opinion (still too small in our opinion) that wants to take the long view. One competent observer estimated that if bad practices continue for another ten years, the Philippines will no longer be a major log or wood exporter, and might even be an importer.

The multiple-purpose relationship between timber, soil erosion, flood prevention, watershed protection, and probably weather itself, justifies much greater attention to Forests for Filipinos' Future. The USIS might give more support, indirectly, through distribution of conservation literature and films.* The world's growing demand for hardwoods, for hardboard, for plywood, for paper and pulp, all justify a strong international interest in encouragement of the sound management of these forests. They are now earning over \$100,000,000 annually for the Philippines -- they could earn more -- certainly they should not be allowed to deteriorate so that they earn less. They are a vital part of the national capacity to service international loans, of whatever sort.

Decentralization should take place in such manner as to give local units of government an interest in preserving the forests, in preventing squatters from illegal entry and destruction, and in enforcing sustained yield forestry practices. Stumpage fees are small; if they were increased, and half the yield given to local government, local interest would surely be stimulated.

Moreover, if more of the logs cut were processed in the islands, not only for plywood, but for hardboard, for paper, etc., the local governments would see developing a stronger economic interest in preserving the forest base, and the value of the exports would be enhanced.

The President sent a bill to Congress, during its last session, which would have created a Youth Conservation Corps, similar to our CCC of the 30s. Several thousand young men, now unemployed, would have been put to work on forest and soil conservation projects. Although the bill was not passed, there seems to have been little or no opposition. It was simply lost in the urgency of fiscal legislation and is expected to be passed early next year. This will not only maintain and preserve forests but educate citizens in the conservation of their resources.

/Encourage Educational Excellence

* USIS could frequently cooperate effectively in similar support for other development programs.

Encourage Educational Excellence

The need is not so much to increase the quantity as it is to increase the quality of Philippine education. A recent ICA-NEC sponsored report, * noting the decline in the level of student performance over the past 35 years, underlines the importance of this concept.

Or, to take another bit of evidence, our health officer reports that 50% of Filipino doctors of medicine in the United States have failed to pass the qualifying exam now required, and another 25% are on probational status. Some 2,000 Filipino doctors are helping staff American hospitals while they take internship or residency. Obviously there is a United States' interest as well as a Philippine interest in improving the quality of Philippine medical education.

The ICA health officer has developed a comprehensive and systematic program, including a major project for ICA grant assistance, to help accomplish this very purpose. Nothing should be allowed to prevent completion of that program. The Philippine Government has taken the drastic steps this year of flunking half of the candidates taking the medical examination, and flunking more than half of the dental candidates.

If the proposed help in up-grading medical attention were to be withdrawn by ICA now, much of the ground gained would be lost, and bitterness would ensue. But even beyond the health interests of both countries, improving excellence in this field might be leverage for encouraging excellence in other fields of education.

Similarly, an NEC request for two geologists to help up-grade geological education at the University of the Philippines in this minerals-rich country came to no avail, as ICA/W refused the request, but did not explain why to NEC. It is not too late to underwrite such aid to improving education in this field, and the Study Team strongly recommends that the opportunity be seized, not only for what it can do to improve mineral exploration, exportation, and economic development, but for what another demonstration of excellence might do to raise the level of excellence in all education.

The Study Team suggests as another step to improve excellence that there be an honor high school, and an honor teacher training school, with admission only to those who would be able to win competitive scholarships. It suggests efforts to make American scholarships for college and university graduate work available to Philippine teachers on a competitive basis, to help improve their competency. AID funds used to help accomplish any

/part of

* "A Survey of the Public Schools of the Philippines - 1960", summarized in a pamphlet "Today's Investment in Tomorrow", dated April 11, 1960.

part of this would be money well spent. Perhaps counterpart funds generated by Food for Peace could also be used to help endow such activity. Support from American foundations might also be enlisted.

The Peace Corps teachers, if they are in the tradition of the Thomasites, will be most welcome and helpful.

Excellence in higher education, both general and professional, is a subtle combination of an outstanding faculty, fine equipment (library, museums, and laboratories) and well-qualified students motivated by a tradition of high academic performance.

The University of the Philippines was founded in 1908. It has been served by a distinguished group of American and Filipino educators. By 1941 it was regarded as one of the best Universities in Asia -- the only one which is a copy of the U.S. public institution. Many of its colleges and departments enjoyed world-wide reputation.

Its main campus was totally destroyed during the battle of Manila in 1945. With U.S. assistance it has been relocated in suburban Quezon City. It has new and adequate buildings, laboratories and a fair library. Now its most desperate need is to be able to hold its faculty.

To do this it must raise salaries and provide more adequate faculty housing.

In the last 5 years, executive and professional salaries have jumped ₱ 14,400 to ₱ 25,000 and up. With a top salary for a full professor of ₱ 12,000 the University is being raided by all comers. It has lost three of its outstanding scientists during the last year. Young men move on as soon as their obligations for having received U.S. graduate work are completed.

Faculty housing at Diliman (the Quezon City campus) were hurriedly built in 1945 as temporary quarters for American Army officers during the build-up for the invasion of Japan. These must be replaced and additional ones constructed. Present quarters make it difficult even to maintain, much less build, staff morale.

During the war, one American prisoner of war camp was located on the campus of the College of Agriculture of the University at Los Banos. American troops liberated the prisoners from deep behind Japanese lines in a rapid knife action. In retaliation the Japanese liquidated 2,000 residents and destroyed 66 of the 68 buildings. All equipment, facilities, library and personnel of the College were lost. It has received no War Damage payment. Its needs for faculty housing are even more desperate than those at Diliman.

/Consequently

Consequently, the Study Team urges prompt action on two proposals considered: (1) Grant for subsidy of faculty salaries to a top level of P 15,000 plus housing and attractive retirement annuities for approximately 5 years until a new Land Grant on Basilan Island is in full production and a new Land Grant for the College of Agriculture has been secured, both of which should provide replacement income; (2) Grant for faculty housing for both the Diliman and Los Banos campuses.

These grants are recommended to enable the University to hold senior professors and attract younger able men. Without security and reasonable comfort its best professors will vanish and its replacements will not appear.

Chapter IV - Financing and Administering the Program

Philippine Priorities

Much of what Filipinos want to do, and need to do, they are already started upon, and can do by themselves, with resources that they possess or can mobilize within the country. But certain of their priorities will require, for accelerated development, more foreign exchange than they will be able to generate at the present level of activity.

One windfall that is due (indeed, and long overdue), is the payment by the United States of the remaining amount due upon war damage claims. The claims have all been adjudicated, but the initial U.S. appropriation only covered 52.5% of the amount. The U.S. had agreed to pay 75%. The remaining settlement is 22.5%, and would provide about \$70 million to the Philippines. The most recent delay in Congressional action arises in part out of disagreement about exchange rates. The Zablocki bill makes the sensible decision to pay in dollars, and let the Philippines decide the conversion rates. Further delay will adversely affect relations between the countries. Prompt passage will add dollar reserves to Philippine account, for the claims will be paid Filipinos in pesos.

Development Financing

An Economic Summary

The Philippines has an ample resource base to support industrial and population growth. Considerable increases in domestic and external capital will be required to step up the economic development process in the Philippines. On the domestic side, savings have to be mobilized so that sufficient capital will be available for sound development projects. It is also necessary to channel a larger share of investment capital into export industries to boost the country's foreign exchange earnings. For the future, industrial integration and advanced manufacturing will require greater investment in fixed plant and equipment than did the assembly operations of earlier years. Government revenues will have to be increased considerably to meet development requirements. At present, personal income taxes comprise only 7 percent of government revenues and corporate taxes provide about 10 percent. The market for government bonds is very small, apart from the Central Bank. Hence, any extensive financing of economic development via government bonds may well be inflationary. Import and excise taxes are now the major source of government revenue.

/External

External capital will be required to supplement the shortfall in future domestic availabilities. In the past, a substantial amount of investment capital has been available from abroad. The major sources have been private foreign investment, mostly from the United States, loans from the Export-Import Bank of Washington, DLF, IBRD, Japanese reparations, and short and medium term suppliers credits from the U.S., Japan and Western European countries. Loans and investments from these institutions and countries will continue to be available to the Philippines and probably in larger amounts. Loans from Japan and Western European countries are likely to be made available on a longer term basis in the future compared to the typical 5 to 7 year suppliers' credit in the past. Devaluation and decontrol should serve to increase the flow of private foreign investment.

During the next few years, external development loans will be needed for roads and bridges, inter-island shipping and port development, electric power, manufacturing and mining activity, and irrigation. In order for the Philippines to step up receipt of development loans, they will have to develop sound projects that satisfy the criteria of lending institutions. Over the past few years financial institutions, such as the IBRD, Ex-IM Bank and DLF have shown much interest in making more development loans available to the Philippines. However, a larger amount of such loans have not been forthcoming due to the Philippines failure to prepare sound loan applications and develop sound projects. In June 1961, the \$9,850,000 unutilized portion of the \$50 million DLF line of credit (made available in 1958) was transferred to the Ex-Im Bank because loan applications were not forthcoming to utilize the remaining credit. The Study Team feels that pre-loan feasibility surveys should be undertaken, both in the private and public sector, so that the Philippines would be in a better position to utilize the external capital that is available.

In addition, the Study Team feels that the best long-term approach for foreign development lending in the Philippines under President Kennedy's new approach to foreign aid should start with an economic plan, which identifies clear priorities. After sector and project priorities have been established, and feasibility surveys run, these priorities should be equated with availabilities of domestic and external resources. At that time, a time schedule should be worked out for phasing priority projects. No doubt it will take some time to develop a comprehensive and detailed economic plan or continuous planning habit. But even when planning is being improved, it is advisable to encourage feasibility surveys for projects and sectors of obvious high priority (transportation and power) and to consider for development loan financing those projects which feasibility surveys demonstrate as essential to Philippine economic development.

/At present

At present, there are no firm loan applications before the DLF, and financing for sound development projects which are being prepared, (e.g., electric power) is likely to be available from such institutions as IBRD, Export-Import Bank, Japanese reparations, etc. Unless the Philippines move quickly, the role of the Agency for International Development (AID) during FY 1962 in development lending in the Philippines is likely to be limited. As the pace of Philippine economic development is stepped up, as feasibility surveys are completed and more projects are developed, and as the country's debt service becomes more difficult due to an increase in external loans, the role of development loans from AID necessarily will have to be expanded. AID loans will be required for such projects as road and bridge development, ports, rural electrification, telecommunications, irrigation and water supplies. The IBRD Mission currently in the Philippines is expected to identify specific sectors and projects for which loans will be required, including AID loans.

There is a considerable shortage of medium and long term capital for small and medium sized enterprises. An IBRD Mission is currently investigating the possibilities of setting up a private development bank in the Philippines to satisfy this need for various types of peso and foreign exchange loans. Foreign exchange loans from IBRD and AID could be channeled to the private sector through this development bank. The present policy of U.S. procurement, however, as applied to AID, is likely to limit the use of AID loans by the development bank (as well as by other private borrowers) for development projects.

There remains a considerable scope for further external borrowing by the Philippines. At present, service on the Philippine debt does not constitute a burden to the country. The prospects for increases in future exports are excellent. This should permit the Philippines to service a debt considerably in excess of the \$300-350 million the country has at present.

Project Priorities

Over the next few years, a substantial amount of loan capital will be required particularly for economic overhead projects. Loans will be needed for the development of roads, highways, and bridges. Secondary and feeder roads, and farm to market roads are of particular importance in the development of the rural areas. A substantial expansion is needed in port and harbor facilities throughout the islands in order to expand Philippine trade. The inadequacy of ports and harbors, and the inadequacy and inefficiency of the country's inter-island shipping is a key problem in moving products to both domestic and export markets. An IBRD

/Mission

Mission on inter-island shipping currently is surveying Philippine inter-island shipping requirements, including external capital needs. Substantial amounts of capital will be required for the development of water resources for electric power and flood control. Funds also will be needed for the expansion of thermal power, particularly in the Manila area, and for rural electrification. Telecommunication equipment will require foreign exchange, and U.S. equipment is preferred.

In manufacturing and mining, loans will be needed for additional fertilizer plants and for exploitation and processing of minerals, such as iron ore, nickel, and other non-ferrous metals. Agricultural output can be increased with further irrigation; as the Philippines demonstrate greater willingness and ability to secure local support for construction, operation and maintenance of such works, loans to enlarge irrigation may be justified.

Sources of External Capital

There is a considerable amount of external capital available to the Philippines for sound development projects. In addition to Japanese reparations and private foreign investment, loans and credits will be available from the Export-Import Bank, IBRD, the OECD countries, and DLF/AID.

1. Private Foreign Investment

In recent years, private foreign capital has been hesitant to invest in the Philippines. Although U.S. direct private investment grew from \$149 million in 1950 to \$385 million in 1959, these investments were built up largely from retained earnings in recent years. The over-valuation of the peso and apprehensions regarding the "Filipino First" policy have been deterrent forces. The over-valuation of the peso presently is being corrected; and with full decontrol and devaluation the private foreign investment in the Philippines should increase. In addition, decontrol will remove certain discriminatory practices which have been leveled against foreign investors. The passage of the Foreign Investment Bill by the Philippine Congress is likely to ease the foreign investment climate, although discrimination against the Chinese investor is likely to continue.

2. Export-Import Bank

Since 1952, the Export-Import Bank has made available to the Philippines \$138 million in loans and credits for various types of projects and programs. Most of the Export-Import Bank loans have gone to the private sector for almost every type of industrial activity. Only three loans (Ambuklao Dam, Manila Airport, and Manila Port) have been to the public sector. Present Export-Import Bank activity in the Philippines includes a loan of \$62.5 million for a 250,000 ton integrated steel plant at Iligan in Mindanao. This loan has been approved by Export-Import Bank and is now awaiting approval of

/the Philippine

the Philippine Congress. In addition, Export-Import Bank is actively considering five other loans amounting to \$36.5 million as follows: telecommunications, \$13.5 million; two hotels, \$5.4 million; aircraft, \$9 million; and a 60,000 kw thermal, \$8.5 million. As in the past, Export-Import Bank is likely to be a major source of loans to the Philippine private sector, balance of payments loans, lines of credit for purchase of equipment, and loans for sound development projects in the public sector. These loans would involve U.S. procurement.

3. IBRD

To date the IBRD has made two loans to the Philippines. A \$21 million loan for the Binga hydro-electric project was concluded in 1957, and in July 1961, a loan for \$8.5 million was made to finance equipment needed for dredging and maintaining harbors and ports. However, the IBRD currently is considering about \$100 million in projects, including a \$50 million loan to develop the water resources of the Angut River (power, flood control, etc.). There are indications that IBRD may also consider loans to improve inter-island shipping facilities. It is likely that the IBRD Mission Report, when completed, will identify other projects for IBRD financing and financing by other institutions.

4. Japanese Reparations

Reparations from Japan also is likely to be a major source of external capital. The Reparations Agreement provides for \$25 million annually in capital goods to be supplied during the next 10 years. In addition, Japan has agreed to facilitate \$250 million in development loans by private Japanese interests and Japanese banks. The Export-Import Bank of Japan currently is making loans in conjunction with Japanese commercial banks to private Philippine firms. Reparations from Japan from 1957 to 1959 totaled \$48 million. The pace of reparations is likely to increase substantially in future years. Japan is considering the financing of the Marikina Dam (\$60 million) under reparations. In addition, loans in the amount of \$50 million are under consideration at the Japanese Export-Import Bank.

5. OECD Financing

OECD countries are likely to play an increasing role in providing medium and long term loans for Philippine development. In the past loans from Western European countries have been largely on a short and medium term supplier credit basis, which together with other such loans, has contributed somewhat to the Philippine debt burden over the next few years. In accordance with the principles of DAG, Western European countries are likely to provide long term development on more liberal terms. West Germany has shown interest in financing steel facilities in the Philippines.

/6. Development

6. Development Loan Fund and Agency for International Development

DLF loans have amounted to \$40,850,000. These loans were made under the \$50 million line of credit extended in June 1958. Of a total of six loans, five have been for the private sector. At present, there are no active loan applications which have been submitted or which are under preparation for DLF financing. DLF financing in the Philippines has been limited because financing has been available from other sources (e.g., Ex-Im Bank). On the basis of the limited number of present loan applications and the fact that other financing is available, unless there are significant additional applications prepared and submitted soon, DLF or the successor agency, AID, is likely to play only a limited role during FY 1962 in providing development loans to the Philippines. But, as more projects are developed, and as the service on Philippine debt burden becomes more difficult, the role of AID loans should become more important. There is a possibility, however, that AID loan applications for projects under the Mindanao development program may be forthcoming shortly. Various project surveys for development of certain sectors in Mindanao (e.g., highways, power) and Cagayan Valley currently are being prepared by NEC, which will require development loans. In addition, the Philippine Government has shown interest in DLF financing for water systems in the provinces and in Manila. Finally, there is scope for use of AID guaranty authority for U.S. private investments in Philippine development projects. During the past year, there has been much interest on the part of U.S. investors for investment guarantees.

7. IMF

The International Monetary Fund should help assure the foreign exchange needed to carry the Central Bank through the final period of decontrol. If it fails or refuses, AID or Ex-Im Bank might consider underwriting the transition to a unitary exchange rate.

Debt Service Capacity

The limited present service requirements on the Philippine external debt and the prospects for a favorable balance of payments on current account will permit the Philippines to expand external borrowing considerably in the future. At the end of 1959, the external debt of the Philippines amounted to about \$300 million which averaged about \$45 million or $6\frac{1}{2}$ percent of foreign exchange earnings over the next few years. Of the total debt, the \$180 million has a term of 7 years or less, and of this about \$120 million is private debt covered by government transfer guarantees. Use of medium term credits (deferred payments) was encouraged by the government to relieve the burden on the balance of payments.

By the end of 1961, Philippine external debt is expected to increase by about \$100 million to \$400 million. Service of debt at such a level does not constitute an excessive burden for the Philippines. Somewhat higher amounts would seem feasible given future economic prospects. Export

/growth

growth has been substantial in recent years and the prospects are good for achieving further increases. The level of such receipts as veterans' pensions is to be maintained, and sugar exports to the United States are likely to be increased. Veterans' pensions totaled \$64 million in 1959 and \$60 million in 1960. The sugar quota and increased sugar allotments have been of importance to the Philippines balance of payments because it has offered a preferred market for Philippine sugar. In 1960 Philippine sugar exports to the U.S. were valued at \$122.6 million (1,156,000 short tons). With the increase in the U.S. allotment for Philippine sugar for the coming year, sugar exports are estimated to increase to 1,470,700 short tons.* This will add over 30 million to Philippine foreign exchange receipts. The probability is that output of food crops will rise at a much faster rate than population, and that further increases in manufacturing should reduce the pressure on exchange for consumer imports. The transition into full decontrol on foreign transactions, attended by devaluation of the peso should result in an increase in foreign exchange earnings from exports. Conversely, devaluation will dampen the demand for imports via the price mechanism. An expansion in the country's foreign exchange surplus is likely to support an expansion in the country's debt service capability. In addition, if the proportion of medium term debt is reduced in the future, there should be considerable scope for expansion of long term borrowing.

/Development Grants

* The regular U.S. quota for Philippine sugar under the Laurel-Langley agreement is 980,000 short tons.

Development Grants

1. Education should be supported primarily in ways which will improve excellence. The Study Team recommends the following grants, each designed to raise the quality of education:

- 1.1 University of the Philippines Faculty Salaries: ₱ 10,000,000.
To hold senior faculty and attract young capable instructors, the University must increase its salary schedule at least 25% and provide comfortable housing at both the Diliman and Los Banos campuses. A Land Grant on Basilan Island is expected to be in full production within 5 years. The College of Agriculture expects a relocation of one Land Grant and greatly increased income. These could within 5 years support the increased salary schedules.
- 1.2 University of the Philippines Faculty Housing: ₱ 5,000,000.
Adequate housing as well as adequate salary for faculty is required to maintain an able faculty. The proposed amount would provide approximately 250 houses and 150 apartment units.
- 1.3 Medical Education: \$1,145,000.
Plans to improve medical education by the Departments of Education and Health and the USOM Health Advisor by providing equipment and technical assistance merit prompt support. Steps contemplated in the program have already been taken by the Philippine Government.
- 1.4 Honors Scholarships. ₱ 600,000.
To encourage excellence in secondary schools, to develop the abilities of the most able high school students and a cadre of honors teachers. The Study Team proposed a special trust fund be established to provide approximately 600 student years at ₱ 1,000 per year.
- 1.5 English Language Teaching. \$400,000.
A grant by the Rockefeller Foundation to the University of California at Los Angeles of approximately \$700,000 was made to discover the most effective methods, and develop appropriate materials and train teachers for teaching English as a second language to first and second grade students in Philippine schools. U.C.L.A. established in Manila the Philippine Language Center with an Advisory Board appointed by the Secretary of Education. Participant grants by ICA have provided intensive training at U.C.L.A. for a larger number of Filipinos than otherwise would have been possible.

The period of the original grant is expiring. The Rockefeller Foundation is expected to increase its grant extending the work of the Center for four more years. However, should the Foundation

/Grant

Grant not be extended, the Study Team recommends that approximately \$100,000 per year be provided to continue its work for four years. The Study Team recommends further that no grant be made which would duplicate the work of the Center or that any other arrangement (contract or direct hire) be made to succeed the present center, thus sacrificing much of its effectiveness.

This proposal is directly related to the Peace Corps project of English teaching.

2. Health.

2.1 Malaria Eradication: \$400,000.

Completion of malaria eradication is a top priority in the field of health. Malaria is practically gone in the Philippines. Eradication of residual pockets must be completed before the mosquitos develop immunities to the compounds now being used.

2.2 Hospital Ship: \$200,000 - \$3,000,000.

The Department of Health must provide more adequate hospital services to its rural areas. Since many of its 54 provincial hospitals serve one or more small sparsely settled islands, it will be much cheaper and probably more effective to equip and operate a hospital ship to serve these islands. The Study Team recommends that a hospital ship be made available, with the Philippine Government to pay operation and maintenance costs. The wide difference in the cost figure depends upon how a surplus vessel would be made available. De-mothballing and movement to Manila would be one figure. An inter-agency bookkeeping figure for some kind of sale might be the larger amount.

3. Decentralization. Decentralization is being aided by the community development program. The planned phasing out of ICA aid to PACD should not prevent A.I.D. from continuing support for decentralization.* This could take the form of support for public administration programs to help advance the training and development of local skills in performance of services, including police and public safety. This support should be directed primarily at assuring that there is built into the Philippine structure such appropriate professional societies, institutes of public administration, training programs for public officials, etc., as will go on improving the competence of local officials to perform their new duties, long after the A.I.D. programs are gone.

Improved tax assessment and collection practices, through help in aerial surveys for mapping, as previously noted, might be a part of the

/immediate A.I.D.

* Recent proposals are that the final payments to PACD might become a revolving trust account for loans to local governments, which seems to be an excellent idea.

immediate A.I.D. assistance.

The Study Team believes there are sufficient funds presently programmed for PACD. It does not recommend an additional grant at this time.

4. Preloan Surveys: \$500,000.

Preloan surveys might be allowed as a potential grant item, but only on some kind of matching basis that evidences adequate local interest. Philippine loan proposals have not always been well conceived and adequately documented. Assistance at this point could help improve their planning, as well as accelerate their development.

(ICA assistance operations, the IDC, the Military Construction program, and the Food for Peace program are presented in Appendix 3.)

The cost of "how-to-do-this-job" surveys should be written into the loan and repaid by the recipient. The Study Team found no objection to this procedure. However, certain exploratory, "can-it-be-done" surveys at this time will require grant support. For these purposes the Study Team recommends that up to \$500,000 be made available, over the next several years. This amount would provide for 5 surveys @ \$50,000; 5 @ \$20,000; and 10 @ \$10,000.

Our recommendation that development lending functions be decentralized, that Loan Officers be "put on wheels" to assist new provincial entrepreneurs are found in Chapter II.

5. Public Administration - Executive Seminars: \$25,000.

The Study Team received suggestions that Senior Executive Seminars be provided through or in conjunction with the Institute of Public Administration for top-level civil-servants. One official suggested a permanent Executive Academy on the British model.

We recommend that, at least as a beginning, a series of seminars be provided through the Institute of Public Administration of the University of the Philippines, drawing on the experiences and using personnel of the Littauer School of Public Administration of Harvard and/or the Brookings Institution.

We feel that this is a project which at the beginning or a later stage could be better done if supported by private funds. It could draw on a wider range of personnel. We believe the Ford Foundation might find this proposal interesting and do suggest that the possibility be explored. However, we recommend a modest grant be held as a reserve to inaugurate such a program if Foundation funds are not immediately available.

6. Philippine Youth Corps: \$2,600,000 - P 33,700,000.

President Garcia suggested legislation creating a Philippine Youth Corps in his State of the Union Message last January and sent a proposed bill to the Congress. Although there was no visible opposition, action was not taken, largely because of the urgency of action on fiscal measures. The next Congress which convenes next January is expected to pass the bill.

The Youth Corps will work at reforestation, soil-conservation, pest control, irrigation, drainage, etc. It will remove young men from unemployment roles and provide vocational training. Plans are being made for fifteen 200-men camps. PACD will recruit and orient personnel; the Army personnel will run the housekeeping and disciplinary operations of the camps until civilian corpsmen are qualified to take over. Work projects will be under the technical supervision of the appropriate bureau or agency.

A program requesting U.S. grant assistance has been presented to the Mission in Manila requesting dollar and peso support for six years on a sliding scale of participation. The Study Team recommends favorable action supporting this program as soon as the Congress has passed the bill.

Administering AID in the Philippines

As the present projects of technical cooperation are phased out, either in accordance with plans already agreed upon between the USOM and NEC, or in accordance with the Study Team's recommendations, the staff of the Philippine USOM will shrink. Much of the present TC sums are actually being used to pay the cost of U.S. staff.

There is no continuing need to finance out of separate projects the smaller staff required to carry out the program proposed herein. The primary need for staff is to advise the USOM Director and the Ambassador, and to process the development loans that come along. The Study Team recommendation for staffing pattern would be:

A Director

A Deputy Director and Program Officer

Technical Staff:

Community Activity (for the decentralization program)

aided by:

Educational Consultant

Health Consultant

Others as needed, e.g., Labor and Welfare, Agriculture, Cultural Affairs, etc.

Government and Public Administration (to support decentralization and decontrol programs)

/Industrial Adviser

Industrial Adviser (Development Loan Officer),
aided by:

Mining and Minerals Consultant

Others on contract as needed, e.g., transport and
power consultants.

Controller

Advisers shared with the Embassy, including: Economic Counselor,
Commercial Attache, Information Service Officer.

The Study Team recommends a small top staff, each with a broad gauge outlook and a long view of Philippine development, to serve as advisers to the Director and the Ambassador -- not to the host government.

The Mission would organize a suitable loan committee, including the director, the deputy director, the industrial adviser, and add ex-officio but without vote, the controller and economic counselor.

To the fullest extent possible, remaining staff positions, including junior professional, secretaries, etc., should be filled by Filipino personnel. Their devotion and competence is of the highest, often substantially higher than among many U.S. assignees. Unfortunately, the habit persists of classifying every document so highly that only U.S. personnel can work on it; the policy should be re-examined, and avoided as fully as possible. Present classification practices are very costly, and usually unnecessary. As one result of the change, Filipino pride would be aided, and the process would be an investment in Philippine development. Incidentally, even more Filipinos ^{1/} might be recruited as third country USOM staff and technicians. They would be helpful and welcomed in many countries. The Team recommends a review of salary scales for Filipino personnel. A Mission request for such review and for provision of fringe benefits ^{2/} has awaited action for more than 18 months.

Many Filipinos expressed sincere appreciation for the services rendered by U.S. specialists and technicians who have shown them how to accomplish many tasks. They have a strong preference for such advisers, rather than desk types who merely tell them what to do, when they do come out of their air-conditioned USOM office.

In view of the large number of trained Filipinos, there is no longer any major need for purely technical skills among American staff. In cases where some special need exists, persons might be brought in who possess the needed specialty to help temporarily, while a Filipino is trained to continue the task. Officials indicate that both American visits here and Filipino training in the States are needed to complete the transfer of skills.

/Normally

^{1/} More than 200 Filipinos are now employed in USOMs in other countries of Asia and Africa.

^{2/} By way of contrast, one major U.S. firm pays 40% of its total labor costs in the Philippines in the form of fringe benefits.

Normally, however, the technician should be assigned to work in and with the Philippine host agency, and be divorced as fully as possible from the USOM, even though paid by it. His role will be clearer and more effective as a result.

There has been an occasional suggestion to the team that the Filipinos regret the loss of some USOM staff member who understood their problems especially well. In the process, he may have become too able a spokesman for Filipino interests to the detriment of U. S. interests. No doubt any foreign operations agency has difficulty with the question as to the length of service of its staff in any given country. Perhaps some greater flexibility might be encouraged, so as to permit a staff member to complete whatever mission he is engaged in, and thus depart at a point that is more comprehensible from the host country viewpoint. Or, if his skill is one that really requires a long orientation to the host country to be meaningful, such as the skill of our Philippine minerals expert, the usual limit of tour duty might well be ignored. Such a man is more useful in the country he has come to know than he would be elsewhere, and as long as he is performing satisfactorily, he might be continued. But where the local information needed to make a man effective can be learned in a fairly brief time, the gains to the AID program from staff rotation should govern.

In every major mission, at least one man ought to be chosen and assigned on the expectation that he will stay in that country so as to provide continuity of contact with the country and for orientation of the transient staff.

The programming function, as observed in the Philippine Mission, seems unnecessarily elaborate and complex. Too much staff time is used in filling out too many sheets of paper, and drawing up too much detail. Simplification and the elimination of needless detail should be encouraged, nay, demanded. Certainly there is need for Washington to know what is going on in the mission, and there is need to justify the program before the Congress-- but these purposes can certainly be accomplished with less wastage of man-hours spent in abstract presentation of what is going to happen if a project is approved.

As a general principle, if AID is to be effective in accomplishing its purposes, there will have to be substantial autonomy in the mission. While the general outlines of the country program should be cleared with Washington, there should be sufficient freedom in the field so that decisions can be made promptly, and so that staff are free to modify activities as circumstances warrant -- with the concurrence of the host country and the director.

As another general principle, AID should appoint to USOM leadership only those who possess a high level of perception as to the nature of the political and social forces within a country, and the impact of AID upon these. Philippine friends questioned whether U. S. purposes were served by

/generosity

generosity in U. S. loans which proved to be directed largely so as to support an oligarchy, some of which have been loudest in their assault upon the United States and its purposes. Action by AID in the processing of grants and loans should seek to assure that our money is not turned against us. This can be done not so much by any contract as by withholding of contract, or redirection of action. U. S. insistence on widespread distribution of loans around the country would go far to help accomplish this purpose, and help diffuse economic power. Sensitive Filipino friends have had difficulty understanding some of our past choices, on these very grounds.

Cooperative Philippine-American Administration

Filipino governmental spokesmen indicated significant interest in the possibility of developing some method of joint administration that would permit certain types of programs to operate under less political pressure, and in a manner that would permit U. S. AID to go directly to local units. The nearest comparisons noted were the Joint Commission on Rural Reconstruction, operating with the National Government of China, and the Joint Philippine-American Cultural Center, each operating with a joint board representative of both nations.

The Study Team recommends that the USOM Director, along with the Ambassador, be instructed to review the possibility of creating such a Philippine-American Joint Development Commission (or authority) for the administration of such portion of the whole AID program as may be mutually agreeable between the two governments. As the first project, the Team recommends the program of encouraging rural electrification. Power generation, transmission and distribution in the Philippines is largely a function of the National Power Corporation, a governmental agency. The proposed joint commission might adapt the American REA techniques to the encouragement of rural electrification, creating suitable distribution facilities, both public and private.

Ideally, the joint commission should conduct its activities so as to start and advance whatever programs it undertakes, and then build into them sufficient strength and independence so that they can continue when the joint commission has gone on to other activities, or has been abolished. Such commissions, lying outside the regular governmental framework, have substantial freedom, but may suffer from some lack of enthusiastic support among existing departments and agencies that tend to see in such a commission a rival. If the commission does not seek to be a continuing operating agency, but rather serves as innovator and midwife, it may be more welcome in a country.

Our second nominee for inclusion within the assignment of the commission would be the community development and decentralization programs, including public administration training for local governmental officials. Finally, we nominate the program to encourage educational excellence.

The essence of the joint commission would be, say, five men, three nominated by the President of the Philippines, and two nominated by the President of the United States, who would administer whatever programs might be mutually agreed upon, from time to time. While the initial support might lean heavily upon U. S. funds, there should be an agreement at the outset with the Philippine government as to its willingness to appropriate funds for part (hopefully a growing part) of the operating costs, and also its willingness to appropriate or loan such peso funds as would be needed in support of loan programs, to complement the dollar loans made in support of American components of capital development programs (such as rural electrification and rural development).

As background, it should be remembered that the Philippines have a very strong executive; that the Philippine President started the community development program through appointment of a presidential assistant on community development (with strong U. S. indications of support for the PACD idea); and that the U. S. is now phasing out support for PACD because of growing national and local support.

There is a strong possibility that a good beginning could be made by executive agreement, and that such a joint commission could be operative within the year 1961, if this recommendation were accepted and implemented immediately.

The Study Team does not now wish to indicate any belief that this method could be generalized, or applied to other countries at this time. The team is clearly of the opinion that the circumstances in the Philippines, as discussed herein, make it a most fertile soil for such an experiment. More than that, the method would permit immediate action that would not only have a most significant impact upon Philippine development, it would also permit application of high standards of audit and control upon public outlays, high standards of administration, but it would, most significantly, provide visible demonstration of our continuing commitment to accelerating development within the Philippines.

The charter of the commission should include some very broad language about development so that the commission could play a role in such activities as promoting trade fairs, improving tourism, and other activities that would contribute not only to Philippine development, but to better Philippine-American relations. Such activities frequently have low budget requirements -- they merely need a starter to underwrite initial costs and undertake initial contracts.

Chapter V. - Summary and Conclusions

1. The peculiar history of Filipino-American relationships is both an opportunity for and a challenge to the United States to continue effective cooperative action. The unusual bonds of mutuality between our two countries make this area unique in all of Asia.
2. The Philippines therefore provide the United States with a natural regional base, not only for State Department couriers, but also for the Air Force and Navy, for a military hospital, and for a rest and recreation center for U.S. forces in the Asia region. The American business community participates effectively and profitably in the Philippine economy. The Philippines provide many basic minerals and commodities consumed in America and are one of the best markets for American goods.
3. The Philippines have effected a remarkable recovery from the ravages of World War II. Its present development effort is well under way. The Filipinos show competence and sophistication, whether in business planning, monetary management, fiscal policy or development priorities.
4. The Study Team paid special attention to Mindanao and recognizes the great potential of this area. This report, however, proposes a program for the whole of the Philippines. The team recommends that AID projects, whether grants or loans, be considered on their merits as to priority for the total development program, not simply on a regional basis alone.
5. Neither the Philippines nor the Study Team are now attempting a 5- or 10-Year Blueprint. This report recommends what are essentially present priorities in the Philippines as a basis for action in the years immediately ahead. The report deals primarily with items that will serve to improve the capacity of the Philippines to finance development and to encourage the opportunities for effective private developmental activities in the Philippines.
6. The Team found as major obstacles to the accomplishment of Philippine goals that a) capital is inadequate; b) Government is over-centralized; c) excessive controls inhibit development; and, d) the "sense of community" is unduly limited.
7. The domestic capital supply and availability is growing with the fairly rapid growth of banking and insurance and the use of mutual funds. Additional financial instruments, such as savings and loan associations and credit unions, should be encouraged. The Philippines, by emphasizing greater self-sufficiency in foodstuffs, especially dairy products, meat and fish, would ultimately release \$70,000,000 a year of foreign exchange to help finance other forms of development, or enough to finance \$1 billion of 20 year, 2 $\frac{1}{2}$ % loans. Hence, the Team recommends "Feed Filipinos First". The capacity to finance develop-

/ment could

ment could be improved by expansion of exports, especially lumber and other wood products, sugar, abaca, copra, and possibly cocoa.* The reckless destruction of Philippine forests threatens one of its major export earnings as well as damages water sheds, destroys flood protection, etc. Consequently, the team urges a conservation program to insure "Forests for Philippines' Future". With greater power and transport development, there should be more minerals exploitation, milling and manufacturing, which will help reduce such imports, and expand minerals exports.

8. Simply assuring foreign investors of their right to transfer earnings and repatriate capital and reducing Government controls will serve to encourage substantially greater investment by private foreign investors.

9. To the extent that action is taken on items 6, 7, and 8, the capacity of the Philippines to service foreign loans would increase, and quite possibly their need for them will decrease. Present economic conditions and trends justify the recommendation that AID and other potential lenders and investors consider sympathetically Philippine development proposals, especially those deserving priority in the development process. Capital needs in the immediate future may be met in part from Japanese reparations, private investment, the OECD countries, and IBRD. These sources will prevent heavy demands upon AID in the immediate future.

10. Financial institutions, such as the Ex-Im Bank, DLF and IBRD, have shown much interest in making more development loans available to the Philippines. However, such loans have not been forthcoming largely because of the inability of the Philippines to prepare sound, well-developed loan applications. The Study Team feels that pre-loan feasibility surveys should be undertaken for projects of obvious priority so that the Philippines are in a better position to satisfy the lending criteria of financial institutions.

11. Foreign capital is especially needed now to improve transportation both by land and sea between the islands -- to "Unite the Islands". Dollar loans are needed for all kinds of road building equipment, spare parts, and steel structures for bridges, etc. Filipinos are competent to generate the peso components. Similarly, dollars may be needed for the steel components of ports, docks, and wharves, as well as for cranes and lighterage equipment. And an IBRD Team has been studying the question of inter-island shipping and the loan requirement for further ships.

12. Extra capital is needed to "Light the Islands". Penstocks, generators, transformers and other components of further power installations require IBRD, AID or other loans. The Study Team recommends AID, either directly

/or through

* Each \$35 million of increased earnings would finance another \$500 million of 20 year, 2½% loans, or \$300 million of 10 year, 2½% loans.

or through a Philippine-American joint development commission, accelerate the distribution of such electric power in the rural areas, such as the REA did so well in the U.S. Electricity in every barrio home would mean electric lights, radios and small power tools which would improve the education, productivity, income, and living standards of the people.

13. The United States should consistently encourage decentralization of government in the Philippines. The sheer number of decisions that must be referred to Manila engulfs the national government and inhibits action in the provinces, cities, and barrios. Local governments need not only national grants in aid but their own powers of taxation and appropriation. These changes should replace the present "pork barrel" as fully and as rapidly as possible. Legislation to permit local authorities, and especially port authorities, to improve and operate necessary public facilities would encourage local initiative and accelerate development. Broader tax powers in the hands of local units would permit many of them to make substantial improvements in their educational programs and raise the qualitative standards of education. Decentralization is one of the basic structural reforms needed to accelerate development and remove a major cause of graft and corruption.

14. The Philippine Government has been moving rather rapidly toward decontrol of foreign exchange and a unitary exchange rate. The present controls and multiple exchange rates encourage smuggling and bribery. Along with decontrol there will need to be new revenue sources to replace the tax on foreign exchange. The Study Team suggests that production taxes be favored over most export taxes and that consumption taxes be favored over most tariffs. To the extent that tariffs are contemplated, the Team recommends that a scaled reduction of tariffs be written in at the outset, so that tariffs would gradually diminish over time. The Team recommends that the U.S. offer adequate standby underwriting of decontrol, in the event IMF fails to do so, to prevent wild swings in the exchange rate. Decontrol is the second major structural reform that will both eliminate a major incentive to graft and corruption as well as liberate the creative powers of the business community. It will wipe out the time now wasted in securing governmental approval of decisions that ought to have been allowed to proceed as normal business judgments.

15. The "sense of community" in the Philippines has many limits based upon Philippine history and family structure. Minority groups within the Philippines, such as the Moros and the Chinese, suffer from significant discrimination, but other Filipinos also divide along family and tribal lines. Every encouragement should be given to the extension of public education, the promotion of common languages, and to building the habit of association across such lines, thus enlarging the Filipinos' sense of community.

16. The U.S. should promptly complete the payment promised of war damages claims which have long since been adjudicated. Delay at this point means nothing of consequence directly to the U.S., but it is a significant affront

/to the

to the Filipinos. A recent proposal for the U.S. to profit at the expense of the Filipinos by paying in the number of pesos approved at the time of adjudication, rather than in the dollar equivalent of this adjudication, represents a kind of niggardliness to be shunned. Pressures for this are almost the only report the Filipinos have had of current U.S. consideration of the issue. This is a debt of honor incurred during World War II, and only 52.5% of the larger claims have been paid.

17. Development loans should be directed first for transportation by both land and sea. Second priority should go to power, including distribution facilities as well as generation plants. Because of the shortage of fuels, hydro-power should be exploited as fully as possible before thermal power is added. Radio-telecommunication is also needed and U.S. equipment is preferred. Machinery, including drilling rigs and equipment for mineral and petroleum exploration, is needed as are industrial plants, especially iron and steel, fertilizer, etc. With proper safeguards, irrigation loans may also deserve consideration. To the fullest extent possible, such loans should be made and administered in a manner which supports decontrol, decentralization, and the development of local enterprise.

18. Priorities in the allocation of development grants should go first to encourage educational excellence. Support for the proposed medical, dental, and geological education programs, and support for the textbook paper projects should be first among the educational grants. Grants for malaria eradication and the elimination of yaws is a priority in the health field; and the gift of a hospital ship to the Filipinos so that they might have their own unit of the "Great White Fleet" is a worthy suggestion (perhaps the U.S. has one in surplus which could be made available). Development grants should continue the phasing-out support for community development. Funds for public administration programs should be used to build into the Philippine structure institutes of public administration and professional training programs that will provide continuing support for professional public administration long after AID programs are gone. Public Administration support that would strengthen the collection and enforcement of local taxes and local police powers and other local administration would serve to support the decentralization of government. The fourth order of priority might be pre-loan surveys, but only on a matching basis.

19. In the administration of AID aid in the Philippines, a small advisory staff is needed for the USOM, much smaller than that now operating in Manila. To the fullest extent possible, technicians hired to help with development grants should be assigned to and placed within the host country department or agency, with the understanding that they were to serve with such agency so long as their presence was needed, and to be re-assigned whenever the job was done or they had lost effectiveness. A small, top

/level staff

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V-5

level staff would serve as advisors to the director, to help administer the essential grant and loan programs. Philippine personnel are competent and should be used as fully as possible, not only at home but in 3rd country positions. The programming function is now unnecessarily elaborate and should be greatly simplified. The Team recommends high level conversations in Manila to explore the creation of a Philippine-American Joint Development Commission (or authority) for the administration of such portion of the entire aid program as may be mutually agreeable between the two countries. The Team especially recommends the encouragement of rural electrification as first assignment to such an authority. The Commission might include 3 members named by the President of the Philippines and 2 by the President of the United States to administer whatever programs may mutually be agreed upon from time to time.

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Orientation to the Philippine Scene

Our purpose in this paper is to provide some interpretative clues to the characteristics of the Philippine scene, indicating their historic roots and suggesting a "reading guide" for a reasonably adequate understanding of Philippine history and contemporary society.

Perhaps the best brief introduction to the Philippines is the feature article of the 1957 Britannica Book of the Year, "The Philippine Republic: A Decade of Independence" by Albert Ravenholt. Mr. Ravenholt's American University Field Staff Reports would also be helpful.

We have already referred all who wish or need to understand the Philippine economy to Frank Golay's The Philippines - Public Policy and National Economic Development. His is an excellent study although his report reflects the fact that his Fulbright year in the Philippines was 1955-56. His facts are correct and conclusions generally valid. Had he lived among Filipinos during the acceleratingly successful management of certain fundamental problems during 1960-61, perhaps his mood and tone would have been different.

Pre-history

Reconstruction of history preceding the written record is almost impossible in tropical rainfall areas. Only the deserts preserve the record. However, the archeological work of the Dean of American scholars of the Philippines, Dr. H. Otley Beyer, has at least opened the period. More recently there have been some anthropological reports from Dr. Robert Fox. Recent accidental discoveries of two old burial grounds have yielded most of what is known about the early communities in the Philippines. This information is not in book form. Succinct statements are found in Comment, a quarterly journal of Philippine affairs, first quarter, 1958 ("Prehistoric Foundations of Contemporary Filipino Culture and Society", by Robert B. Fox), and Progress 1960 "The Pre-Historic Filipino Village". Others can be found in various issues of Science Review published by the National Science Development Board in Manila.

Social Consequences of Malay-Filipino History

The most distinctive feature of the Malay-Filipino period of history, which still remains dominant in Filipino society is its bilateral kinship system. This was revealed when we asked several people, "Under law and tradition, does a married Filipina * inherit from her father's estate?"

/The reply

* Filipina is the feminine form of Filipino and is always used when referring to girls or women. Filipino is masculine or collective.

The reply was, "Why, of course, she is a forced heir. If she is legally incompetent to receive her inheritance, the court must provide for it to be received for her in trust before her father's estate can be closed." This answer indicates a bilateral kinship system with its manifold implications in all social, political and economic affairs. * Perhaps it may be easier to explain what this means to economic development planners, if it is contrasted with the usual Asian, and more universally prevalent system -- unilateral kinship.

While in Taiwan, we asked the same question of an officer of JCRR. His reply was, "No, of course not, the sons inherit." He indicated that the only financial arrangement made on behalf of a daughter was at the time of marriage.

After returning to Manila for further conversations, we asked a particularly articulate Filipina lawyer, "What do the brothers and father of a married woman do when it is known that she is being seriously mistreated by her husband?" There was fire in her eyes as she replied, "Ipagamalasakit! They would sharpen their bolos!" (Literally: they would come to her protection.)

Precisely!

Because of the relationships among members of a bilateral family and among families in a community, such societies are relatively open, individualistic, non-authoritarian, mobile, youthful, almost wholly non-structured. Because of the exclusive loyalty demanded of its members by a bilateral family (there is neither time nor resource to waste on loyalty to outsiders) the family is the only effective unit of society. Members of a bilateral family project themselves into the future. Institutions and classes are not rigid; change and accommodation cause a minimum of disruption. Hence, society and politics are dynamic.

By contrast a society in which kinship is unilateral is relatively closed, monolithic, collectivistic, authoritarian, static, dominated by elders and tightly structured. The family is circular. Decisions are made by the aged. Initiative is discouraged. Instead of projecting themselves into the future, individuals look back to the eldest male, frequently to ancestors. Institutions and class lines are usually rigid. Minimal accommodations are resisted violently (e.g., communalism and language riots in India).

/Consideration

* Carl Lande, Politics in the Philippines, Harvard University (Ph. D. Dissertation) Available in the libraries of the Department of State and the Embassy in Manila.

Consideration of fate may also reveal the distinctions between societies with bilateral and those with unilateral kinship systems.

Acceptance of Kismet by Muslims or Karma by Hindus is a stolid, hopeless kind of human response. Filipinos' expression, "Bahala na" (leave it to God) is neither resignation to fate nor an expression of piety; it is rather their temporary accommodation to something which they cannot change just at the moment, so "why fight it?" This accommodation is described by some, who lack wit or will to understand, as indolence. Countless performances of Filipinos whose efforts were rewarded and appreciated belie this charge. However, when Filipinos are controlled by authoritarian, cacique foremen, their protest is a slow-down or sit-down strike. One must remember that only the meek respond to the whip; the proud frustrate even the rack -- with "Bahala na".

This observer moved among Filipinos from Aparri to Zamboanga for almost four years. The preceding four years he spent among Pakistani Muslims, for whom he has the highest regard. Not once did he receive from Filipinos any expression of obsequious deference. Courtesy, respect and hospitality were always extended, but never demeaning deference. The most humble Filipino meets a stranger "man to man". He stands erect before him and "looks him in the eye". Pakistanis, on the other hand, other than one's colleagues, counterparts and the leaders of the society, always extended deference -- embarrassing to an American.

Also, Filipinos can laugh. They find moments of gaiety in the most difficult situations. Pakistanis are seldom, if ever, gay. Life is too grim, duty too severe and one's choices too restricted, for levity. Kismet is grim. Bahala na is a shrug of the shoulders. Only proud men with self-confidence can shrug their shoulders.

Kismet and Karma are found in societies with unilateral kinship systems; Bahala na in a society with a bilateral kinship system. Developed industrial economies; democratic social and political institutions; dynamic competitive elite and religious freedom are found in societies with bilateral kinship systems. Poverty, oligarchy, static elite and theocratic authoritarianism characterize societies with unilateral kinship systems. *

We do not argue that the causal relationships are 1:1. We do insist, however, that thus far in the history of events, the correlation of these characteristics is too high to have been coincidence.

Perhaps these kinship systems can be diagrammed and contrasting responses to selected situations tabulated in a manner to explicate the differences. (Attached)

/Social

* op. cit. - footnote II-17

Social Consequences of Spanish-Filipino History

In some important ways, the period of Spanish-Filipino history is rooted in 15th and 16th Century Europe. Any serious inquiry into Philippine society must review the decisive European events of that Age of Discovery and Exploration of New Worlds. The dominance of Spain, the dissolution of the Empire of Charles I, the rise of nation-states, occupied the armies of Europe. Religious revolt produced reformation, counter-reformation (Council of Trent) and inquisition. The expansion of trade destroyed feudalism in Europe.

Relevant articles in *Encyclopedia Britannica* and the *Catholic Encyclopedia* would provide the review necessary to an understanding of what happened in the Philippines. No one can consider himself informed about Philippine affairs without having browsed for some hours in the monumental encyclopedia of this period, The Philippine Islands, edited and translated from Spanish documents by Emma Blair and James A. Robertson.

With over-simplification but without exaggeration, one could summarize the history of the Philippines from 1521 to 1898 as the anachronistic extension of the most oppressive economic features of Spanish feudalism and the most corrupt qualities of pre-reformation ecclesiastical authoritarianism. One of the best interpretations of this period is a recent book, marked by candor and understanding by John Leddy Phelan, The Hispanization of the Philippines. Having been commissioned by Popes Alexander and Adrian, King Philip had to turn to the regular clergy, the missionary orders, for personnel. The Council of Trent, in one of its most basic reforms, prohibited Friars (regular clergy) from serving parishes because, being responsible only to their Superior, they were not subject to the episcopal authority of Bishops. Because there was no alternative, Pope Pius V gave the Spanish Crown discretionary authority to enforce this canon in the Philippines. This produced 300 years of conflict between the Friars on the one hand and the Crown and the Bishops on the other.

Friar control was absolute because neither Crown nor Bishops could do without them and because the encomendia system of internal control had both the Ilustrados (Spanish Colonists) and natives at their mercy. Ilustrados and their mestizo decedents, Caciques, were dependent upon the Friars for their grants of land and authority to exploit the labor of Filipinos in return for tribute to the Friars and protection and indoctrination of their wards.

In theory, the Spanish Crown ruled the Philippines through the Friars. In practice the Orders controlled the Philippines for their own ends in defiance of the Crown and the Bishops. Hence, revolts against Spain were revolts against the Friars. In 1872 (later than our own Civil War) three Filipino priests were garroted. The only crime of Padres Borgas, Zamora and Gomez, as far as history has revealed, was petitioning for Filipinization of the clergy.

No outsider can understand this period of unfortunate alliance of Church and State and consequent Filipino sentiments without carefully reading "Noli Me Tangere" (Social Cancer) and "El Filibusterismo" (The Reign of Greed) by a gentle, non-revolutionary Doctor, Jose Rizal. Executed in 1896, he was soon acclaimed by all Filipinos as their National Hero. During all of this year -- 1961 -- Filipinos celebrate the centennial of his birth. But in 1896 and 1897, Filipinos suspected of being members of the Katipunan, or the Masonic Order, were dragged from their homes and summarily executed without trial. Teodoro M. Kalaw's Philippine Masonry, relates this grim final effort of Cleric and Crown to suppress the inevitable revolution. Many Filipinos influential in public affairs today are sons or grandsons of the victims of that period.

By Act of the Philippine Congress of 1956, all schools, public, private and parochial, are required to teach the life and works of Rizal despite the fact that his books are on the Index.

No official American should presume to understand this period without reading the minutes and reports of the First and Second Philippine Commissions which were made part of the Congressional Record of 1900 and 1901.

For currently visible consequences of these events, the inquirer is referred to Albert Ravenholt's American University's Field Staff Report, "Religion Enters Philippine Schools and Politics", (AR-11-'55) of Sept. 22, '55. Other helpful articles recently published are: "The Filipino and His Faith" by Maria Kalaw Katigbak, a devout Catholic laywoman, currently Senatorial candidate, in Progress 1959, the Manila Times annual. "The Christianization of the Filipinos", by Josephina D. Constantino, was published in Progress 1960. Three articles comprising the section on "Religion in the Philippines", in the Fookien Times Yearbook (1960), are revealing because of tone as well as content. These are: "Catholicism in the Philippines", by Jose Ma. Hernandez; "Protestantism in the Philippines", by Enrique C. Sobprena; and "Islam in the Philippines", by Hadji Madki Alonto.

It would be difficult to overstate either the positive value of the work of Spanish Missionary orders in the Philippines or the negative consequences of that unfortunate and unhappy alliance of the powers of Church and State.

Through the Friar, the Filipino not only participated in, but quite willingly and wholeheartedly accepted as valid, the values of the Hebraic-Christian tradition which have become part of the ethical foundation of the economic life of Western Europe and the U.S. The central keynote of the Christian message that each individual is vested with dignity, sufficient to merit the immediate and personal providential concern of God, added stature to the individualism already inherent in Filipino society. Furthermore, the majority of the missionary clergy were men of exemplary character, great good will and compassion, who left behind position and estate without real hope of returning to their homes. The redemptive quality of their lives and actions, have left unmistakable imprints on the Philippine scene, and prepared Filipinos for effective participation in the Community of Nations.

Social Consequences of American-Filipino History

Sufficient consideration of mutual Fil-American involvements is presented in Appendix 2.

Filipinos attained most of the goals of their revolt against Spain with the establishment of Civil Government and the inauguration of William Howard Taft, July 4, 1901. They adapted themselves into the larger American community and participated in it with vigor. American life of this period was relatively free from colonialism, authoritarianism and class distinctions. The Filipino quality of individualistic self-esteem made his participation natural. American administration provided almost unlimited opportunities for his personal progress. He seized those opportunities. He went to school. He went into politics. He attended American universities as "pensionados," forerunners of ICA's "participants." Filipinos took over their government, except for foreign affairs and defense, as a Commonwealth, asserting with their President Quezon, "Better a government run like hell by Filipinos than like heaven by Americans." Most Americans rejoiced at their self-confidence. Governor Taft had said the same thing in somewhat more elegant words at his inaugural in 1901.

Current Events and Competing Elites

Those who have thought long and hard about what makes societies change, from Weber, through Tawney, Schumpeter, Laswell, Hagan and Pye, agree that some significant group must appear which feels bereft of its proper status, preferment and reward. In a democratic, relatively unstructured society such groups usually seek to lay hold of preferment through political action. This dynamic situation marks the current scene in the Philippines. Elite lines are not always clear; there is considerable shifting of interests and bargaining for advantage. However, there seem to be two upper class elite; five essentially middle class elite and two emerging lower class elite.

Upper Class Elite

1. Old Caciques, the landed gentry, mostly composed of older sugar families, seem to be making a last stand for recovery of influence. Some of their sons behave as their fathers and must be put in this group. They are traditional, authoritarian, paternalistic. Their wealth is in and from the land - usually sugar or perhaps copra. They were educated in parochial institutions in Spanish. They find ecclesiastical allies from the Spanish clergy, particularly Dominicans. Their aims are regressive; they work openly for return to things Spanish, feeling that the American interlude brought disorder and poor taste. About four years ago, with the assistance of the Spanish Ambassador and Spanish clergy they were able to get a requirement for universal study of Spanish language in high schools and colleges legislated by the Congress. The fact that Spanish is of use only to lawyers and historians and that precious time had to be taken from

the study of science and social science did not seem to be important to them. One young son complained bitterly to this observer during the political campaign two years ago about the low estate of morality and religion which resulted in his sacadas (sugar workers) taking his P2. to vote as he instructed; then voting as they pleased. That he was guilty of a felony under Philippine law did not seem to him to be reprehensible; but he viewed "staying bought" as a requirement of Christian ethics. They are quite convinced that they alone have the wisdom to save the Philippines from Communist take-over.

2. New Caciques, usually restless sons of the above, have broken away and are investing their considerable fortunes in middle-class joint stock business ventures. They are intent upon claiming their "Patrimony"; sharing with the Chinese and American aliens the exploitation of the natural resources of their country. Strictly speaking, this is a middle-class, bourgeoisie function but their roots are in the upper economic and social class. They are "the young bucks," a free-wheeling business group. They were educated in elite parochial schools in both the Philippines and the United States. They are the despair of their clerical advisors because of their "loose living" * and their seeming lack of fear of devil or man.

They are attracting the loyalty and services of some first-rate professional men, who at almost any other time would remain with their universities. Although they have neither the money nor the numbers to do all the things they would like to do, they are making a considerable difference in the Philippine scene. They are delightful people in the tradition of the business empire builders of our own country. Indeed, they feel themselves to be their successors. They have representatives in New York and spend considerable time in the United States themselves. They have not yet realized their political potential but observers agree that they will be playing a self-conscious role in the political campaign eight years from now. The effectiveness of this group will depend not upon its money or morals but upon the bargains it can make with other groups and whether or not they are willing to share their place in the sun.

Middle Class Elite

When Admiral Dewey dispatched the Spanish fleet before finishing his breakfast that May morning in 1898 in support of the Monroe Doctrine, there was no middle class in the Philippines. It is a creation of conscious American policy achieved chiefly through the "government pensionados." Able young men were identified and sent to the United States for four to eight years of study. (There was none of this one year ICA restriction on participants!) The middle class elite were educated in public schools

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* Luisa H. A. Linsangan, "Our Changing Leisure Class" and Maria Kalaw Katigbak, "The Filipino and His Faith" Progress 1959 (Manila Times Annual)

in the Philippines and attended State Universities in the United States. Some have put together substantial personal fortunes but almost none were heirs to money or property. The older men were the professionals who built the Philippines and directed its Commonwealth Government. Their sons, and the many thousands of others who have come up from the lower economic groups by the ladder of education, make up the Filipino Middle Class Elite.

1. Intellectuals, today, like their predecessors, are the products of public education, Filipino and U. S. Graduates of the University of the Philippines, for instance, hold 60% of the positions of leadership in the Philippines, according to Justice George Malcolm, long-time public servant in the Philippines, Dean of the Law School of U.P., Justice of the Philippine Supreme Court and self-styled "American Career Colonialist."

A cursory examination of the Philippine Congressional Register by this observer, following the election two years ago, revealed that 102 Congressmen held 106 college or university degrees. 45% were from U.P. or U. S. State Universities. Only two men, holding four degrees, were from elite parochial institutions. Religiously, this intellectual elite and its friends are known as "Catholic but-ers" ("I am a Catholic, but...").

Many are Masons or Knights of Rizal, both an anathema to the hierarchy. There are over 126 Masonic Lodges in the Philippines with more than 10,500 members. It is public knowledge that the great majority of Filipino leaders of the last sixty years have been Masons and/or Protestant, including the first two Presidents. In an article, "Can Magsaysay Succeed in The Philippines" appearing in the Antioch Review in the Spring issue, 1955, Chester Hunt felt that it was significant that "As a youth he (Magsaysay) came under the influence of Teodoro Yangco, a Filipino shipping magnate whose Protestant convictions, philanthropic interests and business shrewdness were in sharp contrast to the attitudes of the Spanish-mestizo landlords who had found a comfortable place in a traditional system."

Filipino intellectuals and their friends in other middle class elite groups are an independent minded group, not about to be disciplined by clerics or caciques. There is perhaps no more important elite group in the Philippines. Their importance does not arise from their numbers, the quality of their research or ideas, but from the fact that any other group which would attain status and achieve preferment must bargain for the services of this group.

2. Civil Servants are the natural cousins of the Filipino intellectuals. The groups overlap considerably. They share the same orientation; feel the same need for American understanding and support. Insofar as this elite group is distinct from the intellectual elite it is the second in importance.

/3. Provincial

3. Provincial Businessmen are the sons of old pensionados or have been befriended by an old-timer American. They are thoroughly American in their orientation but they feel that recent American policies have ignored them. They do have considerable resources at their command but they are removed from the centers of credit and opportunity. This group would like to operate like "the young bucks" in Manila with more wealth. They are determined to rival them if at all possible. They present an opportunity for American AID administrators to strengthen another elite group as a health balancing of economic powers! To do so requires only an insistence upon a geographic distribution of credits. A joint Philippine-American Development Commission could achieve this with ease.

There are two alien middle class elites in Filipino society who have traditionally provided the goods and services for Filipinos.

4. Chinese Traders have operated in the Philippines for as long as history records events. They monopolized all trading and money lending during the Spanish period. Although there has been considerable discrimination, delimiting the economic activity of Chinese shopkeepers and money lenders, even when they are naturalized citizens, their position is infinitely better in the Philippines than elsewhere in Southeast Asia. A prominent Chinese attorney told us that Filipino "nationalization" had been "within the fabric of laws,...within the area of legislative debate and action, and within the application of legally-constituted bodies....(and)....has not been marred by direct confiscations, violence or mob passions, or racist persecutions." Although the Chinese business community is "milked" by both political parties, its place in the Philippine Scene is long going to be one of importance. The capacity of its members to adjust to changing situations is so great that its influence is not likely to be sharply diminished.

5. American Managers remaining in Manila are secure in their positions and welcome in making their contribution to Filipino society. They are discussed at some length in the following paper. Their role in the economy will not be diminished. Indeed, for those with creative imagination, their greatest opportunities are in the future, provided the remnants of colonial attitudes can be eliminated from boards of directors in New York and Chicago.

Lower Class Elite

To speak of elite among the lower economic class may seem to be euphemistic, particularly after reading the Hardie Report on Land Reform of ten years ago. But the hard political fact is that no man could today exercise his elite prerogative of political influence without the vote of the "common tao." The tenant farmer, despite his poverty, will be served. He will withhold his permission from those who do not progressively better his conditions. And he has a grim determination

/that it

that it will be so. The farmer is not yet an elite. He is not organized. But he is well on his way to becoming the most important man in the Philippines.

He shares this importance with the Filipino worker. Although the minimum wage law is avoided in many small industries (employing less than 20 workers), in a company such as one affiliate of a large American industry, the minimum wage achieved by collective bargaining is over twice the legal prescription. Labor is making its demands felt, effectively. It is emerging into the elite status it occupies in American society. Any genuine elite group which would reap the preferment of Filipinos will be required to bargain with both the worker and the farmer.

American officials in the Philippines, if both wise and able, will see through the noisy bargaining in the market place and will, with dignified discrimination, refuse to be panicked into support of the retrogressive self-appointed saviors from among the old caciques. The future of Filipino society rests upon the nature of the bargains made among the competing elite groups. With wisdom and complete propriety American representatives can make the difference so important to both Filipinos and Americans who cherish their democratic values.

Reading Guide

Various sources have been quoted in this report. Others have been suggested in this paper as necessary or desirable for orientation of any American, particularly official, to the Philippine Scene.

The purpose of this section is not to present a general bibliography of Philippine affairs. Those who may be interested are referred to:

Fred Eggan, Selected Bibliography of the Philippines,
Human Relations Area Files:

Presented here are readings which have been of value in understanding the people and Republic of the Philippines. To those who occasionally wish to step back from their immediate duties to regain their perspective, the following are suggested:

Robert Strausz-Hupe, (and others of the Foreign Policy Research Institute, University of Pennsylvania) Protracted Conflict, N.Y., Harper, 1959, (and its successor volume) A Forward Strategy for America, N.Y., Harper, 1961, (and an essay by Dr. Strausz-Hupe) Power and Community, N.Y., Praeger Press, 1956.

The best general background of the Philippines is:

Albert Ravenholt, "The Philippines: A Decade of Independence", 1957 Encyclopedia Britannica Yearbook. Reprints are available in USOM/Manila.

And for continuing insightful information with historical background:

American Universities Field Staff Reports, also by Albert Ravenholt.

The Pre-History of the Philippines is most lucidly presented in the articles of Dr. Robert B. Fox, most of which are found in Comment, Progress 1960, and other journals published in Manila. Dr. Fox draws heavily upon the half century of work of his friend and mentor, Professor Otley Beyer. All who go to Manila are urged to become acquainted with both.

Written history of the Philippines begins with the voyage of Magellan which, for him, ended in his death on a small island just opposite Cebu City in 1521. The monumental source of these documents is the 55 volume translation of documents and books, entitled:

The Philippine Islands 1493 - 1898, edited by Emma Blair and James A. Robertson.

No one can assume that he brings understanding to Philippine problems without being familiar with each of the following:

John Leddy Phelan, The Hispanization of the Philippines, Madison, University of Wisconsin Press, 1959.
Jose Rizal, Noli Me Tangere (Social Cancer) and El Filibusterismo (The Reign of Greed), Manila, Philippine Education Co., 1956.
Senate Documents 112 & 190, 56th Congress, 1901, Reports of the Philippine Commission.

Basic books by Americans who participated in Philippine affairs are:

Cameron Forbes, The Philippine Islands, Revised, Cambridge, Harvard University Press, 1945. (Governor General, Scholar, Writer).

Joseph Ralston Hayden, The Philippines: A Study in National Development, N.Y., The Macmillan Co., 1942. (Vice-Governor, and Secretary of Public Instruction, Visiting-Professor from the University of Michigan, Adviser to General MacArthur and President Osmena).

A. V. H. Hartendorp, History of Industry and Trade of the Philippines - 2 volumes. (American teacher, writer, editor of the Journal of the American Chamber of Commerce.)

/Dean C. Worcester

Dean C. Worcester, The Philippines: Past and Present, edition of 1930, revised by J. R. Hayden, N.Y., The Macmillan Co., 1930. (Member of Philippine Commission.)

Somewhat lighter, but valuable for the record are:

George A. Malcolm, American Colonial Careerist, Boston, The Christopher Publishing House, 1957, and First Malayan Republic, same publisher, 1951. (Justice of Philippine Supreme Court for 18 years; involved in Philippine affairs from 1903-1949. Biographical vignettes of America, Filipino nation builders.)

Robert A. Smith, Philippine Freedom, 1946 - 1958, N.Y., Columbia University Press, 1958. (Documentation of post-war years by an old-time editor.)

Indispensable for comprehension of Philippine politics are:

Gabriel A. Almond and James S. Coleman, editors, The Politics of Developing Areas, Princeton, Princeton University Press, 1960. Carl H. Lande, Politics in the Philippines, Doctoral dissertation, Harvard University, available in Department of State and Embassy libraries. And "Political Attitudes and Behavior in the Philippines"; and Philippine Journal of Public Administration. (Dr. Lande is now at Yale University. See also his recent analysis of electoral returns prepared for the Bureau of External Research.)

The report of the recent comprehensive study of the Philippine economy by the I.B.R.D. team in Manila will be available in a few months. Other useful sources are:

Frank Golay, The Philippines: Public Policy and National Economic Development, Ithaca, Cornell University Press, 1961.

Benjamin Higgins, Economic Development, N.Y., W. W. Norton and Co., Inc., 1959.

For a picture of current business arrangements, consult:

Joint International Business Ventures in the Philippines - the product of a group study at Columbia University.

AID administrators, planners and technicians dealing with Philippine development should review the early assistance period by studying the reports of the Bell Mission of 1950, the Hardie Land Reform Report and:

David Wurfel, "Foreign Aid and Social Reform in Political Development: A Philippine Case Study", American Political Science Review, v: 53, June 1959.

/Review

Review of the literature on the processes of social and economic change and of the role of foreign aid should be made frequently. After re-reading the President's Message to the Congress, "A New Approach to U.S. Foreign Aid", read also:

- John Kenneth Galbraith, "A Positive Approach to Economic Aid", ICA Secretariat Note 23, March 3, 1961 - published later in Foreign Affairs.
- Everett E. Hagen, "A General Framework for Analyzing Economic Growth" - Conference on Research for the Improvement of Development Assistance Programs and Operations, Brookings Institution, Washington, May 25-27, 1961.
- Lucien Pye, The Policy Implications of Social Change in Non-Western Societies, Center for International Studies, Massachusetts Institute of Technology.
- W. W. Rostow, The Stages of Economic Growth, Cambridge, England, University Press, 1960.

As a healthy challenge to all formal, pat answers, read:

- Joseph Schumpeter, Imperialism and Social Classes, two essays of about 40 years ago, recently republished by Meridian Books, (M-4).

Agrarian change in the Philippines, and the Communist attempt to direct its energies, are adequately described in:

- Jose V. Abueva, Focus on the Barrio, Manila, University of the Philippines, 1959.
- Sonya Diane Cater, The Philippine Federation of Free Farmers, Data Paper Number 35, Southeast Asia Program, Cornell University.
- Alvin H. Scaff, The Philippine Answer to Communism, Stanford, Stanford University Press, 1955.
- Frances Lucille Starner, Magsaysay and the Philippine Peasantry, University of California Publications in Political Science, Vol. 10, 1961.
- David Reeves Sturtevant, Philippine Social Structure and Its Relation to Agrarian Unrest, Ann Arbor, Michigan University Microfilm, 1959, copy in Library of Congress, & State Library.

Three very recent reports on education in the Philippines, two still on the presses, cover this field admirably:

- A Study of the University of the Philippines, by Hannah, Middlebrook, Reeves and Hamilton, published by University of the Philippines, April 1958.
- Higher Education in the Philippines, by A. L. Carson, U.S. Office of Education.
- A Survey of the Public Schools of the Philippines - 1960, by a joint team under the leadership of J. C. Swanson, by Bureau of Public Schools, Government of the Philippines.

The most dramatically successful technical assistance program was that of the American teachers who landed in Manila from the U.S.S. Thomas in December 1901 and its sister-ship in April 1902. In testimony volunteered to the Philippine Commission in 1900, a distinguished Bishop estimated that not more than 6,000 of the 7,000,000 Filipinos had any education. A delightful book by the first Filipina Senator, who mothered most of the post-war education bills through Congress, and an American mestiza, is commended to all Americans, educators, or educated:

Senator Geronima Pecson and Maria Racelis, Tales of the American Teachers in the Philippines, Manila, Carmelo and Bauermann, Inc., 1959.

The delicate and difficult issue of the proper role of religion in Philippine society divides Filipinos and distresses their friends. To ignore the presence of the issue is not kind, intelligent nor possible.

Man innately makes a religious response to life (see Malinowsky) as he identifies meaning -- significance -- value. Knowingly or not, he projects his identified values into all human-social relationships. Hence the difficult question for Catholic, Protestant, Jew, Muslim, Buddhist and Hindu is: Since the religious value-responses of man permeate his society, to what extent shall religious institutions and their professionals also permeate his societies? This problem in the Philippines is objectively reported in:

Albert Ravenholt, "Religion Enters Philippine Schools and Politics," American Universities Field Staff Report AR-11-55.

The present and past are both presented in three articles comprising a section of:

The Fookien Times Yearbook 1960,

"Catholocism in the Philippines", by Jose Ma. Hernandez.

"Protestantism in the Philippines", by Enrique C. Sobrepena.

"Islam in the Philippines", by Hadji Madki Alonto.

Perhaps the inquirer should next study:

The Catholic Directory of the Philippines 1961 (which contains the surprising Census of 1960).

Father Horatio de la Costa, "The Catholic Church in 1953", Sunday (Manila) Times Magazine, February 15, 1953, (Microfilm copy available in the Department of State Library).

By counting many Filipinos for the first time, there was substantial reduction in the statistical proportion of Catholics.

/Even

Even earlier, Father de la Costa had said "... the proportion of Catholics to the total population has dropped ... How many of these are practicing Catholics is difficult to determine ... the national average ('of those who come regularly to Sunday Mass') ... is probably closer to 10% than 20%."

Hence, it would appear that only 5% to 7% of the citizens of the Philippines are "practicing Catholics", in Father de la Costa's terms.

Two excellent articles by laywomen appear in Progress, the Manila Times annual, the first in 1959 and the second in 1960:

"The Filipino and His Faith", Maria Kalaw Katigbak.

"The Christianization of the Filipinos", Josefina D. Constantino.

The clerical position is ably presented in issues of the quarterly journal of the Ateneo University (Jesuit) Philippine Studies.

The Catholic Bishops in the United States created some political problems in their reaction to the separation of Church and State in the Philippines by the U.S. Government, and its subsequent policies. This account is found in:

Father Frederick J. Zwierlein, Theodore Roosevelt and Catholics - 1882-1919, St. Louis, Central Verein, 1956.

The Masonic Order produced almost every leader of the revolts against Crown and Cleric and of subsequent nation-building -- from Dr. Jose Rizal through the first two Presidents of the Philippines. This story is found in:

Mauro Baradi, Masonic Personalities, Manila, Villamor Publishing Co., 1952.

Teodoro M. Kalaw, Philippine Masonry, (revised) Manila, Philippine Education Co., 1956.

Those who may have been concerned about rumblings of deteriorating Fil-American relations are referred to a recent public opinion study:

Lloyd A. Free, A Compilation of Attitudes of Philippine Legislators in the Spring of 1960, Institute for International Social Research.

For biographic information, the only useful source book is:

E. A. Manuel, Dictionary of Philippine Biography, Quezon City, Filipiniana Publications, 1955.

Two books, now with their publishers, should be studied as soon as they become available. Authors are Albert Ravenholt, of the American Universities Field Staff, and George Taylor, University of Washington, for the Council on Foreign Affairs.

Americans in the Philippines should give general attention to issues of these journals and magazines, among others:

Asia - soon to be published in Hong Kong by a staff from several neighboring countries, as a Sunday supplement for Asian newspapers.

Comment

Free Press - a crusading weekly owned by its employees as heirs of a long-time "fire-eating" American editor-publisher - for many years the most widely circulated and read publication in the country.

Journal of the American Chamber of Commerce

Journal of the Philippine Sociological Society

Philippine Journal of Public Administration

Philippine Studies

Sunday (Manila) Times Magazine

Frequent reference has been made to articles in Progress and The Fookien Times Yearbook. Progress, published annually by the Manila Times, is a series of essays and reports of generally high quality, around a theme which seems to have characterized the year. The Fookien Times Yearbook, printed in both English and Chinese, is a chronicle of the events of the year.

Because of the usefulness of articles in the last two issues of each, there is listed below, in the order in which they appear, selected essays or reports which should be helpful to AID administrators and programmers.

Progress 1959; A Year of Change and Great Expectations

- "Technology and Tradition", E. P. Patanne (Editor, Sunday Times Magazine)
- "Bold New Industries", Hilarion M. Henares, Jr. (Industrialist)
- "Our Changing Investment Trends", Sixto K. Roxas (Economist, Industrialist)
- "Our Growing Entrepreneurial Class", Benito Legarda, Jr. (Head of Research, Central Bank)
- "The Middle Class", Augusto Cesar Espiritu (Economist)
- "The Crisis in Our Educational System", Alfredo T. Morales (Dean, University of the Philippines)
- "Our Changing Bureaucracy", O. D. Corpus (Sociologist, University of the Philippines)
- "Encounter with the West", Pura Santillan-Castrence (Minister, Dept. of Foreign Affairs)
- "Culture Change Among the Minorities", F. Landa Jocano (Anthropologist)

/"Our Changing

- "Our Changing Leisure Class", Luisa H. A. Linsangan (Editor, Radio executive)
- "Mental Health Problems", Estefania Aldaba Lim (Psychologist)
- "The Barrio and the Government", Alejandrino S. Hufana (Poet, University of the Philippines)
- "Philippine Labor in 1959", Rodolfo G. Tupas (Labor Leader, Writer)
- "The Barrio and Political Action", Juan T. Gathbonton (Associate Editor, Sunday Times Magazine)
- "The Filipino and His Faith", Maria Kalaw Katigbak (Catholic Lay Leader) (Senatorial Candidate)

Progress 1960: A Year of Great Decisions

- "Major Problems of Filipino Industrialists", Filemon C. Rodriguez (Business Manager)
- "Responsible Trade Unions Promote Our Way of Life", Cicero D. Calderon (Director, Asian Labor Education Center)
- "Ideology in Business", Joaquin R. Roces (Publisher)
- "Banking Trends in 1960", Jose Fernandez, Jr. (Banker, Financier)
- "The Future of Agriculture", Isidro Macaspac (Economist, National Economic Council)
- "The Dangers of Trade with Communist China", Emmanuel Pelaez (ex-Senator, V.P. Candidate)
- "Sugar for Red China Means Slavery for Filipinos", (editorial) F. Sionel Jose, (formerly editor STM, Progress; now Associate Editor of new magazine, Asia)
- "An Asian Market for Filipino Products", Maximo V. Soliven (Editor, Publisher)
- "The Filipinos Ponder the Chinese Problem", Eufronio M. Alip (Historian)
- "Capital Formation For Filipino Industry", Ramon V. del Rosario (Manager, Financier)
- "Parity and Controls", Amado A. Castro (Director, Institute of Economic Research, R.P.)
- "The Christianization of the Filipinos", Josefina D. Constantino (Catholic Lay Leader)
(A section of five articles on Rizal; this being the centennial of his birth).
- "The Pre-Historic Filipino Village", Robert B. Fox (Anthropologist)
- "Self-Rule Takes Root in the Filipino Barrio", Ramon P. Binamira (Presidential Assistant for Community Development)
- "A Revitalization of the Barrio's Political Structure", Raul S. Manglapus (Under-Secretary, Acting Secretary, Foreign Affairs, Senatorial Candidate)
- "Land Reform and Settlement", Oscar Morelos (Writer, formerly NARRA)
(A section of three articles on Mindanao: Land of the Future)
- "The Census of 1960", Manuel Buenafe (Director, Bureau of the Census and Statistics)
- "Our Coming Population Explosion", Diosdado Macapagal (Vice President)
- "The Summing Up" -- A few sentences from the first and last paragraphs are presented here:

/"There was

"There was cause for rejoicing in 1960 ... there were more jobs created ... more factories had sprouted in the suburbs ... In Manila, the social change had become more pronounced ..."

"The dispersal of power, of industry is the greatest need of the day. This can be done with a revolution in ideas - a revolution such as that which the late and lamented Magsaysay initiated ..."

The Fookien Times Yearbook - 1959

- "Towards a New Era of Philippine-American Relations", Carlos P. Romulo (Ambassador).
- "U.S. - P.I. Relations", Charles E. Bohlen (Ambassador)
- "U.S. Aid and P.I. Claims", Albino Z. Sycip (Chairman, China Banking Corp.)
- "After the Foreign Exchange Margin", Benito Legarda, Jr. (Director of Research, Central Bank)
- "Lessons of Western Economies for the Philippines", Gil J. Puyat (Senator, Industrialist, formerly Dean, College of Business Administration)
- "The Future of Philippine Foreign Trade", Manuel E. Buenafe (Director, Bureau of the Census and Statics)
- "Philippine Education Faces Tomorrow", Manuel Lim (Secretary)
- "The Nation's Health Effort is Everybody's Business", Elpidio I. Valencia (Secretary)
- "The Progress of Philippine Labor in 1959", Angel M. Castano (Secretary)
- "Progress in Philippine Public Works and Highways", Florencio Moreno (Secretary)
- "Philippine Land Transportation Services", Alejandro A. Galang (Public Service Commissioner)

The Fookien Times Yearbook - 1960

- "An Appraisal of Credit Measures", Dominador R. Aytona (Secretary)
- "A Blueprint for More Electric Power for the Nation", Filemon M. Zablan (Manager, National Power Corporation)
- "A Blueprint for a Nationwide Highway Network", Nicolas L. Cuenca (Commissioner, Bureau of Public Highways)
- "The Progress of Philippine Labor", Angel M. Castano (Secretary)
- "Philippine Rural Progress", Ramon P. Binamira (Presidential Assistant for Community Development)
- "The USVA in the Philippines", D. F. Peppers (Manager, USVA Regional Office, Manila)
- "Catholicism in the Philippines", Jose Ma. Hernandez (Director, Catholic Writers and Speakers Bureau)
- "Protestantism in the Philippines", Enrique C. Sobrepena (General Secretary of the United Churches of Christ in the Philippines)
- "Islam in the Philippines", Hadji Madki Alonto (Provincial Governor, Lanao del Sur)
- (A section of seven articles on Rizal)

For the newcomer to Filipino studies, it is worth pointing out that these articles and essays were contributed by professional economists, anthropologists, industrial managers, financiers, labor educators, Bureau Directors, Department Secretaries, two Senatorial candidates, an ex-Senator, now Vice Presidential candidate and the Vice President, now Presidential candidate. Collectively they probably hold more Harvard, Yale, Columbia and Chicago Ph.D.s than any publication in the United States could gather as contributors, except professional journals. They are the actual core of the leadership of Philippine affairs. The American newcomer who gives attention to their information and counsel will be well advised.

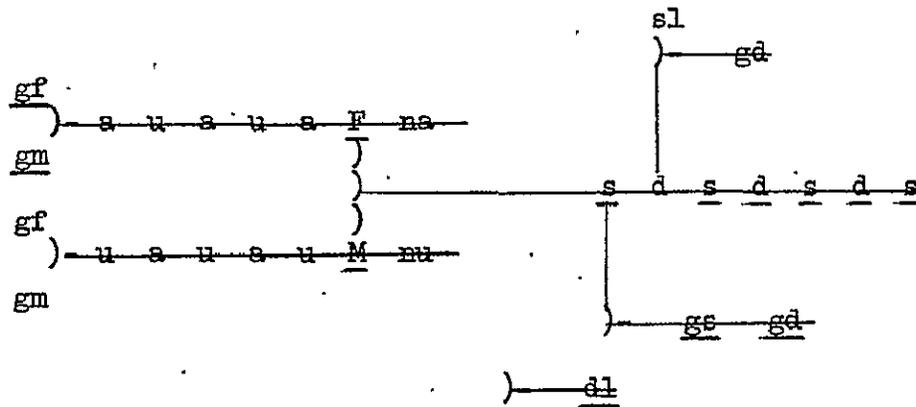
BILATERAL KINSHIP SYSTEM OF THE FILIPINO FAMILY

- F - Father
- M - Mother
- gf - Grandfather
- gm - Grandmother
- u - Uncle
- nu - Not married uncle
- a - Aunt
- na - Not married aunt
- s - Son
- d - Daughter
- sl - Son-in-law
- dl - Daughter-in-law
- gs - Grandson
- gd - Granddaughter

Statistically, married Filipinas, 45 years old, have given birth to 7.1 children.

Hence, the Extended Family of a couple 45 years old might be 2 parents, 4 grandparents, 12 uncles and aunts, 7 children, 2 children-in-law and 3 grandchildren - a total of 30 persons.

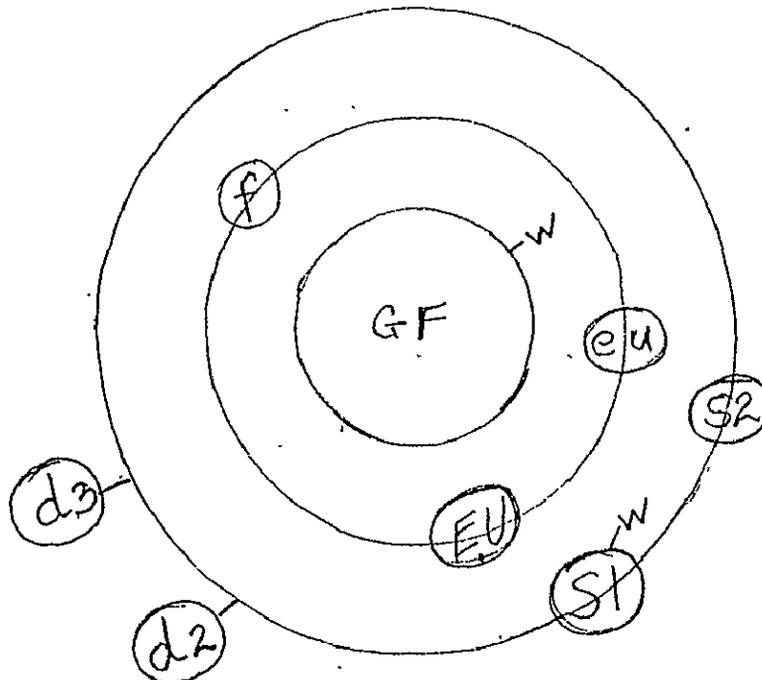
One household might well be composed of 14 persons, those underlined. There might be 5 income earners: gf, F, na, married son and an unmarried son. As long as they were part of the household they would turn over their earnings to the Mother, who functions as family treasurer, does the purchasing, and provides spending money on the basis of need and welfare.



65 years of age - 45 - - 25 - -5- -2-

UNILATERAL KINSHIP SYSTEM

By contrast a unilateral kinship system would be visualized as a series of concentric circles. Of the same thirty people, the maternal relatives would not appear nor would there be an unmarried aunt (her marriage would have been arranged). The eldest daughter has been married; hence, does not appear. The father (f) being the third son would have an elder brother (eu) and an eldest brother (EU) whose authority would be senior. The grandfather (GF), as the eldest male, would have almost total authority over all members of the family. He makes decisions as to marriage, vocational choice, education. The married women involved are indicated (w) and off to the side of the authority rank. They have no authority and no relationship to their parents. The unmarried daughters are represented as attached to the family but not within the hierarchy of authority since, in due time, they will be married off and will have no further claim upon their parents or their father's family. Such a family system might be visualized thusly:



CHARACTERISTIC RESPONSES TO SELECTED SITUATIONS

SITUATION

FILIPINO (Bilateral Kinship System)

OTHERS (Unilateral Kinship System)

Personal evaluation

High self-esteem (hiya) - personal pride sensitivity to insult.

Acceptance of one's station and the authority of elders and superiors.

Imposed authority

Rebel if possible - accept sullenly, with indolence, if rebellion is not likely to be effective - may result in social chaos.

Assumed and expected by many - stolidly accepted by others - society is ordered.

Conflict within family

Settled by parents.

May be settled by father, but if serious will be settled by grandfather and/or grand/uncles.

Conflict within community

Accommodation secured by fathers - there being no higher level for adjudication.

Settled by authority of elders as formally organized or ad hoc groups of elders.

Non-family alliances

Dyadic - two people - one-to-one relationships - temporary arrangements - no expected long-term alliances hence little sense of "community" - fluid political alliances.

Made between families by elders - usually long-term alliances hence a sense of mutual responsibilities, of "community" - society is ordered and structured - loyalty to king or emperor may be fanatic, like that given to eldest in family.

Consideration of the future

-- vocational choices -

Made by individuals.

Determined by class or caste or elders.

-- marriage choices -

Made by individuals, arranged by parents or go-betweens.

Made by parents or elders.

--- business choices -

Made by the father upon whom others are dependent for support.

Decisions made by eldest male - grandfather although he may have no financial stake in the venture.

Capital formation

If more is required than an individual can secure, other members of the extended family will buy stock or make loans but seldom would outsiders be brought into a joint stock company - however, these investments are genuinely individual - hence persons regard themselves as capitalists.

The total resources of the larger family circle would be available but others would not be invited - hence provision of capital required beyond family is thought of as a function of government, the surrogate of the elders - hence persons regard themselves as socialist.

CHARACTERISTIC RESPONSES TO SELECTED SITUATIONS (continued)

<u>SITUATION</u>	<u>FILIPINO</u>	<u>OTHERS (Unilateral Kinship System)</u>
Inheritance of women from parents	Forced heir, equal shares	None
Social demands - etiquette	Tradition respected but not binding.	Tradition controlling and compelling (e.g. a younger brother finds it impossible to address an elder brother by his given name).
Social Classes	Limiting but not confining - hence society is mobile - the Ilustrado must be elected to office by his "inferiors" - he receives personal satisfaction by winning - hence politics are democratic, leadership by consent.	Rigid, confining - the ballot is not meaningful - individuals are insecure outside their class (e.g. Muslim women "coming out of purdha" feel that they "are naked").
Leadership	Accorded to those who, because of wisdom, wealth or prowess, provide what is desired by those who follow - hence temporary, perhaps elected.	Expected of the superior or the elder - usually inherent in family, position, or class - accepted by little resentment - actually desired for its provision of security and limited personal demands and responsibilities.
Personal initiative	Freely expressed and rewarded with affluence and status.	Discouraged by elders - seldom desired by juniors or inferiors.
Visualized ideal	Projected into the future - "the best is yet to come".	The golden age was in the past - the present is inadequate or sinful - in the future people must return to the gods of their fathers or emulate their ancestors, perhaps under penalty of supernatural judgment.

The United States in the Philippines

The Philippines is unique -- to the United States.

Filipinos are special people -- to Americans. And we to them.
We are family.

Each member of the Philippine Study Team witnesses to this special relationship established by history; supported by common cultural qualities; made warm and vibrant by sentiment and interlocked by political necessity and mutually shared goals of the good life for all men.

Makers and do-ers of the Philippine economic development programs must have, not only objective data, but a lively appreciation for the nature and depth of the sentiments of Filipinos regarding our mutual involvement, each in the affairs of the other. We have already suggested something of the nature of this mutual involvement in Chapter I and Appendix 1.

Our present purpose is to identify and present the sentiments* in Fil-American involvement. Understanding of these sentiments is essential in projecting an action program of economic development. We do so by suggesting answers to four questions:

1. How do we, as members of the Study Team, feel about the Philippines?
2. How do Filipinos feel about Americans?
3. What then, can we do in Philippine affairs?
4. What ought we do?

With genuine appreciation for the sentiment component of Fil-American relations, we believe that it will be possible to fashion unusually unique, creative development programs. We insist that understanding of this component is as essential to success as objective knowledge of the economic component -- resources and manpower.

How do we feel about the Philippines?

(1) As we moved about in Philippine society and through the Philippine Government we felt that we were the heirs and successors of some of the

/finest

* Sentiment is affective; it is that union of thought and emotion which moves its subject toward satisfaction -- goal accomplishment. See Alexander Leighton, The Governing of Men and his reports of the Cornell Program of Social Psychiatry, particularly, My Name is Legion.

finest Americans of our century. Filipinos claim these Americans as their own and through them, identify themselves with American affairs of the last sixty years.

William Howard Taft, the First Governor-General, personified in his character and administration the freedom which the Filipinos sought in their rebellion against Spain. Filipinos were proud as he served the larger interests of the United States as President and Chief Justice of the Supreme Court.

General Douglas MacArthur is beloved in the Philippines. One member of the Study Team was in Manila during his "second return" in July. His reception was unbelievable in its magnitude and depth of feeling. The General's father, General Arthur MacArthur, was the Military Governor who accelerated the establishment of Civil Government under Mr. Taft and the Second Philippine Commission.

General John J. Pershing was one of the colleagues of the elder MacArthur as a young Colonel, destined to command the Allied Forces in Europe during World War I.

Major Dwight D. Eisenhower was an aide to the younger MacArthur, with his future still ahead of him.

Justice Frank Murphy had been Governor of Michigan before serving his country and the Philippines as the last Governor-General and the first High Commissioner to the Commonwealth Government.

Luther V. Bewley arrived in the Philippines in April 1902, one of nearly a thousand American teachers. Providing free public education to the Philippines was the most glorious technical assistance program the United States has ever sponsored. Spain had done almost nothing to educate Filipinos until a quarter century before it lost them. A quarter of a century after the "Thomasites" arrived (on the USS Thomas) there were eight times as many students in secondary schools as there were on "the Peninsula", proportionate to population. Professor Bewley was teacher, principal, superintendent and, for thirty years, Director of the Bureau of Public Schools. He is truly the architect of the finest U.S. monument in Asia, the Philippine Public School System. Better than any living man, he personified the magnanimity of two generations of Americans who invested their lives in Filipino society. Still living in Manila at 84 years of age, we found him to be a wise counselor. His amazing memory and wonderful humor made sixty vibrant years sparkle with meaning.

(2) As heirs of such Americans we felt responsibility for continuing and enhancing a magnificent demonstration of the noblest qualities of our American tradition of the open, permissive, challenging democratic society.

/(3) But

(3) But, we must confess, on several occasions we "felt shame" -- "hiya" (the Filipino word is better). Our self-esteem was injured by the awareness that too many hurried fellow-countrymen, living on the surface of events without awareness of their meanings, had not perceived the situation in which they had worked and had done violence to their own values and betrayed their trust.

(4) Finally, we felt that in the long and deep relationships between Filipinos and Americans, there are opportunities, still unassessed, for releasing the potentials of the peoples of Asia.

Our feelings about the Philippines are shared by many Americans.

One American editor who lived among Filipinos for thirty years and is still concerned with their affairs though he lives in New York, replied to a cynical American query, "How long do you think democracy will last in the Philippines?" by replying, "A little longer than in the United States!"

In New York a few months ago, he spoke of some of our mistakes. Addressing a commercial group, he described our paternalistic "show-window of democracy" publicity as "...something like dressing the Filipino up in curls and a Fauntleroy suit and parading him in front of the corner gang." He insisted that this kind of paternalism be replaced by mutual respect and loyalty "...to the kind of ideals we have in common..."

The President of one of the largest capital-forming organizations in Asia (the only American in the enterprise) told us of a conversation with the Vice-President of an established world-wide American company. Its directors had sent him to Manila to expand its Asian center of operations. He wanted to borrow substantial investment funds. After admitting that his company had taken all its profits out of the Philippines for several years by buying gold at 3 to 1, he was told by our informant that he could jolly well use those same dollars to buy back pesos to expand his operation. He said, "We will make investment loans only to those companies which have consistently demonstrated their confidence in the Philippines and by doing so have helped in its economic development." (It may be reported that his firm and those enterprises in which its investments have been made are doing quite handsomely).

The Vice-President for Asia of a large international banking organization declared that Filipinos have made dramatic and substantial progress in the last two years; demonstrating responsibility and maturity in fiscal management. His statement was made at dinner with the Board of Directors of the American Chamber of Commerce.

The manager of one of the largest and oldest American firms in the Philippines who, when asked that same evening, what we should do in the Philippines, replied with gruff humor but directness, "Go home. Take

/your ICA

your ICA technicians with you. And be sure the State Department fires most of the political characters who clutter up the scene here." In somewhat more mellow tones he said, "I employ 3,500 Filipinos and seven American. I could replace every American with a Filipino and shall do so as soon as their contract expires. There is at least one Filipino who could teach every ICA technician who has been in the Philippines. All we need for economic development in the Philippines are credits through the normal and customary channels. And it's your political officers, who come and go without ever really understanding the Philippines, who are responsible for the decisions that louse up our fiscal situation."

His language was extreme. However, he was saying what every other Director said, one way or another, during the evening. As a group, this hard-bitten collection of American managers was probably the most enthusiastically pro-Filipino of any with whom we conferred. They probably averaged 25 years residence in Asia. All but two or three were either "alumni" of Santo Tomas (prisoner of war camp) or ex-occupants of Chinese Communist jails. Exceptions were combat officers in Asia during World War II. And almost every one had won show-down scraps with colonial-minded Boards of Directors in New York or Chicago

How do Filipinos feel about Americans?

Filipinos adopted themselves into the larger American community and adopted Americans into their own extended family, on July 4, 1901, when William Howard Taft stated, on instructions from his President, that "the Philippines is for Filipinos" and that the government was to be fashioned for Filipinos, not for Americans.

As described earlier, loyalties of Filipinos are almost exclusively to their families. Loyalty to Americans, to the government and flag of the United States was the kind of loyalty they give to their extended families, exclusive and unreserved. This loyalty was demonstrated on Bataan and Corregidor as the war began; on the death march and in guerrilla resistance to Japanese occupation. It is implicit in the words of Manuel Roxas, who said in the United States just before his inauguration as the first President of the Republic of the Philippines:

"We are not of the Orient, except by geography. We are part of the western world by reason of culture, religion, ideology, and economics. Although the color of our skin is brown, the temper of our minds and hearts is almost identical with yours. We expect to remain part of the west, possibly as the ideological bridge between the Occident and the Orient."

Many of the thousands of Filipinos gathered on the Luneta wept as High Commissioner McNutt slowly lowered the American flag at 9:15 A.M., July 4, 1946 and President Roxas raised the Philippine flag with the

/same

same cord. After taking his oath of office, he said:

"The American flag has been lowered from the flagstaffs in this land -- not in defeat, nor in surrender, nor by compulsion, but by the voluntary act of the sovereign American nation. The flag which was first raised in conquest here has been hauled down with even greater glory. The Stars and Stripes will no longer fly over this land; but in the hearts of 18,000,000 Filipinos, and in the eyes of many millions more in this part of the world, the American flag flies more triumphantly today than ever before in history ... "

General Douglas MacArthur stated at that dramatic birth of a new nation:

"Let history record this event in flaming letters as depicting a new height of nobility in the relationship between two separate and distinct peoples of the earth, peoples of the East and peoples of the West. Despite racial, cultural, and language differences and great distances of geographical separation, they forged an affinity of understanding which survived both the vagaries of peace and the shock of war ... "

Basically and fundamentally the loyalty of Filipinos to the United States has not changed. They would spontaneously do again what they did in 1941-45. This loyalty they extend is of the same quality as that given to brothers or compadres.

Furthermore, Filipinos have involved Americans in their society as "go-between". A bilateral family system produces communities without inherited or definitely structured authority systems. This, in turn, breeds men of great personal "self-esteem". Crises produce accommodations. The men upon whom others (elder and younger) are dependent must make the accommodations. Such men are proud men -- whether they be "Knights of the Round Table" or "Pride of the Malaya Princes". They recognize no inherent authority over them.

Pride or self-esteem -- hiya -- requires that a man simply remove himself from those who have been offensive, so society does not fly apart because of personal vengeance. In a community of such individualists there must be "go-betweens" who arrange reconciliation if possible or adjudicate disagreements.

Americans who have understood that their most important role is that of "go-between" are inevitably successful in whatever they do. They are the energizers, stimulators and rationalizers of Philippine society. One well-known political leader said to us, "The American Ambassador, if he is really an able man, is the conscience of every Filipino politician."

/Filipino

Filipino political leaders from the top down, invite American participation in their affairs. What they need and what they have missed under "sovereign independence" is the function of the American administrator as "go-between". Filipinos do not want supervisors. And they don't want Americans messing in their personal arguments -- politics. But they very much want and need Americans, who because of their relations to all parties concerned, can function effectively as the balance wheel in their society, as the "go-betweens".

Filipinos demonstrate their belonging in the larger American community by writing 60-70 letters to the White House each week, probably more than citizens of any other foreign country. This interesting fact came to light quite accidentally and led to an examination of one box sent to the Department of State from the White House mail room. During the first three weeks of April there were 162 letters of which 63 came from Manila, 59 from the Provinces (rural areas) and 40 from chartered cities other than Manila. Those writing were 45 boys, 42 girls, 51 men and 24 women. There were several kinds of reasons given for writing to the President and Mrs. Kennedy; 96 requested assistance of various kinds; 23 offered felicitations; 16 wanted to study in the United States; 9 wanted to join the U.S. Navy or work for the Embassy or a military base; and 11 presented claims for back Army pay, guerrilla service or war damage. Two or three presented problems involving genuine national interest.

Inquiry was made of the Assistant Press Secretary at the White House as to how much other mail was received at the White House which was forwarded elsewhere in the government. During the last three weeks of May, 190 letters were received. In the distribution State got 94, Army 41, Veterans Administration 30, Navy 3, Treasury 3, Foreign Claims Settlement Commission 1, and 18 were retained at the White House.

As reported in Chapter I, all scientific measuring of public opinion in the Philippines bears startling testimony to the identification of Filipinos with Americans and our government. Filipinos feel that they belong in the larger American family. And they act as if they do. They exult in our triumphs. They share our dismay at our failures and our embarrassment at our faux-pas. They are disappointed in our lack of leadership, particularly in the Philippines itself. An editor, speaking for an unusual group of Filipinos with whom we had dined, said it this way:

"Recently, those of us who would build into our society the democratic values which are your values, have felt that we have not had your support. Without your support we cannot succeed. Without your support we have only despair -- personal despair. It's like during the war; we wonder where you are and why you delay your coming ... we know what must be done in the Philippines and so do you. You must help us. It is not just our future but yours also, which is at stake here ... do not underestimate your power here and do not hesitate to use it!"

What can we do in Philippine Affairs?

We can do almost anything we decide to do. One thing only we can not do; we can not prevent Filipinos from "participating in their patrimony". They are determined to have major roles in the business of production and trade. Lacking a middle class, Philippine society has depended upon Chinese traders and American managers to provide the necessaries for their existence. This is ending.

Although fear of "alien" domination is almost entirely directed against the Chinese community, resulting government restrictions necessarily fall upon American enterprises as well. However, there are all kinds of devices being offered to far-sighted American businessmen for joint-participation. Several demonstrations attest to the effectiveness of these devices. American business is welcome if it does not insist upon paternalistic dominance.

This we should not do. There are several other things we could do, but shouldn't. We could discipline Filipinos for their "graft and corruption". Some people think we should. Their concerns are proper but their appraisal of the Philippine scene is inadequate, because their impressions are dated, or their informants are singularly biased. Being alarmed about the dire consequences of deficient character is mis-directing one's energy. The "devil" theory of history which assumes (1) that vile character is the cause of social and political problems (graft and corruption); and (2) that apparent virtue is evidence of noble character rather than lack of opportunity to graft, is both useless and politically dangerous. It is useless because it provides no clues as to what can be done about the problem except preach and legislate. It is politically dangerous because "angels" are so likely to make foolish alliances with deposed or minor "devils". At best, the consequent fiasco is embarrassing.

Having just read the Bell Report of 1950, the Study Team was surprised to find some Americans who seemed to feel that the future of the Philippines depended upon those who had so emptied the treasury that teachers could not cash their warrants a dozen years ago.

To the exporter, the importer is a grafter. To the importer, the exporter is a robber. Elemental wisdom informs one that in both cases some are and some aren't. Americans should have enough political sophistication and discrimination to avoid being used by partisans, no matter how brightly their armor is polished.

We could discipline Filipinos, but we should not!

We could meddle in their politics. We could buy a man or a party now and then -- and make a temporary difference. We could, but we should not!

/Because

Because, if we do, we shall compromise our more important roles and waste more effective opportunities for creative action, regardless of the momentary righteousness of a given partisan policy or candidate.

We can do these things, but we should not.

What ought we do?

Not the above. They are unworthy of our heritage and the opportunities of our estate.

First, we ought with humility review the record of our own mistakes, our occasional lapses into colonialism, seek a confessional and begin quietly, "Mia Culpa, Padre ... many of their sins were ours; now visited upon another generation ... "

The Study Team does not insist upon sack cloth or a hair shirt. Nor do we have any intention of using the extreme language High Commissioner Paul McNutt had to use in 1945-46 to secure promised action from his government. Extreme moralists are referred to the Library of Congress.

The Philippine Independence Act of 1934 had pegged the peso at a 2:1 exchange rate for the duration of the Commonwealth. The Philippine Trade Act of 1946 continued the pegged peso, unless changed with permission of the President of the United States. It also established limited quotas of their exports to the United States and prohibited their taxing such exports. This was the quid pro quo of eight more years of free trade and a 20-year ascending scale of tariffs. Further quid pro quo was Parity, which guaranteed that during the period of preferential tariffs, Americans in the Philippines could enjoy the same rights and privileges as Filipinos in the exploitation of natural resources and operation of public utilities. This quid pro quo forced an amendment to the Constitution of the Philippines. Many Americans in the Philippines protested. But the "wisdom" of Congress prevailed. "Necessary to attract new foreign investments and assure optimum value from War Damage Payments", it said, hopefully.

The War Damages Act was under consideration by the United States Congress at the same time. Proud, sensitive Filipinos cried, "Blackmail". Regardless of the intentions of the Congress, it had delayed action until two months before Independence and had passed the bill at the same time. In effect, it was blackmail.

New investors failed to show in any large numbers. The Asian market was denied to Philippine producers because their currency was pegged to a rapidly inflating US\$. Economic development was seriously impeded. Graft and corruption was guaranteed. It is difficult to escape the feeling that if vile character is the cause of graft and corruption, the charge casts little reflection upon Filipinos. The perfidy was American.

/Our sins

Our sins of commission, now visited on Filipinos as "graft and corruption" began with the disposal of \$600 million (replacement value) of war materiel piled in staging areas near Manila for the invasion of Japan. Its surplus value was set at \$220 million. Proceeds from the sale of these items were granted to the Philippine Government by the War Damages Act of 1946. Inadequate warehousing, hopeless security, sloppy management and our own huge cadres of "operators" in our Army, reduced the inventory in the shortest possible time to get home. Filipinos eventually received about \$40 million. American management of this disposal program was scandalous beyond belief.

Not until the Laurel-Langley Agreement of 1955 did we restore control of its currency to the Republic of the Philippines; eliminate quota restrictions and lift the prohibition of export taxes on products shipped to the United States. We also made parity reciprocal, thus correcting a legal insult -- eight years after it was made. But reciprocity was meaningless. Few Filipinos could invest in the U.S. and they shouldn't have done so.

Having confessed the sins of our colonialism, we should do our penance by (1) sinking the roots of our understanding deep into our own history in the Philippines; (2) finding our proper posture, our most effective roles and our most important opportunities; and, (3) going to work.

We suggest that proper American posture in the Philippines would be that of fraternal dignity. Not aloofness -- quite the opposite. Fraternal relations imply warmth and immediacy of response. Dignity implies qualities of discrimination and discretion expressed through American policy and personified in the character and behavior of American officers.

To assume and maintain this posture of fraternal dignity, we must substantially improve the quality of official representation in the Philippines. The Study Team is obliged to report, in all candor, that many Filipinos feel that since their independence the United States has been represented by only two Ambassadors who measure up to the men who served as Governor-Generals or High Commissioners! Americans residing among them agree.

In our judgment, American policy in all of Asia will be much more effective if our representation to the Philippines is consistently superior. It is less than kind or realistic to expect Filipinos to behave imaginatively and creatively if we do not provide official representatives who can stimulate that performance.

Our posture of fraternal dignity means also that our expression of warmth and good will, while generally expressed, would be discriminating and differentiating among the various elite who struggle for preferment, status and reward in the Philippine scene. Should we fail to be discriminating, those who need us most, whom in a real sense we need most, will

/feel

feel that we have abandoned them. They must have a continuing sense of our support to establish and secure those values which we mutually believe must characterize Filipino life. We were told repeatedly that recently we have been "rewarding our enemies" -- those who would undermine the institutions essential to the democratic future of the Philippines. The rough, blunt charge of the American manager quoted earlier, referred to this amazingly short-sighted behavior of American personnel.

The very nature of a dynamic society, one in a very rapid transition, is that there are energetic, competing elite groups maneuvering for economic and political power and for social and cultural status. Because class lines have never been rigid in Filipino society, competition of elite groups is not rigid and brittle, hence not explosive.. Bargains among them are made. Accommodations are reached for particular objectives. The processes are virile and vigorous.

To discriminate among Filipino elite does not exclude any. No elite group is diametrically opposed to our values and interests (although some individuals may be). Certain ones, however, understand much more clearly, and work much more effectively for democratic egalitarian values than others. We must give evident and unhesitating approval and support to these.

Some would unwittingly jeopardize institutions essential to the open society, such as public education, while seeking goals they feel are also important. We must be quick to appreciate the constructive contributions of these groups but leave no question regarding the importance we attach to those policies and programs which increase and enhance the Filipino's sense of community.

Still others seek goals unrelated to the enhancement of democratic processes. We must ignore their trivia. Insofar as we can, without wasting time, we should seek to shift their attention to concerns of some importance.

Social change is the result of the competition of the elite for status, preferment and reward. Not all will succeed. While we must eschew political alignment we should unhesitatingly be discriminating in giving approval and support, both moral and substantive. Doing so involves our associations, our response to invitations, our public commendation, our financial favors -- and above all -- the obvious direction of our efforts and activities in AID alleviation and administration.

We betray our dignity if we withhold fraternal approval from those whose efforts are creative and constructive or if we extend fraternal approval to those whose efforts compromise the democratic processes or whose energies are wasted.

We have said that Filipinos and Americans share the same sentiments -- that we are family. We believe that deepest and most important mutual

/involvements

involvements of Filipinos and Americans are still ahead of us. And we have asserted that herein are opportunities unassessed for releasing the peoples of Asia and revolutionizing their societies.

Only a few weeks ago the Filipinos and the Americans celebrated the anniversary of their independence -- on the same day. Filipinos welcomed a very special guest, General Douglas MacArthur, on his second return. With magnificent grandeur, he expressed sentiments and convictions which have become ours also:

"The tide of world affairs ebbs and flows in and out. Old empires die, new nations are born, alliances arise and vanish. But through all this vast confusion the mutual friendship of our two countries shines like a tenfold beacon in the night. Together we have suffered the blood and the sweat and the tears. Together we seek the way and the truth and the light. And now in this long twilight era that is neither war nor peace we stand together just as firmly as before.

In the effort to build a world of economic growth and solidarity, in the effort to build an atmosphere of hope and freedom, in the effort to build a community of strength and unity of purpose, in the effort to build a lasting peace of justice, the Philippines and the United States of America have become indivisible."

A Review of U.S. Aid in the Philippines3 A. Technical Cooperation Projects

EDUCATION

Background

While Filipinos have more college degrees than any nation other than the U.S., there are evident inadequacies. For example, 72 out of 100 children do not reach 6th grade, and only 5 out of 100 complete high school. Achievement of students at given levels has fallen significantly from those of 35 years ago.

The training of Filipino doctors examined in the U.S. demonstrates severe inadequacies. The training of geologists is inadequate. On the other hand, employers felt that there was no shortage of trained manpower, and that until development increases sharply, the present educational output was more than adequate to support the nation's growth.

Description

The IGC Evaluation Report summarizes our projects as follows:

The General Education Project (initiated in FY 1953; scheduled for completion in FY 1964) has as its objectives (1) the improvement in the quality of administration, supervision and teaching in the elementary schools; (2) improvement in the use of the English language as the medium of instruction; (3) development of youth leadership; (4) solution of special cultural problems in Muslim areas, and (5) development of demonstrational elementary schools in each of the 55 school divisions. For these purposes technicians and equipment were provided.

Vocational Education Project (initiated in FY 1951; scheduled for completion in FY 1962) served to rehabilitate vocational schools, having provided buildings and equipment for 34 trade schools and 40 agricultural schools. Members of five Stanford contract teams rendered valuable service in three of these agricultural teacher-training institutions, resulting in improved courses of study and teaching methods.

Textbook Production Project (initiated in FY 1959; scheduled for completion in FY 1963) will provide paper and paper materials for the production of more than 20 million textbooks to meet the acute shortage in the public elementary and secondary schools. Presently, one textbook, most likely out of date or in poor condition, serves 8 to 10 students, a condition which contributes to the heavy loss of enrollment in the lower grades; in fact, more than 70 percent of the teenagers are not attending school.

/Review

Review and Recommendations

1. Vocational Education

The Team concurs in the phasing out, as quickly as possible, of the vocational education project. There are now some 80 vocational schools operating.

2. Textbook Project

The Team recognizes the great importance of textbooks to education, and acknowledges the shortage. It recommends that steps be taken to help assure that the Philippines accept increasing responsibility not only for printing an adequate supply, but also for encouraging local scholars to produce the needed works. (The present project falls short, and the requirements are growing every year.) Perhaps a transition step could be to get U.S. publishers and authors to permit and encourage Philippine editions of basic texts, using Filipino co-authors as fully as possible.

Decentralization, by giving local government the power to finance text purchases, would help along.

3. General Education

The general education project has been one of a technical backstopping of the Philippine educational program. Unquestionably, efforts to encourage educational excellence are needed, at all levels. It is important that U.S. grants for education continue, emphasizing the improvement in areas of most serious deficiencies.

The Team recommends encouragement to building into the Philippine system some form of accreditation, or alliance with American accreditation, that will serve to continue to press for improvement in plant, equipment, staff, and supervision.

The U.S. may have a special role to play in continuing its interest in the education of the Moros, especially in the Southern islands. The USOM staff believe, probably correctly, that their efforts have helped make the Filipino Christians less prone to ignore the needs of the Moros. The Moros are very favorably disposed toward Americans, because Americans have tended to treat them as equals, not as a subject minority. With the growing interest in development of these islands, continued expression of U.S. interest here should be most helpful, not only in meeting the needs of the minority groups, but in accelerating their integration into economic development that otherwise is passing them by.

/The Study Team

The Study Team recommends that U.S. interest in encouraging educational excellence be shifted from the elementary school toward high school and college. It suggests that AID take steps to develop an honors group of potential school teachers within a school of education, by means of competitive scholarships.

Similarly, the Team recommends U.S. support for at least one honor high school, with outstanding teachers, and scholarships based upon competitive examinations throughout the islands. The stimulus of such competition should do much to help raise standards.

The Team recommends that the Philippine education program be urged to give full consideration to the impact of radio on education. As the rural electrification program recommended herein gets under way, the number of radios should increase sharply. The possibilities for enriching school curricula, as well as the possibilities of adult education deserve study now. Advance preparation will help ensure wise use of the new opportunities.

THE UNIVERSITY OF THE PHILIPPINES

Background

The University of the Philippines Project (initiated in FY 1951; scheduled for completion in FY 1964) is designed to implement the recommendations of the Hannah Committee Survey Report and provides assistance in (1) the reorganization of the administrative procedures of the University, (2) strengthening the academic instruction and research, and (3) development of facilities and programs with a view to preparing future leaders and maintaining the University as a leading democratic institution in Asia. United States participation is principally in the form of technical assistance.

Excellence in higher education, both general and professional, is a subtle combination of outstanding faculty, fine equipment (library, museums, and laboratories) and well-qualified students motivated by a tradition of high academic performance.

The University of the Philippines was founded in 1908. It has been served by a distinguished group of Americans and Filipino educators. By 1941 it was regarded as one of the best Universities in Asia -- the only one which is a copy of the U.S. public institution. Many of its colleges and departments enjoyed world-wide reputation.

Its main campus was totally destroyed during the battle of Manila in 1945. With U.S. assistance it has been relocated in suburban Quezon City. It has new and adequate buildings, laboratories and a fair library. Now its most desperate need is to be able to hold its faculty. To do this it must raise salaries and provide more adequate faculty housing.

/In the

In the last 5 years, executive and professional salaries have jumped P 14,400 to P 25,000 and up. With a top salary for a full professor of P 12,000, the University is being raided by all comers. It has lost three of its outstanding scientists during the last year. Young men move on as soon as their obligations for having received U.S. graduate work are completed.

Faculty housing at Diliman (the Quezon City campus) were hurriedly built in 1945 as temporary quarters for American Army Officers during the build-up for the invasion of Japan. These must be replaced and additional ones constructed. Present quarters make it difficult even to maintain, much less build, staff morale.

During the war, one American prisoner of war camp was located on the campus of the College of Agriculture of the University at Los Baños. American troops liberated the prisoners from deep behind Japanese lines in a rapid knifing action. In retaliation the Japanese liquidated 2,000 residents and destroyed 66 of the 68 buildings. All equipment, facilities, library and personnel of the College were lost. It has received no War Damage payment. Its needs for faculty housing are even more desperate than those at Diliman.

Recommendations

Consequently, the Study Team urges prompt action on two proposals considered: (1) Grant for subsidy of faculty salaries to a top level of P 15,000 plus housing and attractive retirement annuities for approximately 5 years until a new Land Grant on Basilan Island is in full production and a new Land Grant for the College of Agriculture has been secured, both of which should provide replacement income. (2) Grant for faculty housing for both the Diliman and Los Baños campuses.

The grants are recommended to enable the University to hold senior professors and attract younger able men. Without security and reasonable comfort its best professors will vanish and its replacements will not appear.

The University of the Philippines would also benefit from recommendations in this report with respect to medical education, geological training and forestry.

The Team recommends phasing out the remaining programs at the University. It expresses the hope that the National Science Development Board will be re-united with the University so that the funds now going into this will enrich the University as a research center, and enliven its teaching by the impact of research fellowships and grants.

/HEALTH

HEALTH

Background and Description

Health and Sanitation programs have been used against malaria, to rehabilitate or build health facilities including hospitals, rural health units, and regional laboratories and health training units.

Pneumonia and tuberculosis remain the highest killers. Malaria is sharply reduced from 40,000 deaths a year to 2,000 a year.

The ICA has closed out its help on wells and springs and will phase out its work in environmental sanitation.

Review and Recommendations

The completion of the malaria eradication program deserves high priority. The ground gained must be secured, not only to avoid slippage but before the mosquitos become immune to the insecticide. Three to five years is estimated as the outside limit of effectiveness of the insecticides.

The proposed project for improvement of medical education also deserves high praise and full support. The U.S. interest in having high quality Filipino doctors taking residency in our hospitals is only the most immediate case for U.S. AID.

Actually, under USOM encouragement, the Philippines are embarked on a reform program of great consequence. They have reduced enrollments and raised admission requirements in medical schools; they have tightened their own medical and dental examinations and flunked a large share of recent candidates. The U.S. must not fail now to follow through, in helping improve the staff and plant of the medical schools. The Team was well impressed with the competence of the technicians, the conception of the project, and the Philippine support already enlisted.

COMMUNITY DEVELOPMENT

Background and Description

The Community Development program, operating under the President's assistant on community development, has helped train community workers and local leaders. It has secured a barrio development act that is the beginning of decentralization and of true local self government in the Philippines. National government support is taking an increasing share of the cost of the whole program.

U.S. aid now is largely to finance part of the cost of barrio improvement projects.

Review and Recommendations

Clearly this project is serving as a vehicle for part of the essential social revolution in the Philippines. It is the project that is moving constructively on decentralization of the government. The Study Team was well impressed with the Philippine leadership and staff, and with the excellent reputation of the program throughout the country, from the bottom to the top. The recent suggestion that further U.S. aid during the presently planned phasing out period take the form of a revolving loan fund for assistance to local communities seems to be a good way to dramatize U.S. interest in the program; indeed if additional dollar loan funds are needed, perhaps these too could be invested in this project. If a Philippine-American joint development commission is launched, it might well be given continuing responsibility to assist in advancing community development, and aiding in the process of decentralization.

The Regional Training Services program, using Philippine know-how for third country trainees, should continue as needed by third countries.

MINERALS DEVELOPMENTBackground and Description

The IGC Report summarizes this as follows:

NEC and the Philippines Bureau of Mines, assisted by USOM, has undertaken a scientific geological inventory of the mineral assets in the Philippines and are engaged in research upon low-grade ores with a view to their possible exploitation. Already the systematic geological work has resulted in the discovery of substantial refractory chromite and determined the feasibility of exploiting large reserves of laterite (a complex of iron, nickel and cobalt ores). Geologists, metallurgists and mining engineers are few in the Philippines; moreover, the training and experience essential in the development of this talent will require time. To provide the requisite training, Filipino participants are attending universities in the Philippines and some are being sent as team participants to the United States.

NEC/USOM has three projects that are designed to expedite the development of the country's mineral potentials; as follows:

(1) The Strategic Minerals Survey (initiated in FY 1951; scheduled for completion in FY 1963) to date has made the following progress:

(a) In the Zambales area it has proved one million tons of good grade refractory ore worth \$20 million -- sufficient to supply U.S. requirements for lining steel furnaces for two years;

(b) It has definitely determined that on the basis of indicated copper ore resources a copper smelter is justified; and

/(c) It has

(c) It has proved in the Surigao area 150 million tons of laterite with an average iron content of 45 percent and nickel of 1.38 percent. For this ore tests by the U.S. Bureau of Mines evidence a potential recovery of 80 percent of the iron and 90 percent of the nickel which, expressed in terms of current prices, has a value of \$60 billion.

(2) The Non-Metallic Minerals Survey has completed an inventory of limestone and silicon shales, thus assisting the cement industry. The ceramic, glass and fertilizer industries will likewise benefit from this project by reason of the current investigations of ceramic clays and feldspars, sulphur, dolomites, and phosphates.

(3) The Bureau of Mines Administration Improvement Project seeks to complete a systematic geological mapping program of the entire Philippines which will serve not only the mining industry but also agriculture and all forms of engineering and industrial planning.

Review

The purpose of this project is to help develop a cadre of Filipino geologists with technical knowledge and experience needed to assume responsibilities which in the past, and even now, are borne to a considerable extent by U.S. personnel -- ICA advisers.

Training has been provided both in the field and in colleges in the U.S. (participants) and in the Philippines. As part of the training job, ICA personnel are working with Philippine geologists to develop an "inventory of the country's mineral assets".

Two especially large deposits have been located with ICA help. One is a chromite ore deposit (Zambales area), while the other is a laterite ore in Surigao, of "enormous potential" enough to last as much as 200 years. These do not appear to have received great publicity, partly because of the quiet NEC opposition to exploitation of such resources by private foreign capital.

Our minerals adviser would prefer to see more done to raise the level of geological training in the Philippines, and less emphasis on participant training. As noted above, in connection with education, the Study Team shares this viewpoint of building into the country structure the wherewithal to carry on without help.

Recommendations

The Study Team recommends that the USOM include a minerals adviser on its staff, without requiring his salary to be charged to a project basis, because of the U.S. interest in the success of his work.

/The Team

The Team recommends accepting the old NEC request for U.S. AID for the assignment of a geologist to the University of the Philippines, to help raise the level of education in this important and complex field, to be phased out as soon as competent Philippine geologists can take over.

The Team recommends the completion of the Strategic Minerals survey.

FORESTRY PROGRAM AT THE UNIVERSITY OF THE PHILIPPINES

Background and Description

The IGC Report summarizes this:

In the field of forestry, USOM/NEC has been engaged in a joint project entitled Forestry Management Improvement which affords assistance to the Bureau of Forestry in over-all planning, in the application of improved methods in silva culture, reforestation and better utilization of forest products.

Forest education and inventory are the areas emphasized. Newly compiled forest statistics indicate a loss of 2,200,000 hectares of commercial forest lands in the past 25 years and proportionately greater loss in commercial timber volume. Lack of law enforcement due to ignorance, indifference or connivance has resulted in the depletion of forest reserves. In reforestation encouraging gains have resulted through better administration and increased public cooperation; nevertheless, depletion still exceeds the rate of growth. The most recent estimate of the forestry reserves is 305 billion board feet. Although this project was scheduled for termination in FY 1961, plans have been made to replace it with a forest resource inventory project which is designed to serve long-range management planning.

With the expiration of the Cornell University contract last June, a new contract pertaining solely to forestry has been arranged for the College of Forestry of the University of the Philippines with Syracuse University, the seat of New York State's College of Forestry. USOM/NEC and all concerned in the future of forestry activities in the Philippines agree that this contract is necessary to insure that the objectives outlined in the project for forest management improvement can be attained.

Review and Recommendations

The College of Forestry program calls for continued U.S. support of training of faculty, and upgrading of the college of Forestry. The need for more trained personnel in this field is implicit in the team recommendation to support Forests For Philippine Future. Considering the fact that exports of lumber and lumber products earn more than \$100 million for the Philippines, the importance of the action is evident.

/The Study Team

The Study Team expresses the hope that the Philippine Government will show a much stronger interest in this whole area, possibly financing an expanded conservation program by a higher tax on production (now very low). If there is evidence that the government will improve its forestry service and conservation program, then AID support for acceleration of the improvement of the College of Forestry might be a very significant kind of development assistance -- otherwise, more money to this purpose will be very slow in showing any benefit. The Program should be supported at all levels of government to be effective. As noted elsewhere in our report, further decentralization in such a way as to give the local units of government a continuing interest in the proper management of forest resources appears indicated by the present situation. In this case, as in others, certain "structural reforms" are absolutely essential preconditions to the success of the AID program.

PUBLIC ADMINISTRATION

Background and Description

The IGC report summarizes as follows:

The Bell Report also was the inspiration of joint NEC/USOM efforts to attempt through training to cultivate the growth of efficiency and honesty in government and ICA's participation in the area of Public Administration has been substantial -- \$7.4 million through FY 1961. The first major joint activity in this important field was the establishment at the University of the Philippines of the Institute of Public Administration, which has fostered the introduction of numerous reforms. More than 300 carefully selected trainees have now returned from training tours in the United States and are rising to positions of responsibility.

Representative joint projects include the following:

(a) The Police Improvement Project (initiated in FY 1957; scheduled for completion in FY 1966) seeks to develop the National Bureau of Investigation (NBI) as the central service and coordinating law-enforcement agency of the Philippines. Both equipment and technical aid are involved in this project which also seeks to provide training in police functions and police administration.

(b) The Census Project (initiated in FY 1959; scheduled for completion in FY 1963) furnishes technical assistance and equipment to the Bureau of the Census and Statistics in connection with the 1960 Census of population, housing and agriculture.

(c) The National Auditing Improvement Project (initiated in FY 1960; scheduled for completion in FY 1964) provides indoctrination for key government officials throughout the National Government in the importance of

/comprehensive

comprehensive audits and training for auditing personnel stressing improvement in fiscal methods and systems.

(d) The Revenue Administration Improvement Project (initiated in FY 1952; scheduled for completion in FY 1960) made available advisory assistance to the Bureau of Customs and Bureau of Internal Revenue in studies of tariff and tax laws and policies with a view to the modernization of Philippine practices.

Review:

The present project device does not seem an adequate answer to administration problems in the Philippines. "Knowledge" is largely available, and the problem is often "an inability to act even when the know-how is there". One structural reform that will open new opportunities for progress will be active support of decentralization, giving local government officials more authority and responsibility.

There is need here, as in education, to pursue excellence and integrity. There is need to build into the Philippine society those institutions that will carry on the essential work, in every age, of modernizing, improving, and scrutinizing public administration. Perhaps we can light a torch, but success requires that the host country be prepared to carry it ever after.

Recommendations

Police Improvement:

There has been some bitter rivalry between the ICA supported NBI, and the JUSMAG supported Philippine Constabulary. There should certainly be a coordinated U.S. approach to support activities in the field of public safety. Integrity and respect for the law must be shared by the leadership. No doubt, with decentralization, some good can be done in working with local police officers. But otherwise this appears to be a fringe problem.

Census:

The activity is scheduled to terminate in FY 1963, and to be phased out considerably before then. It is a small, but useful project, in terms of planning, and worthy of technical cooperation and support from the U.S.

National Auditing:

In face of the common references, everywhere, to the vast graft and corruption now practiced, and the great problems of honest and efficient use of government funds -- this project seems to start at the wrong end of the problem. No doubt it is educational, but unless there are structural reforms of decontrol and decentralization, and further evidence of high

level concern about integrity, it seems that this might prove to be mostly idle exhortation. When the climate is favorable to clean accounting, if they then need our help, we should be willing to provide it. Encouragement to the professionalization of accounting and auditing, through improved education and the development of professional societies, might be more fruitful.

Public Administration Improvement:

This has been characterized by one of the team as "not a project, but a rag bag. The E-1 describes the many facets of this 'project' in great and infinite detail. Actually it is a form of 'project cow' with several teats (sub-activities) which provide milk (salary) for U.S. technicians." The Study Team recommends that there be on the USOM staff one specialist in government and public administration -- and repeats its view that other technicians with special roles to play should be assigned and attached to the host agency within which they are to play the role. It also repeats its view that special technicians from overseas, to the extent they are necessary, might also be hired on temporary consultant contracts, and leave when they have finished what they came to do.

The most important thing to do is to upgrade the Philippine view of government as a public service. As long as public office is thought of as an opportunity to provide for one's future security, and do favors for one's friends, there is little that the U.S. can teach Filipinos about public administration. Meanwhile a small staff may serve as a nucleus for genuine expansion when a higher view has greater official acceptance and support.

OTHER PROJECTS

Industrial Development Center

Given USOM's intention to phase out this activity, the future seems predetermined, subject to what the Philippine Government does about it.

The three technicians carried under this project are not exclusively occupied by it -- the greater portion of their time being devoted to other industry activities, such as handling the rump "atomic energy project", acting as liaison for the DLF, and preparing general economic and industrial surveys, particularly in connection with Mindanao.

The Study Team recommends that the phasing out continue, and if suitable arrangements can be made, that it be accelerated. For a more extended review, see Appendix 3 B.

Regional Labor Education Center

It is anticipated that \$50,000 per year will be made available to the Regional Labor Center through fiscal year 1964. It is the purpose

/of this

of this center to spread the democratic approach to labor problems through regional participation in conferences, seminars, etc. U.S. funds are used to pay for scholarships for 3rd country participants attending the center and to defray expenses in connection with visiting lecturers.

This appears to be a worthy project, and it appears that the Philippines will take over full support by FY 1965.

The Study Team recommends that the USOM continue as planned.

Labor Productivity

The project is really to stimulate further interest in industrial productivity -- particularly in connection with IDC sponsored projects -- and to try to mitigate labor fears of productivity and technological unemployment. This is less of a project than a continuing activity dressed in project clothes. It ought to be performed by Filipinos, for Filipinos. The Study Team recommends its abolition.

Manpower Development

This project provides a justification for an ICA wet-nurse to the Department of Labor. It has gone on since 1955, and is not scheduled to terminate until 1965. While the field of labor is important, this may be the kind of recognition that ignores such basic problems as the low level of observance of present labor law, by smaller firms, under 20 workers.

Insofar as it deals with "manpower surveys", the Study Team is of the opinion that there is no great need for these to be made by ICA. The Team recommends dropping the project but encouraging Filipino business organizations to conduct such studies.

Agriculture

The Study Team found ample concern among Filipinos for the need to increase agricultural productivity, income, and living standards (these are each separate issues). ICA work in the field of agriculture, however packaged, is designed as a long term educational effort to dispose Filipino leadership, some day, to do what is obviously right and necessary. Meanwhile, it is to give them the technical knowledge and experience to prepare them to make proper choices.

But when the situation includes inadequate transportation from farm to market, shake-downs of trucks en route to market, political maladministration of past agricultural projects from farm credit to irrigation, it

/seems that

seems that basic structural reform ought to be the first concern, not just more "agricultural extension", or more irrigation wells that will cease to work shortly and be neglected.

In addition to the basic structural reforms called for in the report, the study team recommends that there be negotiations at a high level to assure that the good intentions of U.S. aid will in fact be realized. Perhaps the Joint Development Commission can serve to be a vehicle to make better use of what aid is given, and help channel Philippine efforts more constructively.

The Study Team is convinced that first things must come first. Good roads are essential, all the way into the barrios, so that farmers have an incentive to increase output. Rural electrification will permit rural radios, which will multiply effectiveness of agricultural extension a thousandfold, assuming sensible programming. Decontrol and decentralization will assist, as does the community development program. As these create a more favorable climate, then acceleration of rural production will come -- and probably with Filipinos doing the work.

The Study Team recommends that further work in this whole area concentrate on building into Philippine society and practices the institutions that will carry forward the agricultural evolution that is bound to be a part of a developing society. This is equally true for forestry work, agricultural credit, agricultural extension, and irrigation.

Cleaning up the mess that has developed around the U.S.-aided rural credit program (ACCFA) ought to be the first joint project -- and in the process, some object lessons in financial integrity and accountability may be taught, and learned, far better than by further outlays without assurance of successful follow-through.

Rural credit needs to be seen as a revolving fund, not as political largess for friends of the incumbents. Sound management and accountability ought to be required -- and some indictments returned where fraud or other crime was committed. Who will take lectures on integrity seriously so long as blatant graft and corruption go unpunished?

Irrigation ought not to be a gift -- it ought to be purchased, out of a system that assures that the prospective user has sufficient financial stake to pledge and make regular repayment, as well as plans for operation and maintenance. Making a political gift out of irrigation is truly "free" enterprise at its worst.

Industrial Development Center (IDC)

The Industrial Development Center (IDC) is a Philippine Government agency administratively attached to the National Economic Council (NEC) and jointly sponsored by the NEC and ICA. The IDC has been in operation for the past five years since FY 1955. There are four major aspects to the IDC program:

- (1) Financing Investment;
- (2) Industrial Training;
- (3) Industrial Consultation; and
- (4) Industrial Information.

These services are provided exclusively for the private sector.

Financial Investment

The IDC dollar financing program makes available to private industry foreign exchange for procurement of machinery and equipment from abroad. Funds from the Export-Import Bank may be used for importation of industrial machinery from the United States. Development Loan Fund dollars may be used for purchase of machinery off-shore. Both dollar funds and loans from IDC's time deposit financing are available through commercial banks to purchase industrial sites and to defray cost of factory buildings and machinery installation. Under the Industrial Guarantee and Loan Fund Program it guarantees up to 80% of the risk involved in loans by private commercial banks and government-owned banks. At the request of the Export-Import Bank and Development Loan Fund,

loan applications are analyzed for technical and economic feasibility.

IDC also evaluates and makes recommendations on applications under the peso time deposit fund and medium and long-term peso loans and under the Industrial Guarantee and Loan Fund.

In 1960, 33 new establishments were granted over \$3.5 million under the Export-Import Bank and Development Loan Fund financing. Peso loans amounting to more than ₱10.9 million extended to 12 industrial firms.

Industrial Training

The purpose of the industrial training program is to provide competent managerial and technical personnel and training assistance to the private sector. These have taken the form of management forums, supervisory institutes, study tours for productivity teams and individual participants for specialization in particular industrial fields.

Industrial Consultation

These services are made available to prospective and active private firms in the form of engineering and technology, labor productivity, cost accounting, and marketing consultation.

Industrial Information

The IDC also provides technical and market research and special studies to private industry and government agencies as they relate to the industrialization program of the Philippines.

U.S. Contribution to IDC

From FY 1955 to FY 1960, the U.S. dollar contribution to support this project totalled \$1.8 million for participant training, contract services, commodities and U.S. technicians. During the same period, a total of \$19 million equivalent in pesos of U.S.-owned local currency was made available for the Industrial Guarantee and Loan Fund. In addition, the IDC operating budget supported wholly from counterpart funds, totalled more than P4 million which also includes support costs of U.S. technicians and participants.

This project currently is being phased out and USOM plans to terminate this project in FY 1965. Thereafter it is anticipated that IDC functions will be turned over to private industry or turned over to some other government agency. The dollar and local currency costs for FY 1961 and FY 1962 are set at:

	<u>FY 1961</u>	<u>FY 1962</u>
Dollar Component	\$ 291,288	\$ 130,000
Counterpart Funds	₱ 982,987	₱ 950,000 (est.)

Findings and Recommendations

1. The IDC Program has placed too much emphasis on activity in the Manila area. There is a considerable need for IDC-type services in other cities and in the provinces. This problem is recognized by USOM and during FY 1962 greater emphasis will be placed on IDC activity outside of Manila.

2. There is a lack of information available outside of Manila on sources of financing (e.g., Ex-Im Bank, DLF) on how to go about applying for a loan, and on how to complete a loan application. More information should be distributed in Manila and especially outside of Manila on the above. Appropriate USOM officials should spend more time in the field to discuss with interested parties the proper approach to developing sound projects, availability of financing, etc.

3. Many of the Filipino staff at the IDC are of low caliber. A greater effort should be made to upgrade the quality of the IDC staff.

4. IDC should continue to place emphasis on contract personnel (operational types), rather than direct hire personnel (advisors).

5. The mechanism for making loans to the private sector under the DLF and Ex-Im Bank lines of credit are much too cumbersome, result in a long time period to process applications and discourage private businessmen from seeking such financing. At present a loan application would have to be approved by the commercial bank, IDC, a review committee from ICA, the Central Bank and NEC, then the chairman of NEC and a final approval by the Central Bank. There appears to be much duplication in this review process. There appears to be no reason why a loan application cannot be transmitted directly from the commercial bank to the Central Bank with ICA approval along the line. IDC and NEC do not seem to contribute much in the review process, except delays. There is no reason why the NEC, essentially a planning organization,

should have to approve such loans under the DLF and Ex-Im Bank lines of credit, regardless of the size of the loan. Because NEC is the office of foreign aid coordination, it might well review the overall line of credit, and reserve review of the very largest loans only.

An attempt should be made to simplify the mechanism under which sub-loans are made under the DLF and Ex-Im Bank lines of credit.

6. It would appear that the U.S. contribution to IDC could be terminated by the end of FY 1962 or at the latest in FY 1963. Some of the functions of IDC (e.g., management training, consultation) can be self-supporting and should be turned over to such private groups as the Jaycees and the Philippine Chamber of Industries. Other activities should be turned over to the new development bank, or other appropriate banks or government agencies.

FOOD FOR PEACE IN THE PHILIPPINES

A. Past Food Programs under P.L. 480

1. Title I Sales Programs

To date, there have been two small sales programs under Title I, P.L. 480. The details of commodity sales and local currency uses are shown in the Table which follows.

THE PHILIPPINES - TITLE I, P.L. 480
SALES PROGRAMS
(In Millions of Dollars)

<u>A. Commodities</u>	<u>1957</u>	<u>1958</u>
Rice	2.5	3.6
Cotton	4.9	
Dairy Products	1.1	
Inedible Tallow	.5	
Meat	.5	
Ocean Transportation	<u>.7</u>	<u>.5</u>
Total	10.2	4.1
<u>B. Local Currency Uses</u>		
U. S. Uses	3.0	2.1
Section 104(c)	2.1	.7
Section 104(g)	<u>5.0</u>	<u>.9</u>
Total	10.1 ^{a/}	3.7 ^{a/}

^{a/} Reflects shortfall in deliveries.

2. Title II Programs

None to date.

3. Title III (Voluntary Agency) Programs

The Voluntary Agency Program is continuing at an annual rate of about \$7.5 million. Dried milk is the chief commodity involved. About three per cent of the population of the Philippines is covered by the program.

Some of the voluntary agencies have expressed a desire to add edible oil to the program. The Philippine Government has taken the view that this kind of commodity lends itself to re-sale in commercial channels and, therefore, having doubts about its ability to police the situation, has rejected the proposal despite a willingness of ICA to approve it. Moreover, the Philippines produce and export substantial quantities of edible oils.

4. Title IV

No programs to date.

B. Prospects for Food for Peace Programs in the Philippines

1. Title I Programs

After more than two years of discussions, negotiations are underway relating to a new Title I sales program with a value of \$20.75 million. For reasons not relevant to this paper, the foregoing amount represents a reduction from a program of about \$50 million originally requested by the Philippine Government. Involved in the current program is cotton on the sales side while local currency uses include tentatively \$10.0 million for U. S. uses, \$2.0 (grant) for Community Development, \$3.0 for loans or grants under Section 104(e) or (g), and \$5.75 for military con-

struction (104(c)).

U. S. uses and military construction amounts are functions of U. S. desires; indeed, at this point, all local currency uses represent U. S. allocations which have not yet been discussed with the Philippine Government.

Some feeling exists that the Philippines can afford to buy cotton with their own dollars and that, in effect, the program will, in whole or part, displace normal dollar sales. On the other hand, the local currency for U. S. uses, if approved by the Philippine Government, would be a dollar saving to the U. S. while the military construction portion would also cover expenditure which, in the opinion of some, is indispensable and which, if not financed in this manner, would have to be financed by MSP or other dollar appropriations. (Indeed, as noted elsewhere, the study team recommends that the military construction program, if it is to continue, should be financed from the DOD budget.)

The development and implementation of future Title I Sales Programs in the Philippines will depend upon reconciliation of some basic conflicts. On the sales side, while the United States has a great interest in moving surplus commodities, it must, in doing so, take cognizance of the requirement that such sales should not displace normal marketings of either U. S. or foreign producers. Thus, for example, the Philippines is interested in taking cotton from the United States under Title I arrangements, but a belief exists in some Washington offices that the Filipinos should buy cotton with their own foreign exchange resources. Some Filipinos

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agree, as noted below. Likewise, the Philippines could utilize some additional wheat but it is claimed the flour millers of the U. S. are opposed to such sales. Additional dairy products could be used, but surpluses of these items are sporadic and U. S. willingness to provide them is unpredictable. The Philippines has recently requested Title I rice because of the shortage created by floods in Central Luzon last season.

On the local currency side, the United States, in its previous programs in the Philippines, has sought to maximize utilization of local currency sales proceeds directly for U. S. purposes, e.g., for marketing programs, Embassy requirements, etc., and indirectly, e.g., for the Military Construction Program. While this is quite understandable from the U. S. point of view, this emphasis coupled with restrictions on the commodities which the U. S. will sell in the Philippines, make the program of considerably less interest to the latter. That is to say, the Philippines can very well believe that the United States wishes to have it both ways.

Some textile mill operators are convinced that such is the case. They insisted that if the United States deposited dollars for its operating pesos, they could buy cheaper cotton. The Central Bank would have some dollars left over and the Filipino tao could buy a cheaper shirt.

The Study Team recommends emphatically that these conflicting interests be reconciled at the earliest possible date. The Team further recommends that such surplus rice as can be made available to the Philippines be promptly provided under Title I sale. The

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need is non-recurring; the Philippines is normally self-sufficient in rice production and has already purchased substantial amounts of rice in the commercial market this year. Although its foreign exchange position has improved, its debt servicing capacity should not be compromised just as it is about to make significant investments in power and transportation.

2. Title II Programs

If major public works or social reform programs directed toward improvement of rural conditions are launched in the Philippines, some possibility exists for Title II activity. Payment in kind to workers on public projects might be involved or, alternatively, sales of commodities with grants of local currency to pay wages. The rationale for the program would be the induced increase in demand for textiles, food, etc., on the part of workers now unemployed and, therefore, consuming at marginal levels.

3. Title III Programs

A consensus exists that the existing program is about as large as can be justified.

4. Title IV Programs

In the absence of a major push in the development front, Title IV credit sales would not appear to be warranted in the Philippines.

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THE MILITARY CONSTRUCTION PROGRAM

The Military Construction Program was begun in 1955 following a SEATO Meeting in September 1954, and as a result of an apparent undertaking by Secretary Dulles to assist the Philippine Government in becoming an effective member of SEATO.

OBJECTIVES

The objectives of the Program are sub-sumed under those stated for the Military Assistance Program (MAP). These objectives are

"...developing a Philippines defense structure within a stable effective government which is capable of maintaining law and order and internal security and which can contribute to the defense of the Philippines and to the collective defense of the Western Pacific..."

Specific objectives suggest that the Program is

"...to assist and encourage the Philippine Government to develop and maintain bases and facilities which would be available to United States Forces if required, to include airbases, AC & W installations, training area facilities, depot and maintenance facilities; to assist and encourage the Philippine Government to maintain a regular military establishment which will contribute to the defense of the Philippines and be adequate to perform the following tasks: a) with United States

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Forces, air defense; b) local security for Philippines or United States installations; c) one BCT for SEATO; d) harbour and coastal defense, e) inter-island mobility..."

PROGRAM CONTENT

The Military Construction Program began in a relatively small way with limited targets. Specifically, program funds in support of facilities for three reserve divisions, later increased to four, and for completion of the Basa Airbase near Clarke Field were involved. In 1958, as a result of a policy decision, air defense was brought into the picture and given some priority. By the present time, the program has burgeoned in concept and operation and now includes forty-seven identifiable projects or areas of activity divided among "Multi-purpose," Army, Navy, Air Force, Philippines Constabulary and miscellaneous.

It will suffice for this paper to suggest that three main categories of activity are included: A) Training and Reserve Facilities, B) Air Defense, including bases and AC & W units, and C) Armed Forces Philippines (AFP) operating facilities. Of these categories, A) and B) would appear to be of prime interest to the United States pursuant to its own concepts of Pacific Area Defense and C) to the Philippine Government.

Programming appears to have moved from the specifics of 1955 through an omnibus, all-inclusive approach to a current situation in which available funds are ostensibly allotted to

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"Priority" projects.

On the financial side, current estimates of program cost from inception through U. S. FY 1967 total about \$116 million, a figure which includes a recently calculated "Cost increase" of about \$32 million.

PROGRAM FINANCING

The Military Construction Program has been financed, thus far, by local currency generated by grants of Mutual Security Funds (Defense Support) in the amount of about \$55 million and by proceeds of Title I, P.L. 480 sales of surplus agricultural commodities earmarked under Section 104(c) in the amount of about \$3 million. (Through U. S. FY 1961) According to plans developed by JUSMAAG and USOM covering the period ending in FY 1963, Defense Support as a source of local currency will drop and be replaced by P.L. 480 financing. The financial picture is illustrated by the table which follows:

MILITARY CONSTRUCTION PROGRAM, THE PHILIPPINES
U.S. FY 1955/63
(In Millions of Dollar Equivalents)

<u>FY</u>	<u>Defense Support</u>	<u>P.L. 480</u>
1955	8.5	
1956	6.4	
1957	6.9	2.1
1958	7.2	1.0
1959	9.6	
1960	10.0	
1961	7.0	5.5 <u>b/</u>
1962	5.0 <u>a/</u>	7.0 <u>a/</u>
1963	3.0 <u>a/</u>	9.0 <u>a/</u>

a/ Illustrative

b/ Obsolete, no money.

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The picture shown by the foregoing table is based upon dollar obligations rather than upon firm commitments for the program of local currency available for commitment.

PROGRAM IMPLEMENTATION

Implementation of the Program has been haphazard and spotty because of a) changing priorities, b) overly-ambitious programming which, in earlier years, obviated clear-cut priorities, c) mechanical and other lags by the Philippine Government, and d) procedural problems.

Although \$55 million had been programmed for the Military Construction Activity by the end of FY 1961, only about \$39 million had been firmly committed under ICA Foreign Currency Procurement Authorizations by 31 January 1961, the latest date for which data were available, and only about \$28 million had actually been withdrawn from the U. S. Disbursing Officer's account by the same date.

Lags in implementation of programs have led to numerous instances of switching funds to other "Higher priority" projects or, at any rate, to projects which gave some promise of faster work. For example, AC & W sites, 4, 5, and 6 previously "Programmed" as high priority items may now be suspended and the programmed funds directed toward an airfield.

EVALUATION OF THE PROGRAM

The military construction program, not to say the entire MAP, is open to criticism on its premises. If the threat of

Communism or other kind of subversion in a country such as the Philippines which has no common border with the Communist Bloc is from internal, subversive activities rather than from external aggression, any expenditure on military or police forces beyond that needed to maintain internal law and order is questionable as a drain on resources needed for economic and social development.

From the viewpoint of global strategy as seen by the U. S. Military, there are undoubtedly military requirements in the Philippines which tie in with concepts of forward defense, etc. However, if these be granted, a question immediately arises about the mutuality of U. S. and Philippine interests when, as is apparent, the latter attaches a premium to domestic progress in the economic and social fields. Indeed, conversations with responsible JUSMAAG officers, coupled with an analysis of the program, indicate that by far the greater emphasis is upon air bases and other aspects of forward defense in which the U. S. has primary interest. In other words, the program may have a "Made in America" label.

This finding is supported by two arguments. On the Philippine side, as a U. S. observer has reported, the military construction program is welcome insofar as it contains economic development aspects, e.g. for military/civilian airfields, air traffic control, buildings suitable for future civilian use, etc.

On the U. S. side, a JUSMAAG officer has indicated that, lacking local currency generated from U. S. aid, he would urge dollar appropriations to carry on those activities necessary for the support and defense of U. S. bases in the Philippines.

Thus, the objectives of the program are questionable both in an absolute sense and in terms of their mutuality.

The objectives of the program are of doubtful validity in still another sense; and that is their "open-endedness." Anything up to and including the twenty-odd divisions with appropriate air and sea support which participated in the liberation of the Philippines could be justified under the objectives as stated. Of course, no responsible official on either side is recommending any such build-up. On the other hand, responsible ~~officials~~ concede that the presently planned build-up of one active and four reserve divisions with appropriate supporting forces would fall far short of what would be needed for the defense of the Philippines in the event of aggression from without.

Despite this, JUSMAAG appears to feel that present programs are "Realistic" and based upon highest priority needs. Alternatively, the view was expressed that MSP grants were minimum payments needed to allow the U. S. to maintain its base rights in the Islands.

In short, the military construction program and MAP, for that matter appears to derive from a bargaining process over the slices from a limited pie, for lacking full-scale progress toward goals established by military experts, any lesser amount lacks objective justification.

The critique of the Program can be approached from still another angle even if it is assumed that the foregoing criticisms, in view of U. S. infatuation with a kind of "Numbers game," are not to prevail. That is, the planning and implementation of the program reveals a high degree of fragmentation, changing priorities and slippage. Even if the premises of the program are acceptable -- and, in the judgment of the writer, they are not -- a thorough review and streamlining of the program to pin-point targets and to set realistic work goals would appear to be in order.

As noted previously, some forty-seven projects have been completed, started or "Programmed" In program terms, the pipeline is about \$27 million -- or more than two years of work at current rates -- while in commitment terms, the pipeline is about \$16 million. Both factors, by themselves, indicate that a searching look should be taken before additional U. S. funds are committed.

Finally, given the very modest program which is in progress, a question arises about why U. S. public funds should be granted

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in support of the activity. (The problems of "Paying for the U. S. base rights" does not seem relevant here for, if this is a valid consideration, there are clearly more straightforward ways to handle the problem, e.g. through direct appropriations to the military for "Rentals,") Philippine expenditures for defense are somewhat less than the equivalent of \$70 million per year, or less than 1.5% of the Philippines GNP. If, in fact, the costs involved in the military construction program are essential for Philippine defense, they are clearly within the economic capacity of the economy to bear with almost unnoticeable burden or diversion of resources. If they are not and, rather, are in the U. S. interest, the U. S. should face up to the fact. (Parenthetically, it might be added that the MSP grants in support of the program are only about 10% of the B/P item, "Errors and Omissions;" hence, the MSP grants have no real relevance for B/P problems in the Philippines.)

RECOMMENDATIONS

The MAP and Military Construction Programs are functions of habit and precedent. Given the ability to maintain internal law and order -- which, in the judgment of most observers, the Philippines Constabulary has -- expenditures for economic development and social and institutional reform have an overwhelming priority claim on scarce resources. Thus:

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1. In countries like the Philippines which have no common borders with the commie bloc and where external aggression is unlikely, the MAP and supporting or corollary construction programs should be scrapped.

2. In countries like the Philippines where there are considerations relating to United States concepts of global strategy, e.g. bases, AC & W sites, staging areas, etc., there should be undertaken a mutual review of these problems through diplomatic channels on their merits, and costs relating to U. S. bases and supporting facilities should be made a direct charge to the U. S. DOD budget.

3. To the extent that U. S. military requirements or other considerations make grants or loans to the Philippines relevant, these should be directed exclusively toward economic development and social and institutional reform.

Formulation and Implementation of Foreign Aid Policy

I. Policy Formulation

Policy is the basis for action to achieve a desired result; it is the terms of reference within which and from which action originates. Policy results from a consideration of objectives to be attained, on the one hand, and from a review of all those factors -- political, economic, social, psychological, institutional -- which will assist, impede or modify attainment of the objectives.

Thus, policy determines whether or not the U. S. shall assist the Philippines; it also decides, after consideration of U. S. and Philippine interests, how the country will be helped. Within this broad framework are myriad other policy decisions regarding the presumed efficacy of taking this or that action, pursuing this or that course of action. Below this are equally myriad operating decisions which should be -- but often are not -- field responsibility.

The crux of the matter is where and how objectively the primary and secondary policy decisions are made. The major policy decisions must obviously be made at the "Top", wherever that may be. Yet the "Top" has no monopoly on either wisdom or factual understandings.

Policy formulation has got to stem from free interchange of information and ideas between all competent levels.

Thus, aid for the Philippines must depend upon field analyses and recommendations which will illustrate areas of mutuality of interests, if any, and the politico-socio-economic-institutional framework in which any policy must operate. It almost must depend upon Washington review of field findings for inner consistency, consistency with history of relationships with the country, impact on other countries (what happens vis-a-vis Country B if we decide to help Country A), possibility of securing American public and Congressional support, etc.

All this is elementary but surprisingly often neglected. An invidious and false separation of the "political" and the "economic" continues. Field recommendations reflect bias. For example, at one time in Greece the "political experts" overruled all the others and said that massive aid to Greece had to continue. Happily, wiser heads prevailed but it took some highly non-objective stiletto work to get decisions changed.

A decision was made to help Burma following a visit to the President by the affable Burmese Prime Minister. This was a

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"political decision" the consequences of which are debatable.

From 1951 until at least 1960, the aid program has seemed beguiled with the "art of the possible". An enormous amount of time was spent trying to figure what kind and size of aid package would appeal to the Congress and the American public, which distracted attention from the essential questions as to what our objectives were and what was needed to attain them. What we have had as a result has been characterized as some pretty musty wine decanted ceaselessly into ever-changing bottles. The program has often seemed to nibble at the edges of problems or indulge in largess, so that many Congressmen have become distrustful. The time has come for a better approach to the "truth" and it must be enunciated without fear. (Hopefully, the AID program will come to grips with the basic need for social and economic reform, for rational economic policies and with the need, if real progress is to be made, to recognize that AID is an appropriate "intervention" in the internal affairs of other countries.)

II. Organization for Operations

With a more rational and more comprehensive basis for policy formulation must come greater autonomy for field offices. Realistic but objectively formulated policy, coupled with thorough-going negotiation prior to operation of aid programs, must surely allow the field to make day-to-day decisions on resource use, without referral to Washington. There should be no excuse for the many Washington based "technical services" employees to be second-guessing operational field recommendations. Washington staff should review field actions primarily to insure that they are consistent with policy.

A. The Role of the Director of a Field Mission

Officially, the role of a Mission Director is clear; or, at any rate, the guidance given to him is comprehensive, not to say redundant and discursive. Unfortunately, USOM Directors have not been of such uniform quality as to permit decentralized field autonomy. At one extreme has been the Director whose appointment arises from political obligations -- unqualified to do more than a routine management job within rather narrowly prescribed guidelines. He seems to have spent most of his time limiting the number of words in cables.

At the other extreme is the trained and experienced executive who lends central direction but delegates authority and responsibility, who constantly searches and probes to relate the work of his Mission and Program to the foreign policy objectives of the United States, and who is not loath to "blow the whistle" when it seems to him that changes in policy or operations are needed.

Unhappily but not exceptionally, most Directors have fallen between these extremes -- men whose chief interest seems to have been maintaining

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the boat on an even keel. This is particularly unfortunate because Washington personnel cannot possess the wisdom to make policy without freely offered advice from intelligent, imaginative people on the scene.

B. Director/Staff Relationships

Director/Staff relationships must inevitably vary according to the temperaments and personalities of the individuals involved. Some Directors prefer to "run the show". In this case a Deputy Director is not really needed. In such cases, the positions of Program Officer and Deputy could and should be combined. Other men prefer a "broad brush" approach, using the Deputy as Chief of Staff to handle day-to-day operations.

In any case the Director must, if he is to be successful, delegate responsibility and authority. Definition of, and insistence upon accountability, broadly defined, is a cornerstone of good management.

Nevertheless, the Director, the Deputy or the Program Officer must coordinate and direct. And this involves something more than appeasing the different claimants among Mission Officers for the Director's attention or for program shares. The Staff should always propose and the Director should dispose. There is no point in hiring a specialist and then telling him what to do. The specialist should have the first crack; only if he is wrong for policy or other reasons should he be corrected.

A Director should also insist upon forward thinking. One Director requires his senior staff to prepare semi-annual statements of what they have accomplished in the last six months and what they expect to accomplish in the next. Lacking something like this, a program becomes lost in the details which comprise it.

C. Mission Staffing

Most foreign aid Missions are too large, both in the number of things they are trying to accomplish and in the number of personnel they directly retain to do the work. Indeed, one cynic has suggested that the size of most foreign aid programs is a direct function of the number and composition of the Mission staff, for each expert has to have a spending program to justify his existence. This is not to say that significant numbers of specialists and advisors may be needed. Rather, most should be attached to the Host Country Agency which needs their services on the basis of mutual agreement about their role and function. As one official of the National Economic Council in the Philippines put it, "We want people to show us how to do things rather than to tell us how to do things."

In other words, most USOMs need more "worker bees" doing a job and less "drone bees" surrounding the throne. Indeed, most Missions could

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operate more effectively had they no more than a Director, Deputy/Program Officer, Controller/Administrative Officer, and such supporting generalists in functional fields to assist the Program Officer as the program might require but no more than one per field. Expert or specialist advice, if any is needed, should be brought in on a temporary basis.

The quality of Mission staff needs to be improved not only technically but also from the viewpoint of attitudes toward the program, toward foreign nationals, toward adapting U.S. techniques to country conditions. Indeed, any officer who is fully convinced that the United States is the repository of all wisdom with respect to solving the problems of other countries might as well comfort himself with like-minded people in the United States. In this connection, any officer who says, approvingly, "This is the way we do it in the United States," should be returned immediately to his home agency or occupation -- which undoubtedly needs his deep loyalty. Exhortation belongs to the pulpit and not to the program.

On the technical side, "generalists" in functional fields are needed to provide guidance to the Program Officer and the Director on the general merits of proposals as they relate to program objectives. Resident specialists should not be carried on the USOM payroll for, unless they are active in working on a project, in which case they should be assigned to the host country agency, they tend to become propagandists for particular activities.

In assigning specialists to host country agencies, it should be made crystal clear (1) that they have no status vis-a-vis the Mission; (2) that they have no special "pipeline" to U.S. policy-makers; and, (3) that they are assigned to be useful and helpful as technicians, for only so long as their services are found useful. In these circumstances, present practice of limiting tours to two years could be changed to allow for indefinite service if need be.

More use should be made of nationals of the various countries where aid programs exist. Most clerical and secretarial positions could be filled by Filipinos in the Philippines although in other countries a training program might be needed to develop adequate local staff.

Many Missions argue that Americans are needed because of the traffic in "Classified" material. The obvious answer to this is to stop the invidious practice of over-classification which has become so bad that even personnel actions are sent as Classified and therefore encrypted cables. Virtually none of the traffic of ICA warrants any classification; what little that does can almost always be handled by "Official Use Only", which can be processed by local employees.

Less obviously argued, but just as important, is the matter of status which requires that each American officer have, or have access to, an American secretary. This is required only for the Director and for the

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Program Officer; the others simply are not needed. Indeed, many officers laboriously scribble their own memos and have them copied, run their own appointment schedules, etc. American clerical help simply costs too much when such competent local help is available.

In connection with the recruitment and keeping of local employees, something must be done about salary schedules. The Embassies, in their infinite wisdom, try to pay wages which equal the nominal wages on the local market. However, outside the United States and Canada, fringe benefits may run from 25 to 100% of basic salaries. Local USOM employees have no fringe benefits, no bonuses, no retirement rights, no tenure. All these must be handled directly or indirectly.

Finally, to the extent that American clerical help must be kept, something must be done about housing allowances for the lower income brackets. These people are required to live in sub-standard housing or to live in groups. It is no rebuttal to say that this happens in the case of single people in D.C., for there they have the opportunity to choose their apartment mates.

D. Mission Operations

Foreign Aid Managers have been for years aware of the need to simplify and streamline operations to the greatest extent possible, consistent with the degree of accountability required for uses of public funds. The "blue-print process" and the Country Program Book represented efforts to consolidate and concentrate data on a comprehensive basis so as to eliminate, among other things, the needs for constant communications between field and Washington on program matters. It would be an exaggeration to say that these efforts have failed but neither have they been marked by noteworthy success.

Missions are plagued by messages reading, "No Further Clearance Required but". In their view, this smothers initiative and discourages creative programming. It is argued that Washington exists to save the Field from its own errors and biases. Where the field staff is incompetent this argument has some merit. But the answer is better field staff rather than more second-guessing.

The Country Program Book exercise has become virtually grotesque, partly because the prescribed format encourages, even insists, on repetition and redundancy; partly Missions have permitted themselves to become enraptured by mechanics. The Philippines Country Program Book of 493 pages is a monstrosity, so lengthy as to impede intelligent appraisal of the program.

As noted above, the program process in many Missions is really collective bargaining among the functional divisions with the most forceful

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proponent getting priority in the use of funds on virtually an ad hoc basis. Program Officers, who should be operating from carefully developed, forward-looking terms of reference, are frequently by-passed as a paper-shuffling group whose job is to "service" the real operators. Again this is the result, not of lack of thought and guidance, but of failure to delegate responsibility and authority to competent and experienced staff.

JCRR and Cooperative Philippine-American Aid Administration

Many Americans and Filipinos suggested that the Study Team examine the possibility and desirability of cooperative or joint administration of a significant part of our assistance program in the Philippines by methods similar to the Joint Commission on Rural Reconstruction (JCRR) on Taiwan.

These suggestions have been made during the last five years by members of Congress and other influential friends of China and the Philippines in Washington and New York.

Many Filipinos who have visited Taiwan during the last few years have been impressed with JCRR operations and have asked why a similar program could not be effective in the Philippines.

Dr. Y. C. James Yen, one of the original Chinese Commissioners of JCRR in Nanking in 1948, helped organize the privately supported Philippine Rural Reconstruction movement in 1952 and was an adviser in Manila/Washington to President Magsaysay and Senator Cabilan in 1954-55.* The Cabilan-Yen plan did not prevail in the Philippines; a program of community development similar to the pioneering Indian program was adopted and placed under a Presidential Assistant (PACD).** Although he has had no relationship for some time to the government-sponsored and U.S.-assisted programs of either China or the Philippines, this international, controversial figure did much to acquaint Americans and Filipinos with JCRR and the need for concern and action on behalf of the rural population of Asia.

Because of this general interest in JCRR, two members of the Study Team stopped in Taiwan to acquaint themselves with the concept, organization, functions, programs and adaptability of this unique organization.

One member of the team who spent several days with JCRR found himself unexpectedly drawn into a series of discussions involving a visiting Filipino Congressman, the Philippine Ambassador, the Vice-Minister for Foreign

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* Abueva, Jose V., Focus on the Barrio, University of the Philippines, Manila, 1959; a complete account of the development of the rural development program in the Philippines -- the roles of President Magsaysay, Dr. Yen and many Americans who were involved, official and otherwise; being the author's doctoral dissertation in Public Administration at the University of Michigan.

** See Appendix 3 A for description and evaluation.

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Affairs (Republic of China) and the Secretary-General of JCRR. A visit to JCRR-supported projects outside Taipei had been arranged for him. It was his suggestion, strongly supported by the Ambassador, that the Congressman avail himself of the opportunity to make the same trip and become better acquainted with Taiwan and the JCRR program. The Congressman was visibly impressed and requested further conversations in Manila. Since it was neither possible nor appropriate for this observer to carry on with the Congressman, he was "turned over" to senior officers of the Embassy.

As a result of our study and review of the work of the Commission in Taiwan, along with the evident, genuine interest in the concept and method of operation, the Study Team is convinced (1) that joint administration of a significant part of our Philippine assistance program would greatly increase our opportunities for effective and creative programming; (2) that Filipinos want a jointly administered program; (3) that such a program fits naturally into historic Fil-American relations; and, (4) that the social and political structure of Filipino society needs this kind of fraternal joint operation, as stated in Appendix 2. We not only recommend, but urge, that such be established and in operation not later than July 1, 1962, the beginning of the next fiscal year for both governments.

We are not recommending that the Chinese rural reconstruction program be imported to the Philippines. It has its own. We suggest that such portions of the AID program as may be mutually chosen be administered by a joint commission. We have nominated for inclusion rural electrification, community development, decentralization and training of local government officials, and education. These would seem to be naturals for inclusion. Perhaps stimulating and assisting business men and public officials in other economic development activities should be added. There may be others.

The Joint Commission on Rural Reconstruction was authorized by the China Aid Act of 1948 and established by an exchange of notes between the two governments on August 5, 1948.

The following statements from the Ambassador's Diplomatic Note describe the function and authority of the Commission:

(1) There shall be established a Joint Commission on Rural Reconstruction in China (hereinafter referred to as the Commission), to be composed of two citizens of the United States of America appointed by the President of the United States of America and three citizens of the Republic of China to be appointed by the President of China. The Commission shall elect one of the Chinese members as Chairman.

/(2) The functions

(2) The functions and authority of the Commission shall, subject to the provisions of the above-mentioned Section of the Act, be as follows:

(a) To formulate and carry out through appropriate Chinese Government agencies and international or private agencies in China a coordinated program for reconstruction in rural areas of China (hereinafter referred to as the Program);

(b) To conclude arrangements with the agencies referred to in the preceding paragraph establishing a basis for their cooperation;

(c) To recommend to the Governments of the United States of America and of China, within the limits prescribed by the Act, the allocation of funds and other assistance to the Program, and to recommend to the Government of China the allocation of such other funds and assistance as are deemed essential to the success of the Program;

(d) To establish standards of performance for implementation of the Program, including the qualifications, type and number of personnel to be used by cooperating agencies in the Program, and to maintain a constant supervision of all phases of the Program, with authority to recommend changes in or stoppage of any phase of the Program;

(e) To appoint such executive officers and administrative staff as the Commission deems necessary to carry out the Program, it being understood that the Chief executive officer shall be a citizen of China.

...
(4) In respect of any decision of the Commission, the approval of the Government of China shall be obtained prior to its execution if the Commission or its Chairman, with the concurrence of the Chinese members, deems it necessary.

...
(9) The Government of the United States of America reserves the right at any time to terminate or suspend its assistance, or any part thereof, provided under this exchange of notes. Assistance furnished by the Government of the United States of America under Section 407 of the Act and pursuant to this exchange of notes shall not be construed as an express or implied assumption by the Government of the United States of America of any responsibility for making any further contributions to carry out the purposes of Section 407 of the Act or of this exchange of notes.

The Joint Commission has truly been joint in spirit and operation. Program decisions are made only with unanimous approval. Chairman Chiang Monlin told this observer that, although some problems had been

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critical, not once in thirteen years of operation has the Commission divided on Chinese-American lines.

Although policy direction comes through the Prime Minister of China and the Director of ICA, its executive power flows directly from the Presidents of the two governments. This provides sufficient authority to enter into grant contracts with any government unit or private organization. This feature of JCRR is what makes it so attractive to many Filipinos.

In fact, spokesmen for both political parties mentioned this specifically and assured us that they were speaking for their presidential candidates. This provides an interesting commentary on the Filipino political paradox -- centralized administration but localized political power. The result of this, curiously enough, is to put too much executive power in the hands of Congressmen. *

"Pork barrel funds" (public works -- 30% of the budget) are distributed by Congressmen, not by an executive department. Hence these expenditures enhance the political power of Congressmen, not of the President. The President can withhold the funds while he bargains with the Congressman. But after the bargain is closed it is the Congressman who is on the scene, dispensing his largesse.

Consequently, Chief Executives and aspiring chief executives are interested in ways of stimulating and supporting local economic development projects without being blocked by, or becoming beholden to, particular Congressmen. Thus, in a left-handed way, a joint Fil-American Commission will accelerate decentralization.

JCRR can make grants of any size; some are as small as NT\$2,000 (US\$50). Regardless of size or recipient -- whether governmental unit, department or agency or private association or group -- grants are made only after a pre-project investigation by the JCRR technical staff, and only in areas of emphasis determined by the Commission. Grants are secured by legal contracts under which there is continuing technical review and audit, and final audit by ICA. If the grant is made in cash rather than commodity, a separate bank account must be established by the recipient. Funding is done on an approved work schedule, only as needed. Consequently, there is almost no possibility for misuse or embezzlement. JCRR has not lost NT\$0.01

JCRR does not do the project. The work is done by a "cooperating agency". JCRR's functions are to plan thoroughly; to stimulate action; to energize leaders of agencies or groups; to provide funds for projects; to review work in progress and to audit expenditures. In Philippine society, these are the natural functions of a "go-between", as described in previous appendices. These are the roles which American, and even more so -- a Fil-American -- fraternal (joint) group could play most effectively in Philippine society.

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* Senators are elected at-large.

JCRR is composed of the five Commissioners, a Secretariat of four Offices and ten Technical Divisions. Insofar as possible Chinese personnel are employed. Six technical divisions are now staffed entirely by Chinese. Three Office Chiefs are Chinese.

Being an autonomous and independent agency, it has been able to establish its own salary scale and recruitment procedures. All nepotism has been eliminated. Political pressure for appointments has been reduced by simply filling all vacant positions by open, competitive examinations.

The Commission trains and promotes personnel who show promise and ability; almost everyone begins as a typist or translator. Effectually, all hiring is done by the Office of Administration and approved by the Commission. No relative of an employee may be hired. These facts are explained to anyone attempting to influence an appointment. Any Chinese officer can say, sotto voce, "You know, the American Commissioners would hit the roof if I sent up this application." If they insist, they are invited to write a letter. Regardless of the person to whom such letters are sent, they are answered with a form letter from the Chief of the Office of Administration, thanking the sender for his interest, regretting that there is no opening, but inviting the applicant to prepare and return the enclosed application, assuring the applicant that as soon as there is a vacancy on the staff the applicant will be notified to appear for an open, group competitive examination.

Only a few days before this observer arrived there was a need for one typist. All applicants were invited to appear. At the appointed hour, 200 had assembled. Each one was tested in the presence of the others. The best was hired. And that procedure avoided all risk, quite neatly. We recommend these procedures to any Fil-American Commission as matters of some importance to its success.

The JCRR salary scale is much higher than comparable Chinese government positions. The Chairman receives considerably more salary than a Cabinet Minister but fewer perquisites and allowances. A top grade secretary with ten years experience is paid about twice the salary of her opposite in a government office.

These personnel practices and salary schedules assure superior personnel and result in almost no turn over. Both Chinese and American officers emphasized the importance of superior personnel to the success of the Joint Commission. Philippines Government salary scales are low enough to suggest that such independence would be essential for a Fil-American Commission.

The Chinese Commissioners have been distinguished and honored gentlemen. Chairman Chiang Monlin was Chancellor of National University of Peking. He is a fine scholar and a distinguished, selfless person, revered by Chinese people of all ranks. For instance, President and Mrs. Chiang call at his

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home on his birthday. He was in the first group to receive a Ramon Magsaysay Foundation award (established by John and Nelson Rockefeller in memory of the President) for distinguished service to the peoples of Asia. As this observer sat with the Chairman for half an hour, at his invitation, he understood the respect and devotion extended to him by his people.

Success of a Fil-American Commission will depend upon the appointment of Filipino and American Commissioners of such stature. The Commission would be no place for partisan or sectarian preferment. The Team would respectfully suggest (1) that no present member of the legislative or executive branches of either Government be appointed to the Commission;* (2) that the minority ethnic and religious groups of the Philippines be represented by at least one Commissioner; (3) that Philippine appointments be made from among those who have not been vociferously partisan (educators, scholars, justices) or, if this is not practicable, then one Commissioner should have been identified with the party currently in opposition; and, (4) that the nominations of each President be made with the prior approval of the other.

In summary, the Philippine Study Team repeats its urgent recommendation that a joint, fraternal Philippine-American Development Commission be established not later than July 1, 1962.

* The presence of Congressmen and Senators on the National Economic Council has paralyzed its functions. It was, and is inevitable, given the nature of Philippine politics. Legislators would not quietly accept exclusion unless senior civil servants were also excluded. Furthermore, since almost any department of government might find itself contracting with the Commission for a grant, its Secretary should not be in the position of reviewing and evaluating a project which he is also administering. For this reason also it might be unwise for a Secretary to resign his cabinet appointment to accept a Commission appointment, although this should probably not be prohibited.

Approach, Methodology and ProcedureApproach:

The Philippine Study Team was charged with one clear simple instruction--to get the answer to this question: what should be the relationship between United States aid and that country in light of the new program.

To learn the answer to that question we were admonished to learn what the goals of the country really were; what effort it was making to accomplish them; what problems it had encountered and what it was doing about these problems; and what, if anything, the United States could do to help.

This report is really compounded of the answers the Filipinos themselves gave us to these five subsidiary questions. We were instructed to be certain that we had identified the correct priorities--the genuine Philippine priorities. We were told to measure the present program against our findings and to report our recommendations, but look at the present program only after we had looked at the Philippine's. To the best of our ability we honored these instructions.

Methodology:

(1) The Team was oriented to the Philippines, insofar as possible, by background reading and counsel with knowledgeable persons both in Washington and overseas. We sought to understand as fully as possible the decisive characteristics of Philippine society, its history, traditions, social and economic institutions and problems. We sought to identify and understand particular facets of society which yielded useful insights into behavior. Such facets included kinship structure, family organization, the nature and alignment to non-familial groups, paternal authority, religious authority, and social mobility.

There were many conferences among the Team itself, in order that each might know the other better, know each man's special points of interest and strength, and share knowledge and impressions.

The work of the Team was then based upon many individual and group interviews, held by one or more members of the Study Team, with only occasional participation by staff of the USOM or the Embassy.

Upon arrival, the Team paid courtesy calls upon the Ambassador and the Mission Director, and held sessions with USOM top staff, to make clear what the stated purpose and functions of the Team were.

As early as possible, we tried to identify the kinds of individuals and groups from whom we wanted to receive information and counsel. We began immediately thereafter to schedule individual and group interviews. We selected not only the government officials who would have special interest in and knowledge of relationships with the U. S. aid, but also key intellectuals, professional leaders and business leaders, both Filipino and American.

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Remembering that Manila contains only 8% of the country's population, we also scheduled an extensive trip into the country, choosing Mindanao for many reasons. We made stops at Zamboanga, Cotobatu, Cagayan de Oro, Iligan, and Davao. We also made trips around Luzon and we visited our Consulate at Cebu.

By issuing an invitation to key leaders in most of these communities to meet with us and to assemble other persons interested in such meeting, we had excellent receptions which gave us many opportunities to speak with a wide variety of Philippine society. Intellectuals, professional men, public office holders, members of the opposition, businessmen, workers, farmers and spokesmen of minority groups, all attended and spoke. We drove out to see a number of barrio projects, and we stopped in private homes. We discussed problems of agriculture, of farm management, be it rice or coconuts, of lumbering and plywood manufacture, with the persons who are actually engaged in these divergent but significant activities, frequently on the scene of operations.

A typical interview might be with a cabinet officer, or with a mixed group of businessmen, officials, educators, etc. To the fullest extent possible every member of the team participated in these conferences. The procedure used was for the team spokesman to summarize the new A.I.D. program and its concepts, quoting from President Kennedy's own speeches and messages on the subject. The main points were summarized, along with his reference to the 1960's as being a Decade of Development. We also stressed a need for a clearer understanding of national goals, for effective planning, for self-help, for local initiative, the mobilization of their own resources, and for social reform and social justice. The spokesman left copies of these statements (usually the one of March 22) with officials who might want to study them in more detail. After this opener, the spokesman would say something like this:

"We were sent out here by our Washington office to see what the President's new AID program means for the future of your country. We were asked to come here without prejudice, and you may be sure that we have tried to do just that. We are not here to sell you anything. Indeed, we have no power to commit a single dollar. We can only report our findings and recommendations back to Washington. If and when the Washington office reaches new conclusions, instructions will be sent to the Ambassador and the USOM, so that negotiations with respect to the future AID program in this country, as in the past, will be conducted through the regular channels. Therefore, we are not here to negotiate but to listen.

"We would especially like for you to speak about answers to these five questions:

/What are

- What are your goals for the future in this country?
- What are you doing to achieve these goals?
- What problems have you encountered?
- What are you doing to meet these problems?
- What, if anything, can the U. S. do to help?"

It was amazing how well this process worked. Even more amazing to the Team was the widespread areas of agreement arising from these interviews, among widely divergent groups, with respect to the kinds of answers given these questions. The recommendations in this report are largely a report of the agreement among Filipinos themselves.

With respect to their answers on these questions, some of the things they did not raise in these regards surprised us a little. This finally caused us to inquire discreetly as to why questions were not raised as to (for example) land reform, or labor-management relationships. But there were always good reasons why Filipinos felt that these items, which may be problems elsewhere, were no longer major problems in the Philippines. The Filipinos were confident that these problems were in the process of being solved, hence were no longer problems but merely unfinished business.

After the Team had reached the point of tentative agreement on major conclusions, we began a new set of conferences for the purpose of checking with key individuals, alone or in mixed groups, preferably at dinner or in after-dinner conferences. We would use these opportunities to summarize briefly our findings and conclusions, and give a summary of the analysis supporting them. We asked that these be reviewed as preliminary and tentative, and be subject to scrutiny both for their validity and for their rank in a priority scale. These conferences were helpful in sharpening our findings and in filling gaps in our knowledge or understanding.

Procedure:

- (1) Prepare as adequately as time permits, assemble and absorb necessary and useful background data, papers, documents or statements from intellectuals, officials, professionals and business leaders.
- (2) Solve the logistics problem, with respect to who and where, space, housing, staff transportation, etc.
- (3) Prepare a preliminary outline of the areas of work which needs to be done and assign to each individual on the team the areas of his primary responsibility, making best use of each man's potential.
- (4) Upon arrival, seek out the persons who can be most helpful in determining who is knowledgeable, who should be seen, and how the Team can move into all segments and class levels of society. This Team was especially

/fortunate in

fortunate in this regard because it included I. Albert Wilson, who had lived in the Philippines and moved widely within it as the country representative of the Asia Foundation. We were also aided by Albert Ravenholt of the American University Field Service, as well as by key staff members of the USOM and the Embassy whose contacts extended widely throughout the Philippine society. We were especially grateful to these men and to the contacts that they helped to provide.

(5) Arrange for individual and group interviews so as to get information and to take counsel from all competent sources. To the fullest extent desirable, the group hearings were essentially public especially outside Manila. However, the Team sought no publicity with respect to its purpose or function. Publicity would have almost certainly failed adequately to interpret and would have interfered with the effective fulfillment of our responsibilities.

(6) Although the USOM or the Embassy helped to arrange many of the introductions and conferences, the Team frequently felt, especially in visits to public offices, that its effectiveness would have been handicapped by having members of the Country Team present. We wanted completely frank and adequate responses to our inquiries. We did not want the staff of the Mission to feel that it needed to defend itself against any comment that could be interpreted as a criticism. We did not want the presence of mission officials to inhibit the candor of the country officials. We did not want the Mission to feel that it was in any way bound by its silence with respect to statements made to us, nor obligated to act upon requests which might incidentally be made during such conferences. The Study Team made clear to all public officials that it had no power to negotiate, but that negotiations in the future as in the past, would be made in due course in the regular manner. Experience confirms our conviction that this choice was not only correct, but was essential to the success of the Study Team.

(7) The group interview or public conference system worked remarkably well. The impact of the mixed session helped clarify many points along the way, and it undoubtedly excited the imagination of all participants. The Team got more done in less time than would have been needed with private sessions for the same people. We were able to check impressions immediately and secure better evaluation and balance than would have been possible had we held only a series of individual conferences. It not only conserved the use of time, which was necessarily limited, but also permitted the Team to have a much wider variety of contacts than individual conferences would have made possible.

(8) The Team sought to make clear by attitude as well as comment that we were there to listen, that we were open-minded, that we did not bring a plan with us, that we had nothing to sell. We did not immediately defend American actions, persons or programs that were criticized. We tried to listen rather than lecture. On occasions where the questioner was seeking

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understanding, of course, we tried to explain to the best of our ability what we knew with respect to specifics, but only to the extent that we had knowledge. Where we believed we could add perspective to their understanding of U.S. policy, we tried to do so gently. Any betrayal of emotion or feelings in such cases would have quickly cut off the criticism and would have inhibited the effectiveness of the Team. The procedure had a very satisfying reception; upon occasion when resident Americans were present, they themselves commented favorably upon the candor and depth of the conversations. A few of the older Filipino leaders expressed profound appreciation for the opportunity to talk to Americans who came to listen and seek counsel.

In closing, every member of the Team found this a thoroughly enjoyable experience. Although we went over without prejudice, the experience probably caused us to come back biased in favor of the Philippines.

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