Not Enough Employers: The Failure of Philippine Economic Policies, 1960-85 -- While the Reforms of 1985-95 Bring Hope

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EXECUTIVE SUMMARY

From 1960 to 1985, Philippine economic policies repressed growth of demand for labor. Consequently, poverty grew worse even though donors and IFIs funded many projects. Sustained reform to increase private demand for wage labor began in 1985 and accelerated after 1990. USAID's Manila Mission was elaborately involved in dozens of reforms effective in accelerating growth, raising wages and reducing poverty. The retrospective message of this report is that, at least from 1985 to 1995, the Mission's role was critical in helping the Government achieve over 90 reforms. The message for USAID's world-wide future is that, over time, the Mission moved away from high-cost conditioned aid and became highly effective with relatively low-cost technical assistance supporting Government reform initiatives.

In 1960, Philippine economic development was well ahead of that of Taiwan, South Korea, Malaysia, and Thailand. Relatively well-educated, English speaking, closely tied to the United States, Filipinos appeared to have a more promising developmental future than did any of their East Asian neighbors.

However, by 1985, Taiwan, South Korea, Malaysia, and Thailand were all enjoying sustained economic development, rising wages, and rapid poverty reduction. In contrast, Filipinos suffered economic stagnation, persistent low wages, and growing poverty. All five of these nations received substantial foreign assistance between 1960 and 1985. Such gifts benefitted millions of Filipinos in selected "green-oasis cases" but left the majority of Filipinos to suffer the spreading poverty of a policy-oppressed non-developing economy.

The reason the four nations were successful is clear. They adopted -- with extensive USAID technical assistance (excepting Malaysia) -- policies that nourished growth in the numbers and success of private employers, many producing for export. Labor demand grew faster than labor supply could grow; so employers -- reluctant as they always are -- were compelled by competition for workers to pay higher and higher wages (doubling every 10-15 years). In turn, rising wages led manufacturers to switch from products and processes that delivered acceptable profits using cheap labor to products and processes that delivered acceptable profits while making labor more productive.

In stark contrast, for 25 years, 1960-85, Philippine leaders perpetuated economic policies that protected monopolies while repressing growth in the number of competitive private businesses. The result: the number of job seekers grew faster than did demand for wage workers. Employers had no need to raise wages of the unskilled and semi-skilled, and the press of excess workers increased the extent and severity of Philippine poverty.

But since 1985, Philippine Governments have been changing economic policies and institutions. The USAID Mission has been a key player pushing, cajoling, inspiring, and financing reform.

This paper distinguishes eight categories of policy failure that tended to depress demand for wage labor:

- import-substitution provisions held down employment in exporting,

- government-designated monopolies restricted production and excluded additional employers,

- discriminatory provisions kept out foreign employers,

- various provisions encouraged substituting capital for labor,

- financial-sector policies depressed savings and misdirected investment,

- numerous provisions held down growth in demand for rural labor,

- the revenue system failed to collect taxes either equitably or adequately to provide for infrastructure required for growth, and

- budget priorities were flawed so underfunded infrastructure (including supportive institutions) and human capital formation.

The body of the paper reports the extent and the variety of USAID involvement assisting reforms in each of the eight areas. Though not an exhaustive inventory of USAID assistance with reform, the text cites USAID's role in some 95 institutional and policy improvements, most of which contributed to the growth of demand for Filipino labor. This evidence permits the paper to conclude that if comprehensive policy and institutional reforms produce rapid growth and extensive poverty reduction in the Philippines, USAID will deserve credit for having been instrumental in facilitating many of those reforms during the decade, 1986-95.

The decade began with USAID as enforcer, conditioning large cash grants on prescribed reforms. The decade ended with the Mission as expediter, advising and funding technical assistance to reforms initiated by the Philippine government. This new role offers high returns in the future to USAID's reduced resources.

Not Enough Employers: The Failure of Philippine Economic Policies, 1960-85 -- While the Reforms of 1985-95 Bring Hope

INTRODUCTION: Twenty-Five Years of Policy Failure, 1960-95

Over the quarter century, 1960-85, Philippine economic policies kept many private employers from opening new and expanding old businesses. Government leaders did provide special benefits -- tax exemptions, tariff protection, subsidies, etc. -- to the businesses of their friends and allies. But favoritism and many other policies kept out new and prevented the growth of old firms.

As a result, private demand for labor grew less rapidly than did the labor force between 1960 and 1985, and the number of poor Filipinos rose from 17 million in 1961 to 26 million in 1985.[1]

In 1994 dollars, bilateral foreign aid averaged $5.75 per Filipino per year during the 1960s rising to $8.00 during 1980-85.[2] Thirty-forty percent of bilateral official development assistance (ODA) came from the United States. Most of the $7.5 billion total bilateral ODA, 1960-85 (in 1994 dollars)[3], went into infrastructure, health, education and environmental projects while a substantial portion provided general budget support. Partly funded by ODA, the number of foreign-based Non-Government Organizations (NGOs) doing outstanding "good works" in the Philippines surged from a few dozen in 1960 to several thousand in 1985.

Over the quarter century, 1960-85, millions of Filipinos benefitted from foreign "good works." Many benefitted a great deal.

But this history illustrates the hard fact that, unless the economic policy environment nourishes sufficient growth in the number of employers competing to hire workers, the extent of poverty will grow in spite of the good works of foreign aid and the NGOs.

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[1] The 1961 number calculated from the incidence figure in A Strategy to Fight Poverty: The Philippines, The World Bank, Washington, March 1996, and the population figure of Table A-1. The 1985 number from "Poverty Statistics: Based on the New Methodology, 1985, 1988, and 1991," the Philippine National Statistical Coordination Board, Manila, July 1993, p.10.

[2] See Appendix Table A-3. Nominal Official Development Assistance from the OECD Public Data Base on magnetic tape. The ODA dollars were converted to 1994 prices using the "U.S. Exports" price deflator, Table B-3, of the 1995 President's Economic Report. The population data came from the 1987 and 1993 Philippine Statistical Yearbook and, for 1960-1974, from the World Bank's The Philippines: Priorities and Prospects for Development.

[3] See Appendix Table A-1.

The Philippine Experience Supports Four Conclusions

First: Donor projects and NGO activities have done, and are doing, much good for a great many -- but still a minority of -- poor Filipinos.

Second: Economic policies, largely neglected by donor projects and NGO activities between 1960 and 1985, remained a barrier to increased hiring by private employers and to the economic growth such hiring would have brought.

Third: When Philippine policy reform began in the early to mid-1980s, the government barriers to the growth of private demand for wage labor were both numerous and diverse, as the subset of barriers considered below will indicate.

Fourth: Despite big budget cuts, begun in 1993, Manila's USAID Mission remained highly effective by using policy dialogue and technical assistance to help local reformers cut away those barriers.

This Report Has Four Parts

Part I briefly describes the model underlying USAID's use of policy reform to achieve the USAID objectives of accelerated economic growth and poverty reduction.

Part II describes the great damage done to Filipinos by 25 years of repressive economic policies that were basically ignored by donors and NGOs and that kept the private demand for wage labor from growing as fast as the labor supply.

Part III then describes USAID's new and much more effective role since 1985: its numerous activities helping to change policies, practices, and institutions to induce increased private wage employment and, eventually, rapid poverty reduction.

Finally, Part IV tells how, as it switched from high-cost conditioned assistance to low-cost policy dialogue and technical assistance, the Mission maintained a central role in the reform process despite sharp cuts in its budget.

PART I

USAID OBJECTIVES AND THE MODEL UNDERLYING USAID INITIATIVES

USAID Missions have often concentrated on the economic policy reforms that are prerequisite to the rapid economic growth required for sustained poverty reduction. For USAID, this strategy succeeds to the extent that accelerated growth reaches the majority of working poor excluded from the favored minorities with jobs in government, unionized companies, or other firms subject to government wage setting. USAID's target population is, therefore, hired laborers on family farms, maids, gardeners, and other workers in services, construction, artisanal and other jobs, including the self-employed, beyond the reach of unions and government decrees.

So why the emphasis in this report on wages and private demand for wage labor? Answer: simple extrapolation from the history of Britain's, Germany's, Japan's, and other nations' transitions from mass poverty to general affluence. In almost all such cases, the way up from poverty has been through rapid increases in wage employment in the private sector -- with those wage increases spreading to earnings increases in the informal sector. Moreover, in this century, general employment and wage increases in Korea, Taiwan, Indonesia, and Thailand began in firms manufacturing in large part for export.

Before rapid development begins, most members of a nation's labor force are poor and self-employed. As the labor force grows, individuals find work in self employment at near subsistence earnings, and poverty spreads. Most affluent nations were here once.

The USAID model for the Philippines assumes labor markets where -- initially -- so many people have only "subsistence" incomes[4] that, even if the demand for wage labor in the formal sector rises rapidly for some time, market-determined formal sector wages for the unskilled and semi-skilled will be little affected and informal sector earnings not at all. Most nations have begun development from this "labor-surplus" condition. The Philippines sank more deeply into that condition during the quarter century, 1960-1985, during which time demand for wage labor grew more slowly than did the labor force.

Of course, W. Arthur Lewis originated this model, and Ranis and Fei elaborated.[5] But while Lewis-Ranis-Fei generally assumed the reservoir of surplus labor to be entirely in agriculture, the assumption here is that much of the surplus is in informal services, construction,

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[4] Despite the apparent absolutism of this term, real subsistence earnings will differ from country to country and time to time.

[5] W. Arthur Lewis, *The Theory of Economic Growth*, Homewood, Ill., Irwin, 1955, and Gustav Ranis and John C. H. Fei, *Development of the Labor Surplus Economy*, Homewood, Ill., Irwin, 1964.

and artisanal manufacturing. As nations grow more urban, opportunities increase for people to scrape out subsistence incomes in cities, towns, and villages in the non-agricultural sectors toting, guarding, digging, or selling single cigarettes, sticks of gum, or pieces of candy. Even Britain experienced this diversification of the pool of surplus labor during the nineteenth century before increases in labor demand began to pull up unskilled wages in formal manufacturing and, subsequently, in other sectors.

Many nations have already enjoyed increases in the demand for wage labor sufficiently big and sustained to drain the surplus- labor reservoir and to begin to lift wages rapidly at all skill levels. This happened long ago in Britain, Sweden, America, and Japan; more recently, in Korea and Hong Kong. It is happening now in Indonesia, Thailand, Chile, Costa Rica and China. It may also, finally, have begun in the Philippines.

Labor ceases to be in surplus when formal sector unskilled and semi-skilled wages rise, driven not by unions or governmental decrees but by competition for labor through multiplication of successful employers, the latter, most often, engaged in manufacturing. Then, with the alternative of wage-paying jobs in the formal sector, farm labor can successfully demand more substantial noon meals, maids and gardeners can successfully demand shorter hours; and workers throughout the informal sector become able to obtain higher real incomes, either in cash and in-kind. The prerequisite: rapid employment growth in the formal sector.

This is, emphatically, not to deny the possibility of wage increases for large portions of the population during periods of initial slow growth and of recovery from recessions. Even during slow growth, big increases in demand in particular sectors are possible. These increases can compel some employers to pay more even to the unskilled in order to induce workers to move to those employers. And there are always some occupations, welding, or repair services, or computer skills, that may confront employers with upward sloping supply functions that compel higher wages when demand rises. But increases in the wages of the majority of the poor do not happen until growth in demand for labor is general, rapid, and sustained.

How to get sufficient growth in labor demand? Import substitution can't possibly do it. It is woefully inadequate even in a country as large as the Philippines (about the same population, some 68 million in 1996, as California, Texas, and New York combined but with only 1/10 their purchasing power). Like California, Texas, and New York, past and present, the Philippines can grow and raise wages rapidly only by compelling its producers to operate among the opportunities and competitive constraints of a much larger market system -- preferably the world's -- than its own population can provide.

Economic policies are the final essential element in the model underlying USAID initiatives to accelerate growth and to reduce poverty on a grand scale. Employers and prospective employers respond, of course, to the incentive environment in which they operate or consider operating. And government economic policies and institutions are of major importance to employers. Policies can induce increases in the number of employers and the scale at which they operate. Or they can discourage increases. Some USAID Missions, at some times, have done a great deal to advance policy and institutional reforms to increase private demand for labor in order to accelerate growth, raise real wages, and reduce poverty.

Apparently Cebu, with 4% of the Filipino labor force, is already developing in line with the predictions of the model assumed here. Since 1989, foreign and domestic employers have crowded into a friendly policy environment, and "the regional economy has been growing by an average of 14% for the past 6 years."[6] After 6 years of 14% growth, the upward pressure on wages is already so great that the president of the local plant of Asahi Pentax camera company worries that wages will be moving up over the next five years, although he thinks the use of more advanced manufacturing methods and higher-value products will keep his factory competitive.

A little ahead of Asahi, the managing director of the National Semiconductor plant reports that his factory has already installed "some of the world's most sophisticated automation equipment to offset rising wages."[7]

This Report tells how much the Manila Mission did, 1985-95, to initiate and accelerate the policy and institutional reforms needed to bring these results to the majority of Filipinos.

[6] "Back on the Road: A Survey of the Philippines," The Economist, 11 May 1996, p. 14.

[7] Ibid., p. 16.

PART II

WHAT WAS BROKEN IN THE PHILIPPINES?

Economic Policies

In the early 1950s, South Koreans, Taiwanese, Indonesians and Thais suffered poverty at least as oppressive and as wide-spread as did Filipinos. But after 1960, the economic and institutional environment nurtured private employers in Hong Kong, Indonesia, Korea, and Taiwan. As their numbers grew, their own competition for labor compelled them to raise wages almost every year since 1970. As a result, their real wages have risen at a pace that would double them every 15 years or so.[8]

In contrast with those successful nations' experience, demand for Filipino wage labor grew so slowly from 1960 to 1985, that average agricultural wages fell, as shown in Figure 1, from 1978[9] to 1984 and did not return to 1978 levels until 1992. Similarly, as shown in Figure 2, urban common laborers' average wages fell from the late 1960s until the early 1980s and by 1992, had recovered only half their fall[10].

Today, South Koreans and Taiwanese have nearly eliminated poverty. Indonesians and Thais are rapidly reducing theirs. But as noted on the first page above, there were 17 million poor Filipinos in 1961 and 25 million in 1985.

Why did this happen? It cannot be explained by external forces. The forces crossing the Pacific Ocean brought to the rest of East Asia the same problems and opportunities they brought to Filipinos. Instead, the causes of failure came from within, from Philippine policies and institutions.

The Philippines failed to approach East Asian poverty reduction because it failed to approach East Asian economic growth.[11] In turn, its growth failure was due to Philippine

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[8] The East Asian Miracle, op. cit., p.263.

[9] The earliest available data.

[10] For the detailed data of agricultural wage averages, 1978-92, see Table A-4. For the detailed data of urban common laborers' average wages, see Table A-5.

[11] The contrast between growth rates in the East Asian nations, relatively open to the world economy ,and in the closed Philippine economy was consistent with experience all over the world. Sachs and Warner found average 1970-89 growth rates of 4.49% a year in open developing nations and 0.69 percent in developing nations with closed economies. Jeffrey D. Sachs and Andrew Warner, "Economic Reform and the Process of Global Integration,"

economic policies that, unlike most of those in East Asia, repressed the entry and growth of big private employers. As a result, the demand for Filipino wage labor lagged behind the growth of labor supply. This created a great reservoir of surplus labor in self-employment and family enterprises in agriculture and services. Both rural and urban unskilled wages stagnated, as previously noted and as shown in Figures 1 and 2 .

The Consequences for Employment during 1960-1985

Table 1 shows changes, by sector, in the Philippine labor market between 1960 and 1994. It divides those years into two periods: 1960-85 -- the years in which policy errors broke the economy; and 1985-94 -- the years in which repairs began. Cumulatively damaging policies and institutions produced the table's first-column numbers showing the dismal nature of labor market changes between 1960 and 1985.

Table 1. Labor Force and Employment Growth, 1960-94

Increase in:	1960 to 1985	1985 to 1994
The labor force	112%	28%
Employment		
Total	110%	24%
Agriculture	68%	14%
Manufacturing	68%	30%
Services	261%	28%
Construction	171%	67%

Source: Calculated from Tables A-6 and A-7A in the Appendix.

In 1960 over 60% of all jobs were in farming. But as the labor force grew 112%[12] over the following quarter century, the number of farm jobs (including growing numbers of non-wage

Brookings Papers on Economic Activity, vol. I, 1995, p.36.

[12] For details on the growth of the population , see Table A-1. For details on growth of the labor force and on labor force participation rates, see Table A-6. The 1976 redefinition of "labor force participation" increased the measure of women's participation by 10 percentage points (a 27% increase) and of men's by 9.5 points (a 13% increase). This has made the growth of the labor force and of employment -- but especially of agricultural and service sector employment -- seem larger than it would have been had the definition stayed constant.

workers in subsistence-level self-employment and family enterprises) grew only 68%[13]. Figure 3 clearly contrasts the growth of the labor force with that of agricultural employment. By 1985, only 52% of all jobs were in farming a decline shown clearly in Figure 4[14]. The slow growth in the number of farm jobs is, of course, not surprising given the limited supply of arable land.

But a host of Philippine Government (the GOP) policies oppressed traditional agriculture while discouraging agricultural diversification, thereby limiting the growth of income and job opportunities in agriculture. So where were the rest of the new labor force entrants to work? In similar circumstances in East Asian countries (as in Europe, North America, and Japan in earlier years), most were hired by manufacturers. But not in the Philippines.

During the 1950s, import substitution succeeded wonderfully -- as it usually does in its first decade -- and 12% of Philippine workers had manufacturing jobs. But after 1960, implacable import-substitution policies repressed the growth of competitive private employers in manufacturing as well as in agriculture. So jobs in manufacturing grew only 68%[15] over the next 25 years; and by 1985, as shown in Figure 4 only 9.7% of all employed workers had factory jobs.

In Taiwan, in contrast, manufacturing employment grew from 17% of total employment in 1953 to 22% in 1965 to 42% in 1981.[16] In just 10 years, South Korea's manufacturing employment grew from 14% of total employment in 1970 to 22% in 1980.[17] Those increases in employment in manufacturing were the basis for the subsequent rapid growth in output and for the subsequent rapid reductions in poverty in those two nations.

Denied greater opportunity in manufacturing from 1960 to 1985, many Filipinos were hired, at all skill levels, in the growing modern services sector where formal wage and salary contracts were the rule -- but the number of new jobs in the modern services sector was far to few to take up the slack. The surplus workers, numerous beyond the growth of full-time wage employment, spilled over into four areas:

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[13]For growth of agricultural employment compared with growth of the labor force, see Figure 3.

[14] For sector employment as a percent of total employment, see Table A-7B.

[15] For details on the growth of employment in manufacturing see Table A-7A from which the 68% is calculated.

[16] Ramon H. Myers, "The Economic Development of the Republic of China on Taiwan," in Lawrence J. Lau and Lawrence. R. Klein, eds., Models of Development, San Francisco, Institute of Contemporary Studies, 1990, p.2.

[17] Paul W. Kuznets, "Employment Absorption in South Korea, 1970-80," Philippine Review of Economics and Business, March 1988, p.45.

- Many fell into unemployment, up from 6.3% to 11.8% as shown in Figure 6.

- Also shown in Figure 6, more became or remained underemployed in subsistence self-employment or family activities in agriculture, crafts, and other services, a condition up, officially, from 20% of the labor force at the beginning of the 1960s to 24.5% in the early 1980s[18].

- A million or more left the country to work overseas. Their remittances, shown in Figure 7 growing from a billion 1985 pesos in 1970 to over 35 billion 1985 pesos in 1993, sent to their folks back home, became a principal reason the incidence of poverty has not been greater[19].

- But most of the excess workers tumbled into subsectors of "services" as servants, day laborers, and peddlers working long days for a few pesos. In 1985, some 40% of all service jobs were nonwage jobs,[20] many of them ill-rewarded. Thus, subsistence jobs contributed substantially to the 261% increase in service employment, indicated in Figure 8, between 1960 and 1985[21].

The results of all of these trends, shown in Figure 4, were that, from 1960 to 1990, the percentage of employed workers:

- fell from 12% to 10% in manufacturing,

- rose from 3 % to 5% in construction,

- fell from over 60 to 50% in agriculture, and

- rose from 21 to 32% in services[22].

Since 1965 in Taiwan, Thailand, and other fast growing economies, wage employment has grown at least twice as fast as has total employment.[23] But the slow growth of private

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[18] For annual figures on unemployment and underemployment rates, see Table A-8.

[19] For annual figures in billions and as a percent of GNP, see Table A-9.

[20] The Philippines: An Opening for Sustained Growth, Volume III, "Statistical Appendix," the World Bank, Washington, April 1993, p.48.

[21] For annual figures on the growth of employment in services see Table A-7A.

[22] Figure 4 shows the 3-sector breakdown for each year, 1960-94.

[23] Compare growth rates for private employment in selected countries in Table 6.3, p. 269, of the World Bank's East Asian Miracle, Oxford U.P., 1993, with labor force growth rates in Table

demand for Filipino wage labor actually reduced the percentage of employed Filipinos earning privately-paid wages from 34.5% in 1970 to 33.1% in 1980 and 33.3% in 1990[24].

Philippine poverty data did not become comparable year-to-year until 1985. However, the 1971 poverty estimate did use criteria and methodology close to those of 1985. The relatively slow growth of demand for wage labor between 1960 and 1985 may largely explain why the incidence of poverty among individuals rose from 43% in 1971 to 49.3% in recessionary 1985.

25, p. 210-211, of the World Bank's 1995 World Development Report.

[24] "The Transformation of Philippine Employment," Table E.3, p.48, in volume III, Statistical Appendix, of The Philippines: An Opening for Sustained Growth, The World Bank 1 April 1993.

PART III

WHAT USAID HAS BEEN, AND IS, DOING TO HELP REPAIR THE DAMAGE

USAID Leadership

During 1960-85, the Philippines became a paradigm for nearly all the things a government can do wrong -- and for nearly all the things that a government can fail to do that would be right -- resulting in slow growth in numbers of successful employers seeking to hire more workers. But since 1985, and little by little, the Government has stopped doing many of the things it ought not do and has begun doing more and more of the things it ought to do.

Throughout this decade of reform, USAID has helped persuade GOP policymakers to change policies, practices, and institutions to encourage, instead of repressing, the entry and expansion of successful employers who use labor efficiently. USAID has also assisted extensively in the design and implementation of reforms.

The World Bank, the Asian Development Bank, and the IMF have encouraged policy reform. But USAID has been the premier bilateral donor inspiring and assisting reforms. During the 1980s, USAID conditioned Economic Support Fund (ESF) and Multilateral Assistance Initiative (MAI) tranches on specific policy reforms. This was a high-cost approach to persuading Filipinos to do what was good for them.

A Caution against Expectations of Quick Results

The second column of Table 1 shows changes in the size of the labor force and in employment between 1985 and 1994. These changes offer little evidence that the reservoir of surplus Philippine labor has been drained so that market forces will raise average real wages anytime soon. Between 1985 and 1994,

- the labor force grew by 28%,

- manufacturing employment grew only a little faster, 30%,

- while jobs in services grew 28%,

- and the number of jobs in agriculture grew only 14%.

With the rural population growing and with 60% of the poor living in rural areas in 1991, the number of jobs in agriculture grew only half as fast as the labor force grew. Service jobs grew only as fast as did the labor force. And the portion of employed Filipinos working for wages for private employers was, in 1990[25], the same 33% as in 1980.[26]

Presumably, much of the 1985-94 job growth in agriculture and in services was in subsistence-level self-employment and family enterprises. Consequently the surplus-labor reservoir may have continued growing into the 1990s.

The size of the pool was held down by continued increases in the number of Filipinos working overseas. Upwards of 2 million worked abroad in 1985. The May 1996 Economist article, frequently cited here, estimated that 4.5 million people, equaling 7% of the labor force inside the country, were working abroad and sent home more than $6 billion -- some 10% of GNP -- in earnings during 1995. Had all these workers stayed home, unemployment might be 11 or 12% instead of the reported 8% in 1995.[27]

Nevertheless, as Figure 9 shows, the incidence of Philippine poverty did not retreat to below the level of 1971 until 1994. As noted above, the incidence of poverty among individuals rose from 43% in 1971 to 49.3% in recessionary 1985. Recovery thereafter brought the rate down to 45.5% in 1988, presumably, as many more people got full time work in the formal sector. The slight dip to 45.3% in recessionary 1991 underlined the importance of achieving sustainable economic growth as distinct from frequent stop and go cycles[28]. Finally, the fall to 41.3% in 1994 shows once more the results of accelerated growth when it persisted after 1991.[29]

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[25] The most recent data available.

[26] The Philippines: An Opening for Sustained Growth, Ibid.

[27] *The Economist, op. cit.*, "Survey" p.7.

[28] Figure 9 shows the incidence of poverty among individuals in 1985, 1988, and 1991.

[29] National Statistical Coordination Board Estimates as of 10 Nov 1995. Numbers are given in Table A-10.

USAID Assistance in Eight Areas of Reform

USAID has assisted an extremely broad and layered variety of reforms.[30] To make that range and depth comprehensible and to suggest the significance of their effects, this report assigns reforms among eight areas basic to accelerating the entry and expansion of successfully competitive employers. The eight areas requiring reform were:

- import-substitution controls held down employment in exporting,
- government-designated monopolies excluded additional employers,
- discriminatory laws and regulations kept out foreign employers,
- various government policies encouraged substitution of capital for labor,
- financial sector policies depressed savings and misdirected investment,
- regulations restricted growth of demand for rural labor,
- the tax system failed to fund infrastructure and human capital, and
- budgets underfunded infrastructure and human capital.

USAID has assisted policy and institutional reforms in all eight areas. For each area, the following summary first cites the ways in which inappropriate polices and inadequate institutions discouraged prospective employers and repressed the growth of demand for labor. It next cites USAID's accomplishments inspiring and assisting in the design and implementation of particular reforms. Finally, the summary reports some of the evidence of positive effects of the reforms.

[30] USAID's new role in the Philippines may eventually compare favorably with that of its predecessor agency and its own early years when U.S. technical assistance and policy dialogue were critically important in convincing South Korea and Taiwan to switch from the constraints of import substitution to successful outward orientation, for which story, see "The Role of USAID in Economic Policy Reform: Origins and Case Studies," G/EG/EIR, forthcoming.

1. IMPORT SUBSTITUTION CONTROLS HELD DOWN EMPLOYMENT IN EXPORTING:

THE PROBLEMS: Trade barriers and foreign exchange controls discouraged hiring workers to produce for export. Currency overvaluation cut the domestic-currency value of exports. Tariffs, quotas, and GOP trade-related institutions raised the costs of producing for export to the vast world market while protecting inefficient "comparative-disadvantage production" for the relatively small domestic market.

USAID HELP WITH REFORMS:

-- To increase the peso value of exports both directly and by cutting transaction costs, the Mission

- conditioned 1987 Budget-Support Program II (BSP II) tranches on the Central Bank minimizing peso overvaluation by introducing a market-oriented dirty float,

- obtained GOP agreement on the 1992 Support-for-Development Program II (SDP II) performance conditions obligating the government

  ! to allow exporters to retain, first, 2%, then 40%, and ultimately, 100% of foreign-exchange receipts,

  ! to permit off-floor trading of foreign exchange among commercial banks, broadening the interbank market for foreign exchange, and reducing Central Bank involvement in the market,

  ! to eliminate almost all restrictions on sale of foreign exchange by non-financial-market institutions, and

  ! to reduce the accreditation requirement for foreign exchange dealers and brokers to one requirement, a standard municipal license;

- obtained GOP agreement on a 1993 SDP II performance condition obligating the Central Bank to permit a fully market-determined foreign exchange rate, and

- obtained GOP agreement on the 1992-94 SDP-II performance conditions obligating the GOP to shorten the time required, and consolidating into one office, the paperwork processing required to return tax/duty rebates to exporters.

-- To reduce the cost of producing for export and also to reduce incentives to produce comparative-disadvantage products protected by tariffs and quotas, the Mission

- obtained GOP agreement on the 1987 BSP-II performance conditions requiring the GOP to lift quantitative restrictions (QRs) from 155 products,

- obtained GOP agreement on the 1989-92 SDP-I performance conditions requiring the GOP to lift QRs from 90 products and converting 45 QRs to tariffs, and

- obtained GOP agreement on the 1991-95 Private-Enterprise-Policy-Support (PEPS) performance conditions requiring the GOP to

  ! cut the average tariff from 31 to 24%,

  ! simplify tariff rates,

  ! reduce to under 50% the excess of effective protection rates on manufactures over the effective protection rates on agricultural products, and

  ! replace quantitative restrictions with tariffs on mainly agricultural products (applied by the GOP to 182 products).

-- To support formation of a more powerful and effective export-oriented vested interest group, USAID used Agribusiness System Assistance Program (ASAP) to bring agricultural and non-agricultural groups into an informal organization to push for trade liberalization. USAID used Private Investment and Trade Opportunities Program (PITO-P) money to provide TA to strengthen PHILEXPORT. PHILEXPORT immediately became a leader in promoting public support for Philippine accession, first, to the General Agreement on Tariffs and Trade and, second, to the provisions of the Uruguay Round. Both accessions, to the GATT in 1994 and to the Uruguay Round in 1995, are especially notable because public opinion and Congressional opinion appeared initially strongly opposed to Philippine accession. PHILEXPORT is now an articulate and effective advocate of further trade liberalization

-- USAID was not directly responsible for Philippine membership in the East Asian Growth Area Agreement in 1994. But TA and liberalization from the Mindanao Development Project (MDP)and the PITO-P enabled the GOP to become the driving force in the creation of the EAGAA.

FURTHER CONSEQUENCES OF USAID HELP:

-- The effective rate of protection fell from 49.0% in 1985 to 34.5% in 1992 to 29.8% in early 1995[31].

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[31] The 1985 figure is from table 9 of E. Medalla, "An Assessment of Trade and Industrial Policy," in PIDS Working Paper Series No. 90-07, while the 1991 and 1995 estimates are from C. Virata and Associates, Progress on Policy Reform under Ramos, Final Report, Manila, USAID/MLA, October 1993.

-- The average nominal tariff rate fell to 19% as of July 1995.[32]

-- Duty drawback and VAT refund processing time dropped from 1-2 years in 1991 to 30-60 days in 1994.

-- During 1993-94, manufactured exports grew by 21.4% and total exports by 18.1 %. The share of manufactured exports in total export value increased from 76.7 % in 1993 to 78.9% in 1994.

-- During 1995, merchandise exports grew by 29% to $17.4 billion, 25% of GNP.[33]

-- The "openness" (exports plus imports of nonfactor services as a percent of GDP) of the Philippine economy rose from 30-45% during 1975-86 to 75% in 1995.[34]

-- The foreign exchange reserves of the Central Bank rose from the low level of $2 billion in 1991 to the historic high of $6.4 billion at the end of 1994, down to $5.7 billion in mid 1995.[35]

2. GOVERNMENT DESIGNATED MONOPOLIES EXCLUDED ADDITIONAL EMPLOYERS:

THE PROBLEMS: Before Marcos, the GOP gave full monopoly power to the public telephone company and the electric generating and distribution company, the Hybrid Coconut Seednut Farm, and the private inter-island shipping companies. For 40 years, the GOP prevented the entry of foreign commercial banks, thereby giving oligopoly power to the existing 33 private commercial banks. It gave full monopsony power to the copra-buying United Coconut Oil Mills and the National Sugar Trading Corporation. High tariffs and quantitative restrictions gave a high degree of monopoly power to most large-scale manufacturers.

President Marcos attempted to replace many of the formerly economically and politically dominant families with a new elite, the families of his friends. He accomplished this by providing tax, regulatory, and other privileges, various other monopoly powers, and cheap credit to his friends' businesses. For a time, some of the crony enterprises prospered without regard to their efficiency and largely free from the possibility of new firms beginning to sell in competition with them. When many of these firms dropped into bankruptcy, the Marcos Government bought them and continued or increased their monopolistic powers.

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[32] The IMF, "Philippines - Recent Economic Developments," 21 Sep 95, p.46.

[33] The Economist, op. cit., p.7.

[34] Ibid., p. 53.

[35] Ibid., pp 39-40.

Filipino labor suffered because the basic rule of monopoly power is to maximize profit by restricting production -- and, therefore, by restricting employment. And, of course, labor also lost because the cronies were able to use government contracts to transfer government funds to themselves.

USAID HELP WITH REFORMS:

-- To curb the monopoly powers of Government-Owned and Controlled Corporations (GOCCs) in order to remove employer incentives to restrict employment and output and to allow new employers to enter the market, the Mission

- obtained GOP agreement on the 1987 BSP-II performance conditions

    ! on the GOP preparing the Asset Privatization Trust to dispose of acquired assets and selected public corporations, and

    ! on "satisfactory" GOP progress in disposing of acquired assets and selected public corporations,

- obtained GOP agreement on the 1989-91 SDP-I performance conditions on converting 10 GOCCs into vendible form and offering them for sale,

- 1990-92 Privatization Project tranches on fully/partially selling 10 GOP corporations and preparing another 32 for bidding; and

- 1994 Philippine Assistance Program Support (PAPS) tranches

    ! on adoption of an energy sector "Deregulation Action Plan," and

    ! on drafting and subsequent adoption of a liberal Build-Operate-Transfer (BOT)law to permit private competition in the provision of infrastructure.

-- To reduce the monopoly powers of private businesses and so to reduce their incentive to restrict production and employment and also to let in new private firms, the Mission

- obtained GOP agreement on the 1989-91 SDP-I performance conditions on the GOPlifting controls from ocean-going cargo and passenger rates,

- obtained GOP agreement on the 1992-94 SDP-II performance conditions

    ! on the Marine Authority opening monopolized inter-island routes to newly acquired vessels into routes already served by franchised operators, and

    ! liberalizing interisland cargo shipping rates, and

! widening allowable interisland shipping tariff bands from +/- 5% in 1990 to +10%/-15% in 1993 to +20%/-25% in 1996.;

- 1993-94 ASAP tranches on the Philippine Ports Authority allowing competition in port cargo handling.

-- The Mission arranged and funded technical studies

- repeatedly (most effectively under SDP II) of inter-island shipping and port cargo handling, both activities where cartels had previously reigned. These studies were instrumental in convincing GOP officials to begin to allow competition in those two areas of major importance to a nation of over 7,000 islands,

- of the telecommunications sector ruled by the monopolistic Philippine Telephone Co. The study was widely circulated in both the private and public sectors, including the staff of the Presidential Palace from whence came the decree that opened telecommunications to foreign joint-venture firms in 1994.

- of the national electric company's monopoly and of the convention that only the GOP could build and operate infrastructure. This study was instrumental in persuading the legislature to allow private firms to construct and operate electrical generating plants as well as roads, and other infrastructure.

- of the petroleum industry leading GOP decision-makers to approve privatization of some subsidiaries of the Philippine National Oil Company, including Petron, the marketing arm.

-- Many of the reforms cited in Problem Area 1 also reduced monopoly power. While the USAID-supported move from overvalued to market exchange rates made imports less competitive, the USAID-supported reductions in tariffs and quotas reduced the monopoly power of domestic producers.

FURTHER CONSEQUENCES OF USAID HELP:

-- During 1994,

- private-supplier telephone installations reduced years of waiting to months;

- new shippers entered inter-island shipping and ordered construction of new ships to provide better service; Palawan, served by one ship a week a few years ago, now has three regularly scheduled ships; the addition of more passenger ships (usually carrying freight as well) has, despite continued restrictions on freight rates, improved freight services;

- new companies competed to provide cargo-handling services in each of the nation's 5 largest ports; and

- the frequent blackouts and brownouts of 1992 and 1993 were largely ended, both by expansion of capacity of the government's power company and by allowing entry of private companies into power generation with private generators and through BOT schemes.

-- By the end of 1994, helped by a 1992-1994 tariff exemption on imports of electrical generating equipment, the National Power Corporation expanded high-volume low-cost capacity to begin to displace the private generators and meet peak user demand.

-- By early 1995,

- One hundred and thirty government-owned and controlled corporations (GOCCs) had been approved for privatization, out of a total of 301 GOCCs. Seventy eight of these GOCCs had been either fully or partially privatized by 1993. Cumulative gross proceeds to the GOP from sell-offs, 1987-94, totaled $5 billion.

- The GOP had identified 82 priority infrastructure projects worth some $9 billion and was inviting private bidders under the new USAID-nourished BOT law in power, telecommunications, transportation, industrial estates, roads, railways, water systems, and tourism ventures.

- "The Philippines has become one of the most competitive telecoms markets in Asia." Twenty competing firms have come in, and the market is growing so fast that the former government monopoly's market share is falling below 80% toward an anticipated 50% in 2000 even as it expects its number of telephone lines to rise from the 1 million of 1994 to 3 million in 2000.[36]

-- In 1996,

- the Mission provided TA for changes in regulations that will allow foreign ships to carry interisland freight that is either internationally in- or out-bound, and

- measures were pending to privatize ports and free up freight rates.

3. LAWS AND REGULATIONS KEPT OUT FOREIGN EMPLOYERS:

THE PROBLEMS: The barriers of the two preceding problem categories restricted increases in hiring by foreign as well as by domestic employers. Prospective foreign employers were further discouraged by restrictions on repatriation of interest, dividends, and capital and by laws and regulations limiting foreign ownership and land-leasing. In a long list of industrial categories, the GOP simply prohibited any foreign firm from setting up and employing Filipinos. Finally, the

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[36] The Economist, op. cit., p. 11.

Government's failure to protect intellectual property rights (IPR) kept out firms -- especially higher tech firms unwilling to risk their patented technologies in a lawless IPR environment.

USAID HELP WITH REFORMS:

-- To fill in some of the legal environment's gaps that had kept foreigners from investing and hiring, the Mission obtained GOP agreement conditioning

- a 1987 BSP tranche on issuance of a new code of regulations governing foreign investment,

- a 1991 PEPS tranche on passing the Foreign Investments Act of 1991 providing a new legal policy framework liberalizing entry of direct foreign investors;

- a 1994 PIT0 tranche on the GOP acceding to the 1971 Berne Convention on intellectual property rights (IPR). This led quickly to a Presidential initiative changing Philippine policy/practice to enforce prosecution of IPR violations.

-- To remove the legal prohibitions that had kept foreigners from investing and hiring, the Mission obtained GOP agreement conditioning

- a 1993 SDP-II tranche on lifting almost all restrictions on international capital movements and on repatriation of capital and interest and profits,

- 1991-93 PEPS tranches

  - on including in the foreign Investments Act of 1991 provisions shortening the "Negative List" of industries reserved for domestic firms and removing the 40% ceiling on foreign share ownership in companies exporting more than 59% of production, and

  - later, on permitting full foreign ownership of firms in export industries and, still later, permitting full foreign ownership of firms in industries producing for the domestic market (except in firms producing for domestic military and health-care markets);

-- USAID provided TA

- that helped induce the legislature to extend the land lease period for foreigners from 50 to 75 years,

- that, through the Mindanao Growth Plan, beginning in 1991, supported the GOP initiative that led to the East ASEAN Growth Area (EAGA) Agreement that facilitated both intra-ASEAN trade and intra-ASEAN investment,

- that financed technical studies that helped induce the GOP to sign the EAGA Agreement and that lay behind the President's decision to forward recommendations to the judiciary on the establishment of special IPR courts and greater penalties for infractions of the new provisions for IPR protection.

-- The reforms, cited in the section on Problem Area 1, that, after 1985, reduced the peso's value from overvalued to market determined reduced the foreign-exchange costs of foreign investment in the Philippines. (However, complete foreign exchange liberalization in 1993 brought peso appreciation from 30 to 25/dollar.)

FURTHER CONSEQUENCES OF USAID HELP:

-- The EAGA Agreement quickly brought (1994) joint ventures from ASEAN countries in wireless communications, ice plant operation, and furniture manufacturing in Mindanao with immediate increases in trade between Mindanao and Indonesia, Malaysia, and Brunei.

-- Observing the beneficial consequences of other reforms, the Central Bank abolished its former requirement that all foreign investments be contingent on its approval.

-- Following the success of foreign exchange and capital movement liberalization, the GOP legislated an opening to new foreign banks wherein 22 applied and 10 were authorized to begin to do business in the Philippines in 1995. The first of the ten began operations in April 1995 challenging the domestic banks' long-lived oligopoly.

-- Net direct foreign investment had been only $10 million a year during 1984 and 1985. It jumped to over $100 million in 1986, over $300 million in 1987, and above $900 in 1988. But it fell to the 500s each year 1989 through 1991 and plunged to $230 million in 1992 before recovering to $760 million in 1993.

-- For Jan-Mar 1994, the GOP Board of Investments approved $13 billion in projects, against $2.5 billion for Jan-Mar 1993, and well ahead of the full-year target of $10.4 billion. These projects included $1.64 billion in foreign capital, up from $0.28 billion in the first 3 months of 1993.

-- Foreign Investment in government-built export processing zones and in private industrial estates during Jan-Oct 1994 was $320 million, up 280% from $88 million in 1993's first 9 months.

-- During Jan-Sep 1994, $4.4 billion in equity was registered with the GOP, $560 million from the United States.

4. VARIOUS PROVISIONS ENCOURAGED SUBSTITUTION OF CAPITAL FOR LABOR:

THE PROBLEMS: Tariff exemptions on capital goods, investment credits, and subsidies as well as minimum wages led existing employers to choose capital-intensive production processes minimizing employment relative to output. Nominal interest ceilings and directed credit encouraged the subsidized beneficiaries to substitute capital for labor.

USAID HELP WITH REFORMS:

-- To reduce the incentives to substitute capital for labor, the Mission obtained GOP agreement conditioning

- 1985-1990 Rural Financial Services Project (RFSP) tranches on adoption of market interest rate policies phasing out credit and interest subsidies for agricultural loan programs,

- 1991-95 PEPS tranches

  ! on reducing by 18-22% (22.3% was achieved in 1995) the free trade valued added (FTVA) weighted average effective protection rate (EPR) for importables for the manufacturing sector, with the same indicator for the other sectors at least not increasing, and

  ! on reducing by at least 50% (with 53% achieved in 1995) of the difference between the FTVA weighted EPR between importables of the manufacturing sector and those of the agricultural sector.

5. FINANCIAL SECTOR POLICIES DEPRESSED SAVINGS AND MISDIRECTED CAPITAL

THE PROBLEMS: Laws and regulations protected the monopoly powers of private banks allowing high overheads and big spreads between savings and lending interest rates. The low real interest rates discouraged the savings that would have increased investment and the demand for labor. Politics largely determined which businesses received credit; this misdirected investment provided less added demand for labor than would have come from market allocation of investment resources. Other GOP policies also discouraging saving.

USAID HELP WITH REFORMS:

-- To change the financial sector so it encourages, first, increased national savings and, second, direction of investment into the most efficiently job-producing uses, the Mission obtained GOP agreement conditioning

- 1985-1990 RFSP tranches on Central Bank policy reforms, including:

  ! liberalization of bank branching in rural areas,

- ! implementation of a rural bank rehabilitation program, and
- ! consolidation of 20 of 46 separate GOP loan funds;

- a 1994 Commercial Markets Development Project (CMDP) tranche

- ! on merger of the two stock exchanges, and
- ! on implementation of effective surveillance of the stock market,
- ! implementation of listed-stock disclosure requirements, and
- ! the introduction of a system of accounting standards.

-- The RFSP provided resources to the Philippine Deposit Insurance Corporation for initiating effective bank examinations and for conducting receivership/liquidation.

-- USAID TA

- analyzed the cost/performance character of Philippine banks, and this helped persuade the legislature to allow the entry, cited above, of 10 foreign banks. Their entry, begun in 1995, should lower average costs of banking services and so raise the market level of savings rates, thereby increasing national savings and investment.

- provided training to the Bureau of the Treasury to equip its staff to manage the national debt, where good management can provide an essential part of the foundation for more efficient allocation of private savings and investment funds.

-- A separate, but related, USAID-financed training program is preparing the Treasury to facilitate the development of the market in government securities.

6. GOP REGULATIONS RESTRICTED GROWTH OF DEMAND FOR RURAL LABOR:

PROBLEMS: The GOP repressed the growth of demand for agricultural labor and for improvements in agricultural productivity by taxing farmers more heavily than other producers and by regulations that inhibited investment and innovation in agriculture. Regulations kept the corn price, 1990-93, 35% above the world price, thereby raising poultry and other livestock prices. Only the National Food Authority (the GOP food administration) was allowed to import basic grains.

USAID HELP WITH REFORMS:

-- To help get corn prices down to, and other farm prices up to, and farm input prices down to, international levels and to facilitate technological change and agricultural diversification, the Mission used 1985-88 PL-480 Title I Self-Help Provisions to obtain

- deregulation of rice prices,

- liberalization of wheat and fertilizer markets in 1985,

- at least partial divestiture of the Department of Agriculture's Philippine Cotton Corporation, the Philippine Dairy Corporation, and other National Food Authority (NFA) subsidiaries, and

- improved production, storage, and distribution of fertilizer and other commodities.

-- To further the price reforms, the Mission obtained GOP agreement conditioning the 1991-95 ASAP tranches on:

- removing price ceilings on chicken, rice, and pork retail prices,

- the Ag Ministry completing analyses of the effects of taxes and regulations on private agribusinesses including banana hectarage limitations and feeder cattle quotas, with subsequent disbursement dependent on GOP action on the recommendations,

- reducing tariffs to 10% on defatted soybean meal for cattlefeed and to 3% on veterinary medicine, feeder and breeder cattle, and animal biologics,

- increasing the 1992 GOP budget for agribusiness support services to 69 million pesos above the 1991 level, with that real level maintained through the 1993 and 1994 budgets.

-- USAID-provided TA

- helped produce the Seed Industry Development Act of 1992, and -- just as important -- implementation procedures freeing imports that may permit 90% of Filipino farm families to increase production by 50% when allowed access to imported hybrid seeds,

- helped design legislation and marshal support for that legislation to reduce tariffs on food packaging materials from 40-50% to 20%, which would lower processed food prices, increase exports, and increase demand for labor by farms and in agribusinesses,

- led to the beginning of containerized exports of mangoes to Hong Kong resulting from improved production and post- harvest practices with the expectation of substantial increases in exports to the U.S., Malaysia, and Taiwan,

- helped induce the revival of the Cattle Raisers' association, making it ready to implement training and policy-reform initiatives when the Supreme Court lifted the Land Reform threat that had removed the collateral value of land. The prospect is for a reversal of the past decade's 1.1% annual decline in the nation's cattle inventory,

- helped farm families to organize support to remove the Bureau of Plant Industry's barriers to the imports of seed potatoes required for output expansion.

-- Many of the reforms cited in Problem Sector areas 1-5 reduced farm families' production costs, e.g.,

- lower tariffs, fewer quotas, and other reforms reducing farm production and shipping costs, more competition in interisland shipping;

-others such as a devalued peso, after 1984, increased farm income from agricultural exports;

- after price controls were lifted from interisland shipping, shippers began competing to carry produce and animals instead of trying to avoid them.

FURTHER CONSEQUENCES OF USAID ASSISTANCE:

- On May 31, 1985, the price of rice was deregulated.

- Likewise, on May 31, 1985, the NFA was divested of non-food grain activities.

7. **THE SYSTEM FAILED TO COLLECT TAXES THAT COULD FUND INFRASTRUCTURE AND HUMAN CAPITAL ADEQUATELY** :

THE PROBLEMS: The tax system was inequitable and inefficient in collecting funds due, thus failing to fund infrastructure and human capital investment at East Asian levels. A Philippine Institute for Development Studies (PIDS) study estimated that, in 1993, the BIR collected only about 40% of what should have been paid in personal and in corporate income taxes.[37] Of an estimated 11.5 million potential taxpayers in 1990, only 6.4 million were registered with the BIR, and only 2.6 million paid tax.[38]

USAID HELP WITH REFORMS:

-- To help the GOP to collect a somewhat larger portion of GNP and to do so more equitably, the Mission obtained GOP agreement conditioning

- 1989-91 SDP tranches on

! increasing VAT collections by at least 30% (actual, 31%) between 1988 and 1989,

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[37] Chat Manasan,

[38] Ibid., p. .

! between 1989 and 1991 ,increasing from XXX??? to 67,317 the number of VAT registrants, and

! for more effective anti-smuggling procedures, increase by 65% the share of imports covered by "fair market values" from the 1989 coverage of 30%.

- on tranches conditioned on the devolution of property tax collection to the counties to provide resources to support local schools and health clinics.

- 1992-94 SDP-II tranches

! on the GOP creating a one-stop Duty Drawback Center,

! on transferring VAT refund processing from the Bureau of Internal Revenue (BIR) to the Center, and

! on making the Center a permanent unit of the Department of Finance;

- 1994-95 SDP II tranches on revision of the Bureau of the Treasury's cash management techniques to reduce the size of cash balances and, in turn, of borrowing costs.

-- USAID used TA to provide U.S. Internal Revenue Service staff to work with the Philippine Bureau of Internal Revenue (BIR) to upgrade its auditing and managerial techniques. Changes in the BIR have resulted in:

- a new strategy for the use of tax audits for tax administration,

- increased yields from tax audits,

- an increase in the perceived risk of being caught in tax evasion,

- improved transparency and fairness of tax credits,

- introduction of a third-party data-gathering program.

-- USAID used TA to train more than 200 BIR staff, during 1993-94, to improve their ability to implement the new BIR procedures; and

-- USAID provided TA to help Department of Finance staff to draft a major tax bill that will, if passed, broaden the base of the corporate income tax, reduce corporate tax deductions, and simplify the personal income tax, all with the objective of higher yet equitable collections.

FURTHER CONSEQUENCES OF USAID HELP:

In 1994, the BIR collected 12% more revenue than could be explained by increases in nominal income from growth and inflation.

Between 1989 and 1991, VAT-paying registrants increased by a cumulative total of 67,317 and VAT collections increased by 31% in 1989 over 1988.

8. BUDGETS UNDERFUNDED INVESTMENT IN INFRASTRUCTURE AND HUMAN CAPITAL:

THE PROBLEMS: The GOP has been unable to raise the level of investment in infrastructure and human capital to the levels of neighboring nations. Obviously, the attractiveness of investing and hiring in the Philippines depends in large part upon the extent and condition of public infrastructure and the health and education of the labor force. Additionally the dispersion or concentration of private investment depends on the concentration or dispersion of national infrastructure and educational and health facilities (which is also a question of the quality of dispersed public capital). In turn public investment and maintenance depend on the ability of the GOP to collect taxes.

USAID HELP WITH REFORMS:

-- To maintain existing infrastructure better and to add to the infrastructure that will attract private employers, the Mission obtained GOP agreement conditioning

- a 1987 BSP-II tranche on the GOP increasing the 1987 budget for operating and maintaining existing GOP capital stock by 50% above the 1986 level,

- a 1989-91 SDP-I tranche on the GOP

    ! increasing the 1989 budget of the Project Facilitation Committee to 650% above its 1988 level,

    ! establishing a Regional Project Monitoring and Evaluation System (RPMES)to supervise infrastructure construction,

    ! creating Regional Project Monitoring Committees in all regions to adopt the RPMES,

    ! decentralizing supervision and implementation of Integrated Area Development (IAD) Projects,

    ! transferring overall direction, coordination and supervision of IAD projects to their respective levels, e.g., local government units, regional development councils, appropriate private sector participation,

! increasing by 50%, in 1989 over 1988, the annual drawdowns of foreign-assisted project funds implemented exclusively by major infrastructure agencies, and

! increasing the 1989 level of disbursements for maintenance and non-personnel operations of the GOP to at least 15% above the 1988 level;

-- USAID technical assistance:

- assisted the Bureau of the Treasury to develop cash management techniques that allowed it to lower cash balances and thus reduce weekly borrowing (and the attendant costs) by 4.5 billion pesos,

- was instrumental in the drafting and subsequent adoption of the BOT law of 1990 promoting private investment in infrastructure. USAID funded pre-feasibility studies in power, transportation, ports, and telecommunications, and USAID TA developed the private-sector power supply model the National Power Corp. used in its BOT program,

- financed the Energy Sector Action Plan that increased private power generation and ended the frequent brownouts that injured business and households.

- financed the implementation guidance that resolved regulatory issues of interconnection and equal access and brought in new competitive telecommunications firms, and

- financed seminars to teach policy makers about the possibilities of utilizing BOT legislation.

FURTHER CONSEQUENCES OF USAID ASSISTANCE:

-- Government capital expenditures rose from 4.7% of GNP in 1989-90 to 7.3% during 1991-93 to 9.3% in 1994.

-- Government social service expenditures were 4.4% of GNP in 1989-90 and 4.3% in 1991-92 but rose to 5.4% during 1993-94.

PART IV

USAID'S RECENT SUCCESS AS TECHNICAL COUNSELOR

FROM NANNY TO PARTNER

In each of the eight policy areas considered here, USAID began, in the 1980s, by conditioning cash grants on specified GOP reforms. Some three-fourths of the reforms cited above were associated with conditions precedent to disbursal or to performance conditions. In contrast, by 1995, conditioned assistance was a thing of the past. Yet USAID remained deeply involved in GOP economic policy reform through local consultation and TA to help Filipino administrators and policy makers design and implement reforms that they initiated.

In January of 1995, the Mission was providing TA or other financial assistance to policy and institutional initiatives undertaken by:

- The Central Bank
- The Bureau of Internal Revenue
- The Finance Ministry Office of Debt Management
- The Finance Ministry; Department of Finance, Bureau of the Treasury
- The Department of Interior and Local Government
- The Department of Environment and Natural Resources
- The Committee on Privatization
- The Department of Agriculture
- The National Economic Development Administration
- The Department of Trade and Industry
- The Philippine Institute for Development Studies

The advantages of local residency permitted Mission staff to become genuine partners working with Filipino administrators and policy makers cooperating in shared efforts to get both policies and institutions "right." Genuine partnership had replaced coercion in the effort to achieve sustained rapid improvements in living standards.

The change in USAID's role should not be exaggerated. The Mission had provided TA to many GOP agencies for decades. To work, conditionality had always required commitment from GOP policy makers. Further, most of the USAID money,$200 million a year, 1986-89, and over $100 a year, 1990-91, was provided to honor a State Department commitment to make its "best efforts" to provide those sums in exchange for U.S. use of the bases at Clark Field, Subic Bay, and elsewhere. While the United States officially considered the agreed-upon sums to be Official Development Assistance, the Philippines officially recorded their receipt as "rent" in the balance-of-payments service account. In those circumstances, USAID’s leverage was reduced but remained strong through the Mission’s power to decide when money could be disbursed.

When the United States left those bases in 1992, the ODA/rent money stopped along with the opportunity to attach reform conditions to its release. USAID lost the means to compel reform.

THE FILIPINO CHANGE OF HEART

Change might have come simply because the Mission ran out of money to condition. That money did run out. But the more important change occurred inside men and women in the Philippine Government.

Aside from the special features of the Marcos kleptocracy, many Filipino policy makers, like those in many other developing nations in the 1960s and 1970, disbelieved USAID reformers assertions about how the world works. They viewed the tough competition of world trade as threat not as opportunity.

In contrast, the Aquino regime and, even more emphatically, the Ramos regime view international competition as opportunity -- most of the time. Many reasons account for the change. The two most evident are the fall of international socialism and the outstanding success of not only the original four tigers but of their rising rivals: Malaysia, Thailand, and Indonesia.

Influential Filipinos now believe the old inward-looking protective model failed while the classical outward-oriented competitive model promises developmental success. The current GOP is willing to follow that model in changing policies and practices to get national resources used more efficiently, to get more rapid increases in resources, and to accelerate resource growth, output growth, and poverty reduction. In this new environment, USAID has what the GOP and other reformist governments lack: knowledgeability and access to the experts who know how to get where reform governments want to get.

This Report's catalogue of reforms illustrated the multiplicity and complexity of the barriers to getting there. Most developing nations' administrators and policy makers are experienced with how the barriers were created and enforced. They know far less about how to remove them. Often, they know even less about how to create the additional legal, regulatory, and judicial elements prerequisite to competitive markets, affordable social safety nets, and 7% growth.

USAID's experience with growth and with reform in developing nations and with the community of development experts has made it a preeminent source of expertise. Its resident Missions have made it an unparalleled means of examining local needs and determining what help is needed from outside. The Philippine Mission is a distinguished example of USAID skill in counseling and providing TA to a government committed to rapid improvement in living standards.

WILL THEY LAST?

The big question now is whether the reforms of the past 10 years will endure. Filipino post-independence experience is a history of failed economic reforms. The Land Reform Act of 1955 was followed by a series of economic reform intervals liberalizing imports, freeing the exchange rate, or both as in the two World Bank Structural Adjustment Programs of the early 1980s. Begun in good faith, all were dropped in the face of external events or the objections of domestic special interests.

The inauguration of President Aquino's government in 1986 brought an unprecedented flurry of policy and institutional reforms. Yet they were far too few.

> Sheltered by protectionist barriers, firms--especially in the industrial sector--continued to orient their production toward the domestic market, using capital and import-intensive methods. Consequently, when the economy began to recover, higher demand touched off a surge in imports, unmatched by a similar increase in export earnings.[39]

As the balance-of-payments deficit soared, there was a coupe attempt, oil prices jumped, several natural disasters hit, inflation surged, and growth ground to a halt in 1991.

The Aquino government responded with some willingness to consider further policy reforms. Then President Ramos's administration entered office in 1992 and has added reforms while permitting little back-tracking. As a result, GNP grew 5.6% last year and is expected to grow 6.5-7.0% this year.[40]

CODA

Has enough changed to assure rapid growth in the demand for Filipino wage labor?

Since 1960, the Philippines has reformed then abandoned reforms so often it is like the person who says, "it's easy to give up smoking; I've done it a dozen times!" Every prospective employer has to wonder: First, are the many recent reforms here to stay? And second, will the reforms be extended to pull down the manifold remaining barriers to the entry and success of new businesses?

One test of the durability, adequacy, and prospects of Philippine economic reforms is that of the expectations of investors, domestic and foreign. Happily, the Philippines passes this test. Not long ago, the Philippine problem was capital flight by Filipinos and avoidance by foreign investors. Last year, the IMF began a survey of the Philippine capital market with the headline, "Capital Inflows: Are They a Problem?" The answer:

> Over the past two years, the Philippines has been experiencing a surge in capital inflows comparable in magnitude to that witnessed in the late 1970s and early 1980s....Whereas the resort to foreign finance in the late 1970s and early 1980s had the effect of masking, and ultimately aggravating, fundamental weaknesses in the economy...this time around the

[39] "Philippines - Recent Economic Developments," the IMF, 21 Sep 1995, p. 5.

[40] Ibid., p.8.

inflows are responding to and supporting better policies, as well as a much healthier economic structure.[41]

Private investors, private employers, are giving the Philippines a resounding vote of confidence. Advocates of faster growth welcome this vote. Nevertheless, even today the World Bank estimates, using its own criteria, the incidence of poverty among individuals at 39% in the Philippines as against only 22% in Thailand, 19% in Indonesia, 14% in Malaysia, and 5% in Korea.[42] Once second only to Japan in Asia, the Philippines still has a long way to go before it can catch up with all those that raced ahead after 1960.

As detailed above, USAID has recently participated in over 95 specific economic-policy and institutional reforms. A great many other reforms have occurred without direct USAID involvement. But the pool of underutilized labor remains large, and many barriers remain inhibiting growth in the demand for wage labor. Efficient private investment is recovering, but the GOP has to make a lot more decisions about what to change and how to change. In many of these cases, the GOP will have neither staff nor local advisors with the training and experience required to reach the right decisions. USAID can provide that expertise.

With so much remaining to be done, the important final lesson of USAID's Philippine experience is that Missions don't require hundreds of millions of dollars. They can be highly effective partners in economic reform with tens of millions of dollars where host governments are as fully committed to reform, to economic growth, and to poverty reduction.

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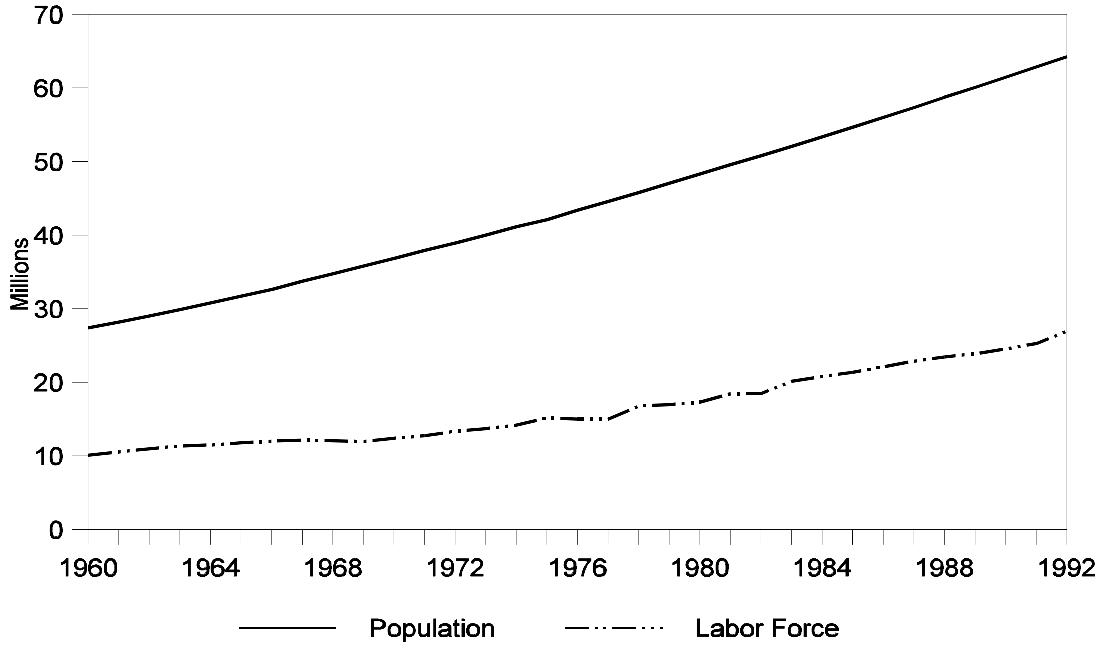
[41] Philippines - Background Paper, the IMF, 25 Sep 1995, p. 4.

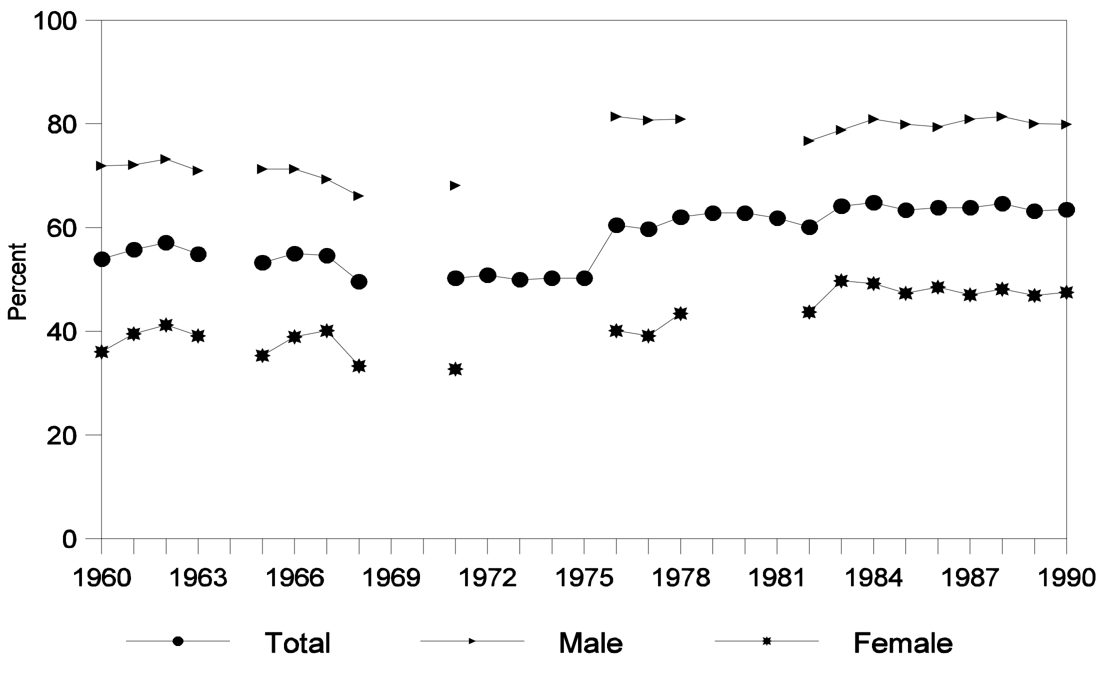
[42] The Economist, op. cit., p. 5.

Figure 1. Population and Labor Force, 1960-92



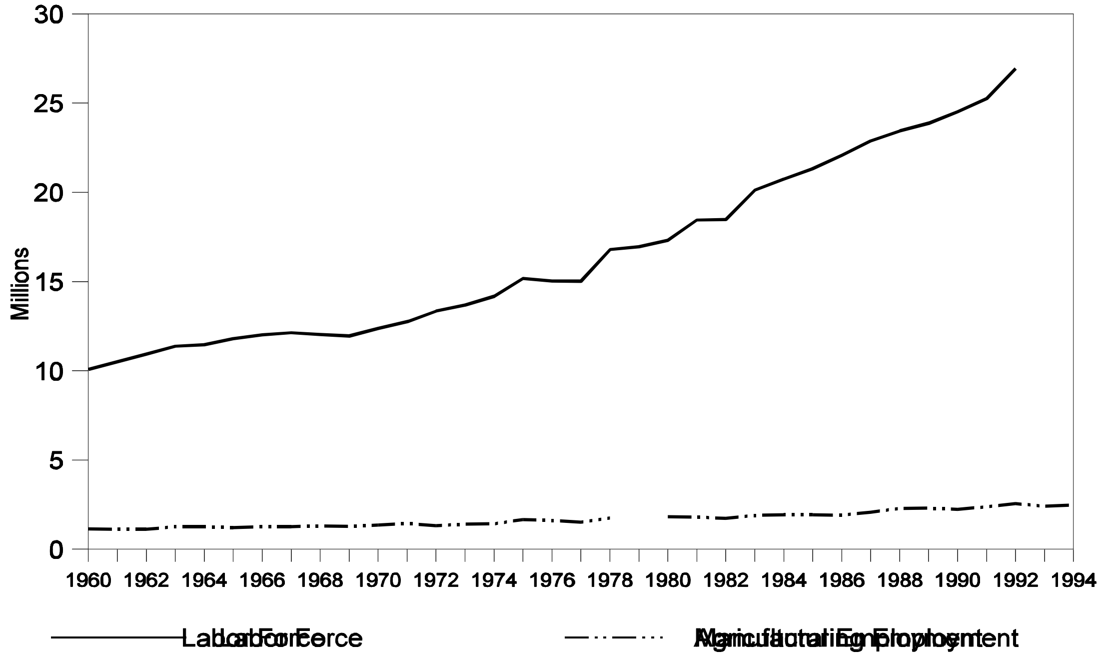
Sources: 1960-74 from World Bank, *The Philippines: Priorities and Prospects for Development*; 1975-81 from *Philippine Statistical Yearbook 1987*; 1981-92 from *Philippine Statistical Yearbook 1993*.

Figure 2. Labor Force Participation Rates, 1960-90



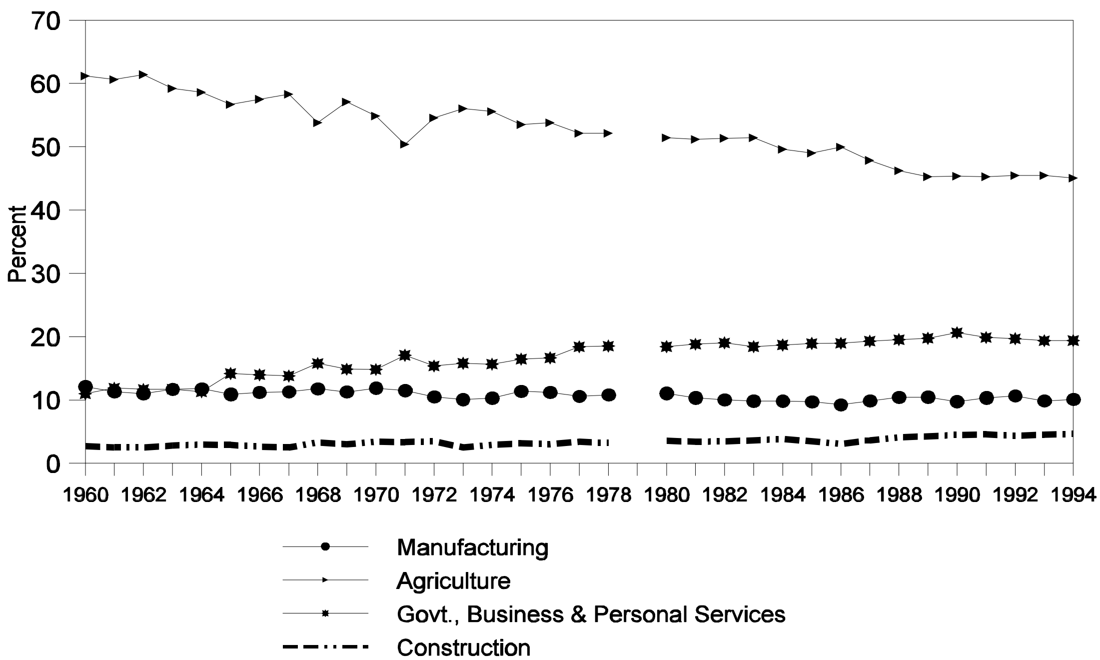
Sources: 1960-71 from International Labor Organization, *Sharing in Development*; 1976-80 from NEDA, *Social Development in the Philippines* (1982); 1981 from NEDA, *Economic and Social Indicators 1982*; 1982-90 from National Statistics Office, *Philippine Yearbook 1992*.

Figure 5. Growth of the Labor Force and Manufacturing Employment, 1960-94



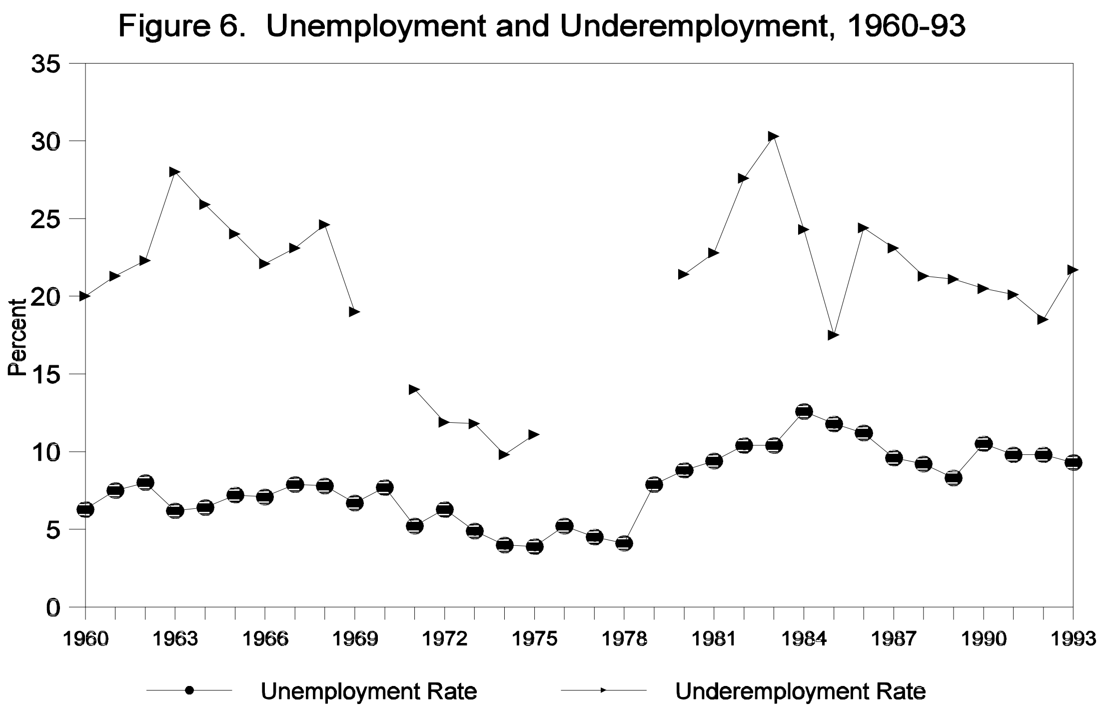
Sources: 1960-74 from World Bank, *The Philippines: Priorities and Prospects for Development*; 1975-81 from *Philippine Statistical Yearbook 1987*; 1981-94 from *Philippine Statistical Yearbook 1993* and NSO sources.

Figure 4. Employment by Sector, As Percent of the Total, 1960-94



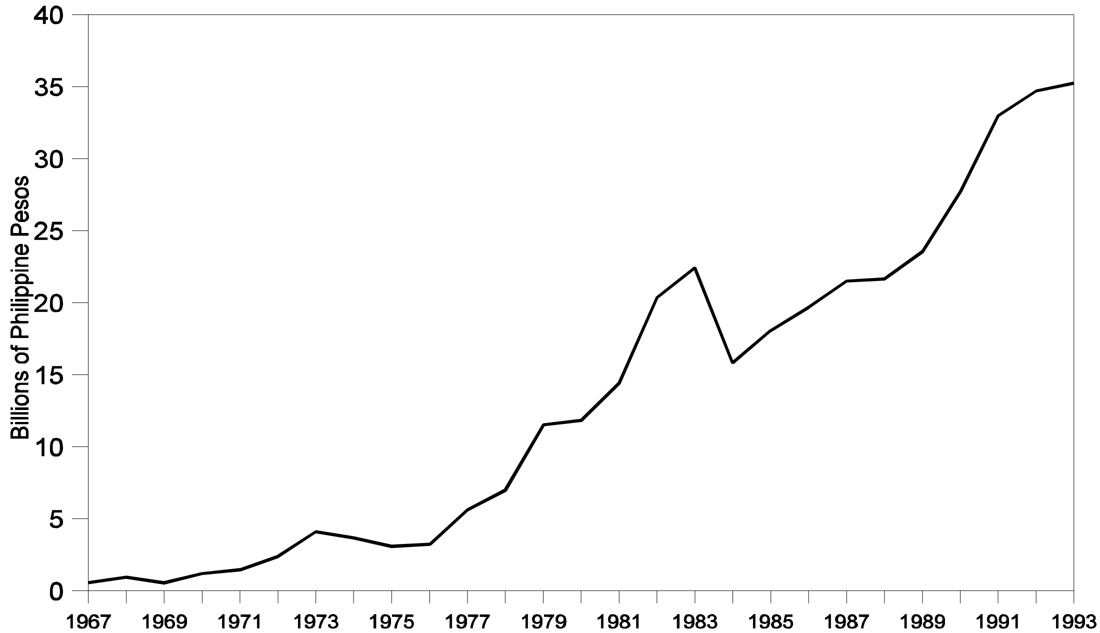
Sources: 1960-74 from World Bank, *The Philippines: Priorities and Prospects for Development*; 1975-81 from *Philippine Statistical Yearbook 1987*; 1981-94 from *Philippine Statistical Yearbook 1993* and NSO sources.

Sources: 1960-74 from World Bank, *The Philippines: Priorities and Prospects for Development*; 1975-81 from *Philippine Statistical Yearbook 1987*; 1981-94 from *Philippine Statistical Yearbook 1993* and NSO sources.



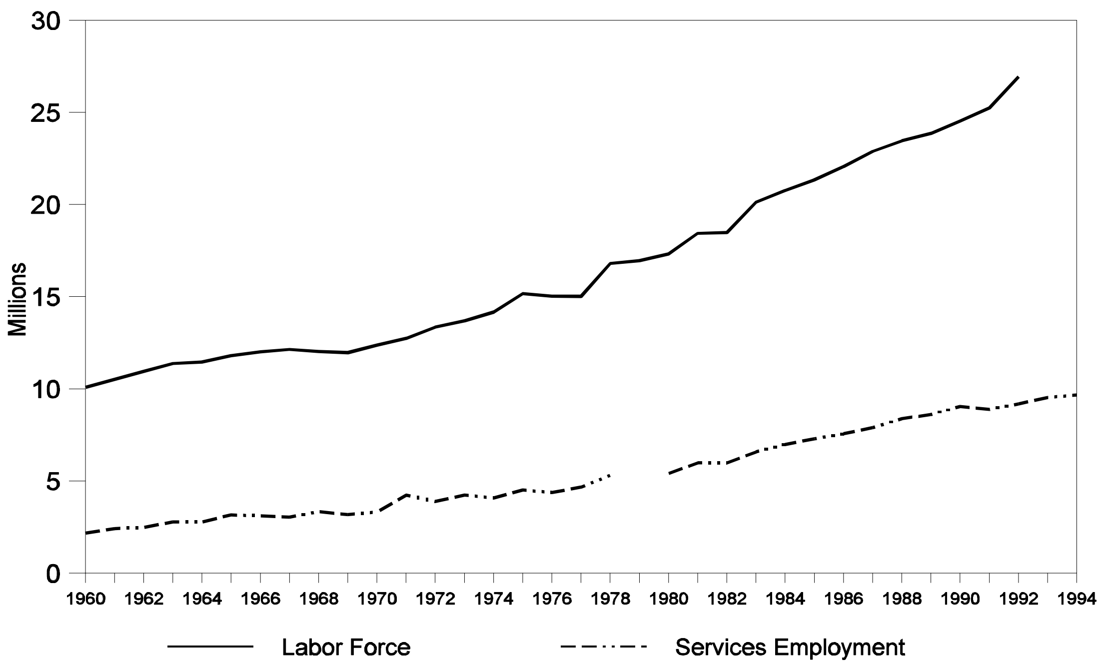
Sources: 1960-75 and 1987-92 from *Yearbook of Labor Statistics* 1992; 1976-78 from *Philippine Yearbook 1992*; 1980-86 from World Bank, *The Philippines: The Challenge of Poverty*.

Figure 7. Remittances, 1967-93
(in real terms, 1985 base)



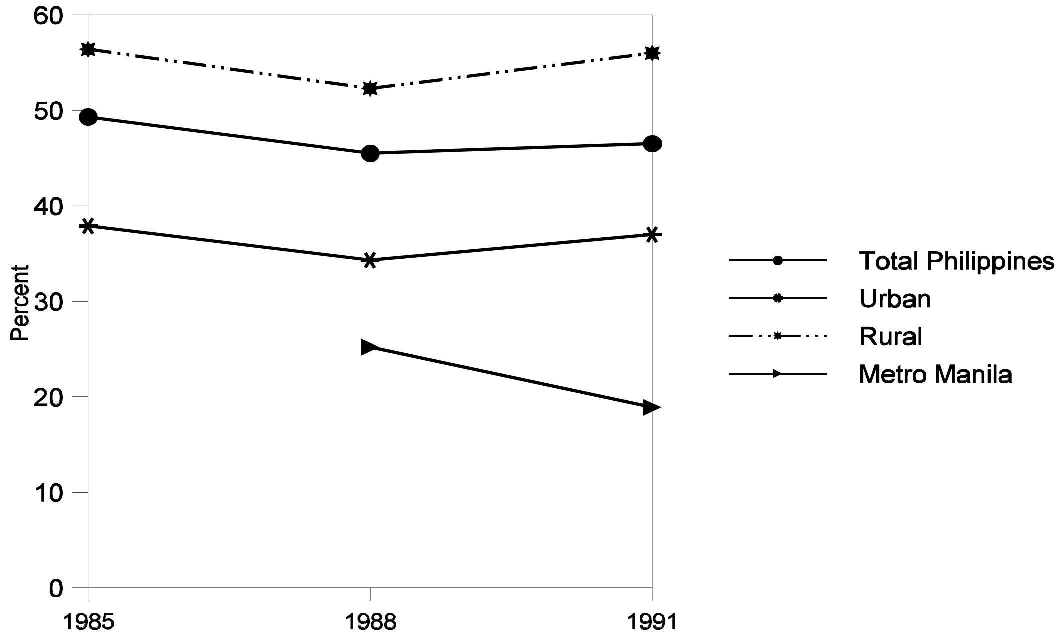
Sources: National Income Accounts, National Statistical Coordination Board.

Figure 8. Growth of the Labor Force and Services Employment, 1960-94



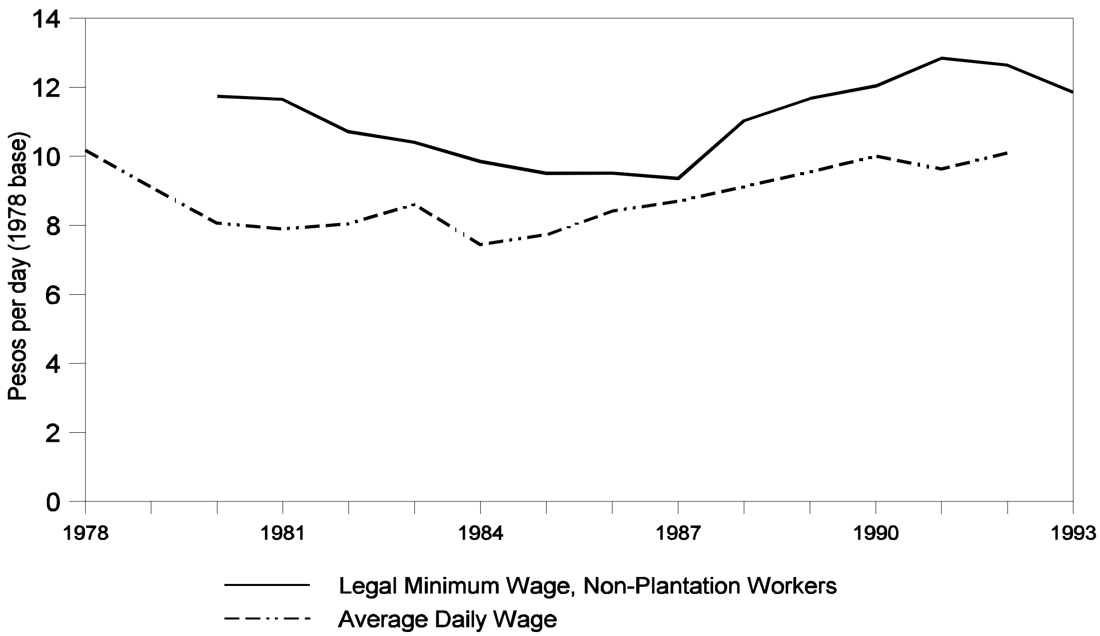
Sources: 1960-74 from World Bank, *The Philippines: Priorities and Prospects for Development*; 1975-81 from *Philippine Statistical Yearbook 1987*; 1981-94 from *Philippine Statistical Yearbook 1993* and NSO sources.

Figure 9. Poverty Incidence, 1985-91
(Percentage of Population)



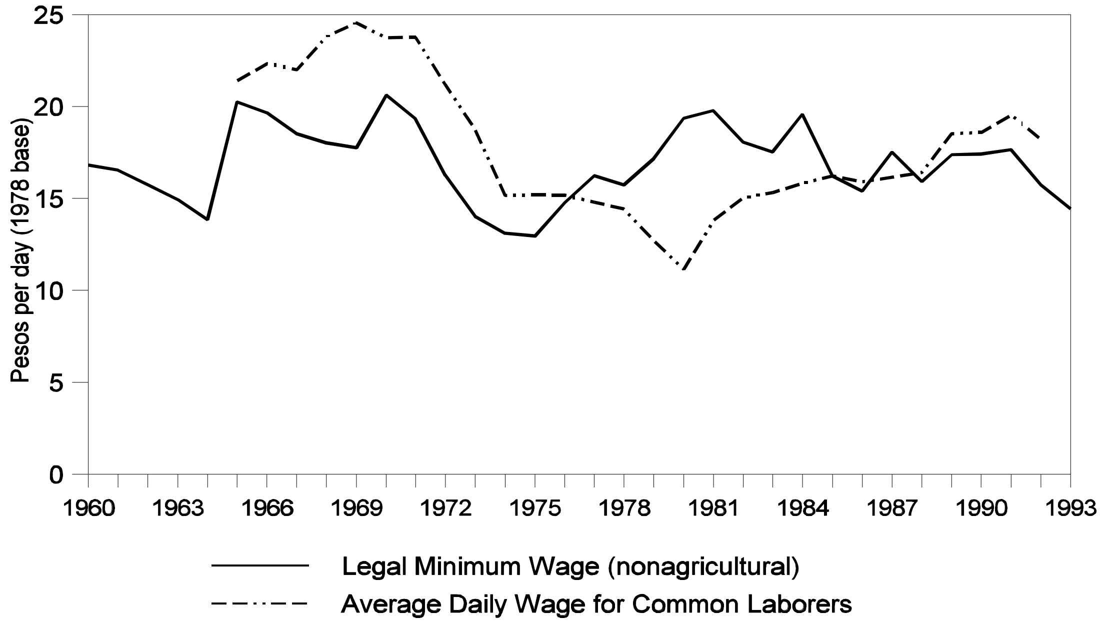
Sources: NSCB, *Philippine Statistical Yearbook 1993*; Mangahas and Bautista, *Review and Assessment of Rural Development Programs and Projects in the Philippines: Poverty Alleviation*.

Figure 10. Real Legal Minimum & Average Daily Wage Rates in Agriculture
1978-93



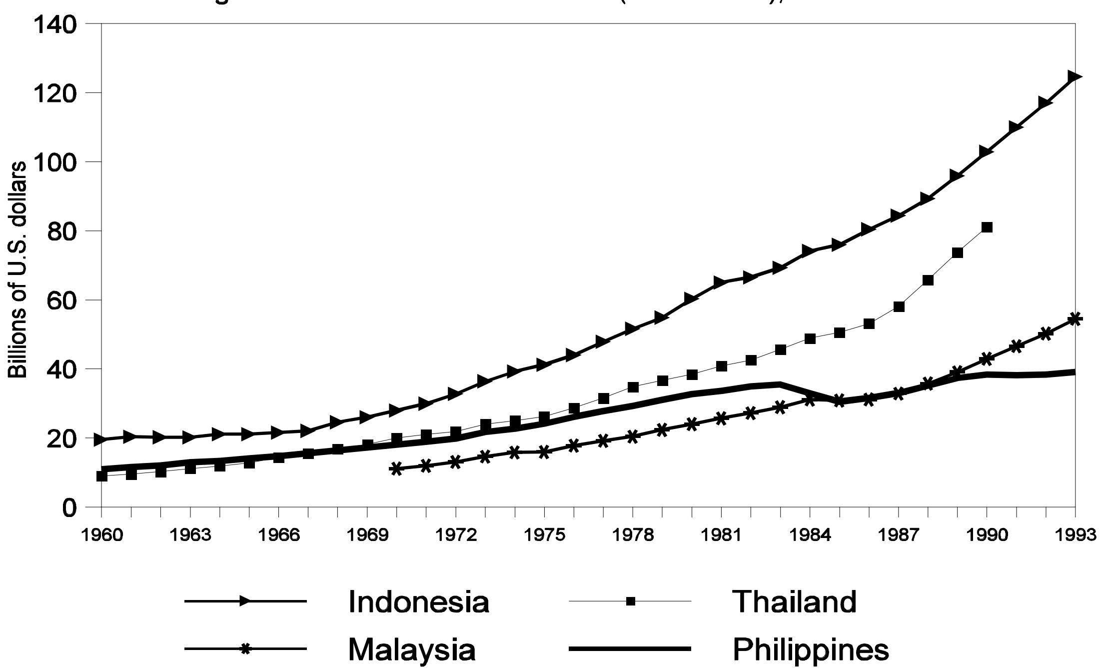
Source: Bureau of Agricultural Statistics.:

Figure 11. Real Legal Minimum & Average Daily Wage Rates in Urban Areas
1960-93



Sources: 1964-80 from CBP; 1981-84 from World Bank, *The Philippines: An Opening for Sustained Growth*, 1993; 1985-87 from National Wages Council Survey; 1989-93 from Bureau of Labor and Employment Surveys.

Figure 12. Gross Domestic Product (1990 Prices), 1960-93



Note: Remittances are not included in the calculation of Gross Domestic Product.
Source: International Monetary Fund, *International Financial Statistics*.

Appendix Tables

Table A-1. Philippine Gross National Product in 1985 Pesos and in 1994 U.S. Dollars, Population, and GNP Per Capita in 1994 Dollars: 1960-1994

Year	GNP in 1985 Pesos (millions)	GNP* in 1994 Dollars (millions)	Population (thousands)	GNP Per Capita in 1994 Dollars
1960	209,056	47,645	27,372	$1,718
1961	222,492	50,707	28,175	$1,800
1962	234,055	53,342	29,002	$1,839
1963	250,563	57,105	29,858	$1,913
1964	259,019	59,032	30,750	$1,920
1965	272,391	62,079	31,674	$1,960
1966	284,303	64,794	32,633	$1,986
1967	297,957	67,906	33,710	$2,014
1968	312,431	71,205	34,730	$2.050
1969	327,811	74,710	35,780	$2,088
1970	336,796	76,757	36,840	$2,084
1971	357,699	81,521	37,900	$2,151
1972	377,714	86,083	38,950	$2,210
1973	414,605	94,491	40,010	$2,362
1974	432,054	98,467	41,120	$2,395
1975	453,086	103,261	42,070	$2,455
1976	490,058	111,687	43,410	$2,573
1977	518,426	118,159	44,580	$2,650
1978	546,769	124,611	45,790	$2,721
1979	581,732	132,580	47,040	$2,818
1980	608,600	138,703	48,320	$2,871
1981	628,335	143,201	49,540	$2,891
1982	646,175	147,267	50,780	$2,900
1983	655,962	149,497	52,060	$2,872
1984	598,099	136,310	53,350	$2,555
1985	556,074	126,732	54,670	$2,318
1986	579,134	131,988	56,000	$2,357
1987	605,861	138,079	57,360	$2,407
1988	652,411	148,688	58,720	$2,532
1989	690,801	157,437	60,100	$2,620
1990	721,762	164,493	61,480	$2,676
1991	722,330	164,623	62,870	$2,618
1992	729,770	166,318	64,250	$2,589
1993	755,690	172,226		
1994		181,011		
1960-92 Total		3,549,468	n.a.	n.a.
1960-85 Total		2,477,843	n.a.	n.a.
1986-92 Total		1,071,625	n.a.	n.a.

Sources: GNP and Population are from the *Philippine Statistical Yearbook*; Per Capita GNP is calculated by the author.

* GNP in pesos are converted to 1994 dollars using the purchasing-power-parity ratio of 10.8 in the 1994 World Development Report, page 220.

Table A-2. Bilateral Official Development Assistance to the Philippines: United States, Other, Total; 1960-1994 in 1994 dollars and as a percent of Philippine GNP

Year	Philippine GNP in 1994 Dollars (millions)	U.S. Bilateral ODA		Other Bilateral ODA		Total Bilateral ODA	
		1994 Dollars (millions)	As a % of GNP	1994 Dollars (millions)	As a % of GNP	1994 Dollars (millions)	As a % of GNP
1960	47,645	57.38	0.12%	106.84	0.22%	164.21	0.34%
1961	50,707	37.72	0.07%	34.18	0.07%	71.90	0.14%
1962	53,342	87.07	0.16%	27.79	0.05%	114.85	0.22%
1963	57,105	30.28	0.05%	51.52	0.09%	81.80	0.14%
1964	59,032	184.21	0.31%	87.75	0.15%	271.96	0.46%
1965	62,079	161.29	0.26%	169.86	0.27%	331.15	0.53%
1966	64,794	31.84	0.05%	117.89	0.18%	149.73	0.23%
1967	67,906	60.45	0.09%	226.28	0.33%	286.72	0.42%
1968	71,205	97.04	0.14%	124.44	0.17%	221.48	0.31%
1969	74,710	88.70	0.12%	170.93	0.23%	259.64	0.35%
1970	76,757	80.58	0.10%	69.11	0.09%	149.69	0.20%
1971	81,521	95.65	0.12%	100.61	0.12%	196.26	0.24%
1972	86,083	140.70	0.16%	314.88	0.37%	455.57	0.53%
1973	94,491	163.10	0.17%	375.55	0.40%	538.64	0.57%
1974	98,467	97.02	0.10%	179.44	0.18%	276.45	0.28%
1975	103,261	121.56	0.12%	181.51	0.18%	303.07	0.29%
1976	111,687	109.04	0.10%	180.56	0.16%	289.61	0.26%
1977	118,159	148.02	0.13%	98.58	0.08%	246.60	0.21%
1978	124,611	107.97	0.09%	155.07	0.12%	263.04	0.21%
1979	132,580	75.74	0.06%	163.31	0.12%	239.05	0.18%
1980	138,703	62.37	0.04%	193.90	0.14%	256.27	0.18%
1981	143,201	60.06	0.04%	329.71	0.23%	389.77	0.27%
1982	147,267	66.65	0.05%	250.92	0.17%	317.57	0.22%
1983	149,497	155.96	0.10%	249.20	0.17%	405.16	0.27%
1984	136,310	142.70	0.10%	250.86	0.18%	393.55	0.29%
1985	126,732	151.17	0.12%	338.78	0.27%	489.95	0.39%
1986	131,988	414.34	0.31%	586.88	0.44%	1,001.22	0.76%
1987	138,079	251.62	0.18%	517.62	0.37%	769.24	0.56%
1988	148,688	125.71	0.08%	695.15	0.47%	820.86	0.55%
1989	157,437	195.03	0.12%	574.62	0.36%	769.65	0.49%
1990	164,493	248.68	0.15%	859.45	0.52%	1,108.13	0.67%
1991	164,623	221.17	0.13%	628.08	0.38%	849.22	0.52%
1992	166,318	227.34	0.14%	1,300.11	0.78%	1,527.45	0.92%
1993	172,226						
1994	181,011						
1960-92 Total	3,549,468	4,298.15	0.12%	9,711.33	0.27%	14,099.46	0.39%
1960-85 Total	2,477,843	2,614.26	0.11%	4,549.46	0.18%	7,163.69	0.29%
1986-92 Total	1,071,625	1,683.90	0.16%	5,161.87	0.48%	6,845.77	0.64%

Sources: for GNP, see table A-1; for ODA, nominal bilateral ODA data from the OECD Public Data Base on magnetic tape converted from nominal dollars to 1994 U.S. prices using the "U.S. Exports" implicit price deflator from Table B-3 of the 1995 *President's Economic Report*.

Table A-3. Bilateral Official Development Assistance Per Capita, in 1994 U.S. Dollars: 1960-1994

Year	Bilateral ODA (millions)		Philippine Population (thousands)	Bilateral ODA Per Capita	
	Total	From the U.S.		Total	From the U.S.
1960	164.21	57.38	27,372	$6.00	$2.10
1961	71.90	37.72	28,175	$2.55	$1.34
1962	114.85	87.07	29,002	$3.96	$3.00
1963	81.80	30.28	29,858	$2.74	$1.01
1964	271.96	184.21	30,750	$8.84	$5.99
1965	331.15	161.29	31,674	$10.45	$5.09
1966	149.73	31.84	32,633	$4.59	$0.98
1967	286.72	60.45	33,710	$8.51	$1.79
1968	221.48	97.04	34,730	$6.38	$2.79
1969	259.64	88.70	35,780	$7.26	$2.48
1970	149.69	80.58	36,840	$4.06	$2.19
1971	196.26	95.65	37,900	$5.18	$2.52
1972	455.57	140.70	38,950	$11.70	$3.61
1973	538.64	163.10	40,010	$13.46	$4.08
1974	276.45	97.02	41,120	$6.72	$2.36
1975	303.07	121.56	42,070	$7.20	$2.89
1976	289.61	109.04	43,410	$6.67	$2.51
1977	246.60	148.02	44,580	$5.53	$3.32
1978	263.04	107.97	45,790	$5.74	$2.36
1979	239.05	75.74	47,040	$5.08	$1.61
1980	256.27	62.37	48,320	$5.30	$1.29
1981	389.77	60.06	49,540	$7.87	$1.21
1982	317.57	66.65	50,780	$6.25	$1.31
1983	405.16	155.96	52,060	$7.78	$3.00
1984	393.55	142.70	53,350	$7.38	$2.67
1985	489.95	151.17	54,670	$8.96	$2.77
1986	1,001.22	414.34	56,000	$17.88	$7.40
1987	769.24	251.62	57,360	$13.41	$4.39
1988	820.86	125.71	58,720	$13.98	$2.14
1989	769.65	195.03	60,100	$12.81	$3.25
1990	1,108.13	248.68	61,480	$18.02	$4.04
1991	849.22	221.17	62,870	$13.51	$3.52
1992	1,527.45	227.34	64,250	$23.77	$3.54
1993					
1994					
1960-92 Total	14,099.46	4,298.15	n.a.	n.a.	n.a.
1960-85 Total	7,163.69	2,614.26	n.a.	n.a.	n.a.

1986-92 Total	6,845.77	1,683.90	n.a.	n.a.	n.a.

Sources: Bilateral ODA from table A-2; Population from table A-1. The per capita ODA amounts are calculated from the other columns.

Table A-4. The Consumer Price Index and Nominal and Real Minimum and Average Daily Wage Rates in Agriculture: 1978-1993

Year	Consumer Price Index 1978 = 100	Wage Rates are in Pesos Per Day			
		Minimum Agricultural Daily Wage Rate		Average Daily Wage Rate	
		Nominal	Real	Nominal	Real
1978	100.0	n.a.	n.a.	10.18	10.18
1979	117.2	n.a.	n.a.	10.68	9.11
1980	138.4	16.25	11.74	11.15	8.06
1981	156.8	18.26	11.65	12.38	7.90
1982	172.6	18.48	10.71	13.90	8.05
1983	189.6	19.72	10.40	16.33	8.61
1984	285.4	28.12	9.85	21.24	7.44
1985	352.7	33.50	9.50	27.26	7.73
1986	352.3	33.50	9.51	29.66	8.42
1987	363.6	33.99	9.35	31.62	8.70
1988	394.4	43.50	11.03	35.96	9.12
1989	437.0	51.00	11.67	41.72	9.55
1990	505.2	60.83	12.04	50.53	10.00
1991	599.5	77.00	12.84	57.74	9.63
1992	644.8	81.50	12.64	65.16	10.10
1993	687.0	81.50	11.86	n.a.	n.a.

Sources: The USAID Mission Economic Office, from the Philippine Bureau of Agricultural Statistics. The minimum wage rates are for non-plantation labor in Region III.

Table A-5. The Consumer Price Index and Nominal and Real Minimum and Average Daily Wage Rates of Nonagricultural Common Labor in Manila and its Suburbs: 1960-1993

Year	Consumer Price Index 1978 = 100	Wage Rates are in Pesos Per Day: Minimum Nonagricultural Daily Wage Rate		Average Nonagricultural Daily Wage Rate	
		Nominal	Real	Nominal	Real
1960	23.8	4.00	16.81	n.a.	n.a.
1961	24.2	4.00	16.53	n.a.	n.a.
1962	25.4	4.00	15.75	n.a.	n.a.
1963	26.8	4.00	14.93	n.a.	n.a.
1964	28.9	4.00	13.84	n.a.	n.a.
1965	29.6	6.00	20.27	6.34	21.42
1966	30.5	6.00	19.67	6.81	22.33
1967	32.4	6.00	18.52	7.13	22.01
1968	33.3	6.00	18.02	7.93	23.81
1969	33.8	6.00	17.75	8.30	24.56
1970	38.8	8.00	20.62	9.21	23.74
1971	41.4	8.00	19.32	9.84	23.77
1972	49.2	8.00	16.26	10.42	21.18
1973	57.0	8.00	14.04	10.69	18.75
1974	76.1	9.98	13.11	11.54	15.16
1975	82.3	10.65	12.94	12.51	15.20
1976	86.7	12.81	14.78	13.16	15.18
1977	93.5	15.19	16.25	13.84	14.80
1978	100.0	15.74	15.74	14.42	14.42
1979	117.2	20.48	17.17	15.19	12.73
1980	138.4	27.39	19.36	15.78	11.15
1981	156.8	31.37	19.77	21.90	13.80
1982	172.6	31.82	18.06	26.50	15.04
1983	189.6	34.22	17.52	29.90	15.31
1984	285.4	57.08	19.58	46.14	15.83
1985	352.7	57.08	16.22	57.08	16.22
1986	352.3	57.08	15.41	59.00	15.90
1987	363.6	69.33	17.53	64.00	16.15
1988	394.4	69.33	15.93	71.00	16.41
1989	437.0	82.88	17.37	88.00	18.52
1990	505.2	96.42	17.40	103.00	18.58
1991	599.5	118.00	17.65	131.00	19.54
1992	644.8	118.00	15.73	137.00	18.20
1993	687.0	119.42	14.42	n.a.	n.a.

Sources: For 1980 and before, CBP data; for 1981 to 1984, the World Bank, *The Philippines: An Opening for Sustained Growth* (1993); for 1985 to 1987, the average monthly wage from the National Wages Council Survey was divided by twenty-six in order to derive the average daily wage; and for 1989 and onwards, the Bureau of Labor and Employment Surveys were used for the wage rates of laborers in non-agricultural establishments with five or more workers.

Table A-6. Philippine Labor Force and Labor Force Participation Rates, by Sex, 1960-1990

Year	Labor Force (thousands)			Labor Force Participation Rates (percent)		
	Male	Female	Both	Male	Female	Both
1960	6,488	3,281	9,769	71.9	36.0	53.9
1961	6,718	3,721	10,439	72.1	39.5	55.7
1962	7,044	4,012	11,056	73.2	41.2	57.1
1963	7,061	3,939	11,000	71.0	39.1	54.9
1964	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1965	7,584	3,811	11,395	71.3	35.3	53.2
1966	7,847	4,349	12,196	71.3	38.9	55.0
1967	7,890	4,643	12,533	69.3	40.1	54.6
1968	7,787	3,993	11,780	66.1	33.3	49.6
1969	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1970	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1971	8,911	4,367	13,278	68.1	32.7	50.2
1972	9,234	4,466	13,700	n.a.	n.a.	50.8
1973	9,495	4,645	14,140	n.a.	n.a.	49.9
1974	9,807	4,663	14,470	n.a.	n.a.	50.2
1975	9,846	4,877	14,723	n.a.	n.a.	50.2
1976	9,964	5,054	15,018	81.4	40.1	60.5
1977	10,245	5,083	15,328	80.7	39.1	59.7
1978	10,708	5,871	16,579	80.9	43.4	62.0
1979	n.a.	n.a.	n.a.	n.a.	n.a.	62.8
1980	n.a.	n.a.	n.a.	n.a.	n.a.	62.8
1981	n.a.	n.a.	n.a.	n.a.	n.a.	61.8
1982	11,723	6,751	18,474	76.7	43.7	60.1
1983	12,374	7,937	20,311	78.8	49.7	64.1
1984	12,998	8,182	21,180	80.9	49.2	64.8
1985	13,235	8,083	21,318	79.9	47.3	63.4
1986	13,576	8,490	22,066	79.4	48.5	63.8
1987	13,996	8,243	22,239	80.9	47.0	63.8
1988	14,469	8,698	23,167	81.4	48.1	64.6
1989	14,595	8,748	23,343	80.0	46.9	63.2
1990	15,051	9,090	24,141	79.9	47.5	63.5

Sources: For 1960 to 1971, the International Labour Organization, *Sharing in Development* (past week reference); for 1972 to 1981, the NEDA, *Economic and Social Indicators*,1982 (past week refernece for 1972 to 1975 and past quarter reference for 1976 to 1981); for 1982 to 1990, the National Statistics Office, *1992 Philippine Yearbook* (past quarter reference).

Table A-7-A. Employment by Sector: in Thousands, 1960-1994

Year	Manufacturing	Agriculture	Government	Personal Services	Construction	Total
1960	1,142	5,777	472	566	254	9,441
1961	1,111	5,960	580	590	245	9,835
1962	1,124	6,279	603	593	255	10,227
1963	1,268	6,417	630	639	303	10,841
1964	1,265	6,282	578	632	321	10,720
1965	1,205	6,272	774	796	320	11,063
1966	1,251	6,423	804	759	290	11,171
1967	1,263	6,520	794	749	279	11,184
1968	1,307	5,960	952	797	365	11,079
1969	1,282	6,498	880	813	345	11,147
1970	1,354	6,256	880	812	389	11,358
1971	1,439	6,321	1,196	944	420	12,543
1972	1,323	6,863	1,071	863	432	12,581
1973	1,396	7,766	1,198	996	350	13,865
1974	1,423	7,684	1,225	940	403	13,826
1975	1,651	7,768	1,335	1,054	456	14,518
1976	1,598	7,659	1,388	986	428	14,237
1977	1,515	7,474	338	2,298	484	14,335
1978	1,742	8,403	361	2,625	516	16,118
1979	n.a.	n.a.	n.a.	n.a	n.a.	n.a.
1980	1,814	8,453	336	2,693	588	16,434
1981	1,807	8,928	324	2,960	592	17,452
1982	1,741	8,919	383	2,922	604	17,371
1983	1,887	9,880	356	3,184	697	19,212
1984	1,931	9,740	368	3.304	759	19,632
1985	1,922	9,698	342	3.408	689	19,801
1986	1,905	10,289	390	3.516	629	20,595
1987	2,059	10,054	392	3.662	765	20,795
1988	2,215	10,158	378	3,917	887	21,331
1989	2,316	10,020	413	3,958	948	21,909
1990	2,236	10,381	457	4,263	1,019	22,212
1991	2,374	10,403	451	4,116	1,046	22,979
1992	2,546	10,869	452	4,254	1,035	23,917
1993	2,457	11,139	503	4,244	1,110	24,382
1994	2,489	11,109	482	4,300	1,151	24,650

Sources: For 1960 to 1974, the World Bank, *Priorities and Prospects for Development*; for 1974 to 1980, NEDA, *1987 Philippines Statistical Yearbook* (manfuacturing series for 1970 to 1980 are from the *1987 Yearbook*); for 1980 to 1990, NSO, *1992 Philippines Yearbook*. For 1960 to 1975, data are based on past week reference; for 1970 to 1990, on past quarter reference; and for 1991 to 1994, on past week reference.

Table A-7-B. Employment by Sector: as Percent of Total, 1960-1994

Year	Manufacturing	Agriculture	Government	Personal Services	Construction	Total
1960	12	61	5	6	3	100
1961	11	61	6	6	2	100
1962	11	61	6	6	2	100
1963	12	59	6	6	3	100
1964	12	59	5	6	3	100
1965	11	57	7	7	3	100
1966	11	57	7	7	3	100
1967	11	58	7	7	2	100
1968	12	54	9	7	3	100
1969	12	58	8	7	3	100
1970	12	55	8	7	3	100
1971	11	50	10	8	3	100
1972	11	55	9	7	3	100
1973	10	56	9	7	3	100
1974	10	56	9	7	3	100
1975	11	54	9	7	3	100
1976	11	54	10	7	3	100
1977	11	52	2	16	3	100
1978	11	52	2	16	3	100
1979	n.a.	n.a.	n.a.	n.a	n.a.	n.a.
1980	11	51	2	16	4	100
1981	10	51	2	17	3	100
1982	10	51	2	17	3	100
1983	10	51	2	17	4	100
1984	10	50	2	17	4	100
1985	10	49	2	17	3	100
1986	9	50	2	17	3	100
1987	10	48	2	18	4	100
1988	10	48	2	18	4	100
1989	11	46	2	18	4	100
1990	10	47	2	19	5	100
1991	10	45	2	18	5	100
1992	11	45	2	18	4	100
1993	10	46	2	17	5	100

1994	10	45	2	17	5	100

Sources: For 1960 to 1974, the World Bank, *Priorities and Prospects for Development*; for 1974 to 1980, NEDA, *1987 Philippines Statistical Yearbook* (manfuacturing series for 1970 to 1980 are from the *1987 Yearbook*); for 1980 to 1990, NSO, *1992 Philippines Yearbook*. For 1960 to 1975, data are based on past week reference; for 1970 to 1990, on past quarter reference; and for 1991 to 1994, on past week reference.

Table A-8. Unemployment and Underemployment Rates, 1960-1993

Year	Unemployment Rate	Underemployment Rate
1960	6.3	20.0
1961	7.5	21.3
1962	8.0	22.3
1963	6.2	28.0
1964	6.4	25.9
1965	7.2	24.0
1966	7.1	22.1
1967	7.9	23.1
1968	7.8	24.6
1969	6.7	19.0
1970	7.7	n.a.
1971	5.2	14.0
1972	6.3	11.9
1973	4.9	11.8
1974	4.0	9.8
1975	3.9	11.1
1976	5.2	n.a.
1977	4.5	n.a.
1978	4.1	n.a.
1979	7.9	n.a.
1980	8.8	21.4
1981	9.4	22.8
1982	10.4	27.6
1983	10.4	30.3
1984	12.6	24.3
1985	11.8	17.5
1986	11.2	24.4
1987	9.6	23.1
1988	9.2	21.3
1989	8.3	21.1
1990	10.5	20.5
1991	9.8	20.1

1992	9.8	18.5
1993	9.3	21.7

Sources: For 1960 to 1975, as well as 1987 to 1992, from the *1992 Yearbook of Labor Statistics* (past week as reference period); for 1980 to 1986, the World Bank, *The Philippines: The Challenge of Poverty* (past quarter as reference).

Table A-9. Philippine Remittances in Millions of Pesos and as a Percent of GNP, 1973-1993

Year	Remittances	GNP	Remittances as a Percent of GNP
1967	564	297,957	0.2%
1968	953	312,431	0.3%
1969	540	327,811	0.2%
1970	1,181	336,796	0.4%
1971	1,457	357,699	0.4%
1972	2,388	377,714	0.6%
1973	4,099	414,605	1.0%
1974	3,667	432,054	0.8%
1975	3,084	453,086	0.7%
1976	3,220	490,058	0.7%
1977	5,627	518,426	1.1%
1978	6,974	546,769	1.3%
1979	11,518	581,732	2.0%
1980	11,823	608,600	1.9%
1981	14,419	628,335	2.3%
1982	20,320	646,175	3.1%
1983	22,436	655,962	3.4%
1984	15,813	598,099	2.6%
1985	18,055	556,074	3.2%
1986	19,681	579,134	3.4%
1987	21,494	605,861	3.5%
1988	21,651	652,411	3.3%
1989	23,536	690,801	3.4%
1990	27,672	721,762	3.8%
1991	32,984	722,330	4.6%
1992	34,689	729,770	4.8%
1993	35,234	755,690	4.7%

Table A-10. Incidence of Poverty Among Families and Among Persons: 1985, 1988, 1991, and 1994

Year	Among Families			Among Persons		
	Urban	Rural	Total	Urban	Rural	Total
1985	33.6	50.7	44.2	37.9	56.4	49.3
1988	30.1	46.3	40.2	34.3	52.3	45.5
1991	31.1	48.6	39.9	35.6	55.1	45.3
1994	24.2	47.1	35.7	28.8	53.7	41.3

Source: USAID/Manila from the Philippine National Statistical Coordination Board.