

CONTROLS IN PHILIPPINE ECONOMY *

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I welcome this opportunity to be with you this afternoon and I am very grateful to the members of the Order of the Purple Feather for their kind invitation to participate in this mutual exchange of views on a subject that vitally affects our people. We meet when there is a need for our economic thinking to be scrutinized and crystallized, if only because our Government, in the interest of the general welfare and after mature deliberation, has decided to launch a national program of austerity which at this very moment poses a great challenge to the loyalty and patriotism of every Filipino.

Perhaps we should put the question of controls and democracy in a broad historical perspective. During his visit to the Philippines some time last year, the noted historian and humanist, Dr. Arnold Toynbee, mentioned at a talk and open forum at the Philippine Columbian that modern conditions require some qualification on economic freedom. In other words, with the growing population of the world and the growing complexity of modern life, unfettered economic freedom such as was found in the days of *laissez faire* must submit to some degree of regulation by the public authority in the interest of the overall order and harmony of society. Such regulation must necessarily entail some form of controls.

Perhaps one type of control which the people not only take for granted but actually expect from a modern society is the regulation of public utilities. Water, electricity and transportation are too vital to the needs of the community at large to be left to the untrammelled working of market forces. In hundreds of ways our government and many of the democratic states limit and control, and themselves undertake economic activities in the general interest.

In the Philippines the imposition of economic control or state intervention in the market forces has become a necessity on account of our aspirations for economic development. The political independence we won for ourselves is our most precious asset in our still to be won economic independence. This political independence gave us the freedom to organize our own economy according to our own interests. The great awakening in our country is the need for economic growth. Up to now the Philippine economy has never been adequate to supply the Filipinos with a level of living which conforms to the most conservative of requirements for normal existence. Compatible with our political sovereignty, our nation has awakened to the urgency of developing a more balanced economy which would be cap-

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able of sustaining our growing population and our demands. Thus, the government policies are directed with single-minded intensity to raising our economic standards through the acceleration of economic growth.

The case for economic growth is that it gives man greater control over his environment and thereby increases his freedom. The temporary yielding up of certain individual freedoms is little to pay in return for a more democratic system built on a lasting foundation of developed economy and with more equality of opportunity with other nations. Economic progress will nourish the spreading effects of expansionary momentum, will decrease inequalities and thus will also solidify the basis for democracy.

It has been brought to the fore, however, that in most under-developed countries like the Philippines, the unhampered play of free market forces only tends to emphasize economic and cultural stagnation and to mold an environment in which economic development would be altogether difficult. Cost-price relationships in the Philippines have been found to be unsatisfactory as a guide to the allocation of scarce resources in many ways. First, they reflect and only tend to emphasize the existing unequal income distribution, which inequality is intensified more than what is socially desirable by allowing market decisions in the overall development. Moreover, cost-price relations in this country reflect the allocation of bargaining power among various groups. Many vested interests and power groups tend to dominate the policies of the country for the perpetuation of their own social chasms to the detriment of the common welfare. There are rigidities in the free market which prevent unemployment from automatically disappearing. The large reservoir of our labor force is unskilled and could not be moved from one sector to another without much difficulty. Furthermore, the market adjustments in this country, if left to a free play of the market, has been found unable to take care of a fundamental disequilibrium in our foreign exchange. A free market in this country will reflect more the individual decisions in which the external economies accruing to the country as a whole are ignored. At most, market relations in this country provide guides only to marginal decision whereas only a purposeful state intervention or control can they manage to direct considerably the market forces for the development of the country. It is because of these imperfections in the market that planning for economic development, which means state interference in the decisions of a free market, that makes certain controls imperative for our country. It has been found in the past experience of other countries that if things were left to market forces unhampered by any policy interferences or controls, almost all economic activities would cluster in certain areas and remain in certain powerful groups while the masses remain in poverty, and the rest of the country more or less in a backwater.

Because of these major defects in our market economy, we have to accept that the government will have to take over many functions which in most advanced countries in the Western World are left to private business. In much of the contemporary literature on economic development, the matter is sometimes confused by an

altogether unfounded counter-position of Government planning and "free enterprise," and by assuming that planning creates rigidity. It should be clear, however, that if we in this country succeed in starting and sustaining by our policy interferences or controls, an upward cumulative process of economic development, this will provide more and not less space for what of private enterprise our country possesses or will be able to foster. Our existing controls particularly those of exchange and credit aim at breaking the rigidities, which are the mark of our underdevelopment and at seeking to establish future greater flexibility in the entire economic and social fabric.

However, within the framework of our political democracy the Government is limited to intervening in the market only to allocate strategically scarce resources. A factor is strategic if it is essential to most economic activities, if the Government is unable to control the supply, and if the entrepreneur cannot easily substitute another factor for it. The Government can thus determine the pattern of the whole economy and in the process raise the living standards of our masses.

Controls have molded an economic base capable of sustaining prolonged growth. Without controls the pattern of our imports would not be such that 77 per cent of our dollars are spent on machinery and raw materials so vital to domestic industry; and a large part of the remainder to essential consumer goods so important to decent living at reasonable prices. Credit, the lifeblood of commerce and industry, has been channelled by selective control policies into productive enterprises, and withheld from nourishing speculative activity.

When we look at the record we find that our national income has increased over the past four years from ₱7.0 billion to ₱8.3 billion, with the benefits spread out over agriculture, mining, and manufacturing. Real income per person has gone up during the same period by 12 per cent. In 1957, we produced 17 per cent more goods and services than in 1953, while population has increased by only 6 per cent. We have indeed made advances under our system of controls.

Yet, we still do not produce enough both for domestic use or for export to significantly raise living standards of our growing population to the levels of their aspirations and cut down our undue dependence on foreign sources for many of our basic needs to reduce our vulnerability to extraneous influences.

For the present, however, the economy would seem to require that control be a part of life in the Philippines for some time. Our Administration realizes that the framework of our political economy would not readily consent to a permanent direction of the overall economy by the state mechanism. The Government, therefore, is committed to the withdrawal of such controls and their eventual elimination is one of the major goals in our long-range economic planning.

That planning and controls are not incompatible with constitutional democracy is amply demonstrated by modern experience. England, the traditional cradle of democratic liberties, has had planning and controls for some time now. Most democratic countries in Western Europe also retain some form of controls on their trade and payments. The same can be said of such democracies as India, Australia, and New Zealand. Even that outpost of free trade, Hong-kong, has rent control.

And this be my parting words to you, therefore, you who wear your purple feathers: Those of us who love democracy should temper our emotions when we speak of economic controls. They may well spell the difference between prolonged austerity and early prosperity.
