
In line with the theme set out in its sister volumes, the book under review explores the anatomy of exchange control, the liberalization of exchange controls and the relationship of the exchange control system to growth for Philippines for the period from World War II to 1971. It makes searching probes into how different commercial policies and exchange controls influenced growth, employment, resource allocation and income distribution. A great deal of attention is focussed on the evaluation of attempts to liberalize the exchange controls. Fiscal and monetary measures are also accorded detailed treatment commensurate with their importance.

Chapter One of the book provides background material for the analysis. It sketches out the growth of the Philippines economy over the period under review, and describes the different exchange control phases that the economy had experienced over the time period of the study.

Chapter Two surveys exchange controls and related development policies from 1946 to 1959. For purposes of analysis, this fourteen-year period is split into three parts. In the first period, the government tried to bring production back to pre-war levels. In the second period, strict foreign exchange controls on all international transactions were imposed. This was done partly to reduce the high consumption component of imports. Political pressures resulted in ineffective implementation of these controls with the result that consumption was not reduced to any great extent. In the third period, efforts at promoting import substitution resulted in the encouragement of domestic production of non-essential items which again meant consumption liberalization.

Chapter Three outlines the steps taken to ease controls during the period 1960 to 1965, and analyses the economic impact of these measures. In April 1960, the Central Bank introduced multiple exchange rates, thus beginning the decontrol period. Apart from these decontrol measures, the Central Bank tried to stimulate free market forces and make the adjustment of producers to the currency depreciation smoother by following an easy credit policy.

The different measures taken in 1960 resulted in an increase in the effective exchange rate. In March 1961, the Central Bank continued its decontrol programme, depreciated the currency for both selling and buying transactions, and continued a liberal credit policy through the year, due in part to it being a presidential election year. A new tax exemption law in the same year gave import substituting industries a further impetus.

Decontrol measures between 1960 and 1965 were motivated by a government desire to give exporters a more favourable exchange rate, and to reduce the corruption and inefficiency involved in the government allocation of foreign
exchange. The government took adequate steps to prevent a contraction in the industrial sector as a result of the decontrol programme.

Liberalization hit several import competing manufacturing activities by the higher costs of imported inputs. However, export earnings rose, testifying partially to the over-all success of liberalization. Food prices during the period rose sharply, mainly due to large scale exports of edibles.

Chapter Four analyses the renewed economic expansion and the balance of payments problems that arose with it. The advent of the Marcos era in 1966 was instrumental in renewed efforts at both agricultural and industrial development. Credit was relaxed to a substantial degree. Special attention was paid to rural development, on the premise that this sector was restricting overall growth. The government's level of indebtedness rose sharply to finance development expenditures. These measures led to a high rate of inflation and a negative balance of trade. As a response to these developments the Central Bank revised its easy credit policies from June 1967. Despite the restrictive monetary policy, the trade deficit grew larger. The depressing picture was somewhat brightened by stability in prices, due in large part, to a large increase in rice production.

Continued worsening of the balance of payments position forced the Central Bank to take drastic steps. By 1970 more than half of the Philippines exports earnings were financing interest and amortization of short term loans contracted in the past. The peso was floated in February 1970 and its value vis-à-vis the dollar rose from P 3.90 to a dollar to P 6.4 to a dollar. A policy of monetary and fiscal restraint was adopted by the government along with other anti-inflationary steps.

Chapter Five analyses the various measures of protection employed by the government over the period of the study. Price level-deflated effective exchange rates and the purchasing power-parity effective exchange rates are calculated and results on the structure of effective exchange rates and its change over the period are presented. Thereafter the implicit and the effective protective rates are reviewed. The distortions created by smuggling are also discussed in some detail.

Chapter Six sums up the argument on how the industrial allocation of resources, the distribution of income, and the rate of growth in the economy were influenced by various exchange control methods and other government development policies. It is argued that the manipulation of exchange controls had increased the price of industrialization and had helped to diversify the manufacturing sector. In the 1950s, a structure shift towards manufacturing and other non-agricultural activities occurred. This shift was part of a long term trend, and not a new occurrence, however. Widespread import substitution that took place as a result of government policies was low in the food sector, and fairly high in the textiles and leather products sectors.

There was a discernible trend towards the production of non-essential consumer goods during the 1948-68 period. There were also rises in the capital-labour, the output-capital and the output-labour ratios. Over 1956-70, employment increased faster than the growth of the labour force.
Export growth was retarded by effective exchange rates that discriminated against the export sector. Export expansion was also hampered by the import substitution programme due to the artificially inflated prices of some of the inputs used by the export sector.

As noted previously, the exchange control system of the Philippines contributed largely to the industrialization process during the 1950s. After the mid-1950s, manufacturing growth slackened as a result of the lessening of import substitution opportunities for simple consumer goods. Considerable excess capacity also developed in manufacturing during this period. Low growth rate of export earnings and the restricted size of the domestic markets were a factor in retarding rates of growth in the industrial sector.

The author is bold in being blunt about the lack of success of some of the development efforts of the Philippines. His conclusion of good politics being bad economics would probably be true for many other developing countries.

While the author’s exposition of the Philippine growth effort is both exhaustive and intensive, he seems to have fared less well in making policy recommendations for the country. His observation that the Philippines must exercise greater fiscal and monetary discipline to achieve its development potential is trite and commonplace, and is hardly the illuminating end result that one would expect from a study of this calibre.

The book extensively covers the conclusions of studies undertaken by numerous researchers. This, together with the detailed statistical data that the author employs makes the book an invaluable aid to the student of the Philippines development effort since the last World War. All told, the author has done an excellent job of collecting data from numerous diverse sources, and has produced a worthwhile study.

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The interest of the policy-maker in social sectors is of a recent origin. All aggregative production functions in the past indicated the existence of a residual factor which was generally imputed to qualitative and quantitative advances in education and training. Other social factors like health were not given the attention they deserved.

It took a long time before the economic significance of education could be reflected in policy-making. Still worse is the case of health sector, the study of which has not been seriously done by economic theorists.