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THE PHILIPPINES: EXTERNAL SHOCKS, ADJUSTMENT POLICIES AND IMPACT ON SELECTED DEVELOPMENT CONCERNS, 1973-1985

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This paper assesses the impact of external shocks and adjustment policies on basic economic and social concerns particularly on the vulnerable income groups during the period 1973-1985, with the end in view of designing and implementing more effective policies and programs.

The paper is divided into seven sections. Section I (Introduction) describes the prevailing domestic and international economic scenario from 1973 to 1985 and sets the general background for the study. Section II discusses the conceptual framework of the study, broadly tracing the impact of external shocks and adjustment policies on the transmission mechanisms and on basic social concerns and specific groups. Section III presents an analysis of the nature and implications of external shocks and policy responses of the Philippine economy during 1973 to 1983, while Section IV evaluates the adjustment measures in response to the economic crisis during 1984 and 1985. Section V analyzes the impact of the external shocks and adjustment policies on households, agriculture, and public expenditures particularly on social services. Section VI evaluates the second round effects of reduced income and declining employment opportunities on basic social concerns. Finally, Section VII concludes the study and recommends a package of policy reforms and program measures which will promote economic recovery in the short-term and sustainable growth and improved human conditions in the long run.

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I. Introduction

The early periods of the 1970s and 1980s were hard times for the world economy. The inflationary experience of the early 1970s was followed in late 1973 by a sharp increase in the price of oil, and in 1980-1982, by the most severe recession experienced in the developed countries in the postwar period. Despite the widening balance of payments deficits experienced by the non-oil developing countries, most of them were able to weather the effects of the first oil shock relatively well. However, the second oil price increase came in 1979 and with it came a deeper and prolonged world recession.

The Philippines was not spared the impact of these external shocks. Because of the large role of trade and agriculture in its economy, the Philippines has been historically very vulnerable to fluctuations in incomes, prices and to policy changes in the more developed countries.

One of the most important consequences of the repeated recessions, oil shocks, and related fall in the terms of trade was the running of persistent deficits on current account, as imports outstripped export earnings. The net terms of trade index fell from 100 in 1972 to 58.7 in 1982. Demand for exports also slowed down considerably during the period, especially after the second oil shock. Thus, except for 1973, the Philippines posted persistent and increasing current account deficits, rising from \$176 million in 1974 to \$3.2 billion in 1982 (Table 1).

To finance the current account deficits, the government resorted to foreign borrowings, since net inflow of direct foreign investments was very minimal during the period. As a result, total external debt outstanding increased from \$2.9 billion in 1973 to an unprecedented level of \$24.7 billion in 1982. As a share of GNP, total external debt outstanding rose from 27 percent in 1973 to 62.8 percent in 1982.

Authorities opted for foreign borrowings since the relatively favorable conditions in the international financial markets after the first oil shock made it possible to cushion the impact of the current account deficit on the overall BOP position. LIBOR from 1975-1977 averaged 6 percent. Real interest rates from 1974 -1977 were negative, averaging minus 2.9 percent. With external borrowings, the international reserves increased.

However, the second oil shock induced a long recession in the developed countries that resulted in lower export earnings for

TABLE 1

SELECTED INTERNATIONAL AND MACROECONOMIC INDICATORS, 1973-85

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
1. Terms of trade (1972=100)	113.3	114.5	87.8	77.7	71	78.2	81.6	68.6	60.4	58.7	61.3	59.8	55.86
growth rate (%)	13.3	1.1	–23.3	–11.5	–8.6	10.1	4.3	–15.9	12.0	–2.8	4.4	– 2.4	–6.6
2. Current account balance (US$M)	536	–176	–892	–1050	–752	–1102	–1497	–1904	–2061	–3200	–2750	–1116	–77
ratio to GNP (%)	–5.1	1.2	5.7	5.9	3.6	4.6	5.0	5.4	5.4	8.1	8.1	3.5	93.1
3. BOP surplus/(deficit) (US$M)	664	110	–521	–161	164	–54	–570	–381	–560	– 1621	–2068[a]	258[a]	2389[b]
4. *Outstanding TOT external debt to* GNP ratio (%)	27.0	25.5	31.3	37.5	39.0	44.5	45.2	49.0	54.4	62.8	72.7	78.8	80.4
5. LIBOR (3 months) – 5	9.26	10.23	6.52	5.59	6.11	8.85	12.02	14.11	16.89	13.20	9.66	10.84	8.39
6. Real interest rates	1.56	–2.17	–4.58	–2.71	–2.29	1.65	3.07	2.31	6.99	5.8	4.2	5.5	3.1
7. *Economic growth in OECD (real)*	6.1	0.5	–0.6	5.0	4.0	4.1	3.4	1.3	1.2	–0.3	2.4	2.3	2.2
8. Gross International Reserves (US$M)	1037	1503	1361	1642	1525	1883	2423	3155	2574	1711	865	886	1061
growth rate (%)	89.0	44.9	–9.4	20.7	–7.1	23.4	28.7	30.2	–18.4	–33.5	–49.5	2.5	19.7
9. Peso — US$ exchange rate	6.756	6.788	7.248	7.440	7.403	7.366	7.378	7.511	7.9	8.54	11.113	16.699	18.607
10. *Real effective exchange rate* [c]	93.25	111.2	102.27	100.26	97.63	88.1	95.94	100.95	101.33	105.18	86.91	82.93	89.07
11. Ratio of National Budget deficit to GNP	0.5	–0.7	1.2	1.8	1.9	1.2	0.2	1.3	4.0	4.3	1.7	1.8	1.8
12. Tax effort (% of GNP)	8.9	10.4	12.04	11.42	11.10	11.51	11.91	11.52	10.37	10.06	10.43	9.31	10.1
13. Domestic liquidity (billion pesos)	18.1	24.2	28.9	35.9	43.9	51.8	57.4	67.8	82.1	95.3	113.0	121.2	132.9
growth rate (%)	52.2	34.2	19.2	24.3	22.4	18.0	10.7	18.2	21.1	16.1	18.6	7.3	9.6
14. GNP, *current (billion pesos)*	72.2	99.9	114.4	134.2	153.2	177.0	218.0	264.5	303.6	335.4	378.7	526.3	595.1
real growth rate (%)	9.3	5.6	6.0	7.2	6.3	5.8	6.9	5.0	3.4	1.9	1.1	–6.8	–3.8

a/ Unrevalued and adjusted for arrears.
b/ With rescheduling and adjustments for arrears.
c/ *An increase means appreciation of the effective exchange rate.*
Source: NEDA, CBP, MBMS.

developing countries. The tight monetary policy that these developed countries adopted dried up loanable funds in the international market, pushed interest rates upwards and shortened the period for loan maturity.

Despite the chronic current account deficits, the government authorities pursued expansionary monetary and fiscal policies. Exchange rate adjustments were very minimal and the real effective exchange rate appreciated from 93.3 index points in 1973 to 105.2 in 1982. High tariff protection and external borrowings contributed to the overvaluation of the currency.

The national government has been running budgetary deficits since 1975, although this was kept below 2 percent of GNP until 1980. In 1981 and 1982, however, this rose to 4 and 4.3 percent of GNP, respectively, due to a countercyclical expenditure program and declining government revenues. The tax effort was, at its best, 12 percent in 1975, averaged 11.5 percent in 1976-1980 and declined to an average of 10.2 percent in 1981-1982.

The monetary authorities also pursued an expansionary monetary policy, partly due to the burgeoning government budget deficits which had to be financed. Domestic liquidity grew at an average of 18.7 percent in 1975-1982, peaking at 24.3 percent in 1976.

The deterioration in the terms of trade, the unfavorable exchange rate policy, expansionary monetary and fiscal policies and heavy foreign borrowings led to the balance of payments crisis in late 1983. Another important factor was the assassination of opposition leader Benigno Aquino which shook the eroding political stability of the government in power, thus scaring away foreign investors and bringing to a stop the inflow of new funds from the country's international creditors.

With a population growth averaging 2.5 percent annually in the early 1980s, a high incidence of poverty, and high economic and age dependency ratios (126.0% and 77.8% in 1985), it is not unexpected that the economic crisis had serious social costs. Its implications for policy and planning are just as formidable.

II. Conceptual Framework

The interrelationships of external influences and shocks, adjustment policies, and the transmission mechanisms which affect basic social concerns and specific low income groups are traced using the conceptual framework presented in Figure 1.

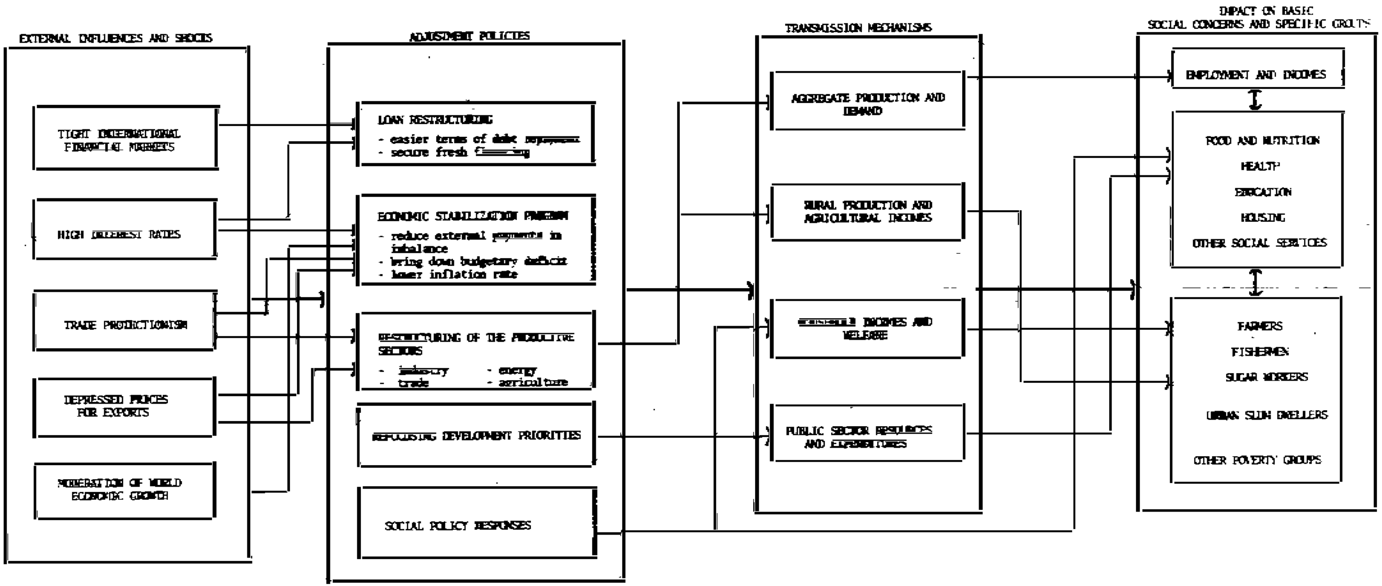

FIGURE 1
CONCEPTUAL FRAMEWORK

The effects of external influences such as unfavorable terms of trade and low export demand on key macroeconomic variables are assessed. In response to these shocks, the adjustment policies adopted are presented and analyzed. These adjustment policies are mainly: loan restructuring, economic stabilization, restructuring of productive sectors, refocusing of development priorities, and social policy responses.

The basic technique adopted in estimating the effects of the external shocks and policy responses relied heavily on the framework developed by Bela Balassa in his pioneering work, "The New Industrializing Developing Countries After the Oil Crisis".

The framework used provides a way of estimating the BOP effects of external shocks in the form of the deterioration in the terms of trade and slowdown in world export demand. The effects of these shocks are estimated by comparing actual developments with a postulated situation that would have happened without the shocks (See Appendix for details of the framework).

The impact on households, the rural sector, and public expenditures are then traced mainly through the movement of key indicators. There are many complex processes underlying the linkage between world economic conditions and welfare but the analysis of the impact has been mainly in terms of the following transmission mechanisms: a) the effects on households through changes in employment, wages and prices brought about by the impact on aggregate production and demand; b) the consequences on the rural sector which is made vulnerable by the changes in the price structure, incentives system, and agricultural productivity; and c) the impact of the shifts in government expenditures especially with respect to social services.

The second-round effects of dwindling employment opportunities, low incomes, and less government support for social services brought about by the above are then traced particularly in terms of basic social concerns and special groups. Again, indicators and findings of other studies are used to assess the direction of the impact.

The study traces these dominant linkages and extends the analysis of the impact or effects on specific concerns mainly through the use of key development indicators. The framework, however, does not allow for a more accurate quantification of the impact on specific social sectors or groups, e.g., labor force participation of women and children.This is actually the subject of investigation of two other related research studies done by Herrin (1986) and Tidalgo-Miranda (1986).

III. Analysis of External Shocks and Observed Responses

During the period 1973-1983, the Philippine economy, together with the economies of Asian developing countries, were affected by a number of external developments: two sharp oil increases in 1973-1980, high real interest rates in the early 1980s and subsequent recession in industrialized countries.

The effects of the external shocks in the Philippines are measured by the terms of trade effects and export volume effects. The terms of trade effect is a measure of the overall effect of export and import price movements on the current account balance. The export volume effect is a measure of the impact of changes in foreign demand for the country's exports.

Evaluation of policy responses, on the other hand, includes additional financing from external sources; trade adjustment through export expansion and import substitution; reduction in income growth targets, thereby reducing demand and imports; and specific domestic responses such as tax increases, broadening of the domestic tax base, and increase of public expenditures.

For analytical purposes, the 1973-1983 period was divided into two phases; namely: 1973-1978, representng the first oil price increase and years thereafter; and 1979-1983, representing the second oil price shock and the subsequent recession period.

A. External Shocks

In terms of the terms of trade effects, the results show that they had increasingly burdened the current account and consequently the balance of payments. The terms of trade effect was relatively more favorable in the subperiod 1973-1978 as against the subperiod 1979-1983 due to the higher growth rates generally achieved by export prices than import prices during the earlier subperiod and to the faster growth of import prices than export prices in the latter period. From a favorable terms of trade effect in 1973 amounting to 1 percent of Gross Domestic Product (GDP), the terms of trade loss amounted to 1 percent of GDP in 1974 and rose to 23 percent of GDP in 1982.

Thus, the first oil shock had relatively less impact on the terms of trade while the effect of the second oil shock was more pronounced.

Meanwhile, the export volume effect of changes in foreign demand was more unfavorable in the subperiod 1979-1983 than in 1973-1978. This may be traced to a slackening in demand in the developed economies affected by world recessionary trends.

B. Policy Responses

The year 1973 saw a huge current account surplus of $536 million as a result of the world commodity boom. However, starting in 1974, the country began experiencing persistent and increasing current account deficits.

Since net inflow of direct foreign investments was very minimal during the period, an increasing need for additional net external financing became evident in 1974. During this year, additional net external financing amounted to 7 percent of GDP. By the end of 1983, this rose to 20 percent of GDP (Table 2). Although additional net external financing almost exceeded total external shocks from 1973 to 1979, the ratio declined from 366 percent in 1974 to only 77 percent in 1983, implying a relative slowdown in the growth in external debt compared to that of total external shocks (Table 3).

The subperiod 1979-1983 saw a higher level of external financing than in 1973-1978 (Table 4). The relatively favorable conditions in the international financial market in 1976-1979 made the use of external borrowings possible to cushion the impact of the current account deficit on the overall BOP position. However, after the second oil shock, developed countries pursued a tight monetary policy which, coupled with the debt crisis started by Mexico in mid-1982, dried up loanable funds in the international market, jacked up interest rates, and shortened the loan maturity period. The growing share of short-term loans together with the sharp increase in interest rates increased the debt service requirements which placed mounting pressure on scarce foreign exchange resources.

Meanwhile, as a result of the country's export promotion policies, increases in export market shares were recorded for most of the years. The favorable effects were more significant in the 1979-1983 subperiod particularly since export promotion policies, instituted earlier in the decade, had started to gain ground.

Regarding import substitution, despite the high levels of trade protection, the Philippines still experienced negative import substitu-

TABLE 2
BALANCE OF PAYMENTS EFFECTS OF EXTERNAL SHOCKS AND POLICY RESPONSES AS PERCENT TO GDP

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1973-78	1979-83	1984-85
I. External Shocks a/																
a. Terms of trade effect	1	−1	−8	−9	−10	−11	−12	−17	−20	−23	−19	−12	−3	−6	−18	−8
Export price effect	4	15	9	7	8	11	18	22	20	12	15	19	23	9	17	21
Import price effect	−3	−16	−17	−16	−18	−21	−29	−39	−40	−35	−34	−31	−26	−15	−36	−28
b. Export volume effect	0	0	−3	−2	−2	−2	−2	−3	−4	−5	−6	−5	−6	−2	−4	−5
c. Total external shocks	1	−2	−11	−11	−12	−13	−14	−20	−23	−28	−26	−17	−9	−8	−22	−13
II. Policy responses b/																
a. Additional net external financing	1	−7	−14	−12	−9	−14	−15	−17	−19	−21	−20	−8	−7	−9	−18	−8
b. Export promotion	−1	2	1	−1	−4	−3	−3	−6	−6	−9	−7	−5	5	−1	−6	0
c. Import substitution	0	2	2	2	0	2	3	2	1	2	1	−3	−3	1	2	−3
d. Import effects of lower GDP growth rates	0	0	0	1	1	1	1	1	1	0	0	−2	−3	1	1	−3
e. Total responses	1	−2	−11	−11	−12	−13	−14	−20	−23	−28	−26	−17	−9	−8	−22	−13

a/ Negative sign indicates unfavorable effects.
b/ Negative sign indicates positive responses.

TABLE 3
BALANCE OF PAYMENTS EFFECTS OF EXTERNAL SHOCKS
AND POLICY RESPONSES AS PERCENT TO TOTAL SHOCKS

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1973-78	1979-83	1984-85
I. External Shocks a/																
a. Terms of trade effect	114	−75	−77	−83	−82	−81	−84	−86	−85	−83	−76	−70	−37	−80	−82	−59
Export price effect	371	813	81	63	70	83	127	111	87	42	57	109	253	106	77	157
Import price effect	257	−888	−157	−147	−152	−164	−211	−197	−172	−125	−133	−178	−289	−186	−159	−216
b. Export volume effect	−14	−25	−23	−17	−18	−19	−16	−14	−15	−17	−24	−30	−63	−20	−18	−41
c. Total external shocks	100	−100	−100	−100	−100	−100	−100	−100	−100	−100	−100	−100	−100	−100	−100	−100
II. Policy responses b/																
a. Additional net external financing	126	−366	−128	−110	−78	−105	−107	−87	−80	−75	−77	−48	−78	−112	−85	−63
b. Export promotion	−69	128	5	−13	−33	−19	−21	−29	−25	−34	−27	−27	53	−13	−27	13
c. Import substitution	7	120	19	16	4	18	21	12	2	7	5	−15	−38	18	9	−27
d. Import effects of lower GDP growth rates	36	18	4	7	7	7	7	5	3	1	−1	−10	−36	7	3	−23
e. Total responses	100	−100	−100	−100	−100	−100	−100	−100	−100	−100	−100	−100	−100	−100	−100	−100

a/ Negative sign indicates unfavorable effects.
b/ Negative sign indicates positive responses.

TABLE 4
BALANCE OF PAYMENTS EFFECTS OF EXTERNAL SHOCKS AND POLICY RESPONSES AS PERCENT TO THE SHOCKS [a]
(MILLION US$)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1973-80	1979-83	1984-85
I. External shocks [b]																
a. Terms of trade effect	114	−130	−856	−1038	−1164	−1316	−1531	−2366	−2856	−3483	−2914	−1713	−454	−732	−2630	−1083
Export price effect	371	1407	900	787	995	1335	2317	3032	2935	1750	2209	2661	3138	966	2449	2900
Import price effect	−257	−1537	−1756	−1825	−2160	−2651	−3848	−5398	−5791	−5233	−5123	−4374	−3592	−1698	−5079	−3983
b. Export volume effect	−14	−43	−259	−206	−261	−301	−293	−373	−508	−707	−934	−738	−788	−181	−563	−763
c. Total external shocks	100	−173	−1115	−1244	−1425	−1617	−1824	−2739	−3364	−4190	−3848	−2451	−1242	−913	−3193	−1846
II. Policy responses [c]																
a. Additional net external financing	126	−633	−1429	−1369	−1113	−1694	−1959	−2383	−2690	−3129	−2973	−1174	−975	−1019	−2627	−1075
b. Export promotion	−69	221	53	−163	−464	−315	−378	−806	−849	−1408	−1038	−652	660	−123	−896	4
c. Import substitution	7	207	213	205	52	286	388	323	72	292	198	−372	−475	162	255	−424
d. Import effects of lower GDP growth rates	36	32	48	84	100	106	125	128	103	55	−36	−252	−453	68	75	−353
e. Total responses	100	−173	−1115	−1243	−1425	−1617	−1824	−2738	−3364	−4190	−3849	−2450	−1243	−912	−3193	−1847

a/ Total response may not exactly equal to total external shock due to rounding off.
b/ Negative sign indicates unfavorable effects.
c/ Negative sign indicates positive responses.

tion due to the high import dependence of domestic industries, the high import content of rising investments, particularly of the public sector, and the increase in imports associated with the appreciation of the real exchange rate.

Since the government's main objective was the achievement of income growth, it did not intentionally pursue import reduction through income adjustment to cushion the impact of external shocks. In fact, economic growth averaged 6.3 percent during the 1970s as compared to 4.9 percent during the previous decade.

Tax increases, as a whole, were adopted by the government as a policy response to the external shocks. This was more pronounced during the 1973-1978 period than the 1979-1983 period. Among the various taxes imposed, domestic taxes took a larger proportion especially in the 1979-1983 period as the tax burden was shifted from the external to the internal sector (Table 5).

TABLE 5
FISCAL AND OTHER DOMESTIC RESPONSES OF THE PUBLIC SECTOR TO EXTERNAL SHOCKS *
(PERCENT DISTRIBUTION)

	1973-78	1979-83
Specific domestic response	100.00	100.00
A. 2.1 Tax response	105.29	28.54
Domestic tax	15.82	40.72
Import tax	–15.98	2.30
Export tax	7.92	–1.42
2.2 Domestic tax base	– 4.88	7.26
2.3 Public expenditures	2.6	42.22
Capital expenditures	–25.64	26.22
Current expenditures	28.24	16.02
2.4 Public financing response	55.68	27.34
2.5 Domestic price impact	–8.3	1.52
2.6 Trade response	35.36	– 6.84
B. Response of other sectors	–91.96	–94.14

*Totals may not add up to 100 due to roundings. Independent estimates.

Public expenditures expanded, especially during the 1979-1983 subperiod, with capital expenditures taking in a greater share than current expenditures. From a level of around 1 to 2 percent of GNP in the early 1970s, the ratio of public investments to GNP reached 7 percent in the late 1970s and stabilized to about 3.5 percent in 1984 and 1985. The expansionary fiscal stance in 1981-1982 as a countercyclical measure worsened the BOP position in addition to high interest rates on foreign loans and other external shocks.

The inflationary impact of the shocks were accommodated during the period through the expansionary effects of the public expenditure program and monetary policy. Total domestic credit expanded by 28 percent annually in 1973-1978 and by 21 percent in 1979-1983.

On the whole, external shocks were larger than the deterioration in the current account position in 1979-1982, implying positive adjustment. But this did not prevent the slowing down of annual economic growth to 4.3 percent during the period and the debt crisis which erupted in 1983.

IV. Adjustment Measures in 1984-1985

The external shocks, together with the economic management policies instituted by authorities during the 1973-1983 period, resulted in the most severe balance of payments crisis to hit the country since postwar years. Without replenishment from short-term borrowings as a result of a crisis of confidence in the government which took hold among foreign banks, the international reserves were reduced to $430 million in October 1983 from a peak of about $3.1 billion in 1980. Faced with a foreign exchange shortage, the government declared a series of moratoriums on payments of principal on its foreign exchange liabilities and imposed foreign exchange restrictions. The Philippines had to drastically cut back its imports which were mostly intermediate and capital goods.

In response to the economic crisis, an economic recovery program was launched in 1984 with the assistance of the international economic community. Specifically, the program aimed to attain external and internal stability, to hasten the restoration of the normal growth process, and to promote equity and total human development. It was anchored on the following areas, namely: 1) economic stabilization, 2) loan restructuring, 3) structural adjustments, and 4) realignment of public expenditures. The fifth, which will be discussed in the next sections, is social adjustment aid.

A. Economic Stabilization

Cognizant of the deteriorating balance of payments, the Central Bank allowed the peso to depreciate three times starting January 1983 to June 1984 before finally declaring a free float in October 1984. The exchange rate adjustments were accompanied by a number of temporary exchange controls for the purpose of discouraging imports and ensuring that the limited foreign exchange was used for priority imports.

To help further reduce importations, new trade taxes were imposed. An additional ad valorem duty on all importations was raised from 3 to 5 percent in November 1983, to 8 percent in April 1984 and finally to 10 percent in June 1984. Additional tariffs and export taxes per E.O. 920 on logs and lumber, bananas and coconut products, pineapple and shrimps reversed the trade liberalization process initiated in 1981. The foreign exchange allocation by the government, which acted as quantitative restrictions on imports, gave more protection to heavily protected import substitutes while penalizing exports.

In contrast to earlier years, monetary policy in 1984 and 1985 was restrictive. The effort was focused mainly on moderating the expansion of reserve money. The International Monetary Fund (IMF) program required limits on reserve money levels from ₱32 billion in December 1984 to ₱31 billion in March 1985. Reserve requirements were increased and the Central Bank virtually closed the subsidized rediscounting window. The Central Bank also introduced the CB bills to help mop up excess liquidity. The unprecedented high rates offered on these bills induced high interest rates in the whole system (interest on CB and T-bills reached a peak 40 percent and 42 percent, respectively, in November 1984), resulting in massive decline in trade and inventory financing. However, in the latter part of 1985, nominal interest rates began to decline although they remained high relative to inflation. The high interest rate policy implicitly taxed investments and had a negative redistribution effect. It favored high income groups and reduced employment.

Meanwhile, efforts to manage budget deficits consisted of raising government revenues and controlling the growth of expenditures.

Efforts to raise revenues consisted of increasing tax rates and widening the tax base as the tax burden was further shifted from the external sector to the internal sector. Efforts by the national government to manage its budget deficits produced positive results. Total budget deficits as a percentage of GNP went down from a high of 4.3 percent in 1982 to 1.7, 1.6 and 1.8 percent in 1983, 1984 and 1985, respectively.

The deficit in the current account was also drastically reduced mainly due to the large cutback in imports which went down by 2.3 percent in 1983, by 18.9 percent in 1984 and by 15.8 percent in 1985.

The deflationary fiscal and monetary policies cut down the peak inflation rate of 63.8 percent in October 1984 to 5.7 percent by end-1985. However, this development also produced unfavorable effects on output and employment. The Philippine economy shrank by 5.5 percent in 1984 and 6.8 percent in 1985. Thus, the stabilization program in the Philippines, which was touted as generally successful, had in fact recessionary effects.

B. Loan Restructuring

In December 1984, the Philippines secured a standby credit from the International Monetary Fund (IMF) to support its economic adjustment program. The Paris Club and the Advisory Committee representing commercial creditors approved loan restructuring principles to cover maturing debt for the period October 1983 to December 1986, with a ten-year maturity and a five-year grace period, and an interest rate of LIBOR plus 1 & 5/8 percent.

As of January 1986, the IMF has released $423 million, commercial banks have provided $575 million; official creditors have extended new ODA commitments of $1 billion, and a trade facility worth $3 billion has been restored. Countries such as Argentina, Chile and Mexico were able to negotiate better terms than the Philippines in 1985. Spreads were lower on medium and long-term loans (1 3/8 for Chile and Argentina and 7/8-1 1/4 for Mexico). The maturities were longer, i.e., 12 years for Chile and Argentina and 14 years for Mexico (World Bank, 1986).

C. Structural Adjustment

The basic inefficiencies inherent in the economy were addressed by structural reforms meant to 1) make the economy more competitive internationally, 2) raise domestic savings, and 3) improve incentives for investments and growth. Specifically, the policy reforms aimed to encourage more manufactured exports, domestic substitution of imported energy and higher returns for the farm sector. In trade, tariffs were reduced to an average 28 percent as of January 1986. As of May 1986, some 1,152 imports have been liberalized. Industrial incentives were modified to favor exports and value added. The import liberalization program was however delayed thereby eroding the impact of lower tariffs.

In energy, programs for managing demand and developing domestic supply reduced energy dependence to 57 percent in 1984 and 50.6 percent in 1985. Subsidies on electricity used by households were subject to phased reduction.

Although agriculture was the only sector which posted a positive growth in 1985, it used to be one of the most penalized due to an overvalued currency, pervasive price controls, export taxes and existence of state trading monopolies. Accordingly, liberalization measures were carried out, covering trade, marketing and prices. The international marketing of coconut and the domestic marketing of sugar have been opened up to more private participants since February 1985. The price control on rice was dismantled on October 1, 1985 completing the agricultural price decontrol policy. Importation and trading of wheat, feedgrains and fertilizers is now open to the private sector.

D. Realignment of Public Spending

Steps were taken to align public investments with the austere financial program and to improve their economic and social impact. The revised investment program was reduced to only about 4 percent of GNP, compared with a peak 7 percent of GNP in the 1970s.

The revised program for 1986-1991 as of 1985 amounted to ₱178 billion at constant prices, with the bulk during the initial years accounted for by ongoing programs in energy, agriculture, and transportation. Around 76 percent of the program for 1986-1987 was for ongoing projects. Proposed projects were subjected to the most rigorous financial, economic and social evaluation. Priority was given to maintenance, agricultural projects and social infrastructure. Financing of the program will be mainly serviced from internal cash generation; reliance on the budget and borrowings will be minimized. The 1986 national budget now provides for increased allocation to health and education but large expenditures for debt service and subsidy to failing public corporations remain heavy drains.

Policy studies are being conducted on government corporations, subsidiaries and assets acquired by the public sector as a result of foreclosures and other reasons. The objective is to streamline the corporate sector, raise efficiency and cut costs. Performance standards are being strictly enforced on existing corporations while others will be merged and sold to the private sector. Government financial institutions are also subject to these reforms. Privatization is being adopted as a matter of public policy, consistent with the objective of promoting a market-oriented economy.

V. Analysis of Impact on Households, The Rural Sector And Public Expenditures

A. Effects on Household Incomes and Consumption Via Changes in Employment, Wages, and Prices

The impact of the crisis has been quite adverse for income and its correlates. Real incomes declined, consumption expenditures fell and the savings rate went on a downtrend.

Real per capita GNP fell by 4.4 percent in 1985 from the peak level of ₱1,933 in 1981, a setback of about 10 years. Compared to 1970, the per capita income level in 1985 showed only a slight increase. Prospects for 1986 indicate that the declining trend is likely to continue although at a reduced rate (Table 6).

The adverse effects of the crisis are likewise reflected in the trend in real per capita personal consumption expenditure and the proportion of income that is saved (or the savings ratio). Real personal consumption expenditure was generally increasing in the 1970s and the early 1980s. However, this declined by 1.4 percent and 2.3 percent in 1984 and 1985, respectively. On the other hand, the savings ratio progressively declined from an annual average of 8.3 percent in 1970-1979 to 5.3 percent in 1980-1982. The trend worsened as the savings ratio fell to a low 0.9 percent in 1983. Trend in the last three years indicate that the savings ratio may yet regain its historical level.

TABLE 6
INDICATORS OF INCOME, EMPLOYMENT, PRICES AND WAGE

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
I. Indicators of Income and Prices																	
A. Real Per Capita GNP (in Pesos)	1,353	1,402	1,437	1,528	1,569	1,618	1,690	1,749	1,801	1,874	1,917	1,933	1,921	1,895	1,723	1,617	1,581
B. Real Per Capita Consumption (in Pesos)	1,017	1,023	1,028	1,058	1,079	1,101	1,125	1,153	1,181	1,206	1,227	1,244	1,251	1,255	1,238	1,210	1,191
C. Savings Ratio (%)	5.6	6.2	7.4	8.7	8.2	10.9	10.9	10.6	8.3	6.5	6.0	6.5	3.4	0.9	2.4	3.4	2.9 (1st Sem)
D. Inflation Rate, by Area (%)																	
Philippines	12.9	15.0	16.4	16.2	34.5	6.9	9.7	9.8	7.2	17.5	18.2	13.1	10.2	10.0	50.3	23.1	1.12 (Jan.-Sept.)
Metro Manila	–	6.9	18.8	15.8	33.5	8.1	5.3	7.8	7.0	19.3	18.6	12.2	11.0	10.8	49.3	20.7	5.64 (Jan.-Sept.)
Areas outside Metro Manila	–	16.8	15.5	16.0	34.5	6.8	10.6	10.2	7.2	17.2	18.1	13.3	10.1	9.8	50.5	23.6	0.26 (Jan.-Sept.)
II. Indicators of Employment																	
A. Labor Force Participation Rate (%)	55.5	59.0	59.6	60.3	59.0	60.7	59.5	56.6	61.1	–	59.7	61.3	60.1	63.6	63.5	63.4	63.8 (Oct.)
B. Unemployment Rate (%)	7.2	5.2	6.2	5.3	4.2	4.4	6.3	9.1	7.1	–	8.1	8.9	9.5	7.9	10.6	11.1	11.1 (Oct.)
C. Underemployment Rate (%)	–	22.1	24.1	22.1	20.0	21.0	21.3	–	–	–	34.5	36.3	34.2	35.9	35.7	33.7	36.0 (Oct.)
D. Number of Laid-Off Workers	–	–	–	–	–	–	–	–	–	–	69,611	78,466	49,557	75,428	92,167	73,832	34,727 (Jan.-Nov.)
II. Indicators of Wages																	
A. Real Legislated Wages (in Pesos)																	
1. Nonagriculture																	
Metro Manila	18.27	19.31	16.25	14.04	11.59	12.94	13.94	15.4	15.74	17.17	19.36	19.77	18.06	17.52	16.63	16 22	15.41
Outside Metro Manila	20.77	20.11	17.41	15.01	12.30	13.90	13.42	14.28	14.65	16.55	19.00	19.32	17 81	17.48	16 60	15.88	15.90
2. Agriculture																	
Plantation	12.24	11.94	10.34	8.91	7.77	9.31	10.33	11.95	12.48	14.19	16.39	16.49	15.17	14.75	13.89	13.23	13.25
Nonplantation	12.24	11.94	10.34	8.91	7.77	9.31	9.49	10.79	11.40	12.08	12.31	12.39	11.38	11.05	10.48	10.11	10.12

Sources: NEDA, NCSO, MOLE, NWC.

The effects on employment was just as severe as the growth of industry plunged to negative levels. Many companies resorted to either retrenchment or shutdown, displacing in the process thousands of workers. Slack labor demand together with the marked expansion of the labor force contributed to more unemployment.

The open unemployment rate reached 10.6 percent and 11.1 percent in 1984 and 1985, respectively, compared to only 7.2 percent in 1970 and 8.1 percent in 1980. As of October 1986, the national unemployment rate remained at 11.1 percent and may likely remain significant for the rest of the year. Metro Manila was worst-hit by the employment situation with 26.1 and 25.8 percent of its workforce unemployed in 1985 and 1986 (April), respectively, compared to just 11.1 percent in 1970 and 13.1 percent in 1980.

More rapid growth of the labor force, along with rising inflation, contributed to a downward pressure on real wages which, in turn, led to more underemployment. The nationwide underemployment rate hit an average record-breaking level of 36 percent in 1983 and 1984. This was moderated to 34 percent in 1985 but rose again to 36 percent in October 1986.

The slowdown in industry was reflected in reduced earnings as shown by various indicators. The real minimum wage of nonagricultural workers in Metro Manila started to decline in 1982. The same declining trend can be noted for the real minimum wage of nonagricultural workers outside Metro Manila, but by much less, beginning 1982. The real minimum wages of workers in the agriculture sector also declined. In 1985, plantation wages began to fall by as much as 5 percent from a record level of ₱16.49 in 1981 while those of nonplantation workers declined by a similar rate from a peak of ₱12.39 in 1981. Trends in the index of real compensation of workers in major industrial establishments gave the same negative indications. The index declined from 56.7 in 1983 to 47.7 in 1984 and down to 44.6 in 1985.

The cumulative effect of all of the above is a deterioration in the welfare of the majority of the population. Estimates show that the incidence of poverty increased by 10 percent during the 1975-1985 period. Thus in 1985, some 5.7 million families or 59.3 percent of the total are below the overall monthly poverty threshold of ₱2,382.

The trend in income distribution was likewise dismal as the income position of the poorer segments of society deteriorated. In the last 14 years, income distribution as measured by the GINI coefficient, showed only a very slight improvement. Moreover, the decline in per capita incomes alone could have been enough to push nutritional levels downwards especially because of the high subsistence level in the economy. Some 2.4 million families or almost 25 percent of the total are below subsistence in 1985.

B. Consequences on Rural Welfare Via Changes in The Price Structure, Incentive System and Agricultural Productivity and Incomes

Unlike other sectors of the economy, agriculture had to contend with the adverse impact of both external factors and the effects of distorted public policies. The international recession of 1980-82, which brought with it fluctuating and low export and domestic prices, affected rural welfare to the extent that it negatively influenced the price structure, the incentives system and, eventually, productivity and rural incomes.

A study done recently (NEDA, 1984) noted a generally declining terms of trade in agriculture from 1970 to 1982 (Table 7). Extending the analysis up to 1985 shows the same results. This was true in all existing measures of terms of trade which consider the farmer not only as a producer but also as a consumer. Agricultural pricing policies generally favor urban consumers through price controls on rice, chicken, eggs and other commodities till the controls were completely lifted in 1985.

Moreover, an incentives system that significantly favored industry was noted. Estimates of nominal protection rates (NPR), which compare domestic and border prices of commodities, show general pricing patterns that are adverse to agriculture (David, 1983). Effective protection rates (EPRs), which measure the net effect of various price interventions in the product and input markets between value added at domestic and at border prices, indicate an incentive structure that is heavily biased towards industry. The trend for the net effective protection rates (NEPRs) or the EPR corrected for the misvaluation of the protection rate as computed by Bale (1985) also shows non-optimal resource allocation across sectors, with agriculture receiving the least protection.

The anti-agricultural bias of domestic policies was due to the impact of such intervention measures like regulated pricing, govern-

TABLE 7
IMPACT ON RURAL WELFARE THROUGH CHANGES IN THE PRICE STRUCTURE, INCENTIVES SYSTEM AND AGRICULTURAL INCOMES

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
I. Terms of Trade in Agriculture																	
A. Ratio of the Price of Agricultural Output to Price of Agricultural Input	112	101	100	111	106	104	96	92	88	88	74	70	74	n.a.	n.a.	n.a.	n.a.
B. Ratio of the Price of Agricultural Output to Price of Industrial Output	97	105	100	109	103	111	106	106	106	102	90	88	88	89	97	90*	n.a.
C. Ratio of the Price of Agricultural Output to Price of Non-Agricultural Output	96	103	100	113	110	102	105	104	103	99	88	86	84	85	96	90*	n.a.
D. Ratio of the Price of Agricultural Output to Consumer Prices in Rural Areas	–	110	100	106	128	133	132	128	125	120	96	92	89	86	93	82*	n.a.
II. Prices of Major Agricultural Products (U.S. cents per pound)																	
A. Coconut Oil	18.0	16.9	10.6	23.3	45.4	17.9	19.0	26.3	31.0	44.7	30.6	25.9	21.1	33.2	51.3	26.0	13.4
B. Sugar	3.7	4.5	7.3	9.5	30.0	20.4	11.5	8.1	7.8	9.9	28.7	17.0	8.5	8.5	5.2	4.0	6.1
C. Copra	10.2	8.6	6.4	16.0	30.1	11.6	12.5	18.3	21.4	30.6	20.6	17.2	14.3	22.5	32.3	17.5	9.0
III. Growth in Sectoral Gross Value Added (%)																	
Agriculture	2.2	4.9	3.8	6.2	2.6	4.3	8.0	5.0	4.2	4.5	4.7	4.0	3.1	–2.1	2.3	2.4	3.3
Industry	6.7	7.8	7.5	12.4	5.6	8.7	10.4	8.4	6.1	7.9	4.7	4.5	2.2	0.7	–10.6	–10.2	–3.7
Services	5.4	4.7	4.5	7.0	6.2	5.9	6.0	4.9	5.9	5.8	6.2	3.4	3.5	3.2	–6.3	1.0	–1.6

Source: NEDA, NCSO, CBP.

ment control of trade, export taxes, and special levies which tended to depress farm prices. The underpricing of agricultural commodities in the domestic market also affected agricultural production, productivity and incomes, and measures intended to help the farm sector through price support, irrigation services, and subsidized credit could not entirely offset the negative effects of such distortive policies.

Some commercial policies designed to promote industrialization through the protection of domestic manufacturing have likewise disfavored the farm sector. Bale (1985) argues, for instance, that misaligned exchange rates have primarily inhibited better agricultural performance. Government control on agricultural trade of some commodities such as rice, sugar, and coconut oil milling capacity have also tended to shift profit gains from farmer-producers to the government agencies involved in the trading of these products. Specifically, findings in sugar show that a) policies favored consumers rather than producers, implying substantial income transfers from the latter to the former; and (b) government intervention in sugar resulted in a net loss in economic welfare (Ledesma and Raagas, 1983). It should be noted, however, that domestic policies did not solely account for the declining and negative protection for the sugar industry during the years 1975 to 1980. The end of the country's preferential access to the U.S. sugar market with the expiration of the Laurel-Langley Agreement and the U.S. Sugar Act in 1974 also accounted for this (David, 1983).

The bias against agriculture before reforms were initiated in 1985 have contributed to the wider gap between incomes earned in various sectors. The income per worker in industry was 4.6 times that of his agriculture counterpart in 1973 and increased further to 5.2 times in 1983. Furthermore, a NEDA (1986) study revealed that 2.2 million families or 73 percent of the total number of low-income families are in agriculture. Another NEDA study (1984), interrelating post-1975 trends, attests to a widening of welfare differentials in favor of urban areas, in almost all the broad indicators of welfare, notably incomes, employment, and prices as affected by government intervention policies and fiscal operations.

Despite the adverse impact of external factors and policy biases, however, agriculture still performed relatively better than the other sectors of the economy implying the existence of comparative advantage. It posted positive growths of 2.3 percent in 1984, 2.4 percent in 1985 and 3.3 percent in 1986 while the rest of the economy contracted (Table 7).

C. Impact on the Shifts in Government Expenditures Particularly with Respect to Basic Social Services

The impact of external shocks on social concerns was likewise felt through the changes in the patterns of budgetary allocation among major sectors and within social sectors, many of which were initiated in response to the crisis itself.

A significant shift in the distribution of government expenditures among the major sectors of the economy first occurred immediately before the 1973 oil crisis. Prior to 1972, the social services sector consistently received the largest budgetary allocation. However, the government's fiscal response to the first oil shock was to increase the allocation for economic services to an average of 40 percent for the period 1972-1979, with the bulk of the expenditures going to public infrastructures and utilities (Table 8).

On the other hand, the share of social services to total government expenditures experienced a generally declining trend over the same period, averaging at 21 percent. Within social services during the 1970-1979 period, education garnered, on the average, more than two-thirds of the total allocation, followed by health (17. 8%), social security and welfare (10.4%), and housing and community development (5.7%).

An analysis of the government expenditures on an urban/rural basis during the 1978-1980 period indicates that, on a per family real terms, urban regions (NCR, III, IV and VII) benefitted more than other regions which were predominantly rural (NEDA, 1984). However, the difference is significantly lower in the outlays for social services sectors than for the economic sectors. The allocation for education for instance was higher, on the average, in the rural than in the urban regions. This pattern is consistent with the population distribution.

As a result of the fall in social development allocation in the face of continued rapid population growth, there has been a generally but slightly increasing trend in the real per capita expenditures on social services during the seventies. Social services expenditures per person, in real terms, increased only minimally from ₱111 in 1970 to ₱122 in 1979 (Table 8).

TABLE 8
NATIONAL GOVERNMENT EXPENDITURES, 1970-86

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
I. Percentage Share, 1/ by Sector																	
A. Economic Services	28.17	25.19	30.16	41.78	47.70	46.89	38.43	34.62	39.62	39.79	38.14	38.39	34.23	29.06	22.02	24.37	18.55
B. Social Services	31.02	30.32	28.18	23.82	22.73	18.64	18.49	18.81	19.56	20.11	21.05	20.43	22.06	21.64	19.75	20.72	20.94
Share to Total Social Services																	
1. Education	80.17	80.88	79.50	76.30	55.66	59.25	62.40	63.01	65.85	59.44	59.74	58.61	59.53	54.27	60.59	65.13	61.01
2. Housing and Community Development	–	–	–	–	5.08	6.65	1.95	3.74	5.20	12.01	11.86	13.10	12.73	16.19	9.59	5.28	3.34
3. Health	15.97	14.69	15.91	17.53	15.40	20.05	20.34	22.01	17.79	18.58	18.11	18.00	20.14	21.74	18.48	18.34	20.18
4. Social Security, Welfare and Social Services 2/	3.85	4.42	4.59	6.17	23.86	14.05	15.31	11.24	11.16	9.97	10.29	10.29	7.59	7.80	11.34	11.25	15.47
C. Defense	10.05	10.71	9.60	9.96	14.36	18.59	19.45	19.80	16.43	14.71	13.30	11.31	12.16	12.22	9.88	10.93	6.84
D. General Public Service	27.31	26.74	26.84	18.74	10.70	10.73	18.73	18.79	17.04	16.87	17.93	21.78	21.55	21.26	24.99	18.82	24.48
E. Debt Service	3.45	7.04	5.22	5.70	4.51	5.14	4.90	7.97	7.35	8.52	9.58	8.09	10.00	15.82	23.36	25.16	29.18
II. Real per Capita Government expenditures																	
A. Total Social Services	110.70	101.93	97.80	94.71	103.06	108.42	110.24	98.08	118.88	122.03	117.31	126.39	122.69	116.56	82.96	80.08	94.78
1. Education	88.77	82.45	77.75	72.26	57.37	64.24	68.79	65.78	78.29	72.54	70.08	74.08	73.04	63.26	50.27	52.15	58.01
2. Housing and Community Development	–	–	–	–	–	–	2.15	3.91	6.18	14.65	13.92	16.56	15.62	18.87	7.95	4.22	3.16
3. Health	17.68	14.98	15.56	16.60	15.87	21.74	22.42	22.97	21.14	22.67	21.25	22.74	24.71	25.34	15.33	14.69	19.13
4. Social Security, Welfare and Social Services 2/	4.26	4.51	4.49	5.84	24.59	15.24	16.89	11.73	13.28	12.17	12.07	13.00	9.32	9.10	9.40	9.01	14.66

1/ Percentage transfers to these sectors.

2/ Data from 1976 onwards include outlay for labor and employment.

Source: Office of Budget and Management.

Another major shift in government expenditures allocation was effected after the second oil shock in 1979. This time, the international recession and the ensuing debt crisis severely impaired the country's public investment and other programs. The impact on debt service of the debt policy response to the two successive oil price hikes became prominent starting 1982. The share of debt service to total budget grew rapidly from 10 percent in 1982 to 29 percent in 1986 and in the process, crowding out priority economic and social concerns.

Thus, despite countercyclical measures adopted starting 1983, the share of economic services to total government expenditures continuously declined from 38 percent in 1980 to 19 percent in 1986. Except for certain major infrastructures which required large outlays, the government started to emphasize the completion of ongoing projects and smaller infrastructures.

Moreover, the need to focus on recurrent expenditures and fixed financial liabilities (like equity contributions to government corporations and interest payments) also reduced the flexibility to provide more for programs directly addressed to social conditions. Expenditures allocation for social services did not substantially increase from 1980 to 1984. There were certain isolated years when its share rose minimally but not enough to sufficiently cushion the effects of the crisis on human welfare.

Thus, in terms of real per capita expenditures, social services never really gained importance in the 1980s. Government expenditures for social services, in real per capita terms, have been fluctuating with a progressively declining trend in recent years. Per person expenditures fell by 11 percent, from a peak ₱126 in 1981 to ₱80 in 1985.

Within the social development sectors, the education subsector continued to get the lion's share (58.6%) for the period 1980-84. A significant rise in the budget for housing and community development was registered beginning 1979 following the creation of the human settlements ministry which spearheaded the implementation of the nation's shelter program and the establishment of the Pag-IBIG provident fund. The share of housing which previously was only 4.5 percent of the total social services budget rose from 12 percent in 1979 to 16 percent in 1983. The health subsector was getting almost a constant share of the public budget in the 1980s despite the implementation of the primary health care approach in 1980.

National government transfers to highly specialized hospitals which addressed diseases of the lung, kidney and heart became significant from 1983 onwards. Social security, welfare and other services in the meantime continued to receive diminished shares, particularly during the 1980-1983 period.

Starting in 1985, total outlays of government for social services began to pick up resulting in a share of 21 percent by the end of 1985. Thus real per capita expenditures rose slightly in 1986 with the reemphasis given on social development. The situation which emerged in late 1985 may also be characterized as promising in terms of subsectoral allocations. The share of social security and welfare has risen prominently especially in 1986 with the government's commitment to address poverty more resolutely. Other basic services like education and health have likewise been given renewed push, particularly in 1986, in line with the realigned priorities of government. The share of housing, in contrast, has been falling beginning 1984 consistent with the thrust on privatization. Although these trends are encouraging, it can be noted that these are still insufficient relative to increased needs arising from a continued rapid expansion of the population, a worsening unemployment situation, lower nutritional status of many children and declining participation rates in public elementary education, among others.

VI. Impact Of The Crisis On Social Concerns

The social costs of the first oil shock were not as profound and exacting as those of the second oil shock for at least three reasons. First, the first shock of 1973-1974 was accompanied by high commodity prices and did not result in any fall in average per capita income. Second, the 1979-1980 oil shock was followed by a severe world recession and a domestic economic crisis which reduced the average per capita income to the 1975 level. And third, the financial capacity of authorities to provide imperative adjustment assistance in the 1980s was no longer as much as in the 1970s.

Although the poverty situation was already serious in the early 1970s with poverty incidence for the whole country reaching 45 percent in 1975 as reported by the World Bank, there were indications that the social development programs implemented during the period exerted some positive impact on poverty alleviation. This probably was brought about by the major shifts in focus and greater cost-effectiveness of these programs.

Given the increasing costs of health care and the persistence of communicable diseases, a major shift from the curative to the preventive approach to health care was instituted. The Primary Health Care (PHC) concept which seeks the improvement and maintenance of the health status of the community was initiated in 1980. The nationwide deterioration of the nutritional status of the population similarly prompted the launching of the Philippine Nutrition Program (PNP) in 1974 principally aimed at the vulnerable groups, namely, infants, preschoolers, schoolchildren and pregnant and lactating mothers.

In education, the comprehensive review of the education system conducted by the Presidential Commission to Survey Philippine Education (PCSPE) in 1970 found that the quality and efficiency of education have deteriorated through the years although there has been a marked expansion in enrolment at all levels. This led education authorities to change priority and focus from equity to the improvement of the quality and efficiency of education. Accordingly, the Program for Decentralized Educational Development (PRODED) was launched in 1981 to raise the quality and efficiency of elementary education.

Likewise, the population program was reoriented from simple fertility reduction to the promotion of total family welfare. From a purely clinic-based orientation, the population program evolved into the National Population and Family Planning Outreach Project in 1976 with stress on responsible parenthood, maternal and child care as well as family planning.

The social services sector also shifted emphasis from the provision of doleouts or direct assistance to the disadvantaged which only encouraged a "mendicant mentality" among beneficiaries to the more developmental approach of inculcating self-reliance. This is evident in programs such as the Self-Employment Assistance and Practical Skills Development where individuals are provided with opportunities to be productive and self-reliant citizens.

The housing approach has also undergone notable changes over the years. Housing was initially considered as a problem of relocating slum dwellers and squatters. However, it has evolved into a "human settlements approach " where the provision of housing is complemented by basic services such as water supply, electricity, health and education facilities, other infrastructure and even livelihood activities. Moreover the formulation of the National Shelter Program in 1975 integrated and synchronized the previous piecemeal and diffused activities in housing production, finance and regulation. This became instrumental in the construction of a sizeable number of housing units which were availed of through the Pag-IBIG Provident Fund by many families.

The results of these programs are reflected in the improvement of most social indicators although pockets of more serious social cases existed particularly in the least developed regions. By 1979, the population growth rate was estimated to have decelerated to 2.4 percent from a high 3.0 percent in 1970. The 1980 Census, however, reported a 2.57 percent growth rate reflecting a slackening in the pace of fertility and mortality reduction (Table 9).

Life expectancy increased by an additional 3.3 years from 55.9 years in 1970 to 62.2 years in 1982. This was mainly due to improvements in crude death rates and infant mortality rates. On the whole, the prevalence of malnutrition among preschoolers fell from 21.9 percent in 1978 to 17.2 percent in 1982 although its incidence remained high in certain depressed areas of the country, i.e., Negros.

Total enrolment grew from 9.3 million in 1970 to 13.1 million in 1982. These trends are further supported by improving transition and cohort survival rates. However, low student achievement levels particularly in depressed areas were reported by Project SOUTELE (Survey of Outcomes on Elementary Education) and the results of the National College Entrance Examinations (NCEE) necessitating a shift in focus from equity to quality of education. Complementing formal education was the increased training output of nonformal programs in response to the demand for basic and middle skills by various industries. Not all graduates were, however, absorbed by industries in view of the lack of direct tie-ups between training institutions and factories and companies.

The housing programs from 1970 to 1982 benefitted 201,984 beneficiaries through the construction of new dwelling units, upgrading of marginal settlements and sites and services development. Most beneficiaries of dwelling units, however, came from the middle and upper income levels, leaving out many families belonging to the low-income groups who were the original target of the program.

Service outreach of social services programs addressing the most disadvantaged groups increased coverage from 2.3 million to 7.6 million during the decade 1972-1982. Social security benefit pay-

TABLE 9
SELECTED SOCIAL DEVELOPMENT INDICATORS. 1970-86

Item	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
POPULATION																	
Population Level (In Thousands)	36837	37863	38917	40002	41116	42261	43338	44417	45498	46580	48317	49536	50783	52055	53351	54668	56004
Growth Rate (%)	3.0	–	–	–	2.8	2.8	2.5	2.5	2.4	2.4	2.57	2.5	2.5	.2.5	2.5	2.5	2.44
Crude Birth Rate (Per 1,000 Popn.)	39.3	39.7	39.0	38.2	37.52	35.15	34.33	33.49	32.67	31.87	33.7	33.4	33.2	32.9	32.5	31.7	31.7
Crude Death Rate (Per 1,000 Popn.)	10.8	10.6	10.3	10.1	9.81	9.2	8.98	8.77	8.57	8.38	8.7	8.5	8.4	8.2	8.1	7.8	7.8
Age Dependency Ratio	94.2	92.9	91.7	90.4	89.2	88.0	86.1	83.9	81.7	79.4	83.3	82.1	81.0	79.9	78.8	77.8	76.8
Contraceptive Prevalence Rate (Per 100 Married Couples of Reproductive Age)	18	20	23	26	29	31	33	35	37	39	41	43	45	34	35.6	37.2	36.6
HEALTH AND NUTRITION																	
Life Expectancy (In Years)	55.9	56.4	57.0	57.6	58.2	58.8	59.3	59.9	60.4	61.1	61.6	61.9	62.2	62.5	62.8	63.1	63.4
Infant Mortality Rate (per 1,000 Live Births)	82.2	80.3	78.4	76.5	74.6	72.7	70.8	68.9	67.0	65.1	63.2	61.9	60.0	59.3	58.0	56.8	55.5
Prevalence of Preschoolchildren With Weights Less Than 75% of the Filipino Standard Weight for Age	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	21.5	20.4	18.9	17.5	17.2	17.6	20.5	21.6	21.7
EDUCATION																	
Enrolment (In Thousands)	9325	9462	9717	10090	10294	10685	10994	11388	11830	12176	12585	12788	13077	13481	13877	14516	14378
Elementary	637	659	828	901	7453	7683	7720	7892	8178	8227	8290	8518	8591	8700	8794	8931	9354
Secondary	1719	1801	1874	1920	2073	2240	2476	2670	2523	2767	3019	2935	3074	3204	3323	3447	3574
Tertiary	6969	7002	7015	7269	768	766	796	826	1129	1182	1276	1335	1412	1577	1720	2138	1450
Transition Rate (In Percent)	70.0	71.41	70.44	71.49	75.01	76.07	80.13	81.91	84.42	77.64	83.05	82.55	80.84	85.76	84.44	84.70	87.53
Cohort Survival Rate (In Percent)																	
Elementary (Gr. I to VI)	n.a.	n.a.	n.a.	56.66	58.83	60.62	65.06	66.49	67.47	66.58	65.09	66.83	65.94	61.55	64.23	67.45	66.57
Secondary (Yr. I to IV)	n.a.	n.a.	n.a.	66.64	66.64	69.67	74.36	79.89	78.66	78.12	69.28	75.36	70.53	73.63	75.17	77.97	78.85

Table 9 (Continued)

Item	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Training Output																	
NMYC Skills Training Graduates	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	16549	18084	32636	27660	75918	167582	195015	186222	152167	172176	89524
MOLE Apprenticeship and Learnership Program Graduates	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4594	14684	21559	19740	22313	22273	22327	20387	20153	10279	9498 (As of Nov. '86)
HOUSING																	
Construction of New Units (In Dwelling Units)	7823	10943	4323	10074	9957	9859	10952	11302	14716	22762	20469	16140	24229	36426	36422	17769	n.a.
Upgrading of Marginal Settlements (In Plots)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	60	500	1867	6868	9667	9471	7758	7134	4783	4837	n.a.
Development of Sites and Services (In Lots)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2424	2391	269	2746	3499	5191	8887	12868	9156	18702	n.a
Pag-IBIG (Cumulative)																	
Membership (Millions)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a	n.a.	n.a.	0.093	0.094	1.54	1.89	2.08	2.1	2.10	2.2
Contributions (Million Pesos)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.175	9.372	113.54	628.54	1873 8	3083.0	4373.9	5482.8
SOCIAL SERVICES AND SECURITY																	
Service Outreach (Million Persons)	n.a.	n.a.	2.3	3.3	3.8	4.4	5.1	2.9	5.9	5.9	5.7	7.2	7.6	8.0	7.9	5.8	9.9
Social Security																	
Coverage (Cum., In '000 Persons)	3179	3474	3767	4619	5008	5658	6363	6893	7557	8335	9150	9711	10295	10860	11069	11700	14400
Benefit Payments (In Mil. Pesos)	191.2	245.3	267.5	432.2	586.7	636.9	773.2	804.1	1135.6	1230.7	1402.4	1660.4	2030.6	2379.8	2680.9	2931.0	3659 (As of 3rd Qtr.)
MEDICARE																	
Beneficiaries (In '000 Persons)	n.a.	n.a.	55.4	245.5	755.8	838.2	1021.2	1034.1	1182.5	1209.2	1213.3	1227.8	1384.2	1443.3	1406.5	1428.2	1047.1
Coverage (Cum., In Mil. Pesons)	n.a.	n.a.	7.8	9.2	9.9	11.0	12.3	13.4	14.6	15.9	17.4	18.4	19.5	21.1	26.3	30.1	31.7
Disbursements (In Million Pesos)	n.a.	n.a.	12.6	51.9	176.5	200.2	243.4	257.6	262.2	310.6	320.8	339.9	382.1	400.4	414.5	437.9	350.5
CRIME RATE	221.4	246.6	235.8	231.4	207.5	185.5	184.0	213.7	246.6	252.2	275.3	288.4	302.9	319.1	313.6	310.6	270.7

1/ Less than .01

Source: NCSO, POPCOM, MOH, NNC, MECS, NMYC, MOLE, NHA, NHMFC, MSSD, GSIS, MEDICARE, NAPOLCOM ments for government and private employees increased ten-fold from ₱191.2 million in 1970 to ₱2,031 million by 1982. Similarly, Medicare disbursements expanded from ₱12.6 million to ₱382 million during the same period. For a time, these benefits served to augment incomes and cushion the impact of the first oil crisis on the people's welfare. However, the advent of the second oil crisis changed the situation.

The second oil crisis had more telling effects on the social sectors compared to the first oil shock. The severe contraction of economic output brought about by the crisis triggered widespread unemployment, dwindling incomes and spiralling prices which, in turn, halted and even eroded the social gains previously achieved in the past. The drastic cuts in government expenditures curtailed the delivery of essential social services such as housing and nonformal training.

A. Health

In health, the adverse economic conditions reduced access to medical services particularly for the poor as evidenced by generally decreasing hospital admissions. A deterioration in the health conditions of the population ensued as indicated by the slackening of the decline in infant mortality rates (IMR) and the higher incidence of communicable diseases, particularly among infants and children. From 1975 to 1980, IMR declined by an average of two percentage points annually while during the period 1980-1986, IMR decreased by only about one percentage point annually. Moreover, there was a higher incidence of morbidity particularly of communicable diseases such as diarrhea, influenza, pneumonia, tuberculosis, whooping cough, malaria, measles and schistosomiasis. Children remained to be the highest at-risk group. Despite the generally rising proportion of infants and children immunized against these diseases, the morbidity rates of tuberculosis, whooping cough and measles have increased from 1982 to 1984.

To respond to the high cost of medical care, the development and use of herbal medicines, acupuncture and indigenous health care technologies have been increasingly advocated. Moreover, the preventive aspect of health care has been given renewed emphasis through the priority given to health information/education, environmental sanitation and immunization. Furthermore, health programs have been integrated and intensified to save on much-needed resources and achieve greater program impact.

Despite these efforts, however, there was a serious misallocation of health resources. The annual subsidies to specialized health institutions such as the Philippine Heart Center for Asia, Kidney Foundation of the Philippines, Lungsod ng Kabataan and Lung Center of the Philippines which cater to higher income families were much higher than the resources allocated to mass-based programs such as Primary Health Care (PHC), malaria eradication or schistosomiasis control. During the period 1978-1985, the government annual allocation for malaria eradication and schistosomiasis control averaged only ₱20 million and ₱14 million, respectively, while an average annual subsidy of more than ₱100 million was garnered by the four specialized health institutions. Similarly, funds for PHC amounted to only ₱45 million in 1984-1985 but the four institutions received a total of ₱229 million during the same period.

B. Nutrition

The crisis brought about an increased prevalence of preschoolers who are severely and moderately malnourished from 1983 to 1986. From 17.6 percent in 1983, the prevalence rate increased to 21.7 percent in 1986.

To arrest malnutrition, innovative approaches such as the special food discount project in identified nutritionally depressed barangays and food discount stores (KADIWA) were introduced. The KADIWA approach was, however, not found to be cost-effective due to lack of clientele focus and high budgetary subsidy. It was largely urban based, competed with the private sector and did not carry cost-effective food items.

In the meantime, evidences of malnutrition persisted. Results of a Food and Nutrition Research Institute (FNRI) survey conducted in October 1984 among selected households in Metro Manila showed that nutrient intakes of respondents fell short of the recommended allowances for both families with laid-off and employed household heads. The energy and protein intakes of the employed groups were 82.3 percent and 88.2 percent adequate, respectively, higher than those in the laid-off group who registered adequacy levels of 79.6 percent for energy and 87.4 percent for protein. A marked deterioration in the adequacy levels of the nutrient intake of the October sample was also noted compared to the earlier nutrition survey undertaken in February 1984.

The inadequacy in energy can be attributed to the very low fat intake among Filipino households. Although the country produces fats and oils more than its consumption level, supply has been inadequate to meet the recommended level for domestic consumption since most of these go to exports (UNICEF, 1986).

The sugar workers of Negros were among the hardest hit by the crisis. With the high cost of production coupled with depressed prices for sugar, sugar production has been drastically reduced leaving sugar workers with little or no income. As a result, many families barely ate one meal a day. In 1984, 26.4 percent of children weighed were found to be moderately and severely underweight. The regional hospital in Bacolod City has reported 370 child and infant deaths during the first half of 1985, 67.4 percent higher than the figure recorded during the same period in 1984.

C. Education

Upward trends in the movements of overall education indicators (public and private), i.e., enrolment, transition rate, cohort survival rate somehow becloud the adverse impact of the economic crisis on education. However, a close scrutiny of government education reveals a gradual deterioration in the quality and access to educational opportunities.

At the public elementary level, participation rates, retention rates and cohort survival rates decelerated from 1982 to 1985. Due to reduced affordability to send children to school, only 89.6 percent of the 7-12 school-going age population enrolled in public schools in 1985 compared to 91.7 percent in 1982. Retention rates fell from 91.5 percent to 90.9 percent during the 3-year period. Only 64 students out of every 100 were able to complete elementary education in 1985 compared to 67 in 1982. These trends are rather surprising in the light of the implementation of PRODED which is specifically aimed at raising the quality and efficiency of elementary education.

In terms of allocation of government expenditures, education consistently constituted the major chunk of social services expenditures though its share has been declining from 1974 to 1983. The persistent clamor for higher salaries by public school teachers which was manifested in long-drawn mass leaves and strikes resulted in higher budgetary allocations for the Ministry of Education, Culture and Sports (MECS) from 1984 to 1986. Within the sector, while primacy is given to elementary education in accordance with the Constitutional mandate, only ₱8.8 million went to elementary education in 1985 compared to ₱1.8 billion which was allocated to state colleges and universities (SCU).

In effect, expenditures for elementary education constituted a mere 0.5 percent of the total allocation for state colleges and universities in 1985. The proportion of elementary education expenditures to SCU expenditures has, in effect, been deteriorating from about 2 percent in 1975 to 0.5 percent in 1985 in view of the establishment of more state colleges and universities in recent years. A review of the allocation of resources within the sector is in order to channel limited education resources from tertiary to basic education, which is the sector's foremost priority. This becomes more imperative in the light of the ratification of the new Constitution which includes a provision for free secondary education.

Meanwhile, a recent Survey on the Out-of-School Youth (OSY) reveals that there were about 3.4 million OSYs in 1985. Of this total, less than 200,000 or about 5 percent had undergone vocational training. This inability to expand training outreach may be explained by the cutbacks in training expenditures which reduced training output from a peak of 195,015 in 1982 to 89,524 in 1986.

D. Housing

Drastic cuts in the budget resulted in a sharp drop in housing construction from a high of 36,426 new dwelling units in 1983 to only 17,769 new units in 1985 under both government-assisted and government-financed projects. Government housing projects in the pipeline were either cancelled or deferred. Government involvement in housing became limited, focusing mostly Government involvement in housing became limited, focusing mostly on sites and services development and the upgrading of marginal settlements which catered to the low-income groups.

The tight money situation brought about a reduction of the regular flow of funds into the Secondary Mortgage Market, subsequently constraining the banking system from servicing the housing needs of more borrowers. To be able to accommodate more low-income members, the interest rates of the Pag-IBIG Home Lending Program were restructured, encouraging lower loan values to build low-cost housing units. Furthermore, Pag-IBIG shifted its thrust to provident loans to enable more members to avail of the services. However, as more firms closed down and employees and workers found themselves unemployed due to depressed business conditions, the rate of increase in Pag-IBIG members and contributions dropped substantially. Certain sectors even agitated for exemption until the mandatory fund contribution was temporarily suspended for an evaluative review in early 1986. It has since resumed operations but at reduced rates of contribution. Moreover, Pag-IBIG contributions were made voluntary for both employees and employers effective January 1, 1987.

Nevertheless, the housing shortage remains critical particularly in Metro Manila in view of the unabated migration to the cities in quest of better income opportunities. As of 1985, Metro Manila slum dwellers were estimated to have reached 1.9 million.

E. Demographic Impact

The major cut in the government contribution to the population program, from ₱177.5 million in 1982 to ₱94.2 million in 1983, constrained the promotion of family planning which, in turn, affected the attainment of targeted contraceptive prevalence rates (CPR). The CPR slid from 45 percent in 1982 to 34 percent in 1983. There has, likewise, been a deceleration in the rate of decline in crude birth rate (CBR). During the period 1975-1979, CBR was declining at an average rate of about one percentage point while in 1980-1985, only an estimated 0.3 percentage point decline was noted. As a result, the National Demographic Survey of 1983 reported that population growth could be higher than was earlier projected, based on the 1980 Census.

As a response to raise family incomes, the crisis increased the participation of women in the labor force. Their labor force participation rate (LFPR) increased from 34 percent in 1975 to 42 percent in 1980, and then to 46.2 percent in October 1986. Early studies showed that increased LFPR of women has a negative impact on fertility. However, more recent researches reveal that reduced fertility is achieved only if women work away from the home. Home-based livelihood activities do not effectively deter fertility.

F. On the Welfare of Children and Other Critical Concerns

Children were the most affected by the crisis. There has been a significantly higher admission rate for abandoned and neglected children in government child institutions during the crisis period compared with previous years. The Reception and Study Center reported admissions totalling 2,306 abandoned children in 1985 compared to a lower 941 in 1983. It was also observed that there was a tendency to give up children right after birth, probably to avoid the high cost of infant care.

Moreover, meager opportunities for schooling and employment have swelled the number of street children selling newspapers, cigarettes, sampaguita and doing odd jobs such as car watching and car cleaning. In Metro Manila alone, street children were estimated to number from 50,000 to 75,000. The exposure of these young people to street life has made majority of them vulnerable to prostitution, drug abuse and juvenile delinquency.

To temporarily mitigate the adverse effects of the crisis, social adjustment assistance in the form of unemployment assistance loans, social security and Medicare benefit payments, and various social services were extended to the disadvantaged. However, these palliatives failed to abate the corrosive effects of the crisis on family structures and processes. The chronic sociological maladjustment of some families to crisis situations was manifested through non-support by the household head, wife and child abuse, excessive drinking, abandonment of children and the like. For families of overseas workers who have been left behind, accounts of acts of infidelity and income mismanagement by the spouse have been reported (Sevilla, 1982).

VII. Conclusions and Recommendations

Longstanding structural problems, worsened by external shocks and corresponding adjustment policies, largely contributed to the worst economic crisis experienced in the Philippines. Since late 1983, while the government response to the recent economic crisis resulted in initial successes in its stabilization program, this was achieved with large economic and social costs. As output shrank and unemployment increased, the crisis constrained the financial capacity of authorities to provide imperative adjustment aid as much as it did in the 1970s. Clearly, the crisis indicates the need for a reappraisal of government strategy to give priority to the human dimension. The objective is not only to attain stability and growth but more importantly, to protect the welfare of the most vulnerable groups during critical periods. The development path implied by this objective is a strategy that is as expansionary as possible within the limits set by external finance and other policy considerations.

While restructuring towards expanding exports and import-substitutes is essential, strict stabilization policies, consisting of depressing imports through cuts in government expenditure and falling output, should be minimized. Achieving an improved external position through deflationary policies is likely to affect vulnerable groups adversely. Moreover, it only brings temporary relief and will reduce medium-term growth prospects by depressing investment.

The main element of such a strategy is better management of internal and external difficulties through an emphasis on agricultural modernization and rural-based, labor-intensive programs. The expansionary policy which will support this strategy requires the continued implementation of critical reforms, including fiscal reconstruction favoring priority programs related with the adoption of accommodative monetary policies. It will further necessitate no less than the full cooperation of the IMF and the international financial community in overcoming the external debt problem and resuming voluntary lending. Protecting vulnerable groups; raising household and family welfare; enhancing the impact of social programs; and developing appropriate monitoring and surveillance systems are the other indispensable aspects of the effort to effect an adjustment process with a human face.

1. *Managing External Shocks.* Small economies like that of the Philippines are mainly recipients of external shocks and have very little choice except to adjust internally. In the period 1973-1985, the Philippines was severely affected by terms of trade, recession-induced and interest rate shocks. Its adjustment policies were not generally effective and led to a serious debt crisis since late 1983. In a few cases, i.e., energy substitution and export development, modest success was achieved. It is recommended that a development strategy which is expansionary and rural-based be adopted. In this way, economic recovery can be most competitively and effectively achieved and the social returns will be most appropriately felt by the majority of the population and vulnerable groups. The developed economies should similarly adopt adjustment and growth-oriented policies which do not harm other countries.

2. *Accelerating the Development of the Agricultural Sector.* In support of the agro-based and employment-oriented development

strategy, structural reforms already being actively undertaken by government in agriculture should be sustained. Past policies have been found to have penalized agriculture and the rural sector in general. External shocks further added to the adverse impact of unsound policies. Considering that two-thirds of the population live in the rural areas, it is only imperative that development be focused on activities which will directly address their needs. These reforms should eventually: a) remove any remaining policy disincentives; b) promote activities which will help small farmers gain increased access to credit and other product markets; and c) hasten the development of appropriate technology, the upgrading of extension services, and the expansion of agrarian reform with a complementary package of inputs.

3. *Enhancing the Growth of the Rural Non-Agricultural Sector.* To fully promote rural development, productive employment should be promoted side by side with agricultural modernization. It is recommended that government should develop a rural non-agricultural development strategy with emphasis on: a) cottage, small and medium-scale enterprises; b) export-oriented labor-intensive industries; and c) the informal or unorganized sector. Accordingly, policy reforms should be pursued along the following lines: a) redirection of investment away from urban areas and from large and heavy industries; b) reform of the credit sector to favor the rural non-farm sector; c) development of rural infrastructure for both agriculture and ancillary activities such as rural roads and electricity; d) provision of employment through labor-based public works scheme; and e) decentralization of government programs and strengthening of rural institutions.

4. *Implementing Priority Programs.* The economic crisis has brought about serious economic and social problems with medium- and long-term implications. Aside from the rural-oriented development strategy, other areas need immediate reforms. The national budget has to take a more developmental role. This requires support to more critical programs for preventive health, nutrition and primary education, the privatization of publicly-acquired assets, and the adoption of debt service reduction schemes. The tax system can be made more equitable and productive through progressive and fair taxes. Tax reforms should focus on efficient and equitable mobilization of domestic resources. In this regard, new taxes, designed to fall on higher income groups, have been implemented recently. These

include increased taxes on luxury items, liquor and cigarettes. Such taxes on less socially desirable activities will permit a higher level of government expenditures. Government corporations also need to raise their internal earnings to ensure the continued provision of basic services and to avoid larger subsidies. More critically, the private sector should respond more actively to the stabilized political climate and economic situation. With a more dynamic private sector and an internationally competitive economic structure, the economy can better cope with its present challenges.

5. *Overcoming the External Debt Problem.* The outstanding external debt of $26.2 billion is high by any standard. This debt overhang will continue to drag development efforts due to high debt service payments unless constructive solutions are implemented. Hence, growth and development objectives should be given top priority in the implementation of adjustment programs.

It is therefore recommended that the international community grant longer and multi-year rescheduling relief by extending the consolidation and restructuring periods to at least 20 and 25 years, respectively, instead of the present shorter periods being applied. Innovative debt burden-sharing schemes such as a cap on interest payments and conversion of debt to equity need to be pursued by both creditors and debtors. This may also include a moratorium of payment of old debts to support growth and export programs and equitable sharing of export receipts. Payment of old debts can be subordinated to fresh credit thus promoting growth and exports. Litigation and other legal options need to be pursued in cases of loans incurred under questionable circumstances. Moreover, there is no moral basis for the nonrestructurable character of the loans from multilateral agencies like the World Bank.

Just sharing of the debt burden by all parties is the guiding principle that is called for by the present situation. While it is the responsibility of debtor countries like the Philippines to undergo structural adjustment programs, it is the responsibility of the international creditors to provide a macroeconomic environment that is conducive to reducing the adverse conditions for debtors. However, recent experience shows that as debtor countries tried to boost their exports in an effort to earn foreign exhange to pay the interests, the industrial countries protected their markets against these exports. The proposed approach, in contrast, is expected to reduce the large component in the national export which goes to non-productive activities such as debt-service and interest payments.

6. *Redesigning Stabilization Programs with IMF Support.* The Philippines has had several standby and other IMF-supported programs to achieve stabilization goals, i.e., balance of payments and price stability. In 1985, the deflationary and harsh conditions imposed by the IMF heavily contributed to the severe decline of per capita income to its 1975 level, and to the less than minimum budgetary requirements for priority social programs to protect human conditions.

It is recommended that future IMF programs give priority to the resumption of economic growth and sufficiently provide for essential social services to address basic needs. In this way, exports can be generated faster and the internal capacity to pay external obligations can be raised without the risk of generating destructive political and social tensions. The Philippine experience has established that orthodox IMF principles need to be modified to explicitly consider the human dimension of economic adjustments.

7. *Mobilizing International Support and Cooperation.* The international community has positively responded to the needs of countries affected by external economic shocks and natural disasters. This response mechanism can be further enhanced through improved assessment of local needs in cooperation with donors to avoid undue duplication of efforts and to increase the relevance and effectiveness of aid. The Asian Development Bank (ADB) and the United Nations Children's Fund (UNICEF) have ably responded to the priority needs of the Philippines during its present crisis situation by extending a soft loan to complete priority development projects and by mobilizing additional external assistance from other generous multilateral and bilateral sources for needy children and livelihood programs, respectively.

8. *Enhancing the Impact of Social Services.* In pursuit of the goals of poverty alleviation and social justice, priority in the allocation of government expenditures during the period 1987-1992 should be given to the delivery of basic social services. Cognizant of the awesome task of reducing poverty incidence and effecting a more equitable distribution of income and wealth, more focused and cost-effective programs need to be implemented on a wider scale.

Programs should concentrate on disadvantaged areas and on specific poverty groups, namely, the landless farmers, plantation workers, subsistence fishermen, tribal/cultural communities and the urban poor. To obtain maximum impact, program emphasis across and within sectors should be clearly defined. The allocation of resources within sectors and among regions should be reviewed to correct maldistribution and to ensure that the bulk of resources goes to avowed priorities. Moreover, cost and resource minimizing alternatives in the design of projects and activities have to be identified and adopted.

It is recommended that innovative and community-based social services properly linked up with employment-generating and rural-based activities be promoted. Complementary to this is the strengthening of capacity building at the grassroots level to improve access to basic services. This will require intensification of institutional reforms, i.e., decentralization of public services, community organization and mobilization, and greater coordination with non-government organizations.

Towards improved health and nutritional status, the concept of PHC should be broadened to cover the whole continuum of health care from the preventive to the curative aspects. Immunization, breastfeeding, maternal and child health services, environmental sanitation and health and nutrition education should be strengthened and improved without diminished attention to the control of communicable diseases such as diarrhea through oral rehydration.

In education, the improvement of the quality of education and training particularly basic education continues to be the most formidable task considering the need to arrest alarmingdeclines in participation rates, cohort survival rates and retention rates.

In housing, the main role of government should be limited to urgently-required slum upgrading, squatter relocation and sites and services development for marginal income families. The production of housing stock to cover natural growth and replacement requirements should be left to the private sector.

Family welfare should be enhanced through the promotion of small families and responsible parenthood. This is to be pursued with due respect to the right of couples to determine the size of their family and choose voluntarily the means which conform with their moral convictions and religious beliefs.

9. *Monitoring the Nature and Impact of the Adjustment Process.* The recent crisis has generated a set of development challenges requiring closer surveillance and timely intervention. This situation best illustrates the need for a better understanding and timely anticipation of the dynamics and implications of the external shock-

domestic impact process. This will help avert their most likely negative effects. The statistical system should therefore conduct specialized surveys from time to time similar to the one undertaken in 1985 on the status and condition of the subsistence population and other disadvantaged groups but such should be expanded to provide a system for predicting basic nutritional status. Small area statistical collection should also be pursued in depressed areas of the country.

APPENDIX

Analytical Framework on the Estimation of External Shock Effects and Policy Responses

The point of departure in developing the analytical framework is the balance of payments identity:

$$(P^{x}_{01} X_1 - P^{m}_{01} M_1) + (X^{h}_1 - X^{t}_1) = (R^{t}_1 - R_1)$$

$$+ (X^{h}_1 - X_1) + (M_1 - M^{h}_1) + (M^{h}_1 - M^{t}_1)$$

R_1 = actual resource gap in year 1

R^t_1 = trend resource gap in year 1

X_1 = actual exports

M_1 = actual imports

X^h_1 = hypothetical exports in year 1

M^t_1 = trend imports in year 1

M^h_1 = hypothetical imports in year 1

X^t_1 = trend exports in year 1

P^m_{01} = growth rate in import price between years 0 and 1

P^x_{01} = growth rate in export price between years 0 and 1

The left hand side of the equation indicates the effects of external shocks on the balance of payments. These are decomposed into a) the terms of trade effect ($P^x_{01}\ X_1 - P^m_0\ M_1$), and (b) the export volume ($X^h_1 - X^t_1$) effect.

The right-hand side consists of terms representing policy responses to external shocks, i.e., additional net external financing ($R^t_1 - R_1$), increases in the country's export share in the world market ($X^h_1 - X_1$), import substitution ($M_1 - M^h_1$) and the effects of lower GDP growth rates ($M^h_1 - M^t_1$) on the country's exports.

The identity defines external shocks as the sum of the terms of trade effects and export volume. Terms of trade ($P^x_{01}\ X_1 - P^m_{01} M_1$) is defined as the difference between export price effects and import price effects. The estimation of the terms of trade was measured from 1971-1973 base.

The effect on export demand is the difference between hypothetical and trend exports ($X^h_1 - X^t_1$). Trend exports (X^t_1) are derived on the assumption that the trend of foreign demand remained the same as in the period 1963-1973 and that the country maintained its 1971-1973 share in export markets. Hypothetical exports (X^h_1) are derived on the assumption that the country's exports rose at the same rate as world exports from 1971-1973 base and that the country maintained its 1971-1973 share in world exports.

Among policy measures taken in response to external shocks, the amount of additional net external financing ($R^t_1 - R_1$) has been estimated as the difference between the actual resource gap and the trend value of the resource gap. The actual resource gap (R_1) is the difference between actual exports and imports ($X_1 - M_1$). Trend resource gap (R^t_1) is measured by subtracting trend imports (M^t_1) from trend exports (X^t_1). It should be noted that in the calculation of the resource gaps only merchandise trade was included. Non-merchandise trade and transfers were excluded.

The effects of export promotion ($X^h_1 - X_1$) have been represented by changes in exports, expressed in 1971-1973 base.

Import substitution is the difference between actual imports and hypothetical imports ($M_1 - M_1^h$). Hypothetical imports (M_1^h) are calculated based on the actual growth rate of GDP in the country on the assumption that the income elasticity of import demand remained the same as in the 1963-1973 period.

The effects on imports of lower economic growth rates is defined as the difference between trend and hypothetical imports ($M_1^h - M_1^t$). Trend imports (M_1^t) are calculated on the assumption that the income elasticity of import demand and GDP growth both remained at the 1963-1973 level.

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