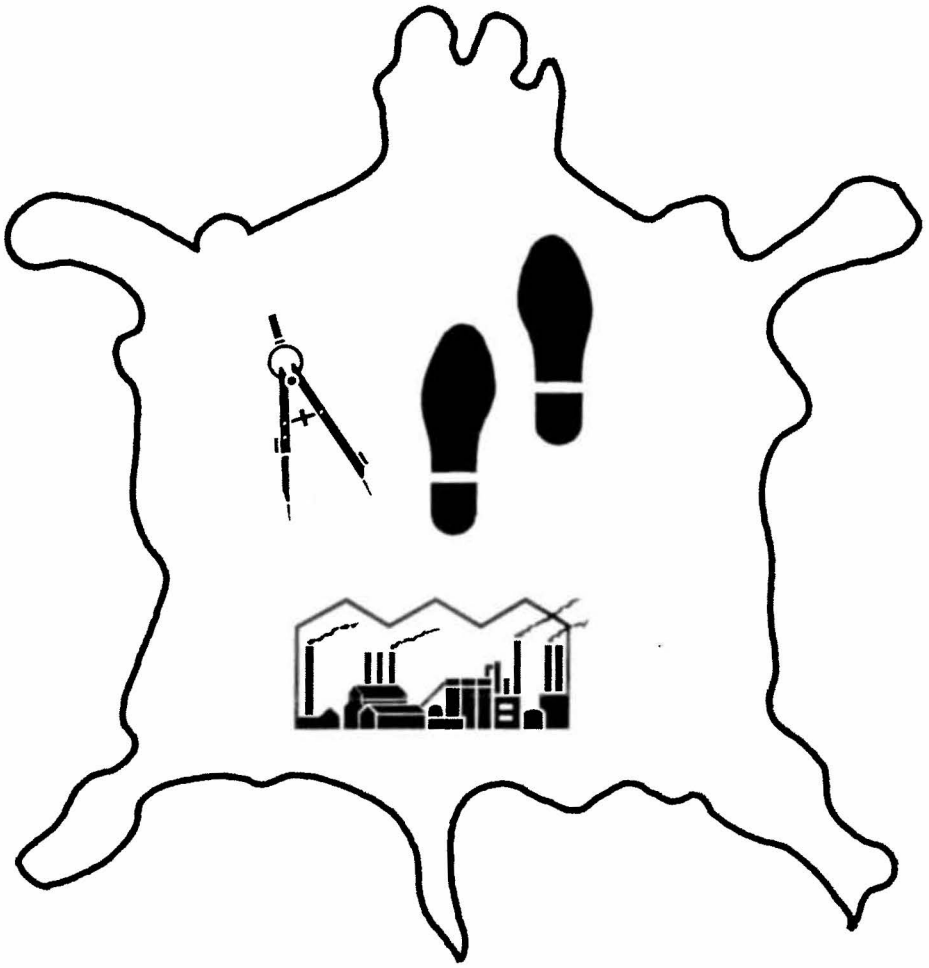
SHOE INDUSTRY CERTIFICATE COURSE

UNIDO

ECONOMICS*



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This learning element was developed by the UNIDO Leather Unit's staff, its experts and the consultants of the Clothing and Footwear Institute (UK) for the project US/PHI/85/109 and is a part of a complete Footwear Industry Certificate course. The material is made available to other UNIDO projects and may be used by UNIDO experts as training aid and given, fully or partly, as hand-out for students and trainees.

The complete Certificate Course includes the following learning elements:

Certificate course

-Feet and last
-Basic design
-Pattern cutting
-Upper clicking
-Closing
-Making
-Textiles and synthetic materials
-Elastomers and plastomers
-Purchasing and storing
-Quality determination and control
-Elements of physics
-General management
-Production management
-Industrial Law
-Industrial accountancy
-Electricity and applied mechanics
-Economics
-SI metric system of measurement
-Marketing
-Mathematics
-Elements of chemistry

E C O N O M I C S

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I. THE ECONOMIC PROBLEMS OF A NATION

1. Needs and wants can either be built-in, created through the influence of advertising or aroused or awakened by others' behaviour. They can also be either basic or luxury, with many needs and wants falling in-between. They can be classified as needs and wants of the population taken as a group (public wants) or needs and wants of specific individuals (private wants). They can vary from people to people depending on income, age, environment, occupation and sex, among others. Materials which produce goods and services are called resources or factors of production. They can be classified broadly into land, labor, capital, and entrepreneur.

2. Scarcity of resources arises because man's wants are unlimited whereas his resources to satisfy them are limited. Because of scarcity, a society is forced to choose in the best possible way what, how much, how and for whom to produce. A wrong choice entails an opportunity cost - which consists in the benefits foregone for not choosing the best alternative.

3. To overcome scarcity, a society has to make full use of them and make them grow more and faster. Hence, a society must work for the attainment of the triple objectives of full employment, economic productivity and economic growth - which are all interrelated with one another. The first objective is concerned with using all available resources in the most efficient manner so as to be able to produce goods and services along the production-possibility curve. The second and third objectives seek to raise the present limits to resources so as to enable the economy to move up to a higher production-possibility curve.

4. Economics is the science that helps the society make the best choices about what, how much, how and for whom to produce. Of course, economics, being a social science, cannot avoid making statements about what, how much, how and for whom should society produce. When an economist makes these value judgements, however, he has to make prejudices, beliefs, biases, or ideologies clear and explicit.

II. THE SCIENCE OF ECONOMICS

1. Economics is an empirical science and thus makes use of observed phenomena in the economic world to support the validity of the explanations it offers regarding economic relationships.

2. Economics is a social science because it deals with relationships among individuals and groups in a society. Thus, it must constantly interact with other social sciences as sociology, political science, etc. Oftentimes,it has to borrow certain premises from these other sciences.

3. Value judgments regarding the ends of man and society are completely indispensable to the task of devising solutions to economic problems. As long as the value judgments are made clear and explicit, the scientific nature of economic inquiry can still be safeguarded.

4. Economic science has the same methodology as any other empirical science. The economist goes through the stages of observations ; definitions and assumptions; verbal or quantitative deduction; and finally, empirical or statistical verification and measurement. The last step is what most pseudo-economists usually fail to take.

5. Economic analysis is slowly gaining ground in both public and private organizations. Although many decisions are still made for non-economic reasons, the economist can render an important service to Filipinos by courageously exposing the economic cost of exclusively political and other non-economic decisions.

6. Tools of economics are logic, mathematics and statistics.

7. Logic is needed in deriving conclusions from the economist's assumptions about the behavior of certain economic variables. Mathematics facilitates such deductions when the relationships become highly complex and it is indispensable when concepts dealt with go beyond the range of ordinary "literary" logic.

8. Statistics is used to test the validity of economic hypotheses, as well as to give numerical flesh to the skeleton of mathematical

functional relationships. Econometrics is merely a high sounding name for the use of statistical analysis in establishing relationships among economic variables. It is also the scientific way to make predictions that are required in planning.

III. THE CIRCULAR FLOW

1. In modern society, man has come to realize the benefits of division of labor and the consequent specialization of activities by the different members of the society. Thus, modern society is characterized by economic units that are highly independent.

2. This interdependence manifests itself very clearly in the primary economic activity commonly known as production. Production is that activity which consists in the employment of resources (such as land, labor, and capital) and their transformation into actual goods and services to satisfy material human wants. But the employment of these resources entitles the owners to rewards called income. Thus, production and income are two economic concepts which are inseparable.

3. To understand the two-fold aspect of output and income resulting from productive activity, we find useful to employ the circular flow which depicts the flow of goods and services and the payments, therefore, from one economic unit to another in society. In the basic circular flow, the two basic economic units are the firms (producers) and the households (consumers). However, in order to clarify further the concept of a flow, we distinguished it from a stock variable. Flow is generated over a given period, while stock refers to what is available at any point in time.

4. In the circular flow, the firms use resources owned by households to produce goods. Corresponding to the employment of the resources by the firms is the receipt of income by the resources belonging to households. Thus, production and income are two sides of the same coin.

5. We note quite well that production or output is equal to

income in the simple circular flow model. When additional types of firms were presented - material-producers, intermediate goods-producers, and final goods-producers, - the same result is found. Only this time another concept was found to equal income households-that of value added by industry (the payment for land, labor and capital paid by an industry, excluding, in order to avoid double counting, what it pays to other firms). More precisely,also, we found out that the relevant production concept which equates with income is the aggregate market value of the final goods and services produced by the economy.

6. However, a more realistic model that describes economic activity is one which includes also the possibility of leakages or outflows from the circular flow and the injection or inflows into the circular flow from without. The outflows are savings, taxes and imports. The inflows are investments, government spending and exports. Certain policies seek to control related inflows and outflows. Savings and investments are regulated through monetary policy, while taxes and government spending are controlled through fiscal policy. Import and export levels are manipulated through trade policy.

IV. NATIONAL INCOME ACCOUNTS

1. Gross National Product (GNP) represents the market value of all the final goods and services produced during a given period. There are two basic approaches in measuring it: the income approach which looks at who contributed to production and how they were rewarded and the expenditure approach which looks at how the goods and services were used.

2. National Income (NI) is the sum total of all the payments to households for factors of production used, government income from capital and undistributed income of corporations..It is smaller than GNP because two elements included in the market price of commodities are not included yet - indirect taxes and depreciation allowance. Personal income are even smaller than national income since it includes only the factor incomes of

households and transfer payments. Disposable personal income is equivalent to the personal income less direct taxes paid by individuals. This is the income of the households available for consumption or spending.

3. GNP and other measures obtained from the national income accounts offer quantitative benchmarks against which the desired or planned performance of the economy may be matched. It is useful for government policy-makers and planners, businessmen and economists, despite its limitations in concept and measurement.

4. Current GNP measures the value of production using the prices of the current year. Real GNP or GNP in constant prices computes the value of production using the prices of a fixed year so that movements in real GNP reflect only the changes in the quantity of goods and services produced.

V. DETERMINATION OF NATIONAL INCOME

1. Income or output is determined by aggregate demand and supply. However, when there is significant excess capacity and prices can be assumed to be constant, aggregate demand determines the level of income or output. When assumptions above do not hold, equally, if not more important in determining national income would be productivity and other aggregate supply determinants.

2. An important concept in income determination analysis is equilibrium. In equilibrium, planned income equals planned spending (demand). Another way of seeing it is inflows equal to outflows.

3. In the simple income determination model, total spending in any period consists of the sum of consumption, investment and government. The level of consumption spending depends on the level of income (consumption function). In the short-run, it may be assumed that investment and government spending do not vary with income but are autonomous inflows into the system. Thus, equilibrium income is determined once investment and government spending are known. Another view is that planned savings equal planned investment (when government is not included in the model).

4. Full employment equilibrium income is that level of total income which is equal to total spending during a given period, and which, at the same time, enables the economy to utilize all its productive resources available during the period. Left alone to itself, the economy without the direct or indirect intervention of the government may not reach full-employment equilibrium.

5. An addition to spending comes from the firms or the government or both, results in an increase in income several times the size of the additional spending. How large this increase in income will be, compared to the amount of additional spending, is measured by the multiplier. The size of the multiplier is dependent on the marginal propensity to consume (MPC) which is the ratio of the change in consumption that occurs as a consequence of a change in income ($\Delta C/\Delta Y$).

VI. CONSUMPTION AND INCOME

1. Consumption expenditures, the funds which never leave the circular flow, constitute the mainstream of that flow. The decision of consumers to purchase goods and services guides the firms in deciding what to produce and how much to produce. Employment and subsequently, income, are generated as a consequence.

2. For analytical purposes, economists utilize two measures that relate consumption and disposable income; the average propensity to consume (APC), and the marginal propensity to consume (MPC). The shape of the consumption function differs depending upon the type of data used. Cross-section studies reveal that an increase in the level of income causes consumption to rise - but always by less than the increase in income, as determined by the MPC. The value of APC ranges from greater than 1 for income levels less than break-even; equal to 1 at break-even; and less than 1 at income levels greater than break-even.

3. Aggregate consumption expenditures depend upon several factors. Macroeconomics analysis is based on the assumption that the level of consumption expenditure is a function of current disposable income which in turn is stably related to GNP. A change in any or all of the other variables influencing the GNP -DPI relationship is the usual object of policy in determining the level of DPI.

4. Consumer tastes and preferences constitute one of the factors that will cause the consumption function to shift. On the other hand, the determinants that may cause a change in tastes and preferences are: advertising and promotions, marketing practices and institutions, consumer motivation for consumption.

5. The level of consumption is also affected by the pattern of consumption. Consumption patterns are, in turn, influenced by distribution among income classes, which are dependent on family size, education, geographic location and the role of the wife in a household.

VII. INVESTMENT AND INCOME

1. Savings and investments are outflows and inflows, respectively, in the circular flow. They are very much related and for equilibrium in national income determination, planned savings should be equal to planned investments.

2. Basically, savings comes from households, corporations and the government. But on the whole, we add depreciation allowance and foreign borrowing to arrive at gross national savings. Investments, on the other hand, consist of spending goods used to produce other goods, i.e., on construction, machinery, and equipment, and the change in inventory.

3. The main determinants of savings are income, income distribution and population growth. They are basically the same as the determinants of consumption spending. Since domestic savings, though increasing as a percentage of GNP, have been inadequate for our investment requirements, we have had to resort to the use of foreign savings (either borrowing or investments).

4. The determinants of the level of business investment are different for the three types of investments. For business investment in durable equipment, the important factors that determine its level are the rate of profit, the rate of interest, the changes in business expectations, the rate of innovation and the rate of change in output. Inventory investment largely depends on the rate of increase in sales. Residential construction is determined by the changes in income levels, the cost of construction and the availability and cost of housing credit.

5. Since the determinants of S and I are different, it is quite possible that planned savings and planned investments may not equal, and government has to step in to bring the economy to equilibrium.

VIII. SOURCES AND USES OF MONEY SUPPLY

1. Money facilitates the flow of goods in the economy. It serves as a medium of exchange,a store of value, and as a unit of account for future or deferred payments.

2. Money arose because of the inconvenience of barter. Economic activity was carried out through the use of precious metals and later through coins. Business people exchanged promises to pay - this developed the use of bank notes. Today, the use of deposit money is prevalent.

3. Money is either currency in circulation or demand deposits. Money is a form of debt owed by whoever created it. Currency in circulations is the debt of the Central Bank of the Philippines whereas demand deposits are a debt of the commercial banking systems.

4. The Central Bank issues currency when it purchases dollars and when it gives loans to and buys securities issued by the government and banks. The commercial banking system creates demand deposits through the operation of the money multiplier (a consequence of the limited precentage of reserves) operating on new deposit inflows into the system.

5. The size of the money multiplier depends on the percentage of deposits required to be kept as a cash reserves in banks. It also depends on how much of the loans lent to business is used for operating cash requirements. Our money supply changes when there are changes in :

   a) the level of our dollar reserves

   b) the level of domestic credits granted by the Central Bank to government and other banks.

   c) the level of domestic credits granted by commercial banks to business and government.

KEY CONCEPTS :

Medium of transaction	long term loans
Limited reserve percentage basis	Commercial banks
Rediscounting rate	Central Bank
Government securities	Currency in circulation
Short-term loans	Demand deposits.
International reserves	

IX. SOURCES AND USES OF PUBLIC FUNDS

1. The government as an economic entity plays the five roles which any individual plays in the economy: income earner, consumer, saver, borrower, and investor. The difference is that the government is a giant in the economy, for its activities involve billion of pesos.

2. Its main source of income is taxation. A major share of total taxes collected is accounted for by taxes on the sale of goods and services. This is an indirect tax since the seller passes the tax burden to the ultimate consumer. This is also regressive since both poor and rich pay the same amount for the goods and services they purchase.

   Taxes are also collected from the incomes of individuals and copporations. This is a direct tax since the income-earner pays the rate directly from his income. This is progressive since the rate applied to the income rises as the income increases.

3. The government earns income in order to maintain itself and perform the function inherent to its nature. A big share of its revenue goes to current or consumption expenditures which include social services, national defense, debt servicing and general operations. Whenever its income from taxation is greater than current expenditures, the government considers the difference as savings, a source of funds for capital expenditures.

4. Whenever savings are not sufficient to meet capital expenditures, the government engages itself in public debt. It can borrow from commercial banks, private individuals, the Central Bank, foreign institutions and foreign individuals. Part of its current income are spent on interest payments and debt repayments. Public debt exerts a strong influence on the economic pace of the nation since it can be, as was frequently the case, inflationary in character.

5. Government savings and borrowings are spent on capital outlays and investments which include public works and construction. These expenditures are expected to improve the lot of the economy in general and business in particular.

6. The economic role of the government cannot be underestimated. Any of its economic decisions can create tiny ripples which can pick up into giant waves and affect lives of every individual. Thus the need for fiscal policies to guide it in the performance of its significant task.

KEY CONCEPTS :		
	Taxation	Tax burden
	Direct Tax	Benefits principle
	Indirect tax	Ability to pay
	Public debt	Income redistribution
	Lorenz Curve	

X. ECONOMIC POLICY AND INSTITUTIONS

1. Fiscal policy refers to government policies manipulating taxation and spending. Basically, these are geared towards stability and economic growth.

2. The new equilibrium when the government sector is included in our simple model is now Savings (S) + Taxes (T) = Investment (I) + Government Spending (G). Taxes may be conceived as depending on the level of income. Therefore, we came up with the concept of marginal propensity to tax (MPT) which is the change in the level of tax collection that accompanies a change in the level of income.

3. Since taxes are leakages from the circular flow, and depends positively on income its introduction into the model means a lower level of equilibrium. It also implies a smaller multiplier, compared to the simple model without government. It can be noticed that progressive taxation in the economy provides a built-in stabilizer that promotes attainment of equilibrium. Since government spending is difficult to reduce, taxation can play a better role in attaining the stability objective.

4. In promoting its growth objective, the government has to look at its spending patterns and utilize taxation as well. More of government's spending should be for investments and it has to improve the productivity of civil servants, paying them good salaries. On the other hand, it can use taxation as an instrument for increasing domestic savings. By taxing unnecessary consumption and importation, the government can not only accumulate finds for capital formation, but also can redistribute income. Subsidies are now favored over tax exemptions as a tool for fiscal policy.

5. The government is a vital agent for increasing the productivity of the different sectors of the economy. It can effect a more efficient allocation of resources through taxation of undesirable activities and by giving tax exemptions and subsidies to those activities which are crucial to continued development. In raising agricultural productivity, it can provide irrigation systems, agricultural credit, extension services to farmers and easy access to fertilizers and other inputs. It can also allow economies of scale to operate by linking domestic markets which are numerous but fragmented through an efficient system of transportation and communications. These investments are called social overhead capital. Finally, it can help provide adequate educational facilities and encourage the dissemination of research findings and the training of industrial workers.

6. In a nutshell, the rule observed by the Central Bank in relation to credit and money supply is: when the economy is at a feverish pace, tighten credit; when it is at a dragging pace, looosen credit. Tight and easy money generally operate on a cycle. When money has been easy too long such that investment, production and income are exceeding resource limits, tight credit may have to be applied. And when money has been tightened too long such that the economy is running at a dragging pace,credit may have to be loosened up. The criteria for determining the pace of the economy are the price level and dollar availability.

7. Money availability affects the level of interest rates and the latter determines investments which help set the level of income in the economy. The interest rate is the price of money. As a price,it is determined by the functioning of demand and supply for money. Demand for money is dependent on transactions demand, precautionary demand, and speculative demand. The supply of money is usually conceived as controlled by monetary authorities.

8. The tools of monetary policy in manipulating total money supply are: (a) reserve requirements (b) amount and rate of rediscounting; and (c) open market operations. Monetary authorities also have other tools that are non-global in character: (a) selective credit controls, (b) maximum interest rates, (c) moral suasion.

9. The history of banking in the 50's and 60's is one of growth and institutionalization. It has been impressive and has seen the removal by the 70's of functions from the Central Bank which are alien to the conduct of monetary affairs. The banking reforms taking place starting mid-70's are designed to strengthen commercial banks and lead them to universal banking (one-place "shopping" bank), control of non-bank financial istitutions, and liberalization of interest rates. There is a strong theoretical and empirical support for allowing interest rates rise and maintain a positive lead over inflation in order to mobilize domestic savings.

KEY CONCEPTS :

Central Bank
Commercial Bank
Money supply
Currency in circulation
Open market operations
required reserves
Rediscounting rate
Money multiplier
Demand deposits
Liability
Assets
Progressive taxation

Monetary policy
Moral suasion
Selective credit controls
Easy credit
Tight credit
Fiscal policy
Tax rates
Budget
Marginary propensity to tax
Multiplier
Tax effort
Regressive taxation

XI. SOURCES AND USES OF DOLLARS

1. The dollar is the internationally accepted medium through which foreign transactions among nations are carried out.

2. Since great part of raw materials and capital requirements of local industries are imported from abroad, a cutback in dollars available locally will immediately affect local production.

3. Our main source of dollars is the receipt from exports. Other sources include gold, U.S government spending in the Philippines, invisible receipts from tourism, personal remittances of individuals residing abroad and donations.

4. On the other hand, we use our dollars primarily to import commodities from abroad; and as there are invisible receipts, so are there invisible payments. The growth of local industries necessitates the increase in our dollar supply in order to meet the import requirements of our industries.

5. The difference between our export receipts and import disbursements results in the balance of trade. The difference between invisible receipts and invisible payments signifies the balance of non-trade transactions. And the difference between total dollar receipts and total dollar payments accounts for the balance of payments.

6. The Philippines has to save dollars for purposes of continued transaction with the outside world. Our dollar holdings are called international reserves. There is no absolute rule as to how much dollar should be in the reserves at a given time but the rule of thumb is that the amount should be sufficient to pay for an equivalent importation of three months. The international reserves serve as an indicator of the country's foreign trade performance and as a last resort should our dollar receipts be less than our dollar payments.

7. Dollars are necessary to carry on trading activities with other countries. The theory of comparative advantage, on which foreign trade is premised, states that each nation should specialized on its strong point and trade with other countries to obtain its other necessities.

8. Since foreign trade is a human endeavor, there can be barriers to a profitable free trade: the infant argument, the need for revenue-raising tariffs, the need to balance international payments and the lack of international equality. These barriers can be removed if each trading nation will recognize the dignity of its trading partners and its responsibility to them. Thus, trade agreement are made and trade associations are organized in order to obtain the maximum benefit from free trade.

KEY CONCEPTS.:

Dollar as an international currency
Dollars from gold
Balance of trade
Balance of payments
External debt
Dollar reserves
Absolute advantage
Theory of comparative advantage
Infant industry
Revenue-raising tariffs
Retaliation
Trade agreements
Lack of internatinnal equality
Common market
Trade association
Regional industrial complementation

XII. FOREIGN TRADE

1. In completing the income determination model by including transactions with the rest of the world, exports can be viewed as autonomous injections into the circular flow, while imports can be made to depend on the level of income. The new equilibrium is now set at $S + T + M = I + G + X$. Imports are dependent on income so we obtained the concept Marginal Propensity to Import.

2. Since imports are leakages from the circular flow, and depends positively on income, its introduction into the model means a lower level of equilibrium and a smaller over-all multiplier. However, external equilibrium is also required: foreign exchange inflows = foreign exchange outflows. Note however that external transactions also have price effects: more imports mean lower prices and more exports could mean higher prices.

3. The main determinants of imports and exports are income and price. From a study of these determinants, we can see the prospects of exports and the importance of policy for our imports. The Philippines has been facing some foreign trade problems in (a) overdependence in a few primary exports products, (b) import dependence of industry, and (c) high and biased tariffs.

4. To attain the ideal of internal and external equilibrium, we can have recourse to the following tools of foreign trade policy: (a) exchange or administrative controls, (b) fixed or flexible exchange rates, and (c) tariffs and subsidies.

5. Foreign trade is also very important in raising national productivity. Advance in knowledge is made possible by transfer of technology via imports and technical assistance, joint ventures, informal education via training and discipline is also enhanced. Providing for export market in plant size selection allows for economies of scale that benefits the economy in many ways. Resource allocation can be improved through proper foreign trade policies.

KEY CONCEPTS :

Import dependence
Exchange rate
Tariffs
Subsidies
Exchange controls
Net terms of trade
Marginal propensity to import
Automatic stabilizer
Overvalued exchange rate
Fluctuating exchange rate
Stabilized exchange rate
Multiple exchange rate
Devaluation
Revaluation
Non-trade sources

XIII. MEANING AND PROCESS OF ECONOMIC DEVELOPMENT

1. Economic growth is a problem faced by all nations, whether rich or poor. In pursuing the task of growth, each nation has to take a reflection look at its own resources, and plot its own course towards growth.

2. Economic growth is aimed not only at increased production,but also the proper use of the nation's resources. It involves the whole economy - every aspect of it. It means specifying the challenges and meeting them.

3. It is not enough to use production as the only yardstick to determine growth. Another measure which is important is the total product available per person. At present economists and other behavioral scientists are searching for other yardsticks that can measure the socio-economic welfare aspect of growth. Some have come up with the theory of Net Economic Welfare, for which Socio-Economic accounting is proposed as a yardstick.

4. Economic growth is accompanied by changes in the economic and social structure of a country. The main structural changes that occur are those which affect the pattern of demand,production, labor allocation and urbanization.

5. In terms of production and labor allocation, economic development brings about a decline in the relative importance of agriculture, of such a magnitude as to require a great increase in labor productivity. The labor freed from agriculture shifts to industry and services which take on the major share in the economic activity of a country. In terms of demand, which explains a good deal of production shifts, an important phenomenon is the decline in the importance of food consumption (and consumption as a whole) in relation to total spending, due to operation of Engel's law. This phenomenon releases funds for greater investments and consumption spending on non-basic terms culminating in a "consumer society". With the growth of manufacturing, there is also a tendency to urbanize as the growth process quickens. And with respect to income distribution it

can be noted that historically, income distribution became more iinequitable in the initial stages of development but improved significantly in the later stages.

6. There are large differences in growth rates between the developed and the developing countries, as well as among those in the same category. The differences may be due to the starting point. We find the presently developing nations at a level lower than where the developed countries started, We also find differences in factor endowments, hence, the principle of comparative advantage becomes operative. Other important factors are population size and growth which have been shown to have positive natural effects on the development process. And finally, there are different social institutions and government policies. All together there may be some exceptions in specific cases, but the historical patterns stand the test of statistical significance.

7. Economic growth then is synonymous to productivity - the relative efficiency of the resources of a country. Increasing production is one aspect of growth; accelerating productivity is another.

8. The dissatisfaction with overemphasis on per capita income maximization as the goal of economic development has led economists to consider along with it the need for consumption planning , employment generation and income distribution as vital elements for modern economic development. To meet these needs , other quantitative measures are being developed not only to bring prosperity to the nation as a whole, but to rescue the "poorest of the poor" from dehumanizing poverty.

XIV. PHILIPPINE ECONOMIC DEVELOPMENT

1. The growth of the Philippine economy accelerated annually in rates that ranged from 3 percent to 3.5 percent during the pre-war period to some 5 percent to 6 percent during the post-war period. The process has not been simple one of producing more of the same types of output, such as rice, sugar, and coconut but rather, of producing great variety that includes a wide range of manufactured products. This variety has, on the whole, introduced greater stability to the business environment and thickened the production base such that the adverse consequences of a bad crop year, for instance, could be offset to some extent by gains in other producing sectors.

2. In terms of the very broad economic indicators, the accelerated overall growth rates may be traced to the rate of growth in resource utilization, which has grown from 2.4 percent annually during the pre-war period to about 3.6 percent a year during the post-war period. Since the rate of growth in income is higher than the rate of growth of resources, the difference could only be accounted for by the rise in productivity. The pattern of overall growth has been changing - the share of industry has been increasing vis-a-vis the share of the agricultural sector. Industry can be expected to increase its share further, if its present annual growth rates are maintained.

3. We must be cautioned against using the growth rates expressed by the broad economic indicators as the only bases for action and policy decisions. Changes measured by averages suggest a smooth path along the development process because they scale down the differences in economy. Obviously, its dynamics bring about certain problems. For instance, despite the fact that there are very real evidences of economic growth, there is still a very large number of Filipino households below the poverty line-too poor that they cannot afford to provide themselves with even a modicum of food, clothing and shelter. Likewise, interdependence among the agricultural, industrial and service sectors, creates obstacles to their respective growth rates in the sense that

industrial growth can only be maintained or increased if agriculture develops and industry lags whenever agriculture lags-especially since the dollars required by industry are earned through agricultural exports. Furthermore, there are regional dimensions in economic growth. Overall economic development can only be maintained and further enhanced by inter-regional economic integration that would expand the domestic market and create an attractive climate for investments.

4. For more than 25 years, the Central Bank has assumed leadership in formulating and executing public financial policy, specifically on credit and foreign exchange. In 1972, the institution of financial reforms gave the Central Bank broader supervisory powers. Supervision extended to all financial institutions that perform banking functions, i.e., receiving deposits and deposit substitutes.

XV. ISSUES IN PHILIPPINE ECONOMIC DEVELOPMENT

1. There are certain issues associated with econom c development that have become problem areas in policy-making because some emphasis will have to be given to one side or the other since resources are scarce. It does not mean, however, neglect of one for the other; rather, it is the time frame that is crucial.

2. No conflict exists between the agricultural sector and the industrial sector, The requirements of economic development demand that a balance be maintained between the two sectors. There are arguments favoring industry over agriculture, and vice-versa, but, the overriding concern of policy should be an allocation pattern that would enhance overall development by working along the linkages that create interdependence between the two sectors.

3. Basically, the issue of export promotion versus import substitution is between an outward-looking strategy and an inward-looking strategy. An inward-looking strategy emphasizes the domestic production of as many manufactured products for the local market instead of importing them. In contrast, an outward-looking strategy encourages specialization in the production of goods and services for the export market on the basis of comparative advantage. Import-substitution policies, as applied to the Phil., resulted to the growth of capital-intensive, large-scale industries, the neglect of the dollar-earning agricultural export sector and the rural areas as a whole, as a consequence of urban stress. Any future strategy should emphasize manufactured exports that are labor-intensive.

4. The basic argument stimulating the growth of medium and small-scale industries lies in the employment- generating capabilities of these industries, as they are generally more labor-intensive than large industries. The growth of small scale industries in the Philippines , however, depends on their capability to overcome the diseconomies of small - scale operations that are manifested in the areas of finance and production.

5. The inability of the domestic economy to save out of current income forces it to rely on foreign capital to finance investments. The sources of foreign investments may be classified into private and public. Private investment may come in the form of loans - portfolio investment - or in the form of physical assets -"direct investments". Public foreign investments are government-to-government loans and aids.

6. Equitable distribution of income and wealth is an avowed goal of practically all social systems. Different societies , however, differ on what they think is an equitable distribution of income. Under the free enterprise system, market imperfections result to an inequitable distribution of income. Hence, government intervention becomes inevitable. Rural development, income generation and education are policy areas that should be developed by the government since these aim to uplift the lowest income earners.

NATIONAL INCOME ACCOUNTS OF THE PHILIPPINES As of May 1987
Unit: In million pesos

TABLE 5. GROSS NATIONAL PRODUCT ,NATIONAL INCOME AND GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN
1984 TO 1986

INDUSTRY	AT CURRENT PRICES 1984	1985	1986	AT CONSTANT PRICES 1984	1985	1986
1. AGRI.FISHERY,FORESTRY	139505	162519	163801	25409	26252	27233
a. Agricultural crops	83470	98819	95388	15564	16434	17198
b. Livestock & Poultry	20876	24851	25834	4751	4690	4830
c. Fishery	23116	27984	32705	4329	4422	4551
d. Forestry	12043	10865	9874	765	706	654
2. INDUSTRY SECTOR	186154	200544	202786	32282	29000	28204
a. Mining & Quarrying	9714	11529	10198	1755	1768	1558
b. Manufacturing	137251	150523	154719	23319	21541	21717
c. Construction	31209	27506	22685	5866	4258	3382
d. Elect,Gas and Water	7980	10986	15184	1342	1433	1547
3. SERVICE SECTOR	214807	246396	260130	36236	34551	35333
a. Transportation	33820	38263	39078	5032	4953	5084
b. Trade	99711	118370	121243	14073	14066	14337
c. Finance & Housing	31203	30088	32291	5134	3985	4062
d. Private Services	28819	33668	35765	6412	6094	6039
e. Government Services	21254	26007	31753	5585	5453	5811
GROSS DOMESTIC PRODUCT	540466	609459	626717	93927	89803	90770
Net factor income from abroad	-13111	-14941	-12426	-2283	-2037	-1676
GROSS NATIONAL PRODUCT	527355	594518	614291	91644	87766	89094
Net Indirect Taxes	43920	48949	52329	7632	7212	7578
Depreciation	53749	67222	71682	10936	10726	10323
NATIONAL INCOME	429686	478347	490280	73076	69828	71193

NATIONAL INCOME ACCOUNTS OF THE PHILIPPINES As of May 1987
Unit: In percent

TABLE 7. GROSS NATIONAL PRODUCT ,NATIONAL INCOME AND GROSS DOMESTIC PR
BY INDUSTRIAL ORIGIN
1984 TO 1986
Growth Rates

INDUSTRY	AT CURRENT PRICES 84-85	85-86	AT CONSTANT PRIC 84-85	85-86
1. AGRI.FISHERY,FORESTRY	16.50	0.79	3.32	3.74
a. Agricultural crops	18.39	-3.47	5.59	4.65
b. Livestock & Poultry	19.04	3.96	-1.28	2.99
c. Fishery	21.06	16.87	2.15	2.92
d. Forestry	-9.78	-9.12	-7.71	-7.37
2. INDUSTRY SECTOR	7.73	1.12	-10.17	-2.74
a. Mining & Quarrying	18.68	-11.54	0.74	-11.88
b. Manufacturing	9.67	2.79	-7.62	0.82
c. Construction	-11.87	-17.53	-27.41	-20.57
d. Elect,Gas and Water	37.67	38.21	6.78	7.96
3. SERVICE SECTOR	14.71	5.57	-4.65	2.26
a. Transportation	13.14	2.13	-1.57	2.64
b. Trade	18.71	2.43	-0.05	1.93
c. Finance & Housing	-3.57	7.32	-22.38	1.93
d. Private Services	16.83	6.23	-4.96	-0.90
e. Government Services	22.36	22.09	-2.36	6.57
GROSS DOMESTIC PRODUCT	12.77	2.83	-4.39	1.08
GROSS NATIONAL PRODUCT	12.74	3.33	-4.23	1.51
Net Indirect Taxes	11.45	6.91	-5.50	5.07
Depreciation	25.07	6.63	-1.92	-3.76
NATIONAL INCOME	11.32	2.49	-4.44	1.95

NATIONAL INCOME ACCOUNTS OF THE PHILIPPINES

ACCOUNT I. GROSS NATIONAL PRODUCT AND EXPENDITURE ACCOUNT
At current prices in million pesos
1984 to 1986

I T E M	1984	1985	1986
1. Compensation of Employees)			
2. Entrepreneurial and Property)	416147	463849	470866
Income of Persons)			
3. General Government Income from Property & Entrepreneuship	7033	9317	12820
4. Corporate Income	6506	5181	6594
a. Corporate Tax	8181	8350	8675
b. Corporate Savings	-1675	-3169	-2081
NATIONAL INCOME	429686	478347	490280
5. Indirect Taxes	44697	50216	53955
6. Subsidies	777	1267	1626
7. Depreciation	53749	67222	71682
GROSS NATIONAL PRODUCT at market prices	527355	594518	614291
8. Personal Consumption Expenditure	403431	469133	474991
9. Government Current Expenditure	35567	42469	48553
10. Domestic Capital Formation	91951	85402	82199
a. Fixed Capital Formation	100095	89974	80974
b. Increase in Stocks	-8144	-4572	1225
11. Exports	117701	126571	155104
12. Less: Imports	118382	108506	116188
13. Statistical Discrepancy	10198	-5610	-17942
GROSS DOMESTIC PRODUCT	540466	609459	626717
14. Net factor income from abroad (NFIA)	-13111	-14941	-12426
GROSS NATIONAL PRODUCT	527355	594518	614291
Depreciation	53749	67222	71682
Net Current Transfer from abroad	-692	3129	6884
NATIONAL DISPOSABLE INCOME	472914	530425	549493