THE TEXTILE INDUSTRY - A CASE STUDY OF INDUSTRIAL DEVELOPMENT IN THE PHILIPPINES

Laurence Davis Stifel

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FOREWORD

Students of the Philippines are aware that the society and economy of that country have been undergoing rapid change throughout the postwar period as economic growth, industrialization, and Filipinization have been promoted aggressively by public policies. Central to the image held by Filipinos -- elite and proletariat alike -- of the national economic development to which they aspire is industrialization. The society derives satisfaction and confidence from the fact that manufacturing output is growing faster than that of any other sector in the economy. Rapid growth of the postwar period is explained for the most part by the structure of incentives to Filipino entrepreneurship including high levels of protection established by stringent import controls, the lucrative windfall in foreign exchange allocations to import capital and industrial raw materials, tax exemption to "new and necessary industries", and ready access to subsidized credit to make both peso and foreign exchange expenditures. This structure of incentives can be criticized on a number of grounds, but there can be no question that it has been successful in stimulating rapid expansion of manufacturing output for the domestic market.

Our knowledge of the forced and rapid growth of the Philippine manufacturing output, beginning in the decade of the 1950's, is materially enlarged by Laurence D. Stifel's painstaking and perceptive analysis of the Philippine textile industry. Stifel is, above all, an economist and is aware of the critically important pragmatic issues which are central to understanding the processes of economic development -- the role of government, the sources of capital necessary to the fruition of entrepreneurship, the recruitment of innovators and managers, and the creation of an industrial labor force. Because he is an economist, he constantly strives to assess the economic performance of the emerging textile industry and to understand the relevance of his case study for the theoretical and policy issues involved in accelerated economic development.

Students of Philippine economic development and social change will appreciate the detachment and insight with which Stifel has analyzed growth of the Philippine cotton textile industry. The Cornell Southeast Asia Program is pleased to help make available widely this provocative and significant study.

Frank H. Golay
Professor of Economics
and Asian Studies

Cornell University
Ithaca, New York
November 1963

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CHAPTER I

INTRODUCTION

This is a case study of how an industry was created and grew in an underdeveloped country -- the Philippines. During the decade of the 1950's a series of deliberate efforts was initiated to foster industrial growth in the Philippines. The objective wasoto wean theonation away from economic dependence upon the United States and to establish an economic viability consonant with the political independence of the youthful republic. Theo growing significance of the manufacturing sector and the proliferation of new enterprises in the environs of Manila attest to the efficacy of the country's program of accelerated industrialization.

This study focuses attention upon one of the industries which was nurtured and developed during this decade -- the cotton textile manufacturing industry. It was felt that an industry study might provide fresh insights into the development process in the Philippines. Because the Philippines is ideologically committed to growth via free enterprise, with individual entrepreneurs mobilizing the resources and rendering the critical decisions, a microeconomic analysis of the firm or industry would seem to afford a more useful perspective of the growth process than a general survey of national policies and plans. Private industries merit our study because they are the building blocks of the Philippine economy.

The industrial development of the 1950's has been an abrupt, new phenomenon on the Philippine scene concerning which surprisingly little is known. The new industries have little linkage with the past. They have been started on a relatively large scale by new groups of entrepreneurs, transitionals, motivated by apparently new aspirations. This transforma-

tion requires analysis while the process is still occurring, not only to facilitate better understanding for its own sake but to evaluate the inducement mechanisms employed for the practical purpose of improving them.

The social scientists who have studied the Philippines have concentrated little attention on the process of industrial development. The economists have preferred to analyze macroeconomic problems such as trade patterns, for which the raw materials of analysis, economic statistics, were readily available. The sociologists and psychologists have largely ignored the urban process of industrialization, in order to examine the cultural and social changes occurring in the rural areas. Relatively little is known about the factory labor force, which is experiencing the most dramatic social change in the country, and only recently has the key figure of the industrial entrepreneur come under scrutiny.

The selection of the textile industry as the subject matter of the study was based on two primary considerations. Firstly, the Philippine experience in textiles was considered to be of possible relevance to other nations desiring to embark on industrialization programs. The textile industry is generally considered a natural starting point. It is believed to be high in labor intensiveness, although technical employee requirements are low, and relatively low in capital intensiveness; the finished product is a low-cost consumable commodity with an almost universal market.

The second reason is simply that a textile industry existed in the Philippines where several years before there had been none. In 1959, at the time of this study, the textile industry was one of the Philippines' most conspicuous examples of rapid and forced growth; it had almost reached the point of satisfying the national requirements for textiles. The government clearly endorsed the industry's success and prided itself on its

achievements. The industry had received benefits from a variety of governmental assistance programs and seemed to afford a good opportunity to evaluate their effectiveness in action. Once the decision had been made to study a developing factory industry, one of significant magnitude ando established prestige in the Philippines, then the textile industry became a natural choice.

Since the term, textile industry, embraces a wide scope of activities relating to fiber and cloth production, it is necessary to limit the scope of this study. The analysis is restricted to the integrated steps in the production of cotton fabric. This process starts with the cultivation of raw cotton, continues with the spinning of cotton into yarn and the weaving of yarn into grey cloth; it concludes with the finishing of grey cloth into bleached, dyed and printed fabrics. This definition excludes synthetic textile manufacturing which shares a common production technique but has certain unique problems. It also excludes knitting and hosiery mills, industrial textiles, and garment manufacturers.

The methodology of the study is primarily empirical and the research was conducted in the Philippines on a Fulbright grant in 1959-60. As the first industry study of this nature in the Philippines, there were no methodological precedents to follow. The principal problem was the paucity and unreliability of economic statistics on an industry basis. Since there were only 28 companies in the industry, the initial approach involved constructing quantitative measurements from data voluntarily supplied by the individual firms. The industry entrepreneurs generally welcomed such inquiries, with warm hospitality and encouragement, but, in spite of assurances of confidence, their responses excluded certain decisive areas of information. The most crucial data for a comprehensive

industry study could not be obtained on a wide enough basis for trustworthy presentationo-- production volume, prices, coats, financing, profits. The disappointing quantitative results of this approach were aggravated by the apparent agreement of the respondents to supply the requested data and the writer's failure to recognize this as traditionally evasive circumlocution.

Efforts to obtain quantitative data were finally shifted to governmental and private agencies external to the industry. Statistics from these sources were subject to at least three possible errors. Although firms are required to report statistical data to public agencies for many reasons, the means to enforce adherence to these requirements are quite ineffectual and reporting is irregular. For instance, when the Central Bank's Department of Economic Researchostates that textile production equaled so many million yards, it really means that this is the output of reporting firms. Secondly, firms may intentionally misstate information in order to enhance their positions with the respective government agency; they may even present conflicting data elsewhere, confident that the lack of governmental coordination will prevent detection of the inconsistency. Finally, statistics are often unreliable because of honest reporting mistakes, caused particularly by the absence of accurate information in the firm or ambiguity in the nature of the data requested. The quantitative material in this study is subject to all of these possible inaccuracies. Much effort has been devoted to appraising the validity of the statistical material on the industry and selecting that which under the circumstances seemed most reasonable, but this process has left room for legitimate disagreement.

The inadequacies of the quantitative data compelled shifting emphasis to the qualitative approach which is used in this study more than originally

intended. The qualitative material is based upon hundreds of interviews in the Philippines with representatives of the industry, trade unions, the Central Bank, the Department of Labor, the Securities Exchange Commission, the National Economic Council, the Industrial Development Center, the International Cooperation Administration, the Department of Commerce and Industry, trade associations, financial institutions, political parties, and many others. The study traces the development of the textile industry to the end of 1959. The writer has not attempted to appraise events in the industry subsequent to his departure from the Philippines. Although there are occasional references to events in 1960, the analysis concerns the industry as it existed in 1959.

This study has four primary objectives:

(1) To ascertain the forces which caused the textile industry to emerge so abruptly in the Philippines. The economic atmosphere and historical precursors of the industry will be described. Then the various governmental inducement mechanisms will be evaluated in relation to the response of the private entrepreneurs who established the industry.

(2) To weigh the seriousness of three bottlenecks posited by the theory of economic development as impediments to industrialization in the lesser developed nations -- the shortages of capital, managerial resources, and a skilled labor force. The textile industry will be examined in each of these three problem areas.

(3) To evaluate the social and economic contribution of the industry as opposed to the efficiency of its operations. Its production costs and productivity will be compared toiinternational standards, on the one hand, and its significance as an import saver and labor absorber will be considered on the other. Finally, the industry's future prospects and value

to the Philippine economy will be appraised.

(4) To provide a case study of a new industry in a developing country, which, as a standard of comparison, might further understanding of the growth process and the formulation of economic policy, both in the Philippines and in other countries encouraging industrial development.

CHAPTER II

POSTWAR PHILIPPINE ECONOMIC SETTING

The ravages of war were as severe in the Philippines as in any other country of Southeast Asia. The archipelago stood on the threshold of independence in 1946 with its capital city and productive capacity substantially destroyed. The immediate economic problem was to secure funds for the rehabilitation of the country, but a more fundamental issue in 1946 concerned the continuation of the highly preferential access to the American markets for Filipino exports. Even before the battle of Manila Bay the United States was the principal market for Philippine sugar and hemp, but it was during the inter-war period of free reciprocal trade that a structural accommodation of the economy to American commercial opportunities occurred. The economy became geared to the production of three primary cash cropsi-- sugar, abaca and coconut products, almost all of which were exported to the United States. i The prewar Philippine economy in many respects resembled a colonial dependency, providing the mother country with raw materials and serving as a market for its manufactures. American tutelage and comparative advantage, however, materially benefited the Philippines, which enjoyed the highest literacy rate and standard of living in Asia during this period.

The finali crucial years of the Commonwealth Period were years of occupation by a hostile force rather than economic acclimation to the world scene. In 1946 Filipinos and Americans debated whether an extension of free trade was imperative for postwar recovery, or whether it would perpetuate a type of colonialism, incompatible with genuine recovery through diversified growth. The former argument found expression in the

United States-Philippine Trade Agreement in 1946, which with the passage of the American Rehabilitation Act of 1946, represented the principal external determinants of the Philippine economy during the following years. The Trade Act provided for the gradual imposition of tariffs and declining duty-free quotas after a free-trade period of eight years, but this was postponed in 1955. The new republic thus emerged in 1946 with a crippled economy and prospects of continuing dependence upon United States' markets, although this relationship seemed to provide the most rapid avenue to reconstruction.

By 1950, generally considered the end of the wartime rehabilitation period, it was evident that the postwar import surpluses were not transitory and the Philippines had a fundamental disequilibrium in its balance of payments. This was caused by the "demonstration effect," the emulation of Western consumption patterns and the demand for foreign goods, as well as the stabilization of the peso at a level above the prewar and American price levels. The peso was overvalued at its prewar parity of two to the American dollar. The excess of imports helped bridge the gap between the swollen postwar purchasing power and the reduced domestic supply of goods, but it strained the comfortable international reserve position built up before the war. The relative composition of exports changed but the components were the prewar cash crops and they failed to rise as rapidly as imports. A drastic fall in international reserves in 1949 prompted the imposition of exchange controls, which remained in force throughout the 1950 decade and greatly influence its course.

Foreign trade and the balance of payments were the country's most conspicuous economic problems in 1950 because of the unsatiated demand for imports, the secular decline in demand for several exports as well as the improved position of competitors, the decline in American rehabilitation

expenditures, and the anticipated loss of the preferred United States' market. Nevertheless, foreign trade's relative importance to the economy had significantly diminished. The percentage of exports to gross national product fell from 25 in 1938 to 10 in 1951 and imports droppedi from 22 in 1938 to 11 in 1951.[1] The chronic deficits could be immediately curbed by exchange control, but it became increasingly evident that the fundamental problems were internal and more recalcitrant.

It is commonly observed that the Philippines is amply endowed with basic resources, but its level of economic development is low in relation to its potential. The economy is characterized by the peasant agriculture of the provinces, with its small freeholds or tenancies, absence of mechanization, and low productivity. Only a small fraction of the crops is sold for cash, so although the use of money is universal its limited quantity narrows the market. Economic activity has been largely extractive with emphasis on subsistence farming, plantation growing of cash crops,i forestry, mining and fishing. Conspicuous consumption of a ritual nature in the barrios and extension of prestigious landholdings by the landlords absorbed whatever surpluses were produced and restricted more productive investment to foreign capital.

Prior to 1950 manufacturing activity was negligible except fori handicrafts, some processing plants, and government subsidized mills. Free trade, the limited market, inadequate transportation, high domestic labor cost, and preference for foreign goods were all obstacles to the industrialization considered necessary for economic independence.

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[1]Amado A. Castro, "The Philippines: A Study in Economic Dependence" (unpublished Ph.D. dissertation, Department of Economics, Harvard University, 1954), p. 175.

The per capita annual income of $200[2] concealed great extremes between the peasants and the landowners, on the one hand, and the rural and urban areas on the other. The former contrast, accentuated by widespread tenancy and regressive taxation, was the basis of the major class distinction, with the landlords and hacenderos occupying the stratum of peak social and political power. The rural-urban contrast contained a difference in a mode of life as well as a standard of living, for the burgeoning population of Manila was confronted with the non-personal face of the West.

In 1950 the unsatisfactory economic situation was being aggravated by the multiplying population, which at an annual rate of increase of over 3% was to reach 27.5 million by 1960. In the 1930's, as the remaining lowland frontiers were cultivated, unemployment appeared as a problem which was to grow to acute proportions after the war. The increasing population has not altered the historic ratio of labor input per hectare. Population had been absorbed by a mitotic growth of similar factor units until the frontier became more impenetrable and increasingly shunted the new workers into positions of underemployment in the barrio or unemployment in the city. It is currently estimated that from 100,000 to 150,000 new workers enter the labor force annually, and the "guesses" on under and unemployment range up to over 25% of the workforce. The lack of rural opportunities has been pushing job seekers to Manila, the primate city over ten times the size of its nearest rival, where the swollen ranks of the jobless constitute one of the country's prime problems.

By 1950 production was restored to approximately its prewar level,

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[2]Norton Ginsburg, Atlas of Economic Development (Chicago: University of Chicago Press, 1961), p. 18, citing The Research Center in Economic Development and Cultural Change of the University of Chicago, The Role of Foreign Aid in the Development of Other Countries (Washington: U.S. Government Printing Office, 1957).

and rising wages and stabilized prices had benefited the working classes. Nevertheless, serious problems existed -- the high unemployment, chronic international disequilibrium, rural poverty, and uncertainty whether growth rates could be maintained. In that year the Bell Report of the American Economic Survey Mission warned:[3]

> Economic conditions inithe Philippines are unsatisfactory. The economic situation has been deteriorating. ... Unless positive measures are taken to deal with the fundamental causes of these difficulties, it may be expected that the economic situation will deteriorate further and political disorder will inevitably result. Whatever is done to improve economic conditions in the Philippines must be done promptly....

Industrialization had long been advocated by Filipinos and Americans, but during the next years it received renewed emphasis as a solution to the related problems of colonial dependence, disequilibrium, and unemployment. The textile industry was among the beneficiaries of the industrialization policies adopted during the 1950's. But before continuing with a description of the industrialization program, three particular aspects of the postwar environment should be singled out for attention -- the socio-economic and cultural setting, the emergence of a transitional group of Filipinos, and the significance of economic nationalism.

(1) Socio-economic and cultural background -- The basic characteristic of Philippine society is its familial organization which pervades all aspects of Philippine life and affects all development efforts. The nuclear family is extended bilaterally from each partner to embrace a wide but amorphous group of kinsmen. Interpersonal friendship outside of the familial system is uncommon, and where it develops among adults, ritual kinship is used to

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[3] Report to the President of the United States by the Economic Survey Mission to the Philippines (Washington, D. C., October 9, 1950), 1.

adopt the outsider as a compadre. The Filipino's social orientation and allegiance are directed to his bilateral family rather than to his community or society in general. Religious activity centers on the home; the rural production unit or urban corporation is a family enterprise. The duty of family support makes nepotism a positive virtue. The family determines status, assigns responsibility, gives security, and requires loyalty. According to a prominent anthropologist in the Philippines, if it were necessary "to use one phrase to describe the larger Filipino society, it would be: an anarchy of families."[4]

Within the nuclear family is a hierarchical structure based on age and generation. But the family is laterally extended to include dozens, even hundreds, of kinsmen, and the Filipino's social life can be essentially restricted to them. The group of kinsmen is not clearly defined, for it can be expanded outward to an indefinite degree, but it limits the Filipino's sphere of confidence. Beyond is the outer world of non-kinsmen where he is insecure and without status. In the rural areas contact with non-kinsmen can be minimized.d Where interpersonal relations are necessary, one's self esteem can be preserved by linguistic mechanismswhich superficially bridge the social gap, such as euphemisms and circumlocation. The job seekers and factory workers in the city, however, are subjected to the cultural conflict of frequent interaction with non-kinsmen.

Leadership traditionally has depended on wealth, as measured primarily by landholdings, size of one's kinsmen following, age and personality. Prestige stems from land not only because of the wealth it represents but because of the personal power it affords over those dependent upon it. Land

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[4]Robert B. Fox, "The Study of Filipino Society and Its Significance to Programs of Economic and Social Development," Philippine Sociological Review, VII (January-April, 1959), p. 6.

ownership normally implies various reciprocal responsibilities and favors between landlord and tenant or hacendero and worker. An important aspect of this relationship traditionally has been political. Control of land involved the control of votes which were used either for personal political ambition or pledged in a mutually advantageous way to another. Political power then was perpetuated by a distribution of wealth, largely through pork-barrel appropriations and job distribution. Because the family is bilaterally and widely extended, there are no fixed leaders and conflicts of loyalty are possible in overlapping circles. Leadership is personalized rather than ideological: parties are fragile and temporary. Political ambition is widespread among the higher class because of its prestige and opportunity for gain, but success depends on the ability to distribute material benefits to the familial groups allied in one's support.

The identification of land and prestige has caused a stratification of society into two distinct classes, with a middle class only recently emerging in Manila. The relationship between the two classes was strictly maintained by a paternalistic system of reciprocal responsibilities, and upward mobility was restricted to urban opportunities, facilitated by educational achievement.

These oversimplified generalizations are presented because of the significantly adverse effect social and cultural factors may have upon economic development in the Philippines. Family values are not capitalistic values. Frugality, for instance, is considered selfish, and ritual extravagance and sharing are highly regarded. Group responsibility for family members provides security at the expense of initiative, for the results of productive effort are so leveled that self interest is stifled. The family structure discourages individual decision making and limits economic horizons. A

family enterprise could not normally share responsibility with non-kinsmen investors or professional managers. The attitude toward land limits more productive capital formation. These factors are not as readily identifiable as the shrinking international reserve or the shortage of industrial engineers, but they are considered real obstacles to industrial growth. The developing textile industry has been able to modify aspects of this social and cultural background in certain respects but in others has had to accommodate itself to it.

(2) The emergence of a transitional group[5] -- Prior to the war the wide gap between the wealthy landowners and the masses of peasants was filled by only a small middle class in Manila, consisting mostly of teachers, professionals, and government workers. Commercial interests were largely controlled by the unassimilated Chinese, both in the capital and the provinces. The middle class which did exist lacked a middle class mentality. Its frame of reference was often the conservative value system of the landed aristocracy, which supported this group and was, in turn, represented by it. Open educational channels permitted free entry into the middle group from the lower classes, who viewed it as an escape from manual labor into the higher prestige of white collar and office jobs.

This middle class did not initially originate in an atmosphere receptive to economic change, but underlying forces in the economy are gradually weakening the traditional value system and slowly transforming the middle class perspective. Vast increases in public and private education are augmenting the reservoir of the middle class in Manila. The pressures of unemployment, increasing monetization of the economy, and improvements in communications

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[5]See especially, Thomas R. McHale, "Philippines in Transition," Journal of Asian Studies XX (May, 1961), 331-34.

all have drawn or pushed portions of the populace away from the historic security of subsistence agriculture and permitted new identifications of interest. This isomanifest in the growth of Manila which has yielded external economies of a social character which reinforce the evolutionary process.

Independence has enhanced the educated public's image of industrialization, for it is increasingly viewed as a liberating force from the stigma of colonialism and a panacea for the problems of poverty and unemployment. The social effect of industrialization is cumulative. Wealth acquired in industry establishes an alternative prestige pattern, much more open to newcomers, and the interpersonal associations necessary for its success are becoming more normal in the social organization of Manila.

Many of the entrepreneurs in the textile industry have been Chinese and this crucial change in attitude has not been directly relevant to them. Nevertheless, the transitional elements in the society explain not only the Filipino entrepreneur but the expanding group of Filipinos seeking careers in manufacturing management, as well as the forces behind the growing economic nationalism.

(3) The significance of economic nationalism[6] -- Economic nationalism is the broad objective of Filipinizing the economy, which has historically been dominated by foreigners. Americans have been the principal exporters from the Philippines, but the Chinese, roughly one percent of the population, have imported the bulk of goods entering the country and then controlled their domestic distribution. It is commonly believed that the Chinese handle 80% of the domestic trade, including practically all of the

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[6]See especially ProfessoroF. H. Golay's chapter on "Economic Nationalism," in The Philippines, Public Policy and National Economic Development (Ithaca, N. Y.: Cornell UniversityoPress, 1961), pp. 312-45.

country's textile consumption. Economic nationalism is an anti-alien policy, but by popular definition alien is equated with Chinese. Although legislation cannot single out the Chinese as aliens, discriminatory enforcement is common.

The Chinese have traded and lived in the Philippines for over one thousand years, and Philippine history carries repeated accounts of their persecution and the efforts of Filipinos to usurp their economic functions. The anti-Chinese policies, however, failed to halt the vigor of their success, which over the centuries has antagonized the Filipinos lacking in the abilities necessary to duplicate it. Among the reasons for the superiority of the Chinese have been their frugality and regular reinvestment patterns, aided by effective Chinesedbanking facilities and cooperative associations, as well as their diligence and business acumen.

Economic nationalism directed against the Chinese, therefore, has historic antecedents, and it is not surprising that with the removal of American restraints a resurgence of it was manifest in the new republic. Nationalism provided the intellectual with an emotional cause, the politician with a vehicle for favorable notoriety, and the aspiring Filipino businessman with a possible shortcut to wealth. Its appearance after 1946 was directly related to the new control which Filipinos gained over their economy. Legislation was passed to nationalize the marketing of agricultural products and the retail trade, areas of strong Chinese control, and these acts partially stimulated the background integration of the traders. By specific mandate the import and exchange control laws were implemented to combine the objective of conserving exchange and Filipinizing the economy, and allocations to aliens were drastically curtailed. This also forced aliens to shift to manufacturing or purchase exchange licenses from "dummy" Filipino businessmen. Nationalistic goals are reflected in a variety of

other areas such as the exploitation of national resources and the securing of tax exemption privileges for "new and necessary industries."

Economic nationalism is embodied in diverse ways but it is a social reality, transcending the narrow definitions of citizenship. It is shared by the average Filipino who is aware of his dependence on the Chinese merchant and suspicious that this is not compatible withonational independence. Although frequently nationalism is motivated by the pervasive social and political influence of the United States, its economic ramifications are primarily directed against the Chinese "stranglehold" on the economy.

Like economic nationalism, industrialization has a long history in the chronicles of Philippine thought, but formal efforts towards its realization have been equally unsuccessful. It is likewise not surprising that as the postwar reconstruction period neared completion, Filipinos looked hopefully toward industrialization for a solution to the nation's conspicuous economic ills. Optimistic beliefs that the Philippines might take Japan's place of economic primacy in the Far East were not materializing. Not only was the colonial-type dependence upon a few cash crops restored, but new problems of serious unemployment, import deficits, and the imminent close of the American market had appeared. Industrialization is attractive because it represents a neat solution to all of these problems simultaneously.

Like economic nationalism, the objective of industrialization is not officially formulated as a statement of public policy to be implemented by a coordinated national effort. In the Philippine democracy, with its dispersion of authority and emphasis upon personalities, no such centralized planning has been possible. But the goal of industrialization is also a reality, socially and politically; it exists in the national consciousness.

The efforts to realize this objective are uncoordinated but they have a common direction. The statement, "the Philippines has embarked on a program of industrialization," means that industrialization has gained sufficient acceptance for it to be considered a national goal, which a variety of laws and governmental agencies are encouraging. Consequently, it is not possible to date the beginning of an industrialization program in the Philippines, although it received increasing emphasis as the 1950 decade progressed.

Autarky is generally considered one of the goals of an industrialization program. National self-sufficiency is a political as well as an economic objectivei According to the Director of the Institute of Economic Development and Research, University of the Philippines:

> On economic grounds there can hardly be any doubts as to the desirability of economic independence; it is essential if the Philippine economy which is highly oriented towards foreign trade is to remain stable and unaffected by outside fluctuations. And on political grounds the justification is even greater....
>
> Even granting a loss of specialization and efficiency there is the cold dilemma of security vs. great gain: the country may prefer a stable income at a lower level to highly varying returns.[7]

The emphasis has not been placed upon productive efficiency or costs as gauged by international standards. There have been few reliable governmental analyses of the absolute money cost differentials between the Philippines and other countries. Autarky, employment generation, import savings have been the goals. Filipinos share the American attitude toward low Oriental wages and their effect upon competition. Filipinos consider their labor cost to be high in relationship to their geographical surroundings. This assumption prevents illusions about exporting manufactured goods into the Asian market and justifies protection as a necessary condition of self-sufficiency. High labor costs and these consequences are, however, considered a justifiable

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[7]Castro, pp. 6, 390.

price to pay for the country's high standard of living vis-a-vis its neighbors.

Government support of industrialization has taken many forms,o but its most deliberate has been direct participation in manufacturing on a temporary basis to break theopathway for private industry.o Government corporations have engaged in a broad range of activities from actual productioon in such basic industries as steel, textiles, and cement to the control of utilities and transportation companies, and the development of lowocost housing. Nevertheless, Filipinos have little faith in state socialismo There is almost universal adoption of the American distrust of governmental efficiency and belief in the inherent superiority of private enterprise. The economy is essentially based upon private enterprise, and the public sector is relatively small. Consequently, the government corporations operate in an atmosphere of debate concerning their value. Their function is to pioneer in essential areas only until private capital is willing and able to assume the responsibility.

Other aspects of the government's industrialization policy have been indirect, such as the promotion of financial institutions, and the use of Japanese reparations and American foreign aid for the benefit of domestic industry. The most important in the 1950ós were the related benefits for "new and necessary industries" -- tax exemption, preference in dollar allocations, and the import windfalloaccruing from the overvaluation of the peso.

As the 1950ós progressed the tempo of manufacturing increased. Light industries, some merely packaging plants, skirted the city of Manila and accentuated the nationós extreme urban centralization. The diversity in production helped turn the direction of trade away from the United States, which was still the dominant trading partner, but exports to Western Europe

and Japan increased substantially. The composition of imports changed under the control of the Central Bank as consumer goods fell and capital goods rose in importance. The growing manufacturing sector, however, was still small and the structural changes necessary to solve the fundamental problems of poverty and unemployment were still awaited. There was faith, but inadequate objective substantiation, that industrialization was the final panacea.

This was the setting in which the textile industry developed.

CHAPTER III

HISTORICAL DEVELOPMENT OF THE INDUSTRY

It is necessary to examine the varied antecedents of organized textile manufacturing in the Philippines in order to evaluate its modern development and problems. This chapter, therefore, begins with a description of the cottage industry and the market-creating effect of textile imports. The history of public participation in textile manufacturing is traced, and then the rapid response of private entrepreneurs to the stimulus of exchange and import controls is described. Finally, the Philippines' raw material position is explained and the economics of domestic cotton cultivation are considered.

This chapter is designed to serve as an empirical introduction to the cotton textile manufacturing industry and to the more detailed analysis of specific aspects of the industry in subsequent chapters.

Cottage Industry - An Historical Survey

During the pre-Mohammedan period, the Filipinos' simple clothing requirements -- breechcloth and shortsleeved jacket for men and unsewn skirt for the women -- were satisfied by the cottage spinning and weaving of local cotton, abaca, banana, and pineapple fibers.[1] Sometime as early as the 13th century, however, production for use shifted to production for trade. The specialization of different geographic areas on certain fabrics and styles was stimulated by the growing barter trade with China, and even before the Conquest, comparative advantage in cotton production apparently

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[1] Alfred L. Kroeber, Peoples of the Philippines (New York: American Museum of Natural History, 1943), pp. 129-137.

was centered on the mainland.[2]

Early hopes of the Spanish to develop textile manufacturing for export to New Spain (Mexico) were frustrated by the accelerated influx of Chinese cloth and the greater potential of the entrepot trade. The fortunes of the Manila community grew dependent on the perilous galleon voyages, carrying highly compact and luxurious goods, particularly Chinese silks, to Acapulco.[3] Although an "Ordinance Forbidding the Indians to Wear Chinese Stuff" was issued in 1591 to help halt the decline in local weaving, the Spanish emphasis was clearly upon foreign commerce and religious conversion rather than industrialization.[4] Following the example of their national hero, Joze Rizal, Philippine historians describe an industrial decline during the Spanish period, which they attribute to certain abuses of the colonial administration. In textile manufacturing, however, these causes were apparently subordinate to the workings of international trade.

By the 19th century when Manila was formally opened to world trade, an absolute cost difference in textile manufacturing was probable because of the Philippine's specialization in plantation crops and the increasing productivity of the organized textile industry in Europe. By the time of the first Spanish import statistics available (1894), textiles were being imported in large quantities,[5] and no marked increases are apparent in the American import records of the 20th century.

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[2]David Bernstein, The Philippine Story (New York: Farrar, Straus, 1947), p. 31.

[3]William L. Schurz, The Manila Galleon (New York: S. P. Dutton & Co., Inc., 1959), pp. 32-45.

[4]Jaime V. Alverez, "The Philippine Textile Industry" (unpublished Master's thesis, School of Business, University of the Philippines, 1953), p. 13.

[5]1894 imports, 33% of total imports, came principally from Spain and the U.K. Murat Halstead, The Story of the Philippines (Chicago: Our Possessions Publishing Co., 1898), p. 105.

By the time of the American period, more accurate customs data verified the high dependence upon textile imports. Per capita imports of cotton cloth, 6.5 square yards, in 1912 are only slightly below the currentdestimates of total consumption of 7.3 yards.[6] In spite of its minor contribution to national textile requirements, cottage industry activity continued to be prevalent. The 1903 Census listed 569,906 "spinners and weavers".[7] Most agricultural jobs have extended intervals of inactivity and 40% of Filipino workers and farmers are estimated to have secondary occupations, generally performed in the household unit.[8] Butdthe crude spindles and looms had low productivity and were frequentlydidle; in a survey of Ilocosd Sur during the American period, two thirds of the looms were inactive.[9] There were secondary causes of the decline in cottage industry production duringdthe American period, but the major shift haddoccurred in prior centuries.[10]

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[6]The data on imports in Table 1 indicate over 65 million square yards of cotton cloth imports in 1912, when population was below 10 million. See page for current consumption estimates.d Furthermore, not over 15 million square yards of cotton clothdcould have been produced locally in 1912, given the available sources of raw cotton and yarn, thus confirming the relative decline of the cottage industry sector. The assumptions for the calculation ofdcottage industry production in 1912 are as follows: 328,000 kilos of raw cotton weredimported and an estimated 150,000 kilos of raw cotton were grown locally, one kilo of cotton can be spun into only .8 of a kilo of yarn becausedof shrinkage and wastage, 1,789,000 kilos of yarn were imported, 80% of total yarn supply was utilized for weaving purposes, and one kilo of yarn can be woven into 8.8 square yards of cloth.

[7]Hamilton M. Wright, A Handbook of the Philippines (Chicago: A. C. McClurgdand Co., 1909), p. 388.

[8]Area Handbook on the Philippines (New Haven, Conn.d Human Relations Area Files, 1956), p. 1284.

[9]Alverez, p. 28.

[10]Cheap Japanese textile imports in the thirties caused a fall ind Ilocano cotton cultivation and weaving. Area Handbook, p. 1702d There is a purported relationship between the decline of Ilocano textile production and the cultivation of tobacco in this region which is difficult toddate. Andearly Americandwriter reporteddthat dIlocanodcotton production had declined because the Spanish authorities preferred todhave the natives growd

(continued on p. 24)

The sectors of the cottage industry which have survived to the present are geographically localized and concentrated upon the production of specialized articles such as mosquito netting or blankets or terry cloth. Domestic production of standard cotton fabrics resembling the machine-made cloth is very small. Modern cottage industry suffers from special problems such as the high price of yarn, the narrowness of the cloth, inferior dyes, monotonous designs, the mysterious fall in local cotton production, and low earnings compared to agriculture. Marketing is principally done in the regional areas of production, but there is some inefficient peddling of wares in other provinces; in either case middlemen raise prices to levels which are frequently noncompetitive.[11]

After 1946 the new republic recognized the dollar-saving and labor-intensive potential of native weaving and attempted to encourage home industry in a number of ways, including the National Development Company's (NDC) spinning mill in Ilocos Sur, designed to provide low cost yarn for domestic weavers.[12] The NDC established a training school for cottage textile workers and in 1952 a more efficient loom for home use was introduced, although few could afford the P 100 purchase price. In spite of this interest, there are no records or available estimates of production and no way of gauging the success of cottage industry, except by varied

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10 (continued from p. 23)
tobacco but as late as 1958 the NDC partially attributed its low yarn sales to a shift of Ilocano weavers into tobacco growing. Dean C. Worcester, The Philippine Island and Their People (New York: The Macmillan Company, 1899), p. 505, and National Development Company, Annual Report of the General Manager for the Fiscal Year Ended June 30, 1959 (Manila), p. 33.

11 Alvarez, p. 38.

12 A U.N. expert advocated the expansion of home weaving as preparation for factory textile jobs; none of the textile mill managers have favored such a practice. Lysbeth Wallace, Hand-weaving in the Philippines (New York: United Nations Technical Assistance Program, 1953), p. 3.

statistics showing that the number of cottage industry workers continues to be significant. The 1939 Census listed 91,299 in weaving,[13] and a post-war survey indicated that 44,000 households were engaged in some domestic production of fabrics or wearing apparel, with 58% of the families grossing under P 100 for their work.[14] But a United Nations technician reported the existence of only about 4,000 wooden looms in the Ilocos region and about 14,000 looms located elsewhere for the weaving of other fibers.[15] In addition to the home production there are a number of small spinning and weaving mills which use the non-automatic, native equipment; in 1955 there were 13 such enterprises with from 5 to 10 workers, 7 with 11 to 20 and 3 with 21 to 50, although some of these groups were engaged in producing textiles other than cotton.[16]

Although there is some idealized nostalgia for the vanished state of village self sufficiency, there is no ideological commitment to cottage industry, as there is in India. More common is the contrary belief that cottage industry production of textiles is an anachronism in the modern Philippines.

Imports and the Creation of a Market

Table 1 traces the imports of cotton textiles into the Philippines from early in the American period until 1959 and shows textiles' significant position in the total import pattern; the dollar value of cotton

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[13] Area Handbook, p. 1603.

[14] Philippine Statistical Survey of Households, "Demographic and Socio-Economic Data," No. 2, Vol. 1 (Manila: Bureau of Census and Statistics, May, 1956), pp. 20-26.

[15] Wallace, pp. 4-17.

[16] Directory of Key Establishments in the Philippines in Selected Non-Agricultural Industries. (Manila: Department of Labor, 1956), p. 67.

TABLE 1[1]

IMPORTS OF TEXTILES INTO THE PHILIPPINES
(Quantity in 000s, value in 000 pesos)

		1959		1958	
		Qty.	P Value	Qty.	P Value
1	Cotton and Manufactures				
2	Raw Cotton (Kgs.)	23,165	28,407	12,755	16,931
3	Yarn (Kgs.)	4,358	9,893	4,496	12,650
4	Thread (Kgs.)	239	1,004	361	1,941
5	Cloth (Sq. Yds.)	77,343	37,050	65,561	37,290
6	Remnants		6,147		10,829
7	Garments		1,183		264
8	Knitted Fabrics & Others		1,967		17,738
9	Total: Cotton Textiles		85,651		97,643
10	Rayon and Synthetics		15,266		11,714
11	Jute and Other Fibers		6,465		6,798
12	Flax and Linen		3,380		2,307
13	Wool and Others		27,020		27,937
14	Total: All Textiles		137,782		146,400
15	Total Imports: All Products		1,041,924		1,106,558

		1950		1948	
		Qty.	P Value	Qty.	P Value
1	Cotton and Manufactures				
2	Raw Cotton (Kgs.)	2,688	3,493	5	4
3	Yarn (Kgs.)	916	1,605	742	1,913o
4	Thread (Kgs.)	n.a.	n.a.	n.a.	6,975
5	Cloth (Sq. Yds.)	73,143	38,670	116,d16	75,294
6	Remnants		6,043		14,250
7	Garments		4,427		10,316
8	Knitted Fabrics & Others		13,274		28,469
9	Total: Cotton Textiles		74,476		137,221
10	Rayon and Synthetics		32,053		105,069
11	Jute and Other Fibers		11,202		13,715
12	Flax and Linen		462		696
13	Wool and Others		1,908		5,674
14	Total: All Textiles		120,102		262,376
15	Total Imports: All Products		712,359		1,136,409

		1930		1925	
		Qty.	P Value	Qty.	P Value
1	Cotton and Manufactures				
2	Raw Cotton (Kgs.)	18	6	n.a.	n.a.
3	Yarn (Kgs.)	1,240	1,428	1,340	2,455
4	Cloth (Sq. Yds.)	84,009	23,289	n.a.	40,298
5	All Others		12,303		n.a.
6	Total: Cotton Textiles		37,026		55,196
7	All Other Textiles and Fibers		n.a.		13,067
8	Total: All Textiles				68,263
9	Total Imports: All Products		246,186		239,466

[1] Data for 1959-1940 from records of the Bureau of Census and Statistics and for 1933-1912 from the reports of the Insular Collector of Customs. Missing information is indicated by n.a. for "not available".

1956		1954		1952	
Qty.	P Value	Qty.	P Value	Qty.	P Value
4,834	7,162	1,357	2,251	1,342	2,213
5,702	16,414	4,266	14,055	1,861	6,554
618	3,614	n.a.	4,768	n.a.	3,850
123,308	54,763	138,903	69,589	104,009	59,741
	8,350		10,063		12,449
	449		3,781		3,247
	1,810		23,264		18,754
	92,562		127,771		106,808
	21,109		38,185		50,185
	4,431		6,160		13,349
	3,359		3,338		1,982
	27,328		2,517		2,447
	148,785		177,971		174,772
	1,019,215		903,271		852,224

1946		1940		1935	
Qty.	P Value	Qty.	P Value	Qty.	P Value
n.a.	454	1,132	579	44	24
n.a.	391	1,418	1,036	1,328	1,015
n.a.	5,462	n.a.	8,054		
83,360	52,230	117,137	20,483	113,325	20,009
	6,180o		2,810		
	23,227		n.a.		
	6,532		1,177		9,461
	94,476		34,139		30,509
	29,649		8,620		
	4,461		5,292		n.a.
	228		768		
	3,351		2,864		
	132,166		51,684		
	591,716		269,462		171,048

1920		1915		1912	
Qty.	P Value	Qty.	P Value	Qty.	P Value
95	152	357	162	328	98
1,477	4,197	1,374	1,161	1,789	912
68,856	50,142	97,502	17,283	65,047	5,790
	14,867		5,199		15,438
	69,359		23,805		22,238
	12,730		3,309		n.a.
	82,089		27,114		
	298,877		98,624		123,336

textiles ranged from 24% of all imports in 1915 to 13% in 1940, by which time the NDC mill was in production. Imports of such magnitude can play a significant role in inducing industrial development, as Professor Hirschman has pointed out:

> /Imports/ provide the safest, most incontrovertible proof that the market is there. Moreover, they condition the consumer to the product, breaking down his initial resistance. Imports thus reconnoiter and map out the country's demand; they remove uncertainty and reduce selling costs at the same time, thereby bringing perciptibly closer the point at which domestic production can economically be started.[17]

The early American residents in Manila recognized these possibilities. "One has but to glance at the imports to realize the opportunities for /textile/ factories," reported one observer who argued that locally manufactured textiles could be used to "clothe the people of the Philippines and the millions of poorer folk of British India and the teeming islands of Oceania."[18] But although the physical "domestic production threshold" must have been passed by the turn of the century, factory manufacturing did not begin until the late thirties and private enterprise remained uninterested until almost fifteen years later. One of the tasks of this study is to evaluate why the response to the import catalyst was so delayed when unemployed resources of labor and capital existed in the country.

Some general and preliminary reasons for the indifferent attitude of the three principal participants -- Filipinos, Americans and Chinese -- toward textile manufacturing may be presented at this point. The traditional value system channeled Filipino wealth into land ownership and conspicuous consumption rather than industrial activity. Private American

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[17]Albert O. Hirschman, The Strategy of Economic Development (New Haven: Yale University Press, 1960), p. 121.

[18]Wright, pp. 255, 261.

entrepreneurs were motivated by free trade with the United States to specialize in production areas in which the Philippines enjoyed a definite comparative advantage. Although the source of textile imports shifted from Europe to the United States after the islands became an American territory, there is no evidence of American pressure at home to discourage Philippine textile production in order to retain a market. The resilient Chinese developed and controlled the apparatus for marketing textiles in spite of the harshness of intermittent persecution. The logic of comparative cost, coupled with free American trade, must have influenced them, as well as the historical preference of the Chinese in the Philippines for the flexibility of trade as opposed to the precarious long term commitment of industry.

If the Chinese did not push into manufacturing, they did create the marketing structure for the distribution of textiles and over the decades, and perhaps centuries, they helped create a taste and demand for foreign fabrics. But the Chinese marketing system is inefficient and the costs of distribution are high according to Western standards. Textile imports come almost exclusively through the port of Manila to the hundreds of foreign wholesalers there, principally Chinese; they then sell to provincial middlemen who job goods to the small stores or tiendas in the towns or barrios. Textiles are sold at regular markets and hacienda stores, as well as by itinerant peddlers who erect little booths at fiestas.[19] The retail outlets for textiles are marked by their abundance and slow turnover of inventory; a 1939 survey indicated 161,598 retail units selling textiles, among other things, with 513,900 employees and gross receipts per employee

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[19] Bureau of Census and Statistics, Yearbook of Philippine Statistics, 1946 (Manila: Bureau of Printing, 1947), p. 316.

of under P 1,600.[20] The numerous middlemen, high transportation costs, expensive fees and licenses all mean that textile distribution requires a large amount of energy and funds, a phenomenon quite typical of underdeveloped countries. While imports have delineated the demand as Hirschman suggests, they have not forced a modernization of the distributive mechanism.

This section will be concluded with estimates of the extent of the potential market which textile imports created and an evaluation of the size and character of a domestic textile industry necessary to satisfy this demand. In 1949, the year prior to the introduction of exchange control but near the close of the period of wartime rehabilitation, the average per capita consumption of textiles is estimated at 7.3 square yards.[21] This appears reasonable in relation to the per capita cotton textile consumption

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[20] Ibid.

[21] Cotton available for spinning:

894,000 - kilos imported
121,600 - kilos grown locally, (NEC, unpublished data)
1,015,600 - kilos of cotton available for spinning
203,120 - 20% waste and shrinkage in spinning
812,480 - kilos of yarn produced locally

Yards of cloth produced locally (square yards):

812,480 - kilos of yarn spun locally
760,000 - kilos of cotton yarn imported
1,572,480 - total kilos of yarn available
314,496 - 20% for knitting and other purposes
1,257,984 - kilos of yarn for weaving
x 8.8 - estimated cloth production per kilo
11,070,259 - estimated square yards produced

Cotton cloth consumption in square yards (1949):

133,000,000 - cotton cloth imports
11,070,000 - cotton cloth produced locally
144,070,000 - total cloth consumed

Cotton cloth consumption per capita in square yards (1949):

19,234,000 - 1948 population (Bureau of Census)
577,000 - estimated 1949 population increase

7.3 square yards - per capita consumption
(144,070,000 ÷ 19,811,000)

in 1950 of 5.2 yards for Asia asoa whole[22] and higher figures for such countries as Taiwan (10 square yards), Japan (16 square yards), and the United States (50 square yards).[23] Assuming thatothe Philippines can absorb 8 square yards of machine made cotton fabric per capita and using the estimates in the footnote below, a cotton textile industry of approximately 8,500 automatic looms and 394,000 spindles would satisfy domestic requirements in 1960.[24] The remainder ofothis study will be devoted to an analysis of how this industry has developed in the Philippines.

History of the Public Textile Mills

The National Development Company, the government's principal instrumentality for participation in business, created ambivalent reactions among the American officials when it was established in 1919, because they were uneasy about the advocacy of public enterprise. In the Commonwealth Period, however, the prospects of political and economic independence

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[22]United Nations Department of Economic Affairs, A Study of Trade Between Asia and Europe (New York: United Nations, November, 1953), quoted in a privateogovernment report.o

[23]Sidney L. Buffington, "First Quarterly Report to the Industrial Development Center and the United States Operation Mission to the Philippines," Development of the Textile Industry in the Philippines (Mimeographed, March, 1957), p. 14.

[24]Total cotton cloth consumption (1960):

27,500,000	- estimated 1960 population (Bureau of Census)
x 8	- per capita cloth consumption (square yards)
220,000,000	- total cloth consumption (square yards)

Loom requirements:

26,000	- estimated yards of output per loom year
8,500	- looms (220 million ÷ 26,000)

Spindle requirements:

220,000,000	- total cloth requirements (square yards)
55,000,000	- total cloth requirements in pounds
14,000,000	- estimated yarn requirements for knitting and other purposes (lbs.) (20%)
69,000,000	- total yarn requirements (lbs.)
175 lbs.	- estimated output per spindle year
394,000	- spindles (69 million ÷ 175)

prompted reevaluation of the NDC by Filipinos, who strengthened and reorganized it in 1936. Although authorized to engage "in commercial, industrial, mining, agricultural and other industries which may be necessary to the economic development of the country," Filipinos do not consider the NDC inconsistent with their fundamental dedication to a free enterprise society. The prevalent philosophy of its function is well stated by a former Economic Coordinator, responsible for the NDC and other governmental entities:

> The corporations are primarily designated as initial stimuli in vital sectors of the economy where private capital is incapable, unwilling or hesitant to venture. They are not intended to compete with private business or to engage directly in enterprises that ordinarily can well be left in the hands of private capital, except in cases involving the public interest for the protection of the masses.
>
> The new Administration is pledged to adhere closely to this policy, to turn over to private operators, either on sale or lease basis, such government enterprises as they can handle and to leave to private investors new investment fields in which they are interested.... The economic rehabilitation and development of our country is a herculean taskdwhich requires the joint effort of both public and private enterprise.[25]

The NDC acts as a holding company administering government investments in ventures which satisfy the above objectives. One of the first acts of the reorganized company was to establish a committee to study the textile industry, and it recommended the construction of a textile mill for a variety of reasons. The first and perhaps principal reason was to supply home weavers with yarn at a low price to sustain them in the face of the inexpensive imports from Japan and China. Although the dependence on foreign textiles had been created earlier and imports were not rising significantly in volume, there was a shift in the origin of textiles from the

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[25]Administrator of Economic Coordination, Annual Report of the Office of Economic Coordination for the Fiscal Year Ended June 30, 1956 (Manila), pp. 3-4.

United States to Japan and a significant reduction in per unit import value.[26] A secondary and complementary reason for the advocacy of a textile factory was to reduce unemployment, both by furnishing factory jobs and maintaining the cottage workers. Unemployment, however, was not viewed in this period, as it is now, as one of the country's principal economic problems, for it was not long before that American officials were debating bringing in Chinese laborers to augment the local work force. Thirdly, a textile mill was recommended to help meet the local demand for cotton goods. Although running an export surplus in its balance of payments, the country anticipated increasing difficulty in the American market after independence. Rather than concentrate on improving the competitiveness of its cash crops for the world market, the government was urged to pioneer in the production of goods required for the population's basic needs -- food, clothing, shelter. The textile industry was an obvious selection for attention, because its conspicuous place on the import sheet not only verified the extensive market but substantiated its exchange saving potential. A more general function envisioned for the public textile mill was that of training a skilled labor force and promoting private investment by its successful leadership in industrial enterprise. Finally, nationalistic objectives have continuously been involved with the NDC textile operation. One of the initial motivations was to curb the inroads of Japanese textile imports and manufacturing. A 1931 boycott by the Chinese merchants of Japanese textiles prompted the Japanese to establish their own retail outlets,[27] but Japanese

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[26]Japanese textile imports rose from 21% of the peso value of American imports in 1929 to equality in 1931, when they constituted 146% of the physical volume of American textile shipments to the Philippines. C. B. Hansom, Trade Conditions in the Philippine Islands (London: H. M. Stationery Office, 1933), p. 17.

[27]Sansom, p. 17.

experience in China indicated that foreign manufacturing was the only assured means of retaining a foreign market.[28] Consequently, they opened a textile mill using imported yarn in 1938, and the Filipinos were afraid that Japanization of manufacturing would spread.[29]

A public mill was not designed to compete with handmade cloth, but to supplement the cottage industry by supplying it with yard and producing staple fabrics, competitive with the imports of machine-made goods from abroad.[30]

The proposal was accepted and a mill was constructed in Manila in 1939. Ten thousand spindles and 104 mechanical looms were installed, but this was increased in 1941 to 20,000 spindles, 500 looms, and a finishing plant with an annual capacity of approximately seven million yards.[31] Ironically, the early distribution was in alien hands and the yarn not needed for NDC looms was sold to two Japanese weaving mills.[32] In 1941, 422,455 pounds of yarn were produced in comparison with national requirements of 32 million pounds of yarn for weaving purposes. Production was low during the Japanese occupation and well into the postward period. Operations in 1946 were at 25%

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[28]Fessenden S. Blanchard discusses this in his The Textile Industries of China and Japan (New York: Textile Research Institute, Inc., 1944).

[29]Jack Shepherd, Industry in Southeast Asia (New York: Institute of Pacific Relations, 1941), p. 177. A more recent example of the NDC's involvement in the promotion of nationalistic objectives was the report that the public National Marketing Corporation had empowered the NDC to use its own tax exemption privilege to import unprocessed cloth to break the alien hold of textile production. Manila Chronicle, June 22, 1958.

[30]Ibid., p. 116.

[31]Francisco R. Lopez, "Textile Industry," Chemistry in the Philippines, ed. Amando Clements (Manila: Benipayo Press, 1954), p. 272.

[32]Bituin C. Masanga, "Prospects for the Philippine Textile Industry" (unpublished Master's thesis, School of Business, University of the Philippines, 1951), p. 9.

prewar capacity andoas late as 1948 only 18,000 spindles were operative.[33]

During the occupation, 17,000 used Japanese spindles were imported into the Philippines for use in the NDC plant, and after the war the NDC purchased them from the United States Enemy Property Custodian for the nominal sum of one dollar.[34] In spite of questions whether this equipment was economically salvagable, it became the nucleus of a NDC Spinning Mill established in 1949 in Ilocos Sur, an important home weaving area and the provincial home of President Quirino. Production started at the Ilocos Textile Mills (ITM) in 1952, and by 1954 1,781 thousand pounds of yarn were being produced at the two mills; national requirements were approximately 41 million pounds.

The netoworth of the NDC's total investment in textiles at this time was P 10.7 million and factory employees numbered 1,670. The output of the mills was beingodistributed as follows: 40% to Manila wholesalers, 31% to manufacturing firms, 14% to government bodies, 6% direct, and only 9% to cottage industry.[35]

The purposes for creating a public textile industry did not include profit making, but the mills are evaluated to a large extent by their achievements on the profit and loss statement. The NDC mills have several formal advantageso-- tax exemption, a guaranteed market in government instrumentalities, and special import privileges. On the other hand, their profitability is impaired by their high wage structure, low productivity, antiquated plant, inflexible marketing, short work week, and inferior

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[33]Ibid., pp. 10-13.

[34]Lopez, Chemistry in the Philippines, p. 272.

[35]Industrial Development Branch, Industrial Philippines, a Cross Section (Manila: Philippine Council for U.S. Aid, 1953), pp. 6-9.

quality product; these problems will be elaborated in subsequent chapters. These deficiencies were illuminated by contrast to the developing private sector which made it increasingly difficult for the NDC to operate its mills profitably. NDC - Manila has consistently operated in the black, but its 1958-59 net profit fell to P 160,000 from P 1.3 million two years earlier. ITM has operated at a deficit during four of the last six years and in 1959 had accumulated finished good inventory equivalent to seven months' sales.

In 1958 the Cabinet approved the sale of the two textile mills through public bidding; it was announced that the objectives for the establishment of the mills had been attained and government participation was no longer necessary.[36] Disposal, however, was delayed in order to modernize ITM and to consider alternative methods of handling the high-wage mill employees. The sale was further deferred in 1959 to evaluate a proposal that the employees purchase theiManila mill with their termination payments.

Growth of the Private Manufacturing Sector

Prior to the war, private factory textile production was of minor significance. The principal operation, Philippine Cotton Mills, was established in 1906 and operated by a British firm until its transfer in 1929 to a wealthy Filipino family, the Madrigals. About 300 employees operated the 7,420 spindles and 320 looms of the mill; its output of coarse yarns and twill was distributed by Chinese wholesalers. The mill is estimated to have returned a net profit on investment of 5%, the poorest earning branch of the Madrigal interests,[37] so after some wartime damage a proposed joint venture

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[36] Manila Bulletin, April 24, 1958, p. 1.

[37] Interviews with former management personnel; most of the firm's records were destroyed during the war.

with Japan to rehabilitate the mill was rejected and the plant was scrapped. There were also the small Japanese weaving mills noted earlier, as well as some manufacturers of industrial textileso

Private textile manufacturing is essentially a postwar development, and it was related to the appearance in the early 1950ôs of mills in two related areas of production -- knittingoand hosiery. After a single knitting firm was established in 1950, successive years from 1951 to 1955 witnessed the growth of that industry from nine to 24 firms; by 1956 there were complaints that the knitting field was overcrowded.[38] The textile manufacturing industry proper followed shortly thereafter, with a similar swarm of entrepreneurs following an initial leader in classic Schumpetarian fashion. Table 2, automatic spindles and looms installed in the Philippines, 1954-1959, indicates the rising number of significant private firms, 1 in 1954, 4 in 1956, 9 in 1957, 13 in 1958, and 18 in 1959o

The path breaking success of the initial entrepreneur in the knitting and hosiery field, on the one hand, and textile manufacturing, on the other, enhanced the attractiveness of investment opportunities in each respective industry, but the clusters of entrepreneurial activity are due largely to the external stimuli which will be analyzed in the two subsequent chapters.

The principal stimulus was the implementation of import and exchange control in December, 1949. The imposition of stringent controls is reflected in the 38% reduction in total imports and 44%oreduction in cotton textile imports from 1949 to 1950, shown on Table 1. Controls encouraged the importers to investigate manufacturing possibilities for two reasons. Firstly, aocontrolled market meant protection from foreign competition

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[38]Industrial Development Center, Report on the Philippine Textile Industry (Manila: Industrial Development Center, 1956), (Mimeographed), p. 20.

TABLE 2

AUTOMATIC SPINDLES AND LOOMS INSTALLED IN THE PHILIPPINES, 1954-1959[1]

	1959		1958	
	Spindles	Looms	Spindles	Looms
Mills partially or completely integrated as of 12-31-59 with date of first operations				
1 (NDC - Manila, 1939)	20,000	503	20,000	503
2 (Nov., 1954)	22,528		11,008	
3 (Feb., 1956)	20,088	1,032		620
4 (April, 1956)	19,040	600	19,040	600
5 (Sept., 1956)	30,900	1,096	20,800	550
6 (April, 1957)	27,058	450	27,058	450
7 (Jan., 1958)	10,000	500	10,000	
8 (Nov., 1958)	10,080	270	10,080	180
9 (Jan., 1959)	10,000	300		
Total	169,694	4,751	117,986	2,903
Unintegrated Spinning Mills or Divisions of Knitting, Thread, or Hosiery Mills with date of first operations				
10 (NDC - ITM, 1951)	17,600		17,600	
11 (Feb., 1957)	13,950		12,290	
12 (May, 1957)	12,240		10,080	
13 (Nov., 1957)	10,220		10,080	
14 (March, 1958)	20,830		20,160	
15 (Feb., 1959)	8,192			
16 (April, 1959)	10,880			
17 (Oct., 1959)	5,020			
18 (not yet operating)	10,000			
19 (not known)	5,760		5,760	
Total	114,692		76,110	
Unintegrated Weaving Mills				
20 (Jan., 1957)[2]		1,040		202
21-28 Small Speciality Producers		314		195
		1,354		397
GRAND TOTAL	284,386	6,105	194,096	3,300

[1] Excludes 3 rayon mills with 16,856ospindles and 244 looms at the end of 1959. The table is based on company data.

[2] Authorized by the Central Bank to divide output between cotton (75%) and rayon (25%).

1957		1956		1955		1954	
Spindles	Looms	Spindles	Looms	Spindles	Looms	Spindles	Looms
20,000	503	20,000	503	20,000	503	20,000	503
11,008		11,008		11,008		11,008	
	620		400				
8,960	600	8,960	200				
10,400	550	10,400	550				
17,024	140						
67,392	2,413	50,368	1,653	31,008	503	31,008	503
17,600		17,600		17,600		17,600	
12,290							
10,080							
10,220							
50,190		17,600		17,600		17,600	
	202						
	121						
	323						
117,582	2,736	67,968	1,653	48,608	503	48,608	503

which could not be achieved with tariffs because of the 1948 Trade Agreement with the United States. The rising domestic prices of imported products, moreover, enhanced the local marginal efficiency of capital in the manufacture of these goods; clothing prices, for example, rose 20.4% in 1950 and 27.8% in 1951.[39] The maintenance of the prewar rate of exchange of the peso with the dollar made imported machinery and raw material relatively inexpensive and further enhanced manufacturing prospects. Secondly, the reduced volume of import business prompted merchants to explore new areas of profit making. The first factor served as an inducement to attract potential entrepreneurs into industrial development, whereas this second consideration was moreof a spur pushing the importers, especially the Chinese, out of their established sphere and into another. Legislation, illustrated by the section of the 1950 control act below, and administrative discretion were used to further the nationalization of trade:

> The Import Control Board shall reserve thirty per centum of the total import quota for any article, goods or commodities for the fiscal year 1950-51, forty per centum for the fiscal year 1952-53 in favor of bona fide new importers who did not import such items at any time during the years 1946, 1947 and 1948. To qualify as a new importer, one must be a Filipino citizen or a juridical entity at least sixty per centum of whose stock isiowned by Filipino citizens.[40]

Import commodities were classified under the various control acts according to essentiality, with categories ranging from essential producer items to non-essential consumer items, the latter items being subjected to the greatest import cuts. Although the uncertain renewal of each control act, the varying amounts of international reserve budgeted for imports, the reclassifications of import commodities, and the vagaries of the nationalization measures all created uncertainty in the business community

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[39]Central Bank, Statistical Bulletin, XI, (December, 1959), p. 210.
[40]Philippines, Republic Act No. 426 (May 22, 1950), sec. 14.

and increased the risks of manufacturing, backwardiintegration afforded great potential for profits, both legitimate and illegitimate. By opening a manufacturing plant, the importer could shift his import requirements from finished goods to raw materials, a producer classification, and obtain larger exchange allocations, often on the basis of exaggerated declarations of plant capacity. Enormous windfall profits then accompanied dollar licenses because of the marked overvaluation of the peso and the high level of domestic prices.

The first reaction to this situation in the textile field was in knitting and hosiery, as stated, where numerous Chinese importers set up knitting mills, relying on foreign yarn. Knitting was preferred to textile manufacturing because it was easier to enter, required less capital, involved a shorter installation period and fewer complications training workers and supervisors:[41] all important factors, because of the desire to capture profits and return capital quickly during the uncertain duration of the legislated seller's market. The knitting industry was a stimulant to textile manufacturing because it demonstrated the profit potential of industry to the importer group, and it created pressure for further backward integration into the spinning of yarn for the knitting machines. Knitting production was curtailed in 1953 because of insufficient yarn imports;[42] if dollars could not be obtained for cotton yarn, there seemed greater possibility of obtaining them for raw cotton itself, as controls became increasingly viewed as a means of encouraging the nation's industrialization.

The nationality and prior textile interests of the entrepreneursiin

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[41]Buffington, "First Quarterly Report...". p. 32.

[42]Area Handbook, p. 1620.

textile manufacturing are shown below:

Date of First Operations	Nationality Classification[43]	Textile Interests Prior to Manufacturing
1954	Filipino	None
1956	Chinese	Importing, garments, knitting
1956	Chinese	Importing
1956	Filipino	Importing, knitting
1957	Chinese	Importing, knitting
1957	Chinese	Importing, knitting
1957	Filipino	None
1957	Chinese	Importing, garments
1957	Other Alien	Importing
1958	Other Alien	Thread manufacture
1958	Filipino	Importing, garments
1958	Other Alien	Importing
1958	Filipino	Importing, knitting
1959	Chinese	Importing
1959	Chinese	Importing, hosiery
1959	Chinese	Importing, hosiery
1959	Chinese	Importing, hosiery
1959	Chinese	Importing

The interesting exception to the general pattern is the Filipino entrepreneur who led the industry with his 1954 spinning mill, built to satisfy the growing demand for knitting yarn. The followers were principally Chinese, and they were involved in textile importing or the manufacture of allied products in all instances save one. The fact that the date of organization preceded the date of first operations, noted above, by an average of two years shows how closely correlated the appearance of the industry was to the imposition of controls and the growth of the knitting and hosiery mills.

An early imbalance developed in the industry with weaving capacity insufficient to bridge the manufacturing gap between spinning and finishing.

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[43]This follows a nationality classification drawn upiby the National Economic Council which has been controversial because it is partially based upon the ancestry of the entrepreneurial groups rather than their current citizenship status. In some cases the owners of the Chinese firms have, in fact, obtained Filipino citizenship.

The various yarn consumers, established earlier, encouraged the spinning sector. The construction of finishing plants was motivated by the desire to establish facilities with the greatest dispatch and minimum capital. The processing of grey cloth shifted import requirements into the producer classification, but did not separate the importer very far from the familiar consumer market. The Central Bank, which by 1953 had assumed complete charge of the administration of exchange and import control, authorized finishing mills if they constituted the first stage in the establishment of a completely integrated plant.[44] Because Filipino officials have encountered continuing difficulty estimating the capacity of the finishing mills, the entrepreneurs have often been able to exaggerate their raw material and dollar requirements. The build-up of finishing capacity was rapid and well in excess of national requirements by 1958.

With the exception of recent spinning production data, accurate aggregate statistics on the industry's development are completely lacking in the Philippines. The estimates below do indicate, however, the rapid growth of the industry.

Selected Statistics on Cotton Textile Production in the Philippines[45]

	1959	1958	1957	1956
No. of Workers Employed (average monthly figure)	14,880	9,897	7,143	3,314
Production of Yarn (1,000's of pounds)	49,429	26,888	15,128	4,700
Production of Grey Cloth) (1,000's of square yards)	105,000	70,000	42,000	13,000

[44]These finishing mills have been labeled "laundry plants" by critics who viewed their construction as a clever mechanism for circumventing controls.

[45]Yarn production for 1957-1959 is from the records of the Industrial Development Center; all other figures are estimated on the basis of company data.

By the end of 1959, 284,386 spindles and 6,105 looms were installed and in operating condition in the Philippines -- 84% and 72% respectively of the estimated national requirements calculated earlier. But the spinning and weaving capacity in the process of construction and pending approval by the Central Bank exceeded the country's needs; in less than six years the textile industry had evolved from a status of underdevelopment to potential over-capacity.

The growth of the private manufacturing sector has been geographically concentrated completely in Manila and its environs, in the pattern of centralized Philippine industrial development in general. Some mills are situated in semi-rural or rural settings outside of Manila because of less expensive land or the availability of a more unsophisticated labor force, but all are within commuting distance of the city. The reasons given for this localization of the industry are four. Firstly, the bulk of Philippine power is produced for Manila consumption and the rates there are substantially lower than anywhere else in the country, except near the Maria Christina hydroelectric plant in Mindanao, which otherwise is not an attractive location. NDC officials estimate that the power cost for the ITM mill in Ilocos Sur averages eleven centavos per kilowat hour or roughly double their Manila cost. A random examination of the available operating statements of private mills verified that the power cost was significant, running from .5% to 3% of net sales. The costs of internal transportation within the Philippines are notoriously high, and the second and third reasons for the industry's concentration stem from a desire to minimize this expense. Manila locations were selected because of their proximity to supply sources, for almost all of the country's imports are funneled through Manila and much of its manufacturing is there also. Since the

mills' raw materials were either imported cotton or semi-manufactures or local supplies and, as there was no difficulty in attracting labor to Manila, supply considerations clearly favored this central location. As a third consideration, the market also was in Manila, both for the spinning mills which supplied the knitting trade and for the finishing plants, which converted grey cloth into finished fabrics and injected them into the normal distribution channels stemming from Manila. The importers who integrated backwards into manufacturing were conditioned to a marketing structure originating in Manila and accommodated their operations to it. The fourth reason for a Manila location was the desirability of being near the governmental sources of power, and some entrepreneurs stated that this requirement overshadowed all the orthodox economic considerations. Because of the crucial nature of government relations it was imperative for the entrepreneurs to have easy access to the Central Bank, Bureau of Customs, Department of Labor and other official bodies. A final, informal reason for the growth of the industry in Manila was the fact that the entrepreneurs were there, generally found the primate city the most attractive place in which to live, and were conscious of no strong reasons for locating elsewhere. The ITM management generally feels that its location is inferior to Manila and the possible labor force advantage of a provincial location has been largely mullified by the statutory minimum wage.

Raw Materials

Although large scale production of the highest quality cotton was reported as late as 19th century,[46] cotton cultivation declined, and by

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[46] Eufronio M. Alip, Political and Cultural History of the Philippines (Manila: Alip and Brion Publications, Inc., 1949), p. 34.

the American period the cottage industry was dependent upon cotton imports for its raw materials. Minor efforts by the Commonwealth Government and the Japanese-sponsored republic to revive cotton cultivation produced disappointing results. But the modern textile industry has focused attention on the dollar-saving possibilities of domestic cotton production, and a host of programs for cotton cultivation appeared in the 1950's. Table 3 measures the lack of their success. For an industry which bases much of its public relations upon its dollar-saving effect, this dependence upon imports, for the raw material which constitutes roughly half of its cost, is a glaring problem.

Three private corporations and the NDC have been engaged in cotton development projects during the 1950's, all of which have been unsuccessful to varying degrees. Waves of optimism have been touched off on the basis of test crops. The 1957 crop failure did not prevent an enthusiastic Filipino from predicting, "The deep south could be turned into the nation's wardrobe if a little push were given to its budding cotton industry."[47] But even in 1958 and 1959, when production and yield improved, the Philippine Cotton Development Corporation (PCDS), the primary private firm, was suffering large deficits, and the balance sheet of the NDC's project listed accumulated losses of nearly one million pesos.

The more successful harvests of 1958 and 1959 seemed to confirm the faith that the Philippines had once been a fertile source of raw cotton, and responsibility for the lack of development became increasingly identified with the textile manufacturing industry. The industry trade association, the Textile Mills Association of the Philippines (TMAP), succeeded in delaying

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[47]Victoriano G. Rivera, "Cotton -- The White Hope," Philippine Free Press, II (February 15, 1958), p. 22.

TABLE 3

STATISTICS ON COTTON PRODUCTION IN THE PHILIPPINES

Year	Production of Lint Cotton (Kilos) (1)	Industrial Requirements (Kilos) (2)	Degree of Industrial Self-Sufficiency (3)	Yield Per Hectare (Kilos) (1)
1940	184,872	1,000,000	18.5	118
1946	83,500	2,029,000	4.1	119
1947	71,933	2,029,000	3.5	86
1948	98,267	2,029,000	4.8	98
1949	121,600	2,029,000	6.0	106
1950	125,000	2,029,000	6.2	104
1951	127,000	2,029,000	6.3	106
1952	130,700	3,760,000	3.5	109
1953	40,900	3,760,000	1.1	82
1954	63,503	4,861,000	1.3	64
1955	75,133	4,861,000	1.5	29
1956	43,967	5,757,000	.8	16
1957	174,000	10,736,000	1.5	60
1958	625,700	17,394,000	3.6	215
1959	656,167	26,773,000	2.5	187

(1) National Economic Council (Unpublished data). Lint cotton has been estimated at one-third the recorded amounts of seeded cotton production and yield is in terms of lint cotton.

(2) Number of spindles x 100 kilos annual raw cotton requirements per spindle. This excludes cottage industry requirements.

(3) Cotton production as a % of industrial requirements.

legislation in 1959 which would have taxed the industry in order to subsidize local cotton production. But the Central Bank resumed the pressure and, in a letter to the TMAP, stated the requirement that the industry start growing cotton within six months. The TMAP responded with a resolution to adopt cotton development as a common industry project, and a number of its members made investments in the successor to the PCDC.

Recent efforts to develop cotton have been thwarted by temporary reverses such as unexpected pest destruction, poor seed selection, and extremely adverse weather conditions. While recent crops have demonstrated the feasibility of growing cotton, the low yields and high costs have prevented it from being economically practical. While the United States obtains about 300 kilos of lint cotton per hectare, estimates of possible yields in the Philippines ranged from 90 to 140 kilos prior to the 1958-59 performance. Estimated production costs range from P 260 to P 347 per hectare, although the NDC's 1958-59 cost was P 372 per hectare. Thirty-seven per cent of the NDC's cost, its largest single component, was for insect control, a major obstacle to economical production. In 1959 the CIF import price of cotton was about P 1.35 per kilo. Assuming that the high yield of recent years can be sustained, say 200 kilos per hectare, production costs per hectare would have to be reduced to approximately P 270 in order to equalize the costs of the domestic and imported cotton, and Philippine production costs are now believed to have risen considerably higher than this figure. These low yields and high costs have discouraged the spread of cotton cultivation, because farmers found other crops more profitable in spite of the varied subsidies and assistance offered to them.

The urgency of domestic cotton development has been minimized by the availability of surplus American cotton through United States Public Law 480 and Section 402 of the Mutual Security Act of 1954. From 1956 to 1959 the

Philippines was authorized to import $32.3 million of cotton in exchange for pesos, and the industry relied almost exclusively on this source. Central Bank authorization of new producers made specific references to the use of this dollar free source of raw materials. The dependence upon Public Law 480 cotton was an obvious exchange risk that the government assumed, and the precarious nature of this supply source was revealed in July of 1959 when a 25% tax was placed on foreign exchange. The United States insisted that theopeso proceeds of cottonosales be based on an exchange rate of 2.5 pesos to the dollar, the rate which in effect applied to commercial imports, rather than an allegedly discriminatory lower rate. This would be tantamount, according to Philippine officials, to a concession that the tax was a de facto devaluation, which they insisted it was noto Surplus cotton sales were discontinuedo and the Central Bank issued dollar allocations to the industry for $11 million to import cotton in the last half of 1959. The stalemate finally ended in July, 1960, when the Philippines acceded to the American demandso The disruption of Public Law 480 cotton sales dramatically illuminated the industry's lack of self sufficiency, and it was a major factor in focusing pressure upon the manufacturers to participate ino or aid cotton cultivation.

CHAPTER IV

THE ROLE OF THE GOVERNMENT

Although Filipinos commonly agree on the preferability of private to public enterprise, this is not equivalent to an advocacy of laissez faire in the market. On the contrary, government intervention and encouragement are considered desirable because of the industrial infancy of the nation. Free and potentially destructive competition is considered an extravagance which can be ill afforded. Consequently, government is welcomed on the business scene not as a participant but as a regulator.[1]

Industrial entrepreneurs in textile reflect a similar expectation toward the government and aversion to unbridled competition. Price decisions in a self regulating market are not viewed as binding standards for corporate behavior, but as proper subjects for interference and improvement. The entrepreneurial and transitional Filipinos are politically active and subject to no ideological restraints in their propensity to alter the economic environment for their own benefit. The result, according to one observer, is that "business is born, and flourishes or fails, not so much in the market place as in the halls of the legislature or in the administrative offices of the government."[2]

This attitude toward governmental activities, coupled with a widespread faith in the need for industrialization, has caused acceptance of the

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[1]Sixto K. Roxas brings these ideas out with great clarity in his article, "Economic Ideologies and Theories in the Current Philippine Scene," Comment (First Quarter, 1958), p. 3-13.

[2]Thomas R. McHale, "An Econecological Approach to Economic Development" (unpublished Ph.D. dissertation, Dept. of Political Economy, Harvard University, 1959), p. 217.

proposition that public stimuli and protection are desirable and should be awarded to any group providing proper justification. Industrialists, aggressively seeking positions sheltered from market pressures, often consider such protectionia prerogative as well as a privilege.

The principal governmental stimulus to the textile industry's development is believed to have been the imposition of import controlsiin 1950, which was early considered a deliberate tool for achieving industrial development. Controls not only isolated the Philippine market for the entrepreneur, but their administration determined the precise direction and extent of each firm's business. Chapter V will be devoted to an analysis of this major area of governmental activity.

This chapter is focused upon government tools for the encouragement of industrial development whose effectiveness for various reasons has been subordinate to the control system. The tax-exemption law which has greatly enhanced the textile manufacturer's profits is considered superfluous and costly as an inducement for development. The lack of tariff autonomy caused byitheiPhilippines' trade agreement with the United States has reduced the significance of this economicitool, but the textile industry's attitude toward tariffs reveals its expectation of governmental protection. Thirdly, this chapter considers the government's role in national economic planning as being largely ineffectual in the textile industry, due to the rivalry between different planning bodies and an absence of a central coordinating or implementing agency. Finally, the value of the public textile mills as a stimulus to industrial development is weighediwithout any clear conclusion whether their net effect has been positive or negative.

The Tax Exemption Incentive

The two most significant stimuli to the industrial growth of the 1950's have been the system of controls and the tax-exempt status accorded to firms which qualified as "new and necessary industries". The latter policy, although a powerful inducement, did not become effective until combined with the push of declining and nationalized import licenses and a marked seller's market. The first tax exemption act was passed in 1946 but the response to it was negligible until the decade of controls started in 1950. Thirteen firms were granted tax exemptions in 1950, 72 in 1951, 48 in 1952. A revised tax exemption law was passed in 1953, which broadened the original act and extended the tax free period on a graduated scale to 10 years, and the number of qualifying firms jumped to 132 in 1954, 184 in 1955 and 211 in 1956.[3]

The regressive tax structure of the Philippines relies heavily upon a variety of indirect taxes levied upon business units. An analysis was made of a large, integrated textile manufacturer to assay the value of its tax-exempt status. In 1958 the firm had a net profit of 18.0% of sales and the estimated tax savings as a percentage of sales were as follows:[4]

Domestic Sales Tax	2.8%
Advance Sales Tax on Imported Materials	3.7
Compensating Tax on Machinery Imports	3.7
Tariffs and Duties	6.6
Income Tax	5.4
Special Import Tax	12.9
	35.1%

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[3]Republic Acts No. 35 of Sept. 30, 1946 and No. 901 of June 20, 1953. L. Alarcon Garde, "A Boon to Our Industries," 1957 Progress (Manila: Manila Times Publishing Company, 1957), p. 93.

[4]Tax savings calculations are based on the firm's actual data, although for tariffs and duties it was necessary to estimate the partially free,

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As an example, this firm's tax exemption freed it from the payment of taxes totalling over one third of its grossirevenue and approximately double itsi net profit. This does not necessarily indicate that the firm couldinot have operated profitably without tax exemption for much of theitax burden could have been passed on in the form of higher prices, but it does suggest the magnitude of this inducement in the entrepreneur's decision making framework.

Every principal firm listed on Table 2 in Chapter III, including the NDC, has acquired tax exemption for some or all of its manufacturing operations. In evaluating this law in relationito the textile industry, two questions arise: Has taxiexemption been a necessary concomitantiof controls, or would the tempo and volume of textile growth in the fifties have been the same without it? In what ways have the conditions attached to tax exemption affected the industry's characteristics and pattern of growth?

Most observers of the Philippine economic scene agree that tax exemption was not sufficient to induce the desired response of industrial investment without the aid of import controls. Since the beginning oficontrols marks the acceleration of industrial growth in many fields including textilesi there is disagreement whether tax exemption was a necessary supplement to controls or functionally superfluous.i Theiquestion cannot be conclusively answered. Aggregate statistics, on the one hand, show impressive totals of investment and employment in tax-exempt industries. Textile firms, defined to embrace a wider range of fibers and products than our industry classification, constitute an important component of tax-exempt manufacturers. In

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American portion of the imports and to estimate certain allowable deductions from gross sales in calculating domestic sales tax. It should be noted that 13.1% of the tax savings accrued from non-recurring imports of machinery and equipmenti

June, 1959, tax-exempt textile firms numbered 65 and were responsible for 22% of the earnings and 26% of the employment in tax-exempt industry.[5]

Others argue that tax exemptions have been an expensive pampering of artificial industries. In 1958 when the national deficit ran P 170 million, for instance, the amount of taxes waived equalled 17% of total government revenues.[6] Furthermore, to some extent, tax-exempt status has not been an objective per se, but a vehicle for obtaining preferential treatment at the Central Bank in its allocation of dollars. During the period studied, a screening committee made recommendations to the Secretary of Finance on applications for tax exemption and, although its members included representatives from the Central Bank and Department of Commerce and Industry, there was no policy coordination between the different governmental entities. As a consequence a firm granted tax-exemption did not automatically receive foreign exchange to cover its import requirements. But the firms classified as "new and necessary" were frequently accorded dollar priority and they sought this status partially in order to fortify their bargaining positions at the Central Bank. A third reason for discounting the need for tax incentives is the nature of the textile manufacturing operation itself. It is an industry with relatively few hazards because of its fixed technology, simple labor requirements, and established market.[7] The sample calculations of a

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[5]Bureau of Census and Statistics.

[6]Taxes waived in 1958 were P 125 million, Department of Finance records. National tax receipts in FY 1957-58 were 737 million, Central Bank of the Philippines, Tenth Annual Report, 1958 (Manila: Bureau of Printing, 1959), p. 87.

[7]Benjamin Higgins argues this in his "Report to the Government of the Philippines," United Nations Technical Assistance Administration, December 10, 1957, pp. 38-39. (Mimeographed.)

firm's estimated tax savings shown above, well in excess of net earnings, may raise the question whether textile manufacturing would be profitable in the absence of tax preference. It is believed, however, that little of the tax incidence wouldihave been upon theifirm in this period's market. If the sampleifirm had borne its potential income tax liability, its net profit wouldistill have been 12.6% onisales, in this case 20.3% on stockholdersi equity, sufficiently high to render tax concessionsiredundanti The entrepreneur contemplating possible textile manufacturing without tax preference might have anticipated the developmentiof a buyer's market as the industry grew, but by such time his own heavy import taxes and duties would be substantially reduced.

In their applications for tax exemption, firms were required to state the steps which they had already taken towards the establishment of the industry in question. The answers to this question give an insight into the entrepreneurs' attitude toward tax incentive. Certificatesiof exemption were secured in the early stages of planning for textile manufacturing, an average of approximately two years prior to first operations, but in most cases decisions seem to have been reached prior to the determination of tax status. In only two cases on file did the entrepreneur state that his plan for textile manufacturing was contingent upon the application's approval. The answers of most connoted a determination, if not a commitment, to manufacturing by the steps completed prior to the application, such as purchasing land, applying for loans, and negotiating for machinery. There unquestionably were marginal firms in the business, which in spite of the other encouragements would not have entered the industry in the absence of this tax incentive, but it is believed that such firms were in a minority and that this was an expensive way to induce them past the external margin

of production.

In 1959 articles in scholarly and popular literature reflected spreading disillusdonment with the value of the tax incentive compared to its cost. One of the criticisms of the "new and necessary industries" was that they were largely finishing and packaging operations with little value added. Although the textile industry was not cited as an example, even as it became integrated it was still dependent upon imported cotton as its primary input. Then in June of 1959 the tax exemptionolaw was amended to reinstate the full income tax prior to the expiration of the original ten-year period.

Regardless of the economic necessity for tax concessions, the administration of this incentive could have affected the industry's development pattern. The Secretary of Finance has been able to stipulate conditions which the applicant firm has to follow in order to qualify initially and to retain its tax exempt status. If a firm violates such a condition it is required to refund all the taxes from which it has been exempted; since this retroactive imposition of taxes would place the entire incidence on the firm, it could serve as a powerful deterrent. The two conditions placed upon applicants in textile manufacturing have required the use of local raw materials whenever possible and have specified some aspects of the firms' integration programs. The implementation of these conditions are weakened by the absence of personnel to check on actual mill practice and the previously noted lack of coordination with other government entities engaged in overlapping activities.

The first condition concerning the use of local raw materials provides leverage to protect the domestic producer of cotton, yarn and grey cloth, who can register complaints withothe Department of Finance. This condition has not been frequently invoked, and its value has been hindered by lack of price and quality comparability between the imported and domestic product.

The second condition for tax exemption has concerned the nature of the applicants' integration programs. The integration plans endorsed by the Department of Finance did not always coincide with those approved by the Central Bank or the National Economic Council (NEC). The principal problem, however, has been whether to grant tax exemption to finishing mills with their low contributionito national income. The first applications for finishing mills were rejected, but in 1956 the Secretary of Finance approved such operations if they were part of aifully integrated plan to be completed within three years. The Secretary's Screening Committee observed that full and immediate integration was preferable, but, since finishing is the least expensive and difficult of the three basic textile operations, investment would be encouraged by approving backward integration plans.

In other respects, however, the tax exemption privileges has not been effectively used in the textile industry, judging by either its objectives or its potential. According to the tax exemption act, industries are to qualify only if their importediraw material requirements do not exceed 60% of cost, although exemption may be granted if it appears likely that such materials will eventually become substantially available as industrialization progresses.[8] The 60% requirement was the reason for the initial refusal to sanction finishing mills. Theireversal in policy reveals the scope of administrative discretion in awarding tax-free privileges. A necessary industry was defined as one with "a reasonable degree of permanency" and tax exemption as a "form of subsidy which, by reducing initial production cost, should as a rule enable the industry to survive on a competitive basis after the period of exemption."[9]

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[8]Republic Act No. 901 (3).

[9]Department of Finance, "Regulation for Implementation of R.A. No. 901 Authorization Tax Exemption to New and Necessary Industries," August 20, 1953, Sec. 2.

Although the applicants' estimated production costs were below the landed cost of foreign textiles, experienced analysis would have discerned the lack of reality in theseoprojections. Tax-exempt status could have been denied the textile industry because of its probable continuing need for protection.

The tax exemption privilege was of such generous proportions that it could have been used more forcefully. In approving backward integration plans, the Secretary of Finance appeared to be following the industry pattern rather than establishing it. Tax concessions might have been a useful tool for coordinating the planning of the textile industry performed by different government groups but this was not attempted until the industry was practically developed. In their application forms firms were required to state whether their profits would be reinvested in plant expansion, but this statement of intention was not made a condition of tax exemption or verified.

In fine, it is difficult to agree with Professor Higgins that the Philippine tax incentive program actually retarded economic growth,[10] but as far as the textile industry is concerned the system does appear to have been of limited value in relation to its cost and potential.

Tariff Protection

From a development point of view, tariff protection has been superfluous because imports were effectively controlled through the allocation of foreign exchange for the duration of time covered by this analysis. Nevertheless, the industry has been anticipating the eventual elimination of economic controls and has consequently been tariff conscious. The infant industry argument for tariff protection is generally considered relevant to textile

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[10]Benjamin Higgins, Economic Development (New York: W. W. Norton & Co., Inc.q 1959)q p. 515.

manufacturing by those within and without the industry, with the exception of a vocal minority which feels that industrialization has been too costly in terms of the neglect of agriculture. Filipinos feel that production of some sort is essential until the initial period of comparative disadvantage is overcome. Entrepreneurs in the industry appeared uniformly confident that such protection would be maintained; phrases such as "the government will have to take care of us" and "the country can't afford to ruin the industry" represent the owners' attitude. And in addition to its economic value, the industry does have a special political significance as one of several showpieces of accelerated industrial development, which have been publicized in the nature of an economic panacea. "On the other hand, de-control without the necessary safeguards would ruin infant industries," warned one textile executive, "and this would lead to inflation, specially to run-away inflation and run-away inflation might lead to radicalism."[11] The belief that an industry collapse would have dire consequences but-tresses the industry's own political power and creates pressure upon the government for continued protection.

The admission is openly made that the industry is not currently com-petitive on the world market and that it requires protection because of its high costs. In a letter to the chairman of the House Tariff Committee in 1960, the president of the TMAP estimated that the domestic production cost as a percentage of foreign production cost was 241% for yarn, 272% for grey, and 290% for finished cloth. This marked cost disparity is, however, often coupled with references to the protection afforded the American textile industry at a similar stage in its development. Filipinos do not believe that the Philippines will ever be able to export textiles in

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[11] Manila Bulletin, April 4, 1960, p. A.

competition with countries like Japan or India because of their supposedly lower labor costs, but they do believe that domestic costs will decline as they did in the United States. They feel that indefinite protection may be necessary because of the high internal wage levels, but this is considered an acceptable cost of self sufficiency in the basic field of clothing.

The significance of the Tariff Act of 1909, which was effective until 1957, was minimized by the reciprocal free trade policy withothe United States, and the use of tariffs could not become an important economic tool until the duty free entry of American goods was suspended. The 1946 United States-Philippine Trade Agreement provided for the gradual elimination of reciprocal tariff preferences but, when it became apparent the structural changes in the economy necessary for international viability were not materializing, a revised trade agreement was signed in 1955 which accelerated the imposition of tariffs on American exports and delayed them on Filipino exports. During the first period of the textile industry's development (1956-58), 25% of the Philippine tariff rate was applicable to American exports; this rate was scheduled to increase to 50% for 1959-61, 75% for 1962-64, 90% for 1963-73, and 100% in 1974. Tariff protection, therefore, became a feasible tool for the protection of the textile industry, although adjustments were still necessary to offset the American preference.

During 1954 and 1955 a newly created Tariff Commission studied the textile industry and its recommended revisions of textile tariffs were incorporated in the new tariff code adopted in 1957. The stated goals of the new code includedopreparing for the ultimate elimination of controls, protecting domestic industries, and aiding the economic development program of the country.[12] Although Professor Golay's analysis indicates that the net

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[12]Montano A. Tejam, "Implications of the New Tariff Code," Economic Research Journal, 4 (December, 1957), p. 125.

effect of the new code was a downwardirevision of tariffs inconsistent with the avowed objectives, the tariff levels on cotton textiles were generally increased:[13]

Philippine Tariffs on Cotton Textiles
(% range of *ad valorem* tariffs)

Cotton Textile Item	1909 Tariff Act	1957 Tariff Act
Raw cotton	none	none
Yarn	15-25%	35%
Woven Fabrics	25-30%	10-25%
Garments	20-30%	90-100%
Knitted goods	20-30%	65-70%

The tariff increments are clearly protective but they do not appear adequate toishelter the textile manufacturing industry -- spinning, weaving and finishing -- in case of decontrol, although abandonment of the parity exchange rate would itself raiseiimport prices. The NDC advocated that the Tariff Commission increase tariff rates on textiles from 400 to 500%, basing its argument largely on the existence of high domestic wage levels. Assuming a 500% tariffiincrease on grey sheeting, the NDC estimated that its own production cost would still be 10.2% greater than the landed cost of American sheeting.

The actual hike in the tariff ondyarn shown above is offset by the surprising reduction in the equally vulnerable field of woven fabrics. Professor Golay suggests that the latter can only be explainedias a sop to consumeriopinion which was, in fact, meaningless because protection was effected by import controls rather than tariffs.[14] The differential tariff

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[13]Golay, pp. 174-176.

[14]*Ibid.*, p. 176.

treatment accorded the cotton textile items may be explicable in terms of private lobby groups. The garment and knitting industries, which received much more substantial protection than the textile manufacturing industry, were relatively advanced by the time of the Tariff Commission's study. On the other hand, the only weaving and finishing mills in operation at the time belonged to the NDC, whose managers have not employed political pressures in the same way as their counterparts in the private sector.[15] The effect of the 1955 code upon textiles was to prepare the established branches for decontrol, but not to erect a protective field for the still undeveloped textile manufacturing.

By 1959 when the textile manufacturing industry had developed a united front for lobbying purposes, its association, the TMAP, began privately and publicly to call for higher tariffs. On April 25, 1960, the Central Bank announced a program of gradual decontrol, and on the same day the TMAP dispatched a letter to Congress urging that the ad valorem tariff on yarn be increased to 150%, on grey cloth to 175% plus six pesos per kilo, and on finished fabrics to 200% plus eight pesos per kilo. If the recommended tariffs on grey and finished cloth are converted to a completely ad valorem basis, using the TMAP's cost data, they equal 420% on grey and 440% on finished goods, the two fields where the integrated mills would be most in need of protection. Their estimated tariff requirements are based on the principle of equalizing the local production cost in the Philippines and the production cost in the foreign country, exclusive of the foreign manufacturer's profits and shipping costs. The TMAP thus goes farther than the NDC's earlier advocacy of a compensatory tariff to equalize the local production

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[15] Filipinos generally believe that their public companies have high costs in relation to private companies, and this may have caused a discounting of the NDC's tariff recommendation.

cost and the landed import cost. The effective implementation of either principle wouldterminate trade, and the TMAP's proposal would give an absolute peso cost advantage to the industry. Subsequently in 1960, the Tariff Commission initiated hearings on the need for upward tariff revisions to protect new industries and the President appointed a special committee to make recommendations.[16]

Assuming that the textile industry requires protection, tariffs are preferable to theisystem of control by means of exchange licensing. In theory it makes little difference whether protection is afforded by tariffs or import quotas, for the government can auction off import licenses and obtain revenues comparable to the tariffs. From a practical point of view, such an objective allocation process would be difficult to implement in the personalized, political atmosphere of the Philippines. Tariffs would provide badly needed revenue to the government and alleviate the very serious problems of graft and corruption shrouding the control mechanism. Tariffs could be expected to stabilize internal price levels and reduce business risk byieliminating the varying gluts and shortages created by often arbitrary and unbalanced grants of exchange. Continuing tariffs, if not completely compensatory, would provide limited competition and a criterion of cost comparison, encouraging firms toiincrease profits through greater productivity rather than through seeking special government favors and grants. The danger of course is that the tariff might be so high or so prolonged that managerial and technological improvements would be dis-

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[16] U. S. Department of Commerce, Economic Developments in the Philippines, 1960, World Trade Information Service Part 1, No. 61-62 (Washington: U. S. Government Printing Office, 1961), p. 5.

couraged.[17]

National Planning for Textile Development

The road to development in the Philippines has been paved with national economic programs and plans, often elaborate in detail, but consistently weak in implementation. The cotton textile manufacturing industry has regularly appeared as an important component of these plans.

The first official postwar economic development program, known as the Beyster Plan and spanning the period 1947-1951, proposed the establishment of NDC's Ilocos mill and five additional, private spinning mills in units of 50,000 spindles each. It predicted that "once the textile industry /principally spinning/ reaches peak production, the ample supply of textile materials at reasonable cost will no doubt make the mass production of finished textile products entirely feasible, providing, thereby, numerous secondary textile industries."[18] The Hibben Plan, covering 1948-1952, reported that management and labor deficiencies limited the Philippines' ability to absorb textile capital, but its goal was two spinning and two weaving mills, estimated to raise production to 50% of national requirements.[19] The Rodriguez Plan, 1955-1959, proposed eight new spinning mills of 25,000 spindles each, with capital requirements of P 87 million or 7% of all proposed new industry.[20]

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[17]E.g. High tariffs are generally held responsible for the technological backwardness of cotton textile manufacturing in Mexico. Sanford A. Mosk, Industrial Revolution in Mexico (Berkeley and Los Angeles: University of California Press, 1950), p. 127.

[18]National Development Company, Proposed Program for Industrial Rehabilitation and Development of the Republic of the Philippines (Manila: Benipayo Press, 1947), p. 190.

[19]Joint Philippine-American Finance Commission, Philippine Economic Development: a Technical Memorandum (Manila: Bureau of Printing, 1955), pp. 19-20.

[20]National Economic Council, The Five-Year Development Program FY 1955-59 (Manila: 1954), p. 604.

This was followed by the Five-Year Economic and Social Plan, 1957-1961 of the National Economic Council (NEC), which in its private investment schedule listed P 96 million for cotton cloth production during the period.[21] A revised plan, the NEC's Three-Year Program of Economic and Social Development (1960-1962), prescribed first priority in the allocation of foreign exchange toitextile manufacturing and five other industries; its manufacturing plan included investment in cotton textiles of P 74 million, estimated to yield 127 million yards of additional fabrics by 1963-64.[22]

These plans, however, have been practically meaningless to the textile industry because they have not been translated from paper to reality. When the planned figures began toicoincide more closely with reality, this was caused by factors unrelated to the national planning process.

From the very beginning of the Commonwealth Period, Filipinos have had an unusual commitment to economic planning. There is no need to describe the background or the merits and weaknesses of the kaleidoscope of economic programs, for current literature performs this service well.[23] Nevertheless, some of the principal reasons for the ineffectiveness of such planning may help to illuminate aspects of the economic environment in which the textile industry has developed.

First, the government sector is relatively small and so the sphere of direct public planning is necessarily restricted; private investment can be induced into desired patterns only by persuasion and incentives. Secondly,

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[21]National Economic Council, The Five-Year Economic and Social Development Program for FY 1957-1961 (Manila: 1957), appendix 3-03.

[22]National Economic Council, Three-Year Program of Economic and Social Development (Manila: 1959), pp. 78-93.

[23]See especially Golay, chapter XV, and R.iS. Milne (ed.), Planning for Progress, the Administration of Economic Planning in the Philippines (Manila: University of the Philippines, 1960).

some ineffectiveness is attributable to basic deficiencies in certain of the plans, which have been inconsistent and unrealistic in relation to the capabilities of the country.

But the basic problem is the confusion and conflict caused by the absence of a central coordinating body with a means of implementation. The NEC is charged with the responsibility for formulating economic programs, but it has no authority for implementing them and has received very meager support from the President and the Congress. The political structure, with its weak parties and lack of discipline, makes planning more difficult than in most underdeveloped countries. "Not only is the Philippines a democracy, which means that slow persuasive methods must be used instead of quicker compulsive methods, it is also a democracy based on a system of checks andd balances (including the separation of powers), which seems to exalt opposition and tends to defeat attempts at agreement and solidarity."[24] Many governmental instrumentalities are concerned with economic development policies. In this chapter, for instance, it is shown how the Tariff Commission, the NDC, and the Secretary of Finance all have power to affect patterns of industrial growth. The three principal government instrumentalities in this respect, however, are the NEC, the Central Bank, and the Budget Commission. A semi-autonomous department within the Central Bank determines private investment channels by its exchange allocation procedure, often on either a case-by-case basis or industry programs at variance with those of the NEC. The Budget Commission's Five-Year Fiscal Plan, the basis for government expenditures, has not been necessarily consistent with either the NEC's program or Central Bank practice. This dispersed responsibility has resulted in organizational rivalries and piecemeal planning which only

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[24]Milne, Planning for Progress..., p. 185.

recently are being remedied. The textile industry has been the object of a controversy between the NEC and the Central Bank, but since the latter wielded effective power by virtue of its exchange allocation mechanism a discussion of the dispute is deferred until the next chapter.

Stimulus of the Public Textile Mills

The most direct role of the government in the textide industry has, of course, been as an actual participant with its NDC mills. When the 1958 decision to sell the mills was announced it was proclaimed that they had performed their functions and were no longer needed. There is real uncertainty, however, concerning the extent to which they actually have fulfilled the objectives stated in Chapter III.

There is little evidence that the public mills have performed the task of sustaining the cottage textile industry, for NDC prices are high and relatively little of its output goes to home weavers; home textile manufacturing is probably continuing to decline for reasons unrelated to the NDC. The NDC mills have directly alleviated the country's unemployment to only a negligible degree. They have assisted in meeting the demand for local cotton goods, but their weaving and spinning capacity was less than 10% of 1959 requirements.[25] The importance of alien ownership in the industry indicates that the NDC's nationalistic objectives have not been realized.

Nevertheless, the question which our current perspective elevates to greatest significance is whether the example and experience of the public mills served as a stimulus to private enterprise in the textile industry.

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[25]In 1959 the NDC had 37,600 spindles and 503 looms (Table 2, Chapter III) compared to national requirements of 394,000 spindles and 8,500 looms (Footnote 24, Chapter III).

On the affirmative is the fact that NDC's managerial personnel has assumed important functions in the private firms. Of the 12 top managers of the original NDC - Manila mill alive in 1959, seven had key positions in private mills. The existence of this reservoir of Filipino textile managers, limited as it was, has certainly facilitated the establishment of the private sector. The NDC's high wage structure discouraged the private firms from attempting to employ the experienced government workers, although some specialized personnel was also obtained from this source. The private industry renders mixed judgment on the worth of NDC's vocational school for spinning and weaving training, although some firms have considered it of sufficient merit to require attendance of prospective employees. In addition to these management and employment effects, the government focused attention upon the feasibility of manufacturing textiles in the Philippines.

The contrary argument is that no such demonstration was required for an industry with a simple technology and clearly defined market. The time lag between the first NDC operations and the growth of the private sector indicates the weakness of the causality between them. More important than the NDC's example was some means of protection from the competition of foreign imports, and it remained for import and exchange control to accomplish this. The NDC's example may even have been a negative one, for it illustrated the low profitability of operating in a relatively open market. Profit rates should not be considered as a criterion of the mills' value, but their low level may have impaired NDC's ability to function as a stimulus. The organizational problems and high costs of the mills presented a picture hardly instilling confidence in potential competitors. In 1953 an official report on the government corporations pessimistically stated that, "The fact that the government is now engaged in this business has discouraged private

enterprise from investing and developing a local textile industry."[26]

The private entrepreneurs generally report that they were affected neither positively nor negatively by the existence and performance of the public mills. There would seem to have been some employment benefits derived from the NDC mills but they have not been proportionate to their cost, and there is no reason to question the desirability of attempting to transfer their ownership to private hands.

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[26]Office of Economic Co-ordination, Report on Government Corporations in the OEC Group, June 15, 1954, pp. 3-4, cited by Golay, p. 244.

CHAPTER V

THE CENTRAL BANK AND DOLLAR ALLOCATIONS

The textile industry's development hasibeen marked by the related problems of unbalanced growth and underutilization of capacity. The Central Bank, through its control of dollars for plants and raw materials, has to a large degree been responsible for these problems. Manufacturing facilities have all been imported and consequently contingent upon the Central Bank's authorization of the required exchange. The opportunity which the Central Bank had to plan a balanced growth of the industry was delayed until development had progressed so far that optimum firm integration patterns were no longer feasible. When industry planning did commence the industry became more confused over the rivalry of the Central Bank and the NEC. Plant utilization has also been dependent upon Central Bank allocations for raw materials and protection; the fact that industry operations have been as low as 50% of capacity for extended periods is a measure of the gravity of this problem. This chapter is divided, therefore, into a section on the allocations for plant and equipment and a section on the allocations for raw materials. It concludes with an evaluation of the significance of graft and corruption in the industry.

Allocations for Plant and Equipment

The growth of textile manufacturing has been rapid and forced, because of the artificially created seller's market and dependence upon governmental authorization for foreign exchange. The Central Bank has been the principal external determinant of this growth's direction. Entrepreneurial decisions had to be cast to fit the pattern established by the government or entrepre-

neurial activity had to be concentrated uponoaltering the pattern, and both phenomena occurred. As a consequence, the integration method which was endorsed does not coincide necessarily with those evolved more gradually in other countries. In Japan,oChina, and Russia it took several decades for weaving to catch up with spinning becauseothe productivity gap between the handloom and the poweroloom was notoas great as that betweenofactory and household spinning.[1] Such a procedure was precluded in the Philippines, partly because imports had already destroyed much of the cottage weaving but also because of the urgency in the pace of industrialization. The requirement of full integration placedouponothe finishingomills by the CentraloBank and theoSecretary of Financeoeliminated the possibility of the independent converter, which characterizes the structure of the American textile industry.

The Central Bank made no effort to formulate an industry integration program until late in 1957. Prior to that time it had been considering each application on an individual basis, unrelated to national requirements. But as early as 1954 it did require each firm to integrate itsoown operations vertically and liberalized this to permit gradual backward integration from finishing. Although there is little economy to be derived from combining finishing and weaving, compared to realobenefits from spinning-weaving integration,[2] the Central Bank endorsed finishing in order to induce entrepreneurial commitments. The consequence was overextended efforts to

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[1]Abraham S. Becker, "Economics of the Cotton Textile Industryoof the U.S.S.R., 1928-1955" (unpublished Ph.D. dissertation, Dept. of Political Science, Columbia University, 1959), pp. 3-4, and Fessenden S. Blanchard, The Textile Industry ofoChina and Japan (New York:o Textile Research Institute, Inc., 1944), p. 23.

[2]Buffington, August 20, 1958, pp. 14-15.

obtain finishing facilities in order to dominate the field. The privileged position of the finishing mills is illustrated by their reluctance to process the grey cloth production of a weaving-spinning mill, because it was more profitable to secure dollar allocations and process imported grey. The textile entrepreneur justifiably attempted to control his own finishing, and by early 1958, according to a Central Bank study, approved finishing capacity exceeded domestic requirements by almost 25%.

But internal balance was sacrificed in the efforts to erect finishing capacity. According to Buffington in 1958:[3]

> The helter-skelter studies and actions in allocating foreign exchange for textile equipment, raw materials, semi-manufacturers and finished goods have resulted in very unbalanced development of the industry, excess expenditures of foreign exchange, inability to operate existing equipment to achieve the greatest possible savings and reluctance on the part of new investors to enter the textile manufacturing business.

By the middle of 1956 the Central Bank had authorized nine private integrated mills. The following listing indicates the degree of internal balance which these firms had by the middle of 1957 and 1958. Balanced integration requires a ratio of approximately 35 spindles per loom and finishing facilities:

	Middle of 1957		Middle of 1958	
Firm No.[4]	Finishing	Ratio of Spindles to Looms	Finishing	Ratio of Spindles to Looms
3	yes	0/400	yes	0/620
4	no	22/1	no	32/1
5	yes	19/1	yes	38/1
6	yes	122/1	yes	90/1
7	yes	0/0	yes	10,000/0
8	--not installed--		--not installed--	
9	--not installed--		--not installed--	
14	--not installed--		no	10,080/0
20	yes	0/202	yes	0/202

[3]Buffington, March 7, 1958, pp. 11-12.

[4]Firm numbers coincide with those shown on Table 2, Chapter III.

By the middle of 1958, only firm number 5 had reasonable internal balance of finishing, weaving, and spinning. Firm 4's 1958 ratio of spindles to looms appears to be balanced, but much ofoits yarnosupply was intended for its related knitting mill.o The aggregate ratio of spindles to looms of the above mills jumped from 22/1 in 1957 to 38/1 in 1958, but this exaggerates the balance within this sector of the indusdry, for the spinners sold much of their output to non-weaving consumers and the weavers preferred to process imported yarns. Foreign raw materials were used to balance the operations of integrated mills as well as to supply the requirements of independent weavers. The Central Bank's 1958 integration program authorized two Filipino spinning mills to integrate forward to finishing and thus completed, and temporarily overexpanded, the industry's finishing capacity.

Industry expansion, with the indispensable sanction of the Central Bank, was concentrated primarily on finishing and secondarily on spinning facilities to provide yarn for the earlier developed knitting and hosiery sectors. Weaving, the manufacturing gap between the two, was left unbridged. After deducting 20% of all spindles for nonweaving purposes, the ratio of spindles to looms jumped from 38/1 in the middle of 1957 to 47/1 in 1958. If the spindles and looms under construction in June, 1958, were included, the imbalance persisted at approximately 47/1, and total commitments for spindles equalled 86% of our estimated national requirements and looms only 58%.[5] Imbalance, therefore, existed not only within the individual firms, but for the industry as a whole.

The growing size of the industry, awareness of this imbalance, and the potential savings afforded by greater use of American surplus cotton all

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[5]As of June, 1958, 119,240 spindles and 2,020 looms were under construction, NEC records.

prompted a more comprehensive evaluation of the industry than had been felt necessary earlier. Criteria were also necessary in considering pending applications for textile mills. Consequently, the Central Bank and the NEC both formulated industry integration programs in the middle of 1958. The two plans were made up independently, and a controversy ensued all through 1959 over the differences between them. Although the Central Bank agreed that its function was to implement the policies established by the NEC, it argued that detailed firm planning constituted implementation within its authority. Justifying itself with this argument and fortified with its control over the allocation mechanism, the Central Bank continued to effect its own plan. In September, 1959, the Monetary Board formally adopted the Central Bank plan, including the proposal that integrated mills be permitted six months within which to apply for expansion of facilities in conformity with the plan; applications for independent spinning mills for knitting and other fields were to continue receiving attention, but no consideration was to be given new integrated mills until national demand had increased. Nevertheless, the controversy between the two governmental groups raised economic and political questions, some of which captured the headlines of the newspapers, and both entities endeavored to reconcile their differences.

Economic nationalism was responsible for the most politically explosive issue between them, and the problem centered on the method of defining a Filipino as opposed to a Chinese firm. The NEC classified firms into three categories: Filipino, Chinese, and others. Table 4 shows the nationalities of the stockholders of the private mills under the NEC classification.

It is evident that Chinese citizens have very little equity in the industry, even in the so-called Chinese firms. The NEC classification is

based largely on the owners' national ancestry rather than their current citizenship status in the Philippines, in spite of constitutional restrictions on discrimination between native born and naturalized citizens. The NEC classification is based upon the implicit and correct assumption that the majority of the naturalized Filipinos are, in fact, Chinese, who acquired citizenship for reasons of political and economic necessity rather than personal conviction.[6]

The NEC integration program was formulated on economic rather than political grounds, but disagreement between the NEC and the Central Bank involved planned capacity for firms which happened to be Chinese and this sparked one facet of the dispute. The Chairman of the NEC wrote to the Central Bank that:[7]

> Even with the implementation of the balanced integration plan, Filipinos -- including the government -- will still share less than 50% of the total facilities of the local textile industry. Such would imply the predominance of aliens, specifically Chinese, and such a predominance of aliens in a basic industry such as textiles poses a very grave economic problem which should be remedied immediately and at once. Any deviation therefore, in favor of the alien from the approved NEC integration plan, could but only aggravate the already minority position of the Filipinos in our textile industry.

The Central Bank demurred on this point and continued to implement its own plan, although it apparently agreed to reserve the opening of future mills for native born Filipinos. The issue was still in abeyance at the end of this study, but its attention illustrated the significance of non-economic factors in the industry's development.

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[6]In this study the NEC classification is used when reference is made to Filipino or Chinese firms. Although the naturalized Filipino-Chinese bitterly criticize this categorization, Filipino citizenship is essentially a legal technicality for a group which culturally remains Chinese.

[7]Letter from Jose C. Locsin, Chairman, NEC, June 4, 1959.

TABLE 4

NATIONALITY OF STOCKHOLDERS OF PRIVATE TEXTILE MILLS

IN THE PHILIPPINES, 1959[1]

Percentage of Common Stock Owned by Nationality

NEC Firm Classification	Native Born Filipino	Naturalized Filipino	U.S.	Chinese	Other	Total
Filipino	100.0%					100.0%
Filipino	100.0					100.0
Filipino	100.0					100.0
Filipino	99.6	.3%			.1%	100.0
Filipino	100.0					100.0
Chinese	40.0	60.0				100.0
Chinese	36.3	51.2	.8%	4.9%	6.8	100.0
Chinese	7.5	50.9	13.2		28.4	100.0
Chinese	11.7	72.0		15.4	.9	100.0
Chinese	57.0	11.0	18.0	14.0		100.0
Chinese	25.5	9.2	25.7	6.6	33.0[2]	100.0
Chinese	22.6	3.2	27.5	8.0	38.7[2]	100.0
Chinese	27.9	40.3			31.8	100.0
Chinese	13.3	67.7		19.0		100.0
Other					100.0	100.0
Other	46.9	50.7	.7		1.7	100.0
Other	12.3		.4		87.3	100.0

[1]Central Bank records.

[2]Owned by Filipino corporations.

The economic aspects of the two plans reveal the different approaches to the problem taken by the Central Bank and the NEC. In weaving, the total estimated cotton loom requirements are reasonably close -- 8991 for the NEC, 8530 for the Central Bank, and 8500 for our estimates in Chapter III. Disagreement concerns the apportioning of looms among firms. Since weaving expanded less rapidly than the other two sectors, the issue was whether to balance looms with finishing facilities or with spindles. The Central Bank took the former approach and based its integration program on the finishing capacity of existing and authorized mills. Since this capacity exceeded national requirements, 75% of it was established as a national production goal and was allocated in proportion to the finishing capacity of the authorized integrated firms. Looms and spindles were balanced to 75% of each firm's finishing capacity.

The NEC argued that technical considerations made it essential to combine spinning and weaving in the same factory, although a similar combination of weaving and finishing was not necessary. The NEC, therefore, balanced spindles and looms without regard to the firms' finishing abilities. The economic argument was left unchallenged, but the Central Bank defended its plan on the basis of equity. Since backward integration had been approved, they deemed it only fair to permit each firm to enjoy comparable balance in this integration. The problem was that the Central Bank failed to study the industry as a whole early enough to realize that it was authorizing overexpansion. A withdrawal of the most recent integration authorizations, no doubt, was discouraged by the fact that the entrepreneurs concerned were native born Filipinos.

The number of installed looms almost doubled from the end of 1958 to the end of 1959, when 6,105 looms were in operation for weaving cotton, and

2,736 additional looms were either being erected or authorized.[8] Thus sufficiency had been reached and apparently exceeded in weaving, and the balancing necessary for optimum efficiency would mean over-capacity of the entire integrated industry.[9]

A similar situation existed in the spinning sector, although it was complicated by divergent views on the requirements of the non-weaving yarn consumers. Estimated spindle requirements for cotton, therefore, vary from the Central Bank's figure of 503,128, the NEC's of 420,818, and our estimate of 394,000. At the end of 1959 there were 284,386 spindles in operation, 133,382 under installation or on order, and an additional 69,152 authorized by the integration plan.[10] The total spindles exceeded all but the Central Bank's requirement estimate and left little margin, if any, for balancing economically undesirable conditions.

In April 1960, the Central Bank and the NEC announced an accord regarding the policies to be used in the programming of the textile industry. Committees were to be established to translate these policies into concrete plans, but these efforts occurred after the completion of the study.[11]

Allocations for Raw Materials

Quarterly raw material allocations are authorized by the Monetary Board, the governing body of the Central Bank.[12] The continuing expansion of the textile industry has prevented the use of recurring grants and necessitated

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[8]Central Bank records.

[9]Greater exactness is prevented by the lack of agreement on capacity data.

[10]Central Bank records.

[11]Manila Bulletin, April 11, 1960.

[12]With the exception of cotton which is allocated at irregular intervals.

quarterly study of the needs of each firm as well as the ancillary textile sectors. Textile operations depend upon the availability of adequate exchange for their own imported inputs and restrictions on the licensing of imported materials competitive with their outputs. A non-integrated spinning mill, for instance, would require specific grants for raw cotton (during the suspension of Public Law 480 sales), dyes, and spare parts each quarter. But it would also require Central Bank protection from imported yarns, which the independent yarn consumers generally consider superior in price and quality to the domestic product.

The Central Bank has attempted to equate supply and demand at each stage of the integrated textile process by allowing sufficient input for plant utilization, without depressing prices and discouraging local production. Various factors have greatly complicated this procedure. At each level of production there are secondary sources of supply and demand, which are difficult to estimate. For instance some textile goods are supplied on the market from barter transactions without the use of dollars, and demand includes a wide but uncertain range of cottage industry requirements. But secondly, the requirements of even the major firms are subject to controversy. For the textile and knitting industries, the Central Bank staff estimates dollar requirements for each firm, broken down into component import categories; they determine spinning capacity, for example, from firm reports or plant visits and base calculations upon what are believed to be average industry costs and input-output data. But other groups, private and public, often dispute the validity of the bases of such calculations. Estimates of finishing and knitting capacity, made by the NEC, have sometimes been at great variance with those of the Central Bank, and there has been no primary agency to reconcile or verify the data. The

Monetary Board makes allocation decisions on the basis of the recommendations of its own Import-Export Committee, as well as the representations of interested private and public groups such as the TMAP and the NEC.

The lack of reliable statistics is a critical deficiency because of the dynamic nature of the industry. Requirements in recent years have been shifting continually because of the interaction of variables which the Central Bank cannot possibly comprehend with the tools currently at its disposal. The Bank's task is further burdened by the propensity of some firms to exaggerate their material requirements in order to obtain extra exchange allocations. The Central Bank does not have adequate engineering staff to conduct regular technical audits of the industry, and it does not cooperate in this function with the textile engineers associated with the NEC.

The allocation process is complicated by the fact that the possible objectives to be used by the Central Bank as guidelines may be partially contradictory. Nevertheless, if one assumes that an important objectives should have been the encouragement of full utilization of installed textile capacity, then the Central Bank has frequently failed. The curtailment of plant operations has been often attributable to either the insufficiency of the raw material input or excess competition for the output, caused by imported commodities. An attempt will be made to illustrate this in the cotton spinning sector, chosen because it is the only area for which reasonably reliable production statistics are available.

Table 5 presents statistics on cotton spinning activity and yarn production for the period 1957-1959. Mill production has been intermittently curtailed during these years, because of either inadequate raw material availability or excessive yarn imports. Inadequate raw cotton would be

TABLE 5

STATISTICS ON COTTON SPINNING ACTIVITY

AND YARN PRODUCTION

	(1) Production (1000's of lbs.) (a)	(2) Average No. of Spindles Operated (a)	(3) Reasonable Minimum Production (1000's of lbs.) (b)	(4) Actual Prod. as % of Reasonable Prod.	(5) End of Qtr. Yarn Inventory per Spindle (a) (lbs.)	(6) End of Qtr. Raw Cotton Inventory (lbs./installed spindle) (a)
1957						
1st Qtr.	3,479	77,040	6,140	56.7%	3.8	108.7
2nd Qtr.	3,708	91,376	6,580	56.4	5.3	93.2
3rd Qtr.	3,831	101,456	6,770	56.6	6.9	55.4
4th Qtr.	4,109	107,284	8,140	50.5	5.9	83.3
1958						
1st Qtr.	5,252	129,136	9,040	58.1%	6.9	70.5
2nd Qtr.	6,138	156,496	8,650	71.0	6.2	86.6
3rd Qtr.	7,479	166,286	9,200	81.3	5.4	50.8
4th Qtr.	8.019	174,991	11,010	72.8	5.0	59.7
1959						
1st Qtr.	9,382	218,223	12,010	78.1%	4.0	50.6
2nd Qtr.	12,021	253,207	16,030	75.0	4.5	68.7
3rd Qtr.	14,163	265,014	14,630	96.8	3.5	69.8
4th Qtr.	13,863	270,169	14,910	93.0	3.7	100.9

(a) Industrial Development Center, Manila.

(b) Number of spindles x estimated reasonable production per month based on 80% spindle efficiency and varying with the actual average yarn count for the quarter. Sidney L. Buffington, "Development of the Textile Industry in the Philippines," Fifth Quarterly Report to Industrial Development Center and U.S.O.M. to the Philippines, (March 7, 1958), p. 21. Median spinning efficiency in 1959 was 78.5%, chapter IX.

reflected in a low relationship of inventory to spindles, column 6, and a decline in plant operations. Column 4 which indirectly measures the percentage of plant utilizations by comparing actual production to an estimated reasonable minimum production, will be used as an indication of the opportunity costs of unsatisfactory allocations.[13] The depressed effect of large yarn importations might be either a reduction of plant operations (Column 4) or an accumulation of finished goods inventory (Column 5). The effect also might be declining prices and margins but such data are not obtainable.

Much of the effect of raw cotton allocations upon production is disguised by the aggregate form of Table 5 but the relationship is evident even on an industry basis. In the third quarter of 1957 raw cotton inventory declined to 55 pounds per spindle compared to an estimated average requirement of 70 pounds.[14] Operations were curtailed in at least four mills in the fourth quarter and industry operations fell to a low of 50% (Column 4), although the cotton position was built up by the end of that quarter. Cotton inventory was maintained at satisfactory levels until September, 1958, when it fell to 51 pounds per spindle and caused operations to fall in the final quarter. Low raw materials continued to restrict

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[13]The increasing actual production as a percentage of estimated reasonable minimum production may stem from increasing efficiency as well as greater plant utilization. This hypothesis is questionable for two reasons. Half of beginning 1957's spinning capacity belonged to the NDC mills, and their efficiency is not believed to have improved. Capacity increments accelerated in 1958 and 1959 over the 1957 rate, so there was more new capacity in 1959, the year of the highest percentages in Column 4. It is assumed here that Column 4 reasonably approximates the percentage of plant utilization.

[14]The following analysis of the relationship between spinning capacity and cotton and yarn importations is, unless noted to the contrary, based upon information in Sidney F. Buffington's reports to the Industrial Development Center and U.S.O.M. to the Philippines on "Development of the Textile Industry in the Philippines" (March 1, 1957, to January 31, 1960).

production through the first quarter of 1959, although yarn demand improved and finished goods inventory fell. Not until the fourth quarter did new cotton supplies completely alleviate this problem. These variances between required and actual raw materials supplies are due to the Central Bank's faulty knowledge of individual firm's positions, the irregular timing of grants, and the lengthy lead time required between the purchase and delivery of cotton.

A similar relationship can be traced between production and yarn inventory, on the one hand, and the yarn market as determined principally by the quantity of imports, on the other, although statistics on yarn imports are not available on a quarterly basis. The yarn market in 1957 and the first half of 1958 was generally characterized as poor by the industry. As early as February, 1957, the TMAP was calling for complete bans on cotton yarn imports,[15] but second semester allocations were maintained at earlier levels. Table 5 shows that production increased during this period, but plant operations as a percentage of capacity declined and inventory rose. The Industrial Development Center reported that interest in new textile manufacturing investment disappeared. Although much of the excess yarn imports was attributable to special and sometimes improper importing mechanism, not requiring formal exchange grants, the Central Bank was considered responsible by the industry for not cutting allocations to reduce the supply on the market. Then in July, 1957, the Central Bank decided to reduce quotas on cotton knitting yarn by 25% each quarter in 1958.[16] This stirred a controversy between the yarn producers and the yarn consumers over the adequacy and quality of domestic production, which

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[15] Manila Bulletin, February 21, 1957.

[16] Central Bank files.

was complicated by the diverse capacity and requirement estimates furnished by the interested private and public groups. The dispute continued through 1958 and 1959.

The yarn market in the first half of 1958 continued to be poor and the chairman of the NEC warned that "a crisisois fast appearing in the textile industry that may weaken and undermine the economy."[17] In July, 1958, the president of the TMAP remarked, "We find that the price of yarn is dropping day by day if not hour by hour. The spinning mills can only take so much. Very soon all spinning mills... might collapse and a collapse of the spinning industry will mean not only its collapse but also that of the banks and institutions which financed it."[18] It was obvious that the industry required protection in order to raise production over the curtailed levels prevailing at the end of 1957 and the beginning of 1958.

Reduced importations during the last half of 1958 and 1959 improved the yarn market; prices roae and collection periods of accounts receivable declined. New production peaks were reached in the second quarter of 1959 although capacity was restricted by raw cotton shortages. The last half of 1959 is the most favorable period recorded on Table 5 although disagreement still prevailed over Central Bank policy. In response to a Central Bank inquiry, the TMAP in August unanimously resolved that yarn importations should be banned, but within eight days three members withdrew their signatures forovarious reasons.[19] Nevertheless, the Central Bank approved over $2.2 million for 4th quarter yarn imports but resolved to permit no further grants in 1960.[20]

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[17] Manila Bulletino May 17, 1958.

[18] Minutes of a meeting at the NEC, July 16, 1958.

[19] TMAP files.

[20] Central Bank, Monetary Board Resolution No. 1631, Dec. 4, 1959.

The Central Bank has been buffeted by a host of pressure groups, each armed with its own statistical support. Without an adequate staff of its own, the Bank has had to reconcile not only divergent data but inconsistent objectives. A more stringent policy on yarn imports would have raised the domestic yarn price and placed pressure on the yarn consuming industries. Nevertheless, the textile mills are considered by Filipinos as national assets which should not be wasted. The low operations indicated on Table 5 reveal that the mills have been underemployed; during the period 1957-1959, 91.4 million pounds of yarn have been produced compared to a conservative estimate of possible production of 123.1 million pounds. This loss, due largely to poor import allocations of yarn, as far as the industry alone is concerned, is equivalent to approximately $15.8 million in foreign exchange and 38.9 million man-hours of lost employment.[21]

The procedure for the allocation of dollars for grey cloth and finished fabrics created experiences parallel to those described above for yarn. The TMAP, whose members' finishing capacity exceeded their weaving capacity, urged greater allocations for grey cloth and restrictions on competitive imports of finished fabrics; it alleged that the finishing operation added 20% value to the cost of grey cloth and was consequently a valuable dollar saver. Contributing to the Central Bank's difficulties were the garment makers, who preferred imported fabrics and, as one of the few Filipino controlled industries, enlisted nationalistic sentiments in their behalf.

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[21] This estimate is based on a method used by Buffington, March 7, 1958, p. 25. Cotton yarn, conservatively priced at $.50 per pound x 31.7 million pound loss due to curtailed operations = $15.8 million; this is almost a complete savings in exchange because raw cotton was available at no cost in dollars until the third quarter, 1959, when actual and possible production were close. 31.7 million pounds ÷ 175 pounds estimated spindle output per year = 180,000 spindles required to produce the estimated quantity lost. Buffington estimated that in an efficient mill each spindle requires approximately 216 man-hours per year.

The IDC's textile consultant argued the procedural point that the grey cloth division among firms was inequitable and that grey importations, far from inadequate as argued by the TMAP, were so excessive as to stifle weaving development. It was estimated that the weaving sector could have produced at least six million additional yards during the last quarter, 1957, if the market for grey had not been so depressed.[22] He urged restrictions on grey cloth imports, in order to accelerate development of weaving capacity. Presumably, this curtailment of weaving caused similar losses in dollars and employment to the country, although the data are not available as they are for spinning.

A double price system prevailed during these years on semi-manufactured textile products. Yarns and grey cloth acquired through Central Bank allocations were effectively lower priced than the domestic product. This encouraged excessive importing for either use or re-sale and was a deterrent to the use of the domestic product or backward integration. The local mills apparently preferred to curtail operations and accumulate inventory rather than reduce prices of their outputs, yarns and grey, to levels competitive with imported goods. At one point, the knittingitrade, anxious not to damage its claims on imported yarns, created an informal association to clear the market of domestic yarn by quota absorptions assigned to each participant.[23]

The pressure upon the Central Bank for greater raw material allocations has been intense. The spinning mills wanted protection from imported yarn, but the knitters and weavers were concerned with acquiring larger grants.

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[22]Buffington, December 7, 1957, 7.

[23]Buffington, June 7, 1957, 16.

The IDC's textile specialist has stated the reasons candidly:[24]

> Allocations of foreign exchange for the import of material for supplying the operations of the textile industry are the controlling factors in the operation ofo most textile factories in the Philippines. In many cases, the import allocation for materials is more important to a manufacturer than the actual operation of his factory. It is possible to make profits of greater magnitude and in shorter time periods by obtaining import allocations for material than in pushing plant operations.

The finishing mills have fought against the importation of finished fabrics, but their greatest concernohas focused on sources of imports not requiring dollar grants. These courses have included tax free textiles imported by the National Marketing Corporation, barter transactions involving textile imports, entry of Japanese fabrics under the reparations agreement, lack of control over remnant imports, and the entry of materials in the guise of personal effects of returning residents.

Anomalies

"Anomaly" is a Filipino euphemism which embraces a wide range of irregularities such as corruption, nepotism, and fraud. Although anomalies are apparently accepted as chronic defects in the fabric of Philippine society, subordinate to problems such as unemployment or inflation,[25] they can have a demoralizing impact upon the country as their exposure spreads, and they have figured as predominant issues in several elections. Anomalies receive remarkable publicity in the Manila press, because their exposureodoes serve as a powerful tool in the continuing struggle between economic and political factions. Although widespread in the Philippines,

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[24]Buffington, March 1, 1956, 5.

[25]Professor Carl Lande conducted a survey in 1956 which revealed these attitudes, "Politics in the Philippines" (unpublished Ph.D. dissertation, Dept. of Political Science, Harvard University, 1958), p. 260.

the center of anomalies shifted in 1949 from the disposal of wartime equipment to the administration of import and then exchange control.

Because of the textile industry's dependence upon the control mechanism, it has necessarily become involved to some extent in the anomalies pervadingi this system. There is clearly no way of quantifying the degree of graft and corruption in the industry, for opinions are widely divergent and only one major scandal was exposed. In 1958 the Central Bank canceled the allocations of the Roxas-Kalaw Textile Mills (RKTM), a joint venture of Filipinos, Americans, and Indians because of alleged anomalies.[26] The firm failed to answer the charges leveled against it which included:[27]

1) Overpricing and undershipment of imports -- RKTM controlled a foreign supplier in the United States which allegedly misstated the invoice values and quantities of shipments to Manila, in order to accumulate dollars at the preferred rateiunlawfully outside the country. The charge concerned imports of grey sheeting and spare parts, the invoices of which were often not itemized.

2) Misrepresentation of factory operations -- RKTM purportedly exaggerated its mill capacity and level of operations in order to increase its dollar allocations. A mill inspection revealed that most of the plant's equipment was inoperative, non-existent, or uninstalled, and the warehouse contained imported finished goods; only 13 of an alleged workforce of 154 were on the premises.

3) Misdeclaration of imports -- The Central Bank charged that RKTM used its raw materials quota to import finished goods, principally textiles,

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[26]RKTM is not included in Table 2, Chapter 3, because it was principally a rayon mill.

[27]Records of the Central Bank and the Philippine National Bank.

in the guise of grey cloth.

Not surprisingly, the RKTM managers justify their behavior by allegations that such practices are prevalent throughout the industry and state that they were arbitrarily singled out for punishment. Some outsiders agree that RKTM's practices were not extraordinary and that the exposure of their anomalies was due to personal antagonism and poor political relations. True as they may be, it seems that RKTM is atypical because early in its inception the decision apparently was made to concentrate not upon legitimate business operations in spite of the great profit potential, but to manipulate its allocations as its primary source of profit. Although many and perhaps most of the firms in the industry have engaged to some extent in the three practices charged against RKTM,[28] it is believed that such behavior was considered a source of income supplemental to their primary and long term focus upon manufacturing. These special sources of income have decreased the payout period and enhanced the attractiveness of investment in all industrial lines during the 1950 decade.

President Quirino permitted the administration of controls to be transferred to the Central Bank in 1953 because of the rampant venialities in the Import Control Commission. At first there was a marked improvement, but according to the Business Editor of the Manila Bulletin, "Politics eventually contaminated the Central Bank, and with it the undesirable official and political meddling and influence peddling that in no time gave this monetary institution an unsavory name." As an analogy to the 18th Amendment to the American Constitution, he concluded, "We can never remove anomalies in the use of precious foreign exchange as long as we control the

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[28] Overvaluation of machinery and equipment was probably more general then for the more standardized raw materials; in an informal industry survey, it was estimated that the former imports were overvalued from zero to 200%, with an average overvaluation of from 10% to 35% for all firms.

use of this exchange."[29] In spite of the prevalence of this viewpoint, no attempt has been made to fathom the operations of the Central Bank for improper motives. It is assumed that allocation decisions have been made upon honest and objective bases, although not necessarily correct ones. With very few exceptions it has not been possible to trace the accusations of Central Bank favoritism into the actual decisions approved by the Monetary Board.[30] Many of the anomalies are identified with the Customs, for it is there where imports which may be overpriced, understated, or misdeclared come into the country.

It is generally felt that the Chinese have been responsible for a major source of the graft and corruption, particularly since the establishment of the new Philippine republic and then the upheaval on the China mainland. They have supposedly become increasingly dependent upon unlawful business practices in order to defend their socio-economic position.[31] The application of declining quotas to the Chinese textile importers clearly illustrates the pressure placed upon the Chinese by the doctrine of "Filipino First". Numerous anomalies have centered on these importers, who have used Filipino dummies in order to secure textile imports. Nevertheless, there is no good evidence that, once the Chinese have engaged in the manufacturing of textiles, they have been guilty of anomalous behavior to any greater extent than the Filipinos or other aliens. The contrary opinion is, however, widely held and propagated by some Filipino textile manufacturers.

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[29] Bernardino Ronquillo, "Business Views," Manila Bulletin, (February 22, 1960).

[30] Needless to say, the coincidence of an accusations of favoritism and the specified decision is not necessarily anomalous.

[31] See especially George R. Weightman, "The Philippine Chinese: A Cultural History of a Marginal Trading Community" (unpublished Ph.D. dissertation, Department of Sociology, Cornell University, 1960), pp. 203-4.

CHAPTER VI

ENTREPRENEURSHIP AND THE SOURCES OF CAPITAL

The activities of the Philippine textile leaders basically cannot be identified with the functions of the entrepreneur describediby economic theory -- the roles of the capitalist, the innovator, and the manager. Although the textile manufacturer has marshalled family resources, the availability of debt funds has permitted extensive trading on the equity and the subordination of the capital supplying function. Risk bearing is shared with the state, which has endorsed the industry's essentiality and is committed to its success. The entrepreneur has not been a technical innovator, for textile manufacturing has been transplanted intact with no effort to adapt it to local conditions. Rather than coordinate and supervise productive resources, Filipino entrepreneurs have imported their management, as well as their technology, and most have delegated operating authority to a foreign staff.

The rapid development of the industry has been in response to an abrupt economic disturbancei-- the imposition of controls and the consequent hike in the marginal efficiency of manufacturing capital. The salient characteristics of the entrepreneur in the textile industry have been the adaptability to shifting political forces and the ability to influence their direction. The function of the Philippine entrepreneur, therefore, has been to coordinate capital supplies, known technology, and foreign management in accordance with the new potentialities in the external environment. Although it is not possible in this study to determine why the reactions of similarly situated textile importers varied, with one

entering manufacturing and another purchasing import allocations from Filipino "dummies", some characterization of the entrepreneur is possible. Affected by the nature of the development stimulus, enterprises have been started on a larger scale and entrepreneurs have come from a higher economic stratum than their historical antecedents.

Manufacturing has been introduced on a large scale factory level with no evolutionary bonds to the traditional cottage industry production of textiles. The entrepreneurs have not been craftsmen, whose forte has been the combination of new technical procedures and persistent expansion of their enterprises, although this describes early European development[1] and is relevant to an earlier period of Philippine history. The existence of an advanced technology which could be borrowed from the industrialized countries permitted the Philippines to skip over the laborious and haphazard process of gradual technical development. But prior to 1950 the Philippine entrepreneur was an artisan, fashioning his own techniques in accordance with local conditions. Of Filipino entrepreneurs employing over 100 workers in 1961, only 6% of those who entered business in the decade of controls began as craftsman compared to 55% prior to 1945.[2] Controls stimulated the entrepreneur to utilize the available fund of technological knowledge to a degree previously unrealized. This was true because the government unofficially endorsed the advanced technology with its scale implications, dollars and windfall profits were obtainable for such purposes,

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[1]See especially Bert T. Hoselitz, Sociological Aspects of Economic Growth (Glencoe, Ill.,: The Free Press, 1960), pp. 151-53.

[2]John J. Carroll, S.J., from a draft for an article "Filipino Entrepreneurship in Manufacturing," for Philippine Studies (Manila: Ateneo de Manila). It should be noted that Father Carroll's study embraces only Filipino entrepreneurs and excludes the Chinese and other alien groups which predominate in the textile industry.

and plans of wide scope were necessary to insure a portion of the limited market. The entrepreneur in the textile industry in the 1950's could be characterized, therefore, by his use of modern technology on a relatively large scale.

The textile entrepreneurs have not been "new men" on the Philippine scene viewing business success as a means of achieving socio-economic mobility. On the contrary, entrepreneurship has been a means of preserving or consolidating a realized upper stratum position. At the same time, the political and economic power stemming from such an established position has endowed the entrepreneurs with the force and skill necessary to operate during the era of controls. Before 1945, only 23% of Filipino entrepreneurs were in the upper stratum (over P 15,000 per year) when they founded their establishments, but since 1950 79% of them were already in the upper stratum.[3]

However, the textile entrepreneurs have not originated from the highest class, the landed aristocracy of Filipinos or meztisos. There are only five Filipino-led firms in the industry and, although some of these entrepreneurs had substantial land holdings, all had participated in commerce or manufacturing prior to textile manufacturing. They were established businessmen, already "transitionals" in their economic perspective, willing to convert assets from prestigious real property into commerce or manufacturing with its special risks and prospects of gain. The Chinese and other alien entrepreneurs have been established as merchants or manufacturers of garments before 1950, so their membership in a deviant class does not seem to be a useful explanation of their entry into textile manufacturing in the 1950's. Rather, it appears that for the alien groups

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[3] Ibid.

import controls provided more of a push and for the Filipinos more of a pull into manufacturing, but in either case it was necessary to be equipped with the position and ability to cope with the governmental environment.

It should not be inferred from this that the textile entrepreneur was not confronted with risks of great magnitude. His uncertainty, however, was not primarily in relationship to objective marketiphenomena -- price, cost, and demand data. His risks existed vis-a-vis the government and centered on such questions as the duration of controls, the reclassification of imports, the quarterly grants for parts and materials. To face contingencies of this nature special skills and temperaments, not normally associated with Western or even earlier Philippine entrepreneurship, were essential.

The textile entrepreneurs have organized their firms exclusively in corporate form, partially for tax purposes, partially because of a belief this was most convenient for securing dollar allocations. The corporation has served principally as an instrument for organizing family rather than public finances. Ownership has generally been restricted to family and kin, both because of a reluctance to admit outsiders to membership and public suspicion of equity investment without representation. The non-family members are frequently textile importers, who want to assure a source of domestic supply like the American textile merchants in the 1830's,[4] or Filipinos welcome for their value in external relations; those whose investment is significant usually participate on the board as will be discussed in the following chapter. In 1959, two related firms had listed their common stock on the Manila Stock Exchange and had ownership lists

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[4] Lance E. Davis, "Stock Ownership in the Early New England Textile Industry," The Business Review, XXXII (Summer, 1958), p. 218.

totaling almost 400 owners each. Stockholdings were much less dispersed, however, among the other firms, ranging from 5 to 135 with a median of only 13 shareholders per firm.[5] The entrepreneur is thus principally a family leader directing an enterprise owned and controlled by one of several familial groups.

The distribution of ownership by nationality, presented in the prior chapter, exaggerates the diversity in the shareholder group, for there may be two or three nationalities within a single family in the Philippines. Filipino and Chinese elite frequently have American citizenship, and many Chinese are Philippine nationals. The alien capital is largely resident capital, not indicative of a true international joint venture.[6] Total foreign investment in newly established businesses declined continuously in the Philippines since 1951,[7] presumably due to the pattern of control implementation, and a similar trend is evident in the textile industry. The share of native born Filipinos in the industry's total paid-up capital rose from 41% in 1957 to 50% in 1959, whereas American participation fell 2% and Chinese national by 4%. Naturalized Filipinos retained about 33% of the ownership during these years,[8] but ethnically these were principally Chinese. If the veil of nationality can be pierced, the eighteen private firms appear as family groups, ten Chinese, five Filipino, one Swiss, Lebanese, and British.

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[5]Central Bank records.

[6]A proposed Philippine-Japanese joint venture, involving 30% participation by a Japanese textile manufacturer, failed to materialize in 1957 because the Japanese were still not permitted to engage in business in the Philippines. "Joint International Business Ventures in the Philippines," A Research Project of Columbia University (New York: September, 1958, mimeographed), p. 93.

[7]Ibid., p. 57.

[8]Central Bank records.

The Filipino and Chinese families are efficient means of mobilizing funds, but the limited scope of their resources requires heavy reliance upon debt financing and, secondarily, retained earnings. Analysis of the 1959 balance sheets of the private firms indicates the degree to which borrowed capital has been used.[9] The ratio of fixed assets to net worth ranges from 510% to 68% for the firms in the industry with a median of 118%, which shows that equity investment has generally been insufficient to finance fixed assets. The ratio of total liabilities to net worth varied from 27% to 568% with a median of 83% in the industry.[10]

No specific data are available on payout practices, but indirect evidence indicates that earnings are being reinvested. Although not formally required, retention of earnings has probably been due to the pressure from the Central Bank to fulfill integration plans and the availability of revenue sources outside of the books of accounts. In order to ascertain the extent of reinvestment, the change in the net worth position at the beginning and end of each period was compared with firm earnings. The increments in net worth might be due either to retained earnings or to additional investment in the enterprise, so if the increment exceeds 100% of period earnings it would indicate a net capital inflow regardless of the dividend practice. Substantial additional investment is suggested by the

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[9]Analysis of firm financial statements is based on data available at the Central Banki There are several irregular omissions due to firmsí failure to report to the Central Bank; the small specialty weavers (Table 2, Chapter III) are excluded.

[10]"What is a reasonable relationship between debt and equity in a new industrial project? There is no rigid rule. In a capital-rich country such as the United States, where many industrial firms have no long-term debt, a ratio of debt to equity of 1:3 is regarded as indicative of a fairly heavy debt for an industrial company.... In underdeveloped countries such standards cannot be expected, even in sound and well-established concerns. A debt-equity ratio of 1:1 in such circumstances is often regarded by lenders as acceptable if everything else is sound and the project is not unduly risky." Murray D. Bryce, Industrial Development (New York: McGraw-Hill Book Company, Inc., 1960), p. 254.

fact that private firms' equity positions have consistently risen faster than net annual earnings. For individual firms, the median percentage of the equity increment to net earnings was 152% in 1957, 134% in 1958 and 134% in 1959; only one firm in each of the three years had a percentage below one hundred. The significance of retained earnings is revealed in the comparison of total earnings for the three year period, P 51 million, to total net worth at the end of 1959, P 98 million.

Heavy reliance has been placed upon debt financing, which various governmental agencies have made available either directly or indirectly. Debt financing to the textile industry can be divided into liabilities stemming from dollar obligations, on the one hand, and peso obligations, on the other.[11]

The principal sources of dollar financing for machinery and equipment and the total credits granted to the textile industry are as follows:

The Export-Import Bank --	$ 11,456,000
Industrial Development Center (IDC) Dollar Aid --	10,784,000
Central Bank 5 Year Dollar Loans --	14,213,000
Japanese Reparations --	1,504,000
International Bank for Reconstruction and Development --	1,038,000
Total	$ 38,995,000

Some of the exchange necessary for machinery importations came from direct applications to the Central Bank for nonrecurring grants, but the

[11]Data on debt financing comes from a variety of sources including the Central Bank, the Philippine National Bank, the Development Bank of the Philippines, the Industrial Development Center, and various private banks. The data is incomplete but the following paragraphs represent an effort to piece the information together to obtain their aggregate form. Effort was devoted to a survey of the commercial banks to quantify their loans to the industry but there was not sufficient cooperation to make the results meaningful.

above sources account for the bulk of the dollars used for this purpose. This is indicated by a comparison of the above total financing, $49.0 million, to the total undepreciated book value of machinery and equipment for the industry of P 87.5 million, or $43.8 million at the official rate of exchange.

Foreign aid from the United States has supplied a major portion of the dollars necessary for plant and equipment in the textile industry, which has been the principal recipient of American industrial financing in the Philippines. The Export-Import Bank has extended to the Central Bank and the commercial banks a series of dollar credit lines which require preliminary approval by the IDC and the NEC; the five year loans to the textile industry under this program constituted 37.8% of all approved Export-Import Bank projects. The IDC, a joint project of the NEC and the American government, is responsible for making the initial recommendations on the lending of a special dollar fund, separate from the international reserve, which is created by the Central Bank in an amount equivalent to the dollar value of surplus commodities from the United States; IDC dollar aid is repaid by the borrowers in pesos which go into the counterpart fund. The textile industry ranks first among the recipients of aid from this source, followed by the plywood and veneer, cement, and paper industries; the $10.8 million aid from this source is 31.4% of the total Dollar Aid approved by the IDC. The IDC evaluates applications for Export-Import Bank financing or Dollar Aid according to the projects' contribution to economic development. The textile industry has, therefore, clearly enjoyed the endorsement of the Philippine government as well as the American foreign aid administrators.

The peso financing for local requirements has also received heavy

governmental support, both from the IDC and two government banks, the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP). At the end of 1959, the textile industry had the following outstanding loans involving governmental assistance:

IDC Approved Special Peso Time Deposit		P 7,875,000
IDC Approved Guaranteed Loans		3,700,000
Philippine National Banko		
Short Term Loans	P 20,661,000	
Long Term Loans	8,434,000	29,095,000
Development Bank of the Philippines		7,200,000
		47,870,000
Less: Loans Appearing in Two Categories		4,700,000
		P 43,170,000

The textile firms in their 1959 report on operations to the Central Bank listed total peso borrowings of 37.6 million, consisting of P 23.3 million in loans, P 9.1 million in overdrafts, and P 5.2 million in other funds. The discrepancy between reported borrowings and estimated total loans may be due to both the lack of complete reporting and failure to utilize all the peso credit approved by the IDC, but the above relationship does suggest the relative significance of the various governmental sources of peso funds and their absolute importance in the total financing pattern.

The two peso financing programs administered by the IDC involve the use of counterpart funds for industrial loans. Under the Special Peso Time Deposit Program, the IDC provides funds to the commercial banks at 4% interest for the purpose of long term relending to industrial firms. The commercial banks have been reluctant to enter into long term loans, due partly to their inexperience in evaluating industrial loans although much of their loan portfolio is extended via overdrafts, and the IDC time

deposit is a means of providing more long term capital through the established financing channels. Under the Industrial Guarantee Loan Fund the IDC does not actually supply pesos, but it guarantees up to 80% of the approved loans of financial institutions in order to encourage them to liberalize their collateral requirements and grant longer terms. The textile industry has also received a large portion of the total assistance granted by the IDC under these two programs; 26.5% of all Peso Time Deposits and 37.8% of the IDC guaranteed loans have been for the textile manufacturing firms.

The principal source of peso debt financing has been the Philippine National Bank, whose loans have ranged from roughly one third to one half of the total portfolio of the entire domestic banking system. In 1955 the PNB initiated a P 50 million loan program, for the purpose of providing long term capital to new and necessary industries. Many of the textile mills, including the ill-fated Roxas-Kalaw Textile Mills, obtained long term capital from this source. The industry received P 2.0 million of loans in 1956, P 5.7 in 1957 and P 4.4 in 1958, the last year of the program. Short term loans, carried over from year to year, have been the single most important source of peso funds.

The textile industry has been a rapidly growing star of the Philippine drive for industrialization and as such has benefited greatly from governmental financing programs. This heavy use of debt funds has permitted maximum expansion and profitable trading on the equity, since the cost of long term money in 1959, for instance, was 7-8% and the average rate of return in the industry was 24.2%. In its efforts to expand, the industry has strained its financial resources to the maximum and allowed little margin of safety. This is revealed in the weak current position ratios

which follow:

	MEDIAN FIRM'S	
	Acid Test Ratio	Current Ratio
1957	.5 - 1	1.4 - 1
1958	.4 - 1	1.2 - 1
1959	.6 - 1	1.5 - 1

According to Mr. Bryce, American standards of liquidity cannot be expected in the underdeveloped countries; the common American minimum current ratio of 2:1 should be lowered to, perhaps, 1.5:1.[12] It was not until 1959 that the median of textile firms' current ratios reached this minimum acceptable level, and even then half of the firms had lower current ratios.

Firms with technically insolvent positions have been able to meet working capital requirements temporarily by overdrafts and reinvested earnings. But earnings and new equity have not always kept pace with plant and inventory requirements, and the high ratio of liabilities to net worth has been an obstacle to securing additional debt.

Lastly, the question of the adequacy of capital both for textile manufacturing and industry in general requires consideration. It is frequently asserted that the problem of capital formation "is at the very centre of the problem of development in economically backward countries,"[13] and Filipino economists often cite this as a serious bottleneck. According to one, "In the context of the Philippines, where the deficiency of capital is apparent, any increase in saving, public or private, will readily find investment opportunities."[14]

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[12]Bryce, p. 129.

[13]Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries (Oxford: Basil Blackwell & Mott, Ltd., 1953), p. 1.

[14]Augustin Kintanar, "An Analysis of the Effects of Certain Modifi-
(continued)

Nevertheless, there is impressive evidence that the lack of capital has not been as serious a deterrent to development in the Philippines as other factors. Large amounts of peso credit have been available through institutional credit creating agencies, interest rates have been low, and banks have carried substantial excess reserves. Some say that the effective restraint has been exercised by the limited foreign exchange, but this is inconsistent with the unused portions of the Export-Import Bank dollar credit line and the prevalence of imported luxury goods in Manila. Credit for industrial projects has been greatly eased by the American foreign aid program's direct supply of dollars and the use of counterpart funds to overcome the commercial banks' traditional preference for trade.

Generalizing from observation of the textile industry, it would seem that two related but more significant obstacles to industrial development are the inability to mobilize large amounts of risk capital and the limited number of sound industrial projects. The textile firms are undercapitalized because of the limited resources of their family entrepreneurial groups and this restrains their ability to expand via debt, which would otherwise be available. The corporation form is ineffective for broadening the equity base, because it is still largely considered a personalized vehicle for familial business purposes.

A second restraint on the Philippines' tempo of industrialization is its "absorptive capacity," its ability to utilize capital constructively. The IDC rejects almost as many applications for dollar aid or peso loans

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cations in the Tax Structure on the Rate of Economic Development in the Philippines," (unpublished Ph.D. dissertation, Department of Economics, Yale University, 1960), p. 6.

as it approves, not basically from lack of capital, but because of the unsoundness of the proposed projects. When the successoof textile ventures seemed assured, textile projects multiplied far in excess of national requirements and disapprovals were prompted by reasons unrelated to capital availability. A number of other industries have experienced similar vogues, with clusters of entrepreneurial enthusiasm carrying the industry past national needs and stopping the flow of credit. Poorly planned and naive proposals reflect an absence of technically trained businessmen capable of using capital in an effective fashion.[15] In this purportedly "capital-poor" country, capital is thus paradoxically abundant compared to the supply of individuals with the ability to combine it productively with other factor inputs.

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[15]An example of naivete is the followingdletter of inquiry addressed by a physician in 1957 to the IDC:

"Dear Sir:

A corporation we are now organizing intends to engage in the manufacture of textiles. With an estimated capacity of 16 to 20 million yards of finished product, may we requestoyour office foro such technical assistancedcovering the following:d

1) Suggested paid up capitalization.
2) Number of spinning spindles and where to buy them.
3) Number of weaving looms and where to buy them.
4) Approximate area required for the site of the plant and other desirable features of said site.
5) Other essential information as personnel requirements.
6) Status of the availability of raw materials."

CHAPTER VII

MANAGEMENT

The economic controls which have accelerated the growth of the industry have at the same time diluted the urgency of management development. The focus of management attention has been external because profit potential has been greater in increased dollar allocations than in higher operating efficiency. The entrepreneurial groups have considered effort at the Central Bank as important as at their plants, and the result at each level of the organization has been less concentration upon management development than would seem necessary in a period of decontrol.

Top and middle management is either imported or corresponds to the familial entrepreneurial groups described earlier. The Philippine and Chinese managers reflect a high centralization of authority and paternalistic concern for subordinates, traditional characteristics which are considered impediments to efficient industrial administration by Western standards.

Management deficiencies have been partially concealed by the facility with which a textile mill can be established and put into initial operation. It has customarily required only three or four months to erect machinery, select supervisors, train a rudimentary labor force, and start production.[1] The factory from its initial runs is deceivingly impressive in its modernity. Rows of new spindles, busy workers, and comfortable profits divert attention from management deficiencies. A competent and adequate staff is

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[1]E.g. Re. Riverside Manufacturing Corporation, "Production started last November, three months after installation of machinery started." Manila Bulletin, April 2, 1958, p. 37.

not required to operate a textile mill. The inefficiency caused by management shortcomings becomes apparent only when productivity is analyzed and compared to other countries as is done in Chapter IX.

Management will be examined in this chapter at various levels of the organization: the board of directors, top and middle management, foreign management, and the foremen. The unique problems of the government mills will be discussed, as well as one functional area, personnel management, which illustrates peculiar Philippine problems. Finally, the vigorous institutional response to management needs will be described.

The Board of Directors

The boards of directors are principally small inside groups, revolving around the family of the entrepreneur and bound together by financial interests. All the textile firms are in corporate form and legally required to have boards of directors. These boards, however, infrequently function in the orthodox manner as a policy making mechanism; more often they represent a perfunctory compliance with the corporation law or a means of providing representation to equity groups reluctant to delegate authority or control.

Table 6 analyzes the boards of directors of fifteen firms, representing 79% of private textile employment. The differentiation between inside and outside groups does not follow the American definition, but classifies as insiders those who are corporate managers, family members, or both.

Group I firms are those in which the board is exclusively a legal requirement rather than a functioning level of management. The directors, both full time managers and members of the controlling family, are in constant association administering the affairs of the company. They see

TABLE 6

CLASSIFICATION OF THE MEMBERS OF THE BOARDS OF DIRECTORS OF PHILIPPINE TEXTILE MANUFACTURING FIRMS -- AS A PERCENTAGE OF THE TOTAL NUMBER OF EACH BOARD

	Inside Group				Outside Group		
Type of Company Operation	Directors who are both Corporate Managers and Family	Directors from Family Only	Directors who are Corporate Managers Only	Total Inside Directors	Directors Representing Large Interests	Directors Representing Nominal Interests	Total Outside Directors
Group I:							
1. Integrated	100%			100%			
2. Spinning	100			100			
3. Integrated	80	20%		100			
4. Spinning	80	20		100			
5. Spinning	80	20		100			
Group II:							
6. Integrated	25%	38%	25%	88%		12%	12%
7. Integrated	46	27	9	82	18%		18
8. Integrated	75			75		25	25
9. Spinning	40	20		60	30	40	40
10. Integrated	20	40		60	30	10	40
11. Spinning	43	14		57	43		43
12. Weaving	25		25	50	38	12	50
13. Spinning	25		25	50	38	12	50
14. Integrated	25	12		37	12	50	62
15. Spinning	18		18	36	18	46	64
Average For							
Group I	88%	12%	0	100%	0	0	0
Group II	34	15	11	60	19	21	40

no need to sit down formally as a board, and the meetings, which are seldom held more than once a year, make little contribution to company progress.

The firms in Group II have ownership and board membership more widely dispersed. An average of 60% of the directors is from management and the controlling family; on the average, the remaining directorships are evenly divided between directors representing their own substantial financial interests and directors with only nominal interests. Many of the former group are textile importers who have joined the company promoters in order to insure participation in the textile market as manufacturing replaces importing. These directors duplicate the commercial experience of the inside group and share their inexperience in manufacturing; they are concerned with guarding their financial interests and obtaining their share of the company's production to market through their own wholesaling firms.

The unreliability of disclosure requirements, the lack of safeguards for investor interests, and the potentials for inside manipulation combine to prompt each interested party to secure an overseer position on the board. One integrated firm has sold stock to "respected Filipino interests" each of whom is represented on the board. Among the Group II firms, the number of directors average 8.5 per firm compared to 5 for the Group I firms, and the meetings are monthly or quarterly. But because of the above motivation for membership positions, there is an uncertainty in most companies as to the proper use of the boards.

With few exceptions, the outside directors with only nominal interests are not manufacturers or engineers capable of rendering judgment on technical questions. They are generally either kinsmen of the entrepreneur, or lawyers or bankers with external prestige. In one firm, for example, a board executive committee with two insiders and three outsiders has been

created "to assist and advise the management." It is significant that the outsiders, native born Filipinos in a firm of naturalized Filipinos (Chinese), have the following qualifications: bank president, former member of the Central Bank Monetary Board, and executive vice-president of an insurance group. Well adapted to the task of cementing relations with financial and governmental bodies, they exemplify the external perspective of the top executive group.

Top and Middle Management

In spite of the industry's size, indigenous management is basically a family affair. Of the 29 top executives of the Group I firms in Table 6, 22 are family members, only four are Filipino or Chinese non-family members, three are foreign technicians. Group II firms are also family managed but to a somewhat lesser degree. The network of family relationships throughout the organization of most firms illustrates the significance of familial solidarity in the Philippines. The background of the entrepreneurs and the variety of unrelated experiences of their family members have not been directed toward industry. But the kinship and emotional ties which bind the family participants in a sphere of confidence afford security from discharge and discourage initiative. The consequence has been a conflict between the real demands of family responsibility and the objective standards of an industrial society.

The problem is accentuated by the hierarchical structure of both the Filipino and Chinese family. A marked generational respect assigns authority to age within the group, with the result that the eldest is frequently the president or chief executive although not necessarily the most competent.

The textile entrepreneurial and management groups generally represent what we have called earlier the "transitional Filipinos". They recognize

the demands and value of the traditional system, but attempt to reconcile them to the exigencies of the business situation. Frequently family members are placed in sinecures with title and salary but little real authority. In one company, for instance, the four sales executives outnumber the sales force; the top two are family members and the bottom two perform the actual marketing functions. In several cases family assets were not committed to manufacturing until the senior member died and his absence permitted sons to assume initiative. In other cases, there is proper deference to older family members but a tacit understanding that a son is chief executive. However, even among this transitional group, the support of nonproductive managers is a heavy financial burden and hierarchical control restricts the scope of action of younger family members.

The owner-managers are confronted with a void between their own highly educated, top level group and the mass of workers in the factory. They are generally cognizant that their principal management problem consists of bridging this gap with qualified technical supervisors. Most have developed organization charts based on Western patterns, but which contain empty boxes indicating future personnel goals. The boxes often have not been filled because there has been little pressure to improve efficiency and because qualified candidates were scarce or unobtainable. Wide spans of controls and overlapping authority in unstaffed areas have been the result.

This organization void is partially caused by a comparable phenomenon in Philippine society between the educated and professional elite, on the one hand, and the unskilled laborers, on the other. The prestige accruing to professional status and white collar positions has diverted the ambitious from skilled and semi-skilled occupations of a productive

character.[2] There are generally insufficient middle managers, with technical training and industrial experience, to translate the directives of top management into operating results.[3] The flow of technically trained personnel is expanding, but in the interim reliance has been placed upon an inadequate number of foreign technicians or nationals, who received their training either in foreign enterprises located in Manila or with the government textile mills. Higher salaries and greater opportunities have been used to attract such experienced Filipino managers. Many lawyers have sought industrial employment at the middle management level because of the degree of competition in their professional field.

Nontechnical managers are also employed, especially by the non-Filipino firms, as political emissaries similar to some of the outside directors. One has a vice president in charge of political affairs, a prominent newspaper columnist, who is alleged to spend half of his time at the Central Bank.

The vacuum at the middle management level is being filled by a remarkable variety of programs, public and private, which are described at the end of this chapter. In spite of their short supply, men with engineering training have been more easily found than managers capable of supervising others, and much of the recent emphasis has been upon administrative techniques.

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[2]In 1950, there were 3,524 physicians, 3,896 lawyers, and only 64 industrial engineers in the country. Facts and Figures about Economic and Social Conditions in the Philippines, (Manila: Bureau of Census and Statistics, 1950), pp. 1-2.

[3]As phrased by a prominent Filipino economist, Mr. Sixto K. Roxas, to a graduate class in management engineering, "In choosing management engineering you have, I believe, hit at the point where the greatest bottleneck exists. Management skills are the scarcest ingredient of progressoin our country, a commodity more scarce even than capital or dollars." "The Full Tasks of Progress," Central Bank News Digest, XI (Manila: October 22, 1959), pp. 4-5.

Authority has been husbanded by top management, partially in accordance with social tradition and partially because of a lack ofcmiddle management capable of assuming responsibility; theoelimination of the latter defect is now coming onto the Philippine horizon.

Foreign Management

The management of production has in all cases required foreign textile specialists, called technicians, and frequently recruited by the foreign firm supplying the capital equipment. The textile firms have used technicians in two distinct ways. In some companies, they are the direct line, operating managers with full authority over the mill or department, whereas in others the line supervisors are Filipinos and the technicians serve as staff advisors. The number ofotechnicians employed varies greatly among firms from several with single foreign operating managers to one with 17 Japanese advisors.[4]

In those firms using technicians for operating heads, the top Filipino executives have frequently delegated full internal authority to them, in contrast to their reluctance to delegate authority to Filipinos. This has permitted top management to concentrate on external affairs and to neglect the development ofcproduction management. Where the nationals have divorced themselves from manufacturing operations, the techniciano has become indispensable -- replaceable only by another foreign technician. The technician -manager is generally responsible for training understudies,obut the demands of daily production almost always overshadow such long range problems. At

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[4]Firms prefer American technicians, but their annual cost is approximately double that of a European and four times that of a Japanese technician. Non-American foreign technicians seldom speak English well enough to assume line authority.

least five mills rely upon a single technician, overburdened with physical duties. According to the International Cooperation Administration technical advisor, "The most glaring shortcoming relating to the foreign erectors and supervisors is that there has not been enough of them."[5]

How long will foreign technicians be required? Estimates among firms vary from three to ten years. Although the cost of technicians is substantial, it would appear that the present need is for an expansion rather than a diminution in their number, for low productivity indicates substantial potentiality for improved efficiency. One economist has estimated that "the cost of imported experts per year would probably be much less than a quarter of what the plants would lose annually if operated at high production cost and substantially below capacity."[6] To some extent management in the Philippines is, therefore, an imported factor, molded into an English, German, or American framework. The wider use of technicians at the present would permit them to spend more time on management development and less on operations, thus accelerating the emergence of a true Filipino management.

The Foremen

The foreman, sometimes called an overseer or incharge, who supervises the workforce one level below him, merits attention as the probable manager of the future. The source of foremen has been practically identical in all the private mills. A group of young men was hired in each to erect the new textile machinery under the supervision of its foreign staff. It was customary for the technicians to select those whom they considered most capable to serve as foremen when production started. The criteria used were generally personality, mechanical aptitude, education, and English

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[5]Buffington, March 1, 1957, p. 29.

[6]Bryce, p. 167.

fluency; the last being weighted heavily by the Englishoand Americans. Since the turnover of foremen has been small, itois essentially this same group currently holding the foremen jobs. The foremen group isomarked by its youth. For most this was a first joboand ages averaged 25 or 26 in 1959, compared to the average age of department heads which was generally almost ten years older.

The foremen have thus been selected by vague standards and endowed with the status of authority over non-kinsmen. This has created problems of interpersonal relationships which have frequently prevented the foremen from functioning in the pattern outlined by the foreign technicians. Self esteem or hiya "is one of the most important concepts in the social psychology of the Filipino."[7] "The Filipino does not distinguish, in general, the person from the role he is playing. Hence, the criticism of a man's work as such is taken as a criticism of him as a person, reflecting upon his family as well."[8] Direct discourse, blunt or authoritarian language from one with the arbitrary status of a foreman can, therefore, be considered a personal and dangerous affront. This phenomenon is continuously manifest in the reluctance of some foremen to assume direct responsibility and the violence which is directed toward others outside of the factory compound.[9] Social pressure thus often forces the foreman into a pattern of subservience or, as an alternative, militant and rigid

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[7]Areadhandbook on the Philippines, p. 431.

[8]Ibid., p. 435.

[9]Two incidents canobe used to illustrate this problem. A Filipino foreman advised an American weaving technician to discharge an operator for incompetence, but urged the American nototo inform the worker of the foreman's recommendation. In another case, a Filipino foreman, confronted by an American technician with faulty practices in his department, shrugged his shoulders and responded "but I explained to them how to do it."

authority, neither of which is consonant with the normal requirements of the position.

Much effort is currently being directed to the training of foremen in technical skills, but less emphasis has been placed upon the development of supervisory authority and human relations, areas where even greater deficiencies exist. The problem has been aggravated by the Filipino management's vacillating attitude toward the foreman's authority, as well as the foreign technician's misunderstanding of Philippine mores.

Management in the Government Mills

The mills of the National Development Company have been the highest cost, least efficient in the country, losing money even in the protected 1958-59 market. Their poor performance has been partially due to the straight jacket within which management tries to function. Problems stem from the conflict of objectives of the textile operation, the centralization of authority, and the political character of much of the decision making.

The N.D.C. can not focus upon the single objective of profit making as can the private mills. Instead, we have seen that they were established before the war to satisfy varying objectives, often susceptible to conflicting means of implementation. The goal of training textile workers for the industry can impinge upon the firm's ability to provide low cost yarn for the Ilocano weavers. The restrictions against underselling the private mills have caused bodegas (warehouses) to fill with inventory, losses to rise, and layoffs to become necessary, although a cardinal objective is the creation of employment. Although the criterion of performance applied to the N.D.C. is customarily that of profitability, in fact, it is a political institution, which attempts to satisfy conflicting objectives simultaneously and, in the process, has created an attitude of resignation and sometimes indifference

in its management. Both mill managers are competent and diligent, but pessimistic about improving efficiency as long as government control exists. Because of these attitudes, as well as their underlying reasons, none of the complex of objectives for which the mills were established is well satisfied.

The members of the Board of Directors are presidential appointees, none of whom has had prior textile experience. Nevertheless, the Board maintains control over a wide area of operating problems, which could be better solved closer to their area of origin by trained personnel. For instance, sales contracts exceeding P 10,000 require approval by the Board and referral to the General Auditing Office, causing a delay during which textile prices fluctuate in the local market. Depending on market conditions, private mills vary their terms, sell on consignment without security, and grant rebates. On the other hand, the Board of the N.D.C. has fixed the credit period, required surety bonds or domestic letters of credit, and must approve all price changes.

Operating management, hindered by its exclusion from many of the essential decision making areas, is also adversely affected by the political character of the Board's dictums. The decision to construct a mill in Ilocos Sur was motivated more by pork barrel considerations than the economic geography of the site. An initial commitment was made at the Ilocos mill to hire workers recommended by the sellers of the land upon which the factory was constructed; the rate of exchange was one hiring per 1,000 square meters sold. Political favor has been sought by the Board by granting wage concessions coincident with national elections; hours are shorter and wages higher than in the private mills. Political staffing seems in some cases to have lowered efficiency.

N.D.C. management, as distinct from the Board, reflects two attitudes generalized in the Philippines. Firstly, a previously noted faith in the inherent superiority of private versus public enterprises; secondly, an acceptance of the reality that the political power accruing to important institutional positions will be utilized for the furtherance of political objectives. This mental framework may contribute to an unimaginative approach to management problems based upon an acceptance of the status quo.

Personnel Management

Personnel management is the internal functional area which has been of greatest concern to top management, while areas such as quality control, production planning, and cost accounting are relatively undeveloped. The emphasis upon industrial relations, particularly hiring, although factory oriented is motivated principally by its external effects.

These external effects are derived from the premium attached to full-time employment and the interdependence existing between the company, government officials, and the masses of underemployed people. Hazarding oversimplification, this interdependence will be described.

Personal relations in the Philippines are marked by a benevolent paternalism between members of the upper and lower classes. "When a man from the lower class asks a gift from one of the upper class, the individual in the upper class does not deny the requesti To refuse to offer a gift would be to cast doubt upon one's ability to bestow the favor, and would call the whole system of status into questioni The poor as well as the rich expect to play the roles that are suitable to their social positions."[10] Various systems of mutually supportive services maintain this status

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[10]AlviniH. Scaff, "Class Stratification in the EDCOR Communities,i" Philippine Sociological Review, II (1954), p. 8.

hierarchy between groups. Politicians in the upper classes, dependent upon the votes of the barrio people for continued power, reciprocate by means of pork barrel outlays and a wide spectrum of personal favors, particularly job recommendations. Barrio people, therefore, naturally approach local politicians for employment, rather than the employing enterprise itself, and it becomes imperative for the politician to satisfy a reasonable portion of such requests.

The manufacturer's reliance upon the national government has been emphasized especially in connection with exchange control. It is also important to maintain favorable relations with local government officials in order to obtain the benefits of flexible law enforcement and to insure the maintenance of peace and order in the mill area. Thus, an interdependence of company, politicos, and people is created, partially bound together by the scarce component, jobs, with the politicians providing the distributive mechanism.

The hiring process in every private mill, with some few exceptions for experienced workers and engineers, is shaped by this interdependence. Recruitment is unnecessary as supply far surpasses demand; in spite of the low labor mobility in the Philippines, mill owners estimate that there are five to ten applicants for each job opening. Hiring, therefore, is an allocation process, and a wide variety of external demands exists to be satisfied. Perfunctory screening is ordinarily done by a personnel department, but the actual selection is made by the top executive or family group.[11]

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[11]Each prospective employee carries letters of recommendation from politicians, the form of which indicates the extent of the recommendor's interest. A typewritten note manifests routine approval, but a handwritten letter reveals personal concern, meriting special attention. One letter of recommendation which I saw for a sweeper's position was from the President of the country, but it was typewritten.

They may ration jobs among governmental agencies or concentrate upon a particular geographic area, either the mill location or the home of the entrepreneurial group. Effort is made to obtain the maximum return from the process, although opinions differ among managers as to how this is best done. At least two ill effects may be caused by this practice: the line supervisors seldom participate in the selection process and the highest quality workers are not necessarily hired, and top management effort is absorbed in an area of decision making, which by Western standards should be delegated to a lower level of the organization.

Top management's involvement inithe hiring process is also due, partially, to paternalistic concern over the entrants to the company family. Especially in Philippine firms, effort is made to recreate the traditional social structure of the family or hacienda, with its system of authority and reciprocal services.[12] Consequently, management reflects non-objective solicitude in various aspects of its personnel relations. Fringe benefits are high, family loan funds are established, corporate counsel is provided for employees in legal difficulties. Since the foremen and middle managers have not been able to bridge the gap between the top and bottom of the factory hierarchy, requests for favors and grievances are typically directed to those holding the reins of centralized authority.

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[12]"Even as the more benevolent landlords assume responsibility for the special needs of the tenants, so do many industrial corporations attempt to alleviate the lot of their employees.... In saying that this system is compatible with Filipino tradition we might point to the provisions of the civil code which give legal recognition to the subparental type of authority exercised over apprentices by the directors of trade establishments (Chapter 6, Article 349, Sec. 4, Civil Code of the Philippines, Republic Act No. 386). This article is in line with the pattern in which the authority of the father is transferred to the employer and workers are regarded somewhat in the category of dependent children." C. L. Hunt, et. al. Sociology in the Philippine Setting (Manila: Alemar's, 1954), pp. 336-337.

The employees in turn may render allegiance to the company by acquiescing to membership in a company union or convincing their kinsmen to vote for the political candidates recommended by the company.[13] Owners stress that workers willingly embrace voting suggestions in order to express their gratitude to the company. And workers who successfully deliver votes may be given prizes or the privilege of recommending friends for employment.

The above observations concerning management paternalism, based upon a system of reciprocal favors, may seem inconsistent with the union activity in the industry. A mixture of causes may explain the juxtaposition of these two phenomena -- paternalism and unions. Firstly, legitimate union activity appears to be greatest in the Chinese firms where personnel relations cannot easily assume a traditional structure. Secondly, impersonal factory relations in the industry are new relations for all participants, workers as well as managers. Just as we termed the entrepreneurs members of a transitional class, so must the whole scope of industrial relations be considered a novel and perhaps transitional experience, concerning which the traditional concepts cannot have universal application. Thirdly, the unions in the industry are not organized from within by workers, representative of a rebellious spirit within the firm. On the contrary, union leaders are outsiders, entering the strained social relations of the abruptly new mill situation, who may successfully transfer employee allegiance away from the owners and establish themselves as the authoritative source of benefits.

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[13] The following story of the 1959 national elections has been verified by a number of personal informants. The controlling family of one firm had conspicuously supported the losing presidential ticket in 1957 and had subsequently not received anticipated dollar allocations. Through kinsmen of its 1,500 employees, management believed it could control 20,000 votes and agreed to use them to support one of the administration's senatorial candidates. In November the candidate was defeated but the delayed exchange grant was awarded.

Finally, the Philippines has historically been marked by agrarian unrest and physical uprisings, which, in some ways analogous to union organization, have been exceptionsito the rule and have not destroyed the persistent validity of the above generalizations concerning paternalism from above and submission from below.

Institutional Response to Management Needs

The management deficiencies discussed should not obscure the significant trend, which is occurring in the Philippines, toward greater emphasis upon industrial management in general and specialized textile training in particular. This remarkable response to management needs is attributable to public, foreign, and private initiative, each of which will be briefly described.

The earliest attempt to meet the need for trained textile personnel was made by the N.D.C., which in 1955 opened a vocational school on its premises to provide free spinning and weaving instruction for prospective textile workers. Some 15,000 have been given certificate and grades for completion of the course, which terminated in 1959 due to a slackening of demand. N.D.C. has no current records of these graduates, and it is apparent from the number involved that many are not employed in textile mills.

Much of the Philippine government's activity in this area has been in conjunction with the American foreign aid agency, the International Cooperation Administration (ICA). An example of a successful joint project has been the Industrial Development Center (IDC), which has a textile consultant on its staff and provides a rangeiof training opportunities, from executive development programs to technical courses in cotton classification. Eleven of the 19 largest private mills have enrolled employees in IDC supervisory training courses and almost all have had more specialized assistance. ICA is also contributing to a proposed textile research center at the College

of Engineering of the University of the Philippines, and it has various programs to send Filipino textile personnel to the United States for observation tours and formal textile training.

But the institutional response has been in large measure due to the functioning of the market in the private sector of the economy. Private universities in the Philippines are profit making enterprises, sensitive to variations in demand, and it is significant that curriculums are being altered to include more engineering courses, in addition to the traditionally popular professional area. Education in the Philippines is the most feasible means of social advancement and young Filipinos reflect an awareness that a career in business management may be a desirable alternative to law or medicine.[14] Textile engineering curriculums were started in 1958 and 1959 in two universities, and by the end of 1959 there were over 300 night students working for textile degrees.

Harvard Business School's Advanced Management Program in the Far East, sponsored by various local groups, and the Industrial Management Center, Inc., a competitor of the public IDC, are important examples of this private response.

Finally, it has been necessary for the mill owners, themselves, to recognize the need for trained managerial and technical employees, for it is their endorsement of these programs which has stimulated their growth.

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[14]In a prestige evaluation of 30 occupations in the Philippines, manager of a business company ranked 7th after the professions, congressman, university professor and priest and before officer in the armed forces. However, the manager position ranked first among respondents earning over ₱ 600 per month and lowest among those with the lowest incomes, indicating that the traditional prestige pattern is changing most rapidly at the higher income levels. Edward A. Tiryakian, "The Prestige of Occupations in an Underdeveloped Country: The Philippines," American Journal of Sociology, (January, 1958), p. 399.

Although family and kinsmen were often selected for the most attractive training assignments, by 1959 an appreciation of the objective techniques of scientific management was becoming more widespread. Job evaluations were introduced in several companies; cost accounting consultants were employed in others. The competition stemming from expanded capacity, the prospects of decontrol, as well as the increasing sophistication of the business community were combining to accentuate the need for trained management personnel.

CHAPTER VIII

LABOR

Since the majority of jobs in the textile mills requires no prior training or skill, a labor force could be assembled and put on the job in the matter of several months. The workers selected were young, single Filipinos, often separated from their provincial homes, who were willing to accept the legal minimum for their first wage employment. With no differentiation as to title or compensation, they were abruptly ushered into the new world of the factory. But the new responsibilities have not furnished financial independence, for earnings have been too low to satisfy the needs of senior family members and the maintenance of one's own home. The low wages, novel personal requirements, and the objective social environment have made the workers susceptible to the advances of ambitious union leaders who have found the large mills to be fruitful sources of support.

This chapter will describe some of the characteristics of the Filipino textile worker, then evaluate his compensation in relationship to his needs, and finally analyze the phenomenon of unionism in the industry.

Characteristics of the Labor Force

Three factors appear to have interacted to shape the particular characteristics reflected in the labor force -- national legislation, the special nature of the textile manufacturing operation, and the socio-economic forces already noted on the Philippine scene.

A system of welfare legislation with extensive fringe benefits stands in paradoxical contrast to the extreme inequality of wealth and power in

the Philippines. The pressure of American demands and the rivalry of internal interest groups in a functioning democratic political system have combined to prevent the exploitation of child and women labor, as well as to prescribe a variety of benefits for factory laborers. The concentration of workers in the lower age categories of the distribution below, while directly affected by the Child Labor Law, is also shaped by other influences. Older, experienced personnel are unavailable, and many managers prefer to have a young labor force, malleable in respect both to physical performance and psychological attitude.

Age Distribution of the Labor Force inithe Private Mills at the Time of Hiring[1]

	Male	Female	Total
18-20 years	9.4%	12.5%	10.1%
21-25 years	44.8	58.0	47.8
26-30 years	28.6	22.7	27.3
31-35 years	11.6	4.5	9.9
36-40 years	3.2	1.7	2.9
over 40 years	2.4	.6	2.0
	100.0%	100.0%	100.0%

[1]Statistics on the characteristics of the 15,711 employees in the industry, presented in this section, have been collected from the application forms prepared by all workers prior to employment. Although the forms vary, the information required of applicants is almost identical, but subject to two possible sources of inaccuracy. Firstly, firms normally do not verify the facts presented by the prospective employee and applicants can present incorrect information in order to enhance their positions. The second weakness is an absence of definitions of the terms appearing on the employment forms. The job seekers must state the number of their dependents, for example, but they may have differing opinions as to what constitutes a dependent. No sampling was done, but statistics are presented for those firms willing to collect these facts from their records. Coverage as a percentage of the entire industry work force is 92.9% for the age, sex, and civil status of employees and 50.4% for geographical origin. All statistics refer to the time of hiring.

Laws concerning the employment of women, particularly maternity protection,[2] have made female workers more expensive than men and discouraged their use, even on jobs where they have an inherent superiority. Managers prefer the manual dexterity of women, butdcontrast these characteristics with the high cost of repeated pregnancies and legal restrictions against discharging workers. The conflict is reflected in the fact that 24.6% of the work force is female as opposed to 67.4% of the prewar Soviet work force in textiles and 42.4% in American spinning mills.[3] Data on the civil status of the private work force also reflectda bias against married women prompted by the maternity leave provisions.d While 65.4% of the males are unmarried,d 77.6% of the females are unmarried; national statistics, on the other hand, indicate that 66.1% of the males and only 43.5% of the females between the ages of 20 and 25 are single.[4]

The characteristics of the personnel at the NDC's Manila mill are markedly different because of the longer duration of operations there. A much smaller fraction of the government workers are under 30 years of age, 24.4% compared to 85.2% in private employmentd and 34.8% are over 40 as opposed to 2.0% in the private sector of the industry.[5] The number of

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[2]The law provides that pregnant women are to be granted six weeks leave prior to the expected delivery date and eight weeks leave after delivery, with compensation of not less than 60% of their regular wage. Republic ActdNo. 679, April 15, 1952.

[3]Walter Galenson, Labor Productivity in Soviet and American Industry (New York: Columbia University Press, 1955), p. 200. Philippine textile engineer, Francisco R. Lopez, suggests that 66% of the work force should be female in an optimum plant. Chemistry in the Philippines, p. 278.

[4]Philippine Statistical Survey of Households Bulletin, Series No. 3 Vol. 1, "Labor Force" (Manila: Bureau of Census anddStatistics, May, 1956), Table 3, p. 15.

[5]There is some inaccuracy in this comparison due to the fact that the NDC figures are for 1959 and figures for the private mills refer to the hiring dates.

single women workers, 40.3%, is lower in the public mill but disproportionately high vis-a-vis the national figures, which suggests that the urban-factory environment discourages female marriage, and responsibility cannot be placed on welfare legislation alone.

The textileientrepreneur's external orientation because of heavy reliance on government support is reflected in the nationality and some aspects of the geographical origins of the workers. In spite of the extent of foreign ownership, only .2% of the work force is alien, and these few are found in two Chinese firms. Although unemployment is not as great a problem in the foreign community, there would be a natural tendency among the Chinese to hire more non-Filipinos if it were not for counteracting forces -- the fact that the government requires lists of alien employees and the belief that an alien workforce might adversely affect a firm's ability to gain government privileges, as well as the political value embodied in the allocation of jobs to Filipinos. The work force is then basically Filipino, although aliens are more numerous in salaried positions, five fold greater in number, due to the presence of foreign technicians and the foreign entrepreneurial groups, especially Chinese.

Analysis of the geographical origins of the work force, presented below, presents a mixed picture of labor immobility and abnormal concentrations, partially explicable in terms of hiring practices discussed in the prior chapter:

Provincial or Family Home of Textile Hourly Workers
(% of total employment)

Luzon:		
Cities or Provinces with Textile Mills		
Bulacan	5.7%	
Ilocos Sur	9.6	
Manila	12.6	
Quezon City and Pasay	4.8	
Rizal	26.5	59.2%
Bicol	7.1	
Batangas	6.2	
Laguna	2.3	
Nueva Ecija	2.3	
Pampanga	2.1	
Quezon	2.2	
Pangasinan	2.9	
Other Luzon Provinces	5.1	30.2
Mindanao		.7
Visayas		9.9
		100.0%

Although 40% of the labor force comes from non-mill areas, this does not necessarily reflect high labor mobility in a classically free market. Much of the migration is due to regional hiring by the entrepreneurial group, in accordance with the patternidiscussed in the prior chapter; such wholesale transfers of workers may perpetuate the paternalistic relationship of the province, or aid in the creation of political power, or simply reflect the hiring of kinsmen. It is not possible to gauge precisely the extent of this practice, but observation coupled with an analysis of the statistics reveals some striking examples. Almost half of the workers from Nueva Ecija, for instance, are employediby a firm whose owner's son-in-law is attempting to gain a congressional seat in that province. A single firm employs 62% of the workers from Batangas, and another has 352 workers from Masbate, 90% of the workers from that island and 49% of the workers from the whole Visayan region. It may be argued that such geographical

concentrations within the labor force are not incompatible with factor mobility, for they may be caused simply by hiring preferences in regard to the reservoir of unemployed urban labor; workers from all provinces are in Manila seeking employment and mill owners may be hiring workers who have already migrated. However, although not subject to quantification, at least someiportion of the labor force which has journeyed to Manila for jobs came because of promises and offers made in the provinces beforehand.

The sources of migration have not been proportionate to the dispersion of the population. The Visayas and Mindanao are significantly underrepresented, andithe Tagalog areas of Luzon are overrepresented. Closer proximity to Manila affords greater knowledge of employment opportunities in the city, as well as ease of access. But the Tagalog provinces are also the scene of the most extensive tenant poverty and underemployment. To the extent that labor mobility exists, workers are not pulled from the countryside by the prospects of jobs, but they are pushed toward the primate city by the increasing population density in these areasi Ilocos Sur, on the other hand, does not have Manila's unique urbanization problems, and the mill there has few employees from outside of the province; 82% of the work force is from the mill town and 87% from the province. This has been caused by the unusual hiring procedure described in the prior chapter, and the fact that Filipino workers are not geographically responsive to employment opportunities.

Although working conditions, load, and hours are comparable to the American pattern because of national legislation, the worker enjoys neither high prestige nor ample compensation.[6] The single workers living in the mill

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[6]Of 30 occupations in a job rank evaluation in the Philippines, "factory worker" was listed 23rd in terms of prestige after fisherman, construction worker, and farm tenant. Edward A. Tirakyian, "The Evaluation of Occupations in an Underdeveloped Country, The Philippines" (unpublished Ph.D. dissertation, Department of Sociology, Harvard University, 1956)i, p. 114.

area reside with parents or kin, whereas those from the provinces may live in boarding houses or with kinsmen. In either case, much of their salary goes directly for family as opposed to personal uses.

Textile employment for most workers is an introduction to the impersonal atmosphere of the factory with objective obligations and a money wage. They receive little indoctrination in the responsibilities and requirements of their new way of life. After a several week on-the-job training course without pay, the successful are added to the payroll as regular employees. In their early stages of factory employment, the workers attempt both to retain ties with their rural kin and to discover a counterpart to the traditional system. The former creates the need for financial contributions to provincial kinsmen and involves the absenteeism prompted by fiestas, funerals, or marriages in the provincial home. The latter causes the worker to seek paternalistic advice, status, and security from either his employer or union leader.

Compensation of the Work Force

Although the existence of textile jobs helps alleviate unemployment, the compensation of the work force is inadequate when contrasted to the urban cost of living or Manila wage levels. Consequently, when an individual wage earner must support a large family, as is frequently the case, the group is not economically far above the situation of the tenant farmer.[7]

Wages are supported by the Minimum Wage Law of P 4.00 per day for industrial employees,[8] a law which is widely broken especially in small firms. There is, however, general agreement in the industry that adherence to the

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[7]Filipino families as a rule are large: 62% of urban families have over five members. Philippine Statistical Survey of Households Bulletin, Series No. 4 Vol. 1, "Family Income and Expenditures" (June, 1958), Table II, p. 28.

[8]Republic Act No. 602, April 6, 1951.

law exists, primarily because the size of mills would make violation too conspicuous and unions, to the extent they are independent, would expose any breach. With the exception of permitted sub-minimum wages for apprentices, a wage floor of P 4.00 per day is operative.

The average daily wage rate for October, 1959, was obtained from 14 of the large private mills, and the range was from P 4.10 to P 6.32, with a median of P 4.47; the average daily wage rate at the NDC mill in Manila was P 6.63, reflecting its longer duration of operations and the political character of wage determination there. On the basis of industry practice and legislative requirements, the estimated cost of mandatory fringe benefits is P .23 per worker-day and the estimated actual average cost of fringe benefits is P 1.02 per worker-day.[9] For the most part, however,

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[9] Estimated Annual Cost of Fringe Benefits Per Employee
(Based on wage rate of P 4.47 and 300 days per year)

	Minimum Benefits Required by Law	Actual Average Fringe Benefits
a. Social Security. Required by law, 3%	P 40.23	P 30.23
b. Sick and Vacation Leave. No legislative requirements but collective bargaining agreements indicate an average of approximately 15 days for both.		67.05
c. Paid Holidays. No law but average of approximately 2.		8.94
d. Night Premium. No law but average of approximately 15% for 8 hours.		67.05
e. Medical and Dental. Minimum services required by law, although frequently increased. Examination of 41 financial statements, with this cost segregated in manufacturing overhead, indicated a median cost per worker of P 30.44.	25.00	35.00
f. Break Time. No law but estimated average of 20 minutes per shift.		55.88
g. Bonuses. No law but the number of firms granting bonuses increases each year. In 1959, 15 firms granted		

(continued)

these fringe benefits do not increase the worker's take-home pay, and individual cash earnings of approximately P 1,340 per year (300 days x P 4.47 per day) are not much in excess of the minimum wage.[10]

Although urban earnings are higher than rural earnings, the cost of living in the city is higher and probably in excess of the average textile worker's earnings. According to one study, the average propensity to consume in metropolitan Manila for families with annual incomes from P 1,259 to P 1,499 is 1.13, and the breakeven point is an income of over P 1,750 per year.[11] And in response to the survey question, "How much do you think an average family -- man, wife, and three children -- needs in order to live just comfortably?" 79% of the urban respondents answered, income categories of P 1,800-3,600 per year or more.[12] In contrast, only 46% of the rural respondents believed an income in the P 1,800-3,600 category or higher was necessary. The higher cost of urban living is due to the worker's

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bonuses to factory workers, and they ranged from a mean of P 11.77 to 345.50 per worker, with a firm median of P 29.35.	P	P 30.00
h. Other benefits required by law, such as maternity leave, termination pay, workman's compensations, etc.	3.00	3.00
Total Estimated Annual Cost of Fringe Benefits per Worker	68.23	307.15
Estimated Cost of Fringe Benefits per Worker per Day	.23	1.02

[10]Varying degrees of sophistication are exhibited in the wage structures of firms in the industry. A spinning mill, for instance, with an average daily wage of P 4.12 hires all except a few skilled workers at a standard P 4.00 regardless of position. Other firms which initially hired on a similar basis have introduced differentials as incentives or in accordance with the technicians' informal job evaluation.

[11]Kintanar, p. 71.

[12]Tiraykian, "The Evaluation of Occupations in an Underdeveloped Country, The Philippines," p. 90.

changing consumption pattern, higher prices, the remittance of money to rural kinsmen, and the higher rate of dependency because employment possibilities for wife and children are reduced.[13] Although many of the mills are situated on the outside rim of Manila in settings betteroclassified as semi-rural than urban, a significant portion of the labor force is urban and particularly subject to this squeeze between income and costs.

The average textile wage of P 4.47oper day (P 1,340oper year oroP 112 per month) compares unfavorably not only with family income requirements, but also with prevailing family income and wage levels in manufacturing industries. Firstly, average family income in March, 1957, was P 4,255 in metropolitan Manila and P 2,427 in other urban areas.o[14] An average Manila family, depending upon a textile mill employee for sole support, would rank in the bottom fifth of Manila families by income class, although a similar urban family outside of Manila would rank slightly below the middle in a distribution of families by income class.o[15]

The data on general wage rates presented by different governmental agencies are not consistent because of deficiencies in statistical accumulation, but all data point to the fact that textile wages are relatively low compared to the rest of industry. The Central Bank reported that in October, 1959, the average wage rate of common laborers in industrial establishments in Manila and suburbs was P 5.31, or almost 20% higher than the average for machine operators and workers of varying skills in the

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[13]Professor B. F. Hoselitz discusses this in his chapter "Urbanization and Economic Growth in Asia," Sociological Aspects of Economic Growth, p. 233.

[14]Philippine Statistical Survey of Households, Series No. 4, Vol. 1, "Family Income and Expenditures" (June, 1958), p. 4.

[15]Ibid., pp. 23-24. The comparison to urban figures, exclusive of Manila, is relevant because the workers of the many mills on the outskirts of Manila stand somewhere between the income-expenditure patterns of the primate city, on the one hand, and the traditional barrio, on the other.

textile factories;[16] it was not possible to match textile jobs to the occupations included in the Central Bank report, with the exception of electrician which received P 8.40 per day, as opposed to P 6.60 per day in six textile mills from which information was available. The Journal of the Bureau of Census and Statistics indicates an average monthly wage in June, 1959, for industrial workers of P 152, or 26% higher than the average wage for textile workers.[17]

The earnings of factory workers in the Philippines have been rising during this last decade of industrial development; from an index of 87.7, average earnings of manufacturing wage earners rose to 105.2 in 1959.[18] Wages in the textile mills also reflect increases from year to year, but the industry is still too young for any reliable trends or levels to be established.

Unions in the Textile Industry[19]

Although labor unions have existed since the turn of the century and

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[16]Central Bank of the Philippines, Statistical Bulletin, XII, No. 4 (December, 1960), pp. 260-261.

[17]Bureau of Census and Statistics, Journal of Philippine Statistics, XIII, No. 1-3 (Jan.-March, 1960), p. 51. In the preceding number of the Journal, average earnings in tax-exempt manufacturing industries are presented for February, 1959. The average monthly earnings for the textile classification was P 131, but this was based on 65 reporting establishments and does not, therefore, coincide with the definition of the industry in this study; average earnings in this textile category ranked 13th out of 17 industry groups and were higher only than tobacco products, garment manufacture, wood products, and leather products. Ibid., XII, No. 10-12 (Oct.-Dec., 1959), p. 65.

[18]Central Bank of the Philippines, News Digest, XII, No. 14 (April 5, 1960), inside front cover.

[19]In 1953 Republic Act 875, the Industrial Peace Act patterned after the American Wagner Act, established collective bargaining in the Philippines; for the evolution and evaluation of this legislation, see Cicero D. Calderon, "From Compulsory Arbitration to Collective Bargaining in the Philippines," International Labor Review, LXXXI, No. 1 (January, 1960), pp. 1-25. Professor David D. Wurfel has written an excellent historical account of union development. "Trade Union Development and Labor Relations

(continued)

are stronger in relation to the political elite than in the West at a similar stage of economic development, unionization has not had great political force because of the continuing fratricide caused by the character of the movement's leaders and their objectives. Organization is practically devoid of ideological content, and, on the contrary, depends upon the fluid, personalized leadership of individuals who vie among themselves for the allegiance of any group of workers, organized or unorganized. Although unions are not political, there are political unionists, principally lawyers, "ambitious persons who without any particular interest in either worker or the advancement of the labourer will set themselves up in unionism as a business, get a registration and engage in union agency practice as a professional activity."[20] The measure of their success is the power dependent upon the size of their following, and the consequence is the dominating influence of inter-union rivalry.

Briefly tracing the activities of a union organizer in the textile industry will illustrate the extent of multiple unionism and how issues are subordinated to the shifting coalitions of personalities. Because he started as a production worker, Vicente Arneigo is not a typical union leader, but he helped organize the National Textile Workers' Union (NTWU) at the NDC-Manila plant where he worked, and election to the union presidency became a springboard to wider horizons. He affiliated with the Congress of Labor Organizations (CLO) federation until it broke up in 1951, and then joined with some of the old CLO members to form a new federation, Philippine

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Policy in the Philippines," Industrial and Labor Relations Review, XII, No. 4 (July, 1959), pp. 582-608.

[20]International Labour Organization, Report to the Government of the Philippines on Labour-Management Relations (Geneva: International Labour Organization, 1959), p. 35.

Association of Free Labor Unions (PAFLU), of which he gained the presidency largely because of the size of his textile union. In 1953, a dispute in PAFLU prompted Arneigo's expulsion, and he led his NTWU off to form a new federation, Philippine Labor Unity Movement (PLUM), in 1954. In the same year, PLUM, PAFLU, and several other federations formed a confederation of federations, Philippine Trade Unions Council (PTUC), but within a year the two former federations left the mother union because of its alleged competition in organizing. Although there are some contradictions in testimony, about this time Arneigo lost control of the NTWU, which joined a rival federation, the National Labor Union (NLU), and in 1956 he was able to form a new federation, Confederation of Unions in Government Corporations (CUGC), which included the Ilocos textile mill union among its members. In 1957 Arneigo was invited to assume a vice presidency of the PTUC, but he left the next year to form the Textile Workers Federation (TWF), with the express purpose of capturing control of the Universal Textile Mills' Union, the largest in the industry. TWF, aided by PAFLU, charged that the NLU union was company dominated and attempted to win the workers' allegiance for a certification election. The ensuing battle at Universal Textile Mills was protracted and bloody, but Arneigo lost and TWF, with exhausted resources, was dissolved. In 1959, he retreated to the CUGC to plan future strategy to capture control of the textile industry. At the same time, at least two other federation presidents were laying similar plans. In conclusion one must note the widely heralded 500,000 member Katipunang Manggagawang Philippine (KMP), a confederation formed in 1959 which many believed to constitute a final reconciliation of labor differences. Every one of the above-mentioned federations joined, but "the dominance of

personalities rather than ideals foreshadowed the turbulent times ahead,"[21] and within three months the principal members had seceded.

The textile unions illustrate how the cultural patterns and objectives of a society shape the behavior of economic organizations. In the Philippines, where prestige depends on the size of one's personal following and political success is the highest achievement, it is not surprising that union leadership is used as a stepping stone to personal power. Although all the union leaders in the textile industry proclaim the need for unity, no one evidences willingness to subordinate his own interests to achieve this goal. Just as textile management has the focus of its attention on external relations rather than internal operations, so do the labor leaders concentrate to some extent upon recognition and publicity, rather than the concrete problems of member benefits. Of the 90 strikes in the country in 1955-56, for instance, 38 were caused by the recognition issue and only 16 by demands for wage increments.[22]

The high degree of unionism in the textile industry is shown below:

Extent of Unionization in the Textile Industry (1959)

	Number of Firms[23]	Number of Employees	% of Total Employees
Unions Affiliated with Federations	13	9,467	60.3
Independent Unions	6	3,632	23.1
Unorganized Firms	6	2,213	14.1
Union Status Not Known	4	399	2.5
Total	29	15,711	100.0%

[21]Flerida Ruth Pineda, "Unity is PI Labor's Outstanding Problem," Manila Times, (April 30, 1960), p. 8-A.

[22]Annual Report of the Bureau of Labor Relations for the Fiscal Year 1956-57 (Manila: Bureau of Labor Relations), (typewritten), Table II.

[23]The NDC mills have separate unions and are included here as two industrial firms.

Although membership in many firms is a shifting phenomenon, at least 82% of the industry was unionized at the end of 1959, and this is high in comparison to estimates that approximately 25% of non-agricultural workers are union membersi Textile unionism appears relatively strong when the collective bargaining agreements in the industry are compared to those which happen to be filed at the Bureau of Labor Relations; for example, 41% of the collective bargaining contracts in textiles include a union shop requirement as opposed to 14% in the Bureau of Labor Relations most recent compilations.[24]

It is an unfair labor practice for management to "initiate, dominate, assist or interfere with the formation or administration of any labor organization," but it is not possible to tell to what extent the independent, or even the federated unions, may be "company unions". The presidents of the federations strongly contend that company unions have been prevalent in the industry and still continue in numerous cases, especially among firms controlled by those of Filipino ancestry. Of the six firms classified as Filipino by this standard, the two smallest appear to have been bona fide independent unions, whereas two with 1,600 employees were unorganized, and two with 1,800 employees had controversial independent unions. The following excerpt from one of the latter two independent contracts suggests paternal authoritarianism:

> All employees shall devote themselves diligently and faithfully to their assigned tasks. Management abhors laziness.
>
> All employees shall perform their duties in a competent manner. Management resents malfeasance.
>
> All employees must carry out the instructions of supervisors. Management detests disobedience.

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[24]Annual Report of the Bureau of Labor Relations for the Fiscal Yeari 1958-59," p. J-2.

This lends some weight to the hypothesis of the last chapter that unions have been weakest in Filipino firms where the management has been most successful in establishing a superior-dependent relationship, with authority centralized in the traditional pattern. It is believed that the strength of unionism in the alien sector of the industry is principally due to the forces working on the two participants: management and union organizers. Management, with its attention focusedioutside of the factory, has not matched the zeal of the federation presidents, who have seen the labor-intensive textile plants as rich opportunities for expansioni

The achievements of the textile unions are mixed and difficult to appraise. On the negative side, some argue that contract gains are largely illusory or insignificant. In the area of wage provisions, for instance, 8 of the 17 contracts studied were either silent, or specified either the minimum wage or discretionary increases over a contract life varying up to five years;[25] in the remaining contracts, the wage increments were small in relation both to the contract life and the level of prevailing industrial wages. Some unionized firms ignore the unions by granting unilateral concessions to employees without consulting union leadership. The grievance machinery is often vague, reflecting an attitude that bargaining will continue during the life of the agreements, and the steps in the grievance procedure are used for processing cases to the top levels of the company and union, where authority is centralized. On the other hand, many of the benefits not required by law are certainly attributable either to the actuality or potentiality of union bargaining.

Perhaps unionism's greatest effect will be upon the socio-economic perspective of the worker. Although few of the union leaders have risen

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[25]One four-year contract calls for an increaseito P 4.00 per day, the minimum wage.

from the ranks and members have had little democratic opportunity to participate, the existence of a unionononecessarily means a new class relationship and a realignment of obligations based on non-traditional, economic interests. The Filipino does not easily envisage himself as a member of an impersonal interest group, and this accounts for the non-ideological character of unionism and the shifting loyalty to different leaders. Nevertheless, unionism can be expected to help crystallize the status of the worker as a "transitional Filipino," dependent upon money wages to secure what in the traditional system was the function of family and kin.

CHAPTER IX

ECONOMIC PERFORMANCE OF THE INDUSTRY

Although an industry's economic performance has many dimensions, the focus of this chapter is primarily on only twoi-- production efficiency and prices.[1] Production efficiency is considered from the point of view of the industry's cost structure, labor productivity, efficiency of machine utilization, and, secondarily, the quality of the industry's output and the scale of its operations. Prices are evaluated by examining industry profits in order to ascertain the margin between average costs and average prices. Performance is meaningful only in relation to normative standards. A primary norm for efficiency is the ability to produce textiles at a money cost equal to that of other producing countries. Money production costs are the primary standard for evaluating production efficiency, for the other aspects of efficiency -- labor productivity, machine efficiency, scale -- contribute to the height and structure of costs. The conclusion of this chapter is that the Philippine textile industry can not satisfy this norm of efficiency except at a highly devalued exchange rate of the peso. The primary norm for pricing performance is the absence of excess profits in the industry. This chapter indicates that excess profits have been higher than seems justified by their function as an inducement to development.

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[1]An alternative dimension of performance is the degree to which plant capacity is utilized. Since this is determined principally by the Central Bank's allocations for raw materials, the industry's performance should not be gauged by the excess capacity which existed in 1957 and 1958i

Production Costs

The fundamental raw material foroeconomic analysis, production cost data, is the most difficult information to obtain with assurance of validity in Philippine industry. Few textile managers have actual cost accounting figures by product line, and most plan on the basis of estimated or standard costs, prepared with varying degrees of sophistication. Managers are generally reluctant to disclose the cost information which they do possess, and it is difficult to evaluate the accuracy of figures which are revealed. These problems are circumvented by dealing with aggregate cost and production data for each firm where they are available, thus sacrificing precision in the hopes of increased reliability. This method based upon total costs and production is most applicable to cotton yarn manufacture, because the nonintegrated spinning mills eliminate the difficulty of distributing fixed costs between yarn, gray and finished output. Table 7 presents the yarn manufacturing costs of the firms for which this information could be obtained.[2]

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[2]Costs for one firm have been omitted because they seemed unrealistic and because of the company's reputation for unreliable reporting. There is no indication that Table 7 costs are not representative of the rest of the industry, although the integrated mills are underrepresented. The integrated mills might enjoy lower fixed costs per unit but this is not true of the one such mill in Table 7. The two firms which started operations in 1959, numbers 2 and 5, have the highest manufacturing cost. This suggests that high initial manufacturing costs can be reduced in a short period of time, but there is no evident relationship between the costs of the other four firms and the date of their first operation. The number of firms is too small, the time period too brief, and the other variable too numerous to generalize concerning potential cost reductions over time. If the newly established firms, 2 and 5, are excluded a rough correlation between average yarn count produced and manufacturing cost is evident. Output quality corresponds closely with that of the industry as a whole. The average count of the private firms in Table 7, weighted by the number of spindles per firm, was 22.5 compared to the average yarn count spun in the industry of 19.5 in 1957, 22.5 in 1958 and 22.6 in 1959 (Industrial Development Center).

TABLE 7

1959 COST OF COTTON YARN MANUFACTURED IN THE PHILIPPINES
(Peso cost per kilo)[a]

I Nature of Firm's Operation	II Average Count Produced[b]	III Raw Material Cost	IV Direct Labor Cost	V Over-head
Private Companies				
1. Spinning Mill	17's	P 1.4605	P .2826	P .4342
2. Spinning Mill[c]	19's	2.6080	.4019	.9232
3. Spinning Mill	20's	1.9627	.3360	.2713
4. Spinning Mill	21's	2.2347	.2253	.5514
5. Spinning Mill	22's	2.1440	.1349	.9360
6. Spinning Department of Integrated Mill	27's	2.0206	.3071	.6472
7. Spinning Mill	29's	1.9703	.4336	.5355
Median for Private Companies	21's	2.0206	.3071	.5514
Public Company				
8. ITM Spinning Mill	12's	1.6958	.6254	1.0106

(a) Obtained by dividing total cost categories from the 1959 financial statements by the year's total yarn production. Data from the Central Bank and Department of Finance.

(b) Yarn count, a measure of the size of the cotton strand, is the number of hanks per pound of yarn. Increasing yarn count, therefore, indicates increasing fineness of the yarn.

(c) First eight months of operation.

VI Manufacturing Cost	VII Administrative Expenses[d]	VIII Calculated Interest Cost[e]	IX Total Cost	X Total Peso Processing Cost[f]
P 2.1773	P .2344	P .2548	P 2.6665	P 1.2060
3.9331	.2359	.5723	4.7413	2.1333
2.5700	.1833	.4104	3.1637	1.2010
3.0114	.1718	.2197	3.4029	1.1682
3.2149	.1579	.4120	3.7848	1.6408
2.9749	.1784	.3874[g]	3.5407	1.5201
2.9394	.1322	.2653	3.3369	1.3666
2.8791	.1784	.3874	3.4449	1.4243
3.3318	.2560	.4744	4.0622	2.3664

(d) Excludes non-recurring expenses such as organization cost and special compensation in the form of bonuses and commissions where they could be distinguished.

(e) Total long term liabilities plus total equity, multiplied by six per cent.

(f) Total cost less raw material cost.

(g) Estimated allocation.

Since Philippine cotton yarn manufacture is currently dependent upon importation of raw cotton, the primary economic justification for the industry must rest upon the processing cost differential in the Philippines vis-a-vis other manufacturing countries. A money cost comparison of this nature was impaired by the overvalued official exchange rate prevailing in 1959, and uncertainty whether the free market rate outside of the country was a reasonable indication of the rate which might be established in a period of decontrol. Since the rate of P 2 = $ 1 could only be maintained with import or exchange controls which were considered temporary expedients throughout the 1950 decade, long term industry planning had to be founded upon a more realistic rate, estimated in 1959 at from P 3 to P 4 to the American dollar.

The processing cost of the private mills, as indicated in column X of Table 7, ranged from P 1.20 to P 2.13 per kilo of yarn in 1959, with a median of P 1.42. Table 8 presents the margin between the cost of the imported cotton required to produce one kilo of yarn and the cost of the imported yarn itself. If the processing cost is less than this margin due to lower production or shipping costs, the Philippines would enjoy an absolute cost advantage in textile manufacturing. If the processing cost exceeds the margin between the cost of imported raw cotton and yarn, then it would be less expensive in money terms to import the semi-manufacture, yarn, and channel economic resources elsewhere. As indicated, however, in Table 8, this import margin varies with the exchange rate selected, for if the peso is depreciated to a more realistic rate with the dollar the rising peso costs of imports will increase the difference between cotton and yarn costs.

At the official rate of exchange, the processing cost has been

TABLE 8

COMPARISON OF THE COST OF IMPORTED COTTON NECESSARY TO PRODUCE ONE KILO OF YARN AND THE VALUE OF IMPORTED WEAVING YARN IN THE PHILIPPINES, 1957-1959[a]

I	II	III	IV	V	VI		
Period	U.S. Imported Cotton CIF Value per Kilo	Shrinkage and Waste Allowance 20%	Cost of Cotton Required to Produce 1 Kilo of Yarn (II & III)	Hong Kong Imported Cotton Yarn, CIF Value per Kilo[b]	Margin Between the Cost of Imported Cotton Necessary to Produce 1 Kilo of Yarn and the CIF Value of Imported Cotton Yarn on the Basis of Varying Exchange Rates (V - IV)		
					P2 = $1	P3 = $1	P4 = $1
1959							
4th Qtr.	P 1.18	P .30	P 1.48	P 2.66	P 1.18	P 1.77	P 2.36
3rd Qtr.	1.47	.37	1.84	2.46	.62	.93	1.24
2ndoQtr.	1.37	.34	1.71	2.60	.89	1.34	1.78
1st Qtr.	1.37	.34	1.71	2.53	.82	1.23	1.64
1958							
4th Qtr.	1.37	.34	1.71	2.14	.43	.65	.86
3rd Qtr.	1.44	.36	1.80	2.71	.91	1.36	1.82
2nd Qtr.	1.61	.40	2.01	2.95	.94	1.41	1.88
1st Qtr.	1.53	.38	1.91	2.32	.41	.62	.82
1957							
4th Qtr.	1.48	.73	1.85	2.73	.88	1.32	1.76
3rd Qtr.	1.51	.38	1.89	2.74	.85	1.28	1.70
2nd Qtr.	1.54	.38	1.92	2.64	.72	1.08	1.44
1st Qtr.	1.39	.35	1.74	2.69	.95	1.42	1.90

(a) Based upon the official rate of exchange. Prepared by Bureau of Customs, Central Bank datao

(b) Unbleached and not mercerized weaving yarn. The average ount of the imported yarn is not available, but it presumably is somewhat higher, that is finer, than locally manufactured weaving yarn.

consistently higher than the import margin for even the lowest cost Philippine spinners. If the peso is permitted to fall to four to the dollar, the results are reversed and the processing cost is less than the import margin in nine of the twelve quartersi At a three to one exchange rate, local spinning appears to be at a cost disadvantage compared to yard importing in every quarter except the most recent.

Conclusions based on the data in Tables 7 and 8, however, require certain qualifications. Table 7 cost estimates are subject to errors from accounting inconsistencies and falsified reporting, as well as the lack of precision in dealing in aggregates. Table 8 suffers from a similar lack of precision, because total import values and costs are used without knowledge of their actual grade and count classification. Since cotton is imported into the Philippines for spinning purposes, there should be no discrepancy between the grade of cotton in Table 7 as a raw material and Table 8 as an import.[3] A discrepancy is more likely between the average count of yarn imports and domestic yarn production, for there is no necessary equivalence between them. It is believed that yarn imports have generally been of higher count and more expensive than the local manufacture. Selected foreign yarn quotations indicate that the variance between the cost of the average yarn import and the cost of the lower count, representative of domestic production, may be in the order of 20%.[4] If a downward adjustment were made in the cost of imported

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[3]The difference between the Table 7 raw material cost and the Table 8 CIF import value may be due to taxes and domestic handling costsi It is difficult to explain the interfirm differences in raw material cost.

[4]E.g. In February, 1959, the FOB value of Hong Kong 20's weaving yarn on cones was P 1.97 per kilo (Bureau of the Customs) or P 2.07 per kilo with an estimated P .10 for freight and insurance per kilo. Table 8 average CIF yarn cost, P 2.53, was P .46 or 22% higher. In November, 1959, the FOB quotation of Japanese 20's was P 2.02 per kilo at the official exchange rate (Japan Textile News, December, 1959, p. 15), or roughly P 2.12 delivered to Manila. Table 8 average CIF yarn cost, P 2.66 was P .54 or 25% higher.

yarn in Table 8 to correct for this probable overstatement, the margin between imported cotton and imported yarn would be reduced. This would increase the attractiveness of textile importing, as opposed to manufacturing.

This analysis illustrates how exchange control and an unrealistic rate of exchange complicate planning for industrial development. Domestic and imported cost comparisons are contingent upon postulated rates of exchange, which may be the crucial determinants in evaluating an industry's or firm's survival ability. The uncertainty in the Philippines concerning the continuation of the seller's market, created by exchange control, has contributed to the emphasis upon a rapid recovery of investment through import manipulation rather than long run production planning. The general conclusion concerning the Philippines' ability to compete with foreign producers must consequently be conditioned on the exchange rate. Unless the peso were to fall to at least four to one, the present processing cost is too great to justify cotton spinning in the Philippines on a cost basis. The cost structure, of course, is not static, but there is no good evidence that Philippine costs will decrease significantly faster than in other countries.

Textile weaving in the Philippines can be evaluated by a similar comparison between the processing cost, the peso cost of weaving one yard of grey, and the import margin between the CIF value of the raw material, yarn, and grey cloth. Table 9, presents a comparison between the cost of the amount of imported yarn necessary to produce one yard of grey and the cost of the imported fabric itself. This import margin has varied, at the official exchange rate, from P .01 to P .08 per yard during the final quarter of 1959 when import quotas rose more rapidly for grey than for yarns. The margin is, of course, double at the depreciated four to one exchange rate, and varies up to P .16 per yard for cotton fabric, 2004, at the end of 1959.

TABLE 9

COMPARISON OF THE COST OF IMPORTED YARN NECESSARY TO PRODUCE ONE YARD OF GREY CLOTH AND THE IMPORTED COST OF GREY CLOTH IN THE PHILIPPINES, 1959[a]

Type of Cotton Fabric[c]		I Cost of Imported Yarn per Pound, Plus Estimated Freight[b]	II Number of Pounds of Yarn per Yard of Fabric	III Cost of Imported Yarn Required to Produce 1 Yard of Grey (I&II)	IV Cost of Imported Grey per Yard[b]	V Margin Between the Cost of Imported Yarn to Produce 1 Yard of Grey & the Cost of Imported Grey on the Basis of Varying Exc. Rates P2=$1 (IV-III)	P3=$1	P4-$1
2003		30's	.23					
1959	4th Qtr.	P 1.11		P .26	P .33	P .07	P .10	P .14
	3rd Qtr.	1.11		.26	.29	.03	.04	.06
	2nd Qtr.	1.07		.25	.27	.02	.03	.04
2004		30's	.26					
1959	4th Qtr.	1.11		.29	.37	.08	.12	.16
	3rd Qtr.	1.11		.29	.33	.04	.06	.08
	2nd Qtr.	1.07		.28	.31	.03	.04	.06
2023		20's	.29					
1959	4th Qtr.	.99		.29	.33	.04	.06	.08
	3rd Qtr.	.98		.28	.33	.05	.08	.10
	2nd Qtr.	.97		.28	.29	.01	.02	.02

(a) Japan Textile News, selected issues.

(b) Based upon the Japanese FOB export price converted to pesos at the official exchange rate, plus P .05 per pound of yarn and P .01 per yard for estimated freight and insurance.

(c) The technical constructions of these fabrics are as follows:

2003,	30 x 36,	72 x 69,	38,	4.41
2004,	30 x 36,	72 x 69,	44,	3.79
2023,	20 x 20,	60 x 60,	36,	3.35

The greater expense of preparing yarn for shipping, as opposed to grey, narrows the import margin and reduces the attractiveness of non-integrated weaving in the Philippines.

The processing cost for grey cloth can be calculated in a manner similar to that of Table 7 for only one firm, the same integrated mill whose spinning costs are included there. This is the only integrated firm reporting complete financial data to the Department of Finance for tax exemption purposes, which is broken down into spinning, weaving, and finishing. On the basis of this firm's cost allocations, the cost of processing yard into one yard of grey cloth was as follows:

Direct Labor	P .0343
Overhead	.0428
Direct Processing Cost	.0771
Administrative	.0199
Cost of Money (estimated)	.0310
Total Processing Cost	P .1280

The above firm's weaving output consisted exclusively of two fabrics, style 2023 and a style similar to 2004, thus permitting comparability with Table 9. Three additional integrated (private) mills voluntarily supplied data on their direct weaving costs. Their quotations, slightly higher than those above, follow:

	Firm 1	Firm 2	Firm 3
Fabric Style	2023	2003	similar to 2003
Direct Labor per Yard		P .04	P .0260
Overhead per Yard	———	.06	.0669
Direct Processing Cost per Yard	P .0852	P .10	P .0929

If the administrative expenses and the cost of money are included, the processing cost for the fabrics in Table 9 might reasonably be estimated at from P .13 to P .15 per yard. The conclusions concerning spinning costs are, therefore, applicable to weaving as well. Even the integrated firms appear to have an absolute cost inferiority vis-a-vis imported grey unless the peso falls to at least four to one. At an exchange rate of P 4 to $1, the Philippine mills would intermittently enjoy an absolute cost advantage, depending upon the particular fabric and its price fluctuations.

Table 10 compares the Philippines' cost structure with Japan and the United States. The total labor cost per hour in the production of sheeting is $1.66 in the United States and $.36 in Japan,[5] compared to the Philippine textile worker's average cost of P .69,[6] or $.34 at the official exchange rate, and $.17 at P 4 = $1. The lower cost of the Philippine textile worker is accompanied by such lower productivity that labor represents a higher portion of total cost than in Japan and about the same as in the United States.

Productivity and Machine Efficiency

Productivity here will refer to output in relationship to labor input, the principal component of cost after the raw material. Machine efficiency will refer to output in relationship to another input factor, plant and equipment.

Philippine labor productivity is very low in comparison to Japan and the United States, the two countries for which comparable information is most

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[5] U.S. Department of Commerce, Comparative Fabric Production Costs in the United States and Four Other Countries (Washington: Government Printing Office, 1961), p. 42.

[6] Average daily wage rate of P 4.47 plus estimated value of fringe benefits per day, P 1.02, divided by eight hours per day. Chapter VIII.

TABLE 10

COMPARATIVE COSTS OF PRODUCING COTTON SHEETING

IN THE UNITED STATES, JAPAN AND THE PHILIPPINES (1959-1960)

(U.S. cents per linear yard)

	United States[a]		Japan[a]		Philippines[b]	
	Cents per Yd.	% of Total Costo	Cents per Yd.	% of Total Cost	Cents per Yd.	% of Total Cost
Net Cotton Cost	8.40	57.5	7.81	68.6	8.04	41.9
Labor and Fringe Benefits	3.92	26.8	1.72	15.1	5.00	26.0
Factory Overhead	1.24	8.4	.88	7.7	3.77	19.3
Total Direct Cost	13.56	92.7	10.41	91.4	16.81	87.5
General Overhead	1.04	7.3	.98	8.6	2.38	12.5
Total Cost of Fabric	14.60	100.0	11.39	100.0	19.19	100.0

(a) U.S. Department of Commerce, Comparative Fabric Production Costs in the United States and Four Other Countries (Washington: Government Printing Office, 1961), p. 35. The grey sheeting con-o structiion is 20 x 18, 44 x 40, 4, 4.25.

(b) The net cost of cotton is the 4th quarter, 1959, cotton costo Column 4, Table 8. The spinning cost component is derived from the median costs of yarn manufacture, Table 7. The weaving cost component is derived from the costs of the integrated firm whose costs are in the text. For purposes of thisotable, 40% of overhead has been estimated to be indirect labor and the cost of fringe benefits, and it has been transferred to labor cost. The official rate of exchange has been used to convert pesos to dollars.

readily available. Productivity data is available for five of the private spinning mills in Table 7 and the ITM spinning mill. International comparisons are as follows:[7]

United States (1960)	(Average Count 18-20)	73.09 kilos of yarn per man-day
Japan (1960)	(Average Count 18-20)	49.37 kilos of yarn per man-day
Philippines (1959)		
Private Mills	(AveragedCount 20.7)	10.89 kilos of yarn per man-day
ITM	(Average Count 12)	3.92 kilos ofiyarn per man-day

The measurement of productivity should properly be based on all relevant inputs, rather than on labor alone, because they are interdependent. This approach is precluded by lack of empirical data and the theoretical problems of weighting, but an examination of two other inputs, machinery and management, may help to explain the wide labor productivity discrepancy above.

The type of machinery and equipment has relatively little influence on spinning productivity, because production per unit of modern equipment and the

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[7]The productivity figures for the United States and Japan are derived from information in the U.S. Department of Commerce, Comparative Fabric Production Costs in the United States and Four Other Countries, 1961, pp. 19, 42. The spinning labor requirements for the manufacture of sheeting were used because of the comparability of the yarn count. Similar data for the United States is available in the U.S. Department of Labor, Case Study Data on Productivity and Factory Performance, Coarse Cotton Gray Goods (Washington: Bureau of Labor Statistics, 1953), pp. 50-51, and for the United States and Japan in William H. Miernyk, "Postwar Productivity Changes in Japanese Cotton Spinning," Monthly Labor Review, 83 (July, 1960), 700-04. The productivity figures presented by Miernyk are substantially lower than those of the former sources, although the relationship between Japanese and American productivity is similar.

The Philippine productivity figures are based on annual production, average number of employees, and an average of 300 working days per year. Information is from the Department of Finance and firm data.

A difference in several counts between yarn specifications has little effect on unit labor requirements. Galenson, p. 184.

number of workers required per unit of equipment do not vary much.[8] In any case, the Philippine mills are equipped with the most modern Western and Japanese spindles, so any effect of the qualitative character of the capital input should serve to enhance the Philippine workers' relative productivity.

More important than the physical differences between countries' equipment may be the real or imagined relationship between labor and capital resources. According to the traditional argument, the textile machinery, designed for Western labor costs, is overly capital intensive in relation to the factor endowment of the underdeveloped country. But even with modern, automatic textile machinery the labor-capital input relationship is not fixed, and the manager can add labor until its marginal physical product is very low. The use of the supposedly scarce factor, capital, would thus be maximized although this would be reflected in low labor productivity.[9]

Analysis of textile machine efficiency provides evidence that productioni policies have emphasized maximization of output per unit of capital input rather than labor inputi Machine efficiency has been measured by comparing actual output for November, 1959, to the theoretical maximum output, given the speed of the machines and the actual number of hours they ran.[10]

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[8]U.N. Department of Economic Affairs, Labour Productivity of the Cotton Textile Industry in Five Latin-American Countries (New York: United Nations, 1951), p. 6.

[9]E.g. "The most important reason for the employment of a superfluous number of workers is the production policy followed by some Chilean mills, whereby the greatest possible output must be obtained from the machinery, even if this means the employment of numerous workers and the lowering of the output of labor." Ibid., p. 51.

[10]To compute spinning efficiency it was necessary to obtain the following production data for each yarn count: spindle RPM, twist multiplier, yarn production, and spindle hours operated. Front roll speedi= spindle RPMi÷ twist multiplier count, and spindle hour capacityi= front roll speed x 60 minutesi÷ 36 x 840 x counti

Efficiency for the firms which supplied the information for the necessary computations is as follows:

Nature of Operations (Date First Operations)	Spinning	Weaving
Spinning Mill (1957)d	79%	
Spinning Mill (1959)	77%	
Spinning Mill (1958)	96%	
Spinning Mill (1959)	42%	
Spinning Mill (1957)	61%	
IntegratedMill (1956)	78%	92%
Integrated Mill (1956)	65%	90%
Integrated Mill (1958)	86%	83%
Integrated Mill (1958)	84%	95%
Integrated Mill (1956)	94%	
Median Private Mill	78%	91%
Public Mill	31%	62%

Although there is no international standard for comparison, machine efficiency appears high in relation to theoretical capacity, particularly in light of the industry's youthful age. Labor productivity, as gauged by the standards of possibility noted for the United States and Japan, is relatively much lower than machine efficiency, as gauged by 100% capacity.

In spite of the above comparison, the traditional argument for maximizing the output of the scarce factor, capital, at the expense of the abundant one, labor, is not clearly valid in the Philippines for three reasons. As discussed earlier, capital for officially endorsed industries is neither scarce nor expensive. Capital equipment has, on the contrary, been cheap because of the overvaluation of the peso. On the other hand,

labor is not inexpensive. The workers are untrained and social welfare legislation maintains wages above a supply and demand equilibrium. The Philippine textile worker is responsible for a much larger component of textile manufacturing costs than is his Japanese counterpart. Thirdly, although efficiency is high during operating hours, industry operations have been as low as 50% of capacity for extended periods. If labor productivity were really sacrificed in order to maximize the efficiency of capital, during short run periods of capital idleness the marginal physical productivity of labor could be increased by laying off workers and leveling operations. There is no indication that this has been considered in the industry.

Professor Harbison proposes that a different input, organization, "is probably the principal factor determining productivity of labor."[11] Productivity is low in the underdeveloped countries because managerial resources are low in relation to the plentiful supply of labor. He suggests a concept of substitutability between organization, as a quantitative factor of production, and labor. The earlier discussion of management's widespread neglect of industrial administration may be a key to the textile industry's low productivity. Although Table 10 indicates that factory and general overhead account for a larger fraction of total cost in the Philippines than in the United States, the Philippine mills are burdened, in this respect, by nonproductive kinsmen, political relations experts, and the necessary expense of the foreign staff. Unfortunately, the quantitative data necessary to test Professor Harbison's proposition could not be obtained, although it

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[11]Frederick Harbison, "Entrepreneurial Organization as a Facor in Economic Development," Quarterly Journal of Economics, 70 (April, 1956), 371.

is believed to be at least a partial explanation of the industry's low productivity.

One simple contributing cause of low labor productivity and higher machine efficiency rates is the bias of the foreign technicians who have functioned as production managers. Trained in the West or Japan, they have been oriented towards efficiency in production. They seldom have an understanding of the potentials for factor substitutability, and they consistently lack anything but crude cost data. Many of them overtly measure their success by the efficiency of their machine operations, with little or no regard to labor productivity.

If Philippine textile productivity is low at this early stage in its development, what are the prospects for improvement? Philippine productivity bears a more favorable comparison with the pre-war performance of other countries. Its 1959 annual output of 3,267 kilos of yarn per worker compared to 2,825 for the U.S.S.R. (1937, 23 count), 5,872 for the United States (1939, 22 count),[12] and 2,664 for Japan (pre-war, 18.3 count).[13] The productivity of, at least, the latter two countries has increased substantially since that time, especially Japan with its productivity rapidly converging toward that of the United States.[14] Long term improvement in Philippine spinning productivity may be feasible, but the improvements experienced by Japan and the United States will be difficult to duplicate.[15] The Philippines is starting

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[12]Galenson, p. 184.

[13]11.1 kilos of yarn per 10 hour day x 300 days x 80%. Fessenden S. Blanchard, p. 62.

[14]Miernyk, p. 700.

[15]"In the cotton textile industry there is little improvement in a mill overative's skill after one year, and in Hong Kong six months is considered to be an adequate period of training." Reed J. Irvine, "Should Infant Industries Earn Their Keep?" (unpublished paper, April 21, 1959).

operations with the most efficient productive plant, whereas some of the improvement in other countries is due to the replacement of less efficient spindles. The Philippines is not only farther behind the industrialized countries' productivity than Japan was behind the United States in 1939, but the latter two countries are continuing to improve their productivity.

Machine efficiency can also be measured by the amount of production per installed spindle or loom, but no criteria for comparative purposes have been discovered and the figures standing alone are not meaningful. Nevertheless, an improvement is evident from year to year in cotton yarn production. Production climbed from 160 pounds per spindle in 1957, to 172 pounds in 1958 and 196 pounds in 1959,[16] partially because the old and inefficient spindles of the government mills were becoming proportionately less important.

Two other dimensions of efficiency will be considered briefly -- quality of output and the scale of operations. There is general agreement that there has been some qualitative inferiority of Philippine textile products, vis-a-vis similar imported products, and an absence or inadequacy of specialized processes such as sanforizing and mercerizing. It is believed that the differential in quality has been exaggerated by the textile users, principally knitting mills and garment makers, in order to retain the windfall profits inherent in exchange allocations. The manufacturers, nevertheless, have not been quality conscious because they could easily sell their output at premium prices regardless of quality.[17]

Whether economics of scale in cotton textile manufacturing exist is controversial, but there is some agreement that the minimum economical size

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[16]Industrial Development Center data.

[17]The Latin American textile manufacturers also have forced their market to accept whatever quality of products they have been able to or cared to produce. U.N. Department of Economic Affairs, Labor Productivity of the Cotton Textile Industry in Five Latin-American Countries, pp. 11-12.

of a spinning mill is 10,000 spindles.[18] To integrate spinning and weaving, the minimum loom room would require at least 300 looms. The average size of the Philippine spinning mill is relatively small, 15,000 spindles, but at the end of 1959 all except three exceeded 10,000 spindles and one of these had approved expansion plans.[19] The weaving mills generally meet scale requirements except for the eight small specialty producers with from nine to eighty looms apiece. Assuming that scale economies are negligible over 10,000 spindles, there is only a very small fringe of the industry which is inefficient by scale criteria. However, higher estimates of the optimum plant size do exist and they would place the entire Philippine industry in a substandard category.[20]

Prices and Profits

The lack of domestic competition in the textile industry and restrictions on imports have sustained prices at a level which has afforded large excess profits to the manufacturers. Aggregate private industry accounting profits have been as follows:[21]

	1957	1958	1959
Profit Rate on Sales	14.9%	15.6%	21.1%
Profit Rate on Equity	26.2%	25.9%	24.2%

The accounting profit figures should probably be augmented by irregulari

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[18] E.g., see Becker, 170-178.

[19] Table 2, Chapter III.

[20] E.G., Francisco Lopez estimated that the optimum size of a spinning mill in the Philippines was 25,000 spindles, higher than all but two mills at the end of 1959. Lopez, Chemistry in the Philippines, p. 278.

[21] There are some irregular omissions due to reporting failures. Central Bank of the Philippines.

"anonadous" income arising outside the books of account as well as compensation to the family members in excess of a wage for managerial services.[22]

Excess profits can be calculated either as a ratio to sales or to owners' investment, as indicated in the following formulas:[23]

$$\frac{R - C - D - (i \cdot V)}{R} = \text{excess profit rate on sales}$$

$$\frac{R - C - D - (i \cdot V)}{V} = \text{excess profit rate to equity}$$

where R = aggregate annual sales revenue, C = aggregate current costs allocable to year's revenue, D = aggregate depreciation allocable to year's revenue, i = current long term interest rate net of risk returns, and V = value of owners' equity. Although the long term interest rate may be somewhat higher in the Philippines than in the United States, if the 6% interest rate recommended by Professor Bain for the American economy is used, the excess profit rates for the textile industry are as follows:

	1957	1958	1959
Excess Profit on Sales	11.6%	11.2%	15.5%
Excess Profit on Equity	20.2%	19.9%	18.2%

> There was an excess profit rate on sales equal to [11-15] per cent of sales. This ratio, as a measure of the ratio of aggregate excess profits to aggregate sales, also effectively measures the ratio of average price to average [economic] cost. Thus, the [11-15] per cent excess profit rate on sales indicates effectively that averagedcosts are [85-89] per cent of the average price at which sales were made.[24]

The excess profit rate on equity of from 18 to 20% is an aggregate for the industry, ranging in 1959 from zero (accounting profit of 3.2% less 6%) to a maximum of 28%. Nevertheless, on the average the industry has enjoyed

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[22]E.G. over half a million pesos, 38% of the total selling and administrative expenses of one integrated firm, was for "bonuses".

[23]Joe S. Bain, Industrial Organization (New York: John Wiley & Sons, Inc., 1959), pp. 363-69.

[24]Ibid., p. 366.

a supernormal return, and it becomes necessary to identify the cause and appraise the value of the excess profits.

The cause of excess profits has been primarily the high prices, maintained by the restrictions of market supply.[25] Although there has been some deliberate curtailment of output by the industry itself, this has been far subordinate to the price effect of variations in the inflow of imports permitted by the Central Bank. Excess profits, therefore, have been made possible by an authority, which has been external to the entrepreneurial group and which has the power of continuing or withdrawing its support of the industry.

It may be argued that excess profits have been necessary to compensate the entrepreneur for his innovational activity and for bearing the peculiar risks of uncertainty caused by government variants. Reliable profit rates in other branches of Philippine industry are not available to serve as a standard against which the textile industry can be compared, although there is some indication that textile profit rates have been relatively high.[26] Therefore, one is forced to speculate whether the rate of excess profits

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[25]It was argued in Chapter IV that the tax exemption privileges was not responsible for the high profit rate, because the industry would have been able to pass on the taxes in the form of higher prices.

[26]Rates of return on industrial capital are available from two sources, but they are too inconsistent for meaningful comparisons. Professor Higgins, citing Central Bank figures, reported that the average rate of return in tax exempt industries has been 16.6%, including 6.3% in textiles, 60.5% in veneer and plywood, 43.2% in wood and wood fixtures, 33.5% in rubber products. Higgins, Report to the Government of the Philippines (1957), pp. 38-39.

Several years earlier a study reported an average rate of return on investment of 12.5% in ten industries -- garments (10.4%), thread (9.5%), tanneries (20.1%), plastic products (18.3%), beverages (18.6%), mining (6.9%), food manufacture (11.4%), veneer and plywood (18.8%), pulp and paper (6.7%), and metal products (17.0%). Philippine Council for U.S. Aid, Industrial Philippines, A Cross Section (Manila: Philippine Council for U.S. Aid, 1953), pp. 81-82.

has been adequate or redundant in relationship to what the government has attempted to achieve. Assuming that the objective was simply to achieve national self sufficiency, then the rate of excess profit has clearly been a sufficient inducement for that goal has been realized.

If the rate of excess profit had been lower entrepreneurial activity might have been channeled into other industries. The IDC has reported that interest in textile investment has varied with the state of the market and profit expectations. Nevertheless, first knitting and then textile manufacturing rapidly reached capacity or overcapacity and new applicants had to be rejected. In 1958 when industry spokesmen were predicting the industry's collapse due to excessive textile imports, average excess profits were 20% on equity and new construction was continuing apace. The rapid growth of textile manufacturing has satisfied the Philippines' urgent desire for industrialization, but this tempo could have been reduced somewhat by lower profits. Excess profits cannot be justified on the basis of manufacturing risks or the uncertainty of a market, for these were known. On the contrary, the entrepreneurs have demanded excess profits because of the uncertainty concerning governmental protection of the industry and each firm's relative position in it. If a stable and objective governmental policy toward industry were effected, the businessman could shift his emphasis from the capture of short run or windfall profits to a long term commitment to profit planning through manufacturing activity.

The Philippine consumers have clearly received no direct benefits from the textile industry in the form of lower prices. The price index of clothing has been the most rapidly rising component of the consumer price index since the start of the private textile industry.i Rising clothing prices

were not caused by international price movements,[27] but primarily by import restrictions. Below the price index is compared to cotton textile imports:

	Consumer Price Index In Manila (1955 = 100)[28]		Cotton Textile Imports Excluding Raw Cotton (1000's of pesos)[29]
	All Items	Clothing	
1959	107.0	121.3	P 57.3
1958	108.0	116.7	80.7
1957	104.5	113.6	117.8
1956	102.7	108.1	85.5
1955	100.0	100.0	137.4
1954	101.0	103.5	125.6
1953	102.5	108.4	114.7
1952	106.1	114.6	104.6
1951	113.4	144.3	
1950	104.7	112.9	
1949	101.6	93.8	

The textile firms have apparently been able to enjoy stable or rising prices during these years. The historical trend of the manufacturersd prices is available only for the NDC, which at best is only a barometer of the private firms' prices. Nevertheless, by the beginning of 1960 the prices of NDC prints and grey sheeting were as high or higher than at any time during the prior five years.

The industry has been essentially free of competition, except for some rivalry in the introduction of patterns; marketing has been an allocation procedure. The general method of establishing prices has been to add a

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[27]The CIF value per yard of imported fabrics had a slight downward movement from 1955-1959. Central Bank.

[28]Central Bank, Statistical Bulletin, XI, (Dec., 1959), p. 210.

[29]Table 1, Chapter III.

"reasonable" markup to estimated costs and to vary this upwards if permitted by market demand. When the minimum cost plus price could not be obtained firms have been very reluctant to reduce their margin in order to maintain output. Some finished goods are kept in inventory for long periods awaiting price improvements, and this is reflected in a low rate of inventory turnover for the industry as a whole.[30]

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[30]For 1959 the aggregate inventory turnover for the industry (cost of goods sold ÷ the average ending inventory for 1958 and 1959) was 3.9 and the range from .5 for the NDC to 6.2. There is obvious need for caution in the acceptance of these computations. Annual inventory turnover in the American cotton textile industry, however, is also four. "For Cotton: Orders, New Hopes," Business Week, June 20, 1959, p. 139.

CHAPTER X

ECONOMIC SIGNIFICANCE OF THE INDUSTRY

The textile industry historically has constituted a large portion of the manufacturing activity of the underdeveloped and lesser developed countries. For instance, 45% of the value of products manufactured in Japan in 1928 consisted of textile products,[1] 28.5% of total industrial production in Russia before World War I was textile production,[2] the textile industry was China's largest factory industry before World War II,[3] and 30% of all manufacturing employees in Mexico in 1940 were textile employees.[4] Although it is frequently stated by Filipinos that the textile industry is the largest factory industry in the Philippines, an industry's significance in relation to macroeconomic aggregates depends on how its boundaries are delimited.

The textile industry, as defined for purposes of this study, does not loom as large in the Philippine economy as is frequently believed. Because both industry and national statistics are subject to significant margins of error, a series of comparisons has been developed which as a whole is more meaningful than any one of its parts. Employment in the textile industry in 1959 totaled 15,711, compared to an annual increase of population of approximately 825,000, and an annual increment in the ranks of the unemployed estimated at 100,000. Textile employment was 3.7% of the estimated

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[1]Blanchard, p. 5.
[2]Becker, p. 7.
[3]Blanchard, p. 23.
[4]Mosk, p. 123

manufacturing labor force, 10 years and over.[5] The compensation of the textile workers equaled from 4.5% to 5.5% of the total compensation of manufacturing workers in the Philippines in 1959.[6] Approximately 5% of the total loans and overdrafts, outstanding at the end of 1959 from banks other than the Central Bank, went to the textile industry.[7] The textile industry reported purchasing 85.2 million kilowatt hours of power in 1959 -- 5.7% of the Manila Electric Company's total volume of production.[8] The national income at factor cost which originated in the manufacturing sector was P 1,734 million in 1959;[9] the textile industry's contribution of approximately 3.3% of the total was distributed as follows:

	Contribution to National Income (P 1,000's)[10]
Wages	P 18,135
Salaries and Bonuses	6,145
Interest	2,560
Rents	217
Corporation Profit	29,433
Total	P 56,490

[5]The employed non-agricultural labor force, October, 1959, was 3,278 thousand. Central Bank of the Philippines, Twelfth Annual Report, p. 86. Manufacturing accounts for about one-eighth of all non-agricultural workers. Philippine Statistical Survey of Households Bulletin, Series No. 3, Vol. 1, "Labor Force," (Manila: Bureau of Census and Statistics, June, 1958), p. 4.

[6]Compensation of the non-agricultural work force in 1959 was P 3,178 million, of which one-eighth is estimated to be in manufacturing. Central Bank, Twelfth Annual Report, 105. In 1959, the average number of employees in the industry was 14,880, the average daily compensation was P 5.50, including fringe benefits, and the estimated average number of days worked was 270, giving total annual compensation of P 22.1 million. Aggregate estimated direct and indirect labor on the firms' income statements was P 18.1 million; 1958 data were used for two firms failing to report to the Central Bank in 1959, and 40% of manufacturing overhead was estimated to consist of indirect labor.

[7]Central Bank, Twelfth Annual Report, 140-43, and Chapter VI.

[8]Textile industry purchases from Central Bank data. Total production from Central Bank of the Philippines, Statistical Bulletin, XI (December, 1959), p. 203.

9 and 10 on next page.

Cotton textile manufacturing is thus seen to represent from 3.3% to 5.5% of total Philippine manufacturing activity depending upon the particular standard of comparison selected. It is a significant industry and probably the largest factory industry in the country. However, this significance has been often exaggerated by those who either did not have the facts or who wished to enhance the industry's prestige. For instance, in proclaiming "Textile Week" in 1959, President Garcia stated, "Though comparatively young, this industry has firmly established itself as one of the country's leading economic pillars by providing employment opportunities to 35,000 Filipinos...."[11] According to the reports of firms in the industry, total employment was less than half of that stated by the President.

If the definition of the industry were expanded to embrace related sectors such as knitting and garment manufacture, the aggregate would be larger and more comparable to the totals of other countries cited in the first paragraph of this chapter. For purposes of this study, however, the significant dimension is textile manufacturing per se -- spinning, weaving and finishing. Unfortunately it is not possible to contrast the size of the textile industry to other industries, since the most recent surveys of manufacturing with detailed breakdowns by industry were in 1955 and 1956.

An industry's significance, however, cannot be simply gauged by the number of workers it employs or the power it purchases; its contribution has many facets. This chapter will consider the industry's balance of payments effect, its stimulation of development in other areas, and the

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[9]Central Bank, Twelfth Annual Report, 106.

[10]Financial statements filed at the Central Bank with same adjustments as in footnote No. 6.

[11]The industry referred to by the President was essentially the same as in this study. Textile Week Souvenir Program (July 6-12, 1959), unnumbered.

productivity and labor absorption of its capital investment.

Balance of Payments Effect

The textile industry isogenerally praised in the Philippines because of its contribution in theoform of employment opportunities and dollar savings. But both of these contributions have been widely exaggerated. According to the TMAP, "Today, despite problems facing the industry, it is effecting a clear savings in foreignoexchange of more than $35,500,000 pero year."[12] Since one of theofficial reasons for furnishing assistance too the industry was relief of the country's exchange problems, it is necessary to evaluate claims of dollar savings.

Exact computations of dollar savings are not possible because weaving and finishing production figures are not available. An estimated possible dollar savings is presented in Table 11 based upon 1959 capacity and costs. The total estimated savings of $6.8 million requires at least two major adjustments. Table 11 savings assumes that operations are at full capacity which in fact has not been true.o[13] If it is realistically assumed that total operations were no higher than 85% of capacity, then total dollar savings are reduced to approximately $4.4 million.

The second adjustment concerns foreign importsonot requiring dollar payments -- machinery and equipment and raw cotton. A minor portion of the industry's capital equipment was admitted dollar free under Japanese reparations, but a much larger part came from IDC Dollar Aid.[14] Since this

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[12]Textile Week Souvenir Program, unnumbered.

[13]See Table 5, Chapter V, Below capacity operations are typical of Philippine industry; 6,050 of 15,325 key establishments (over 5 employees) were operating below capacity in 1955o Directory of Key Establishments in the Philippines in Selected Non-Agricultural Industries (Manila: Department of Labor, 1956), p. xv.

[14]Chapter VI.

TABLE 11

ESTIMATED POSSIBLE DOLLAR SAVINGS IN THE TEXTILE INDUSTRY IN THE PHILIPPINES, 1959
(1,000's)

	Average 1959 Equipment	Reasonable 1959 Output	Estimated Value of 1959 Output	Estimated Value of 1959 Input	Total Savings[e]	Total Savings in Dollars
SPINNING SECTOR						
Spindles	267.7[a]	57,580 lbs.[b]	P 53,549[c]	P 41,458[d]	P 12,091	$ 6,045
WEAVING SECTOR						
Looms	4.7[e]	121,940 yds.[f]	P 40,240[g]	P 34,143[h]	P 6,097	$ 3,048
FINISHING SECTOR						
3 Shift Annual Capacity	264,000 yds.[i]	264,000 yds.	P100,188[j]	P 87,120[l]	P 13,068	$ 6,534
						$15,627

DOLLAR COSTS OF OPERATIONS	U.S. Dollar Costs	
Depreciation of Imported Machinery and Equipment[k]	$4,400	
Spare Parts[l]	1,100	
Supplies[l]	3,375	
LESS: DOLLAR COSTS		$ 8,875
TOTAL NET DOLLAR SAVINGS		$ 6,752

(a) Table 2, Chapter III.
(b) Table 5, Chapter V.
(c) P .93 per pound. 1959 median price less 20% for count adjustment, Table 8, Chapter IX.
(d) P .72 per pound, 1959 median cost, Table 8, Chapter IX.
(e) Value of output less value of input.
(f) 26,000 yards per loom year.
(g) P .33 per yard. Table 9, Chapter IX.
(h) P .28 per yard. Table 9, Chapter IX.
(i) Central Bank data.
(j) Input of grey plus 15%.
(k) Total gross book value depreciated over 10 years, Chapter VI
(l) Central Bank data.

aid comes from a special dollar fund created by the Central Bank in an amount equivalent to the dollar value of American surplus commodities, it can not properly be considered dollar free. For purposes of calculating dollar savings, the IDC Dollar Aid must be considered as a drain on the international dollar reserve. On the other hand, the cost of the spinning input, American surplus cotton, from Table 11 can be added to dollar savings -- P 41.5 million or $20.8 million at 100% operation and $17.7 million at 85% operations. The inclusion of the cotton cost as an exchange savings is contingent upon the continuingdavailability of American surplus cotton and Philippine acceptance of the terms of purchase. It has been noted that such transactions were terminated for twelve months in 1959 and 1960 because of disagreement over terms, thus permitting inclusion of only about half of 1959ds cotton cost as an exchange saving.

Dollar savings, therefore, depend on the level of operations, the height of international prices, and the supply of Public Law 480 cotton. In 1959 if operations had been at 100% and dollar-free cotton were available during the entire year, exchange savings of approximately $27.6 million would have been effected by the textile industry. Under the conditions actually prevailing the dollar savings must have been in the order of $13.3 million, contrasted to the announced "clear savings in foreign exchange of more than $35.3 million per year."

Projecting dollar savings into the future involves many more uncertainties than the 1959 computations, but estimates have been made. "By 1961d total value of textile imports to be replaced by the output of the local industry is expected to reach $100 million. Allowing some $30 million for chemicals and spare parts, operations of local mills two years from now

are expected to effect an annual savings of $70.9 million."[15] Such estimates can serve as goals under optimum conditions, but they should not be considered facts with which to justify the various forms of preference extended to the industry.

Dollar savings of other import reducing industries are not known, but the textile industry's dollar savings can be compared to the country's total international reserve of $162.9 million in 1959.[16] By this standard, the textile industry savings of from $13 to $28 million was an extremely significant one, although precariously contingent upon the use of surplus cotton.

The balance of payments position has not been aided by an inflow of capital, for investment in the textile industry has been essentially resident capital.

Stimulus to Development in Other Areas

The development of textile manufacturing has had direct and conspicuous employment and balance of payments effects. But the significance of such a narrowly defined industry may rest largely outside of its own boundaries, in the influence it exerts on other areas of development. This extra-industry influence may be either a tangible stimulus to new areas of investment, the linkage effect, or an intangible stimulus to the social institutions or practices within the country, the social effect.

According to Professor Hirschman, there are two development inducement mechanisms related to manufacturing activity:

> 1. The input-provision, derived demand, or backward linkage effects, i.e., every nonprimary economic activity,

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[15] Textile Week Souvenir Program, unnumbered.

[16] Central Bank, Twelfth Annual Report, p. 44.

> will induce attempts to supply through domestic production the inputs needed in that activity.
>
> 2. The output-utilization of forward linkage effects, i.e., every activity that does not by its nature cater exclusively to final demands, will induce attempts to utilize its outputs as inputs in some new activities.[17]

Hirschman cites a study by Chenery and Watanabe which categorizes the textile industry as high in both forward and backward linkage.[18] For textiles, the ratio of interindustry purchases to total production (backward linkage) was 67% and the ratio of interindustry sales to total demand (forward linkage) was 57%.

The primary backward linkage possibility is domestic cotton cultivation, the industry's main raw material. "By providing a reliable market, processing industries originally based on imported agricultural materials such as cotton textiles and beer have stimulated in Columbia the domestic production of cotton and barley."[19] More than a passive market for local cotton cultivation, the Philippine textile industry has been so dependent on imports that national efforts have been aroused to forge the backward link.

The possibilities of forward linkage are limited for the Philippine textile industry because the clothing manufacturers and knitting mills were established earlier. The apparel industry is a "final manufacture" which might more properly be said to have induced textile manufacturing as a backward link, although this has been very weak compared to other inducement factors. At least one manufacturer is contemplating forward

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[17]Hirschman, p. 100.

[18]Ibid., pp. 105-197, citing R. B. Chenery and T. Watanabe, "International Comparisons of the Structure of Production," paper presented at the Cleveland meeting of the Econometric Society, December, 1956 (dittoed).

[19]Ibid., p. 112.

integration into garment production, but the general potential for forward stimulation of this character seems negligible on the Philippine scene.

The textile industry has induced several "satellite" industries of relatively minor importance. A number of firms started producing chemical and dyes locally, and in 1959 the textile industry purchased P 1,275,000, 16% of its requirements of such supplies,[20] from domestic manufacturers. Small machine shops have concentrated somewhat on textile machinery parts but their total significance has been limited also.

Except for the backward linkage possibility into cotton cultivation, the industry has not had a great effect nor large potential as a stimulus to development in other areas. However, neither has it been a negative stimulus to investment and manufacturing activity. The cottage industry sector, which it might have destroyed with adverse economic repercussions, was reduced in significance much earlier by textile imports.

According to one political scientist, "The price of industrialization is primarily cultural rather than monetaryi-- and there is reason to believe that the price is still too high for most Filipinos."[21] The cultural resistance to industrialization is an intangible but real problem, which prompts an examination of the textile industry's social effect. Three aspects of this complex effect will be mentioned, partially to illustrate the social ramifications of the Philippine industrialization program of which the textile industry is only a segment.

The textile industry has contributed to a shifting distribution of power and prestige in the Philippines, divorced from the traditional

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[20]Central Bank data.

[21]Thomas R. McHale, "The Philippine Cultural Matrix and Economic Development," Far Eastern Economic Review, September 17, 1953, p. 372.

agricultural strongholds and transcending individual family groups. The industry trade association is an important example of a new type of interest group, rising in competition with the old, and representing the manufacturers. Its effectiveness is hampered by its multiple membership, for the new industrialists have emerged from various ethnic groups. Nevertheless, traditional rivalries have often been subordinated to new financial bonds and a type of countervailing force is developing in the economy. Not only are Chinese clans and Filipino families cooperating in joint efforts, they are demanding political influence vis-a-vis the agricultural producers.[22]

A second general social effect has been operativeiupon the values and loyalties of the industry's fifteen thousand employees. It is possible only to speculate upon the change in their perspective caused by their introduction to the nonpersonal factory group, with its fixed leaders and new allegiances.

Finally, the industry has helped to stimulate widespread interest in new educational areas. There are new steps on the educational ladder of social mobility, as business administration and engineering courses are gaining popularity alongside the traditional professional areas. The requirements of the textile mills for technical personnel have caused a striking response of new curriculums and student interesti

Evaluation of the social effect of the textile industry, or

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[22]Cooperation between the Filipino and Chinese members of the TMAP, however, has not been completely harmonious. In June, 1959, four firms established the Filipino Textile Mills Association of the Philippines to "promote and develop a kindred spirit among the owners and personnel of Filipino owned textile mills in the Philippines with the end view of fostering a 'Filipino First' policy among them." Manila Chronicle, June 12, 1959. The Filipino firms retained their membership in the TMAP because of the realization that political strength required unity.

industrialization in general, however, calls for the attention of the sociologist, who until now has been preoccupied with the rural barrio. Economists insist that industrialization is working a significant transformation of a portion of the social fabric, but their eyes are not trained to detect the extent or the subtlety of the process.

Productivity and Labor Absorption of Capital

The textile industry is commonly considered a desideratum in the Philippines because of its alleged low capital intensiveness and high labor intensiveness. This is believed to maximize the value added in manufacture from the scarce element, capital, and to absorb large numbers of the unemployed labor force. Table 12 attempts to contrast the capital-output requirements and employment ratios for textile manufacturing to other industry sectors.[23] It shows that neither presumption is certain, at least in comparison to the 1956 industrial structure of the Philippines.

The textile industry's capital-output ratio of 3.3 compared to a ratio of 1.27 for all manufacturing indicates that textile capital is less productive than average. Interindustry comparisons are hampered by the lack of definitions of other industries, particularly their degree of integration. In industries which only process the final goods, the profits permitted by the seller's market assume a larger portion of value added and lower the capital-output ratio. In the textile industry, for instance, profits accounted for over half of the value added. The capital-output ratios in Table 12 are average, not incremental ratios, and their use for

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[23]The ratios in Table 12 are subject to various technical criticisms, chief perhaps being the definition of "value added" and the distortion caused by intermittent underutilization of capacity. Their chief advantage is their availability, but their use requires caution.

TABLE 12

CAPITAL-OUTPUT AND EMPLOYMENT RATIOS FOR

MANUFACTURING BY SELECTED INDUSTRIES IN THE PHILIPPINES[a]

Industries	Capital-Output Ratio	Value of Fixed Assets per Employee	Value of Inventory per Employee	Total Capital per Employee
Total Manufacturing	1.27	4.9	2.5	7.4
Private Textile Industry	3.3	10.2	2.7	12.9
Spinning Mills	3.0	10.2	2.4	12.6
Integrated Mills	3.3	10.2	2.8	13.0
Food, Manufactured	1.36	6.0	2.3	8.3
Beverages	.59	6.1	1.4	7.5
Tobacco Products	.78	1.6	3.3	5.0
Footwear and Garments	1.27	1.5	1.4	2.8
Wood Products	1.34	2.7	1.0	3.8
Paper and Paper Products	1.42	6.1	3.0	9.0
Basic Industrial Chemicals	5.07	25.5	5.2	30.7
Glass and Glass Productso	1.33	8.5	1.9	10.4
Basic Metal Products	2.30	14.3	2.0	16.7
Machinery	2.17	4.9	2.2	7.1
Transportation Equipment	2.72	6.8	4.0	10.8

(a) Ratios for all industries except the textile industry are from Clarence L. Barber, "The Survey of Manufacturers as an Aid to Economic Planning," The Philippine Statistician, VIII (December, 1959), 219-233. His ratios are based upon data published in the 1956 Annual Survey of Manufactures (Manila: Bureau of Printing, 1958). The numerator of the capital/output ratio is the total of fixed assets (presumably net) and inventory. The denominator of the ratio is a calculated "net value added by manufacture," which is sales less raw materials, energy consumption, and contract work. The ratios for the textile industry are based upon the 1959 financial statements filed at the Central Bank. The time periods are, therefore, not comparable. "Net value added" was calculated in a different manner than in Professor Barber's article; it is the total of direct labor, estimated indirect labor (40% of manufacturing overhead), salaries and bonuses, rents, interest, profits, and, for purposes of comparability, estimated depreciation (40% of manufacturing overhead). Fixed assets for the textile industry are net of depreciation and exclude construction in process. Since assets are valued as of the year's end, not all were productive during the year. Values are in thousands of pesos.

planning purposes is consequently limited. They do not indicate that expansion of the textile industry would require more capital in relation to output than other industries, although they suggest that with few exceptions this might be true. Only one industry, basic and industrial chemicals, and one sub-group, galvanized steel products (not shown), have capital-output ratios which are higher than the textile industry. Therefore, it can be concluded that the productivity of textile capital has been less than that in other Philippine manufacturing, and capital productivity cannot be a basis for the industry's justification. If the comparison is to other large scale factory industries, which might have grown during these years or might be encouraged in the future, then Table 12 is much less meaningful.

There is other evidence that textile manufacturing is more heavily capital intensive than is commonly assumed. One study presents the ratio of average fixed assets to value added for five industries in the United Kingdom and India. Although the figures are partially preliminary and definitely not comparable, they show that the relative position of the textile industry is high:[24]

Industry	United Kingdom (1955)	India
Cement	1.6	2.9 (1953)
Iron and Steel	3.2	4.2 (1952)
Paper and Pulp	3.9	6.3 (1952)
Textiles (other than rayon)	4.0	4.0 (Bombay, 1942)
		2.8 (Ahmedabad, 1942)
Sugar and Glucose	4.1	2.3 (1953)

The employment ratios in Table 12 raise questions concerning the second proposition that the textile industry is highly labor intensive. Thirteen thousand pesos were required to create one job in the textile industry, compared to P 7,400 in total manufacturing. Nevertheless, there were 23 out of

[24]George Rosen, Industrial Change in India (Glencoe, Ill.: The Free Press, 1958), p. 123.

a total 151 industries and subgroups with higher capital per employee than the textile industry. The proposition that the textile industry has high labor intensiveness, therefore, seems to be less untrue than the proposition that it is characterized by low capital intensiveness. The study of Indian industry indicates that the textile industry is more labor intensive (9,900 rupees of fixed capital per worker, 1952) than such major manufacturing industries as steel (20,020 rupees, 1952) and paper (16,190 rupees, 1953).[25] Relative intensiveness of capital and labor use depends on the comparisons selected. Compared to Philippine manufacturing in 1956 the textile industry has not been very labor intensive, but its labor intensity has probably been greater than would have been true of alternative investments in other basic industries.

At the 1959 exchange rate, the Philippine textile industry operated at a clear cost disadvantage in relationship to other manufacturing and trading countries. In addition to the variety of benefits derived from the industry, the country suffered a loss because the costs of domestic production were higher than the costs of comparable imports. If the 1959 annual production of grey cloth were 105 million yards, as estimated,[26] and the absolute cost difference between Japan and the Philippines were approximately $.07 or P .14 per yard as indicated in Chapter IX, Table 10, then the annual loss due to manufacturing grey rather than importing was about P 15 million. This loss can be considered an absorption of scarce resources similar to investment in plant and equipment; if it were not for domestic textile manufacturing an additional P 15 million would have been freed, potentially for productive investment. If this sum is added to total

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[25] Ibid., pp. 135-40.

[26] Chapter III.

capital investment, the total capital per employee in Table 12 would rise from P 12,900 to P 14,300. A similar adjustment would raise the capital-output ratio from 3.3 to 3.7. The value of these adjustments is limited by the absence of comparability to other industries, but they emphasize what is often neglected by Philippine business and government officials -- that there is a real cost in fostering industries which are not able to meet international competitive standards.

CHAPTER XI

CONCLUSIONS

When this study was concluded at the end of 1959, entrepreneurial enthusiasm in textile manufacturingohad been superfluous. National requirements were exceeded by the industry's installed finishing capacity and its installed or approved spinning capacity; installed or approved weaving facilities were close to or in excess of national requirements. Since the Central Bank controlled plant expansion through the process of dollar allocations and had the power to prevent overcapacity from spreading, its apparent reconciliation with the NEC in 1960 aroused hopes for coordinated industry planning. Some costs in the form of overextension of capacity and imbalanced production have been incurred by the delay in this accord, but these deficiencies can be rapidly eliminated if the population growth continues to augment national requirements at the current tempo.

In the Philippines, where the Tariff Act of 1909 remained effective for 48 years, new emphasis has to be placed upon the tariff mechanism as a means of protecting the multiplying infant industries, such as the textile industry, as shifts in taxes and exchange rates alter their competitive positions. The textile industry clearly required protection in 1959, either by means of continued restriction of exchange grants or through higher tariffs. Cited as a corroborating example is the American cotton textile industry, which developed during the artificial seller's market created by the War of 1812, under circumstances analogous in some respects to the Philippine experience.[1] The New Englander enjoyed large excess profits

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[1]See Irwin M. Stelzer, "The Cotton Textile Industry" (unpublished Ph.D. dissertation, Cornell University, Department of Economics, 1954), pp. 2-7.

because of the widening cost-price margins caused by the suspension of finished textile imports from the United Kingdom and the freeing of southern cotton for domestic use. Idle merchant capital was officially encouraged to find new outlets in manufacturing. Then upon the termination of hostilities, the American market was flooded with English textiles, and the return of prosperity required a 25% tariff on cotton imports. The TMAP has sought similar support for the Philippine textile industry.

Although the textile industry does have an international cost inferiority, it is not as serious as is sometimes believed. As is indicated below, the estimated average production costs of Chapter IX are well below those stated by the TMAP in its plea for higher tariffs:

Yarn Production Cost Per Kilo (20 count)

	Chapter IX[2]	TMAP	% Difference
Raw Material	P 1.71	P 2.29	33.9%
Domestic Processing	1.42	1.65	16.2
	3.13	3.94	25.9

Grey Cloth Production Cost Per Yard (Style 2003)

	Chapter IX	TMAP	% Difference
Raw Material[3]	P .30	P .35	16.7%
Domestic Processing	.14	.25	78.6
	.44	.60	45.5

The tariffs recommended "to protect the existing local textile industry from unfair competition of imported goods" exceeded even the rates

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[2]Raw material cost is the 1959 median cost of cotton necessary to produce one kilo of yarn, Table 8, Chapter IX. Processing cost is the median yarn processing cost, Table 7, Chapter IX.

[3]Chapter IX raw material cost is the cost of yarn production; P 3.13 per kilo, less administrative expenses from Table 7, Chapter IX, for purposes of comparability, converted to pounds and divided by 4.5 yards per pound. The TMAP raw material cost is the yarn production cost, less an estimated administrative expense of 15%, converted to pounds and divided by 4.5.

necessary to equalize the landed import cost and the excessively high domestic production costs estimated by the TMAP. Granting the validity of the TMAP's cost structure, equalizing tariffs would have been 173% on grey and 190% on finished fabrics rather than the 420% and 440% figures proposed, which may reflect an upward bias for bargaining purposes, but which also cause the inferiority of the industry's position to be exaggerated. Devaluation of the peso would reduce the tariff requirements, since local costs would rise less than the cost of imported goods. The tariffs necessary in 1959 to equalize median domestic production costs plus 10% and the landed cost of imported equivalents, using Chapter IX data, would have been approximately 47% for yarn and 33% for grey, and less at lower rates of exchange.

While the industry can be considered a successful "dollar saver", especially if American surplus cotton continues to be available, its export potential is poor. Some possibilities exist for the reduction of production costs, but the cotton and labor components, which represent about two thirds of the total cost, are not promising in this respect, and the industry, already equipped with the most modern physical plant, will find increasing its relative rate of progress over other Far Eastern countries very difficult. The industry, however, should continue to prosper indefinitely by supplying the local market, assuming that the government affords it adequate subsidization in the form of protection from foreign imports in return for the various political, economic, and social benefits it confers upon the country.

In conclusion, the results of this analysis of the textile industry will be reviewed in relation to the objectives stated in the introductory chapter.

(1) To ascertain the forces which caused the textile industry to emerge so abruptly in the Philippines. Since industrialization has beeni accorded high priority among the goals of economic planning in the Philippines, a primary objective has been to determine what has stimulated the textile industry's rapid growth.

Three governmental inducement mechanisms which figure prominently in the portfolio of economic planners, but have had little effect upon the textile industry, are tariffs, government participation in industry, and tax exemption for endorsed industries. The use of tariffs as a protective device has been nullified until recently by the United States-Philippine Trade Agreement, and tariffs have been significant only as a manifestation of the industry's privileged position and the concern for its future development. The government has been a direct participant in textile manufacturing as a pioneer, but its demonstration effect has been negligible, perhaps even negative. Generous tax exemption has been granted to most of the industry, and this privilege enhanced the profitability of textile manufacturing, but it alone was an insufficient stimulus until combined with other inducement factors.

The major stimulus to the textile industry's development was the imposition of exchange and import control. Controls released commercial capital, guaranteed a secure seller's market, and afforded great windfalls in the grants for raw materials due to the peso's overvaluation. But the increment in the net productivity of capital in textile manufacturing would not have prompted such a vigorous entrepreneurial reaction if it had not been coupled with the discriminatory control legislation, which pushed the alien importers, primarily Chinese, out of their traditional areas of economic activityi Economic nationalism prompted Congress to Filipinize the import trade, while

controls facilitated the process by making it centrally feasible and by minimizing the risk for the neophyte Filipino importers. The foreign trading community was compelled to seek new economic opportunities, but investment in land or natural resources was discouraged by law and in equity capital by tradition. Combined with the highly attractive positive inducements of the market, the natural response was backward integration into manufacturing by some of the alien importers. As long as the government endorsed such integration, as it did in textiles, by allocating dollars for equipment and raw materials, the transition was relatively simple and the profit potential great. This, of course, was particularly true in textile manufacturing with its simple technology and wide market.

More general inducements existed in the economic, political, and social atmosphere of the 1950's which, at least, permitted the industry's emergence, but are more difficult to evaluate. By 1950 social overhead in the form of power availability and transportation facilities was reconstructed. The system of textile distribution had been reestablished as imports flowed into the country to remedy the textile shortages of the occupation period. The evolution of a "transitional" Filipino group in Manila aided the social receptivity of the country to manufacturing ventures and contributed to the appearance of the few Filipino entrepreneurs in the industry, as well as the middle managers and salaried employees.

Given this environment and the widespread determination to industrialize, textile manufacturing was probably an inevitability. Its accelerated development of the industry's great profit potential, which sparked a cluster of followers.[4]

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[4]The actual situation must not be oversimplified as an exclusive reaction to the discriminatory implementation of controls. The first mill was established by a native born Filipino to supply yarn to the knitting trade and one of the first four integrated mills was Filipino. Nevertheless, the predominance of aliens is believed to justify the generalization.

(2) To weigh the seriousness of three bottlenecks posited by the theory of economic development as impediments to industrialization in the lesser developed nations -- the shortages of capital, managerial resources, and a skilled labor force.

Capital has not constituted an important bottleneck for the textile industry, except for the problem of mobilizing a sufficiently wide equity base to support its debt financing. Because of the traditional reluctance to entrust equity capital to non-kinsmen, the corporations have been familial and consequently limited in their initial investments. This has been remedied by the regular reinvestment of the industry's high, excess profits and marked trading on the equity. For industries with public endorsement and support there is adequate institutional credit available atilow rates of interest. The textile industry has been a star of the Philippine drive for industrialization, favored by the Philippine government and the American foreign aid administration. Credit has been made available to the reasonable limits of its equity base, and its entire debt structure, peso and dollar components, has apparently been directly or indirectly furnished by the government.

Because of the concentration of financial resources on the textile industry, generalizations based on this example are hazardous. An underdeveloped country can husband sufficient capital to finance selected industries, especially if its resources are augmented by foreign aid, but capital may still be deficient for the economy as a wholei The textile industry has been the recipient of approximately one third of the entire American government's financing assistance to the Philippines, thus leaving only two thirds forithe rest of the economy. But theirest of the economy has not been able to absorb more in industrial projects of the commercial

standards established by the financing institutions. Both dollar and peso credit has been unemployed due to lack of sound investment proposals. This suggests that in countries depending on private enterprise for industrialization and allocating a share of their capital resources to finance private enterprise, the real shortage may be entrepreneurs rather than capital.

The shortage of managerial resources has been partially concealed for the textile industry by the lack of emphasis upon efficiency, the familial reluctance to share authority with nationals, and the ease with which production responsibility could be transferred to foreign personnel. An appeal of a textile mill is the facility with which it can be established; it is easy to start producing but difficult to produce efficiently. Since quality and costs have been subordinate to output, managerial shortages have been considered a secondary problem. Managerial positions have often been assumed by family members in accordance with the traditional pattern, in spite of deficiencies in training or capability, thus temporarily veiling managerial requirements. Great reliance has been placed upon foreign technicians, who often have replaced the hierarchy of manufacturing personnel in a Western mill and who virtually single-handedly have been able to achieve respectable performance in machine efficiency.

These stopgaps for a national shortage of technically trained middle management, however, are becoming increasingly less effective as domestic competition develops in the industry. Nevertheless, they indicate that in textile manufacturing indigenous management is not a bottleneck as long as the industry is protected and the country is willing to import a foreign management group.

The remarkable institutional response, particularly of the private universities, to the industry's needs for engineering personnel demonstrates

how rapidly a free society, such as the Philippines, can shift its resources to satisfy management needs. Unique Philippine characteristics have facilitated this responsei-- the emergence of transitional Filipinos, viewing education as an accepted vehicle of social mobility but sensitive to the new opportunities in industry, and the private universities seeking new curriculums with profit potential. For an industry with as simple a technology as textile manufacturing, development need not await the creation of a reservoir of trained managers. Just the reverse is possible, if necessary. The industry can be established and run by foreign technicians until local management is trained to take over. Efficiency can be sacrificed if the urgency of industrialization so demands.

The third bottleneck, the shortage of a skilled labor force, has been obviated by the nature of the industry's labor requirements. In spite of the large fixed assets per employee in relation to other Philippine manufacturing, the need for trained personnel has been restricted to managerial levels. The labor force has been unsophisticated and unskilled for industrial employment. Within a few months the foreign technicians have been able to convert their young employees into functioning, although inefficient, productive workers. The common belief of development planners that textile manufacturing avoids the skilled labor bottleneck is verified by this study, and its appeal as a starting point for industrialization substantiated. It provides a simple vehicle for indoctrinating a large segment of workers in the social responsibilities of factory employment, without confronting the more extensive training requirements of many other manufacturing industries.

(3) To evaluate the social and economic contribution of the industry as opposed to the efficiency of its operations. Have the costs of encouraging textile manufacturing in the Philippines been justified by the benefits

accruing to the economy?

It is not sufficient merely to observe the impressive mills filled with modern machinery and workers, nor to cite production figures and dollar savings, as many Filipinos have done. The economic justification for the industry depends upon whether its contribution to the national income, solution of the balance of payments disequilibrium, reduction of unemployment, and creation of social benefits are as great as would be produced by alternative resource investment. Scarce resources in the Philippines may be categorized as physical and human. The human resources in scarce supply are entrepreneurial and technical. It is believed that the textile importer-manufacturers were especially susceptible to the impetus backward into textile production, and that consequently entrepreneurial resources were not diverted away from other sectors by the textile industry. Likewise, the industry has augmented rather than diverted the nation's limited supply of technical personnel. However, the industry may be subject to criticism if its use of the "physical" resources in short supply has been relatively inefficient; the most important physical resource is capital, foreign and domestic, which, although no bottleneck for the textile industry, is limited for the economy as a whole.

Textile manufacturing was initiated in the Philippines without any conscious evaluation of its contribution to national income compared to other investment possibilities. None of the NDC's original purposes included economic cost considerations. There was no real appraisal of the economic justification for textile manufacturing when the Commonwealth established it as an objective before the war. After the republic was founded, various measures were used to foster the private industry's development into a permanent fixture in the economy, but comparative analysis

of its value was still restricted to vague faith in autarky and the absorption of unemployment.

Efficiency, as measured by an absolute money cost comparison with other producing countries, is not conclusive evidence of an industry's national economic value, even by the single criterion of contribution to national income. A principal objective of industrialization is to increase the national income. An industry with relatively high costs and inefficient performance may still make a positive contribution to national income, if the loss due to national specialization does not exceed the value added by the industry. However, an industry with an international cost inferiority should be automatically suspect and subjected to rigorous scrutiny before receiving national endorsement. It would appear probable that other industrial projects would exist which, while affording similar employment and autarky advantages, might be internationally competitive. An industry without the prospects of eventual money cost equality with other producing countries requires a national commitment to perpetual subsidization by the economy.

Although analysis of the textileiindustry's performance and contribution to national income was lacking in the Philippines, there was ample indication from the NDC example that the industry was a high-cost producer. This was particularly conspicuous during the Tariff Commission studies of 1954 and 1955, but it was also evident prior to the entry of the private firms. The industry has magnified its cost inferiority in order to realize inordinate protection without fear of prompting a reappraisal of its national value. This study has substantiated that the Philippines has a cost inferiority vis-a-vis imported textiles at the estimated equilibrium range of the exchange rate, although this inferiority is less than commonly assumed.

The industry's contribution to the national income of P 56 million in 1959 is still positive after deductions of P 15 million, the production cost inferiority, and P 7 million, excess profit in addition to the former deduction.[5] Nevertheless, the lower average capital-output ratios of other manufacturing sectors raise the suspicion that greater contributions to national income would have been realized by alternative uses of the scarce ingredient, capital. Engineering estimates of the incremental capital-output ratios for a range of possible industrial enterprises would provide useful guide-lines for public policy which now prevent conclusive evaluation of the textile industry's relative contribution to national income.

The economic justification for the textile industry may implicitly depend upon a conviction that domestic cotton will eventually provide the industry's prime raw material. The use of Philippine cotton would not only release the balance of payments benefits from their precarious dependence on American surplus cotton, but it presumably would reduce the industry's capital-output ratio and increase its net contribution to national income. The low yields and high costs of domestic cotton cultivation have presented an unfavorable money cost comparison with imported cotton, although there were encouraging improvements in yield in 1958 and 1959, which were expected to be enhanced by eventual decontrol. On the basis of cost and quality, however, it was unlikely that the industry would voluntarily shift to domestic raw materials. Backward linkage seemed to require direct or indirect government encouragement. The justification for such support depended upon

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[5]Chapter X. Of the P 29 million accounting profit, approximately P 22 million was excess profit by Chapter IX criteria. This was made possible by the scarcity contrived by the Central Bank and should be deducted from the industry's factor cost to determine its net contribution to national income. Fifteen million pesos of the excess profits are identified witho the production cost inferiority to emphasize its significance.

whether the allocation of resources to cotton cultivation would be more productive than their use in other sectors. Domestic cotton's money cost inferiority made it appear an unfavorable candidate for government support by the contribution-to-national-income criterion. The existence of textile manufacturing did not present prima facie evidence for such endorsement.

But as noted earlier an industry's contribution to national income is only one criterion in establishing industrial priorities; the balance of payments, employment, and social effects must also be considered. The significance of the textile industry according to these latter criteria has been exaggerated. The small employment-creating effect in relation to the annual incrementsiin the work force, in spite of the substantial national effort devoted to this industry, reveals that industrialization is not an easy solution for the unemployment problem. The social effects have been largely ignored. Although Hirschman attributed relatively high linkage value to textile manufacturing, observation revealed little impulse effect on other industrial sectors. Dollar savings, only a fraction of the industry's claim, have been significant compared to the Philippine international reserve, but the balance of payments problem is a function of the overvaluation of the peso, and devaluation rather than autarky presents a more reasonable solution. These various criteria require quantitative measurement, weighting, and organizing into a priority formula iniorder to provide a means of comparing industrial projects.

The NEC has formulated an industrial priority formula to be used for the allocation of scarce resources and government assistance. The following economic values are the guideposts of the industrial priority system:[6]

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[6]National Economic Council, The Five-Year Economic and Social Development Program for Fiscal Years 1957-1961. (Manila: National Economic

(continued)

a) Value added to national product in the form of income and employment;
b) Strengthening of the balance of payments position of the country;
c) Alleviation of the unemployment situation, and development of skills;
d) Extra values added due to and from external economies; and
e) Production of basic and essential goods and services.

The use of a priority formula is necessary for the rational allocation of resources among alternative industries and represents a significant improvement in Philippine economic planning. The formula unfortunately was developed too late for application to the textile industry, but it reveals an awareness of the need for a sophisticated technique in the granting ofo foreign exchange and awarding of government privileges. The most serious obstacle to its effective implementation will be the uncoordinated rivalry between various governmental bodies which plagued the textile industry. But without such a comparative analysis of the criteria of an industry's economic value, it is hazardous to make a final judgment that resources have been used poorly or wisely.

There are certain defects in market criteria in the Philippines, which cause a discrepancy between private and social cost and prevent confident

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(cont'd)
Council, 1957), p. 209. For a description of the priority formula see Higgins, Economic Development, 653-63, 682-86. This writer's primary criticism of the priority formula, a deficiency which Professor Higgins fails to note, is that no adjustment is made for the national loss if an industry suffers an international money cost inferiority, as has been true in textile production. The NEC formula gives positive weight to the firm or industry's value added, including profits, but limits profits to a maximum of 15% return on investment. This permits a portion of excess profits to be used to enhance an industry's priority position even though the profits are derived from the high prices caused by contrived scarcity. Also profits may not beoexcessive, but protection may permit a domestic industry to survive indefinitely although consumers would enjoy lower prices if its products were imported. It is believed thatosuch a production cost inferiority should be deducted from the value added to the national product for purposes of ascertaining the project's economic value compared to other industries.

reliance on marginal decision-making. Labor costs were held up by legislation in spite of widespread unemployment, the peso was overvalued, and capital was rationed at low cost to officially endorsed borrowers. These imperfections necessitate planning beyond the mere consideration of cost-price relationships.

In conclusion, it can be said that the costs of encouraging textile manufacturing in the Philippines have appeared high in relation to the benefits accruing to the economy. Although the industry's contribution to the national income has been positive, the high capital-output ratio and apparent need for indefinite protection suggest the probable existence of alternative investments affording greater benefits. The study of a single industry in isolation, however, does not provide answers to what the alternatives might be.

The fact that alternative investment opportunities are not conspicuous may be one of three factors enhancing the textile industry's economic justification. In a free enterprise economy, investment depends upon the appearance of individual entrepreneurs who are voluntarily willing to assume the risks of mobilizing the necessary resources. The government can encourage but cannot create these entrepreneurs. The deficiency in investment projects, illustrated by the excess liquidity of the financial institutions in spite of the high marginal productivity of capital, has been caused by a shortage of human resources. If the entrepreneurial goals in textile manufacturing were not transferable to other investment areas, as has been suggested, then the alternative to the textile industry might have been no investment.

A second factor strengthening the economic justification of the textile industry in the Philippines is that the opportunity cost of the scarce

ingredient, foreign exchange, may have been low. Since over half of the dollars for capital equipment came from American foreign aid, which would have been unlikely to have been fully used otherwise, the alternative to the textile industry again might have been no investment.[7] It is unrealistic to speak of investment alternatives unless the human and physical resources absorved in textile manufacturing could, in fact, have been transferred to such alternatives.

Finally, the economic justification of the industry may be derived from the independence it affords the nation from the vicissitudes of foreign trade. To repeat the reasoning of Dr. Amado Castro, quoted in the second chapter:[8]

> On economic grounds there can hardly be any doubts as to the desirability of economic independence; it is essential if the Philippine economy which is highly oriented toward foreign trade is to remain stable and unaffected by outside fluctuations. And on political grounds the justification is even greater....
>
> Even granting a loss of specialization and efficiency there is the cold dilemma of security vs. great gain: the country may prefer aostable income at a lower level to highly varying returns.

By shifting the source of supply for its principal prewar import to a domestic industry, the country has taken a significant step on the road to national autarky. This criterion involves social and political overtones defying economic analysis. Therefore, it can only be identified as the most popularly compelling justification for the industry.

(4) To provide a case study of a new industry in an underdeveloped

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[7]The textile industry has not received unanimous support from the United States. In February, 1960, U.S. Senator Richard B. Russell called for free entry of American textiles into the Philippines and U.S. Senator Sam J. Ervin, Jr. said that he was "astounded" to learn that the ICA was encouraging a textile industry in the Philippines. Manila Bulletin, February 27, 1960.

[8]Castro, pp. 6, 390.

country to serve as a standard of comparison in order to further understanding of the growth process and the formulation of economic policy. A host of questions about Philippine economic development has been prompted by this study, but the analysis of other industries in the Philippines and other underdeveloped countries is required to answer them. Do some Philippine industries have an absolute money cost advantage over foreign industries or is this prevented by high Philippine wage rates and low productivity? What are the rates of excess profit in other industries and have they been adequate for inducement purposes? What have been the sources of capital in other industrial sectors, their solutions of the management bottleneck, their response to the government tax incentive program and exchange control? The value of the answers derived from the textile experience would be greatly increased by confirmation or refutation from knowledge of the experience of other industries.

Finally, this study has emphasized that a condition precedent to useful generalizations about industrial development is a thorough study of the social and political environment of the underdeveloped country. Generalizations from the Philippine textile industry to other countries is limited by the high degree to which its characteristics have been shaped by the interaction of non-economic factors. The facility of establishing mills and training workers are objective and transferable facts, but the value of the inducement mechanisms employed in the Philippines has been determined largely by the peculiar Philippine setting -- the social position of the ethnic Chinese and the economic pressures upon them, the extent and character of American aid, the governmental commitment to industrialization by free enterprise, the external perspective of management and reliance upon government windfalls, the familial limitations on business organization and capital formation.

Economic development policy must deal with these realities of the Philippine scene as much as the more easily solved technical and economic problems. In other countries, social and political realities of a different nature undoubtedly exert an equally profound influence on their paths of industrial development.

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