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## THE POLITICAL ECONOMY OF RICE IN THE NEW SOCIETY†

In the Philippines, as in other parts of Asia, rice has always been known as a political commodity. Knowledge of its political setting, structure, and conflicts is necessary for an understanding of the rice economy and government policies toward it. One needs a model in which the relationships, variables, and parameters are political as well as economic. A number of important developments in the rice economy—changes in prices, production, consumption, farmers' incomes, and so on—may be traced to changes in the political components of the model.

This paper is an attempt to inventory components for such a model, within the context of the New Society, i.e., the government from September 21, 1972 (when the President of the Philippines, Ferdinand E. Marcos, declared martial law and thereby assumed vast powers) up to the present writing.<sup>1</sup> The components will not be assembled into a model, but will be catalogued as objectives, policies, and constraints in accordance with the programming framework suggested by C. P. Timmer and W. P. Falcon (17). The weights attached to the objectives and the linkages between policies and objectives will also be discussed.

### GOVERNMENT OBJECTIVES

We assume that the government seeks to maximize "total rice welfare," which is a function of several objectives, by means of appropriately chosen policies which in turn are subject to several constraints. Under the New Society, government as a decision-making unit is now closely identified with the executive branch, Congress having been dissolved. The scope for internal conflict on government rice policy has thus been diminished,<sup>2</sup> though probably not eliminated.

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<sup>1</sup> The New Society is also characterized by a government that adopts new policies and/or changes old ones at a faster rate than previously. The reader bears responsibility for inferences he may draw from this paper on the political economy of rice in the New Society after mid-1974. See Marcos (10) for a statement of New Society principles.

<sup>2</sup> For a documentation of earlier internal conflict, see M. Mangahas and A. R. Librero (9) and L. A. Mears (11).

TABLE 1.—EFFECTS OF RICE POLICIES ON OBJECTIVES AS PERCEIVED BY THE PHILIPPINE GOVERNMENT

	Objectives <sup>a</sup>				
	Political stability (30 percent)	Consumer welfare in cities (20 percent)	Farm income in regions (20 percent)	Anti-inflation (20 percent)	Self-sufficiency (10 percent)
Floor price	+	—	+	—	+
Farm credit	+	+	+	—	+
Fertilizer subsidy	+	+	+	+	+
Farm equipment subsidy	+	+	+	+	+
Extension	+	+	+	+	+
Imports	+	+	—	+	—
Ceiling price	—	—	+	—	+
Rationing	+	+	—	+	—
Land transfer	+	+	+	+	+

<sup>a</sup> Percentages in italics represent the author's judgment of the weight given by the government to specific objectives (see also footnote 4, this page).

(The situation may of course change when the National Assembly created by the new constitution becomes operational, but no date has been set as yet.)

The following appear to constitute the major objectives:

Objective	Judgment weight (percent)
Political stability	30
Consumer welfare in cities	20
Farm income in regions	20
Anti-inflation	20
Self-sufficiency	10
	100 <sup>3</sup>

The various rice policies and their effects on the objectives as perceived by the government are listed in Table 1.<sup>4</sup> The objectives are pertinent to the entire postwar period although the weights would be somewhat different under the New Society. Interaction among objectives is not precluded, but to some extent each objective is an end in itself. In particular, the last four objectives probably all contribute to the first, namely, political stability. Nevertheless, political stability, defined as maintenance of political position or power, can be considered as an objective independent of the others. Some government programs (e.g., *Palayan ng Bayan*, described below), with limited impact on the other objectives, may im-

<sup>3</sup> The welfare function need not be a simple weighted sum, of course; the weights are merely to indicate apparent relative orders of importance. For comparison, the Timmer-Falcon judgments on Philippine rice objectives are: farm income, 20 percent; consumer welfare, 40 percent; self-sufficiency, 20 percent; and price-stability, 20 percent (17, p. 23).

<sup>4</sup> One would hope that the government perceives that its present farm credit policy is inflationary. The coefficients that the signs represent are similar to so-called reduced form coefficients. There might be a model where the vector of policies  $x$  affects the vector of objectives  $y$  by a set of relationships  $Dy + Gx = 0$ ; then  $y = -D^{-1}Gx = Bx$ . The signs in the table are those of matrix  $B$ . The magnitudes of coefficients can be affected by foreign prices of products and factors, by Philippine diplomacy, by economic policies "independent" of rice (such as the policy of controlled interest rates, and the policy of increasing government wages to offset inflation), and so on.

prove bureaucratic coordination and government credibility or otherwise contribute to stability.

Another objective requiring comment is self-sufficiency, defined as the avoidance of leverage imposed on the country by foreign states because of their position as important suppliers or buyers of rice, competing agricultural products, or agricultural inputs. For example, if the same amount of fertilizer were imported, but from many countries rather than from a few, self-sufficiency would be enhanced even though effects on the other objectives would be nil.

### *Political Stability*

This objective probably has about the same weight under the New Society as it had before, though the problems have changed. The task was to gain and maintain political strength within an electoral system. The government could favor or could ignore individuals, groups, institutions, or geographical areas, depending on their electoral size or their influence on the electorate. The timing of biannual elections (November) was troublesome to the party in power since seasonally high prices in Luzon during the lean months of July-September were traditionally seized upon by the opposition for political propaganda. In 1973 rice policy administrators may have been thankful that they no longer had a presidential election to complicate the problems raised by the severe rice shortage resulting from the great Luzon flood of 1972 and the inability to find rice stocks on the world market.

In the New Society the government tries as before to elicit broad support. Although strikes and demonstrations are legally prohibited, the government must be careful that food shortages, particularly in the cities, do not become so severe as to provoke riots. The need to use soldiers to quell such civilian disorder would in fact be even more damaging to the prestige and credibility of government under martial law, "Philippine-style," than under the Old Society.

With the legal opposition sidelined for the time being, the government apparently is more concerned about subversive and secessionist movements. It is difficult to tell whether these movements are more serious in the New Society period than before. The government now appears to devote resources for the economic development of trouble spots such as Isabela, the Bicol region, and Muslim Mindanao, out of proportion to the small populations in these areas.

### *Consumer and Farmer Welfare*

Consumers and farmer welfare now appear to be of about equal importance and are weighted at 20:20. In the Old Society, one might have placed the weights at 30:10 on the basis of the concentration of a vocal urban population and an unsupervised mass media in the cities.

When urban consumers complained about rising rice prices during the rice crisis of late 1971, the newspapers, radio, and television complained eloquently. All factions of the political opposition united to criticize the government for permitting rice prices to rise and exhorted urban voters in speeches, telecasts, and print (8, p. 57). In the New Society, the mass media have been controlled and strikes and demonstrations have been disallowed. Government policies (to be discussed shortly) now favor the farm sector much more heavily than in the past.

TABLE 2.—MANILA RICE PRICE DEFLATED BY A CONSUMER  
PRICE INDEX FOR OTHER COMMODITIES, 1967-74\*

Year	Manila rice price (pesos/ganta) <sup>a</sup>	Manila CPI ex rice (1965 = 100)	Deflated rice price (pesos/ganta)	Rate of increase (percent)	
				Rice price	CPI ex rice
1967	2.00	108.9	1.84		
1968	1.74	114.0	1.53	-13.0	4.7
1969	1.78	116.3	1.53	2.3	2.0
1970	1.92	134.4	1.43	7.9	15.6
1971	2.56	150.5	1.70	33.3	12.0
1972	2.74	170.2	1.61	7.0	13.1
1973	3.47	181.3	1.91	26.6	6.5
1974 <sup>b</sup>	4.48	221.5	2.02	29.1	22.2

\* Manila rice prices are for Macan 1st Class; data for 1967-71 are from Teresa L. Anden, *Data Series on Rice Statistics/Philippines*, IRRI, June 1974, and those for 1972-74 are from the National Economic Development Authority (NEDA), *Economic Indicators*. The Manila CPI, excluding rice, is computed from the Manila CPI for all items by assuming that the weight of rice in the all-item index is 10.95 percent. The 1965 normal rice price is 1.46. Manila CPI all-items data are from NEDA, *Economic Indicators*.

<sup>a</sup> 1 ganta = 2.35 kilograms or 5.18 pounds.

<sup>b</sup> January-April.

For these reasons, consumer welfare in cities appears to have lost ground as an objective, relative to increasing farmers' incomes.

The welfare of certain groups of consumers and farmers appears to be the object of special treatment. Among cities, Manila has always been the premier target. In the 1971 crisis, the government distributed 52 percent of the imported rice in Manila (3). As Mears observed (11, p. 211): "It is interesting to note that most of the years in which prices in Iloilo and Cotabato rose more than 10 percent above Manila prices were election years. Could there have been more emphasis on maintenance of price stability in Manila when the overall stock situation did not permit stability throughout the country?" Manila maintains its relative importance in the New Society. The redirection of internal grain shipments to Manila and the organization of the *barangay*<sup>5</sup> rationing scheme in Manila during the 1973 crisis (see below) attest to this. Among regions, on the other hand, there has been a clear shift in priorities to those areas where rebel activities are concentrated.

### *Anti-inflation*

This objective is also given a weight of 20 percent.<sup>6</sup> The government has always regarded rice as a price leader and used price controls as an anti-inflation device. The price of rice has a weight of about 11 percent in the consumer price index (CPI). Table 2 presents the index, adjusted to exclude the price of rice, for recent years. As the table indicates, the price of rice fell relative to other commodities during 1967-70—the "glory years" of the Green Revolution. Thus complaints against rising rice prices in 1969-70 were, in effect, complaints against inflation.

<sup>5</sup> A new village political unit established in the New Society.

<sup>6</sup> Inflation is now the greatest problem confronting the economy. In 1973 it was nearly 30 percent, and the average annualized rate during January-April 1974 was 44 percent.

In 1971–73 the real price of rice rose sharply. The production problems of the period—the tungro virus of 1970–71 and the floods and drought of 1972—have been documented elsewhere (9). Prices were particularly high during the crisis election year of 1971, highlighted by the bombing of the campaigning opposition-party senatorial candidates at Plaza Miranda in August. This crisis precipitated the suspension of habeas corpus. Extremely high prices in September and October, despite large government deliveries of imported rice to the public, appear to have been due to some extent to urban households' increased demand for rice stocks (8).

The relative price fell somewhat in 1972 but was still greater than the levels of 1968–70. In the first three months of martial law, business appeared to be in shock, taking a wait-and-see attitude. Prices of many commodities remained stable, and some of them declined; the price of rice declined in absolute terms. But soon the price of rice began to increase faster than prices of other commodities. The effects of the 1972 weather carried over into the lean months of 1973, with prices peaking in September. It took several months before these prices were officially reported. As early as July 1973, rice was merely marked as "unquoted" in the market information releases of the Price Control Council (11, July 30, 1973). There was a large jump in the price of rice during the gasoline crisis of January 1974. January is an important month in the main season harvest, and both land and sea shipping were disrupted.<sup>7</sup> The extent to which the price of rice increased during the lean months of 1974 put to test the success of the *Masagana 99* production intensification program of crop year 1973/74 (see below).

### *Self-sufficiency*

This objective, defined as the avoidance of leverage imposed on the country by foreign states, is assigned a weight of only 10 percent. This weight may appear unduly low, given official claims that self-sufficiency is a major objective. However, the official definition includes a connotation of enhanced consumer welfare which is excluded for the purpose of this paper.

### RICE POLICIES

The first column of Table 1 lists major rice policies used by the government in the postwar period. The list includes only those production-oriented policies that are capable of short-run impact. Expenditures on agricultural research and irrigation projects, which have relatively long gestation periods, are classified within the programming framework as measures which loosen the constraints. The distinction is merely one of time: the longer the run, the fewer the constraints.

The government has set various nominal floor price levels for rough rice during the last two decades. However, this policy seems never to have had a sustained impact because of inflation's continuous erosion of the real level of support. Only for brief periods have the periodic adjustments lifted the nominal rice floor price

<sup>7</sup> At first, the government attempted to combine a controlled price with the use of ration coupons. Fairly soon, however, the fuel prices were adjusted upward, and after a few weeks consumption was apparently cut sufficiently so that the coupon system could be discontinued. The public met the increases in fuel prices with noteworthy calm. In previous years, attempts to raise fuel prices (by marginal amounts at that) usually met with transportation strikes and sympathy demonstrations.

TABLE 3.—ROUGH RICE (PALAY) PRODUCTION, AREA, AND YIELD FOR CROP YEARS 1970/71 THROUGH 1974/75\*

Crop year beginning July 1	Production (million cavans palay) <sup>a</sup>	Area (thousand hectares)	Yield (cavans per hectare)
1970/71	121.4	3,113	39.0
1971/72	115.9	3,246	35.7
1972/73	100.3	3,112	32.2
1973/74 (Jan. 1, 1974 forecast)			
Masagana 99	66.0	879	75.1
Unprogrammed <sup>b</sup>	59.7	2,680	22.2
Total 1973/74	125.7	3,559	35.0
1974/75 Plan			
Masagana 99	94.8	1,200	79.0
Unprogrammed	53.2	2,200	24.2
Total 1974/75	148.0	3,400	43.5

\* Data for 1970/71 through 1973/74 totals are from Philippines, Bureau of Agricultural Economics; 1973/74 Masagana 99 data are from Department of Agriculture, "Rice Situation Progress Report No. 12/as of May 31, 1974" (Quezon City, June 15, 1974); and 1974/75 Plan from NFAC, Department of Agriculture, "Masagana 99 Rice Progress, Phase III, 1974/75."

<sup>a</sup> One cavan of rough rice (palay) = 44 kilograms.

<sup>b</sup> Derived as a residual.

level sufficiently high to maintain its real value. This situation has been much more pronounced during the New Society, because inflation rates have been at their highest since the 1940s.<sup>8</sup>

Farm credit, the fertilizer subsidy, and extension services are the main ingredients of the current production intensification program, termed Masagana 99,<sup>9</sup> that was launched in May 1973. Broadly speaking, the program consists of identifying areas to be given government support and ensuring that it is supplied in the form of credit, fertilizer and other chemicals, and guidance from farm technicians. As in previous programs, areas with better-than-average production potential (irrigation under lowland conditions is the main criterion) are selected. Areas where there is subversion or dissidence are pointedly included, a policy which appears specific to the New Society.

Table 3 indicates the scope of the program. In the crop year 1973/74 Masagana 99 covered about one-fourth of the cropped area. It was estimated that the program area accounted for over half of total production. The National Food and Agriculture Council (NFAC), the coordinating body for implementation, reported an attained yield of 75 cavans per hectare in the program area.<sup>10</sup> The 1974/75 plan extended Masagana 99 to over one-third of the rice area. The strat-

<sup>8</sup> The present floor price of 0.80 pesos per kilogram of rough rice or 40 pesos per 50-kilogram bag compares with farm prices now over 55 pesos per bag.

<sup>9</sup> Masagana means plentiful, and 99 stands for the target yield (in 44-kilogram cavans or bags, or 4.356 metric tons of paddy per hectare).

<sup>10</sup> Non-NFAC observers consider the gap of 24 cavans from target a factor favoring credibility in the report. The preliminary estimate of the rice yield in the country as a whole, made by the Bureau of Agricultural Economics (the official agricultural statistics agency), is 35 cavans per hectare. The implicit yield on the unprogrammed area, about 22 cavans, may not be unrealistically low, since much of the unprogrammed area is in upland rice.

egy was to produce two crops during the wet season in certain areas by direct-seeding<sup>11</sup> an early-maturing variety so that enough moisture would be left for a second crop to be planted midway in the wet season.

In the Masagana 99 program credit was used as a major tool. To a large extent its use was related to a change in the agrarian reform program's emphasis from rental reduction to land transfer under Presidential Decree (P.D.) No. 27, one of the most prominent of the early decrees under martial law. As large amounts of landlord credit were pulled out of agriculture because of this decree of October 1972, government funds were needed to fill the gap.

The rice credit program of 1973 was started by a loan of P77.5 million (\$11.4 million) from the United States Agency for International Development (USAID) to the Central Bank. The Central Bank passed the funds on initially through a loan to the (government-owned) Philippine National Bank (PNB) and increased government deposits at the (privately-owned) rural banks. It then provided extensive support through rediscounts of loan papers obtained by the PNB branch banks and the rural banks. Funds flowed at a very fast rate indeed. The banks were apparently under strict orders to fulfill loan quotas and not to worry too much about collateral or documentary requirements. Masagana 99 was launched in May 1973. By July 18 it was reported that P192 million had been lent; three weeks later the figure had become P249 million. Finally, by April 1974, P503 million was reported to have been lent, covering a total of 676,000 hectares, or an average of P745 per hectare.<sup>12</sup>

A main factor determining the effectiveness of the credit policy is the repayment rate. Official statements place it at approximately 70 percent,<sup>13</sup> and claim a marked improvement over the 30 to 40 percent achieved under earlier, unsuccessful loan programs (19). The interest rate on the loans is 12 percent per annum, which at current expected rates of inflation implies a subsidy of more than 10 percent. If 30 percent of the principal is lost through nonrepayment, then the total cost of the credit program to the government is, conservatively, 40 percent of the principal.

The credit policy is being extended further. In May 1974 a rural bank development program was announced, with the goals of raising the rural banks' lending capacity from P1.2 billion to P3.1 billion after four years and of raising the number of rural banks from the existing 622 to 1,015. In June 1974 the Central Bank ordered that, within six months, financial institutions should allocate at least 25 percent of their loans for agricultural credit. This order appears to be an attempt to ration private sector funds as well.

Since the declaration of martial law, the government has imposed strict controls over the fertilizer industry. A Fertilizer Industry Authority (FIA) was established (P.D. No. 135) with powers to regulate fertilizer prices, imports, and

<sup>11</sup> Termed *sabog-tanim*, Phase III of Masagana 99, was launched in May 1974. Although the *sabog-tanim* target is 50,000 hectares, IRRI scientists estimate that seed constraints may limit implementation to 20,000 or 25,000 hectares.

<sup>12</sup> For the crop year 1974/75, the credit ceiling was raised to P900 per hectare to allow for inflation-hit costs of material inputs. The government plans to extend loans in the amount of P1 billion for 1974/75. The rate of disbursement continued to be swift; for instance, P31.6 million was released during May 1974, a rate of P1 million per day.

<sup>13</sup> The repayment rate of 70 percent appears to be an average of province-level figures.



exports. In November 1973, in the face of a worldwide fertilizer shortage, fertilizer exports from the Philippines were banned. The FIA established a two-price policy for fertilizers: a regular price for fertilizer intended for export crops and a subsidized price for that intended for food crops (food grains primarily for domestic consumption).<sup>14</sup> To discourage illegal diversion of fertilizer from food grains to export crops, the government extended credit partially in cash and partially in nontransferable coupons and had the military patrol the distributions. The FIA obtained an exemption from import duty for fertilizer. It also obtained a waiver of the marginal deposits required by the Central Bank of importers of fertilizer for rice and corn. These efforts to reduce prices of purchased agricultural inputs were supported partially through direct subsidies to producing firms and partially through moral suasion aimed at distributors.<sup>15</sup>

Consumer-oriented policies come into special focus during crises. Retail ceiling prices for rice are of long standing. However, time and again these ceilings have not been maintained as production problems reduced supply. With perennial inflation, ceiling prices have required frequent change. The government's first line of defense has traditionally been imports, and its second line has been rationing. In the Old Society, imports also served the purpose of political defense during election years. However, the ease with which traders anticipated the timing of government import activities tended to nullify the effectiveness of imports as a price-dampening device during an election year (7). Rationing systems in those years were crude. Occasionally, retail outlets were required to draw up lists of neighborhood families. More often, the rice agency simply trucked its limited stocks into poor urban districts and distributed small amounts to all comers. Inevitably an embarrassingly long queue resulted.

In the crisis of 1973 it was necessary to resort to rationing again. The Thai government had halted rice exports, with the consequence that Philippine imports for the year were slightly over 200,000 metric tons versus a desired 600,000 metric tons. In mid-August an apparently efficient rationing system undertaken by barangays began, with each family entitled to two kilograms of mixed rice and corn grits (at P1.15 per kilogram) per day. All adults have to be registered with a barangay, and barangay lists have been used for a number of political referenda. In contrast, the lists of families used in previous rationing systems were ad hoc and not official for other purposes.

In June 1974 the President directed firms of 500 employees or more to provide rice for their employees either through imports or through their own production. If imported, the rice would have to be sold at the government ceiling, and in effect these large firms would shoulder the cost of subsidizing rice to their employees.

Before the New Society, progress of land reform was relatively slow. In 1954, at the time of the quelling of the Huk rebellion, the Agricultural Tenancy Reform Act (R.A. No. 1199) sought unsuccessfully to limit the crop-share payable

<sup>14</sup> The Philippines did have a short-lived fertilizer subsidy several years earlier, before the high-yielding varieties (HYV) were introduced. When the HYV arrived on the scene, the government intentionally excluded use of a fertilizer subsidy as a supporting policy (6).

<sup>15</sup> In mid-1973 NFAC reported having made an agreement with the Agricultural Pesticides Institute to keep pesticide prices down (2, July 13, 1973).

to landlords to 30 percent of the base crop.<sup>16</sup> The Land Reform Act of 1955 (R.A. No. 1400) provided that estates of over 300 contiguous hectares could be expropriated, but only 41 estates (19,000 hectares) were purchased during 1955–62. The Agricultural Land Reform Code of 1963 (R.A. No. 3844) sought as a first phase to change the status of the tenant farmer to that of a leaseholder of the land he tilled. As a leaseholder, the farmer would pay rental at a rate of 25 percent of a fixed “normal” base crop.<sup>17</sup> The Department of Agrarian Reform (DAR) reported that nearly two-thirds<sup>18</sup> of rice and corn tenants had become “lessees by operation of law” by 1972. The 1963 Code conceived of a second phase by which a leaseholder would purchase his farm on a 25-year payment plan. The expropriation level was lowered to estates over 75 hectares. The second stage was barely implemented, however. During 1967–73 the Land Bank purchased only 78 estates, covering 17,238 hectares.<sup>19</sup>

Under the New Society, land reform shifted in earnest from rental reduction to land transfer. In October 1972, it was declared that tenanted rice and corn estates over 7 hectares in size would be subject to transfer (P.D. No. 27, “The Emancipation of the Tenant”). Ejection of tenants was forbidden (P.D. No. 316). Tenants were to become full owners after 15 annual payments, each roughly equal to the legal rent ceiling set before the New Society.<sup>20</sup> Until full transfer and annual payments could be agreed upon, the official means of identification of the plot to which the tenant would be entitled was the land transfer certificate. The DAR has been distributing these certificates in impressively large numbers (see Table 4). As of mid-June 1974, 17 percent of the target number of tenants had received certificates of land transfer. Implementation was supposed to proceed in stages, first on estates of 100 hectares and more. Authority to proceed to the 50– to 99–hectare group was given in mid-1973 and for the 24– to 49–hectare group in October 1973. Numerous exceptions were made. About 48,000 of the 179,000 tenants who received certificates were on estates below 24 hectares in size, and 23,000 of this group were on estates not over 7 hectares in size that were supposedly exempt from land transfer.

The DAR is also implementing a subsidy on imported hand tractors within an annual budget of P20 million for seven years (P.D. 316, September 1973). Early in 1974 it reported having purchased 5,000 Japanese hand tractors for distribution at a subsidy of about P10,000 per unit (1).

<sup>16</sup> Harvesting, threshing and other postmaturity costs are excluded. R.A. 1109 sought the following crop division: land, 30 percent; labor, 30 percent; animals, 5 percent; implements, 5 percent; final harrowing, 5 percent; and transplanting, 25 percent.

<sup>17</sup> Normal is defined as the average yield of the last three normal crop years, net of costs of seed, harvesting, threshing, loading, hauling, and processing (when incurred prior to rental payment).

<sup>18</sup> This figure is overstated. The International Labour Organization (ILO) Employment Mission to the Philippines of 1973 judged that perhaps only 20 to 30 percent of non-owner operators had changed status from tenants to leaseholders paying ceiling rentals (5, Vol. II, Chap. 5).

<sup>19</sup> The figures include one estate purchased after declaration of martial law.

<sup>20</sup> At least, this formula was the intended one. Unfortunately, the amortization computation scheme has still not been fully clarified. At present, the land value must be reached through tenant-landlord agreement; otherwise, the issue will go to a *barrio* (village) committee for resolution. There are as yet few clear-cut sales arrangements. As of June 14, 1974, there were only 30 landlord claimants for compensation from the Land Bank. They had sold 1,860 hectares, involving 1,301 tenants, for a total of P11.87 million, received in the following forms: rentals paid by tenants, P210,000; cash paid by the Bank, P990,000; encumbrances paid by the Bank, P2,940,000; and bonds paid by the Bank, P7,730,000. The encumbrances refer to mortgages on the land and taxes due, and landlords are

TABLE 4.—OPERATION LAND TRANSFER: TARGETS AND ACCOMPLISHMENTS BY ESTATE SIZE AS OF JUNE 14, 1974\*

Estate size (hectares)	Targets <sup>a</sup>						Land transfer certificates issued			
	Area		Farmers		Landowners		Farmers		Area	
	(thousand ha.)	(percent)	(thousand)	(percent)	(thousand)	(percent)	(thousand)	(percent of target)	(thousand ha.)	(percent of target)
100.00 and over	410	30.6	164	15.2	1.5	0.7	71.1	43	135.2	33
50.0-99.9	139	10.4	70	6.4	2.1	0.9	33.8	49	58.0	42
24.0-49.9	134	10.0	89	8.3	4.1	1.9	26.1	29	43.8	33
12.1-23.9	190	14.1	189	17.6	12.0	5.4	16.7	9	26.9	14
7.1-12.0	154	11.4	171	15.8	18.1	8.2	7.8	5	12.6	8
7.1 and below	316	23.5	395	36.6	183.2	82.9	23.4	16	29.6	9
Total	1,343	100.0	1,079	100.0	221.0	100.0	179.0	17	306.1	23

\* Data from Philippines, DAR, unpublished reports.

<sup>a</sup> Targets were set by presidential decree in October 1972, then updated in December 1973.

## THE CONSTRAINTS

The following appear to be pertinent, though not necessarily binding, constraints on Philippine rice policies: peace and order, production parameters, demand parameters, the supply of foreign assistance, the marketing system, foreign supplies of fertilizer, government administrative capacity, the government budget, the welfare of organized political and economic groups, and the welfare of the civil service.<sup>21</sup> We shall focus on those constraints that have undergone change within the New Society.

When peace and order are threatened, as in the problem regions previously mentioned, it becomes very difficult for policies to be implemented. The Muslim provinces of Western Mindanao provide an example of the basic problems. There, land ownership disputes continue to be a major source of unrest impeding implementation of the land transfer program. As indicated in Table 4, by mid-1974, 17 percent of the target number of tenant rice and corn farmers had been issued land transfer certificates. This level is an average of regional figures, which range from a high of 42.5 percent in Central Luzon to a low of 1.3 percent in Western Mindanao (Muslim provinces). However, in general, one cannot say whether the problem is more or less severe in the New Society in 1974 than before, since information on peace-and-order-related problems remains scarce.

Production parameter constraints are eased mainly through investments in irrigation and research. In irrigation, by mid-1974, there had been no major policy developments, although work continued on projects conceived and started in earlier years (e.g., the Upper Pampanga River Project). Extension agents continue to rely heavily on research output, e.g., the direct-seeding technique from IRRI. The new Philippine Council for Agricultural Research (PCAR)<sup>22</sup> is a superbody which approves agricultural research expenditures in all bodies of government. It is a bit too early to attempt a substantive evaluation of PCAR. It aims to determine national research priorities and reallocate government research resources accordingly.

There have been no major developments thus far on the demand side, apart from the obvious fact that population continues to expand. One might call attention to: (a) the family planning program's targeted decrease in the population growth rate, from 3.0 percent in the 1960s to 2.5 percent in the latter half of the 1970s; and (b) the revelation, during the 1973 crisis period, that a significant proportion of families will endure corn as a substitute for rice, given a large change in relative prices (18).

The supply of foreign assistance appears to have increased somewhat. The USAID loan for Masagana 99 credit was mentioned previously. The agency also raised the level of its consultant and commodity (especially vehicles) assistance to various Philippine government agencies concerned with rice such as the NFAC, the DAR, and the Department of Local Governments and Community Development (16).

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thereby relieved of cash obligations. Thus the cash:bond payment ratio is effectively 35:65; this compares with the officially declared ratio 10:90.

<sup>21</sup> The latter two are consumer welfare constraints. It is not inconsistent to have consumer welfare both as an objective (the more of it, the better) and a constraint (provided a critical minimum is exceeded).

<sup>22</sup> P.D. No. 48, November 1972.

With respect to constraints imposed by the marketing system, the 1973 crisis is again the most interesting case in point. Whereas Luzon suffered floods in 1972, Southern Philippines was in a state of drought (as was Indonesia). Corn plantings in the south were delayed for several months until the rains finally returned in April 1973. The clustering of plantings at that point gave rise to unusually large corn harvests in Mindanao the following June and July, or precisely at the start of the lean period for rice. The government, determined to distribute corn rapidly as a substitute cereal over the nation, used martial-law powers to enforce nonstop corn milling and, in effect, commandeered private shipping to haul corn to the north, to the exclusion of other commodities.<sup>23</sup> Similar pressure was applied to wheat-flour millers and noodle manufacturers to run down their cereal stocks faster than they otherwise might have. In urban centers, restaurants were required to serve a rice-corn mix for the duration of the crisis. The government had not undertaken such measures before, though one must concede the crisis of 1973 was worse than any since the last war. Traditional measures were also resorted to: anti-hoarding and anti-profiteering drives were reestablished, but this time with the assistance of martial-law detention powers. Thus the New Society demonstrated its strengthened ability to impose its will on the rice marketing system. In so doing it consciously discouraged private participation in the marketing system.

Foreign diplomacy has emerged as an important influence on Philippine rice policies, although the emphasis has shifted from foreign suppliers of rice to foreign suppliers of fertilizer. The Philippines has expanded its ties with the socialist world to the extent that Yugoslavia is now second to Japan as a foreign source of fertilizer.<sup>24</sup> Smaller amounts are also being imported from other socialist countries. An arrangement was recently made to exchange phosphate, of which the Philippines has a surplus, for Indonesian oil, an important source of nitrogen for nitrogenous fertilizer.

Martial law has made an impact on the administrative capacity of the government. The move to rid the government of "undesirables" was among the early reforms of the New Society. For instance, P.D. No. 4, organizing the National Grains Authority (NGA), automatically terminated many appointments in the Rice and Corn Administration (RCA) which NGA replaced. Previously, such a change would have had to await legislative action.<sup>25</sup> Second, the degree of involvement of local government officials in the rice program has been expanded. At the lowest level, the role of barangays in the rice rationing system has been cited. At all levels, the terms of office of local officials (elected in late 1971) are, for an indefinite period, subject to termination by executive discretion. Several

<sup>23</sup> This disruption may have been one factor that contributed to shortages in other commodities during the year, e.g., cooking oil and tires, whose manufacture is dependent on agricultural raw materials from the south.

<sup>24</sup> The Philippines opened diplomatic relationships with the People's Republic of China in 1975, and is expected to do likewise with the Soviet Union soon. It may be noted that about three-fourths of Philippine rice imports in 1973 came from China, partly as direct assistance after the 1972 floods and (apparently) partly through Hong Kong. (FAO, *Rice Trade Intelligence* of February 10, 1974 reports that the Philippines imported 215,100 metric tons of rice from January 1 to December 4, 1973, of which 160,000 metric tons came from China.)

<sup>25</sup> See Mears (11, p. 247) for a report on large physical losses of rice at RCA and on the need for a *quedan* (warehouse receipt) system of integrity.

municipal mayors, for instance, have been relieved and replaced by constabulary officers.

To provincial governors, the program of special relevance has been Palayan ng Bayan,<sup>26</sup> launched in July 1973 as a project of the First Lady, Mrs. Imelda R. Marcos. The Palayan program is an attempt to open up new land for rice.<sup>27</sup> The amount actually opened has been small in relation to the total rice area, a finding consistent with the view that the Philippine land frontier has almost been reached. As of May 1974, it was reported that the Palayan program had succeeded in planting 3,792 hectares of new land, had cleared 4,352 hectares, and had located another 10,342 hectares for clearing (2, May 27, 1974). This compares with over 3 million hectares of rice-crop area per year. However, two other results must be noted. First, both Masagana 99 and Palayan ng Bayan were meant to assist the population in getting through the expected crisis of June–September 1973 on the assurance that rice would be forthcoming soon from the intensification efforts. Second, Palayan ng Bayan was a useful device for getting local government, particularly provincial governors, to cooperate in the national rice program. The governors had to make quantitative commitments to Mrs. Marcos that they would open up new land in their provinces, reportedly causing them to devote an increased proportion of their working hours to the national agricultural program.

The government budget has become a lesser constraint since the New Society was introduced. The effectiveness of the bureaus of Internal Revenue and of Customs as collection agents has improved (these agencies lost many officials in the purges of 1972–73). Also, huge voluntary payments were received in return for amnesties for past tax evasion. Property assessments were revised upward. The Budget Commissioner reported that 1973/74 revenues exceeded expectations by 50 percent. In addition, the government has extended its debt capacity and, furthermore, has not shown a disinclination for monetary expansion (as in Masagana 99).

The last two constraints reflect concern for the welfare of special groups of consumers. Organized political and economic groups (labor unions, student activists, jeepney drivers, and the like) were formerly quite capable of causing disruptions and they were fond of exploiting rice as an issue. As stated earlier, this tendency may have abated but may not have disappeared completely. The government has shown special concern for the civil service. In early 1974, government employees earning P550 or less per month were given P50 monthly living allowances; salaries of those in the P551 to P599 group were adjusted to P600. Private firms have been urged to follow suit, but the government has refrained from imposing the requirement by decree.

In the land transfer program the government has been especially concerned that a number of civil servants would be affected by expropriation and thus alienated from the New Society. Therefore, in 1973 it ordered a survey of small landowners to determine their occupations (Letter of Implementation No. 143). The directive is particularly interesting in that it listed the occupational cate-

<sup>26</sup> Rice fields of the nation.

<sup>27</sup> P.D. No. 262 authorizes the use of virgin public land for the program.

gories required of the implementing agency, thus revealing the groups of special interest to the government: members of the armed forces, government employees, salaried workers in non-government offices, retired government employees, retired non-government employees, and others. The last category, "others" (mainly self-employed), was far from being an innocuous catch-all. It was apparently intended to encompass landowners who would not cause special implementation problems to the land transfer program. The following statement is by a high-ranking agrarian reform official (13, pp. 13-14):

The impediment to a successful agrarian reform can come from the government bureaucracy itself. It may not be dangerous to say that in this country, the bureaucracy is more accessible to the landlord class than to the tenants. So we must not take for granted the fears and apprehensions that prevail at the moment in the minds of the tenant-tillers. They have deep but silent doubts as to the willingness of the government to help them now. They rationalize that the very people required to give the assistance are also the ones being deprived of their lands. This is the land-owning class within the government itself. This is the contradiction that the reform implementors have to bear every time they meet the people.

Thus some relief may have been felt with the discovery that three-fourths<sup>28</sup> of the respondents were in the "others" category.

#### CONCLUSION

When martial law was declared in September 1972, it was a difficult time to maintain a stable rice price due to the great flood in Luzon and the drought in Southern Philippines which occurred soon thereafter. The serious crisis of 1973 and the measures taken to meet it have been described. The history is short, and yet so unusually full, that it seems safe to conclude that, with respect to the political economy of rice, the New Society differs substantially from the Old Society.

The differences are not found so much in the government's objectives. Political stability is still paramount; and self-sufficiency, defined as the avoidance of leverage from foreign states, is still of relatively low weight. There appears to be some shift in emphasis from consumer welfare to producers' incomes. Anti-inflation has developed into an objective with weight equal to these.

The differentiation is more noticeable when one examines the policy emphases. In the earlier period, the stress was on diffusion of new technology among farmers and on imports to protect consumers. The New Society turned, on the other hand, to a fertilizer subsidy and a massive diffusion of credit. Faced with the stoppage of Thai import supplies during 1973, it developed a modestly efficient rationing scheme in conjunction with its new political unit, the *barangay*. Finally, with the fall from power of some landlord-based political elements, the New Society shifted agrarian reform to the land transfer stage.

<sup>28</sup> The survey was a rush job and not based on a probability sample (see 14).

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