Income distribution is a major, yet neglected, concern of economic development. Economic development is defined here as the degree of attainment of the various economic objectives of the nation. In general, these national objectives fall under the main headings:

1. A desire by each individual for more of the pleasantries in life — the length of life itself; food; housing — as well as less of the nuisances in life — such as inflation, unemployment, or sickness.

2. A desire by society as a whole of a more equitable or fairer sharing of both the goods and the bads.

3. A desire to make better provision in the present for the welfare of future generations — by investments in traditional forms of capital, by investments in human capital, and by safeguards for natural resources.

The focus here is on the second heading, and on the sharing of income in particular. Since consumption is not centrally planned, i.e., not communist, it is the sharing of income which is the basic determinant of the actual sharing of the goods and bads produced by the economy. The total level, the per capita level, and the growth of income all fall under the first heading. And it has been with growth rather than with equality that Philippine economic planning has been traditionally concerned.

Although the postwar rate of the Philippine economic growth does not yet qualify as an "economic miracle," it has been fairly high, in the order of 6% of GNP per year. This is higher than, for instance, the average annual growth rate of the U.S. GNP during the twentieth century. In the meantime, the degree of relative income inequality has been rather high by international standards, has shown no sign of improvement, and in certain respects has gotten worse during the past 20 years.


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1) See DAP (1975).
I shall make use of two indicators of the income distribution problem, an income inequality index and the proportion of families below the poverty line. The income inequality index – for those of you who may enjoy such details – is the Gini ratio derived from the Lorenz curve. This ranges from an extreme value of zero – when all income recipients have the same income – to an extreme value of 100 – when all the income is concentrated in one recipient. The actual range of scores, in various countries around the world, is from about 20 to about 65. The Philippine score is about 50 – not the worst, but in the top 20%. Many of the countries with higher inequality are in Central and South America. For the U.S., the U.K. and Sweden, the scores are in the mid-30's. There is very little data for socialist countries, but I would guess that the range in these countries is probably between 20 and 30.

The cases of the modern market economies are cited to lay to rest the view that income equity is incompatible with market economies or the capitalist system. A country can seek to attain the standards of equity in certain developed Western countries, just as it emulates their high average living standards. It can still make use of policies linked to the profit incentives of the private sector, just as the developed countries have done.

We measure the inequality index mainly from government surveys of family income, of which there have been only four, the first in 1956 and the last in 1971. The Philippine income inequality score was always about 50 during 1956 to 1971. Since 1971, I do not think there has been any improvement, on three grounds. First, there are some family income data from small surveys conducted since 1971 by market research firms, which indicate this. Second, in a national survey conducted in late 1974 by the Philippine Social Science Council, 3500 respondents were asked what they felt about the social equality of people in 1974 compared to 1969. 55% of the respondents said conditions seemed worse in 1974, 17% said they seemed the same, and only 28% said they seemed better in 1974. Third, there has been very rapid inflation in the last few years (40% in 1974*) with the consequence that real wages of skilled and

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2) See Paukert (1973).
3) See Porio and Fernandez (1975).

48  EKI, VOL. XXIV NO. 1, MARCH 1976.
unskilled workers are lower today than they were back in 1950, even
though, since then, real per capita GNP has about doubled.

These income measurements are not adjusted for taxes paid to and
services received from the government. On the whole, the Philippine tax
structure is regressive (relative to income, heavier on the poor than on
the rich), while the government expenditure structure is also regressive
(relatively more favorable to the poor). The net effect of both taxes and
expenditures is small.\(^4\) One might say that the poor pay, in effect, for
the benefits they directly receive from government.

Now, some may feel this is suggesting that absolute equality should
be the target. Far from it. Indeed, there can be many reasons for income
inequality which will arouse no grievance among Filipinos.\(^5\) One family
may earn more because there are more people who work. Older persons
earn more than younger persons, on account of their experience. Even
though opportunities to enter occupations can be made equal, the occu­
pations themselves remain different. The idea of higher salaries for higher
ranks is socially acceptable, in the People's Republic of China as it is in
the Philippines. Our Constitution specifies different salaries for different
officials. I might mention that in the U.P. School of Economics, the income
inequality index is 29 (you will note that is much lower than the national
average). Finally, we do know that some amount of social and economic
mobility exists in the Philippines, and that even though the gap between
rich and poor is growing, a few of these rich used to be poor, as well
as vice-versa.

On the other hand, there are inequalities which are less socially
acceptable. From an ethical viewpoint, the worst inequalities are those,
which are abetted by individuals in the government itself. Needless to say
riches amassed by persons through corruption in government are unwel­
come inequalities. In addition, on account of such bad examples, people
submit themselves less willingly to taxation, and we all know that taxation
is an important policy area for income redistribution. There are also a
number of socially unacceptable income inequalities which are legally
brought about. Some of those in which the government itself is involved

would not change the picture much. Rosenberg (1970) found that, on the whole,
SSS contributions have exceeded SSS benefits, so that the net result of SSS
operations has been a so-called negative transfer to members, i.e., similar to
a tax, it is somewhat progressive, i.e., relatively heavier on higher-income SSS
members. Rosenberg estimated that the net effect of the SSS was to reduce
the income inequality index by about one-half point.

\(^5\) See Mangahas (1975).
Another serious aspect of inequity – at which Sen. Diokno has often expressed his distress – is that between domestic incomes received by Filipinos and those received by foreigners. Then there are differences due to sex. Women earn less than men, to some extent because they are typed into "feminine" occupations and kept out of "masculine" ones. The opportunities for education are unequal. Wages in different regions remain unequal due to hindrances to the mobility of labor. The Constitution implicitly classifies income differentials attributable to property as socially harmful. To cite Article II, Section 6:

"The State shall promote social justice to ensure the dignity, welfare and security of all the people. Towards this end, the State shall regulate the acquisition, ownership, use, enjoyment and disposition of private property, and equitably diffuse property ownership and profits."

It is clear, therefore, that an income inequality index covers both acceptable inequalities and unacceptable ones. There is indeed a need to design an index which is sensitive to the appropriate inequalities. In the meantime, however, it still pays to use an income inequality index, just as one keeps a dog to warn against prowlers. Even though one is aware that sometimes the dog barks when there is no one there, when he barks long and loud it is probably not a false alarm.

The income inequality index pays as much attention to extremely high incomes as it does to extremely low ones. Let us turn to the low income side in particular, and take as a poverty index the proportion of families whose incomes are less than sufficient to afford the minimum food diet prescribed by the Food and Nutrition Research Center. This diet provides only 2,200 calories per capita per day, and 55 grams of protein per capita per day. It cost, for instance, P 18.17 per day for a family of six in Metropolitan Manila in mid-1974. Thus defined, the poverty index is rather high and is rising: for Metropolitan Manila it was 17% in 1965 and 25% in 1971; for rural areas it was 39% in 1965 and 48% in 1971; in urban areas aside from Metropolitan Manila, it appears to have fallen a bit, from 27% in 1965 to 24% in 1971. These are very conservative poverty figures, since a more inclusive index would make an allowance for needs other than food.

That was a brief historical background. Where does the Philippines seem to be heading from this point on? In this regard, the mostly highly

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9) See CLUP (1975).
10) See DAP (1975).
respective hypothesis is that of Simon Kuznets, the Nobel prize winner, who discovered that income inequality typically gets worse before it gets better. If income inequality indices of a large number of market economies are plotted on a chart, one finds that, as GNP per head rises, the income inequality first rises, reaches a peak, and then falls. This is the general trend; and although there are numerous exceptions, the Philippines is one of the many countries which are right on the trend line. The Philippine point is incidentally just before the peak. If this trend is followed, and if the Philippines attains the NEDA target GNP growth rate of 7% per year indefinitely, then, according to recent estimates of the U.P. School of Economics*, Philippine income inequality would rise by a few more points during the 1980's, will return to the present position of 50 during the 1990's, and will drop to perhaps 46 to 47 points by the year 2000. By the year 2000, out of an expected 17.8 million families, from 4 to 6 million families will still be below the food poverty threshold. Sometimes this is referred to as the "trickledown" approach – the idea is to take care of economic growth, and in due time, perhaps one or two generations, the distribution problem will take care of itself.

It does not seem mere statistical coincidence that the Philippine figures fit the general international pattern. A recent cross-national study lists eight processes typical of the manner by which economic development affects income inequality. I leave it to you to judge how many of them are characteristic of the Philippines in particular:

(1) there is typically a high rate of population growth which depresses per capita income;

(2) there is typically an immiserizing inflation during which cash wages increase, but the production of wage-goods lags behind, causing greater than proportional increases in their prices;

(3) the growth tends to be geographically imbalanced, bringing about extreme regional inequality areas;

(4) on account of an overly capital-intensive technology, the share of property in total income tends to increase, and there is a severe unemployment problem);

(5) there is typically a lack of social mobility).

See Barlis (1975).


See Lauby (1976), which finds that the Philippine case is similar.

EKI, VOL. XXIV NO. 1, MARCH 1976. 51
(6) the country typically pursues import-substitution policies which raise the prices of wage-goods for the protection of the capitalist class;
(7) prices of export crops in the world market tend to be soft, and lagging behind other prices, due to inelastic world demand; and
(8) there is a gradual destruction of the country's handicraft industries.

The next issue is, what should be done next, if one is to avoid the Kuznets path? How does one significantly improve income equity without having to wait so long? I will try to outline what in principle can be done, describe what the government seems to be doing as well as not doing, and finally comment on how one can tell whether any of these suggestions can work.

Although most incomes stem from participation in the market economy, there are some incomes gained or lost from direct transfers, private - such as in connection with private philanthropies - as well as public - pensions veterans' benefits, etc. But since these are quite minor, we shall deal only with incomes stemming from the market economy. Market incomes come from three sources: (1) work; (2) private property; and (3) public property with imputed earnings claimed by private persons. From each source, the amount of income received depends on three factors. First, how much of it, in effective terms, the family owns; second, how much of it is employed or used in the market; and third, what the real market rate of return is to the source of income.

Any government policy will have redistributive effects - sometimes for better, sometimes for worse - insofar as it affects, directly or indirectly, these three factors. It is better to go into the indirect approach first. Here policies are focused not on the so-called factors of production but on the products which they produce. This is what the government is up to when it articulates its objectives in terms of the rate of growth of GNP (which is the trickle-down method) or in terms of the composition of production. We have already mentioned the NEDA target growth rate for GNP, which is 7% per year. The government is also trying to diversify production towards labor-intensive products, towards export-oriented products, and towards production in regions outside of Metropolitan Manila. These are fairly recent policies - less than 5 years old - and perhaps it is too soon to expect redistributive results. What seems clear

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is that the production-oriented policies should be very different from those of the 1950's and 1960's, if we are to avoid such results as the following: ¹⁴)

Recently, the Central Bank and Board of Investments conducted a survey of 900 large firms which gives data on the share going to property of value-added produced by these firms, over the period 1960-1970. (We are defining as property whatever is non-labor). In general, the property income share increased. This was true for construction, for electricity, gas and water, for mining and quarrying, for services, for commerce, for transport, communication, and storage, and for the financial sector. However, in agriculture, the property income share fell. And in the case of manufacturing, the property income share first fell but later rose. Manufacturing in particular can be examined from the annual Surveys of Manufactures for the period 1956-1971. In that period, the share of property increased from about 3/4 to about 4/4 of value-added. This is true for both large firms (20 or more workers), and for small firms (5-19 workers). If the manufacturing sector is broken into 20 specific industries, then there are only two exceptions from this trend. For leather goods, the share of property fell; and for petroleum and coal, which has the largest property share, the share simply remained constant. As of 1971, the shares of property in value-added in these 20 manufacturing industries ranged from 50% to 90% of value added.

Let us now consider policies which deal directly with the sources of income, and start with income from work. In the first place, the government is presently quite concerned with employment. It is trying to hire more people directly, as on its labor-intensive public works projects. It is trying to find jobs for people abroad. ¹⁵) However, my impression is that it still expects to generate more employment from its indirect, production-oriented policies than from its direct policies.

Second, the government has a long tradition of concern with the build-up of human capital through schooling. As mentioned earlier, Philippine government expenditures are as a whole regressive, that is to say more helpful to the poor than to the rich. This is mainly on account of the large weight of expenditures on education, especially elementary education, in the national budget. Furthermore, a recent study finds that a human capital from schooling is becoming more and more evenly

The gap between the highly schooled and the least schooled is much less now than a generation ago, and the gap between males and females has also decreased significantly. In fact this seems to be the only bright spot in the Philippine equity story, and deserves to be pointed out. Human capital acquired through schooling is a highly recommended source of income from the equity standpoint, for three reasons: First there is a natural limit to the amount of human capital one can accumulate thru schooling, since there is a limit to the number of years one wants to spend in school. Secondly, this type of human capital cannot be lost thru bankruptcy, or similar economic misfortune, at least not as long as slavery or indentured service is forbidden. Thirdly, and perhaps most important of all, human capital acquired thru schooling is not very easy to pass on to one's children. Wealthy children do have the opportunity to go to high quality schools, but like anybody else they have to start in kindergarten.

The third aspect of income from work is the real rate of return. This is where it seems that government policies have not only failed, they have contributed to a worsening of the situation. We have already mentioned the inflation and hyperinflation of recent years, of which government is not quite blameless.\footnote{See Alonzo (1976).} Even while acknowledging that the Masagana 99 program has helped keep the price of rice stable (and therefore lower relative to the general price level), real wages of skilled and unskilled workers are still lower today than they were in the early 1950's, while wage data were first regularly collected. (Incidentally, the one equity-oriented silver lining in this cloud of inflation is the fact that the income tax structure, which is tied to tax brackets which are fixed in money terms, has in real terms become more progressive.) Finally, very recently, workers' rights with respect to organized action for their economic welfare, including the option to strike, were diminished by law, and this again is a step in the wrong direction, at least insofar as equity as a national objective is concerned.

The next major source of income is private property. In the first place, there is not too much of an unemployment problem here. Still, government is trying to eliminate what pockets it finds. For instance, the Palayan ng Bayan program has found about 20,000 hectares of new land for the rice and corn program, which is less than 1% of the total rice and corn area. A more important issue is distribution of the ownership of property. Here the major government effort is of course Land Reform, 

\footnote{See Alonzo (1976).}

\footnote{See Valdepenas and See (1975).}
the present phase of which is Operation Land Transfer. It is limited to rice and corn tenanted land, and since there is now a confirmed retention rate of 7 hectares, the large majority of tenants will not qualify (those whose farms are on small estates). Still, Operation Land Transfer seem to be the single government program with the greatest potential for improving equity. The Ranis report in 1973 estimated that, if Operation Land Transfer were fully implemented for all rice and corn tenants, the income inequality index would decrease by 3 or 4 points. With the most recent modifications, however, I would guess that the effect of the Land Transfer will be reduced to 1 or at most 2 points.

Now, if property transfer is an acceptable principle, then attention will naturally drift to other crops as well, such as sugar and coconuts, not to mention urban property. In fact, it seems to me that part of the strength of the opposition to Operation Land Transfer is the incongruity of government interest in fine points of social justice such as the welfare of the tenant versus the welfare of the small school teacher-landowner, when wide chasms of inequity are so obvious in other crops.

Other government activities having to do with the amount of private property owned are resettlement on public lands, construction of subsidized housing, and distribution of shares of ownership in public and semi-public corporations. My only impression here is that these do not yet seem to be large enough to significantly affect equity.

The third issue is the rate of return on property. There is very little systematic data here. The conventional view is that the rate of return in land and other unaugmented resources must be rising relative to the resources which are being reproduced or augmented. With respect to rates of return on corporate investments, different sources of information give different pictures. The following trends should be taken with a grain of salt, since I take it that corporate accounting is not designed to be very revealing of corporate income. According to data on large corporations compiled by Business Day and by the U.E. Business Review, the general trend in the rate of return to corporate equity (equity in the accounting sense) is downward. However, according to data published by Sycip, Gorres and Velayo, the general trend is upward. For the industrial sector in particular, Business Day and the U.E. Business Review say that corporate returns to equity are falling, but SGV says that they are rising. In the case of commercial firms, all sources say that they are falling. In the case of services, U.E. Business Review and Business Day say that they

are falling; there are no SGV data in this case. In the case of export corporations, for which we only have SGV data, the rate of return of corporate equity is rising.

In this area of the rate of return to property, there are three government policies worth mentioning: the interest rate policy, policies with respect to expenditures on public works and other infrastructure, and rent-control. The interest rate policy currently being pursued is definitely anti-equity. The lending rate of interest is low for favored borrowers, and for the not-so-favored, usually small borrowers, either the interest rate on loans is rather high or there are no loans at all. (But there is an exception which should be noted, and that is loans for Masagana 99.) On savings placed with financial institutions, on the other hand, the rate of return is very high for large favored depositors and very low for small ones. Finally, the large spread between lending and borrowing rates, indicative of an effective banking cartel, serves to redistribute income away from the rest of the economy towards the owners of financial institutions.

Next, government investment policy needs to be cited, not because we know what its redistributive effects are (which we do not) but because the infrastructure program is so large, and is so likely to affect incomes earned from property, that it deserves to be looked at very closely. In particular, the redistributive effects of irrigation, construction, and of road building need to be examined. We all know how the rate of return on a piece of property can dramatically change, depending on where the government locates a road.

Finally, there is the policy of rent control on low-rent housing. Although this was supposed to help the poor, it appears to have helped only those who already had low-rent housing in the first place, and then only temporarily. In an inflationary setting, there has been no incentive for landlords to maintain the facilities of buildings subject to rent control; and of course, neither is there any incentive for them to build new buildings for housing of low-income families, to meet the growing number of new families.

The final source of income is public property with imputed earnings which are claimed privately. This is another area which is not well studied, but which, it seems to me, contributes significantly to income inequity. Casual observation suggests that there is much public agricultural land, forest land, mineral area, and fishponds which are being leased by the government to private parties at nominal rates. If the rental rates are very low, then the government is in effect allowing the lessee to obtain a rental
income for property which he in fact does not even own. I hope that research will be directed in this area in the near future.

To summarize, the government seems to be doing some things in the proper direction, some things in the wrong direction, and is omitting some things altogether. The last question is: How do we know that the job is getting done? There can be honest professional differences of opinion as to how best to carry out the job. But these could be resolved if the state of equity were constantly monitored. As stated earlier, the government conducts nationwide surveys of family income only once every four or five years. This is, in my opinion, a very serious reflection of the degree of priority which the government actually attaches to the problem of income distribution. The resources and technical competence for gathering data and measuring income inequality indices or poverty indices exist. It is true that there are professional differences of opinion as to which among several possible indices is most preferred; but at this stage of our economic planning, any index which NEDA may choose is better than no index at all. Some feel that there is no use to measure income inequalities so often, because, they say, it hardly changes anyway. This is quite unwarranted; in the first place, it reflects an attitude of disinterest in redistribution, which is bound to neglect the proper policies which could make the degree of inequality change. In the second place, there is a real danger that income inequality can worsen almost overnight— as in the case of hyperinflation— and therefore one needs a more regular monitoring device.

What I would like to see is an annual target adopted by the government as to just how much it hopes to improve the state of equity. This should compel it not only to annually measure the state of equity, so as to see whether the target has been accomplished, but also compel it to implement policies strong enough to meet its target. How gratifying it would feel to be able to report that the annual target had been exceeded— as it was to report, the other year, that the GNP growth rate was 10%, versus the targeted 7%. At the very least, the government would constantly be learning by doing, even if only not to repeat the same mistakes. I think its constituencies might appreciate that.
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