

contradict one another. In the essay written in 1955, he warns against optimism, on the grounds that in underdeveloped countries "pre-industrial values" are strong, and easily fused with "modern anticapitalist sentiments" (pp. 70-71); but in the essay written in 1957 he concludes on an optimistic note, believing that backward countries will develop their own creative initiative in finding substitutes for the factors necessary for industrialization lacking in their own countries, just as the advanced countries did in the past (p. 50). In these two differing notes we perceive, not the personal feelings of Gerschenkron himself, but the aggravated difficulty which American policy faces in the world today. (*Motosuke Udaka*)

FRANK H. GOLEY, *The Philippines: Public Policy and National Economic Development*, Ithaca, Cornell University Press, 1961, xviii + 455 p.

The postwar economic development of the Philippines has been a brilliant success in a number of respects.

First, the economic growth has been very speedy. Even during the 1950's, when the postwar process of rehabilitation had already been completed to a large extent, the Philippines' economy continued to develop at an annual growth rate of about 6 per cent. This is a case rarely seen in South-east Asia.

Secondly, during the 1950's, the Philippines' economy, which in prewar years depended heavily on the export of sugar and other primary products, entered a stage of industrialization centring on imports-competing industries.

Thirdly, the Philippines still maintains the system of free enterprise economy, with the ratio of the public sector accounting only for about 10 per cent of the national income.

The question of how public policy contributed to the Philippines' postwar economic development deserves judicious scrutiny. The book under review gives a systematic analysis of this problem, backed up with meticulous preparations, and as such it will prove to be one of the standard works in the field of research on the Philippines, along with J. Ralston Hayden's *The Philippines: A Study in National Development* (New York, Macmillan, 1942).

Because of the nature of the problem treated therein, Goley's book is mainly descriptive, dwelling as it does on the record of progress and public policy in regard to the respective spheres bearing on economic development. The description deserves credence. The author, of course, gives his own evaluation on such questions as why the Philippines' economic development was successful and how public policy contributed to it. He also attempts a prognostication about the future.

The author cites the following as major factors that brought about the success of the Philippines' economic development: 1) The Filipinos' "will to economize" was fostered and strengthened, leading to the emergence of entrepreneurs; 2) public economic policy was so carried out as to help create

conditions conducive to the free play of private initiative; and 3) on the whole, public policies were "conservative" in nature, eschewing radical changes. As for the future outlook, Goley takes an optimistic view, and states that there is a strong possibility that the economic development will continue steadily.

Naturally, there can be differences of opinion on Goley's evaluation and outlook. The reviewer wishes to state his views on the author's orientation.

Goley considers as an important factor the permeation of the "will to economize" among the Filipinos. It is right to reckon with this factor, but the reviewer cannot but doubt the wisdom of interrelating this, as the author does, with the low incremental capital-output ratio. The Philippines' incremental capital-output ratio is abnormally low, being 0.7: 1. Goley says this ratio is not abnormal, maintaining that even if the capital input is low, a large increment of production is possible provided the "will to economize" is enhanced. The Philippines' capital formation ratio is very low, being 5-6 per cent, and yet an annual rate of economic growth around 6 per cent has been maintained. How this was possible is a very challenging question for economists to consider. The author's answer is that it became possible because the "will to economize" was enhanced. The reviewer cannot but suspect, however, that the low incremental capital-output ratio was due largely to the fact that relative prices of capital goods were undervalued because of an overestimation of the peso. That is, the reviewer suspects that capital goods, the bulk of which have been imported, have been remarkably undervalued as compared with indigenous products because the peso is pegged high by the control of the exchange rate, with the result that the incremental capital-output ratio has been made abnormally low.

The author also makes much of the economic policy of giving preferential treatment to "new and necessary industries." He points out that the Philippines Government, while allocating dollar funds through a priority system, has given high priority (and allotted preferential import funds), for raw materials for "new and necessary industries," and also given tax exemption privileges to them in order to help promote imports-competing industries. Goley evaluates this policy very highly, saying that it has served the dual purpose of favouring Filipino nationalism on the one hand and creating a field of operations for entrepreneurs on the other. No one will deny that the policy contributed a great deal to the success of the Philippines' industrialization, but the fact must not be lost sight of that a number of these "new and necessary industries" are of the order of assembly industries with a low degree of processing, and that their success was due largely to the fact that domestic prices have been forced up by import restrictions on foreign products. In short, the whole system is something like the hothouse cultivation of plants. The reviewer cannot but doubt that Filipino businessmen who are dealing with a market protected by the Government's preferential treatment will be able in the years ahead to lead the country's economic growth energetically.

Under the Philippines' present foreign exchange policy, exporting is disadvantageous and importing is advantageous. The author approves of this policy on the ground that it has served to hold down the agricultural aristocracy dependent on the export of primary products on the one hand, and, on the other, has facilitated the emergence of businessmen engaged in processing the imported raw materials or semifinished products. This policy, however, has hampered the diversification of the Philippines' export market and has stood in the way of her attaining a sound balance of international payments, raising the country's degree of dependence on foreign aid. Is this policy not exerting adverse effects on future development?

Finally, it is true that the Philippines' "conservative" political climate has proved effective in fostering a steady economic policy and in preventing radical reforms, but the reviewer cannot but wonder if the policy has not been "too conservative." Because of the strong influence of the agricultural aristocracy, it may have been difficult to carry out a land reform which would have made changes in the cacique system, but is it not "too conservative" to depend mostly on indirect taxation because the collection of the land tax is too difficult? In a country like the Philippines, where the rate of capital formation is low, fiscal policy has a large role to play in accumulating capital. If an adequate amount of land tax were collected, the Government would be able to help the industrialization process in a more positive manner. The reviewer cannot help thinking that if the Government remains so "conservative" as not to be able even to carry this out, one can scarcely entertain a very optimistic view of the country's economic development in the future. (*Keinosuke Baba*)

P.C. MAHALANOBIS, *The Approach of Operational Research to Planning in India*, London, Asia Publishing House, 1963, vi+168 p.

The main part of this book was originally written to explain the theoretical basis of the recommendations for the formulation of the Second Five-Year Plan submitted to the Prime Minister of India on 17th March, 1955. This document was published in *Sankhyā: The Indian Journal of Statistics* (Vol. 16, Parts 1 & 2, Dec. 1955, pp. 3-62). The revised version is now published in book form in order to make it more easily available to all who are interested in economic planning in India. The revised parts are mainly concerned with present conditions in India (Chapter 2).

This book is now one of the classics in the field of economic planning in India. No problem of Indian economic planning, especially in relation to the Second Five-Year Plan, can be discussed without reference to this book. However, for about ten years since the original publication of the document, many comments and criticisms have been concentrated on the theoretical model.

In reviewing this book, we shall concentrate our attention on its present