

the Government in that field increased. The policy for stabilizing the prices of agricultural products was greatly expanded and strengthened. Because of the increased per-capita income and increased population, the demand for fruits and livestock products increased and these now occupy an increasingly important place in Japan's total agricultural production.

The above is the outline of the book. It can be taken to be the generally accepted theory in Japan as to the development of Japanese agriculture. Although there are some parts which are repetitious, and others which could have been edited better, the book is still a valuable document of its kind, because it is abundant in data and treats Japanese agriculture from many related angles.

If the reviewer may state his wishes in regard to future research in this field, the following two points might be found worthy of consideration. One is the importance of spread of general education among the farmers in the development of Japanese agriculture. Japan adopted compulsory education soon after the Meiji Restoration. The heightened level of education among the farmers played a big role in the speedy spread of improved varieties and new agricultural technology. Although this is apt to be overlooked (inasmuch as a high level of general education is assumed in modern Japan), the reviewer feels that this is the point to be stressed when the book is read by the people of the countries where the level of general education is not necessarily high. The other point is that the adoption of advanced technology was not wholly unaccompanied by frictions. If the reader reads description between the lines, he might be able to appreciate that the introduction of new technology was made possible sometimes only with the indirect assistance from the police force, but this, again, the reviewer is afraid that most of the readers would overlook.

Lastly, economic and political conditions in the so-called developing countries today and the Japan in the days of Meiji Restoration are considerably different. In particular, the developing countries cannot enjoy the favourable terms of trade which condition Japan enjoyed, for instance in exporting raw silk to the United States of America. The conditions are also different in terms of domestic politics. However, the reviewer is convinced that in the fields of agricultural policy and technology, the book can make its contribution to these countries. (*Shigetō Kawano*)

KEINOSUKE BABA (ed.), *Firipin no Kinyū to Shihon Keisei* (Finance and Capital Formation in the Philippines), Tokyo, Ajia Keizai Kenkyūsho (the Institute of Asian Economic Affairs), 1961, 277 p, Summary of the Report (in English), 7 p.

Under a given level of techniques, capital accumulation is indispensable for any country to promote its economic development. The old colonial lands have not a sound basis for the rapid accumulation of capital, because

due to the very intrinsic nature of colonialism, they are lacking in economic, political, and cultural uniformity. The nationalism in these countries promoted to attain such uniformity is obstructed by the problems arising from poverty. This is a common trouble faced by all the newly-rising nations which have only recently gained their political independence.

This is also the case with the Philippines. With its low level of national income and consumer demand in an effort to match the Western living pattern, it is extremely difficult for an underdeveloped country like the Philippines to achieve a high rate of capital formation. Studies only of the financial system and of its functioning are not sufficient to understand the true nature of the economy of a developing country.

In studying the structure of finance and its functions in the Philippines, considerable attention is given, in this book under review, to historical inquiries into the development of the Philippine economy and also to analyses of the economic characteristics peculiar to this old colonial land.

Chapter I, "The Financial Side of the National Economy," is a bird's-eye view of the whole study.

One of the fundamental differences of the Philippines economy before and after World War II is that of the degrees to which it depended upon international trade. The ratio of the amount of its exports to the aggregate national income amounted to 30.94 per cent in the years 1922-38. In 1947-58, however, the ratio declined to only 10.81 per cent. An increase in exports makes possible importation of more capital goods and new techniques, and this, in turn, will allow an expanding equilibrium by giving an impetus to the modernization and increasing productivity of export industries.

But it is through their great dependence upon the United States economy that exports of the Philippines increased. In other words, the expansion of exports has been largely due to the dollar standard system and to preferential trade with the United States. Consequently, the economy of the Philippines has never been stable, because it has had to fluctuate as the United States economy does.

It cannot be denied that the dependence upon the American economy has helped the development of the economy of the Philippines. Neither can it be denied, however, that it has caused a dual structure in the domestic economy by widening economic differentials between the rich and the poor, and between large and small industries. This undesirable situation is still apparent, and has been a problem to authorities even after the Philippine Commerce Act was passed by the Congress and the Central Bank of the Philippines was empowered exclusively to administer the currency.

It was not until 1960 that the Philippine financial authorities found that they could do longer maintain the exchange rate of two pesos per one U.S. Dollar, and let the peso value drop to the level of p. 3.90 per dollar (Oct., 1963). The overvaluation of peso made exports more difficult and imports easier. And the consequent unfavourable balance of international accounts position of the Philippines had been a cause of the unsatisfactory rate of

economic development, which otherwise might have been higher.

It must be noted, however, that several factors contributed to the Philippines' relatively high rate of economic development. They include the small propensity to import and the consequent great foreign trade multiplier due to the inevitable import regulations on necessities, and the great marginal efficiency of capital due to the underestimation of the capital assets imported.

The annual growth rate of national income of 7.24 per cent, which was attained in the Philippines during the ten years up to 1957, is a considerable one if we take into account the low rate of the domestic capital formation of only 4.34 per cent per annum. Accordingly, the comparatively high rate of development of the Philippine economy was largely due to its dependence upon the American economy.

It can rightly be inferred, therefore, that a higher rate of capital formation will surely help the Philippine economy to attain a really satisfactory rate of development. Further accumulation of capital is necessary, not only for the industrialization of the domestic economy, but also as a stimulus to the development of the export industries centring around primary products. High productivity of primary industries would enable importation of a large quantity of capital goods without which the development of the Philippine economy is hardly possible.

Chapter II deals with statistical studies and analyses of the structure of finance in the Philippines.

Until 1948, when the Central Bank Act and the General Banking Act were approved by the Congress, the only banks operating exclusively in the national capital had been the National Bank, established in 1916, the Agricultural and Industrial Bank, established in 1939 and four other private commercial banks. The National Bank, whose primary purpose was to rid the domestic economy of the monopoly power of the foreign banks, supplied mainly short-term capital. The Agricultural and Industrial Bank, which was engaged in the supply of long-term capital, generally confined itself to making loans on mortgages. It can safely be said, therefore, that these financial institutions did not help to provide the supply of capital needed for economic development.

When the Central Bank was established in 1948, the old National Bank was reorganized into a private commercial bank, and the Agricultural and Industrial Bank, into the Rehabilitation Finance Corporation. These two new organizations soon began to make long-term loans.

The private investment demands in the Philippines at its stage of economic development are increasing so remarkably that the supply of comparatively large savings deposits have not been able to meet it. Some special financial institutions have played an important role in easing the pressure for capital supply. They are the Development Bank of the Philippines, the Rural Bank, the Agricultural Credit and Co-operative Financing Administration (A.C.C.F.A.), and the Government Service Insurance System (G.S.I.S.).

Capital markets in the Philippines are very limited for three reasons:

riches are in possession of a minority; there are not many firms producing on a large scale, and confidence in enterprises is lacking. These conditions may be obstacles to capital formation in the future, too.

Agricultural loans constitute the highest proportion of all the capital funds supplied to the domestic economy. This may be a proper proportion in the Philippine economy, since 60 per cent of the population is occupied in agriculture, and 80 per cent of the total exports of the country is agricultural. Studies made in "Actual Condition of Agricultural Finance and its Problems" of Section 2, Chapter 3 are important in this respect.

Philippine agriculture is characterized by small-scale production, low productivity, unequal land ownerships, and high rents. Therefore, how to finance the peasants and small farmers has been a pressing problem ever since the beginning of the 20th century. The Agricultural Bank of 1908 and the old National Bank may have helped the landowners through loans on mortgages. But the landless peasants, sharecroppers and tenants could not make use of these institutions because they had no land to give as security.

This situation did not change much even after the war. Although loans made by the newly-organized National Bank to the agricultural sector have increased considerably recently, 60 per cent of such loans go to the sugar producers and only a negligible proportion go to small farmers. This is a characteristic aspect of colonial agriculture. What is worse, these landless farmers cannot fully utilize even the service of the Rural Bank. This is because very high interest is charged on its loans, and only short-term credit is available if loans are not made on mortgages.

The situation is much the same with the loans facilitated by the A.C.C. F.A., which was established in 1952 under government supervision. The funds supplied by this institution are not spent so much on production as on consumption. Another complication is that some of the credit thus given is not repaid by the beneficiaries on due dates. The managing of such a functional organization as a co-operative union is naturally difficult in a country like the Philippines where people are firmly united by blood relationships.

In Chapter IV, some problems of encouragement of the growth of industrial capital are studied from point of view of economic policy. After the war, investments by the Filipinos themselves increased in various fields. But it does not necessarily follow that they are gaining economic power over foreign investors in these industries.

Take as examples the low level of income; the "demonstration effects" on domestic consumption; the existence of mighty foreign merchants in the distribution process; the monopolistic conditions due to the low level of traffic and communication facilities and the absence of the benefits of large-scale production due to the narrow markets. All these stand as barriers to national capital formation in the Philippines.

Under these unfavourable conditions, powerful government measures are necessary in achieving a stable economic growth. But the extent to which

the Government can interfere in the economy is naturally limited under a principally *laissez-faire* capitalistic system. The capital outlays of Government are only 20 to 25 per cent of the aggregate national investments. This ratio is very low compared with those of other underdeveloped countries. It is not large enough to compensate for the shortage of private capital formation.

The tax structure on the whole is rather regressive.

Taxes are exempted to stimulate capital accumulation in the new and necessary industries, but they cannot be the impetus for capital formation. Therefore, those key industries, which are in urgent need of development and most in need of relief from heavy taxation, must depend upon credits facilitated by the Central Bank and other special monetary institutions for the investments they must make to compete with foreign industries. However, the Monetary Board of the Central Bank is not as successful as it could be, in spite of the great authority given it for the control of investments.

One of the most important economic development problems of a newly-rising country is how to induce foreign capital to fill the gap between the low rate of domestic capital formation and the required high rate of economic development.

Chapter V includes an historical analysis of recent trends in foreign capital, above all that of the United States. It also discusses the results of the introduction of foreign capital into the Philippine economy.

Although the United States did not have opportunities for direct investments in the Philippines from the end of the nineteenth century to the beginning of the twentieth century, it contributed much to the economic development of the Philippines. This was done through purchases of Philippine exports at high prices and the introduction of new and efficient techniques into manufacturing industries, especially to the sugar industry.

After World War II, United States aid greatly helped the economic growth of the Philippines. By 1950, United States governmental expenditures of dollars to the Philippines, in the forms of war-damage compensation, military expenditures, and so on, amounted to 40 per cent of the total receipts of foreign exchange of the Philippines. These expenditures enabled this war-demand country to import considerable capital goods, and the importation of consumption goods, in turn, kept prices from rising too much in its reconstruction period.

The amount of the investments by private U.S. interests in 1953 was twice as much as in 1940. But it is still a small amount compared with its governmental expenditures. Because of the above-mentioned circumstances which hinder Philippine domestic capital formation, the risk involved in private investments in the Philippines is too great to encourage foreign investors who expect a reasonable profit.

It must be noted, however, that the problem exists of how to make foreign capital introduction compatible with economic nationalism for the release of the economy from a colonial status. It is said that the 'Filipino First Policy' is being replaced gradually by the 'Philippines First Policy,' and

that restrictions are being lessened on the activities of foreign enterprises. Loosening the regulations limiting economic activities of foreigners, and other measures such as reorganization of foundations for production and the expansion of the domestic markets are indispensable. The vicious cycle of the low rate of capital formation and the low rate of economic development must be curbed as soon as possible.

The last part of the book contains reports of the survey made in the Philippines by two members of the study group. Research was done on the recent development of Philippine export industries, and recent actions of financial institutions. These on-the-spot surveys are interesting because they serve as a proof of the validity of the theoretical analyses revealed in this book.

It must be admitted that the literature and statistics used as background for this report are scanty. But the researchers' rather bold analyses and conclusions are academically interesting and also may be of practical use to the Philippines. They may be helpful to the other new nations too, since the problems faced by the Philippines are also encountered by other countries in the same stage of economic development. (*Seiji Tsunematsu*)

TADASHI KAWATA (ed.), *Indo no Keizai Kaihatsu to Kokusai Shūshi* (Economic Development and Balance of Payments in India), Tokyo, Ajia Keizai Kenkyūsho (the Institute of Asian Economic Affairs), 1963, 385 p.

This Institute has published several books on economic development in India. This book, edited by T. Kawata, Assistant Professor of Economics at the University of Tokyo, is also concerned with the subject. This rather voluminous report, entitled "Economic Development and Balance of Payments in India," in its first part, deals with foreign and domestic factors which had substantial effect on economic development in India. In the second part, the structure of the balance of payments is analysed from the viewpoint of economic development.

The aim of this research report is to clarify the essential points of the balance of payments problem in the Indian economy in the process of economic development. The secular deficit in the balance of payments is one of the most urgent problems to be solved in the present Indian economy. The items which this project chose as most important in analysing this problem are:

—Historical analysis on special features of the Indian economy (Introductory Chapter).

—Analysis of the role which foreign capital played and is playing in the process of economic development (Chapter I and Chapter II, Part I).

—Analysis of the relationship between the trade structure and the balance of trade from the viewpoint of industrialization, another means of gauging