The Philippine Economy During the World Depression of the 1930s

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In a paper published in 1986 I argued that the rural populations of Southeast Asia, heavily committed to export production, experienced a markedly more modest decline in material welfare during the world depression of the early 1930s than had hitherto been widely accepted (Brown 1986, 995–1025). That those populations were faced with a severe collapse of export prices, and therefore of money income, is beyond doubt. But, I suggested, there were a number of ways in which the full impact of that collapse on rural material welfare was alleviated. Thus, in a number of cases, land and labor resources which earlier had been committed primarily to the production of industrial raw materials or foodstuffs for the world market, were now directed towards domestic food cultivation, creating the prospect of per capita increases in food availability over the depression years. Or again, in a number of cases, the real burden of taxation borne by rural communities declined, as colonial administrations, recognizing the potential for severe distress, granted extensive remissions or as populations evaded, by guile or force, the attentions of the government tax collector.

I would now add a further influence that acted to protect rural welfare during these years: that is, the great influx of cheap Japanese manufactured imports which came into the region from the early 1930s, sharply reducing the cost of many articles of common consumption (notably textiles) but also opening up new areas of consumption for rural communities (bringing within their income such articles as bicycles). To support the argument that there was only a modest decline in material welfare in rural Southeast Asia in the early 1930s, in 1986 I offered three pieces of indirect evidence: there was no apparent rise in infant mortality rates in this period

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(at least in Burma); the volume of Indian migration to Burma and Malaya remained very substantial during the depression years, indeed the number of Indian nonlaborer (that is, largely merchant) migrants into Malaya in the period 1930–39 was more than 80 percent *above* the number of such migrants in the period 1920-29; there was no decisive reduction in the volume of textile imports (into Burma and into Java) during the early 1930s (the argument being that, as the rural communities in the heavily commercialized districts of Southeast Asia in this period would have had a high marginal income elasticity of demand for imported textiles, a severe contraction in rural material welfare would surely have manifested itself in a very pronounced fall in textile imports).

That earlier paper, sadly, made little reference to the Philippines. But considerable support for its principal proposition came in an essay later published by Norman Owen (1989, 95–114), on the impact of the 1930s slump on the rural economy of Bikol. Owen suggested that the Bikolanos responded to the precipitous decline in their cash income which occurred in this period in three principal ways. They reduced unnecessary expenditures, as can be seen in the decline in the government's revenues from cock-fights, rising shop bankruptcies, the reduced business of the region's main bus company, and in declining church donations. They defaulted in large numbers on the payment of their *cedulas*. And they diversified their economic activity: many Bikolanos left their district, to find employment in mining, construction, lumbering or ranching, elsewhere in the region or much further afield; and within the agricultural economy of Bikol itself, there was a marked diversification away from abaca, the great export crop which had sustained the region's growing prosperity in earlier decades, and towards rice, maize, sweet potatoes and other secondary staples. The Bikolano's survival strategy was effective. The depression years saw no increase in infant mortality (indeed it was lower in the 1930s than in the 1920s); neither was there marked rural unrest in this period. Owen emphasizes that it is not his intention "to suggest that these were not hard times for ordinary Bikolanos, whose living standard was low even at the best of times": but "it does seem reasonable to conclude that by local standards the times had not been unduly hard" (Owen 1989, 101, 106).

The purpose of this brief note is to suggest the directions in which research on the Philippine economy during the 1930s world depression might now take. While not wishing to retract any of the arguments outlined above, I would now argue that there are other perspectives which perhaps provide a more valuable insight into this period in the modern economic history of the Philippines. I offer three broad observations.

The first is that Philippine export earnings remained remarkably buoyant during the collapse in world trade. At first sight this appears rather strange. In the two decades preceding the depression, Philippine exports had been strongly directed towards the American market; and in the early 1930s, the economy of the United States was among the most severely depressed of all the industrial economies. According to Birnberg and Resnick (1975, 233), "the largest [economic] losses from the Great Depression were for countries linked to the United States." But in fact the average annual value of Philippine exports in the period 1931-36 was down only 24 percent on the average annual value in 1926-28: the comparable figure for Java was 72 percent (Brown 1989, 213). Two principal influences were at work here. The most important was a major surge in Philippine sugar exports from 1932. The prospect of the imposition of an American quota on duty-free imports from the Islands, as part of the independence settlement then being negotiated, caused each sugar central and its attached planters to increase production in an attempt to obtain the largest possible share of the quota when those were allocated (Friend 1963). As a result, the average annual value of Philippine sugar exports in the period 1931–36 was 28 percent *higher* than the average annual value in the years 1926-28: for comparison, the average annual value of Java sugar exports in the period 1931–36 was 80 percent *below* the average annual value in those same predepression years (Brown 1989, 212). Although the American quota, imposed from 1935, substantially reduced Philippine sugar exports from the levels achieved in the early 1930s, in terms of both volume and value sugar exports in 1936 remained substantially above the levels of the 1920s. The second influence was a remarkable growth in gold exports across the 1930s, from P7.53 million in 1931 to P75.8 million in 1940, with the major part of the expansion occurring in the second half of the decade (Brown 1989, 213). It would be extremely valuable (but also a challenging statistical exercise) to set the value of Philippine exports in the early 1930s against a basket of Philippine imports from the same period, in order to determine the movement in the real import capacity of the Islands through the depression years. Given the buoyancy of export revenues and the sharp decline in many import prices (notably imports from Japan), there is every reason to believe that, in contrast to the experience of many primary exporting economies in this period, the capacity of the Philippines to import through the depression years was, at worst, only moderately impaired, and may well have been enhanced. There was no import crisis.

The second broad observation is that the sharp deflation of the early 1930s almost certainly would have caused a substantial realignment of wealth, a substantial restructuring of economic opportunity, as between classes or between occupations. The foundations of this argument were laid by Norman Owen in 1989, when he drew attention to the differential impact of the depression on the various categories of Bikolano cultivator (Owen 1989, 102). Very few actually prospered, he suggested, but some lost less than others, either because they had the resources to see them through the crisis or because they simply had nothing to lose. Those less severely hit were the wealthier landlords, tenants and the landless poor. By far the most vulnerable was the smallholder, pushed by the crisis into tenancy. But this argument can be taken much further. I would suggest, indeed, that the differential impact as between classes must be the central consideration in any analysis of the impact of the 1930s depression on the rural economy. The earlier focus on "economic welfare" (implying an average impact) and on survival strategies has obscured that more important dynamic. I would therefore suggest that attention be directed towards the possibility that certain rural classes, rather than being in a position simply to avoid severe distress, seized opportunities presented by the depression crisis to advance their economic position, by taking advantage of the plight of those who were more vulnerable. Certainly there are numerous well-documented examples from other parts of the non-European world of established rural elites moving to expand landholdings as marginal landowners were forced into crisis sales, and then using their increased assets to diversify their economic interests either within the rural economy or indeed away from agriculture (see for example Anderson and Throup 1989, 8–28). There is no reason to believe that those processes were not also at work in the rural Philippines. And finally here, I would draw attention to the fact that a comparable differential impact—in which certain classes or groups did not simply suffer less but in fact gained substantially during the depression—might also be seen in the urban sector. In a recent paper, Daniel Doeppers (1991, 517) has argued that for those middle-level Manila civil servants who held onto their jobs during the depression, and that constituted a very substantial occupational group, the combination of only the most modest reduction in rates of pay and a sharp fall in the cost-of-living meant that the buying power of their salaries "fairly soared"; for this group "the first half of the 1930s saw an explosion in purchasing power." Doeppers indicates that much of that increase in real income was directed towards financing building construction. But might it not also have been invested in new economic enterprises (transport and haulage) or in agricultural land, in anticipation of economic recovery and a rise in land price? Of course, throughout the modern history of the Philippines, periods of sustained deflation (and inflation) would cause important realignments of wealth and substantial restructuring of economic opportunity. But the price movements of the early 1930s were notably severe (perhaps comparable in scale only with those of the Japanese occupation years), and thus their structural impact markedly pronounced.

My final observation is perhaps the most important. It is to suggest that in examining the pattern of change in the Philippine economy in this period, it is essential to identify those features which clearly reflect the impact of the collapse of world trade in the early 1930s, to be distinguished from those which reflect the influence of longer-term, internal dynamics. In this context it is interesting to note that in much of the most important literature on the Philippines in this period, the 1930s world depression rarely appears as a major actor, except in that it strongly encouraged important lobbies in the United States to press for Philippine independence. In his analysis of the causes of the deterioration in agrarian relations in central Luzon in the prewar decades, Benedict Kerkvliet (1977, 17–25) focuses on rapid population growth, the development of capitalist, market-orientated agriculture and the expansion in the power of the colonial central government. There is no substantial reference to the 1930s slump. In his analysis of the dramatic decline of Iloilo City, the once-great sugar port, in this period, Alfred McCoy (1982, 326) focuses on a fundamental technological change which took place in the Negros sugar districts—the replacement from around 1914 of many hundreds of plantation steam mills with just a handful of centrifugal factories. The depression exacerbated the port's problems, in that it increased labor militancy, but it was not a central actor in its decline. Even Norman Owen (1989, 97), focusing specifically on the 1930s slump, notes that the interwar decline in abaca production in Bikol, "though triggered by and responsive to price declines, may also reflect soil exhaustion and the comparative inefficiency of the region's pattern of fragmented smallholder plots, as against the 'industrial' agriculture practiced on Japanese-owned abaca plantations on the island of Mindanao." Undoubtedly the major internal dynamic was the closing of the agricultural frontier from around 1920, seen by John Larkin as the principal boundary in the socioeconomic history of the Philippines in the twentieth century. "In the face of a rapidly expanding population and accelerating diminution of agricultural land, Filipinos have had to resort to other sectors of the economy to soften the effects of a worsening rural standard of living. The race still continues between deriving new sources of income and growing impoverishment of the population amid the threat of mounting social unrest" (Larkin 1982, 624). It is in the context of this powerful internal dynamic that the influence of the great collapse of world trade in the early 1930s on the pattern of economic change in the Philippines must be set. So much of the recent writing on the modern economic history of the Philippines has rightly emphasized the importance of the integration of the Islands into the world economy from the late eighteenth, and in particular from the mid-nineteenth century (see McCoy and de Jesus 1982). But it is important to recognize that in this modern period, the pattern of domestic economic change remained shaped primarily by the internal dynamics, even at a time when the external economy was in collapse.

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