

# The Silent Famine: The Economic Situation

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In the several times that I am asked to write on economic issues for our reference, though I am tempted to simply download the current and/or prevailing prices of both primary and basic commodities, I couldn't just stop there. For I know that I have the responsibility to present the detailed facts with critical analysis. And perhaps I might even present alternatives that your good office could initiate since all data and analysis are about macroeconomics that affect our people severely.

## I. The Cost of Living vs. The Family Income

### A. The Labor Situation

Just two years ago, two members of the family had to work to earn enough to match the cost of living. But today three of the family members have to work to reach the necessary cost of living.

It is because a family of six needs **P1,052.52 per day**, which do not include recreations of the family per week, the unpaid labor of household chores, such as laundry and child care, and health insurance to cope with illnesses which require a lot more resources.

However, the ordinary worker only earns meager P362.00 pesos per day in gross pay, which will further be diminished by social insurance, withholding tax and other deductions.

It is hard enough that three family members should work, but the worse part is whether these jobs are available. It is entirely another story if even minimum wage earning jobs are available or is hard to find.

Labor Force Survey Estimates Using the 1995 and 2000 Census-Based Population Projections October 2004, October 2005, October 2006						
Philippines	January 2005		January 2006		January 2007	
	1995 Census- based	2000 Census- based	1995 Census- based	2000 Census- based	1995 Census- based	2000 Census- based
Labor Force Participation Rate (%)	66.1	66.0	63.7	63.6	64.8	64.8
Employment rate (%)	88.7	88.6	91.9	91.9	92.2	92.2
Unemployment rate (%)	11.3	11.4	8.1	8.1	7.8	7.8
Underemployment rate (%)	16.1	16.0	21.3	21.1	21.5	21.5

There are an estimated 33.7 million people employed. Half of them are working in the service sector, 35% are in the agricultural sector while only 14.8% are working for industry sector.

The wage and salary workers for 2008 are estimated at 51.7%. Most of them, or 38.2%, are working in the private establishments. While the other one third, or 36.1%, are own-account workers or the self-employed which garnered the largest scale for labor force participation, while there are 12.2 % unpaid family workers.

The NCR again has the highest unemployment rate of 12.5% percent with the unemployment rate higher for males. The 49.6% of the unemployed are at the age group of 15 to 24 years old, 39% of them are college educated, while 33.5% are high school graduates.

NEDA reported last April that for this year, employment contracted as it went down by 0.6%, as labor force participation also decelerated to 63.2%, lower by 1.3% compared with the same month in 2007.

**Employment loses are from the sector of manufacturing, which decreased to 6%, equivalent to 183,000 people. This is a further decline from 3.1% in 2007, and 9% in 2006, compared with the same month.**

Other sectors of work which have shown contraction are the mining and quarrying, 15.8 %, utilities, 8.2%, construction 1.2%, and agriculture, 0.4% from a 5.1% growth last year. The decrease of unemployment in the agriculture is mainly from the fishing industry, due to the successive increases in fuel prices.

However hotel and restaurant employment increased by 6.44% as well as real estate, renting and business activities with an increase of 5.1%.

Unemployment increased to 8%, meaning 2,914,000 of our labor force could not find a job, underemployment increased as well to 19.8 % from 18.9% last year.

The number of wage and salary workers increased by 2.7% to 17.7 million.

Meanwhile own-account workers and unpaid family workers decreased by 3.5% and 4.8% respectively.

According to Prof. Jorge Sibal in The Philippines Labor Situation, only 10.9% or a measly 4.6 million of the labor force are skilled, which is concentrated in Metro Manila, Southern Tagalog (Region 4), Central Luzon (Region 3) and at Region 7 in the Central Visayas/ Metro Cebu.

Some 3/5<sup>th</sup> of the work force acquired their skill through apprenticeship and/or experience. While 1/5<sup>th</sup> acquired their skill through formal training and schooling.

**These findings of Prof. Jorge Sibal reveals the difficulties of workers to be employed again in other fields of work once a particular industry is affected by an economic crisis or slowdown. Data from the NEDA show that the manufacturing sector—which usually employs wage and salaried workers on a regular basis compared to other fields—is experiencing continuous deceleration.**

Thus, a certain number of workers give up finding work and instead would engage in the small businesses in the informal sector.

On the other hand, employment opportunities in the service sector that pay decently such as the call centers and the BPO's could be instrumental for the leap-frog progress in the IT industry (Information Technology). However it is not sustainable since it is only a tool for the productivity of the business, as much as it does not reflect the production of the particular industry, "growth alone is not enough".<sup>1</sup>

**Thus, a sustainable skills development is a necessity to ensure people's confidence in finding work and the ability to be hired for the job available, especially in a very liquid economy that requires job flexibility. As training and development of the work force is a key indicator for human development, which can not be attained via short cuts.**

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<sup>1</sup> International Labor Organization, Studies and Statistics

## B. On the Cost of Living

Since majority of the workforce are out of work, they make their living through small businesses, or through the subsidies of their relatives abroad via remittances amounting to 15 to 18 billion dollars a year. This mode of living is due to very limited government measures to ensure that they could keep their daily sustenance through formal participation in the labor force.

In fact while data shows that most of the workforce is own account or self-employed, principally in small scale enterprises such as street vending, the government continues on demolishing the livelihood of so-called the illegal vendors without proper relocation for vending areas that would sufficient for them to make sales and earn an income to could feed their families.

The Partido ng Manggagawa made its own study of how much should a family of six needed. The table below is their findings.

### Actual computation of prevailing Cost of Living For a Family of 6 living in NCR (as of April 2008)

Items	Volume/Cost	Daily Cost	Monthly Cost	% share
<b>Food &amp; Beverages</b>			<b>13,289</b>	<b>42.07</b>
rice	2.5kg/day x P33 (com. rice)	82.50	2,475	
ulam & gulay	3 servings/day	300	9,000	
condiments	2kg onion (P60), 1kg garlic (P30), others	6.67	200	
fruits	2kg x P30	2	60	
cooking oil	2 liters x P60	4	120	
sugar	2kg x P36	2.4	72	
soy sauce	1 liter	0.67	24	
vinegar	1 liter	0.80	24	
salt/fish sauce	1kg, 1 liter	1	30	
coffee	100 g x P66 x 2	4.4	132	
milk	6 (800ml) x P192	38.4	1,152	
<b>Utilities</b>			<b>2,960</b>	<b>9.37</b>
electricity	200 + kwh	66.67	2,000 +	
water	30 cum	13.33	400 +	
LPG	1 cl	18.67	560	
<b>House rental</b>		120	<b>3,600</b>	<b>11.40</b>
<b>Toiletries</b>			<b>1,148.60</b>	<b>3.64</b>
soap	6 bars x P31.00	6.2	186	
shampoo	2 (200ml )x P82.50	5.5	165	
sanitary napkins	12 pcs x 4 P6.00	9.6	288	
toothpastes	2 (150ml) x P47.80	3.19	95.6	
laundry soap	15 days x P14	7	210	
deodorants	2 x P102	6.8	204	
<b>Education</b>			<b>4,346</b>	<b>13.76</b>
enrollment fees	4 x P485 = P1,940/year/10 mos	6.5	194	
daily school allowance	50x3 & 30 x 1/day	180	3,960	
school projects	2 subjects x P60 /grading x 4 x 4 = P1,920/10 mos	6.4	192	

<b>Health</b>			<b>232</b>	<b>0.73</b>
ascorbic acid	2 x P116	7.7	232	
<b>Transportation</b>	P60 X 2 pax	120	<b>3,600</b>	<b>11.40</b>
<b>Communications</b>			<b>2,400</b>	<b>7.60</b>
Phone or cellphone	At least P40/day load x 2	80	2,400	
<b>Total</b>		<b>P1,052.52</b>	<b>P31,575.60</b>	

**NOTES:**

1. Family is composed of a working couple with 4 children. Children are all in public schools (3 HS level and 1 elementary)
2. Basket does not include bill for a house-help
3. Utilities such as electricity and water vary from time to time depending on consumption so its ++
4. No item for leisure/recreation
5. Health budget does not include medical expenses
6. No budget allotted for savings. NWPC basket provides 10%

So P1, 052.52 is needed per day while the minimum wage is only P380.00. Thus if two of the family members are working, they would still be budget-short by P292.50 or more because as stated the minimum wage is in gross, with would be still be diminished by deductions.

If they have relatives abroad, they can borrow money for a small sari-sari store, or in most cases they get involved in lending institutions, which on the long run will keep them indebted since they really do not have other resources to pay their loans.

But this dire situation will even be more terrible because of the subsequent inflation of food prices, particularly rice, and the other commodities due to the domino effect throughout the world economy of oil price hikes.

### **On Rice Crisis a Portion of the Bigger Food Crisis**

The goal “**Right to be Free from Hunger and Malnutrition**” is in the International Covenant on Economic, Social and Cultural Rights and the Universal Declaration on the Eradication of Hunger and Malnutrition.

But food other than being a right is also a political issue. In fact due to the food crisis there have been several incidents of political unrest around the globe especially in the African Region, where food is already scarce. While in the Port- au- Prince, Haiti, the Prime Minister Jacques-Edouard Alexis stepped down after millions marched, blamed his governance for the food insecurity. Also in Bangladesh, twenty thousand women factory workers marched against the same issue which ended up in violence, leaving fifty people wounded while fifty women-protesters were arrested and detained.

As the United Nation Secretary General Ban Ki Moon puts it, “*this crisis could result in a cascade of others... and become a multidimensional problem affecting economic growth, social progress and even political security around the world*”.

Currently our country is the highest importer of rice in the world though once upon a time we were an exporter. But even if the government could secure rice through importation, which we make possible through removal of *import quantitative restrictions*, still the crisis on rice will continue and expresses the clear and present danger of food insecurity.

The government on several occasions denied the allegation that there is a current food crisis. However in the article 'Addressing the Global Food Crisis'<sup>2</sup>, the presence of the food crisis could be characterized through the following:

1. Increase of prices
2. Diminishing Food Stock
3. Less Access to Food

### **What is our Rice situation?**

★ 8.9 million metric tons is needed per year or 33,000 metric tons per day. For 2008, total palay production may only reach 7.11 million metric tons. By the end of 2007, 1.7 million MT was imported through the National Food Authority.

★ In April 2008 rice cost 33.25 to 35 pesos per kilo, up from 28.00 last December 2007, a 30% increase over a four month period.

★ In April 1, 2008, rice stock was estimated at 1.89 million metric tons, which the Department of Agriculture claimed to be sufficient for 59 days only. Of this, 61% is in the households, 18 % in the commercial warehouses and 21 % in NFA depositories.

★ Rice prices in the international level had a substantial increase from US\$378/ton in December 2007 to US\$700 in March 2008.

★ NFA retailers were earning a measly 250 pesos for every 50-kilo sack of rice. While people have to wait in long lines for almost half a day. There have been reports that someone died due to heat stroke while waiting in line for NFA rice. There are only 2 rolling stores to cover a whole city of half-a million or more. This situation is even worse in rural areas.

### **Factors Affecting Food Prices**

A lot of factors influence food prices, other than the net effects of the Uruguay Round which made a leap when it introduced the AoA (Agreement on Agriculture). The mounting price of fuel also has a negative effect, along with the introduction of biofuels.

#### *Food Situation: Global Trend*

★ 53 % increase on food prices in the first three months of 2008, compared to the same month of 2007.

- Vegetable oil – 97 %
- Grains – 87 %
- Dairy products – 58 %
- Rice –46%

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<sup>2</sup> Addressing the Global Food Crisis: Key Trade, Investment and Commodity Policies in ensuring sustainable food security and alleviating poverty- United Nation Conference on Trade and Development (UNCTAD)

- ★ Import bill of developing and less developed countries doubled in amount due to increase in prices.<sup>3</sup>
- ★ Food price index from December 2006 to December 2007 increased to 37%.
- ★ Output of eight major food-exporting countries declined from 4% to 7%.
- ★ Organization for Economic Cooperation and Development projected a 9% average increase in rice for ten years, oilseed 23%, and skimmed milk 6% respectively.

## **The Cause/s of the Price Increase in Food Prices**

### **1. The Supply**

A. Stock level is dropping off at 3.6% per year since 1996. In fact for this year stock level will be reduced by 5%, the lowest in 25 years.

The decline of stock level was due to higher demand from importing countries and diminishing arable land for food. The agricultural industry also lacks the technology for stocking perishable products, resulting to risks in managing their harvest. On the other hand the availability of better transportation and freight technology made it easier to transport agricultural products to the market.

The other factor is the contribution of the Uruguay Round, which broaden the market participation on agriculture. However fair competition is questionable since on the buyer-side a prevailing *oligopsonistic* trend is seen as only two corporations holds 65% and 44% of world seed market for maize and soya. Only six corporations control 75 to 80% of global pesticide markets and the 30 largest food retailing companies' command 1/3 of the world grocery sales.

Thus, the “trickle down theory” expected and the greater market participation in the supply of food as promised by the AoA is not happening.

Other than the problem with oligopsonistic character of the food market as a result of placing the food on the realm of capital, the policy changes brought about by the AoA affected the whole line of food production. The AoA introduced the following:

- Elimination of voluntary export restraints
- Reduction of the level of agricultural protection through binding commitments
- Reduction of export and production subsidies in agriculture
- Multi-fiber agreement.

B. The increase in fuel prices contributed to higher costs of production for fertilizer, and the increased expenditures for transporting agricultural products. In the first two months of 2008 fertilizers increased its prices by as much as 160%. While it became more costly to transport

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<sup>3</sup> Addressing Global Food Crisis, UNCTAD, Nature and Underlying cause of Food Crisis

food to importing countries since freight costs doubled since 2006. Thus the increases of prices on rice do not compensate the ordinary farmers.

The farmers in our country are currently going back to carabao to plow the land, thus increasing the necessary labor time for farming that affects productivity especially in farmlands bigger than 3 hectares.<sup>4</sup> Reports also stated that farmers' savings from renting tractors are spent for fertilizer, which will however increase as fuel costs rise, affecting their capacity to buy the fertilizers as necessary input for higher yield.

According<sup>5</sup> to OPEC President Mr. Chakib Khelil, fuel costs are likely to increase up to US\$ 200 per barrel due to geopolitical tensions and market speculation.

C. Irrigation- In a study by Arce Glipo of the Task Force Food Sovereignty (TFFS), it is revealed that only 43% of the arable land is irrigated by the National Government.

This is due to the deficiency in funding for agriculture. Aside from the scams that plagued the agricultural fund, some projects that should be spent for irrigation are currently being questioned. These total 3.1 billion pesos released before the election of 2007, along with the alleged fertilizer scam amounting to 728 million pesos.

D. Higher demand for biofuel production affected not only the demand for agricultural crops but also conversions of hectares of land for food. The TFFS study state the following:

## Biofuel Investments

- PNOC-AFC – targets 1.2 million hectares for jatropha /other plantation, with P5B financing from LBP
- Bionor Transformacion S.A., a subsidiary of publicly-listed CIE Automotive of Spain with US\$200million
  - 100,000 has. jatropha(Pila, Laguna and Palawan)
- Coromato Communication -\$100M jatropha plantation in Bukidnon

**Reference: Arce Glipo, Task Force Food Sovereignty**

E. Other factors include the weather situation. Just this month the heavy rains brought by typhoon Frank damaged 555 million pesos worth of agricultural crop. It is only recently through the International Rice Research Institute (IRRI), in partnership with the National Government,

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<sup>4</sup> PHILIPPINES: Farmers go low-tech as fuel prices soar, IRIN, June 19, 2008

<sup>5</sup> Telegraph.co.uk

that some farmers will gain access—through "compact cluster areas" of 40-100 hectares—to flood tolerant rice, a hybrid rice that could survive fifteen or more days of flooding.<sup>6</sup>

## **2. The Demand Side**

A. The structure of demand is shifting as could be seen in the changing patterns of imports, such as India and China. Both countries are trending down their cereal imports to 4% on the average since 1980.

The changing pattern of demand from starchy toward meat and dairy products intensified the demand for feed grain. In fact there is an increase of 3.5% per year in the demand for feed use.

The production pattern thus changed since 7 to nearly 8.5 kilos are needed to produce one kilo of beef, and 5 to 7 kilos of feeds are required to produce a kilo of pork.<sup>7</sup>

B. The demand for biofuels was due to mounting prices of crude oil; however biofuels are produced at the expense of food commodities.

There is higher demand for agricultural commodities, such as sugar, maize, cassava, oil seed and palm oil, from which are produced biofuels. These products are being produced with subsidy especially in European countries where agricultural commodity for biofuels receives high subsidy as the EU practice 10% fuel mix of biofuels along with very expensive petroleum.

## **3. Operation of the Finance Market**

A. Market speculation make for high prices, resulting in higher import bills in major exporting countries such as ours. The Balance of Payments will be affected which will be felt on the next months to come. It also affects the goal of a balanced budget since necessary spending will result in a higher deficit.

Speculation is also the main reason for hoarding and/or profiteering of our local retailers, which up to now have not received formal complaint after being seen guilty by the Anti- Rice Hoarding Task Force.

B. Agricultural development is low because of the removal of subsidy on agriculture as promoted by the AoA.

In our country, the Comprehensive Agrarian Reform Program (CARP), has been one of our main policy programs regarding agriculture. The agricultural industry remains a large contributor in the GDP and employment. However a measly 13 Billion pesos was appropriated for agrarian reform compared to 15 Billion in appropriations from last year.

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<sup>6</sup> RP, IRRI join forces to attain rice self-sufficiency by 2010, Inquirer- Nation, May 3, 2008

<sup>7</sup> Growing demand on agriculture and rising prices of commodities, an opportunity for smallholders in low-income, agricultural-based countries?

On the other hand our government has been dependent in Official Development Assistance (ODA) for our agricultural development. Take for example the DAR report in 2006, where 62.32 Billion pesos was granted for the Agriculture while only 14.91 Billion pesos was allotted as local counterpart.<sup>8</sup>

In fact according to the Freedom from Debt Coalition, ODA worsens the fiscal position of our country. The Department of Agrarian Reform is responsible for US\$ 526.53 million in loans in our external debt, [US \$12.56 million for principal loan alone, in our 2008 Budget Expenditure

But ODA is a tied-aid, which do not benefit the grassroots. And worse projects and programs sponsored by the government do not answer, in a major way, the food security needs of the agricultural industry.<sup>9</sup> Examples of these are the JPEPA, which permitted toxic waste dumping in our country in exchange for grants, and the US\$100 loan from China in exchange of leasing our massive agricultural area for their own consumption.

C. The other problem in CARP is land redistribution.<sup>10</sup> A report submitted by the DAR Secretary Nasser Pangandaman to the Senate states that the CARP received an appropriation of 162 billion pesos from 1988 to December 2007. The sources of this amount are the Presidential Commission on Good Governance, 72 billion pesos; the Asset Privatization Trust and Privatization Management Office under the Department of Finance, 25.9 billion pesos; General Appropriations 55.9 billion pesos; and from other sources amounting to 7.9 billion pesos.

The CARP implementing agencies handles this allocation: 49% or 74 billion under DAR and the other 54.7 billion or 36% under the Land Bank of the Philippines.

This 150 billion was utilized for the redistribution of the 7.1 million hectares of land. This is 79% of the target and thus CARP is still falls short in redistributing 1.8 million hectares, which would benefit 1.4 million farmers.

The former under Secretary Mr. Gerry Bulatao on the same report to the Inquirer, stated that the current administration is redistributing land by a measly 100,000 hectares per year. Even the proposed extension of the CARP implementation by five years will not be enough to complete agrarian reform.

Other than the too slow pace of land redistribution, the CARP beneficiaries are being displaced from their land to give way to industrial and property development.

The national government identified 23 areas for Rural Industrial Centers (RIC). This project aims to attract investors to finance industrial, residential and tourism projects.

According to Ms. Teresita Oliveros, around 16 of the RIC areas cover agricultural lands. A case in point is the Fil-Estate Harbortown in Batangas, a four-hectare golf course and luxury hotel project. The land was being tilled by CARP beneficiaries, holders of a Certificate of Land

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<sup>8</sup> Freedom from Debt Coalition

<sup>9</sup> Digging Deeper to Land and Debt Inequality, Princess Nemenzo, Freedom from Debt Coalition

<sup>10</sup> CARP was supposed to be valid only for 10 years but was extended due to the slow pace land redistribution.

Ownership Award (CLOA) from the government. However, without their knowledge they were ejected from their land and their CLOA was nullified. The government later sold to Fil-Estate what was once fertile land for food production.<sup>11</sup> Oliveros added that in the implementation of the MTDP<sup>12</sup>, around 118,000 of fertile agricultural land have already been converted for other purposes.

D. Food security was sacrificed in a market oriented policy. The government lost control of the supply and demand sides. The end result was long-term lost of food security and the loss of the development goal of keeping a decent meal in the poor people's table.

**In fact the only security that consumers have is the Price Act, which permits Price Monitoring of basic and primary commodity, and would only allow price control once disasters arrive, a measure that can not ensure food security.**

### What to Expect Next?

1. If the price of crude oil continues to increase, the demand for biofuel agricultural commodities will remain high.

However given the market condition of other agricultural commodities in the primary food stock, planting for biofuels may only continue if there is subsidy.

On the other hand, EU will be demanding for more agricultural commodities for biofuel production, which will limit agricultural stock due to their policy of 10% biofuel mix.

2. Due to export restriction of the major food exporting countries, the transaction price for imported food will increase. And large food-importing countries will be severely affected as high transaction costs in the domestic market leads to balance of payment problems and higher import bills.

#### Government Imports and Subsidy 2008

	Volume of Imports (MT)	Export Price \$/MT	US \$	TOTAL PRICE (Pesos)	NFA Selling Price (P18.25/kg)	Subsidy (TP-NFA SP)
1st quarter '08	550,000	708	389,400,000	15,965,400,000		
	300,000	330	99,000,000	4,059,000,000		
April	500,000	1,100	550,000,000	22,550,000,000		
	1,350,000		1,038,400,000	42,574,400,000	24,637,500,000	17,936,900,000
May	500,000	1,100	550,000,000	22,550,000,000		
	1,850,000		1,588,400,000	65,124,400,000	33,762,500,000	31,361,900,000
maximum	2,500,000					

Source: Government Pronouncements  
USDA  
Oryza.com

<sup>11</sup> Asia-Pacific Forum on Women, Law and Development., Impact of new world trade regime on peasant women in the Philippines , by Teresita Oliveros

<sup>12</sup> Medium Term Development Program

*Source: From the IRDP- Task Fore Food Sovereignty, Arze Glipo*

3. Since increase in food prices do not benefit farmers because of higher production costs due to oil price increases- farmers response will be low, especially if reforms required will not be responded accordingly.

4. According to BSP, inflation reached 9.6 % as of May 2008 while this June it reached 11.4%; a nine-year high brought about by the successive increases in oil and food prices. Food alone marked a 14.3% increase. Hence, interest rates are also expected to increase, together with slower capital formation and a proportional increase in the poverty incidence. The magnitude of which requires a comprehensive program for poverty alleviation.

### **Who is affected?**

According to Food and Agricultural Organization of the United Nation, countries that will most likely be hit hard are those with more than 30% of their population which are undernourished, and also countries that are net importers of fuel and food.

It has been centuries that our people were eating energy rich instead of nutrient rich food. This has resulted to higher number of ill people, which requires addressing the food security and the right to health as well.

As of the latest SWS survey, more than the half of the population considered themselves poor. In this case, if the government do not prioritize social services, and make more effort on addressing required reforms, people will have to resort to protest, as their form of action to addressing their situation.