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#### **The Economic Legacy of Marcos**

by

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# THE ECONOMIC LEGACY OF MARCOS

*BY*

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Abstract

Ferdinand E. Marcos was the Philippine president from 1966 to 1986, a period exceeding twenty years. After serving as a two-term president of the Philippines from 1966-1972, he declared martial law under the constitution to assume dictatorial powers to tame the political chaos that was then engulfing the nation. In 1981, he ended the martial law period. The political framework that he adopted was patterned after the 1973 Constitution with amendments introduced and accepted by popular referendum concerning an elected parliament. He was driven from power in 1986. This paper reviews the economic and social contributions that his years in office brought to the country. During his period of rule, there were major reforms in government organization, in the provision of public infrastructure, and in social and economic development. In making the final accounting for Marcos, the paper concludes that the balance sheet is very positive. Many of the problems that continue to hound the nation today are the result of decisions taken during the transition from Marcos by the successor government. These mistakes are discussed. This paper contributes to the proper assessment of the country's long term economic and social problems. Naturally, the judgment of history will be made through the future assessments of social historians, economists, and other social scientists. This paper represents one such analysis.

*Topics:* Philippine economic history; economic development; Ferdinand Marcos; political economy, economic policy.

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## Abstract

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\* Professor of Economics Emeritus, University of the Philippines, former member of the Cabinet of Marcos as Chairman, National Economic Council (1970-1972) and Director-General, National Economic and Development Authority and concurrently Minister of Economic Planning (1973 to 1981). For many years since I left the economic policy making end in June, 1981, I directly avoided commenting on the topic at hand. In 1984 [Sicat, 1984] however, I delivered a talk on my assessment of the Philippine economy before the Philippine Economic Society. I wrote that as a kind of valedictory assessment of my years in the government, prior to my departure for work at the World Bank beginning in 1985. This was many months before the EDSA revolt. The occasion to discuss Marcos’s legacy arose from a talk delivered publicly at the University of Asia and the Pacific in April, 2008 on the topic *The Economic Legacy of Marcos: Myth or Reality?*. Professor Jose Romero, of U.A. & P, organized that seminar, for which I am grateful. At the time, I used a PowerPoint presentation which I made available publicly to some of the participants in that forum. At the same occasion, former Prime Minister Cesar Virata served as the discussant of my paper. Unfortunately, the transcriptions of that public forum was unusable. The current stage of this paper is a revision of that presentation and includes elaboration of important issues. This then is the proper essay based on that talk. I kept the finished paper for almost four years in my files and revised it again for this presentation. It is time to make it public.

## I. INTRODUCTION

It has been a quarter century since the fall of Ferdinand Marcos in February, 1986. He was elected for two successive terms as the sixth president of the Republic during 1966-1973<sup>1</sup>. On September 21, 1972, three months and a week before the completion of his second term, he declared martial law to assume dictatorial powers. Basing his actions on the provisions of the Constitution of the Republic, he called this system of government "constitutional authoritarianism." On January 17, 1981 he lifted martial law and inaugurated a new system of government based on the new 1973 Philippine Constitution which had revised the previous political constitution and refitted through referenda of political questions that he introduced. These amendments incorporated a presidential-parliamentary system that had a strong presidency patterned after the French political system after 1958 that Charles de Gaulle adopted to stabilize it: a government with a strong President and a Parliament headed by a Prime Minister that passes the laws. The French system still works to this day.

Marcos had consciously followed the French example albeit with some variations carrying his own imprint. In the current reckoning of these changes, the last period under the parliamentary form – the *Batasang Pambansa* – was still seen as an extension of the martial law period, not an end to it. In fact, in 1981, the adoption of those changes marked the termination of martial law. The 1987 Constitution of Corazon Aquino reversed all these political changes essentially restoring most of the institutions before martial law.

Marcos's twenty-year rule was long. Because he was driven to exile, it had a catastrophic ending for him. Politically, his biggest failure was to institute an orderly process of succession within the political system. Judging from what had been written about events after his fall, a backlash in the interpretation of historical events had diminished many of his positive contributions. This was to be expected. He was succeeded by embittered political enemies who were excluded from participating directly in the nation's politics during the dictatorial phase of his reign in power. When they had triumphantly removed him, it was natural for them to band together to devalue if not demonize, most of what he had done.

*In politics as in war, the victors write the history.* Marcos lost his voice in defeat, in exile, and in death. The significant things that he accomplished had been swept aside by the tide of revenge and recriminations. History written from the viewpoint of the victors reinforced in the public mind the bad and the difficulties under his regime. The passage of time further bolstered that prevailing wind and fostered the essential amnesia that national rejuvenation had seemed to require.

The turbulent history of the country to this day is a reminder that the inheritors of the mantle of leadership have not been succeeding either in plotting a successful course for the country. History has its day of reckoning. Based on the level of public dissatisfaction with the

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<sup>1</sup> He was elected president in 1965 beating Diosdado Macapagal, then the incumbent, and in 1969 beating Sergio Osmena Jr., the challenger.

current directions of the country, political and economic programs require a better road map for the future.

It is further remarkable that, at present and for some years now, the country is again witnessing some clamor for constitutional change. Politicians are seeking the amendment of the constitution so that a parliamentary system could be adopted. Others want change in terms of political structure favoring a federal framework which departs from the centralized form of government. The issue of constitutional change is however an intricate affair. The nature of the core changes to be made in regard to the constitution is one in which the economic provisions need greater rethinking and change.<sup>2</sup>

This essay examines the economic legacy of Ferdinand Marcos. The first part discusses the presidency of Marcos in historical context. The second part reviews the economic accomplishments during his time. These accomplishments cover the areas of government and administrative reform, infrastructure construction and public investment programs, social and people-oriented reforms, and economic and industrial reforms. The third part scrutinizes briefly some controversial aspects about Marcos's rule. These aspects include a discussion of the quality of the post-Marcos transition that had reduced the public perception of his economic contributions to nation building. Finally, a summary of the economic legacy is made.

## II. THE MARCOS PRESIDENCY AND MARTIAL LAW DICTATORSHIP IN HISTORICAL CONTEXT

When Marcos became president of the country in 1966, twenty years of political independence had already passed. Five presidents of the Republic had preceded him in the job. Before that, ten years as a Commonwealth under the United States would guide the nation peacefully toward that transition to independence. The Great Depression in the United States – which also had a profound impact on the Philippine economy – coincided with the time when the

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<sup>2</sup> There are several schools of thought on constitutional revisions. There are those who want to continue the effort to install a parliamentary system in part to replace the current congress and the principle of checks and balance between the Executive and the Parliament. Some see a defect in this system, and that was in part the reason for the adoption of a parliamentary recommendation in the 1973 Constitution. There are those who want to replace the central and unitary system of government in favor of a federal system of government partly to see real transfer of power from the national government to the local governments. There are enough disaffected local politicians about the slowness of local progress arising from the current state of national progress. In fact, there are enough disgruntled believers that the country's relatively slow progress requires some kind of constitutional revision. However, if there were no terms limits to the current constitution which is the 1987 Constitution, there probably would be little demand for constitutional change. In short, it may be that the great demand for change is mainly the need of major politicians to get rid of the term limit provisions of the present constitution. Such limit had imposed been against the holding of elective office beyond three terms for members of Congress and local executives and one term for the President. I believe that most of the proposed constitutional changes proposed above will not help to cure the main issue about Philippine economic performance. Most of the demand for constitutional change is on the wrong track unless it dealt squarely with the issues of economic restrictions to foreign capital participation in the Philippine economy. The most important issue for constitutional change requires a removal or a liberalization of the economic restrictions in the 1935 Constitution. These are the critical issues that need to change. Otherwise, no constitutional amendments would be effective in bringing a greater inflow of foreign capital into the country in the magnitudes that have been experienced by other countries that have grown steadily into high growth economies in East Asia.

Commonwealth Constitution was being framed by Filipino independence leaders. They were infused with great ideas of national development, state intervention in the economy and strong nationalistic sentiments.

These sentiments found expression in the economic restrictions in the Constitution of 1935 which confined to Filipino citizens the ownership of land and provided only minority participation to foreigners in the business of public utilities and the exploitation of the nation's natural resources. The Philippine Constitution was mainly a copy – an amalgam of US state commonwealth constitutions – but this provision was uniquely Filipino. In fact, it would be uniquely Filipino in relation to many political constitutions in the world.

The Second World War which lasted from 1941 to 1945 interrupted what could have been a graceful continuity toward independence under American sponsorship. It destroyed structural links along social, political, and economic relationships.<sup>3</sup> The first few years of independence were focused on recovery and rehabilitation that required enormous resources because of the severe war destruction. This brought up the first serious national issue to face Filipinos – parity rights for Americans. The parity issue arose because of the economic restrictions placed on foreigners in the 1935 Constitution. The substantial foreign interests were mainly American investments in the Philippines. So, the word "foreign" in those provisions read as "American" to the American citizens who were prospectively affected by those provisions.

Land ownership was prohibited to non-citizens. Participation in industries that exploited natural resources was limited to 40 percent minority interest. The same was true of public utilities. But in all these sectors, there was substantial American ownership. In short, upon the dawning of independence and prior to the grant of any benefits from the war damage compensation issue being discussed, American citizens affected wanted their rights to be at par with those of Filipinos, hence the issue of the "parity rights" amendment to the 1935 Constitution. Even with war destruction, there were rights that existed which would be recognized by timely war damage payments. And these could not be ignored by subsequent political and economic events.

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<sup>3</sup> The historian Teodoro Agoncillo has attributed the extreme corruption of the days of the Japanese occupation during the period of extreme wartime economic deprivation of many Filipinos who had to survive the war years. This led to a culture of domestic corruption. This, however, is probably an incorrect assessment in that it ascribes to this phenomenon the primary reason for today's corruption culture. The costly electoral contest is a legacy from the tutelage in electoral politics from American electoral practices. The high cost of electoral contests for major positions creates a demand to amass large sums of money for the electoral campaign to be successful. The process of extracting political contributions for electoral contests creates its own quid pro quo after electoral victory. The successful candidate has to have a period of payoff to those who had contributed to the electoral victory. Moreover, the various rent-seeking practices associated with many economic policies that deviated away from market solutions to economic issues contributes as well to the problems of corruption that today explains the state of play in the country's culture of corruption.

The first president of the Republic was Manuel A. Roxas who had a short-lived presidency.<sup>4</sup> Roxas of the Liberal Party was swept into election victory over the Philippine Commonwealth president Sergio Osmena on the issue of parity rights for American citizens. He argued that an amendment of the restrictive constitutions to give Americans equal rights to those of Filipinos as provided by the restrictive provisions against foreigners of the 1935 Constitution would bring in American war damage payments and American investments in the economy. The American government had premised the inflow of war damage payments and trade adjustment on a favorable resolution of this issue for American citizens. That would protect their Philippine asset holdings in these affected sectors from forced sale or possible loss of values.

The main issue of Roxas's time was the problem of rehabilitation of a badly destroyed Philippine economy.<sup>5</sup> Such independence and postwar economic adjustment were linked with the *quid pro quo* of the parity amendment to the constitution. It would give American citizens the same rights as Filipinos in the matter of the economic restrictions in the Constitution, hence the name "parity rights." With the parity amendment would come the war damage payments to be passed by the US government and the approval of the trade adjustment act detailing the process of trade adjustment (which would come to be covered by the Philippine Trade Act). These provisions would play an overpowering set of historical forces over Philippine economic policies of the post-independence years. This essay will delve on its important role in the context of the direction of industrial policy.<sup>6</sup>

Elpidio Quirino succeeded Roxas when the latter unexpectedly died of natural cause in 1947, before half his term was over. Quirino presided over the country when social unrest – the communist peasant rebellion or the Hukbalahap rebellion – became very serious and the country's large dollar reserves arising from the early rehabilitation dwindled as a result of

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<sup>4</sup> Manuel Roxas was part of the first generation of political independence fighters who was allied with Sergio Osmena when the first Philippine independence bill (the Hare-Hawes-Cutting bill) was passed in the US Congress. This bill was promoted by and was associated mostly with these two leaders (the Os-Rox mission, for Osmena and Roxas) who tried to promote its passage when they led a mission of politicians who wanted independence in Washington D.C. The wily Manuel Quezon led an opposing group of political allies and objected to this bill so that Congress had to pass a new Philippine independence – the Tydings-McDuffie Law in 1934 – that was finally signed into law by President Franklin D. Roosevelt. Prior to the act of independence, the Philippine Assembly had to enact a Constitution that was again to be approved by the US President. The Constitutional Convention of 1935 was convened and together with enacting the political organs of the state which was similar to many of the state constitutions of the United States, it contained provisions for restricting the participation of foreigners in three major areas of the economy – land ownership, public utilities and the exploitation of natural resources. At the time, these issues were not allowed to interfere with the grant of independence as President Roosevelt of the US signed the independence bill fostered by Tydings-McDuffie into law. Because he was credited with the winning coalition that got the movement for Philippine independence into forward motion, Quezon became the dominant leader of the new Philippine Commonwealth with Sergio Osmena serving only as vice president.

<sup>5</sup> To appreciate fully the problems of the economy at the end of the Second World War, the required readings would be the analysis of the economy with the Bell Economic Report (1950), which assessed the aid program that was needed to prop up and rehabilitate the economy. This was an influential economic report that led to various developments. The other economic study of 1960s vintage was that of Frank Golay (1960) which assessed the economic problems of this early independence period. The most intensive statistical discussion of the economic damage in economic output during the war was however only recently analyzed in Sicat (2003).

<sup>6</sup> See the discussion of controversial issues, the root cause of the debt crisis and industrial collapse.

excessive import demand at the end of the war and the peso overvaluation of the time. By then, the country's new institutions of central banking and commercial banking were in place and, in succession, import and foreign exchange controls were undertaken. Elected on his own in 1949, his opponent was Senator Jose P. Laurel, who was an eminent jurist and was the wartime president under the wartime Occupation. The electoral contest was marred with fraud that put in question the honesty of the outcome.

Ramon Magsaysay came to the presidency in 1953 when he defeated Quirino in the electoral contest. Magsaysay's chief achievement before his rise to power was as Quirino's Defense Secretary. He made major triumphs against the communist insurgency and held it at bay. These gains plus his simple down-to-earth charm transformed his persona into electoral charisma that gave a great promise of a good political future for the country. His time in office was however cut short by a plane crash that killed him. If Magsaysay had a strong vision of the Philippine future, it was not yet transparent and well-articulated in terms of social and economic reforms that one could associate with him. He was considered the champion of the common man but during his short time as president, major economic restrictive policies were continued. Import and exchange controls remained. It was during this presidency when the law on retail trade nationalization was passed. But land reform legislation that he proposed did not prosper under a Congress controlled by landed interests. Balanced against these failures, his economic programs designed to address poverty directly in the country side were effective and built for him a strong following. These were community development programs, the building of artesian wells for the rural folks, and the improvement of justice dispensation affecting the poor.

Carlos P. Garcia, who succeeded Magsaysay, was a traditional politician schooled in the old ways. He was made Magsaysay's running mate in order to give political balance to the ticket. He was schooled in the nationalistic restrictive traditions of the recent past. In his time, he would further add to economic restrictions and protection and would espouse slogans that further fed on those restrictions, *Filipino First*. He sponsored the demands of domestic businessmen whose industrial endeavors were mainly to replace imports and to control the domestic markets for themselves against foreign competition. The result of these measures was to tighten foreign exchange controls that had the effect of encouraging not only economic waste but also corruption and rent-seeking in the economy.

In the election of 1961, Diosdado Macapagal would assume power by defeating the reelectionist Garcia mainly with the promise to remove exchange and import controls and to root out corruption. Macapagal was elected to become the vice president during Garcia's Nacionalista Party rule, benefiting from the rule of allowing split ticket voting for president and vice president. Macapagal's early years were promising but he had a tendency of rotating his chief officials among jobs within the cabinet too often. Perhaps this was his way of keeping political control and balance. But this approach added to his uneven performance as president and made him susceptible to strong challenge in the next election. That challenge came from another politician from his own party, Ferdinand Marcos, who had to change his political affiliations in order to receive the presidential nomination of the Nacionalista Party.

Macapagal's election was a rejection of the extremes of events brought about by the restrictive economic policies that he inherited. Macapagal had campaigned against corruption and the exchange rate regimes. His first steps involved the removal of import and exchange controls and the institution of a float of the currency to seek its level. This was done in a once



and for all fashion. Then, he instituted a tariff system that was highly protective essentially restored the industrial inward looking approach toward industrialization with high tariffs. Thus while he abolished the exchange controls, he rescued the protection system with other measures. Essentially, the same policies of restrictive nationalism in industry continued under another name.

Like Roxas, Quirino and Magsaysay, both Diosdado Macapagal and Marcos were members of the Liberal Party. In fact, Macapagal and Marcos were the outstanding young politicians of their party at about the time of Garcia's presidency. It was Macapagal who first rose to high office when the electorate split the presidential ticket, voting Garcia as president and Macapagal, from the opposition ticket, was elected vice president. The stature of Macapagal and Marcos grew as Garcia's policies became unsustainable and therefore unpopular. To challenge President Macapagal, Marcos switched to the Nacionalista Party to become presidential standard bearer.

When Marcos became triumphant over Macapagal in 1965, the electoral battle was mainly fought on issues to improve the governance and to build up the economy. The election was a battle between two young politicians who were former political allies within the same party but nonetheless leadership rivals from early times in the same party. In the politics of this period, the strength of the candidates rested more on their vote-getting power as a result of their personal appeal and less so on how they stood on specific issues. There was a delineation of party affiliations of the major candidates but there was hardly any substantial difference in their stand on the major issues of development. Some of the details of policies could differ – for instance on the issue of exchange and import controls and their subsequent impact on industrialization – but essentially the candidates remained behind the dicta of the economic restrictions of the Constitution.

Philippine presidential politics – as these examples show – were mainly based on the strength of the personalities of the contending candidates and not on the power of issues. It was their personal or individual charismas that shone most, as in the case of Magsaysay and Marcos. In general, the rhetoric of the elections involved emphasis on the performance of the incumbent and the challenge of the opposition to uproot corruption and improve performance.

During the 20 years before Marcos, the country's development was generally good on paper. But with a high population growth, the growth of output per head was much lower. During these years of dependence on industrial growth with high levels of protection, the country was faced with periodic balance of payments crises. Such crises brought in bouts of booms to the class of industrialists and businessmen who were the largest beneficiaries of high protection. But because of their innate lack of competitive strength, these very same industries would endanger the wellbeing of all those employed by them – the larger population and the nation – for they would eventually suffer the fates of uncompetitive industries. They were dependent on subsidies and protection and their low capitalization made them rely mainly on high debt to run their operations.

Thus, the potential for economic busts was in their future. Moreover, they helped to weaken the government: their demand for subsidies and indirect budgetary support eventually helped to create rising fiscal deficits. Those fiscal deficits helped to weaken the value of the peso and raised inflation. The protected import-substituting industries consumed quite rapidly the

foreign exchange earnings that were earned by the traditional export sector from the agricultural and natural resources sectors. While initially extracting high profits from their operations, they used special access to foreign exchange resources to buy their imports of machinery and raw materials to sustain their operations.

Tensions over these restrictive practices meant serious debates over economic policy. The export sector, based on agriculture and natural resources, clamored for more open use of their earnings, but the government undertook a trade and payments system that required the sale of these dollars to the central bank at the official rate. The scarce dollars were rationed to support the domestic import-substituting industries for their import needs. Thus, the country's foreign exchange resources and credit resources gradually dissipated. But no political figure would dare go to the extent of dealing with the economic restrictions on foreign capital as written in the Constitution. It meant the kiss of political death. (As provided in the Laurel-Langley Agreement, all those economic restrictions would be fully effective on all foreigners.)

During the Marcos presidency, the Laurel-Langley Agreement would cease to function by 1973. This signaled the end of the period of special relations with the United States. The last vestige of those special relations was connected with the military bases. The bases lease was to be under the control of the US government for 99 years from political independence in 1946. The decisive defeat of the French by the Vietnamese in Dienbienphu in 1954 opened the way for American direct entry into the Vietnamese conflict. The bases then became a key element of the geopolitical strategy of containing the advance of communism in Asia. From an economic perspective, the military bases were a major source of support to the Philippine economy. They provided enormous expenditures of dollars that were fed into the local economy.

Marcos saw the military bases as a very sensitive issue involving diplomacy and shrewd tactics. As a US ally, he supported the Vietnam war. But Marcos made sure of two things: that the Philippine bases were not to be used as a staging place for the bombing of Vietnam and that he would send in support of the war, not a military contingent, but an engineering battalion to be engaged in civic action work. Marcos drew on the leverage of his support of the war to put into effect a reduction of the military bases agreement so that the 99-year period of lease of the bases could be reduced. He extracted this reduction of the bases agreement with US President Lyndon Johnson in 1966 by shortening the remaining period to only 25 more years after which time mutual renegotiation could be undertaken on the fate of the bases. This gave the country the option to rethink the bases agreement by 1992.<sup>7</sup>

The history of presidential politics was highly related to the politics of the ruling oligarchy. The economic restrictions placed against foreign capital in key areas of the economy made these powerful groups even more entrenched in a monopoly position over the country's resources. This assured them of a prominent voice in the decisions concerning political, economic, and

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<sup>7</sup> Marcos's success in reducing the military bases lease made it possible for the government to terminate the military bases agreement by 1992 rather than in 2045. Without having undertaken this major foreign policy achievement, there was no termination of the lease agreement possible. Thus, the actual 99 year period of lease of military bases in the Philippines lasted only for 45 years, cutting by half military bases presence of the United States. Otherwise, the Clark and Subic military bases would still be under American control today rather than the economic hubs for export growth hubs that they have become.

other wide ranging issues affecting the nation's future. Over time, therefore, domestic interests strengthened their grip on the country's major public utilities, on the potentials for further natural resources exploitation, and on the ownership of land. The result of this was underinvestment in public utilities, on natural resources exploitation, and the lack of land improvements that were needed to make agriculture higher-yielding.

Moreover, land values would rise mainly where there was development and urbanization. Around the country, enormous poverty would continue to prevail because those who owned the land did not invest on it to make it productive. They preferred to live in the city and to use the land as property that would in time rise in value. Those who invested in agriculture – such as in the sugar areas of the country – wallowed in protected wealth and income as they lived off the special trade relations with the US that assured them of high values for their product. This sector of the economy also had great political influence. They were the kingmakers in the political life of the nation. They did not feel the pressure to improve their investments – as was the case in countries that had to fight for their share of the sugar market from the volatile world sugar market. As long as they controlled the political levers of power, they were assured for the future.

Like leaders of his own generation, Marcos himself felt compelled by the nationalistic impulses that these issues provoked. There was also political expediency on the part of the rising politician to use the means available to rise to leadership of the nation. Marcos won the presidency by seeking political alliances with powerful political blocs. In 1965, his vice-presidential mate was Fernando Lopez, who was part of the economically powerful sugar bloc. The Lopez group had in addition sizable economic power and political influence through a national news paper, a media empire that controlled the television and radio airwaves.

By the time that he was leader for almost eight years, Marcos had experienced the full range of the exercise of presidential influence in the nation's politics. He saw how difficult it was to get reforms done because of the many stumbling blocks along the way. He saw how those economic power was utilized in part to amass further economic power through the political control of those in the executives. He began to analyze the picture from his standpoint. He saw the defects of Philippine political democracy as one controlled by various alliances of oligarchic interests. He realized that the demands for their initial political support meant that the pay-up period would mean entrenching further these interests. He therefore began to develop an alternative plan.

Using a baseball figure of speech, the first eight years of the his presidency involved efforts to seize on a reform agenda that could not reach home base and score. It was often called out by the second base or amended beyond recognition by the third base. Those who held the levers of power filtered the reform process to their own agenda, meaning that only minor reforms could move forward. Marcos was evidently frustrated by this, for he could not advance on any front without resistance to substantial reforms that he wanted. He was effectively blocked from further progress by the very nature of the political process and the corrupt ways of the system.

In September 1971, in his seventh year of the two-term presidency, he expressed his frustrations at instituting reforms in the Philippine political system by publishing *Today's Revolution: Democracy*. Now, an actively engaged president was one of the busiest persons in the government. Writing a book was hardly the endeavor expected from such a president but

indeed he did. The political tradition was that the president wrote a book after his term in office. With time and leisure at his command, he wrote a memoir. In that literary form, the main weapon of exposition was not the desire for reform but that of recall of events and the role that he played in them. This was the reward of old age and experience in high office in which exposition was mainly the elaboration of the golden fruit of achievement and contribution to the nation.

In this book, he did not write a memoir but a book that analyzed the faulty democracy that was in place in the country. The influences in this book were many. He borrowed from the language of the student demonstrators who were denouncing the government and the system. He was an avid reader of political theory judging from the many references in the book. During his presidency, he could engage the best minds in the country and seek their views. He also harnessed writers, mainly journalists, in whom he relied for polishing the prose of his official speeches. He was also an avid learner from new writings as well as the political classics.<sup>8</sup> But essentially, he was himself, looking for ways to explain the problems of his presidency.

Marcos bewailed the problems of the Philippine political system: corrupt, unwieldy to change and controlled by an invisible ruling class. In several quotes below,<sup>9</sup> he would summarize the stumbling blocks to economic and social reform that lay ahead of a democracy that was controlled by an oligarchic few.

Ours tends to be an oligarchic society. This simply means that the economic gap between the rich and the poor provides the wealthy few the opportunity of exercising undue influence on the political authority. But it does not mean that all the rich and all the privileges constitute an oligarchic class, for many of them – in government, in business and even the clergy – are socially conscious enough to acknowledge the necessity of revolutionizing the social order. *When I speak, therefore, of the oligarchy, I refer to the few who would promote their selfish interests through indirect or irresponsible exercise of public and private power.* [GPS emphasis].... The concentration of a community's wealth in the hands of a small minority must result in an oligarchic society. When this society exists side by side with a democratic political authority, as in the case of the Philippines, the consequence is an oligarchic order, or an "oligarchic democracy" .... In our case, every citizen enjoys political rights, which, however, are not *effectively* exercised because of economic and social inequalities. ... Now we realize that this condition can also promote a political culture which equates freedom with self-aggrandizement, and the politics of participation,

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<sup>8</sup> Early in his presidency, he had engaged Rafael Salas who helped to harness for him the intellectual resources of the University of the Philippines. Onofre D. Corpuz, well known political scientist and economic historian served at the beginning of the presidency in the Education department. The pragmatic technocratic corps to be brought in would include Alejandro Melchor from the military and later on Cesar Virata and others. Two exceptional writers who helped him from the beginning were Blas Ople and Adrian Cristobal, who formed the tandem of writers who assisted in the polishing of presidential prose. These two were in synch with the pulse of the labor groups with whom they worked more closely and they understood well the language of the political Left. Francisco Tatad who would become press secretary would be more engaged in the practical dealings with the working press.

<sup>9</sup> The direct pages of the quotes are taken from the revised version the original book, which is in the edited version by Ileana Maramag. See Marcos (1985), *The Democratic Revolution*, edited with an Introduction by Ileana Maramag, 1985 (This is a re-issue of a book published originally in 1971 and 1973), Office of Media Affairs, Republic of the Philippines.

so essential in a democracy, with the pursuit of this privilege. .... Corruption at the top is matched by social corruption below. The oligarchic elite manipulate the political authority and intimidate the political leaders; the masses, in turn, perpetuate a populist, personalist, and individualist kind of politics. [pp. 48-49.]

### III. ECONOMIC ACCOMPLISHMENTS

The economic accomplishments of Marcos during his presidency and martial rule were phenomenal until the economic crisis of 1983 brought the engine of accomplishments to a halt. The debacle towards the end had many causes and cannot simply be characterized with simplistic conclusions.<sup>10</sup> Later, the topic about the fall and collapse is discussed, for there were also good reasons why he lost the support of the people toward the closing years of his rule.

Marcos's achievements were stellar on many fronts. Had he remained simply a two-term president, he would have come out as one of the most effective leaders of the country in the postwar era. As president, he was able to execute at a higher level of achievement in uplifting the nation's economic condition despite the various social and political challenges, including that of the NPA rebellion, and later, a brewing rebellion in the South.

The economic legacy is organized along four major lines: government reform; infrastructure investment; social and people-oriented reform; and finally, economic and industrial reform. At times, some distinction is made about the period in which these reforms were undertaken. Many of them were made during the two presidential terms. But a substantial amount of them became possible during martial law when all the powers of government in relation to the execution and passage of laws fell in his hands.

#### A. GOVERNMENT REFORM

From the start, Marcos paid great attention to the reform of the government machinery. To do this, he surrounded himself with competent officials who would help him execute his program. Among the first steps that he took was to appoint the best available and place them in charge of major duties. He identified the departments and agencies of the government that dealt with economic matters and those that implemented major government programs to these groups of officials. By and large and with few exceptions, the leaders of various departments of the government were chosen from well-qualified professionals and tested administrators. This covered the areas of finance, budget, planning, financial institutions, and the principal departments of the government that implemented major government programs – education, health, public works, infrastructure, and agriculture.

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<sup>10</sup> Invariably, the charges that were often mentioned against Marcos were crony capitalism, corruption, greed, and excessive government waste resulting from these. The period of Marcos's leadership however had to deal with many major and turbulent challenges that effectively reduced many of the government's options to perform well under the circumstances. These were the challenges arising from the serious energy shocks of the 1970s, the unraveling of the world exchange rate systems, the interest rate shocks that affected the world's capital markets that had and serious complications to the period of governance. Many of the economic policies that resulted had been in part responses to the major problems that arose during this period.

At the beginning, he moved cautiously. He appointed older and tested public servants and politicians in key areas of the government. But he made sure that he backstopped these senior public servants with deputies who were younger and well-qualified. This meant that his immediate outreach was to get young talents from the private sector, from the universities, from the active military, and from within the government who could give him knowledgeable support.

When it was time to move on, he promoted his younger recruits who were often experts in their field of assignment or at least highly qualified by experience and training to head the departments and bureaus of the national government and the sensitive autonomous agencies. Unlike his predecessor who kept changing the lineup of his departments with many politicians to keep them at bay, Marcos relished in relying on his officials to remain in their posts as long as he needed them. He gave them leadership through clear guidelines during cabinet meetings and consultations with them in the presidential office. But he also gave them leeway to exercise their judgments and supported them when they made difficult decisions.

This practice led to a secondary wave of entry of well-qualified people within the government machinery. Since he gave his front line officials confidence and support in their work, he asked them to recommend qualified candidates when new vacancies arose. Often, the gems in officialdom could be found from within the cadres of the government. They were picked from their current posts and then brought toward the center of action (for instance, initially within the presidential staff office) and then given greater responsibility. Such officials could be identified by the seniors through the work process in the government and through demonstrated performance within the bureaucracy. Frontline officials who dealt with operational work often discovered who among their staff delivered well in their work.

In short, the crop of qualified people came heavily from within the government. The result of this practice over a prolonged period led to a rise of skills and improved coordination of people at the technical level and at the high official level. In time, this would lead to the increase of government short-term training programs where particular skills of governing and bureaucratic practices would be refined and the coordination of the executives of the government could be fostered at the working level. The need to develop a strong cadre of government executives led to the development of training programs for particular skills. One such outlet was the training program in development economics initiated at the University of the Philippines School of Economics.<sup>11</sup> For many training sessions, upper level economics personnel from critical government agencies were put together under intense programs of learning development project management.

The idea that continuous as well as simultaneous training of cohorts of administrators within a common environment was behind proposals that the government develop systematic training for government executives and middle servants. In fact, the newly established U.P. Institute of Public Administration in the late 1950s had espoused such a need. During the Marcos presidency, the need for such a training program manifested itself as new programs and

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<sup>11</sup> See G.P. Sicat (2001), "on the economist and the government," among other things, describes the training program in development economics at the UP School of Economics, among others.

common approaches to problems became desiderata of successful government programs. In this spirit, the Development Academy of the Philippines (DAP) was established with the financial backing of the Development Bank of the Philippines and the government financial institutions and by the newly created NEDA (National Economic and Development Authority). A core of training programs was structured so that specific problems could be understood under which an on-going set of public senior officials underwent simultaneous instructions and problem solving discussions. Eventually, different groups of government senior officials were trained periodically, creating a corps of government officials that had undergone similar training on common issues.

One major impact of such programs was that many government officials got to know each other under similar problem solving situations. Some of them came from different offices and the training programs provided a campus for learning new approaches to similar issues. There was another important side effect of such a learning process. As in university classrooms, the training sessions were often a source of creating greater participation from various civil servants to offer their points of view in understanding specific issues that were brought into discussion. Perhaps just as important, such sessions also showcased the talents and possibilities of different public officials so that the most articulate and promising among them became more widely known to a larger audience. In the end, it was itself an advanced recruiting process for talent within the government.

The development of a Career Executive Service (CES) was the natural outcome of this effort, although there were quite a number of training programs at the local level that were also encouraged to help train senior and junior public servants. The CES was designed to train government executives who could be transferred to any high post in the government machinery without the need for a long retooling process. By the time of the fall of Marcos from power, most of the deputy and assistant secretary levels as well as bureau heads of the government were already part of the CES cadre.

Of course, Marcos also reserved for himself major posts that he considered political in nature. He appointed his closest political allies and followers to posts that performed political tasks for him. He kept this group essentially within those departments and organs of the government that had major political objectives such as in land reform, some bureaus of agriculture, local government, police, and defense. He isolated certain sectors in which he had political objectives under the command of his political lieutenants. It was only later during the martial law years when some of the bureaus and departments of government with political objectives increased in coverage.<sup>12</sup> That could not be said about him during his two terms as

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<sup>12</sup> In the case of two major sectors of the economy in which he had major political objectives, he made sure that only his trusted political operators would be directly in charge. Such was the case with the sugar industry and with the coconut industry. These two sectors of the economy would be filled with controversial decisions in part because his trusted political operators in these two sectors were given major responsibility in guiding development policies and political patronage..

president and the early part of martial law when most of the major offices tended to be held by technocratic officialdom.

This effort in improving governance and coordination within the government through the appointment of well qualified people was in no small part responsible for many of the achievements of Marcos in many areas to be described below. Because the officials stayed in their jobs with some amount of continuity, programs could be sustained, institutional memory retained, and standards of review and monitoring could be maintained. Under less careful watch or frequently changing officials, some programs and projects could suffer from inattention due to change in priorities and therefore continuity could be compromised.

Much of the overhaul of the executive office happened after Marcos had imposed martial law when the political obstacles toward reorganization were removed. He had prepared for this major part of his agenda while working with Congress when he became President. A special government reorganization commission was set up and Congress went to work on most of the changes that were needed through public hearings. After years of efforts, however, the working plans were many but political will was absent from Congress. When he declared martial law, he took the initiative of reorganizing the executive branch on the basis of these plans. Execution was swift.

He began with the creation of the National Economic and Development Authority (NEDA) that merged the Presidential Economic Staff (a staff that he inherited essentially from Macapagal as the Program Implementation Agency) with the National Economic Council, the country's national planning body that performed the consultative agency for economic policies within the executive branch. With the NEDA, an integrated planning machinery was put in place. The major committees of the economic departments became an improved set of coordinated agencies. NEDA's Board consisted of the major economic departments of government, chaired by the President.

More importantly, Marcos took an active role in steering the major economic thrusts of the government. He presided over this Board periodically and, by his strong interest in what major departments were doing, he was able to draw attention to coordinated action. The pursuit of government investments in public facilities became more focused. This further paved the way for reorganizations at the working levels of various inter-agency committees and for the concrete discussion of plans for the streamlining of some major departments and government service agencies.

Thus very large departments were broken up into new independent and operating units. (e.g., the Department of Agriculture and Natural Resources was broken up into the Department of Agriculture and the Department of Natural Resources; the public works and communications departments was broken up into the Department of Public Works and the Department of Transportation and Telecommunications.) New departments were also created -- Land Reform, Tourism, and Energy.

Public agencies and corporations were overhauled and strengthened to enhance their performance. The public corporations were those critical to the provision of infrastructure construction or public services that the government sold to the general public for a fee. Old corporations from the Commonwealth period were reinforced so that they could perform their



mandates better. In this way, the National Power Corporation and, later, the National Development Company were strengthened to support power generation and investments in various development projects.

The Manila Water Services and Sewerage Corporation (MWSS) and the Local Water Utilities Administration (LWUA) were corporate structures carved out of the national water system agency in the public works department to create focus on their respective mandates of providing water services in their districts. The agencies designed to help in the stabilization of grain and food prices were structured under the National Food Authority (NFA). Certain agencies of the public works department become capable of undertaking major development projects. They were spun off into autonomous corporate agencies. In this way, the National Irrigation Administration (NIA) and the Philippine Ports Authority (PPA) were given corporate powers. These agencies were major providers of services in agriculture, water services, and in transportation.

The Philippine National Oil Corporation was established as a response to the energy shock of the 1970s. This corporation gave the government a much needed window into the energy sector at a time of great uncertainty. Eventually, the government's intervention within the energy sector led to the creation of a Department of Energy that gave the government a singular response to problems related toward the planning and response to the demands of the energy crisis of that time.

These were important examples of the extensive overhaul of the executive branch that Marcos undertook. Together with the reorganization across the government came the efforts to put these agencies under more capable hands to lead them. In general, Marcos appointed well chosen professionals to lead the agencies that were also restructured. For the most important jobs within the executive branch, he did not require a political test. He was interested in whether the men and women that he put were capable in the performance of their tasks. He got good results in terms of job performance in the major programs in the economy and in the social sector as a result.

## B. INFRASTRUCTURE

Of all the presidents of the country (to this time), Marcos built the most extensive infrastructure. The projects were interrelated and complemented sector development objectives. He put in the major trunk line road networks within the country, linking them from Luzon to the Visayas and then to Mindanao. These networks were essential in bringing down the cost of transportation, thereby raising the prospects of commerce throughout the affected regions of the country. In his two terms in office, he concentrated on a network of roads, simply designed and inexpensive school buildings, and irrigation systems that also built farm to market roads.

In Luzon, major irrigation systems and hydroelectric power plants were built. These were the Upper Pampanga River Project, the Angat multipurpose power and irrigation project, and the Magat River Project. These projects firmed up the role of Central Luzon and the Cagayan Valley in the Green Revolution of the 1970s. In addition, community irrigation systems were built in many other provinces where agricultural activities thrived, especially across the nation and in the big islands. This increased agricultural activities in the big Visayan islands and in Mindanao and helped cover a wide area of the rice and food producing region. The result of

these investments could be seen in the rise of agricultural output, especially the increase toward greater sufficiency in palay production. Irrigation helped to raise farmer productivity.

He improved the older networks of national roads that connected provinces and rehabilitated them with durable construction. A lot of these projects eased the transport bottlenecks within provinces and across provinces and improved intra-island travels within the big islands. He linked these with airport constructions. If Marcos were to be judged only on his infrastructure construction program during his first two terms alone, he would have been considered an outstanding president. But actually, he undertook a lot more especially during the martial law period. The building program for the improvement of public school buildings especially at the elementary level was one of the earliest programs of Marcos. In fact, his motto during his first term was rice, roads, and school buildings. [the three *Rs* for rice, roads and 'rithmetic (that is, *school buildings* where arithmetic is learned).

A study of infrastructure construction by various presidents<sup>13</sup> shows that Marcos was the president who made the largest infrastructure investment. This is not because he was the longest serving leader of the country alone. On a per year basis he led all the presidents. Only Fidel Ramos had bested him in road building for a period of one year. But overall in terms of quantity of infrastructure investments, their impact on the rest of the economy and on the breadth and depth of the investments, Marcos was by far the most prolific, undertaken on a per year basis and cumulatively over the years that he held office.

The government's share of public investment to GDP rose to 6% from the meager amount of 2% of GDP before he took office. This was no mean feat. The level of economic activity rose overall and – in the case of the transport investments – they increased the efficiency of the economy. A great part of these investments in roads was in the country-side so that agricultural output and domestic commerce increased.

The variety of public investments undertaken was made possible by various methods of mobilizing financing for them. Although some of the major road projects and other public works were placed under the direct programs of some major departments of the government, a large part were undertaken under the auspices of many restructured government entities that took on a corporate form. So in great measure, the reorganization of the public agencies helped in strengthening the capacity to undertake the projects.

Major projects dealing with expansion of the irrigation, water services, and power projects were pursued by entities under the corporate structure. They had more fiscal autonomy and the programs were subject to a system of accountability. The corporate framework for these agencies enabled them to incur debt financing from major multilateral and bilateral development agencies that led to the construction of major development projects.

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<sup>13</sup> Llanto (2002) studied infrastructure investments over a twenty-five year period from the 1960s. The first draft of this gave major statistics on infrastructure investments accomplishments of recent presidencies preceding and succeeding Marcos. The achievements linked to Marcos were the most robust and significant on a per year basis and over time. See Sicat (2003), which elaborated further on the Llanto study.

A combination of different approaches enabled implementation of public investments. The public corporations were given specific mandates to undertake an expansion of their services which could only be achieved by raising their investments in new facilities. Thus irrigation systems were built under the National Irrigation Administration (NIA). The expansion of waterworks was made by the investments made by Metropolitan Waterworks and Sewerage System (MWSS) and the Local Water Utilities Administration (LWUA). And power generating machinery by the National Power Corporation (NPC).

Roads and port works were for the account of the Department of Public Works and later Highways with the government assuming full accounting for them. Further expansion of these programs for investments was made possible by access to foreign development assistance, although that was done with the help of state funding of the same. The government had to raise budgetary resources through taxation to fund the counterpart funding that the government contributed. The improvement of the public coffers was essential and fiscal reforms made it possible to raise tax resources of the government during this period. (More discussion on this is made in the discussion of macroeconomic reform; see below.)

### C. SOCIAL AND PEOPLE ORIENTED REFORM

Countryside development efforts were designed to raise agricultural production through a number of interrelated measures. Income growth and productivity at the farm and household was a good dose of advancing the social agenda. Investments to improve school buildings in the public school system were an important component of the programs to raise educational opportunities in the rural areas. One of the early programs of Marcos was to simplify the design of school buildings and to break up production of their components to enable their large scale production. This made possible the reduction in the building of the backlogs that had accumulated in the school system.

In agriculture, the *Masagana 99* program was a massive program for rice and corn production that raised productivity linked with the new high yielding rice varieties propagated during these years. This was a concerted program that involved the improvement of the road networks, irrigation system expansions at the community level, available agricultural credit for fertilizers and for planting that were all geared toward raising rice and corn production. Agricultural extension work was intensified at the farm level from the government side. Agricultural credit was expanded and made more easily available from the government financial institutions (notably the Philippine National Bank). The support of the rural banking system to funnel rural credit was also intensified.

The result of these efforts helped to reverse the relative decline of rice farming output that was felt during previous presidencies. Never in the history of the country was it nearest toward food self-sufficiency than during this period. Countryside development was helped by the public investments that directly benefited agriculture, notably irrigation investments, farm to market roads, and most of all, efforts to provided agricultural extension work. During this period, there remained continuous challenges to the agricultural activities promoted by government. For the weather did not cooperate fully during some years and crop diseases also presented new horticultural challenges. But in general, rice and corn production rose to the point that there was no need to import grain during some years. This compares with the current problems when

the rice and corn sector has become deficient in output necessitating large importations of grain.

Marcos failed to enact meaningful land reform legislation during his early terms as president because Congress did not cooperate. But under martial law, land reform was the first major measure that he undertook. The land reform law that he adopted was the most far-reaching up to that time in the country. It was a break from the landlord-oriented land reform laws. It provided a land transfer scheme that was relatively speedy compared to old reform measures. He confined the coverage of the land reform law to the rice and corn sector, historically the most serious aspect of the agrarian reform issue. The program called for land transfer through the declaration of specific large landed estates into land reform areas. The upper limit to land ownership in the sector was 7 hectares. The valuation of the land asset was linked to the productivity of land, a feature copied in part from the valuation methods used in Taiwan's land reform program. The land reform was specific and prospective and, for these reasons, was feasible to accomplish.<sup>14</sup>

In addition, under Marcos, the Land Bank, an institution created before him, was made to function effectively. It was recapitalized and it became not only the major institution of the government to facilitate the land transfer but also to provide credit and deposit functions, initially to help the agricultural sector but eventually to undertake universal banking functions.

Rural electrification as a major program of government began with Marcos. The National Electrification Administration was created and this institution became the vehicle for promoting the rural electrification of the country. This it undertook through the encouragement of electrification cooperatives in local communities which purchased the power and in turn distributed it to the members. The system was organized under a rural franchise area for the electrification cooperative. The program was supported by access to foreign development aid for investments to be made in the distribution networks to be used by the rural electric cooperatives. Through a vigorous program of promoting this model, the whole country began to be covered by a vast network of rural electrification services.

The rural electrification program was important in helping to bring electric energy to a variety of rural industries. This had an effect in raising productivity at the community level. It was deemed important as a complement to the family planning program.

Marcos was the first president to recognize family planning as a national policy to help reduce the high population growth rate of the country. In his first term in office, he created the Population Commission. It functioned as an inter-agency committee of the government that coordinated programs on family issues involving the secretaries of the Departments of Education, of Social Welfare, of Health, and some members from the private sector appointed by the President. The private members of the commission came from non-governmental

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<sup>14</sup> The difference of the Marcos land reform program from the ones that succeeded it was that it was directed toward specific sectors so that they could be targeted for quicker implementation. Succeeding land reform legislation made the coverage nationwide. As a result, the land reform program became more unwieldy. There were several land reform options. Another major difference was the higher level of compensation for lands brought under land reform. The formula for valuation favored the landlords so that land reform recipients had to pay higher amortization rates for the land being transferred.

organizations (NGOs) active in planned parenthood, health delivery for maternal and child care, and educational sectors.

The program of family planning was vigorous for a long time during Marcos's tenure. It consisted of supporting family planning information, education and support of maternal and child care at the community level. Assistance to women seeking family planning advice was provided using public and private channels. Unfortunately, the program was reversed by his successor in government.<sup>15</sup> The result of this failure to sustain the program is that today the country has a high population level, a high birth rate of population, a large problem of unemployment still, and a serious problem of poverty.

Marcos paid careful attention to the issue of labor welfare. He made major efforts to protect workers' welfare during the turbulent period of the 1970s that brought energy shocks and cost pressures that had a serious impact on the domestic economy. Although he discouraged labor strikes and other disruptive methods in industry, he used the mechanism of tripartite conferences to make adjustments of wages, incomes, and labor standards. He consolidated all the labor laws into a Labor Code. He initiated the measures that promoted the deployment of Filipinos to work abroad, first through the encouragement of seamen to seek employment in the world's merchant marines, then through various measures designed to make Filipino labor work in the places of high demand. Initially during the 1970s, a huge bulge of demand for Filipino labor came from the Middle East where rising demand for oil made the oil exporting countries very prosperous. The program that has led to massive flows of Filipino workers abroad to other countries to this day has become a major source of foreign exchange income to the nation.

#### D. ECONOMIC AND INDUSTRIAL REFORM

*SHADOW OF "PARITY RIGHTS": A CONFLICTED IDEOLOGY OF NATIONALISM AND DEVELOPMENT*

The nationalistic spirit behind the legal fight for independence led to the restrictive provisions of the 1935 Constitution. The political process brought the parity rights amendment of 1946 so that Americans – among the beneficiaries of the war damage payments and the trade adjustment – would make rehabilitation from the war and economic development for a devastated economy less painful. Marcos's presidency coincided with the historical juncture marking the termination of special relations with the United States and with it the end of parity rights for Americans citizens. This historical timing made it difficult to deal with these restrictive economic provisions in the constitution. Marcos himself would not touch these provisions. That would have looked odd as it would have reversed historical reckoning and made all the nationalistic endeavors of previous leaders of little value. He wanted to pursue reforms in the economy that could be accomplished.

There was strong belief that the economy could move forward, despite the restrictive provisions in some sectors of the economy which were guided by the Constitutional framework. Marcos embraced the same nationalistic views of the past – it was possible to achieve progress

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<sup>15</sup> Today, the need for a directly funded government program on family planning is being debated hotly in a bill on reproductive health proposed in Congress which will make population planning a major program. The Catholic Church is against it while there is a widespread support for it.

if the rest of the political system could undertake the removal of bottlenecks that kept development of the country from moving speedily forward.

When Marcos shunted aside the old political system and installed martial law dictatorship, the optimism that he had overcome the gridlock of the past would now bring major changes in progressive directions. Before martial law, he could accomplish only marginal changes to change policies requiring overhaul. But now he could do enormous good by passing the major reforms that he could not pursue effectively with a less than cooperative Congress. What he accomplished in terms of economic projects in public investments and in social action programs during that time could now be expanded in other directions.

In the case of industrial policy, he was faced with a conflicted ideology of pursuing industrial progress in which foreign investments would play an important role as agents of change in addition to domestic investments that would help to expand the whole economy.

The economic reforms that he undertook at the start of the martial law period were wide ranging. Some of these can only be treated here in outline form. They dealt with the reform of the industrial and trade policies, the improvement of the fiscal management of the government, the improvement of the macroeconomic fundamentals of the economy, and with specific social, economic, and financial reforms that raised the capacity of the nation for change. Many of the social and people oriented reforms were already mentioned. This began with the economic reorganization of the government, then with specific social reforms dealing with agricultural and industrial sectors of the economy. They covered industrial and trade reforms, improvements in investment promotion laws, including those dealing with the improvements of specific laws to encourage foreign investments even in the face of constitutional restrictions. In fact, he had covered the entire range of measures that were then considered wanting in terms of new changes in laws.

#### *INDUSTRIAL AND TRADE REFORMS*

When he assumed the presidency, Marcos wanted to expand industry and trade. He inherited the enormously protectionist framework of industrial development. This framework shielded domestic industries from competing imports through high tariffs and other trade barriers. This meant that the status quo of import-substituting industries was well entrenched within the body politic. Domestic industry was supported by highly protected tariff barriers, by exchange controls for letters of credit to import raw materials, and by highly favored access of industrial entrepreneurs to the government's financial institutions, notably the Development Bank of the Philippines and the Philippine National Bank. All the country's private financial institutions were geared to be in the same mould as the industrial regime.<sup>16</sup> Small commercial banks and insurance companies that were undercapitalized and which had little knowledge of banking and insurance technology were granted licenses because the influential and politically connected backed them up. Thus, the financial system complemented the limited resources that

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<sup>16</sup> The analysis of the industrial regime was fully articulated in major works of the times, especially by John Power and G. P. Sicat (1971) and by G. P. Sicat (1972). Further work on how difficult a reform of long standing development could be was further pioneered by such works of Power, Bautista, and others (1978) and by Erlinda Medalla and others (1984).

were available to industry. The financial system was itself similar to the inward-looking industrial framework.

This was the domestic economic environment that Marcos inherited from five presidents who had preceded him. The economic policies had remained basically protectionist throughout the post-independence era. Even when his predecessor Macapagal had cleaned the exchange rate controls by removing them, in due time, all the ingredients of old policy of credit priority, tariff rate hikes, and import priorities reentered their sway in the economy. This was further helped by the highly restricted retail industry control by nationals, where, through nationalization, no foreign participation was feasible beyond minority position. There was essential continuity of this economic policy despite the efforts to move out of the restrictive cocoon of policies that they embodied, with many efforts to liberalize around the existing policies.

Having inherited these policies, Marcos tried to reform them even though he himself shared these feelings of inherently protectionist economic policies. He had the conflicted economic ideology of a leader who wanted to raise his country's economic conditions toward a high level of growth but he was held back by existing restrictions that he himself was not ready to fully discard. They would have marked him as turning back the essential guidance provided by the country's founding fathers. These were the marks of the economic nationalism of a bygone era (the 1930s) carried over to the post independence years of the country's development path.

Early in his second term, Marcos succeeded in having an investment incentives law enacted to attract investments in the economy. Two years later, a companion bill, the export incentives law was revised further. As a result, the Board of Investments was established to oversee the industrial development promotion in the country. These two laws consolidated the investment promotion work in the economy. However, they essentially extended the highly protectionist framework under which industrial development was to take place. As Chairman of the Committee on Industry and Trade in the Senate, Jose W. Diokno, the inheritor of nationalist leadership from Claro M. Recto, steered both these landmark laws on industrial promotion. From that position, he introduced the industrial and investment incentives act that would define the future tone of investment promotion in the country. By introducing so many restrictive and procedural provisions on the qualifications of those who could seek investment and export incentives, a major opportunity of attracting the massive flows of investments to Southeast Asia during the 1970s and the 1980s was lost.

These laws made the BOI a powerful promoter of industry in attracting domestic capital to invest in industry. But it was hampered in attracting foreign capital because of many restrictions inherently placed in the law which put preference to domestic industry. The restrictive provisions of the constitutional framework were the guiding principles of this industrial development approach, and Diokno believed in these tenets. The assumption was that there was enough domestic capital that would come to take advantage of the investment incentives.

Foreign capital reciprocated these beliefs by showing more interest in other countries when considering investment prospects in the region. Other countries that did not have the constitutional restrictions also had much better incentives available. In the end, instead of coming in large quantities to the Philippines, the same capital went to the country's neighbors – Singapore, Thailand, Malaysia, Indonesia, and, earlier, to Hong Kong and, South Korea, and

Taiwan). The industries that these investment attraction laws promoted through the BOI were domestic investments designed initially to become import substituting and later, hopefully, to become export possibilities.

In turn, a lot of domestic industries across the economy were set up and most of them depended on domestic credit financed substantially from government financial institutions. They thrived essentially on the basis of credit support by government financial institutions and the high protection provided by tariffs and other government support. The industries began to demand more and more the use of the country's foreign exchange resources which they did not earn through exports. Even the import substitution industries often did not truly result in the saving of foreign exchange because many of them cost more in resources than the alternative imports that they were replacing. As a result, the industrial sector continued to be dependent on protection and failed to raise their capacity to earn sufficiently large amounts of export revenues, and whatever import substitution that was getting achieved was of doubtful economic efficiency.<sup>17</sup> The reason was that it encouraged domestic capital to get involved in industry and gave export incentives to domestic industry but excluded the same incentives to foreign investments until much later in the process when the flaw was discovered and amended. In any case these came only after martial law had already been in place.

Marcos did not directly try to remove or amend the constitutional restrictions. As the president in whose watch the termination of the parity agreement coincided, it was out of character to undertake those amendments. At heart, he was sympathetic with the reasons that led to their being written in the constitution. He therefore avoided dealing directly with them. Had he wanted to do so, he could have done this under martial law. But he was not ready to turn his back on what appeared to him to be a long standing philosophy of development among many Filipino leaders. He wanted more foreign direct investments in a larger area of the economy by improving the various regulations and investment promotions that could be further refined. He therefore worked to find other means of attracting foreign capital without touching the constitutional provisions.

In this regard, Marcos was careful to get his legal team to work so that he could abide by the spirit of the constitutional provisions and still promote foreign investments in critical sectors. Thus, he believed that there was a great deal of leverage available to improve economic policy by opening the economy to greater competition and by improving the terms by which foreign investments would come in and participate in Philippine progress. This was what his economic team was trying to do – to improve all aspects of economic policy to improve the terms of entry and participation of foreign capital in the economy's workings.

The provision regarding the exploitation of natural resources against foreign capital participation except in a minority of 40 percent in equity terms reared its ugly consequence in practical terms during the energy crisis of the early 1970s. Philippine domestic capital was

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<sup>17</sup> Reference to efficient import substitution implied that the industries created at home saved imports from being made at a cost that was far superior to the importation of the same goods from other countries. The calculus of economic efficiency means that import substitutes ought to be produced at home at costs that are not more expensive than importing the same from abroad. If it turned out to be the opposite, it would have been useful to use the resources in industry into some other industries that either earned exports or were *efficient* displacers of imports.



inadequate in dealing with large scale exploration and mining work. Marcos tried to push for a law that would recognize service contracts of 100 percent foreign owned companies with the government. This could be a vehicle of escape from the direct restrictions to minority participation of foreign investments in the energy sector. Otherwise, it was impossible to undertake exploration and exploitation of discoveries in the field. Exploration for petroleum and geothermal resources and the concomitant exploitation would be impossible without access to massive capital and technological requirements. A production sharing framework along these lines however could not pass Congress.

When he instituted martial law, Marcos signed a presidential decree that allowed the use of the service contract agreement as a vehicle for meeting the constitutional restrictions, but not without his legal experts' sign off on its adherence to constitutional provisions. Because of this decree, the government's new energy agencies could undertake major exploration work in cooperation with well capitalized and specialized foreign energy companies. This led to discovery of petroleum and gas in the Palawan offshore area and constitutes an opening toward greater exploration work.

However, shortly after the fall of Marcos, the government stopped all work along this framework when these contract arrangements were challenged on constitutional grounds. It took a Supreme Court decision in 2004 to accept the constitutionality of service contracts for exploration work and production sharing contracts in natural resources exploitation.<sup>18</sup> A period of about twenty years has elapsed since such a principle had been allowed by him as legally feasible under the constitution.

Marcos sought the liberalization of the provisions of the investment incentives law and the export incentives law. Procedural restrictions in the BOI law were removed and eventually, foreign companies engaged in exports were allowed access to the incentives. Under the early Diokno versions of the export investment incentives law, foreign companies could not enjoy the full benefits of the export incentives law. Supplementary laws under martial law relaxed many of these restrictions even though the spirit of the restrictions still continued within the BOI law.

He made it easier for companies that could export a sizable amount of their outputs – up to 70 percent to participate more fully in domestic trade. This allowed companies that were enjoying BOI incentives to move into exports and also to partake of the benefits of participating in the domestic economy. Thus, a major opening was already made to move some of the industries that enjoyed BOI protection to move into more efficient industrialization.

To escape some of this BOI restrictive outlook, Marcos liberalized the conduct of export processing activities in bonded warehouses so that imports of raw materials for re-exports could be undertaken. He established export processing zones so that one hundred percent foreign-owned companies could participate in Philippine industry via export markets. In due time, there were four major export processing zones in the country which began to harness a great amount of foreign capital in labor intensive industries. The Baguio, Cavite and Mactan export processing zones – in addition to the earlier one in Mariveles – began to attract major investors in the

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<sup>18</sup> See Sicut (2007) on "Constitutional and Legal Issues of Philippine Economic Development".

electronics field, among others, and make the Philippines become a part of the production centers for manufacturing in Asia.

The country made major gains in industry during the martial law period, partly catching up with what other neighbors were accomplishing. Had this development been sustained without interruption (during the politically turbulent years of the 1980s), the country would have certainly reached a far better level of industrial development. The success of these export processing zones made the government to extend the concept in post-Marcos times. Privately-owned industrial export processing zones were permitted to be setup in more areas of the country. These zones were put under the regulatory supervision of a single agency, the Philippine Export Processing Zone Authority (PEZA).

#### *TARIFF REFORMS*

The post-independence tariff system was instituted in 1957. Prior to this period, the newly independent government continued with the tariff structure based mainly on the US tariffs in operation before. The import and exchange control policies adopted from 1949 superseded the tariff protection system eventually until they were abolished in 1962. From then on, the tariff system evolved into a complex system of rates, combining various rates of protection based on value of imports and on quantitative controls of issued permits for imports. The system also allowed approved imports of limited duty free quantities when permitted by the Tariff Commission and later the Board of Investment.

The nominal tariff rates had a cascading structure – high tariffs for final products, lower rates for raw materials and other inputs – in order to provide import protection for domestic industry. This structure caused final consumer imports to be taxed at very high rates but inputs for domestic assembly, at very low rates, if not tax-free. Producers of import substitutes therefore were essentially handed a silver platter monopoly in the home market. Such a policy however encouraged many domestic industries that were high-cost, raw-material-dependent, and highly incapable of establishing efficient home economic operations.

The tariff system was in order for restructuring. But this was not an easy task. Entrenched industries that benefited enormously from the system resisted the reform process. During the early martial law period, a major tariff reform was initiated. The rates of tariffs for most of the essential items were reduced to a uniform rate of 10 percent. The protection system for various industries was realigned to cover a simple set of five rates of tariffs, the highest of which would not exceed 100 percent. This was an interim reform that was intended to be the first step toward lowering tariff protection rates. The initial intent was to institute a simpler structure of tariff protection that also produced revenues.

The provisional effort at reform got stalled by new developments. The country's entry into various international multilateral tariff negotiating rounds under the auspices of the UNCTAD – the UN Conference on Trade and Development – led to the postponement of the downward tariff revisions. The multilateral trade negotiations however were taking enormous time to get concluded. A significant move toward a more open trade regime was becoming a necessity if the country were to undertake major restructuring of the industrial and trade regime.

Such was the agenda of tariff reforms toward the close of the 1970s however. A major program was geared toward linking it with the structural adjustment program that was being

arranged with the World Bank. The initial steps were thus undertaken, but serious political and economic crises of the early 1980s intervened. These were the economic and political crises around 1982-1984 culminating in the end of the Marcos government in 1986.<sup>19</sup>

#### *BANKING AND FINANCIAL REFORMS*

The reforms in the banking and financial sector took place during martial law. Earlier efforts were rendered difficult by the fact that many banks were owned by very powerful politicians and politically powerful families. But the problems of the banking sector mirrored the inward-looking approach of development in the industrial and trade regime. The participation of foreign equity was essentially frozen at independence with only four foreign banks having some outlet into the country. These foreign banks were highly restricted from expanding their deposit base and many of them served essentially the foreign trade sector. There was hence a monopoly of banking by Filipino citizens. From a nationalistic viewpoint, this sounded just about right. But the problem of inefficiency of the banking system was a mirror image of the inefficiency of the highly protected domestic industrial sector.

The banking system was insular in character. Banks charged high fees for their services that often lacked sufficient networks to make them provide convenient banking. And often, some of the banks sought favors from the government for the retention of high deposit of government funds. The banks in general were undercapitalized and there were too many of them that were licensed by the Central Bank to operate for business, ostensibly the result of pressures within the system to open up banking to as many groups. Supervising the banks posed great difficulty for the regulator. Some banks were shielded by powerful political patrons from appropriate regulatory supervision. What was more alarming was that many banks were often caught with loan resources being directed to their own economic interests and other officials, even though this was prohibited by regulation.<sup>20</sup> Such a banking system was fragile and prone to crisis.

The financial system was therefore in serious need of reform. A study group was organized by the Central Bank to give suggestions for reforms. The study group included local banking officials and foreign experts were also made available by the IMF and the World Bank. Its main recommendation was to raise the capitalization of banks. No new licenses were to be given but efforts would be made so that banks would be put into a situation of greater competition among themselves. Banks that could not meet the new capital requirements would either have to invite new groups to their business or would have to merge with bigger banks. Incentives were put in place to encourage mergers and consolidation.

Also, for the first time, the government through the Central Bank recognized the need to allow foreign banks to participate in the Philippine banking system. It was a natural course for expansion because the country would need to have broader access to the world capital markets and the demands of rising international trade required a firmer hold on banking partners across the globe. This went beyond just having correspondent banking networks. There was need to

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<sup>19</sup>I refer to the succession of economic problems that would dominate the early 1980s – the interest rate shock in the world capital markets leading to the Third World debt problems, the Ninoy Aquino assassination of 1983 and subsequent economic and political catastrophe that would eventually lead to the fall of Marcos in 1986.

<sup>20</sup>One of the major problems of bank supervision often related to the loans made to "DOSRI", meaning directors, officials, and related interests, which had been abused. The growth of regulatory supervision in this area made it

modernize banking and make them in tune with the requirements of the economy and globalization. Moreover, the poor practices that had been identified with family-owned and closed banking corporations could be disciplined through a diversification of the ownership interests within the banks. Bringing in outside capital therefore was a major objective in improving the management of banks. It would also prepare the banks for greater competition.

To generate sufficient capital for the modernization of the banking reform program, around ten major foreign banks were selected from a set of countries that had interest in a Philippine operation. This was also likely to promote Philippine trading and banking interests in those countries. The government authorities selected groups of potential banks whose presence in the country was considered desirable for their influence on the future expansion of banking, international commerce, and potential contributions to the development of the country's capital market. This was undertaken with the end in view toward raising foreign direct investments in the country. As a result of this effort, the country's influx of foreign capital jumped, the country's international profile rose, and the country's financial system got linked quickly and more directly with the world.

New banking products became more available with increased bank capitalization. Access to more modern banking practices and technology became easier in the domestic banking scene and effectively raised internal banking capability. The weak banks became more energized with the entry of new partners. Many of the alliances that formed during this period have survived and others developed further into deeper business relations. Moreover, the established private banks became even stronger with foreign partners more effectively established. The domestic banking system found a window for integrating its operations with the globalizing world.

Contrary to fears of bankers with insular thinking, the domestic banks were not eaten up but they grew in strength, though in different form. This reform made possible even more internationalization of the banking system with the government becoming bolder in exposing local banking to foreign ownership rather than just becoming minor partners in equity of established Philippine banks one decade later – during the 1990s.

One of the major developments of this period was the introduction of deposits of foreign money by local citizens. In short, citizens were no longer forced to surrender any holdings of foreign exchange but could hold on to them. Designated banks had to apply for the privilege of offering the facility to accept deposits of foreign currency. This was sufficiently regulated so that the deposits of foreign money could be integrated with the monetary system without any destabilizing impact.

This facility also made possible the mobilization of foreign currency deposits to help fund the foreign currency requirements of domestic enterprises and other financial institutions thereby also making the Philippine banking system more in tune with the rising needs of domestic business to link with the world.

Still a major development in the banking sector was the establishment of offshore banking in the Philippines. This was to allow the operation of foreign banks as offshore banks that could take in deposits and grant loans but not operate as domestic banks. This enabled the country to have more direct access to the fluid movement of international capital in Philippine shores as foreign capital looks for places to park their resources temporarily. This gave the country some

role in the flow of money in the world's capital market as it became part of the international network of deposit taking banks.

#### *FINANCING THE DEVELOPMENT PLAN*

One of the most important reforms in the economic sphere under Marcos was the increase in the access of the country's development program to steady sources of international finance. Especially during the 1970s, major improvements were undertaken in creating a more orderly access of the country through official development assistance.

The creation of the Consultative Group under the Chairmanship of the World Bank in 1970 enabled a more effective coordination of the financing of the country's development programs. The Consultative Group enabled the government to deal with all donors as a single body where the government presented its long term programs and the plans for the immediate short run period. In this way, the inflow of resources was assured at specific times. The government made known its plan of action and corresponding external support was matched with that plan. Contrary to common belief, access to the external program of support was not one of dependence on them. Enormous internal efforts had to be undertaken to assure that forthcoming resources of the government coffers were rising. This meant a cohesive plan of preparing the fiscal expenditures that were within the means that the tax program had envisioned.

Counterpart revenues of the government had to be raised in order for any infrastructure to be financed. In fact, the financing of public investment programs was a judicious combination of raising development assistance together with counterpart peso funding that had to be raised from taxation. The tax mobilization program was extensive – an increase of existing tax bases, a widening of the tax base, and a program of extensive tax administration reforms, including the declaration of tax amnesty that produced enormous revenues for the government and the consolidation of the internal revenue code.

The 1970s were an extremely difficult period in the country's history. The international economic environment was hostile to the Philippines because it was a major energy importer. It was the time of first major energy shock to the world, followed by a second wave, making energy very expensive. The international payments system went haywire with the abandonment of fixed exchange rates and their replacement with volatile floating rates among the major currencies. When American policy makers tried to conquer the inflation that the US faced in the late period of that decade and the coming of the 1980s, they pushed short term interest rates to two digit levels. This upset the world's capital markets. International debts especially of developing countries suddenly became very expensive and unsustainable when refinancing of short term debts had to be made.

Throughout most of the 1970s, however, Philippine development financing was sustainable. Most of the financing for long term projects was matched by long term development loans. Moreover, the government undertook a massive program of raising public resources through a variety of measures in tax reforms and tax administration. Immediately after martial law, the public coffers filled and this enabled the country to raise counterpart financing for major public development projects that were financed from official development assistance (ODA), mainly long term loans from the World Bank, Asian Development Bank,

Japanese aid program, US aid program, and other development assistance financing smaller projects.<sup>21</sup>

These were the projects that funded public infrastructure covering road building and rehabilitation across the nation, irrigation systems, energy projects, and other projects in the social sectors like education and health. These infrastructure investments raised the level of public capital formation from a low 1 to 2 percent of GDP in the pre-Marcos years to around 6 percent of GDP at about this time. These were the major accomplishments in public investment that were discussed above.

#### *AGRICULTURAL AND RURAL DEVELOPMENT REFORMS*

Attention to rural and agricultural reforms was a major thrust of Marcos's early programs that was sustained over time. This was achieved through a coordinated program of support from various sectors of the government. As already recounted, his early programs of rice, roads, and school building programs resulted in tangible accomplishments in rural and agricultural development. The clearest outcome was in the growth of basic staple crop production, specifically of rice and corn.

A coordinated program of government actions was needed to assure a good outcome in agricultural and rural development. Investments in rural infrastructure made possible a wide network of roads within the country. Agricultural credit expansion and its availability and improved technical assistance at the farm level were provided by department of agriculture. The institutional development of credit support toward agriculture and the promotion of rural banking institutions were important components of this program. Agricultural programs in rice agriculture represented a large financial outreach to the rural sector. The program had become so extensive that the credit program to agriculture had leaked unintentionally toward supporting other forms of consumption spending in the rural areas.

The land reform program was in part linked to the program of promoting the development of farming in rice and corn lands. The main point about achievements in agricultural development during the period was that it was a coordinated framework of government programs dealing with regional development, infrastructure investments, reforms of institutions related to the delivery of credit toward the agricultural sector.

#### *SUGAR AND COCONUT ISSUES*

Traditional export earners of the country had developed into important industries that had great political access to Marcos. This was true specifically of the sugar industry which traditionally had great sway on any leader's political fortunes. To a less extent, this was also the case with the coconut industry. For this reason, Marcos assigned the management of these sectors to people who were closely tied to these industries. These persons also were his trusted political lieutenants and supporters.

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<sup>21</sup> The unpredictability of exchange rates among the world's major currencies caused a problem for a time even with loans accessed from the world's public international financial institutions (such as the World Bank and ADB). These institutions passed their financing of their lending requirements in the currency of choice for them to the borrowers, who often borrowed in dollars. This practice caused some unpredictability in the servicing of loans by the borrowers. But this practice was ultimately abandoned to make loans more transparent.

During the pre-martial law period such sensitiveness to the politics of the sector guided him. During the martial law period, he continued to be sensitive to the political ramifications of his decisions. For to him these economic sectors had major links to his political calculus as leader.

#### SUGAR

During the early period of independence up to the time of the end of the Laurel-Langley Agreement, sugar was insulated from the highly volatile international price cycles of the industry. Access to the US sugar market guaranteed sugar exporters of the protected market price in the US market. Marcos kept in close touch with developments in the industry through his choice of his most trusted political lieutenant who also came from the sugar bloc to oversee the sector.<sup>22</sup>

The sugar industry underwent a major expansion of planting during the 1970s. This was financed with the help and support of the government. Sugar development policy was vetted within the Philippine Sugar Commission then. The production system was highly regulated by old practices inherited from domestic production sugar quota system developed by the American quota system. The various sugar central districts determined the allocation of sugar milling of the output.

Coinciding briefly with the end of Philippine access to the US market after the termination of special relations, international prices for sugar rose steeply from around 3 cents per pound to 60 cents per pound. The price incentives arising from such rising prices encouraged the industry to centralize its trading operations and move it away from the close relationship with the US market. The same set of circumstances made the US undertake major changes in its sugar quota system that excluded the Philippines from the main benefits of that market and when it was extended back partially, it would be at a much reduced level as exists in the present time.<sup>23</sup>

The divisiveness within domestic sugar industry continues to this day even though the parties to this contest of interests have shifted. During the Marcos period, the major problem of the sector was that its trading arm took some wrong bets on timing and was caught with huge inventories when the country moved away from the US market. The swiftness of the industry price booms and their corresponding collapse accentuated the movements of unsold production. This also affected greatly the domestic market as expansion of sugar capacity while bringing more production of the crop, also coincided with new sugar centrals amortizing their new milling assets.

Of course, an inevitable part of change was the shift in ownership arising from death of the original owners and the transfer of assets to heirs and company restructuring. As time went on,

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<sup>22</sup> This was Roberto Benedicto whom he made President of the Philippine National Bank. This bank historically was the major source of financing of the sugar industry from even prewar days. When he moved Benedicto to the post of Philippine Ambassador to Japan, the latter played a major role in the arrangements of supplier credits from Japanese companies which provided credits for the expansion of the sugar industry. Benedicto was also made the head of the Sugar Commission the powerful body that undertook major industry decisions in the industry.

<sup>23</sup> It would take another two decades – in 1997 – when US quota policy would again include the Philippines but this time only as a minor supplier.

prosperous domestic interests were able to acquire sugar assets through take-over, purchase, or other financial arrangements.

Under these conditions, great turbulence would visit the sugar industry and the economic interests directly dependent on the industry. Market conditions would change as the US protected market would eventually be lost when the US was shifting its own sugar policy toward world supply. The sugar industry, despite rising farm hectareage in response to future projections of international demand, did not invest fully in the improvement of land yields. In this, perhaps the industry was not totally at fault as it was perennially bothered by the threat of land reform.<sup>24</sup>

This was also the time when experimentations with major changes in marketing of the sugar crop in the world market would happen. Most of the decisions in these times of turbulent pricing movements in the world market, efforts of the National Sugar Trading Corporation – directed mainly to control the market position, led to serious mistakes in timing. These developments would further divide the sugar industry at the time of Marcos's fall from power.

#### COCONUT

Even though the Philippines is a major exporter of coconut products, its market power in the world natural oil industry is not as significant as is often thought by those in the industry. The reason is that there are many industrial substitutes available for coconut products. Palm, peanut, soybean, corn, and other vegetable oils are in abundant supply as substitutes. Whatever market power that is presumed for coconut products is blunted partly by the availability of these substitutes.

During the early years of political independence, the coconut industry accounted for a very significant share of the country's total exports. Over time however and as the economy grew, this share began to decline. In the 1960s it accounted for over 30 percent of total exports. By the 1970s, this share had come down to around one-fourth of the total exports.

The industry leaders have continuously pointed to three major problems afflicting the coconut industry.

The first problem was the poor yield of the coconut farms. This low yield meant that increases in the output of coconut have come mainly from increasing the land cultivated to coconuts. Raising productivity of coconut farms meant that efforts be undertaken in several directions. Improvement of farm yield required better and more use of fertilization and improved cultivation practices. Because coconuts are perennials, replacing old and low yield trees required a program of replanting, an activity with a period of long gestation. The adoption of a high yielding coconut plant meant vigorous efforts at new plantings and replanting and some waiting time before the trees bore fruit.

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<sup>24</sup> Since independence, the land reform issue and the agrarian issues related with land ownership and the wages of migratory workers during harvest – the *sacadas* – had always threatened the land system within sugar agriculture with radical reform, including land reform. Even though throughout during the Marcos period, land reform issue never really got to sugar lands, the threat of it being taken further as a reform measure was present. In the post-Marcos developments, land reform encompassed all lands, including sugar lands even though the manner of its detail was left toward a variety of potential modes of land partitioning, transfer, and land restructuring.



The second problem was the desirability of increasing the economic values derived from the coconut product. This involved finding extended use of the crop for other finished products other than copra. Even though the coconut industry was a source of export revenues, there was excessive reliance on export of copra and less on more finished products from the coconut. As a result, the need to have greater processing of copra in the country was often cited as one way to raise the value added from the crop. One obvious implication of this need therefore was to develop the domestic coconut oil milling industry. Another was to find more high valued finished products from coconut.

Although this appeared obvious as an objective to coconut oil producers, industrial and trade policies of importing countries have simply favored the shipment of copra as exports. Significant tariffs were imposed on coconut oil imports but copra was allowed low or duty free entry as imports of raw materials. This disincentive toward coconut oil production needed to be reversed. There was therefore a case for creating special incentives and subsidies that would undertake the encouragement of raising the capacity for coconut oil mills as an industrial policy. Thus from an industry viewpoint, further industrialization of coconut-based industries meant raising the value derived at home from the production of the coconut.

The third problem of the coconut industry was the high price volatility of internationally traded coconut products. Wild price swings produce strong income effects at home. For instance, when coconut oil and copra prices rise, the domestic price index often gets rattled via the rise of cooking oil prices. Consequently, when international prices fall, the impact on coconut producing regions in terms of incomes is severe. The causes of fluctuations in prices result from the interaction of international demand and supply of various oils. In turn, these factors are often due to economic conditions in the world economy. The 1970s were years when the demand or supply shocks in commodities affected the coconut industry.

The coconut levy problem continues to be a thorny issue to this day. It is important to recount how it came to be.

The levy's origin was a law that was crafted in Congress in 1972 (RA 6260). It was designed to address these problems of the coconut industry. The creation of a Coconut Investment Company was deemed the answer. A special domestic levy or tax on copra was imposed that was destined as a special fund to finance the capitalization of this new company. The levy was set at 55 centavos per 100 kilos to be collected over 10 years. Among the declared objectives of this company was to promote the expansion and growth of the coconut industry, to improve, develop and expand the marketing system, and to ensure stable and better incomes for coconut farmers.

Conditions changed rapidly as a result of the commodity price inflation that followed the energy shock of the 1970s. Among the early martial law reforms was the reorganization of the governing body over the coconut industry. Old government coconut agencies perceived to be ineffective were abolished and a new Philippine Coconut Authority (PCA) was created (P.D. 232, 1973). The governing body had 11 members, dominated by government members that dealt with the coconut industry. But two members representing coconut planters and coconut industry leaders were specifically represented, plus three private citizens who were to be knowledgeable persons on the industry.

The 1973 commodity price upheavals affected domestic cooking oil prices, thus building domestic pressures to stabilize consumer coconut commodity prices through the adoption of a scaled up domestic levy on copra. This was done through presidential decree (PD 276, August 20, 1973). The scaled up levy was set at P15 pesos per 100 kilos of copra or its equivalent in other coconut products in accordance with the mechanics established for this purpose under RA 6260.

The decree gave the Philippine Coconut Authority the power to adjust the tax rate whenever the market price of copra rose and to reduce it when market price fell. But the levy was to be suspended automatically should the price of copra equal the base reference price of copra that had triggered the imposition of the higher levy. During this period, the price of copra never went back to the reference price. However, coconut prices basically adjusted upwards, partly as a result of exchange rate depreciation.

To achieve price stabilization, a government committee was created, led by the Agriculture and Trade Departments and the Price Control Council chairman, with representations from the coconut industry. Its main task was to determine the nature of the price control issues and the corresponding subsidies to be made. The proceeds of the levy were to be placed in a Coconut Consumers Stabilization Fund (CCSF). The fund was to be used to finance subsidies so as to stabilize local coconut prices at retail.<sup>25</sup>

But the residual power for determining the use of the proceeds of the fund belonged to the PCA. The PCA was given the power to reallocate any balance of the CCSF to the Coconut Investment Fund that was constituted under RA 6260. With enormous resources collected from the coconut levy during this period of high prices and the administrative lags involved in the reallocation of the consumer's stabilization fund, enormous balances accumulated in the CCSF. By law, the proceeds were deposited in the Philippine National Bank.

The PCA therefore became a very powerful policy-setting body that determined not only the tax rate but also the uses for which the levy was to be applied. Initially, of course, this was for price stabilization to assure that the price of cooking oil would be set at an affordable and stable level for the consumer. Leaders of the coconut industry saw the major opportunities that opened for the coconut investment fund. The problem was that the PCA board was essentially governmental in composition. It did not act quickly to link the CCSF to the coconut industry investment fund. The plan therefore was to capture the funds so that they could be used by the coconut investment fund.

Almost five months after the CCSF decree was passed, coconut industry leaders succeeded in persuading Marcos to sign a decree that replaced the entire governing board of the PCA and put it almost entirely in their hands.<sup>26</sup>

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<sup>25</sup>This was reminiscent of the price control measures used to stabilize gasoline and other energy prices during the energy shock – a measure that began during the 1970s and which was to last throughout the 1990s until the price stabilization fund was abandoned.

<sup>26</sup>This happened during Christmas time, when the government was not very active, for P.D. 623, which amended the PCA decree, was dated December 26, 1974.

By that time, the amount of the coconut investment fund could tap directly from the proceeds of the coconut levy was huge due to the high rate of tax and the rising price of copra and coconut oil in the world market. The total collected funds had reached, according to later estimates, P9.7 billion. A large surplus of funds became available for the coconut investment fund to finance a wide range of investment activities.

The fund underwrote the large coconut nursery designed to raise high yielding coconuts in Bugsuk Island off the southern tip of Palawan. The African variety was a coconut hybrid developed for use in the country. In time, however, the use of this seedling met with resistance from many planters. Those who were planting or replanting preferred to use or buy their own seedlings. Some resisted the use of the African variety because they felt that there was insufficient track record at Philippine agricultural experiments. They were suspicious about its adaptability to local agricultural conditions. A massive adoption was considered not only risky but reckless.

Eduardo Cojuangco, who essentially ran the corporate affairs of PCA, afterwards, was an aggressive and astute administrator of the fund. He used the resources at his command to expand the investments of the coconut industry.<sup>27</sup> The coconut investment fund acquired a domestic bank in 1975, the United Coconut Planters Bank. This bank was designed to serve the banking needs of the coconut industry. The coconut levy proceeds were also used to acquire shares of existing corporations. The most significant of these was the purchase of a large block of shares of San Miguel Corporation, the country's largest food corporation. Later, this very purchase would become the lever by which the coconut fund would wrest management control of that large corporation.

More directly related to the coconut industry, the fund was used to set up a major coco-chemical project that would further process copra into other industrial chemicals. In addition, the coconut mills were acquired and consolidated under a holding company. These interventions themselves worked to change the nature of the marketing of copra at home and would become a source of contentious issues among the coconut producers because the enlarged coconut milling capacity would require more copra as domestic input rather than compete as direct exports. The levy on copra of course penalized copra as an export product and hurt those who wanted to export.

Many of these actions attracted controversy and criticism. For one, the PCA cartelized coconut policies from copra trading to coconut milling. The marketing of coconut products became centralized where before it used to be undertaken by many traders. Part of the problem was how to corner the marketing of copra to be fed to the coconut mills as copra itself had domestic and direct export uses. These were the traditional tensions of the coconut industry all over again, but now magnified because of the presence of the heavy hand of cartelized behavior with the blessings of a government policy-making body.

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<sup>27</sup>Even though the state would attempt to sequester the funds and investments of the coconut levy after the fall of Marcos, the fact is that many of the investments had created great values that have grown over time. This, despite the fact that most of them had been placed under some state freeze on the use and ownership of the assets, which despite the passage of years are (today) still under legal contest as to their ownership.

Another major problem was that the coconut investments also involved private investments of different members of the coconut industry in their own personal and separate corporate capacities. In short, the fine line between public interest and private interest became blurred. These investments therefore became very central to the issues surrounding the coconut levy.

Thus, the coconut levy became very controversial. As in the case of the sugar industry when the trading issue became monopolized by certain groups, there was resentment in the coconut industry. Moreover, some sectors felt that they did not get sufficient support for themselves or their projects from the huge collections.

#### *OTHER SECTOR REFORMS*

*Tourism.* There were many sector reforms that presaged useful directions for the economy during Marcos's time. Tourism was one sector that enjoyed great encouragement and which began propitiously. Tourism is a major earner of foreign exchange if properly developed. A hotel building program raised the capacity of the country to offer tourism facilities. Major facilities to complement the tourism program were set up. This was the time when the first one million tourist visitors came to the Philippines. The economic turbulence of the period (early 1980s) however partly whipsawed the tourism program and made it difficult to sustain the tourism improvement consistently.

*Energy.* One of the great achievements of Marcos was to enable the economy to deal with the energy shock in a way that dependence on petroleum was to be reduced effectively. The creation of the Philippine National Oil Company was an immediate reaction which led to the entry of the government in the oil refinery business. Then, he created a Department of Energy that was given the opportunity to prepare comprehensive sector plans for the response to the energy crisis of the period. By the time of the fall of Marcos, the country was onto a diversified response that harnessed domestic sources from coal, hydroelectric and geothermal energy for electricity generation, in addition to the traditional dependence on petroleum.<sup>28</sup>

One of the reasons for not commissioning the nuclear power plant was perhaps meant to punish Marcos for the payment of commission to a crony (which was suspected to have also benefited the president, one reason for the accusation of corruption). The nation in the end paid heavily for this decision, plunging it to a decade of electricity deficiency and crisis when in fact, it was ready to embrace a new era of cleaner and cheaper long term power.

He had induced energy exploration for traditional and alternative sources of energy to the point that some discoveries had become promising. Even petroleum was found, although in relatively low quantities, but in order to move forward in this direction, Marcos had to improve the legal environment under which to undertake energy exploration efforts. In terms of construction of nuclear power plant for electricity generation, the country was well in pace with that of regional neighbors such as Taiwan and South Korea. It was a major mistake for the

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<sup>28</sup> This program is described in the memoir of Geronimo Velasco (2006), who was the Energy minister during the period. While giving due credit to Velasco's important role in this program, it is best to think of the energy program as the accomplishment of a larger group of people and offices. Most programs of the government during this period cannot simply be put into action much less implemented without appropriate actions on the part of the various parts of the government: planning, financing, support and facilitation of program thrusts.

successor government to stop the commissioning into service of electricity generation by the Bataan Nuclear Power Plant that was by then completed. Marcos is often blamed for the nuclear power project. But the clearer blame is on those who decided to jettison a major investment project and make the nation pay for that failure.

*Casino gambling cum resource generator.* One of the controversial issues in the governing of the nation is connected with the legal treatment of games of chance. Gambling happens in many aspects of economic life – in business in the guise of different forms of risk-taking as much as in personal conduct. The government could deal with gambling by legalizing aspects of it thereby creating the institutional mechanisms for the purpose.

Blanket prohibition on moral grounds is a solution sought by those who take an uncompromising stand against gambling. The reality is that gambling happens whether banned or not. It would take an infinite amount of police power and great honesty from every government implementor of policy to eradicate it.

There are those who favor legal cognizance of casino gambling as a means of raising tax and other government incomes rather contributing to the expenditure of government resources trying to extirpate it. They want to tap the potentials through the regulation of casino gambling as a diversion in connection with the promotion of foreign tourism.

Such a debate had percolated during the days before martial law. It was in the same spirit that the nation accepted the lottery as a way of tapping on the resource potentials for some specific social gains. The Philippine Charity Sweepstakes, even before political independence, was created to administer a game of chance to pick a lucky winner from state supported lotteries to support many charitable activities. Along this line, bingos and other games often get sponsored even by church groups to generate funding for their pet projects.

It took decades before any further advance regarding the issue of gambling took place. The vehicle for this was the creation of a gaming corporation – the Philippine Amusements and Gaming Corporation (PAGCOR). Marcos revisited the issue of casino gambling in connection with the need to for Metro Manila's government to raise public resources for its programs. The corporation was created and it was allowed to have a tourist gambling ship anchored on Manila Bay. There, foreign tourists were allowed to gamble.

The PAGCOR has proven to be a major revenue raiser. Corazon Aquino as successor to Marcos tried to improve the PAGCOR's legal structure and widened its coverage. The fact is that it became a cash cow for producing revenues for important social projects. Successor presidents to Marcos tried to use the resources in PAGCOR to fund special projects that they could not support under the budget. However, the facility with which it produces resources from its operations also encouraged lax controls over its operations.

The heads of PAGCOR were appointed by the sitting president. During the incumbency of corrupt administrations, the PAGCOR funded operations were a hotbed of loose governance. Cases of corrupt practices connected with past leaderships in this corporation would fill a house

of horrors.<sup>29</sup> As a result, the PAGCOR despite its capability as a revenue producer has become among the most poorly managed public corporations. This is an agency that if properly managed has enormous potentials in supporting the country's development programs.

*OVERSEAS EMPLOYMENT PROGRAM*

The program of taking advantage of new employment opportunities for Filipino citizens to work abroad took off during Marcos's time when he supported a conscious program of training Filipinos to become seamen in the world's merchant marine. These were the first massive stream of workers who were encouraged to take up employment abroad in part because the salaries were good and they provided enormous opportunities for Filipinos to participate more fully in a major labor market.

When the Middle East boom began with the first energy shock during the 1970s, Marcos encouraged massive efforts to employ Filipinos to work in construction and industrial sites in the newly booming region. Initially, major Filipino construction companies were encouraged to fully participate as contractors. However, because of the relatively weak home industrial base of the Philippine construction industry, Filipino contractors did not succeed as well as others like the Korean and Chinese companies and of course Western-based contractors.<sup>30</sup> But the beginnings of the massive deployment began with Marcos and were sustained as activities over time, expanding even further beyond the Middle East and other traditional areas where Filipino workers migrated for work.

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<sup>29</sup> PAGCOR operations featured in the impeachment trial of President Estrada in 2001. The most recent leadership in PAGCOR (under President Gloria Macapagal Arroyo) is facing major corruption charges that also involves himself and his immediate family.

<sup>30</sup> In fact, many Philippine contractors were unable to crack into the large projects. Those that succeeded to penetrate the market initially got into trouble and were unable to pursue sustained activities. Eventually, many contractors became mainly labor market recruiters for workers to be employed by major construction companies.

## E. FOREIGN ECONOMIC RELATIONS

During twenty years of rule, Marcos moved the country forward in the field of international economic relations. All these had major implications on the country's economic future.

Of these, the most important initiatives on economic relations that he participated in at the beginning of his presidency were centered on bilateral issues with the US. The Laurel-Langley Agreement ended under his watch and from that point on, he tried to manage a bilateral economic relationship with the US that was based on mutual benefits. Normalization of economic relations with the US began with the end of the agreement. Marcos used his leadership to expand American economic assistance during the period. He concluded a tax treaty with the US that avoided double taxation.

With respect to the military bases, he was able to extract some measure of rental payments for their use, euphemistically called, Economic Support Fund, as time went on. He accommodated the US call for participation in Vietnam but he in turn got major concessions in support of construction of facilities in the Philippines. More importantly, he secured US conformity for the reduction of the bases lease agreement so that the Philippines could determine by 1992 (instead of another fifty years later) whether to extend it or not. The country was able to exercise the option of rejecting the military bases agreement because he foreshortened the length of the lease in 1967.

During this period, the country's external relations expanded with many countries and with this, the country was able to secure greater access to windows of opportunity for more commercial relations and economic cooperation. The program of economic assistance from Japan increased enormously. Enhanced relations with Canada, Australia, New Zealand, and major European countries improved along commercial and development cooperation.

Marcos was quick to move the country with the changing times. He opened economic relations with the Soviet Union and many other communist East bloc countries during the 1970s. Most significantly, he opened economic relations with China in 1977. That his economic leadership carried great foresight could be seen from the steps he took before he proceeded with the recognition of China and then normalized relations for the future with this important country. He settled major outstanding issues of citizenships for Chinese who had been living in the country and had wanted to become Filipino citizens. He issued a decree to recognize them as citizens. One result of this is that today, many ethnic Chinese living in the Philippines became Filipino citizens. Many of these new citizens today are important contributors to the country's economic development.

He supported regional multilateralism. The growth of ASEAN economic cooperation became a part of the national agenda of regional cooperation. During the 1970s, ASEAN economic cooperation began to flourish and he participated in the 1976 Bali Summit of ASEAN Leaders which created the machinery for such economic cooperation. From that time on, ASEAN economic cooperation moved forward.

In the field of multilateral economic relations, the Philippines participated actively in multilateral negotiations. The country was a participant in the activities of the United Nations offices, in particular, the work of negotiations in the United Conference on Trade and Development (UNCTAD). When the road to more concrete undertakings in multilateral trade

negotiations took place, Marcos made sure that the country was involved. Thus it came to be that the Philippines participated in the Kennedy Round of multilateral trade negotiations, followed by the Tokyo Round, and then the Uruguay Round when finally the charter of the World Trade Organization would be agreed upon. His encouragement of Philippine engagement in the early rounds of these negotiations meant that (later when he was no longer in power) the Philippines would be present and a co-maker of the creation of the World Trade Organization (WTO).

#### IV. CONTROVERSIAL ISSUES

Of intriguing questions about why Marcos in the end suffered the ignominy of a fall rather than continued success as a politician, perhaps some commentary is needed. With his fall, he lost his voice. Those who took power and succeeded him did their best to expose his weaknesses and his faults. They dominated the airwaves, the journalistic space, and the current historical writing. Normally, when political transitions take place, history is written by the victors with a forward look on their own trail of accomplishments for the nation.

But in Marcos's case, history was written for him by those who pulled him down from power. Silenced, much of his achievements got relegated to the background and the version of events that were made to survive were the grave sins that he was accused of – among others, plunder, corruption, crony capitalism, nepotism, human rights abuses. However, few decisions of the justice system have been rendered with final closure to the Marcos cases. This might be a reflection of the weakness of the country's institutions of law and justice. At another level, it could be that there is lack of smoking gun proof to finish the cases. In the meantime, such failure of closure has put under a cloud the man's reputation. More than that, it has kept enormous resources that have been put under state freeze from being more effectively used for the country's development.

##### A. A DYNASTIC ATTEMPT

That Marcos fell from power the way he did was due to a train of mistakes that he made relative to the succession issue. For these he was mainly to blame. As time was no longer on his side and his health began to flounder, he handled this issue with self-interest as the guiding principle. In dealing with it, he made the mistakes that ordinary politicians commit. One could argue that he belonged to a much shrewder variety that was several steps ahead of the game.

Marcos understood that no one could hold on to power indefinitely. The name of the game was to manage a predictable transition. He had good material available around him but he wanted a restricted access to the leadership succession and he excluded that resource. He had many brilliant and hardworking lieutenants who might have been waiting to be involved but he practically quelled any such thoughts from amusing or challenging them. By his overt actions, every one of those around him could tell. By this time, all these men had reached an age that was already older than Marcos himself when he became president at the age of 46. He did not



give any of them any open encouragement. What he wanted from them was loyalty.<sup>31</sup> He could have introduced a succession process that was competitive, transparent, and unselfish so that the future could be protected with a good leader of his own choosing who could take over in his place and preserve his legacy.

Or he could have opened the succession issue more widely so that there would be more participants in that process. That would mean of course opening the arena to include his critics and political foes. He would have won great applause for that kind of move. This was what Benigno Aquino, Jr., Salvador Laurel, and others wanted. In doing that, the chance of preserving the political innovations that he had introduced by that time would have survived the succession issue thus securing for him the legacy of imparting the political institutions that he had created for the future.

But he probably focused mainly on overseeing a dynastic succession that would assure political continuity for his personal lineage. He gambled that his wife could be that successor since his children were too young to be in that kind of fray at the time. He ignored the thought that his wife would be a political lightweight without the beam of light that she derived from being the wife of the incumbent. It became clear that towards the close of the 1980s. Marcos was bothered by the question of succession and he had to make clear his intentions. When he gave Mrs. Imelda Marcos prominent political powers as member of the cabinet in a new and powerful ministry on human settlements in 1978 (a combination of housing, environment, local government and other things that could be imagined) and as Metro Manila Governor simultaneously, it became clear who was being given enormous political advantage for that future battle for succession.

As soon as this had taken place, it seemed as if there were almost two presidencies: Marcos's which was the real government and that of Mrs. Marcos, which tried to corner as much resources from the first. Marcos could have stopped this from happening. But he seemed to have been humored by this turn of events. Perhaps he felt that he could snuff it when he needed to, because in the end he made the final decisions.

Mrs. Marcos began building a political constituency and alliances that were meant to expand her political fences. Her activities began to cause disarray in government directions and priorities. Her programs and projects began to chip away at scarce government and financial resources. She demanded financial support from the government financial institutions for her favorite off-budget activities. She tried to corner some development aid funding for her favorite

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<sup>31</sup> One could easily make a list: Cesar Virata, Juan Ponce Enrile, Jose Rono, Blas Ople, Vicente Paterno, Jose Aspiras, Estelito Mendoza from his cabinet, Conrado Estrella (from his own generation of leaders) and Fidel Ramos and even Ver from the military, and Eduardo Cojuangco from among the younger politicians who were aligned to him. Even younger and well prepared and dedicated leaders were serving in the government who could rise to the challenge if that were open to them. From the more technocratic officials of the Marcos administration, there were those who exhibited enormous potential – but they lost favor early or died prematurely. Alejandro Melchor, Rafael Salas, and Alfredo Juinio were certainly prominent technocratic materials of those times who possessed different temperaments. There was a long list of other professional materials who excelled in their fields. To mention only a few, there were for instance, One could also add for instance those who headed the Agricultural departments at one time or other – Dioscoro Umali, Arturo Tanco, or Jose Drilon. There was a lot of material that could have risen to a competition for the country's future leadership.

projects. She began to call governors and mayors to help her in her ministry programs sometimes at the expense of what they had planned to do. Some programs of the government were getting relabeled as her own. This caused mixed signals about government intentions and priorities.

In addition to these, she traveled extensively out of the country sometimes on diplomatic assignments for the government. But often some of the destinations included travel in the world capitals that were not required for the missions. They were obviously for fun and shopping. Her well known trademark of financial profligacy, jet travels and other extravagances made her into a serious political liability to Marcos that he had failed to read.

Even as Marcos might have recognized what was happening, he could not fully stop these activities. In time, his health would get in the way and cause him to remain quiet about the burgeoning public criticisms that the activities of Mrs. Marcos invited. Perhaps he had made a calculated risk that these could be corrected later. This was surely a sign of his waning judgment as a politician, a massive case of diminishing returns in political skills. As his health had begun to fail, his political decisions began to lose their quality.

## B. ROOTS OF THE DEBT CRISIS AND INDUSTRIAL COLLAPSE

The political crisis of 1983 (Ninoy Aquino's assassination) transformed a lingering but worsening debt problem into an economic crisis. Industrial collapse would inevitably follow as continued debt servicing would stop. With a drop in export earnings and political fundamentals becoming uncertain, the financing of credit needs would no longer flow. As the economic situation became worse, the government had to adopt defensive economic measures to stave off further economic collapse. Many reforms being undertaken went off track and some were in fact reversed by the drying up of credit. This is a risk in crises times: past achievements could be reversed or damaged. Crisis management took over and survival issues took over the main agenda as development concerns were driven off to the sidelines.

When times were normal, the amount of debt that the country had held was within target of the servicing burden of the economy. But that situation was balanced against the maintenance of favorable expectations. For much of the previous decade of strong development, despite the turbulent economic period, those positive expectations continued. The investments would raise productivity and they would make possible the growth of output that would sustain macroeconomic balance.

As the succession issue became more problematic because of Marcos's failure to deal with it properly, those favorable expectations became questionable. Then the political and economic crises brought an end to them since they shattered the international credibility of the Marcos government. Credit lines that would have continued to fuel the economy were cut off. Expectations reversed and economic conditions spiraled downwards. The economy would unravel, leaving major projects unfunded in midstream. These developments further induced an outflow of capital. Marcos's hold on political power would weaken and eventually lead to his fall.

No economy could ever be fully sheltered from major crises such as the one that befell the government at the time. Over the years, the one thing that had weakened the economy's fundamentals was the inadequacy of capital that would finance the development of industries

at home. The development process is fueled by both domestic and foreign capital. Yet, over time, since independence in 1946, with the exception of the strong flows of American capital from war damage and military spending, Philippine development was mainly spurred by capital arising from the domestic economy. The flow of foreign capital to assist Philippine development had been relatively small – especially in comparison with other East Asian countries.

After the war despite destruction, foreign capital was in abundance in relative terms. The presence of American investments was quickly enhanced by the war damage payments compensation for destroyed capital that was officially recognized under that law. These included payments to American capital as well. The parity amendments allowed American citizens the option of retaining their investments in the country and did not create the panic of divestment. Because the parity amendment applied only to Americans, other foreign capital felt discriminated against. Substantial American investments also continued, at least to retain their early presence in the Philippine market. Under parity rights, this included even those in the restricted sectors – mining, natural resources exploitation, and public utilities. In fact, new investments in import-substituting industries continued to come.

The restrictive economic provisions in the 1935 Constitution created some lasting impacts on economic policy making. First, they helped to define the basic tenor of economic policy. Although these provisions were limited only to three specific sectors of the economy, they nevertheless provided the main virus that influenced further economic restrictions that were applied to other sectors. Thus, during these early decades of independence, restrictions limiting the participation of foreign capital spilled over to other economic activities: retail trade nationalization; banking and finance; the allocation of foreign exchange and of imports; and in the investment incentives law. Despite the efforts to reform these restrictive laws and regulations, the entrenched nature of the interests benefiting from these policies made it very difficult to reform these laws. This is why the economic provisions of the constitution of 1935 have survived the 1973 revision and even became wider under the 1987 constitution.

Second, the constitutional restrictions on foreign capital in special sectors had a pernicious effect on the exercise of presidential political power. Before independence, the power to approve the dispensation of privileges related to the exploitation of natural resources belonged to the American governor general who was under the supervision of the US president (through the US Department of Interior). In turn, these officials were supervised by ultimate oversight that the US president and the US Congress exercised over colonial affairs. Political independence (for good reason) broke that established history of institutional control.

The president inherited these powers, even though the Congress had ultimate power. The old traditions of approvals and practices inherited by the relevant bureaus of the government having supervision over these issues from colonial times had since vanished.<sup>32</sup> The disruption created by the harsh war years of occupation erased quickly the institutional memory that was still in place.

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<sup>32</sup> The World War, incidentally, broke that tradition along with the records of government, so even that became less important. Moreover, time and new practices had supplanted the old.

The Constitutional provisions provided the protective wall against foreign capital. With independence and the abrupt historical break provided by the war years prior to independence, the president inherited the huge powers related to the disposition of public lands and natural resources for the country's exploitation. Public lands covered those for grazing and for agricultural purposes while natural resources covered those for forestry, for fishing rights, and for the exploration and exploitation of mineral wealth.

If the constitution had allowed foreigners to participate more fully in these activities, the chance that national legislation would have focused on defining restrictions on the exercise of these rights by foreigners would have become a matter of early public duty. Because of the specific restrictions in the constitution on foreign capital participation, it became customary that the exercise of these rights were granted only to Filipino citizens (and to some extent, to American citizens under the parity rights – but only for a limited time). For those Filipino recipients of these rights, the problem of moral hazard existed. Because of the privileges conferred by the constitution, it was easier to skirt the obligations implied by the grant of exploitation rights only to citizens. For how could one explain, for example, the rapid denudation of the country's forest cover in areas where forestry concessions had been granted to concessionaires during the early decades of independence? These were given mainly to Filipino individuals and corporations that had access to presidential favors.

Each president of the young republic learned the power of the presidency through the exercise of the award process involved in these rights. The presidential prerogative to approve contracts for the state gave that office enormous clout to raise funds for political and other purposes. Because the awards were mainly to Filipino citizens, the power of the presidency to make major awards to cronies, to business contacts, to special relations, and to political allies was a monopoly of power that only the president could exercise. These types of accommodations were not fully accounted for because presidential approvals were not listed in public gazettes that gave full details of who got what and in what specifics in the various important bureaus of the government – the Bureau of Lands, the Bureau of Mines, and the Bureau of Forestry, for instance. The granting of small forestry concessions began to make a mark in the economic statistics of the country in terms of the growth of log exports, for instance, and these began from the early 1950s. The growth of the domestic economy also led to the dispensing of large tracts of open lands for farming, grazing and the like and shore lines for fisheries rights.

Thus, crony capitalism and other dispensations of power related to the public wealth was not a practice that could be mainly associated with Marcos. It was a syndrome that could be traced to all the presidents. It might have become more patently obvious in the case of Marcos because of his long rule and the absolute power that he exercised under martial rule. And it would be a grand story when these practices were all fully accounted for. The records of public offices however are not well organized because record keeping has not been a well-developed art in the new republic.

A third development arising from these confluence of forces was the unintended alliance in the economic front of those opposed to economic reforms because of their vested interests and those others for purely ideological reasons. The oligarchic and monopolistic interests that benefited from the protective system of industrialization and those benefiting from various awards arising from the use of resources in the sectors in which foreign capital was restricted

opposed these reforms for obvious reasons. The ideological critics are a mixed assortment of reformists of different persuasions. Some have been allies of convenience for as long as it has been useful. These include the ideologues of various movements – “nationalists,” “progressives,” communists, etc. In the past, some of these critics were in the underground while others remained in the open. Today, most of them are in the mainstream and belong to various political opposition forces.

This alliance of convenience provides a heavy force of resistance to reforms. The rich and powerful oligarchs and businesses have control of the public media and other public forums, including various outlets for opinion. They also have the resources to lobby Congress. Moreover, many members of the Congress come from these sectors. They have control and influence over the press in many ways – through ownership, advertising money, and direct lobby activities. They have the means to create noise against reform.

Finally, the impact of these provisions on the financial structure of the many companies that derived the benefits from the industrial protection system has to be emphasized. These are companies that became highly indebted because they essentially lacked the capital to finance their operations. Initially, credit access to government financing was used to counterpart whatever equity they could contribute to build their enterprises. They also mainly depended on the profits that the protection system enabled them to amass to pay off their debts.

The demand for domestic capital finance to back these industries often turned toward the resources made possible by the government financial institutions. The requirements of capital investments which often meant foreign exchange resources for the purchase of imported machinery and raw material inputs led to a demand for foreign borrowing. The government financial institutions – principally the Development Bank of the Philippines and the Philippine National Bank – borrowed from the world’s capital market to finance these requirements of domestic private enterprises for their requirements of capital and raw materials inputs. Even if the protective system often enabled these enterprises to generate initial profits partly to finance these investments, a major component was dependence on borrowed capital from external sources – from supplier credits, from external financial institutions, and from other foreign private investors providing minimal equity capital.

The same provisions of the constitution made it difficult to promote industries that were more competitive in the international market by reason of being natural resource-based. These included plantation crops for commercial exports, tree plantations, agricultural export crops, nickel, copper, and steel making. These were major projects that the government could abundantly promote in which foreign capital would be involved. But 40 percent maximum equity participation made it difficult to find the right foreign partners although there were many Filipino businessmen – depending on their access to favor from the presidency, access to domestic finance, and other kinds of incentives – who were willing appointees for the privilege.

Many projects that the government got involved in were therefore highly dependent on debt capital, poorly backed up by equity capital, and had no direct technological anchor on which to build their industries. As a result, many of the attempts in these fields became difficult to pursue toward success. The large industrial projects – the so-called ten large industrial projects – were themselves inhibited from seeking large participation of foreign equity capital by virtue of these restrictions.

At every step, the industries became dependent on government support for financing and protection from competition. If the constitution had instead allowed Congress to legislate the restrictive policies, adjustments in those provisions would have happened sooner as mistakes of policy were discovered. The participation of foreign capital would have been liberalized a long time ago, allowing the Philippine economy to proceed along a path of less economic distress and more efficiency. It would have created a more prosperous climate with its attendant benefits in terms of expanded output, employment, and trade potentials. As it turned out, many of these ventures suffered and helped to bring down the nation's macroeconomic fundamentals.

This is one reason why, in assessing today's economic problems, the removal of the restrictive provisions on foreign capital in the country's political constitution requires the serious attention of economic reformers in the country. The larger presence of foreign capital today in the domestic economy has made it more resilient because enterprises are better capitalized. In the past, a lot of investments in the industrial field – for instance those that dealt with electricity generation – were categorized as belonging to public utilities. When by specific recognition, the government made it clear in trying to solve the electricity power shortage through law that electricity generation was not a public utility per se, the country was able to bring in enormous foreign capital in that sector.

### C. ERRORS OF THE POST-MARCOS TRANSITION

If a useful thread is cut off at a point when it still has a way to go for the job to be finished, who is to blame – the one who spun the thread or the one who cut it off?

This is the dilemma concerning the judgment of the post-Marcos transition in the Philippines. There were a number of important contributions that Marcos had undertaken which could have enhanced the nation's economic development but were discontinued after his fall. The post-Marcos transition in some part was mainly about historical discontinuity rather than a seamless transfer of capable people within the reins of the government. Some of the discontinuity was in the form of mistakes of inordinate proportions. Instead of capitalizing on the foundations already laid and the enormous opportunities made available, there were efforts to consciously turn away from the programs that Marcos had started which were left in midstream as he fell from power. These were done for reasons of bad feelings and political reprisal or backlash. This was the danger of a turbulent succession that was the hallmark of the transfer of power and which suffered the inexperience of the succession.

There was some legacy from various infrastructure achievements that were not fully used because of the transfer of power. How much the economy could have traveled forward if some of the major projects were fully harnessed by the succeeding leaders remains a major issue for speculation.

But Mrs. Corazon Aquino, who succeeded Marcos, was too inexperienced and emotionally affected by her personal loss during the martial law years. She had intended to do well and in some aspects of the economy, she did. She owed much to the enormous legacy in public infrastructure in transport, telecommunications, and irrigation and public services investments that Marcos had undertaken. On her own, she advanced the trade liberalization program that got stalled when crisis hit the economy. But in general, she failed to take advantage of the important economic legacies that she had inherited from her predecessor. Had she been more capable of understanding governance of a divided country, she could have restored economic

and political stability quickly. But because of those poor decisions as leader, she invited political instability during her term. (For one, her weak leadership posture served to encourage military adventurism through attempted coups for political power.)

The mistakes that she committed could be grouped generally into four areas: (1) failure to achieve rapid national reconciliation that was essential in rebuilding the nation; (2) outright condemnation of the many contributions in infrastructure and institution building made emotions displace reason; (3) displacement of the bureaucracy of government that was running the country's economic and social programs; and (4) the dissipation of the huge political capital arising from the EDSA revolution and her success in toppling Marcos. To deal specifically with these major areas of failure is not the focus of this paper. But a few comments are needed simply to illustrate the point.

(1) *Failure to achieve national reconciliation.* The idea of avenging Marcos was so strong that the succeeding leadership forgot to stress reconciliation and national unity to achieve quick closure so that the nation could return to the business of national progress. The dominant view was to mount cases against Marcos for plunder and corruption. In the end, those in charge of the process (like the PCGG) would enlarge the network of asset sequestrations for the state rather than narrow them down to the most important and feasible to bring to closure. It is now over two decades and frozen economic resources that could have been re-circulated within the economy continue to be dissipated. The story of the PCGG represents a sad story of scandals arising from the mismanagement of sequestered resources rather than bringing the task of settling controversial issues to a complete finish.

(2) *Nuclear power plant.* The abandonment of the plan to commission a finished nuclear power plant was a great national tragedy that brought to the nation a major power crisis which delayed the country's forward motion by at least six years to a decade. That was how long it took President Fidel Ramos to bring the electricity crisis toward a solution. Today, the country continues to suffer the highest electricity costs among countries in the East Asian region. Definitely, such high costs reflect the impact of this bad decision.

In the meantime, the country ran down its ability to generate power at a time when it could have moved forward toward growth during a time when Southeast Asia was getting massive flows of foreign capital. The cost of this bad political decision had another dimension. The nation was forced to pay – for producing nothing – amortization on foreign capital that the nation had to amortize. This conclusion will survive in the long term, even when we take into account the nuclear disaster that had happened in Japan after the tsunami of 2011 that emphasizes nuclear safety issue.

This decision – not to commission the nuclear power plant as a means of punishing the Marcos legacy because of the price and cost overruns of the project – was to bring to the nation the burden of high energy costs that continue to this day because it dislocated the energy planning in the country. The periodic brownouts that happened soon after during the electricity crises of the early 1990s were just the initial costs on the nation's productivity. The added financial cost of building new power plants and the resulting contracts of purchase of electricity once the projects were put on stream put the country at the highest spectrum of power cost per unit within the East Asian region. The worst penalty was to impose on the nation the cost of amortizing a plant of multi-billion size over the years for zero kilowatt of power! The second

penalty was the added cost of hurried new investments in emergency generating capacity to replace the generating capacity that was not put in place.

A third penalty was the failure to seize a technological lead for the nation in an important area of industry. Instead of becoming a technological leader in the nuclear field (there were many engineers that were trained for that project who were ready to assume the government's running of the nuclear plant), the country lost all these important skilled manpower and brains to other countries who eventually hired them. Still, there were other projects and sector programs that were abandoned and considered to be part of the wasteful arithmetic that was dumped on Marcos for having started them. Unfortunately, those who discontinued them prevented any benefits from being generated, thus making the waste even larger. Thus, it was the nation that paid a high price for the failure to commission the nuclear power plant.<sup>33</sup>

(3) *Bureaucracy*. The biggest blow of the disorderly transition in the running of government programs was the damage to institutional memory that followed in the change of government officials at the top. The blanket removal of senior government officials running important ministries, bureaus, and agencies led to the disruption of government programs. An implementation vacuum was created as institutional memory was erased by changes in personnel with no previous connections to the government programs. This certainly had an impact on the quality of governance. A serious damage was dealt on the Career Executive Service – a program of training the senior bureaucracy in the government – that was well on the way toward improving the overall running of the various government programs. This was further made worse by the politicization of many senior level posts in the government as a result of the programs and policies that neglected the career service and eventually the civil service program.

(4) *Waste of political capital*. One telling aspect of the inexperience of the Aquino government was the waste of the enormous political capital that the country gained with her ascension to office. As triumphant new leader, she was unable to harness the goodwill and political capital that she herself had acquired in her overthrow of the Marcos government. That would have enabled her to jump many steps ahead in restoring the economy back on the path of economic growth after the economic crisis years of the 1980s. The public display of disagreements in the open of the various ministers and the lack of cohesive direction that the president gave to them led not only to a misdirection of government action. It also created a loss of support from external sources.

The international community could have been mobilized to provide the help to weather the financial stresses that were faced by the nation at the time. But mis-steps mentioned above made such a cooperation and support less possible. Her failure contrasts sharply with the manner by which Fidel Ramos was able to move the country quickly forward by dealing with the energy problem of the 1990s and introducing industrial and economic reforms.

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<sup>33</sup> Although the issue of safety of the nuclear power plant was used as a reason for the decision, much of the evidence for this was enhanced largely by the power of the anti-nuclear lobby in the US, which Filipino leaders accepted. Yet, a public hearing on the issue of safety had been conducted, in fact with former Senator Lorenzo Tanada as chairman of the investigation panel to hear all views on the matter.



All these aspects of the dysfunction of the post-Marcos transition need to be further commented upon by analysts and historians. The economic and historical records will have to be studied better. Often, when we look back on the economic record, too much blame and emphasis is made to vilify the record of Marcos but not on the problems of the immediate post-Marcos transition that was as much a cause of the country's poor economic record.

## V. LEGACY: SUMMARY

The balance sheet for Marcos is that he left a legacy that was significantly positive. Yet in the writing of history, it has been made to look very negative. Perhaps, it can be argued that that positive legacy was reduced by his mistakes and shortcomings. However, there was still a sizable economic legacy left.

Certainly, some of the blame must fall on those who implemented the post-Marcos transition. Those who succeeded him failed to capitalize fully and effectively on what he had left behind. The larger blame for that failure to seize on his economic accomplishments was that of his immediate successors. Although she was genuinely sincere and well-intentioned, Corazon Aquino by careless choice, lack of experience, or sheer lack of understanding failed to turn opportunity into missed chances. Through a policy of denial of Marcos's accomplishments, vindictiveness and the magnification of his faults, the successor government made wrong decisions that have led to the crippling of the nation's leap in the economic realm.

If Marcos had left via an orderly transition of power, most of his accomplishments would have helped move the country forward without the country having lost any momentum. In fact, his accomplishments could have become a foundation for that new momentum.

In the final accounting, the economic legacy from Marcos is very positive but it was lessened during the transition in leadership. The discontinuity of the transition led to many problems that were blamed conveniently on the shortcomings of the Marcos presidency, whereas in fact some of problems to certain decisions taken during the transition. To analyze many of these will be the task of future economists, social scientists and historians.

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