Power and Politics in the Philippine Banking Industry

An Analysis of State-Oligarchy Relations*

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Neither Lucio Tan nor Vicente Tan, two Filipino-Chinese businessmen, were particularly noteworthy in 1965, the year that Ferdinand Marcos first became President. Lucio was busy setting up a small cigarette factory in Ilocos, the home region of Marcos, while Vicente (no relation to Lucio) was building up diversified operations in insurance and real estate, and had just acquired 10% interest in a minor bank.

By 1986, the year that Marcos was deposed, Lucio Tan was a notorious crony who had built a large financial and manufacturing conglomerate, based around a bank said to be 60% owned by Marcos himself. Vicente Tan, on the other hand, had been forced during the martial law years to sign over ownership of two banks to associates of Herminio Disini, a golfing partner and crony of President Marcos's, in order to end three years of imprisonment without trial. In the late 1980s, his business empire was so diminished as to be based in a small apartment fronting Manila Bay.[1]

The stories of the fate of these two men, I will argue, shed light on the nature of the relationship between the Philippine state and dominant economic interests. For each Lucio Tan, one can think of scores of other oligarchs and cronies, both Filipino and Filipino-Chinese, who have plundered the state for particularistic advantage--not only during the time of Marcos, but also in the pre-martial law period (1946-72) and in the Aquino years, since 1986. Vicente Tan is perhaps a more unusual figure, in certain respects, but his decline highlights both the enormous limitations of wealth accumulation in the Philippines for those lacking access to the political machinery, and the harsh punitive powers that Philippine state officials are occasionally capable of exacting on their enemies.

More broadly, analysis of the banking system as a whole provides valuable insights into state-oligarchy relations. "Banking," one former bank

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president observes, "is a prism through which to understand power politics in the Philippines" (Gatmaitan, 1989). Within the arena of banking, one finds what is generally the strongest of the state economic policy-making agencies (the Central Bank), and many of the most powerful of the oligarchic extended families (those that have diversified into commercial banking). But as we shall see, the institutional strength of the Central Bank generally pales in comparison with the power of the oligarchy. The Central Bank is unable to defend itself from the legal attacks of bankers, unable to enact regulations that will prevent oligarchs from looting the loan portfolios of their banks, and unwilling to challenge collusive practices within the industry. Just as importantly, when the Central Bank does flex its muscle, one is more likely to find decisions made on the basis of personalistic criteria than on the basis of clear institutional interest. The Philippines presents a stark example of a state that has failed to effect the kind of economic change found among the newly industrializing countries of East Asia.

Despite its weak degree of efficacy, however, the Philippine state plays an enormously important role in the creation of wealth. Access to the state apparatus remains the major avenue to private accumulation, and the quest for "rent-seeking" opportunities continues to bring a stampede of favored elites and would-be favored elites to the gates of the presidential palace.[2] Whether in the pre-martial law, martial law, or Aquino years, the state machinery is choked continually by an anarchy of particularistic demands from, and particularistic actions on behalf of, those oligarchs and cronies currently most favored by its top officials: one will obtain a highly coveted loan or import license, another will enjoy a stake in a cartelized industry unfettered by effective state regulation. Despite change in regime type, there appears to be substantial continuity in the way in which dominant interests interact with the state.

It is, indeed, paradoxical that a "weak" state should be a central subject of analysis. The state's important role seems to derive primarily from responsibilities it has necessarily assumed in handling the country's external economic relations: it disburses aid and loans received from abroad, and sets policies on foreign exchange, trade, and investment. Not coincidentally, the state agency generally most influential in economic policy making, the Central Bank, is also the agency with the greatest responsibility in external economic relations. Even as it is often incapable of meeting even the most basic infrastructural needs of the economy, the Philippine state is central to any comprehensive analysis of the country's political economy. In short, it is necessary to focus analysis on the nature of the Philippine state, and seek frameworks able to capture fully the dynamics of state-society interactions even in countries--such as the Philippines--where the state has failed to effect an impressive degree of economic transformation.

The framework that best describes the major continuities in the state-society interactions in the Philippines, I argue, derives insights from Weber's work on patrimonialism. Political administration in the Philippines is often treated as a personal affair, and much depends upon (to quote Weber) "the attitude toward the concrete applicant and his concrete request and upon purely personal connections, favors, promises, and privileges."[3] The personal discretion of oligarchs currently in power often decides the fate of oligarchs who have been temporarily dispossessed of the "right connections."

While it is correct to say that the Philippine state is lacking both in capacity and in autonomy from dominant economic interests, this is an incomplete description.[4] It does not distinguish the Philippine case from other states that also display a weak degree of autonomy, but are at the same time more nearly "bureaucratic," in the Weberian sense. While all states possess patrimonial features to some degree, it is clear that if one tries to place the Philippines on the continuum of Weber's ideal-types of "bureaucratic" vs. "patrimonial," the Philippines is a particularly long distance from the archetypal bureaucratic state, where there is one objective law for all and administration is conducted without respect of persons. To paraphrase Weber, "the conceptual separation of the 'state'... from all personal authority of individuals" is often remote from Philippine "structures of authority" (Weber 1978: vol. 2, 998). At a later point, I will discuss clear distinctions that need to be made between patrimonial features found in the Philippine state, and patrimonial features found in certain other Third World states. Let us first, however, return to the stories of Lucio and Vicente Tan.

The Mercurial Rise of Lucio Tan

Lucio Tan was probably an associate of President Marcos's even before 1972, but it was only with the declaration of martial law in that year that his mercurial ascent began. By 1980, thanks to extensive support from the Palace in gaining tax, customs, financing, and regulatory favors, his Fortune Tobacco Co. had become by far the country's largest maker of cigarettes. In return, Tan is said to have provided large contributions to Marcos and his New Society Movement, and cut the President into a large equity stake in his firms. President Marcos also signed into law a cigarette tax code that had actually been written by Tan's Fortune Tobacco Co., and--as if writing the tax laws weren't enough--Tan allegedly printed, with impunity, his own internal revenue stamps for use on cigarette packs![5]

Tan's entry into the banking sector came in 1976, with the failure of a bank that had been milked to death by the family that owned it--a common occurence, incidentally, in the history of Philippine banking, in large part attributable to the weakness of the regulatory authorities at the Central Bank. Five business groups expressed their interest in the failed bank, and in a rush sale Lucio Tan and his associate, textile industrialist Willy Co, won out over other interested parties. According to charges made in a recent court case, Tan allegedly conspired with Central Bank Governor Gregorio Licaros to buy the failed bank for less than 1% of its actual value.[6]

With a bank in hand--and a bank is, indeed, the most prestigious of all assets in the Philippine business community--Lucio Tan and Willy Co adroitly used political connections to effect mercurial growth in the bank's total assets. The bank, renamed Allied Bank by its new owners, went from the 13th largest bank at year-end 1977 to 3rd largest bank by year-end 1979. Connections to the Central Bank fiefdom of Governor Licaros, it seems, became at least as important as connections to the Palace. As one veteran journalist told me, vice-chairman Willy Co was a frequent visitor to the office of the Governor of the Central Bank. Instead of relying on the painstaking process of building up a large deposit base, Allied was able to finance a large percentage of its assets with the highly favorable allocations of rediscounting privileges, foreign exchange swaps, and foreign loans that it obtained from the Central Bank.[7]

After Marcos was deposed in 1986, President Corazon Aquino immediately established a Presidential Commission on Good Government to track down those accused of accumulating "ill-gotten wealth" during the Marcos years. Lucio Tan's enormous success in evading their grasp, by one means or another, displays the extent to which personal connections are valuable not only for offensive maneuvers (to extract privileges from the state) but also for defensive maneuvers (to blunt the efforts of state officials to punish particular members of the business community). Lucio Tan very wisely distributed large sums of money in the 1987 congressional elections, and developed close relations with three persons associated with the administration of Corazon Aquino. As legal counsel, he informally retained the executive secretary of Aquino's Palace staff, as well as Aquino's uncle. At the same time, Tan was assisted by a formerly obscure Filipino-Chinese molasses producer from Aquino's home province of Tarlac, who used to work closely with her family's famous sugar plantation, Hacienda Luisita, and who himself enjoyed a meteoric rise under the Aquino regime.

Through these impressive connections, Tan has not only retained control of his entire business empire, but has also managed to evade important government regulations. The Securities and Exchange Commission, for example, was unable to force submission of regular financial statements for his companies, and he is said to enjoy continued strong influence within key government agencies. Although somewhat harassed by the court case related to his purchase of Allied Bank in 1977, Tan's business empire continues to flourish. As one former bank president told me, Tan's money can hire all the best lawyers; when you reach his stature, he said, "You've orbited--you've gone beyond gravity."[8]

The Mercurial Decline of Vicente Tan

What of the other Tan, Vicente Tan, in this contrast between Lucio and Vicente? Throughout the late 1960s, he had built up a larger and larger equity stake in Continental Bank, until by the early 1970s he and another shareholder each owned roughly 40% of the bank. A power struggle ensued, as each were seemingly milking the bank for loans for their own businesses. The rival eventually sold out to Vic Tan, giving Tan 85% control of Continental Bank by December of 1972.[9]

At the same time, Vic Tan was cutting a deal with his friend, Rufino Cardinal Santos, Archbishop of Manila, to acquire majority interest in the Archdiocese's bank, Philippine Trust Co., or Philtrust. In exchange for generous loans to the archdiocese, Tan was chosen as buyer of 60% of the bank's shares. In May, 1973, Tan and Cardinal Santos went to Rome to complete arrangements for the sale, and by early 1974 the final documents were signed. Cardinal Santos died in the interim, but the archdiocese nonetheless proceeded with the arrangements for the sale. Tan took control of managing the bank and, by 1975, was to have become official owner of his 60% share. As of early 1974, then, Tan had control over two banks, Continental and Philtrust.[10]

The relationship between Tan and the Archdiocese, however, went sour. The exact reasons are hazy, but it probably was due to three major factors: first, Tan reportedly helped himself to unsecured loans from Philtrust--which was, of course, still partly owned by the Archdiocese; second, he invested one million pesos of Philtrust money in his own company, Victan and Co.; and third, he planned to merge the bank with Continental. It is also quite possible that the new Archbishop, Jaime Cardinal Sin, was unhappy with his predecessor's decision to sell majority interest in the bank, a major source of funds for the Archdiocese.[11]

According to one former bank president, Vic Tan had too many powerful persons lined up against him, and the milking of his banks provided these persons with a chance to move against him. Considered a maverick within the Filipino-Chinese community, Tan was outside the Filipino-Chinese protection racket that collected so-called "donations" for the Marcos regime. According to another former bank president, who is close to the Filipino-Chinese community, Vic Tan's origins are "hazy," and no one understood where he had gotten the money to buy into the two banks.[12]

Tan had other enemies, as well: he had antagonized the very powerful Cardinal Sin, probably because of the deal he'd struck with the late Cardinal Santos. Tan later managed to alienate General Fabian Ver, Marcos's intelligence chief and the head of Marcos's praetorian guard, the Presidential Security Command. According to Tan himself, he had supported Marcos's opponent in the presidential election of 1965, and had been active in the Philippine Constitutional Association that opposed Marcos in the early 1970s. Moreover, he said, Marcos "was not happy because I didn't allow his people to take part in our business" (Tasker 1978a: 32-33; Tan 1990).

For many reasons, then, Tan was a vulnerable target. On the morning of June 15, 1974, he was arrested by General Ver's military intelligence agents and put into solitary confinement. The next day, a number of key officers of the bank (including a vice-president) were also arrested. Seven months later, Tan's wife was also arrested. He, the vice-president, and his wife were detained in Fort Bonifacio--at least initially in solitary confinement. Meanwhile, Marcos signed letters of instruction for Ver to seize Tan's assets, and to turn them over to the Central Bank.[13]

But according to a senior Central Bank official involved in examining Tan's assets, the Central Bank never challenged Ver's intelligence agency if Ver got to an asset first. Tan was initially charged by the military with violating "anti-graft" statutes, and the Central Bank's own charge sheet against him never prospered. In essence, it seems, the Central Bank let Ver's Presidential Security Command take charge of its own, extra-legal, punishment of Tan. If the regime were sending a message to bankers, surely, the Central Bank's charges could have been most prominently and forcefully pressed. But as a former president of the Bankers Association of the Philippines speculated, Tan was arrested "not in connection with his shenanigans in the banking industry, but to teach him to be more pliable."[14] No doubt other business people (especially those in the more vulnerable Filipino-Chinese community) thought twice, in the future, before refusing to cooperate with the Marcos regime. Meanwhile, Tan's arrest triggered the worst bank run yet, as of 1974, to hit the Philippine financial sector. Continental was weakened not only by Tan's plunder of its loan portfolio, but also by his heavy reliance on the poorly collateralized and unstable money market.

Vic Tan was by no means alone in committing these sins--many commercial banks were, at that time, funding themselves as much through the volatile money market as through regular channels of deposit generation. Moreover, Tan was not alone in robbing his own banks for loans that could finance his other enterprises. The plunder of loan portfolios is, in fact, a widespread problem in the Philippine banking industry. In the 1970s, Governor Licaros remarked that "the average Filipino banker is in banking not for banking profits; he uses his bank for allied businesses" (Gonzaga 1978: 80). In short, Vic Tan's "crime," if one can call it that, was the "crime" of poor connections--the sine qua non of big-time success in Philippine business.

For Vic Tan, the only Philippine banker to endure such severe punishment for his crimes, the major question was "Why me, and not them?" In his Ph.D. thesis on the topic, Tan writes:

> Why the Continental Bank appeared to have been especially singled out to suffer a dismal fate from among so many other banks where the closure order would probably be more justified, seemed inexplicably beyond comprehension (Tan 1982: 203, emphasis added).

He is correct: as far as the rule of law is concerned, many other banks would deserve to be shut down, as well. As far as political connections are concerned, however, it is hardly a matter "inexplicably beyond comprehension."

For the next three years after the bank closing, complicated legal cases ensued among Cardinal Sin, General Ver, Governor Licaros, and others. The case was not finally resolved until 1977, when, in exchange for his release after three years in the stockade, Tan signed over all of his remaining assets and liabilities, including Victan and Co. and his claim to the two banks, to Ramon Orosa, a close associate of crony Herminio Disini.[15] For Tan, the offer was a "passport to freedom."[16] Orosa, on the other hand, had worked out a clear division of the booty with his associate, Disini, who had long "been wanting a bank." In the words of Orosa, they agreed that "I'll take the dead one [Continental] and you [Disini] take the living one [Philtrust]."[17]

The Cardinal, however, thought he was going to get the losing end of the deal, because Tan's agreement with Orosa neglected to recognize Philtrust's one million peso investment in Victan and Co. The Cardinal wrote a stinging letter to President Marcos, lambasting "all these uses of governmental power in order to favor [the Disini] group of businesses." Cardinal Sin was now attacking the regime that had earlier, in 1974, done him a good turn by going after Vic Tan. Whereas in 1974 Sin had expressed pleasure with the fact that

Licaros and Ver had taken control of Tan's assets, in 1978--now in the midst of a heated dispute with Disini--he said that Philtrust had "suffered more than enough from the persistent efforts of the Herdis group to gain control of the bank, by means that do not sit well with the lofty ideals and moral principles of the New Society" (Tasker 1978a: 32-33).

Later in 1978--likely in exasperation--the Archdiocese sold its still-undisputed 33% share of Philtrust to a businessman by the name of Emilio Yap, an associate of the family of First Lady Imelda Romualdez Marcos. This shifted the dispute from Church vs. Disini to Imelda vs. Disini--in effect, it was now a dispute <u>within</u> the Palace. Imelda pressured Disini (the husband of her cousin) to sell his share in Philtrust to Yap, and in the end Disini's people kept one bank (Continental), while Imelda's people got the other (Philtrust). In this way, <u>two</u> factions of the Palace got in on the booty.[18]

And what of Vic Tan? Since 1986, he has pressed lawsuit after lawsuit for the return of the bank to what he considers "its rightful owner"--himself (Tan 1990). But he seemed to lack any effective inside connections to the Aquino Palace; since he was a nobody, he got nowhere with his claims.

Favoritism, Weak State Regulation, and the Poor Performance of the Philippine Banking Sector

What features of the Philippine banking system emerge from these portraits of Lucio Tan and Vicente Tan? Despite my focus here on two Filipino-Chinese bankers, it is important to emphasize that only about ten of the country's 25 private domestic commercial banks would normally be identified as "Filipino-Chinese." In any case, the conclusions that I draw are broadly applicable to either the Filipino or the Chinese-Filipino business community. Both groups include persons whose businesses have been heavily favored, and both groups include persons whose businesses have been heavily punished.[19]

There are two overarching characteristics of the Philippine banking system that are particularly important to highlight: favoritism and weak state regulation. As the stories of Lucio and Vicente Tan illustrate, the banking sector displays rampant favoritism. The Central Bank, one former banker told me, is the "parish priest of the commercial banks....it's your soup kitchen" (Gatmaitan 1989). Within this soup kitchen, however, some banks are more equal than others in the helpings that they obtain.

Thanks to Marcos and his system of "crony capitalism," this favoritism is now renowned worldwide. There are several areas in which state officials have historically had a high degree of discretion, and in which much favoritism is found. We have seen some of them in the Lucio Tan case, in allocations of various Central Bank credits, but it is also found in the other areas, as well. Government deposits were crucial to the success of President Aquino's cousin and archrival, Eduardo Cojuangco, in the Marcos years. Marcos gave Cojuangco access to the coconut levy, enabling him to acquire an enormous manufacturing and financial empire. Other examples can be found in the pre-martial law years, and in the Aquino years. Between 1987 and 1989, the five largest private domestic commercial banks found it especially easy to make windfall profits. They were able to take government deposits (initially paying no interest, but later paying out a modest 5% interest), which they could turn around and invest, risk-free, in high-yielding government securities yielding 20-30% and upwards. Likewise, there are many instances of favoritism in the allocation of branch licenses, and in decisions as to which banks are closed down and which are rescued. In the bank closures between 1984 and 1987, Central Bank Governor Jose Fernandez closed down some weak banks, while others (for criteria that are not readily discernable, by objective standards) were permitted to survive. Favored treatment, it should be noted, is not imperative to the success of a commercial bank; certain institutions, by adopting a conservative lending policy and striving for steady growth, seem to do reasonably well without any obvious special treatment by Central Bank officials or the Palace. But in instances where banks have enjoyed mercurial growth, one is nearly sure to find special favors, granted through special relations with prominent officials.[20]

The second overarching characteristic of the banking system--one which is also found in the stories of Lucio and Vicente Tan--is the weak degree to which the Philippine state is able to regulate the banking sector. Despite three major financial reform efforts, two of which specifically targetted problems of bank supervision, the Central Bank remains largely ineffectual in systematically disciplining banks that violate CB regulations--even those regulations related to abuse of loan portfolios, violations of which have contributed to four major episodes of bank instability in a 25-year period. This weakness becomes especially apparent in examining legal actions lodged against Central Bank personnel; in the Philippines, Central Bank officials are more likely to be intimidated that to intimidate. A 1988 World Bank report recommends that "in the future the CBP should consider adopting a firmer approach in dealing with banks which violate its rules and regulations." At the same time, they acknowledge that because of the many suits filed against Central Bank personnel in the wake of recent bank failures, the "CBP staff...feel personally vulnerable to suits brought against them for their official acts, and this is now affecting their performance." In the wake of recent legal actions taken against the Central Bank, one Central Bank official exclaimed that "we're helpless now if" any [new] crises hit the banking sector.[21]

Even when the Central Bank has acted against those who milk their banks, former bank owners have been known to use personal connections, even up to the Supreme Court, to confound Central Bank discipline. Former Governor Jaime Laya noted that even martial law "didn't seem to stop the lawsuits against Central Bank personnel." He actually laughed as he told me how the Central Bank legal office has "never won a case" (Laya 1990). But the former head of the Central Bank bank supervision sector, who was herself sued, doesn't find it a laughing matter: "Why only in this country," she exclaimed, "do the regulators go to jail, and the bankers go scot-free?" (Valenzuela 1990).

If the system genuinely worked for the greater good, perhaps weak state regulation and rampant favoritism could be overlooked. But it does not: there are four major areas in which the Philippine financial system performs poorly and hampers larger developmental objectives. First, it discourages the efficient allocation of credit. There are three major types of commercial banks: patronage-infested government banks (most importantly, the Philippine National Bank, but formerly two smaller banks as well); a large number of private banks, most of which are family-dominated; and four highly profitable branches of foreign banks, all of which have been in operation since at least the late 1940s.[22] First priority in loan allocation by government banks generally goes to those with greatest proximity to the political machinery. Within private domestic banks, first priority on loans commonly goes to related enterprises of the extended family (or families) owning the bank. The basic building blocks of the Philippine business community are extended family conglomerates, and the surest means for such groups to secure credit is through ownership (or partial ownership) of a commercial bank. If an entrepreneur lacks access through either of these channels, credit is <u>very</u> hard to obtain--no matter how well it might be put to use.

Second, the banking system has a weak record of mobilizing savings, a key element in most any successful program of economic development. In part because real savings deposit rates have generally been negative over the past two decades, the Philippines has by far the worst record of promoting financial intermediation in all of ASEAN. Rates of financial intermediation (M3/GNP) have been very weak: .20 in 1970, peaking at .31 in 1983, and falling to .23 in 1988 (Tan 1989: 3). This has led to considerable reliance on foreign savings, which may have been allocated even more inefficiently than domestic savings.[23]

Third, the banking system has created a high degree of financial instability, the root cause of which is regulators' inability to curb the milking of loan portfolios by bank owners, directors, and officers for related family enterprises. Banks have occupied a central role in profit-making strategies of the large family-based conglomerates that control much of the Philippine economy. In the 1950s and particularly in the early 1960s, oligarchs acquired banks to serve the credit needs of their family business empires; by 1965, nearly every major family had gotten in on the act. Among bank owners, loyalty is rarely to banking per se, but rather to the family conglomerate that the bank is meant to serve. In some cases, banks have been literally milked to death.[24] As early as 1970, one economist noted that the Philippines "has probably had more financial scandals or financial institutions in distress than any other Southeast Asian country" (Emery 1970: 482). Since then, the problems intensified, with major episodes of bank failure in the mid-1970s (centered around the Continental Bank case), the early 1980s, and the mid-1980s. According to a former senior Central Bank official, there was "not a single case where the CB moved [against a bank] where it didn't find signs of family operations involved" (Fabella 1990). Banking reforms have been largely unsuccessful either in curbing these loan abuses or in altering the ownership patterns that encourage them.

Finally, the banking system provides enormous profits to those banks that are primarily in the business of banking for the sake of banking profits (and not for the sake of financing related family enterprises). According to a World Bank study, pre-tax profit margins in the Philippines are roughly 300% higher than the average of such margins in eight other countries. The World Bank's analysis concentrates on the distinction that must be made between the profit structures of the stronger and the weaker banks in the Philippine banking system: the more efficient banks priced their products and services with reference to the cost structure of the smaller banks, a practice which effectively enabled them to capture higher profits.[25] Bankers enjoy oligopolistic power that is unchallenged by the Central Bank, and the head staffer at the Bankers Association of the Philippines actually admitted that prices for important banking services are set by the actions of a cartel. In early 1991, savings deposit rates remained stuck at 5-6%, while prime lending rates surpassed 30%. These large spreads (initially enforced by regulation, but more recently maintained, it seems, through collusive actions) guarantee high levels of profitability for those banks whose loan portfolios are less flagrantly milked by their directors, officers, and stockholders. As a result, the four foreign banks find profits from their Philippine branches to be among the highest in their entire international branch network.[26]

The Philippine banking system, therefore, offers two routes to success. If bankers are in the business for the sake of banking profits, it is probably difficult to find profit margins much more lucrative than those available in the Philippines. If, on the other hand, banks are used primarily to support the family conglomerate, the bank's loan portfolio can be milked to promote high profits in one's related enterprises. In short, as long as one has a bank license in the Philippines, it is hard to go wrong.

Finally, I will draw some conclusions as to what the Philippine banking sector tells us about the nature of relations between the Philippine state and dominant economic interests. As should be quite obvious, the Philippine state displays a weak degree of efficacy. In the descriptions above, Lucio consistly manages to evade government regulations, and Vicente is never prosecuted for his "shenanigans" in the banking industry. When analyzing the banking industry in general, I noted the Central Bank's inability to defend itself against legal attacks from bankers, and its inability to prevent oligarchs from looting the loan portfolio of their own banks. Moreover, although the Central Bank repeatedly acknowledges the need to promote greater competition in the banking sector, it does not attempt to challenge the cartel practices of the industry. Because the state is faced with myriad particularistic demands of powerful elite interests, short-term agendas predominate in economic policy-making, and the country is unable to move coherently along either of two major paths of economic development: 1) the laissez-faire model which the IMF and the World Bank have been working for so long to get the Philippines to adopt; or 2) the model of a high degree of state intervention in credit allocation, trade promotion, etc., as found in South Korea and Taiwan.

Despite its weakness, this weak state must nonetheless remain a central subject of analysis. As the cases of the two Tans make clear, access to the state machinery remains the major avenue to private accumulation in the Philippines; regardless of whether the regime is of the democratic or authoritarian variety, the quest for "rent-seeking" opportunities continues to bring a stampede of favored elites and would-be favored elites to the gates of the presidential palace. While it is correct to say that the Philippine state is lacking both in capacity and in autonomy from dominant economic interests, our analysis must go further. We need to account for two characteristics that are not necessarily inherent to a state that displays a weak degree of autonomy: 1) the high degree of favoritism, as when oligarchs and cronies plunder the state apparatus for particularistic advantage--a feature which might be characterized as "rent-seeking gone wild"; and 2) the capacity of those oligarchs currently holding official position to exact punishment on their enemies.

Insights derived from Weber's work on patrimonialism, I argue, are very useful in developing a proper characterization of the Philippine state. Favoritism, of course, is inherent to a patrimonial system; as Weber writes, "the ruler's favor and disfavor, grants and confiscations, continuously create new wealth and destroy it again" (Weber 1978: vol. 2, 1099). The patrimonial framework also helps us to better understand how the Philippine state apparatus can, at times, display a certain kind of strength. This happens, as we have seen, when particularistic forces can use elements of the state to promote their own interests at the expense of others. The distinction between "private" and "official" becomes very blurred, indeed. State officials have been able to punish certain members of the business community, and even to expropriate their assets, not only in the case of Vic Tan in 1974 and in the bank closures of the mid-1980s, but also in many other cases, as well.

These features can be found throughout the postwar years, both before, during, and after the Marcos regime. Marcos attempted to centralize a largely decentralized patrimonial polity, and appropriate a much larger proportion of the state apparatus to the service of his own private interests--but he was merely expanding on patterns of patrimonial plunder that can be found across regime-types in the postwar Philippines. Because the primary basis for extracting favors from the state, or for meting out punishment on one's enemies, are personal considerations, it is important to devote significant attention to the patrimonial features that persist within the postwar Philippine state.[27]

There are, however, certain caveats that must be made in applying the patrimonial framework to the Philippines. First, there is no intention of obscuring critical differences between the postcolonial Philippines and the polities analyzed by Weber many decades ago. Weber's notion of historical progression, for example, does not anticipate the "neopatrimonialism" that comes in the wake of a more "rational-legal" colonial state. Most importantly, there is a strong contrast between the external environment in which Weber's polities existed and the external factors that shape the present-day Philippine polity. Second, all too often in the past, the term "patrimonial" has been part of a crude classificatory scheme, distinguishing "modernized" from "underdeveloped" countries. In fact, it must be emphasized, one can find patrimonial features in a variety of socio-economic settings--including, as some have convincingly argued, in the upper reaches of the American state (Rudolph and Rudolph 1979: 224-25). As noted above, while all states possess patrimonial features to some degree, it is clear that the Philippines presents a particularly strong contrast to Weber's ideal-type bureaucratic state.

Third, in comparing the Philippine state with other states that exhibit strong patrimonial features, one must carefully examine critical differences among such states. An enormous degree of variance is usually subsumed under the label "patrimonial": differences in relative historical strengths of state and society, in the historical development of bureaucracies, and in economic and strategic relationships of a country to external forces. Just to give one example, "patrimonial features" in the former Thai "bureaucratic polity," where a bureaucratic elite is the major beneficiary of patrimonial largesse and exercises privilege over an historically weak business class, contrast in many ways with "patrimonial features" in the Philippines, where a powerful oligarchic business class extracts privilege from a largely incoherent bureaucracy. Likewise, the current evolution of relations between the state and the business community in Thailand contrasts with the basic continuities that have endured in the Philippine setting.[28]

Peter Evans has developed a very useful classification of Third World State apparatuses along a continuum that stretches between "predatory" states (exemplified by Mobutu's Zaire, which he describes as patrimonial) and "developmental" states (exemplified by South Korea and Taiwan). The nature of predation, however, just like the nature of patrimonialism, needs to be specified further. We need to clarify who is the predator, and who is the prey. The best characterization for Mobutu's Zaire (and for the Thailand of the 1950s) is likely a predatory bureaucratic elite, within a patrimonial state, preying on a weak society. In Evans' terms, there is a predatory state (Evans 1989). But in the Philippines, although one finds plenty of predation, there is no predatory state. What we have in the Philippines is a predatory oligarchy plundering a patrimonial state. The stagnation of the Philippine political economy, I argue, requires a clearer understanding of the persistent power of the predatory oligarchy, and the persistent presence of a patrimonial state. Careful analysis of the Philippine case, I am confident, will also advance comparative understandings of the nature of the Third World State, and promote clearer understandings of comparative patrimonialism.

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ENDNOTES

[1] Tan 1990; Tan 1982: 150, 182. On Lucio Tan's diversified holdings, see Clad 1988: 112-16. The allegation that Marcos owned 60% of Allied Bank was made by the Presidential Commission on Good Government. See, for example, Manila Chronicle, July 28, 1989. Background on Lucio Tan also comes from Yoshihara 1988: 71, 188-89.

[2] For a neo-classical perspective on competitive rent seeking, see Krueger 1974. Further discussion of the applicability of the rent-seeking framework to the Philippines can be found in Montes 1988; McCoy 1992; and Hutchcroft 1993a.

[3] Weber 1978: vol. 2, 1028-29. For a more complete analysis of the applicability of the patrimonial framework to the Philippines, see Hutchcroft 1991.

[4] Theda Skocpol defines state autonomy as situations in which "states conceived as organizations claiming control over territories and people may formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes, or society" (Skocpol 1985: 9). In polities with strong patrimonial features, there is by definition a weak separation between the "private" and the "official" sphere, and therefore a particularly weak degree of autonomy (Weber 1978: vol. 2, 1028).

State capacity, Kathryn Sikkink writes, "involves the administrative and coercive abilities of the state apparatus to implement official goals" (Sikkink, 1988: 3, quoted with author's permission). In polities with strong patrimonial features, allegiance to "official goals" is commonly swamped by allegiance to personal goals.

[5] Clad 1988: 112-16. In response to charges that he was a Marcos crony, Tan "insisted that he was not a crony and was in fact a victim of the former president who took over huge shares in his businesses." Manila Chronicle, November 9, 1989.

[6] The failed bank was General Bank and Trust Company, controlled by the Yujuico family. On recent court charges related to the 1977 bank sale, see Manila Chronicle, August 28, 1990, and Tiglao 1989: 66. Two former senior Central Bank officials confirmed that the sale took place under highly questionable circumstances. Anonymous interviews, May and June, 1990.

[7] The success of Allied Bank is further discussed in Hutchcroft 1993a (forthcoming): Chapter Six.

[8] The three persons closely associated with the Aquino administration are former Palace executive secretary Joker Arroyo, Aquino's uncle Francisco Sumulong, and Domingo Lee (who, in the Aquino years, was president of the Federation of Filipino-Chinese Chambers of Commerce). See Clad 1988: 112. On Tan's defiance of SEC regulations, see Clad 1988: 112; Manila Chronicle, May 19, 1989 and December 11, 1989; and Philippines Daily Globe, May 18, 1990. The quote comes from an anonymous 1989 interview.

[9] The rival was Valeriano Bueno, a Mindanao logger and friend of President Marcos. The struggle is described in Tan 1982: 169, 189-90.

[10] Tasker 1978a: 32-33; Tan 1982: 247; Tan 1987: 1; Tan 1990. Much of the loan, quite appropriately, was spent on the construction of the Cardinal Santos Memorial Hospital in Manila.

[11] Tasker 1978a: 32-34; Tan 1987: 2. According to Tasker (p. 32), Philtrust "looks at loan applications from the Church from an uncommercial point of view, and acts as its safe depository. 'You want to cripple the Church, you cripple the PTC [Philippine Trust Company],' said [a Church] advisor, though he was probably exaggerating."

[12] Anonymous interviews, late 1989 and early 1990. According to one of the bank presidents, Ralph Nubla (then president of the Federation of Filipino-Chinese Chambers of Commerce) collected money for Marcos from the Filipino-Chinese business community. He was the major intermediary between these businesspersons and Malacañang, and also helped to "keep them in line."

[13] Tasker 1978a: 33; Tan 1990; Tan 1982: 129-130; Tan 1987: 2-3; Marcos 1974. Among those arrested were Central Bank examiners who had apparently been too friendly to Tan (their examinee).

[14] Anonymous interviews, former president of a Filipino-Chinese bank, and former senior Central Bank official, early 1990. Ver put a National Intelligence Security Agency (NISA) colonel in charge of investigating and interrogating Tan, and Tan actually ended up executing (under duress, one might guess) powers of attorney for the colonel. This facilitated the "legal" expropriation of Tan's assets by Ver; in 1976, this colonel told Tan's lawyer in a courtroom that Ver would "account" for Tan's "securities, moneys, collectibles, and dividends...in due time." "Quisumbing et al. vs. Tan" 1978: 22.

[15] Tasker 1978a: 34. According to this account, "Orosa wrote [to Cardinal Sin] that he had been charged by Disini with the task of resolving the issue with the Cardinal."

[16] Tan 1982: 218. The December 1977 release of Tan, his associates, and the Central Bank examiners who were arrested with him in 1974 is described in "Quisumbing et al. vs. Tan" 1978: 38-49. In 1976, Tan and his associates had been charged for violations of anti-graft statutes. In 1977, after Tan had signed over his banks and assets, Solicitor General Estelito Mendoza informed Tan's lawyer that the Military Tribunal would grant petitions for the release of Tan and others accused in the criminal cases. Tan's pamphlet claims that he was released "from military detention at Fort Bonifacio after [he] assigned to the Disini group all the assets and properties belonging to him and his affiliated companies including 85% of Continental Bank shares and 60% of Philtrust Bank shares" (Tan 1987: 5).

[17] Orosa 1991a. In late 1977, Orosa reopened Continental Bank as International Commercial Bank, or Interbank.

Several observers of the banking industry explained that Philtrust had a far healthier loan portfolio than did Continental, because the Roman Catholic Archdiocese of Manila had long practiced a very conservative loan policy. A former loan officer at Interbank confirmed that Continental's loan portfolio included a large quantity of "bad loans" to Tan himself--as well as to Tan's earlier rival, Valeriano Bueno. Anonymous interview, May, 1990.

The Investment and Underwriting Corporation, an investment house jointly owned by the Orosa family and the Herdis (Herminio Disini) Group, had been hard-hit by the closure of Continental Bank, since they had a gross exposure of P22.5 million in the failed institution. Tasker 1978a: 34.

[18] Tasker 1978b: 65; Tasker 1978a: 35; Anonymous interview, late 1989. Meanwhile, Orosa was eased out of the deal altogether. Although he had been the one to reopen Continental as International Corporate Bank (or Interbank) in September 1977, he had to sell the bank to Disini in 1980. Knowledgeable observers describe it as a "friendly deal," but it was not a deal that Orosa chose to make. As Orosa explained in a May 4, 1991 interview, "nobody came and threatened me," but there was "a 'suggestion' from the Palace" that he sell. "That was all that was necessary in those days" (Orosa 1991b).

The Vic Tan case is important not only in the annals of banking, but also in the annals of Philippine journalism. The two lengthy 1978 exposés by Far Eastern Economic Review correspondent Rodney Tasker later led to a libel suit against the magazine and Tasker by Defense Minister Juan Ponce Enrile. Clearly, the regime was not happy to have this intra-Palace squabble reported in such detail in the business press. The libel suit is discussed in Far Eastern Economic Review 1978: 28.

[19] It is also important to note the difficulty one encounters in trying to clearly distinguish the categories Filipino and Chinese-Filipino; a family that

may have been considered "Chinese" one or two generations back may be popularly regarded as "Filipino" today. And some banks are jointly owned by both Filipino and Filipino-Chinese families.

[20] These various manifestations of favoritism are further analyzed in Hutchcroft 1993a (forthcoming) and 1993b (forthcoming).

[21] World Bank 1988: viii, x; Tiglao 1991: 54. Favoritism and weak state regulation within the banking sector are also major themes of Hutchcroft 1993a (forthcoming). In addition, I analyze the obstacles to fundamental reform of the banking sector.

[22] The postwar Philippine financial system has been consistently dominated by commercial banks, and the vast bulk of selective credit allocation has been channeled through the commercial banks. The commercial banks have held a majority of the system's total assets (excluding Central Bank assets) throughout the postwar era, and if one adds their resources to those of 1) specialized government banks, the Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP), and 2) government insurance companies, the Social Security System (SSS) and Government Service Insurance System (GSIS), one can account for over three-quarters of all financial assets. Even when the investment houses (merchant banks) were at the height of their strength, in the mid-1970s, the combined assets of commercial banks were eleven times those of investment houses.

[23] It is interesting to note that the productivity of investment declined as the country was becoming more dependent upon foreign loan inflows. The incremental capital-output ratio went from 4.2 in the 1960s to 5.0 in the 1970s to 9.0 in the early 1980s; foreign savings were particularly important between 1975 and 1983. See De Dios 1984: 15.

[24] This use of banks brings to mind the remarks of the prewar American bank robber, Willie Sutton, who, when asked by the FBI why he robbed banks, had a quick retort: "Because that's where the money is."

[25] World Bank 1988: iii, 73 (quote from iii). While the Bank recognizes that high intermediation costs explain part of the high spread between cost of funds and loan rates, their data also show pre-tax profit margins in the Philippines to be 271% higher than the average of such margins in eight other countries. If only "strong domestic banks" are considered, the profit margin in the Philippines is 343% higher than in the other sample countries.

[26] Carvajal 1990; Anonymous Interview, international economist, May, 1990.

[27] While it is also essential to trace the origins of these features to distinct histories of state formation and the creation of the oligarchy, such a project is beyond the scope of this chapter. See Hutchcroft 1993a (forthcoming): Chapter One.

[28] These points are further developed in Hutchcroft 1993a, Chapter Two.