Neoliberalism as Hegemonic Ideology in the Philippines: Rise, Apogee, and Crisis

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This paper seeks to shed light on how an ideology achieves hegemony, how this hegemony is maintained, and what happens when the claims of an ideology are contradicted by reality. I will use neoliberalism in the Philippines as a case study.

Neoliberalism is a perspective that champions the market as the prime regulator of economic activity and seeks to limit the intervention of the state in economic life to a minimum. Neoliberalism in recent times has become identified with economics, given its hegemony as a paradigm within the discipline, that is, its excluding other perspectives as legitimate ways of doing economics. Since economics is regarded in many quarters as a hard science, much like physics—being, for instance, the only social science for which there is a Nobel Prize—neoliberalism has had a tremendous and pervasive influence not only in academic circles but in policy circles as well. While the University of Chicago became the font of academic wisdom, in technocratic circles the International Monetary Fund and the World Bank were seen as the key institutions that translated this theory into policy, to a set of practical prescriptions that were applicable to all economies.

It is often surprising to realize how relatively recent neoliberalism has become a hegemonic paradigm. As late as the latter half of the 1970s, Keynesian economics, which promoted a good dose of state intervention as necessary for stability and steady growth, was the orthodoxy. In what used to be known as the Third World, developmentalism, which specified Keynesian economics to economies that were still insufficiently penetrated and transformed by capitalism, was the dominant approach. There was a conservative brand of developmentalism and there was a progressive one, but both saw the state, rather than the market, as the central mechanism of development.

In the Philippines, neoliberalism first came in the form of structural adjustment program imposed by the World Bank in the early 1980s, in the latter's effort to strengthen the economy's capacity to service its massive external debt. Structural adjustment helped trigger the economic crisis of the early 1980s, its contractionary effects being magnified by the onset of the global recession.[1] The crisis was the country's worst since the Second World War, but the role of neoliberal economics in precipitating it was shrouded by its coinciding with the deep political crisis triggered by the Aquino assassination in August 1983. To most Filipinos, Marcos was the cause of both crises.

TRIUMPH BY DEFAULT?

It was during the Aquino period that neoliberal economics started its rise to ideological ascendancy. I think it is worthwhile to examine the reasons for the ease with which it captured the heights of both academia and the technocracy during this period.

First of all, it was associated with several high-powered activist intellectuals and technocrats close to the Aquino administration who had been greatly influenced by the Reagan and Thatcher free-market experiments in the United States and Britain. These included economist Bernardo Villegas and Cory Aquino's secretary of finance Jesus Estanislao. Another key center of emergent neoliberalism was the University of the Philippines School of Economics, which had drafted the extremely influential anti-Marcos White Paper on the Philippine economy in 1985.

Second, the analysis forwarded by these intellectuals was in synch with the popular mood. This located the economic troubles of the country in what had come to be known as "crony capitalism," or the use of state agencies to advance the private interests of a few close associates of the dictator. The direct assault on the Keynesian state as the source of inefficiency, which was the most prominent feature of Thatcherism and Reaganism, was a subsidiary element in the case made for market freedom.

Third, there were simply no credible alternatives to neoliberalism. Keynesian developmentalism, which promoted the role of the state as the strategic factor in the first phase of the ascent to development, was compromised by its personification in the Marcos dictatorship. As for the left's vision of "nationalist industrialization" or the "national democratic" economy, this hardly went beyond rhetorical flourishes and had been hardly popularized in the period prior to the EDSA Uprising, perhaps owing to the priority that the Communist Party placed on the anti-fascist struggle, which demanded underplaying the view that national democracy was the antechamber to socialism in order to form as wide a front as possible with antidictatorial elements of the elite. Then, after the EDSA Uprising, the articulation of an alternative was derailed by the left's preoccupation with the consequences of its failure to participate in the final act of the ouster of Marcos.

In short, the neoliberal perspective triumphed by default, and this absence of credible alternatives domestically was complemented by four developments internationally: the collapse of centralized socialism in Eastern Europe, which seemed to deliver the coup d'grace to the socialist alternative; the crisis of the Swedish social democratic model; the seeming success of the Reagan and Thatcher Revolutions in revitalizing the American and British economies; and the rise of the East Asian newly industrializing countries. All four had an impact on the thinking of the middle class and the elites, which are, incidentally, called the "chattering classes" because of their central discursive role in legitimizing social and political perspectives.

HOW THE ASIAN MIRACLE WAS INTERPRETED BY THE NEOLIBERALS

It is worthwhile to note how the rise of our neighboring economies was interpreted by neoliberals in the Philippines since this shows the ideological and mystifying character of neoliberalism. In the view of the neoliberals, the key to the success of our neighbors was the hegemony of the market. As Jesus Estanislao put it, "Government takes very good care of macroeconomic balances, takes care of a number of activities like, for example, infrastructure building, and leaves everything else to the private sector. And that is exactly what Singapore, Malaysia, Indonesia, and Thailand have done, and that is what the Philippines is doing, and we are beginning to do it."[2]

The reality, however, was that while it is true that in Indonesia, Malaysia, and Thailand, the state may have played a less aggressive role than in Korea and Taiwan, an activist state posture—manifested in industrial policy, protectionism, mercantilism, and intrusive regulation—was central in the drive to industrialize. For instance, Thailand began to register the eight to 10 percent growth rates that dazzled the world, when it was moving to a “second stage of import substitution”—the use of trade policy to create the space for the emergence of an intermediate goods sector—during the second half of the 1980s.[3]

In the case of Malaysia, while it is true that some privatization and deregulation favoring private interests took place in the late 1980s, it would be a mistake to overestimate the impact of these policies. The state oil company, Petronas, was consistently rated one of East Asia’s best-run firms, and one of the most innovative and successful enterprises in the whole East Asian region was a state-directed joint venture between a state-owned firm and a foreign automobile corporation, Mitsubishi, which produced the so-called Malaysian car, the Proton Saga. The Saga, which came to control two thirds of the domestic market and turned a profit for its producers, exemplified all the sins of industrial policy that neoclassical economists such as Estanislao had warned against: discriminatory tax treatment of competitors, strategic industrial targeting or a systematic plan to manipulate market incentives to create a local car industry, and forced local sourcing of components to encourage the growth of local supplier industries.[4]

In Indonesia, the state remained throughout the 1980s and 1990s the key actor in the economy, with state enterprises contributing about 30 per cent of total GDP and close to 40 percent of non-agricultural GDP. Capital expenditures as a percentage of the government budget came to 47 percent in Indonesia, while Thailand hiked the figure from 23 to 33 percent. In contrast, in the Philippines, Aquino’s technocrats pushed down capital expenditures as a proportion of the national budget from 26 to 16 percent. Since government is the biggest investor in any economy, this radical reduction of capital outlays as our neighbors maintained or increased theirs could not but have an impact in economic performance. While the Philippines languished with one to two percent annual growth for most of the Aquino period, our neighbors enjoyed six to 10 percent growth rates.

In sum, our neoliberal technocrats were dazzled to the point of envy by our neighbors’ performance, but they did not correctly identify the reason for this. They claimed it was the market when in reality it was the state. While some liberalization was going on in our neighbors’ economies, it was selective liberalization pursued in the context of strategic protectionism driven by the state, the objective of which was to deepen the industrial structure. This conclusion was readily available at the empirical level, but the paradigm that our technocrats had settled on screened out these data, to put it in Kuhnian terms.

THE APOGEE OF NEOLIBERALISM

Ideas, unfortunately, do have consequences, and perhaps no development illustrates this more than the effort to make the Philippines a NIC ("newly industrializing country" by the year 2000, as the slogan went, via globalization: that is, the accelerated integration of the Philippines into the global market and production circuits through radical trade and investment liberalization. The administration of President Fidel Ramos saw neoliberalism at its most doctrinaire and most influential phase.

What we might call the "neoclassification" of the Philippine technocracy that became so marked under Ramos did not so much exhibit the character of an intellectual coup as that of a gradual takeover of the strategic heights of the technocracy by free market-oriented policymakers coming from academia, government, and business, many of whom had done graduate work in the 1970s and 1980s in the United States and Britain, when state-oriented Keynesianism had lost its luster and neoliberalism had come into vogue in the economics departments of US universities. A number did their post-graduate stint in the staffs of the World Bank and the International Monetary Fund, including Ramos' Finance Minister Roberto de Ocampo. As one pivotal figure pointed out to Focus on the Global South analyst Joy Chavez, she and her colleagues who played prominent roles of the country's free-market turn acted not only out of external pressure from the World Bank and the IMF but also out of belief. "Imposed, maybe in one way, but on the other hand, the mainstream decision-makers—[the] technocracy and policymakers—also internally believed in that. So there is a confluence of policy direction."[5] Another figure stressed the emergence of a broader "consensus" among the elite and the middle class around free-market reform: "[No] policy reform becomes credible, workable policies unless the people accepted [them]. Yes, there were researchers and economists pushing for that, yes there were donor communities pushing for that...but ultimately it is a question of whether the public accepts that policy."[6]

In any event, the neoliberal revolution had achieved a critical mass by the time Ramos came to power, and its hegemony was consolidated during his administration. "It is the dominant sector," one player put it. "It is the president, it's his chief economic advisers, both formal and informal; the

House of Representatives; the Senate—the mainstream. The mainstream is pushing for liberalization."[7] That player would herself become president in 2001.

The centerpiece of the neoliberal program during this period was tariff liberalization: Executive Order 264 committed the Philippines to bringing down tariffs on all but a few sensitive products to one to five percent by 2004. The model for Cielito Habito, the secretary of the National Economic Development Authority who was the brains behind this enterprise, was the radical neoliberal tariff reforms conducted in Chile under the dictator August Pinochet, which had brought tariffs to 11 percent or under. If the Chileans could manage to bring down their tariffs to 11 percent, surely the Philippines could bring them to five percent or below! In their eagerness to catch up with our neighbors, what our Filipino technocrats saw was only Chile's not unimpressive growth rate, not the deindustrialization and enormous social crises induced by its free-market policies.

In addition to radical tariff liberalization, the foreign investment regime was liberalized, banking rules were loosened to allow more foreign banks to set up operations in the country, and the capital account was almost fully liberalized to attract speculative investors by making the peso fully convertible, allowing the full and immediate utilization of profits, and the full utilization of foreign currency accounts. Indeed, in the administration's drive to catch up with its neighbors, attracting speculative investment by eliminating barriers to capital entry and exit became the cutting edge of the its globalization strategy.

The administration also moved to ensure that liberalization would be hard to reverse by succeeding regimes by multilateralizing it, that is make the Philippines party to international agreements requiring it to eliminate quotas and keep tariffs low permanently. Thus, the Philippines joined the ASEAN Free Trade Area (AFTA), with its Common Effective Preferential Tariff (CEPT) program. Under this scheme, by next year, 2010, all tariffs, except those on rice, will be reduced at zero to five percent. More important, the Philippines joined the World Trade Organization in 1995, a move which required revising a whole slew of laws governing trade, investment, and intellectual property rights to make our legal code "WTO-consistent."

The economy grew by an average of four percent during the Ramos period, mainly because after the depressed Aquino years, there was no place to go but up. Nevertheless, there was a feeling among sectors of the middle class that it was the reforms of the Ramos administration that accounted for the upward movement in the economy, a key manifestation of which was the boom atmosphere in the real estate and stock markets.

CONSEQUENCES OF THE ASIAN FINANCIAL CRISIS

This illusion was punctured by the Asian financial crisis of 1997. As financial panic triggered by the massive devaluation of the Thai Baht spread in June 1997, some $4.6 billion in speculative funds left the Philippines, unhindered by capital controls, which the neoliberal administration had eliminated. The massive outflow of capital resulted in recession and stagnation from 1998 to 2000.

The Asian financial crisis led, in the next few years, to a more critical reception of neoliberalism in some elite and middle class circles. It opened up the paradigm to critical challenges, and these challenges from civil society organizations became even stronger as the evidence of the negative impact of the neoliberal approach emerged. Owing to its compliance with the World Trade Organization's Agreement in Agriculture, the Philippines was turned from a net food exporting country to a net food importing country from the mid-1990s on. The liberalization of industry beginning with structural adjustment in the mid-eighties, resulted in the irreversible erosion of the country's manufacturing base. The list of industrial casualties included paper products, textiles, ceramics, rubber products, furniture and fixtures, petrochemicals, beverage, wood, shoes, petroleum oils, clothing accessories, and leather goods. By the early years of this decade, the country's textile industry had shrunk from 200 to less than 10 firms.[8]

The verdict on over two decades of liberalization was perhaps most cogently delivered by then Finance Secretary Isidro Camacho Jr. in 2003: "There is an uneven implementation of trade liberalization, which was to our disadvantage."[9] While consumers may have benefited from tariff cuts, he asserted, tariff reform "has killed so many local industries."[10] In other countries, the loss of the local industrial base has often been countered by neoliberals by citing improvements in consumer welfare. This was not possible in the Philippines, where the poverty rate remained stuck at 32-35 percent of the population.

Civil society groups as well as local industry lobbies such as the Free Trade Alliance (FTA) were central in the discrediting of neoliberal doctrine. However, the role played by certain government bodies must not be underestimated. For instance, the international policy staff at the Department of Agriculture has successfully led opposition to further liberalization of agricultural trade at the WTO. Indeed, this staff—working closely with civil society groups—provided, along with the Indonesian government, the leadership of the Group of 33 at the WTO, which sought to protect the livelihoods of small farmers by exempting key products from substantial tariffs cuts and instituting mechanisms to allow governments to raise tariffs under certain conditions.

The doctrinaire neoliberal approach that was dominant under the Ramos administration has given way in recent years to a more pragmatic perspective as dissonant data can no longer be screened out. While the bias towards tariff reductions continues to dominate, there are now several cases of reversal. For instance, a government review committee constituted under Executive Order 241 raised tariffs on 627 of 1371 locally produced goods to provide relief to industries suffering from import competition.

DEFAULT DISCOURSE

The recent collapse of the global economy owing to, among other things, the absence of regulation of financial markets has further eroded the credibility of neoliberalism. Nevertheless, it continues to exercise a strong influence on our economists and economic managers. Despite its obvious shortcomings, it continues to be the default discourse in these circles. At the recent hearings on the budget at the House of Representatives that I participated in during the last few days, trade liberalization was defended as leading to greater "competitiveness;" raising the prospect of renegotiating our foreign debt was discouraged, allegedly because it will give us a bad name in global capital markets; globalization continued to be extolled as the wave of the future; and capital outlays were cut to balance the budget even if this will invite recession.[11]

Why this continuing invocation of neoliberal mantras when the promises of neoliberalism have been contradicted at almost every turn by reality?

Let me end by hazarding the reasons why.

First, corruption discourse continues to be pervasive in explaining Philippine underdevelopment. In this discourse, the state is the source of corruption, so that having a greater state role in the economy, even as a regulator, is viewed with skepticism. Neoliberal discourse ties in very neatly with corruption discourse, with its minimization of the role of the state in economic life and its assumption that making market relations more dominant in economic transactions at the expense of the state will reduce the opportunities for rent-seeking by both economic and state agents. For many Filipinos, and not only in the discourse setting middle class, the corrupt state—and not the relations of inequality spawned by the market and the erosion of national economic interests brought about by the liberalization of trade and capital markets—continues to be the main block to the greater good. It is seen as the biggest obstacle to development and sustained economic growth. This is not the place to discuss this belief in detail; suffice it to say at this point that this supposed correlation between corruption and underdevelopment and poverty has little basis in fact.[12] (This is, not, of course, to deodorize corruption, which must be condemned for moral and political reasons!)

Second, despite the deep crisis of neoliberalism, there has been no credible alternative paradigm or discourse that has emerged, either locally or internationally. There is nothing like the challenge that Keynesian economics posed to market fundamentalism during the Great Depression. The challenges posed by star economists like Paul Krugman, Joseph Stiglitz, and Dani Rodrik continue to be made within the confines of neoclassical economics, with its equation of social welfare with the reduction of the unit cost of production. Whether we like it or not, not only economists but Filipino intellectuals generally look to guidance from abroad, including from critics of the establishment.

There is a third, related reason, and this is what I would like conclude this discussion with. Neoliberal economics continues to project a hard science image owing to its having been thoroughly mathematized. In the aftermath of the recent financial crisis, this extreme formalization and mathematization of the discipline has come under criticism from within the economics profession itself, with some contending that methodology rather than substance has become the end of economic practice, with the discipline as a result, losing its contact with real world trends and problems. It might be worthwhile to note that John Maynard Keynes, a mathematical mind himself, opposed the mathematization of the discipline owing precisely to false sense of solidity that this gave to economics. As his biographer Robert Skidelsky notes, Keynes was “famously skeptical about econometrics,” with numbers for him being “simply clues, triggers for the imagination,” rather than the expressions of certainties or probabilities of past and future events.[13]

Getting over neoliberalism, in short, will involve getting beyond the worship of numbers that often act as a shroud to the real, beyond the scientism that masks itself as science.

NOTES

1 Charles Lindsay, "The Political Economy of Economic Policy Reform in the Philippines: Continuity and Restoration," in Andrew McIntyre and Kanishka Jayasuriya, eds., The Dynamics of Economic Policy Reform in the Philippines (Singapore: Oxford University Press, 1992).

2 Jesus Estanislao, interviewed by Marco Mezzera, 13 November 1996.

3 See Chaopath Sasakul, Lessons from the World Bank's Experience of Structural Adjustment Loans (SALs): A Case Study of Thailand. Bangkok: Thailand Development Research Institute, 1992, p. 19; and Narongchai Akrasanee, David Dapice, and Frank Flatters, Thailand's Export-led Growth: Retrospect and Prospects. Bangkok: Thailand Development Research Institute, 1991, p. 17.

4 See, among others, Richard Doner, "Domestic Coalitions and Japanese Auto Firms in Southeast Asia," Dissertation, University of California at Berkeley, 1987, pp. 511-596.

5 Quoted in Jenina Joy Chavez, Shaping the Philippine Political Economy: the Role of Neoclassical Activists (Manila: Mode, 1996), p. 9.

6 Ibid.

7 Ibid.

8 Fair Trade Alliance, Stop De-industrialization: Recalibrate Philippine Tariffs Now (Manila: Fair Trade Alliance, 2003), p. 16.

9 Quoted in Eric Boras, "Government Loses P120 Billion to Tariff Cuts." *Business World*. 20 October 2003.

10 Ibid, p. 26

11 Remarks of Rep. June Cua, Chairman of Appropriations Committee, during deliberations on the Republic of the Philippines 2010 Budget, 6 October 2009.

12 See Herbert Docena, "Corruption and Poverty: Barking up the Wrong Tree?," in Walden Bello, Herbert Docena, Marissa de Guzman, and Marylou Malig (eds.) The Anti-Development State: The Political Economy of Permanent Crisis in the Philippines. London: Zed Press, p. 281.

13 Robert Skidelsky, John Maynard Keynes: the Economist as Savior (London: Penguin Books, 1992).

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