Philippine Journal of Public Administration, Vol. XXIX, No. 4 (October 1985)

Explorations on the History of State Intervention in the Philippine Economy: The Role of Public Enterprises

JOSE P. TABBADA*

The article describes the changing nature, scope and role of the Philippine state through the various periods of the country's history, particularly as manifested in the existence and development of state enterprises. From a limited state during the American colonial period, the Philippine state has, by the seventies, assumed a very central role in the economy, especially in entrepreneurship. It is suggested that changes in the nature and role of the Philippine state may be understood by reference to certain underlying social forces, such as the state of the economy and the strength of the domestic capitalist class.

Introduction

In a predominantly capitalist or market economy, the state may be seen as performing three major functions. One is to create conditions favorable for the accumulation of profits by the capitalist class. This is accomplished through, for instance, control of the labor force, restrictions on wages, and similar measures. A second function, usually exercised through monetary, credit and fiscal policies, is to allocate surplus-value among the various fractions of capital — e.g., between industrial and agricultural capital, domestic and foreign capital. A third function is accumulation for its own sake through the participation of the state in directly productive activities where private capital is also engaged in.[1]

The third function of the state is the focus of this essay, although other roles of the state will be dealt with as they relate to our central concern. More specifically, this essay examines the changing nature and role of the state, and in particular its entrepreneurial role, during three different periods in Philippine history: the American colonial period (1902-1941), the post-war import-substitution period (1949-1961), and the Marcos authoritarian period (1972-1985). It highlights some of the forces which have historically determined the nature, extent and intensity of state intervention in the economy. In this connection, certain questions which have been central to the debate on the role of the state in less developed countries are also addressed.[2] What role did the state play in stimulating capitalist industrializa-

*Assistant Professor, College of Public Administration, University of the Philippines, and Ph.D. candidate, Simon Fraser University, Canada.

tion and development in the Philippines? How can the relationship between, on one hand, the state and, on the other hand, domestic and foreign capital be characterized?

As used in this essay, the term "state" refers to the set of institutions comprising the national government, and includes the executive, legislative and judicial branches, the police and the military, and semi-autonomous public corporations. The concept is thus synonymous with, although somewhat more abstract than, "government" or "public sector." Not included under the concept are non-governmental institutions such as political parties, the press, and the church; to include these institutions under the term "state" would rob the concept of its specificity.

State Intervention During the Early American Colonial Period

The colonial character of the Philippine economy set a narrow limit on the role of the state. Because the modern sector was restricted and enclave in nature, very little surplus in the form of taxes could be appropriated by the state. The annual per capita tax was relatively low, amounting to only 50 cents in 1899, $2 in 1910, and $3.25 in 1923.[3] Government expenditures were also low and mostly went to infrastructure, education, and the health services. The limited role of the colonial state was further evident from the fact that, meager as its revenues were, the government ran budget surpluses more frequently than it incurred deficits, suggesting a degree of fiscal conservatism that is incompatible with the requirements of a modern, activist state.[4] Indeed, in describing the colonial state, Golay has argued that:

> Government was minimum, colonial type government, smug in its "efficiency" reflecting inadequate levels of social investment and services, and relying heavily on excise-type taxes. Political decision-making was shared by the leaders of the *Nacionalista Party*, dominated by landowners, who maintained voting discipline among peasants in local areas and administrators led by the Governor-General. The latter, ten thousand miles from the United States, led a cheek by jowl existence with American businessmen seeking profits from the Philippine economy. Under the circumstances, the conservative bias in political decision was not surprising.[5]

This is not to say, however, that the state was merely a passive bystander in the economy during the early part of the American period. Quite the contrary, the state attempted to influence if not modify the workings of the market. For instance, as early as 1905 the colonial state guaranteed a return above the market rate on bonds issued by the (then privately-owned) Manila Railroad Company. Through an "Infant Industry Act," the state also gave a similar guarantee to enterprises whose stocks were 60 percent-owned by Filipino nationals and which were considered to be "of service to the country."[6]

However, a decade was to elapse before these early state initiatives were followed by the organization of a number of specialized state corporations whose objective was to extend the state's participation into various areas of the economy. Following 1915, a number of government agencies, including the Coconut Products Board, the National Cement Company, National Coal Company, the National Petroleum Company and the National Iron Company were established. To coordinate the expanding state activities, a New Industries Board and the National Development Company were formed and were given wide powers to encourage the growth of Filipino enterprise, at a time when most capitalist undertakings of consequence were under foreign ownership and control.

Entrepreneurship: Focus on the PNB and the NDC

Of the state enterprises organized during the colonial period, two — the National Development Company (NDC) and the Philippine National Bank (PNB) — potentially had far-reaching implications for the role of the state in the colonial economy and therefore merit a close look.

The National Development Company (NDC) was organized in 1919 as a semi-state corporation with an authorized capitalization of 50 million pesos, of which 51 percent was held by the Philippine government. According to its charter, the NDC could enter into any type of undertaking "which [would] be necessary or contributory to the economic development of the country."[7] The NDC's mandate was so sweeping that, in the words of one writer, it could "enter any kind of business undertaking whenever necessity demand(ed)."[8] Judging from its charter, the NDC was intended to be a principal instrument of the state in the implementation of its economic policies; accordingly, it (the NDC) was given wide powers to form its own subsidiaries or acquire existing private companies.

Despite its potentially important role in promoting pioneering ventures, however, the NDC was virtually inactive during the years following its organization. Its early accomplishments merely consisted of the purchase of a large estate (which it later resold in small lots to farmers), the acquisition of Cebu Portland Cement Company (a private firm which commenced operations only two years earlier), and the grant of a loan to the National Coal Company and to a foreign cordage manufacturer. Moreover, these years of relative inactivity ended when the NDC ceased to operate in 1927.[9]

The PNB, for its part, started in 1916 as a "joint venture" between the state and the private sector. It later became a wholly-owned government bank. As the government bank, PNB was given the sole power to issue notes which could serve as legal tender, and to conduct foreign exchange operations. PNB was also made the depository of all levels of the colonial government, thus placing enormous resources at its disposal. Potentially, the PNB

was therefore a very important instrument for the restructuring of the colonial economy; it was, in the words of Stanley, "in a position to enter into every aspect of the island's economic life and carry out the policies of the newly filipinized government."[10] Thus, despite initial opposition to the organization of the PNB on the ground that it would compete with the existing private commercial banks[11] — most of which were foreign-owned — and despite the scandals that marked its early operations, the bank experienced remarkable growth during the colonial period. In the decade or so after its formation, PNB's capitalization increased fifteen-fold from 20 to 300 million pesos ($10-150 million).[12]

These entrepreneurial ventures notwithstanding, state intervention in the economy during the first half of the American colonial period was on the whole limited. This can be explained in part by the presence in the colonial society of powerful forces opposed to more active state intervention, particularly through entrepreneurship. For instance, the early activities of the colonial state were opposed by some members of the business community and the foreign press, both of which feared that government entrepreneurship would result in financial losses and poor service. There was also a fear that state support for private ventures would be at the expense of government programs in education, health and other services.[13]

The extent and degree of government intervention in the colonial economy moreover depended on the party in power in the US (and also in the colony). The Democratic Party was quite receptive to the ideology and practice of state intervention in the economy. Thus, democratic administrations saw the organization of a number of state enterprises in the Philippines. The Republican Party, on the other hand, was specifically hostile to state entrepreneurship and to government intervention in general. A Republican Governor-General, in fact, attempted to halt the operations of the Manila Railroad Company (which, incidentally, were at the time profitable) and the PNB, in the latter by transferring state fund deposited therein to the private banks.[14]

The indifference if not outright hostility of Republican administrations to state intervention in the economy was in fact shared by the top Filipino political leadership. Although Manuel L. Quezon's incumbency as President of the Commonwealth saw the organization and operation of a number of state enterprises, then Pres. Quezon himself considered them as merely supplementary to private capital, as the following statement shows:

> I am not in favor of the Government engaging directly in business enterprises that could well be left in the hands of private individuals, except as to some public utilities. However, if no private capital is willing or able to undertake the estalishment of an industry which may be considered necessary and urgent for purposes of national defense, to provide the national economy with an indispensable requirement, or to promote the public welfare, the Government should, alone or in cooperation with private capital, establish and operate that industry. . . .[15]

Extension and Intensification of State Intervention During the Commonwealth Period

A combination of external and internal forces favored a more interventionist state during the Commonwealth period, which started in 1935. The Great Depression of the 1930s provided the occasion, if not the reason, for greater state involvement in the economy in the advanced capitalist countries. The experience of the advanced capitalist countries, in particular the US, was, of course, not lost on the Commonwealth and on those who drafted the 1935 Philippine Constitution, although, in the opinion of one writer, the Philippines was able "to escape the worst effects of the world depression."[16]

The impending political independence of the Philippines may also have been an important impetus for more extensive state involvement in the economy. The need to fill the vacuum created by the impending departure of the colonial power, to displace foreign capital from sectors considered vital to the "national interest," and to pioneer in areas where private domestic capital is either unable or unwilling to go into -- these provide justifications for state intervention.

After the inauguration of the Commonwealth, the new government embarked on a number of commercial and industrial ventures during the second half of the 1930s. First, in 1936 the NDC was reorganized as a wholly-owned government corporation, after being nearly moribund for almost a decade. Following its reorganization, the NDC established a number of corporations to undertake a wide range of industrial activities, including sugar refining, footwear manufacture, warehousing, tobacco and cigar manufacture, fiber manufacture, fruit canning, and food processing. The NDC also actively promoted the establishment of a munition plant and a rayon factory as well as the development of a domestic paper industry.

Through the NDC, the state also sought to expand indigenous participation in the distribution of essential commodities. Thus, a National Rice and Corn Corporation was established for the purpose of developing the rice and corn industries in all their phases. (In reality, a major aim was to wrest control of rice and corn distribution from alien, mainly Chinese, traders who had dominated the industry since the Spanish colonial period.) A National Cooperatives Administration and a National Trading Corporation were also subsequently created for the purpose of increasing Filipino participation in the wholesale and retail trades.[17] Before the outbreak of World War II, a total of 24 state corporations or almost twice those existing during the earlier (i.e., pre-Commonwealth) period, had been organized or were in operation.[18]

The organization in 1936 of the National Economic Council (NEC) for the purpose of "formula(ting) an economic program based on national inde-

pendence"[19] was yet another potentially important dimension of state intervention in the economy. The NEC was to advise the government on financial and economic questions, including the promotion of specific industries and the diversification of the economy, as well as on matters relating to tariffs, taxation and other subjects brought to the NEC's attention by the president of the Philippines. Composed of members drawn from the government and from the private sector, the NEC was envisioned by its proponents to play a very important role in the Commonwealth government.[20]

The NEC's potential role in the economy did not, however, materialize, in part because of its very brief existence. Nevertheless, the very fact that it was organized at all suggests the growing frustration of the Filipino political leadership with the market as an allocative and distributive mechanism, and with *laissez-faire* as an ideology for governmental non-interference in the economy, a frustration which Quezon expressed in the following words: "The philosophy of *laissez-faire* in our economy is dead. It has been substituted by the philosophy of government intervention wherever the needs of the country require it."[21] The Filipino political leaders in fact looked to the existing socialist country, the Soviet Union, and countries with strong statist traditions, like Germany, for their models of the state.

State Entrepreneurship During the Postwar Reconstruction Period

World War II resulted in the devastation of the country's productive facilities and the disruption of normal government activities, including the operation of state enterprises. The rehabilitation of the economy and the resumption of normal government operations were therefore the urgent tasks of the immediate postwar government.

To speed up the reconstruction effort, many of the prewar corporations were revived and some new ones were organized. The Rehabilitation Finance Corporation was organized to provide medium and long-term loans to industrial enterprises. The Government Service Insurance System (GSIS), which already existed before the war but had remained inactive, was revived to serve as the government depository of government employees' contributions as well as provide certain services for its members; the Social Security System (SSS) was organized to serve a similar purpose for the private sector. Among the new state enterprises which the NDC helped organize were the National Shipyards and Steel Corporation, the Philippine Airlines (which was established by private capital in 1941, but was acquired by the state through the NDC in 1950), the Cebu Portland Cement Company, and the Philippine National Lines (in shipping). The NDC also helped organize and operate lumber and sawmills, shipyards and docks, steel mills, pulp and paper mills, and warehouses. By the early 1950s, the state was engaged in operating railroads, hotels, electric prower facilities, gas and waterworks, coal, cement, fertilizers, textiles and steel, and had interests in electric bulbs, an airline,

and a number of ocean-going vessels. During the mid-1950s, there were 43 state enterprises (new as well as transformations of old ones) in operation and, in addition, the state had equity interest in four other private firms. In assessing the role of the state at this juncture, Gola noted " persistent faith in the capacity of the government to participate directly in industrialization and Filipinization."[22]

Destatization: The First Round

The state's growing postwar role in restoring, organizing, and operating a diversity of public enterprises however, was reversed during the 1950s. The Bell Mission, which had earlier undertaken a comprehensive survey of economic conditions in the Philippines in 1950, made far-ranging recommendations for the reorganization of the Philippine bureaucracy, including the limitation in the scope of economic planning and the liquidation of state enterprises. The Mission wanted to see the state's role in the economy restricted to the provision of credit and infrastructure, the operation of public utilities, and participation in a limited number of "prestige enterprises" such as steel, shipyards, ocean-going shipping, and international aviation. In the same year, a group led by Salvador Araneta and Oscar Ledesma, and composed of leading representatives of the Philippine sugar industry, also submitted its report to the President of the Philippines. The group recommended the reduction in the number of government corporations, the encouragement of private enterprise, and the creation of a Philippine Development Authority to serve as a holding company for the state enterprises.

The recommendations of the Bell Mission and the sugar industry group were followed in 1954 by a report of the Office of Economic Cooperation (OEC), the government agency entrusted with the task of supervising the state enterprises. The report, prepared under the direction of Alfredo Montelibano, a sugar planter who headed the OEC at the time, found rampant corruption, mismanagement and inefficiency in the management of government corporations. On the basis of this report, the administration of then Pres. Ramon Magsaysay proceeded to liquidate many of the government corporations, selling them, often at very low prices, to the private sector.

From 'Direct' to 'Indirect' Intervention: Import-Substitution Industrialization

In lieu of state entrepreneurship, policies and measures designed to stimulate industrialization and indigenous entrepreneurship were devised and implemented. As early as 1946 a "New and Necessary Industries Act" (Republic Act No. 35) was passed. The Act provided incentives to enterprises that did not exist prior to the War and would moreover contribute to national industrial and economic development. Although the response to the Act was initially lukewarm, more Filipino firms began to avail of the incentives after controls were imposed in 1949 and another measure, Republic

Act No. 901, was passed: 13 in 1950; 48 in 1952, 321 in 1955, and 900 in 1959.[23]

The provision of subsidized credit by specialized government institution was another state instrument in support of domestic entrepreneurship. Although the Philippine National Bank had existed since 1916, it did not meet the needs of industry for credit, since it concentrated on agricultural or crop loans, particularly to the sugar industry. The role of providing credit to industry thus devolved upon the newly-created Development Bank of the Philippines (DBP). Initially designed to finance postwar recovery and rehabilitation (hence its earlier name, Rehabilitation Finance Corporation), DBP offered credit at rates below those prevailing in the market (on the average, two percent lower). Starting with a three-year annual average for 1947-1949 of $45 million, the DBP granted, during the period 1947-1958, a total of P1,038 million in loans. And, whereas in 1947 only 12 percent of total loans went to industry, by 1955 this had gone up to 49 percent, and by 1964 to almost 70 percent.[24] The increasing role of the state in providing credit to private industry is also evident in the fact that, whereas the state provided only 29 percent of the total credit to industry in 1949, with the private sector providing 71 percent, it provided 37 percent in 1955 and, finally, 43 percent in 1958.[25]

With the state setting the pace in providing credit and other incentives to industry, private commercial banks responded by increasingly discriminating in favor of manufacturing. Thus, whereas in 1951 less than 14 percent of total loans and credits went to manufacturing and mining combined (no breakdown is available), by 1960 more than 30 percent went to manufacturing and in 1962 the percentage had gone up to almost 37 percent.[26]

Equally important for the emergence and nurture of the domestic bourgeoisie were the instruments of selective import quotas and foreign exchange allocations. Although controls were initially developed as a response to the balance of payments crisis of the late 1940s, these policy instruments were later employed to increasingly favor domestic over foreign capital. An Import Control Board composed of representatives of the Central Bank, the business sector, and consumer associations, was empowered by law to allocate import quotas progressively in favor of domestic capital; accordingly, 30 percent of quota allocations for 1950-51, 40 percent for 1951-52, and 50 percent for 1952-53, were to be reserved for Filipino-owned enterprises. (To qualify as a domestic enterprise, at least 60 percent of a firms' equity must be owned by Filipino nationals.) After import controls were lifted, their function was taken over by the Central Bank, which rationed foreign exchange according to the same nationality criterion followed by the now-defunct Import Control Board. Beginning in 1957 the National Economic Council, through the so-called "Industrial Priorities Formula," also discriminated in favor of domestic enterprises in the allocation of foreign exchange for the importation of capital goods and industrial raw materials.

Controls have been widely criticized for their inefficiency as an allocative mechanism, for the corruption that attended their implementation, and for fostering an inward-looking industrial class. There is undoubtedly some truth to these criticisms, although even critics of controls would probably also agree, at least in part, with the following assessment of controls:

> All told, the government-fostered exchange control program protected against foreign competition, enormously increased the profitability of the Philippine market to Filipinos, and by preserving an overvalued peso, contributed substantially to profit maximization. These factors appealed to potential entrepreneurs and were particularly important to encouraging entrepreneurship among a people heretofore little practiced in, or disposed to modern business. . . .[27]

When controls were finally lifted in the 1960s, protection of domestic industry continued through a high tariff on the importation of goods that competed with those produced by domestic industries. During the early years of controls, rates of protection for "non-essential goods" were already as high as 200 percent; by 1959 rates of 400 percent for the same category of goods were not uncommon. The mean rate of protection was 36 percent in 1957 and remained at 38 percent in 1970.[28] For import-competing industries the effective rate of protection in 1965 was 62 percent (under the Balassa method) and for manufacturing (excluding food, beverages and the like), the rate was even higher, 70 percent.[29]

The state not only moved to reserve the industrial sphere for Filipino capitalists but also sought to exclude non-Filipinos from the sphere of distribution, particularly from the retail trade in rice. Over the vehement objections of the foreign business community, a Retail Trade Nationalization Law which prohibited aliens from engaging in retail trade was finally approved by the Philippine Congress in 1954, after previous attempts to enact a similar law had all failed.

State support for domestic capital in the latter's attempt to compete in areas traditionally under alien control is exemplified by the case of Filoil. Oil refining and distribution in the Philippines had traditionally been the preserve of the subsidiaries of international oil giants such as Caltex, Shell and Mobil. During the late 1950s, the prospect for another oil venture, let alone a Filipino-owned one, did not therefore appear very bright. Undaunted, a group of leading Filipino industrialists led by a former top government official decided to organize a domestically-owned firm for the marketing and refining of oil. To support the new venture, the Central Bank and the NEC adopted resolutions reserving a portion of the domestic petroleum market to Filoil, until such time as the latter succeeded in capturing a share comparable to those of the foreign oil firms.[30] Armed with such state support and protection, Filoil started operations during the early 1960s. (Only two years after starting operation, however, majority interest in Filoil was acquired by Gulf Oil.)

Economic Liberalization and Further Destatization Under Macapagal

Some state divestments actually preceded the recommendations of the OEC group. As early as 1949 the National Footwear Corporation was abolished, while a nail-manufacturing plant of the NDC was sold to Marcelo Steel Corporation, a leading domestic manufacturing group. The National Food Products Corporation, which was created in the 1930s was abolished in 1950, its assets sold to the privately-owned Rose Packing Corporation. In 1953 the Manila Hotel Company, then under the management of the Manila Railroad Hotel Company, then under the management of the Manila Railroad Company, was leased to a private, business group. Divestments continued in 1957 when the Cebu Portland Cement Company sold its Bacnotan plant to a group specifically formed to operate and manage the plant; in the same year the Cellulosa de Filipinas, Cia, redeemed its preferred shares from the NDC.[31]

Destatization continued into the early 1960s. In 1960, the Maria Cristina Fertilizer Plant, which had been operated by the National Power Corporation since the early 1960s, was sold to the same Marcelo interests who earlier acquired NDC's nail factory. The controversial sale was pushed through partly because of pressures from the World Bank and partly due to successive losses incurred from the sale of fertilizer, at prices below production cost, primarily to the sugar interests headed by Montelibano.[32] In its annual report for 1960-1961, the OEC mentions the sale of a number of state enterprises to the private sector: three vessels owned by the NDC to the Liberation Steamship Co., a ramie textile plant, also NDC-owned, to Davao Ramie Textile; and two other mills to unnamed buyers from the private sector. Recommended to be sold to the private sector were the profitable Manila Gas Corporation and the Philippine Electrical Manufacturing Company. The state's holdings in the Philippine Airlines and a chain of hotels under the management of the Manila Hotel Corporation were also to be liquidated earlier. In lieu of wholly-owned state enterprises were to be established joint ventures between the state and private capital. In its 1961-62 annual report, the OEC listed only ten state enterprises in operation, although some of the state firms slated to be sold earlier had not yet been liquidated or disposed of.

A major factor behind the government's decision to get out of entrepreneurship during the 1950s was undoubtedly the enormous losses incurred by some state enterprises. (By selling its more profitable operations, however, the government practically ensured that the remaining ones would be unprofitable.) But an equally important factor was perhaps the presence by the mid-fifties of a domestic entrepreneurial class willing and able to take risks. The presence of a Philippine bourgeoisie class was evident in the growth of corporate-type manufacturing establishments from 384 in 1948 to 999 in 1958, and of manufacturing assets from 350 million pesos to

2.6 billion pesos (approximately $175-$1,300 million).[33] It is also shown by the rapid growth of the manufacturing sector of 12-13 percent per annum for the period 1950-1960. That some of the major state divestments took place in the textile and cement industries was therefore no coincidence: these were the industries in which domestic capital actively participated — in fact, proliferated — during the 1950s. By the end of the 1950s, the state had already performed its "historic role" of serving as the midwife for a domestic industrial bourgeoisie based in the cement, textile and other manufacturing industries.

The administration of Pres. Macapagal (1962-1965) gave further impetus to the destatization movement which began in the fifties. In campaigning for the presidency, Macapagal had pledged to restore free enterprise. True to his campaign platform, Macapagal's first official acts after assuming the presidency were to institute decontrol and devalue the peso. Although his administration did not preside over the wholesale liquidation of state enterprises, Macapagal's bias for market solutions set the tone against further state intervention in the economy.

The devaluation and decontrol measures instituted by Macapagal had the predictable effect of ruining many firms established during the previous period of protection. According to Alejandro Lichauco, a known economic nationalist, at least 1,500 bankruptcies occurred during the mid-1960s as a result of decontrol and devaluation.[34] Even more damage would probably have been inflicted on Filipino manufacturing industries had it not been for the protection of a high tariff.

Growth Under Marcos' Authoritarian Rule

The electoral defeat of incumbent Pres. Macapagal by Mr. Ferdinand E. Marcos in 1965 set the stage for a renewed emphasis on state-sponsored programs and solutions. During his first term of office, Pres. Marcos embarked on an ambitious infrastructure program which saw roads, bridges, schoolhouses, and other physical infrastructures built throughout the Philippines. It was also during this period that the full force of the governmental machinery was brought to bear on a crash program to disseminate and induce farmers to adopt and cultivate a high-yielding rice variety experimentally developed at the International Rice Research Institute in Los Baños, Philippines, a program which bore fruit when, for the first time in so many years, the Philippines attained self-sufficiency in rice.

All these, however, served only as a prelude to the even more dramatic expansion in the state's size and role after the declaration of martial law in 1972. Under martial rule, armed forces personnel increased from less than a hundred thousand to a quarter-of-a-million soldiers, while military expenditures rose from 1.5 percent to more than 3 percent of GNP, or from 10-11 percent to more than 20 percent of government expenditures. The civilian

personnel, on the other hand, more than doubled from less than half a million in 1970 to over one million in 1979.[35]

The growth of the state under authoritarian rule showed even more clearly in the rising claim of the state on the nation's total output. Government expenditures as a percentage of the GNP rose from 10 percent or less during the 1960s to 17 percent in 1975 and to 16 percent in 1980. During the same period government expenditures increased from 2.1 billion pesos in 1965 to 42 billion in 1980.[36] Moreover, since increased public sector expenditures have to be met in part from increased incomes, tax revenues, which were generally below 10 percent of the GNP in previous decades, rose to almost 14 percent in 1974 and remained at that level to the end of the seventies. Government resources were augmented through repeated "tax amnesties" granted during the early years of martial rule, and later by the growing resort to external indebtedness.

The changing balance between the state and the private sector can also be seen in the rising share of the government in fixed capital formation. Historically, the private sector has accounted for a much larger share in the accumulation of fixed capital in the Philippines: 79 percent in 1950, 86 percent in 1965 and 84 percent in 1970. Since 1973, however, the share of the state has risen rapidly: to 32 percent in 1973 (the first full year of authoritarian rule), 38 percent in 1975, 45 percent in 1980 and 42 percent in 1981.[37]

Creeping State Capitalism?

Important as these quantitative changes were, an even more notable development under authoritarian rule was the enormous expansion of the state's entrepreneurial role, as shown in the dramatic rise in the number of state enterprises. Whereas in 1973, there were 70 state enterprises in operation, by 1978 the number had increased to 155 (104 if state colleges and universities, which do not engage in capital accumulation, are excluded); and by the beginning of the 1980s had further increased to almost 300 including their subsidiaries. For the same period, the assets of the state enterprises nearly quadrupled. In 1979, state enterprises employed 106,462 people, or roughly ten percent of the total payroll of the government.[38]

In 1970, there were no state enterprises among ten largest corporations in the Philippines, By 1980, however, four of the top ten corporations (as measured by gross revenues) in the Philippines were state-owned: two in oil refining and marketing and one each in banking and aviation. Government corporations accounted for 49 percent of the total sales of the top ten corporations; foreign corporations, on the other hand, accounted for a mere 7.5 percent of the total sales of the top ten. The top four state-owned corporations accounted for 72.2 percent of the total assets of the largest ten

corporations, while foreign capital accounted for another 21.4 percent, and the lone Filipino firm accounted for only 6.3 percent. The combined assets of the government corporations were 46 percent of the total assets of the top 1000 corporations (valued at 336.1 billion pesos) in 1980. In 1982, 45 state enterprises accounted for almost a quarter of the total gross revenues of 250 billion pesos ($25 billion) of the largest 1,000 corporations in the Philippines.[39] One government corporation, the Social Security System, surpassed in net income largest domestic private corporation, the San Miguel Corporation, a conglomerate engaged in the production and distribution of a wide variety of consumer products.

With 47 investments and more than 26 billion pesos in assets in 1978, the Philippine government accounted for almost 29 percent of the total assets of the largest 1,000 corporations in the Philippines. It had more than twice the total assets of the Ayala group, the largest domestic business group with its 33 investments and assets of almost 11 billion pesos; almost thrice the size of the Philamlife group, with the latter's 14 investments and 9.6 billion pesos in assets; and was much larger than the Soriano group, which had 18 investments and 9.1 billion pesos in assets, and Meralco, with seven investments and six billion pesos in assets.[40] By its sheer size, the state was a major force to be reckoned with in the economy.

A principal arm of the state in its growing entrepreneurial role was the giant Philippine National Oil Company (PNOC). Created by presidential decree in 1973, PNOC was to serve as the state's instrument in expanding its participation in the domestic oil industry, a field traditionally dominated by the subsidiaries of giant foreign oil corporations. After its creation, PNOC acquired full ownership of Esso Philippines (the third largest oil multinational in the Philippines at the time), renaming it Petrophil. After only a few years, Petrophil became the largest (in terms of sales) and one of the most profitable corporations in the Philippines and the only Philippine-based corporation (the Philippine subsidiaries of foreign corporations included) to land in *Fortune* magazine's roster of the top 500 non-US corporations in the world. PNOC also bought Filoil Refinery Corporation — which, as we noted earlier, was originally Filipino-owned but had since decontrol in 1962 passed to foreign hands — and 60 percent ownership of Bataan Refining Corporation (also a foreign corporation).[41] By the early 1980s PNOC and its various subsidiaries owned and operated tankers and barges for transporting crude oil and petroleum products, and had the power to compel foreign oil companies to use its tankers as well; was in the business of exploring and developing geothermal, coal, oil, gas and other sources of energy; was engaged in providing port and docking services, as well as the building and repair of ships; and was marketing automative products. PNOC also evolved into a huge conglomerate whose finances and operations were exempt from government accounting and auditing regulations and from public scrutiny.

The state-owned Philippine National Bank continued its domination of the banking system with more than 50 percent of the assets of that sector, which was more than three times the value of the assets of the largest foreign bank in the Philippines in 1978 and more than five times those of the largest private domestic bank. Other state-owned banks were heavily involved in taking over and running private banks and other institutions. A relatively new state-owned bank, the Land Bank of the Philippines, took over the financially-troubled General Bank in order to protect its interest in the form of loans advanced to the latter. The Development Bank of the Philippines (DBP), for its part, acquired a pulp and paper mill by converting the latter's debts into equity. The DBP was also involved in financing (extending loans to and/or acquiring equity in) a wide range of enterprises and industries, including textile mills, hotel construction, mining, and management. Indeed, as of the end of 1981, fully 60 percent of the equity of DBP was tied up in loans and/or equity contributions to financially-distressed private firms. Moreover, at the start of 1982 DBP was managing an assortment of 87 corporations taken over from the private sector.[42] A new DBP subsidiary had to be created to supervise these acquired firms.

After being dormant for two decades, the National Development Company (NDC) again began to assume an active role in the economy. Strengthened by two substantial infusions of capital — first from 50 to 200 million pesos and then to 10 billion pesos — the NDC was able to take over existing firms and embark upon new ventures. For instance, through a joint venture with another government corporation, the NDC undertook the provision of "reasonably-priced" raw materials to industry. The NDC also financed small and medium scale industries through equity participation in 17 "venture capital corporations." Over the objections of the World Bank, the NDC was also involved in pushing through and supporting the eleven major industrial projects of the Marcos administration.[43] The diversity of NDC's interests is shown by the fact that it even funded an association of the country's major construction firms to enable them to compete more aggressively for lucrative foreign contracts. At the end of 1982, the NDC had holdings in 82 state and private corporations.[44]

The new NDC also figured prominently in the growing involvement of the state in joint ventures with foreign capital and with favored domestic capital. For instance, in promoting corporate-type agriculture in palm oil production, rubber and rattan growing, and reforestation, the NDC entered into joint ventures with foreign capital. Examples of such joint ventures were Dunlop Plantations, NDC-Guthrie Plantations, NDC-Sime Darby, and NDC-Guthrie Estates, Inc. Aside from the NDC, other state enterprises also entered into joint ventures with foreign and local capital. For instance, the National Steel Corporation (which was formed out of various private steel firms which had been previously taken over by the state) and the Philippine Veterans Development Corporation joined Kawasaki Steel Corporation of Japan in Philippine Sinter Corporation.[45]

The state's deepening involvement in the economy was not limited to the organization and operation of state enterprises. Under the pretext of rationalizing "overcrowded" industries, the state moved to reduce the number of firms in selected industries. First to be rationalized was the automotive industry where the number of participants in the car, truck and motorcycle industries were reduced to a select few. Rationalization was also extended to the banking sector where individual banks were required to augment their capitalization to a certain minimum level. The effect of rationalization on the Philippine banking system (which was earlier characterized by the proliferation of small and medium-sized Filipino-owned banks) was to force many domestic banks to turn to foreign banks for capital infusion, as a result of which many domestic banks passed into foreign ownership and/or control during the 1970s. Later, the powers of the remaining banks expanded when they were encouraged to go into "universal banking." Under this scheme, commercial banks were allowed to participate in activities outside their traditional domain, including investment banking and long-term lending to industry. By wedding industry even more closely to the banks, the oligopolistic character of certain sectors of the Philippine economy was thus further strengthened.

The growth of the state under authoritarian rule is a phenomenon that has not been sufficiently theorized. The rising share of the state in fixed capital formation in the combined assets of government and private firms, and especially in the organization, ownership and operation of state enterprises, would seem to support a state-capitalist interpretation. One can also cite instances of the state competing with, and even displacing, private domestic as well as foreign capital as further support for such interpretation.

For the state-capitalist interpretation to hold, however, it must be shown not only that the state has taken over from the private sector the primary burden of capital accumulation, but that state accumulation has been a substitute for, and at the expense of, private capital accumulation — that, in other words, it has been undertaken primarily for the sake of the state or of a "state bourgeoisie" that is largely independent of the dominant class(es) in society. The Philippine experience in organizing and operating state enterprises during the 1970s does not fulfill such requirement. The absence of an overall state blueprint to control the "commanding heights of the economy," and the generous financial support extended by the state to at least the favored (if sometimes failing) private firms can only mean that the state, instead of intending to displace private capital, as the state-capitalist interpretation would suggest, was in fact undertaking these activities in behalf of private capital. Finally, there is no evidence that a "state bourgeoisie" was taking the place of the private bourgeoisie; on the contrary, state functionaries and the Marcos authoritarian state in general were increasingly pressed into the service of private domestic and foreign capital. In short, state capital has been complementary to, rather than a substitute for, private capital.

Destatization: The Second Round

Moreover, from the late 1970s there were notable instances of privatization, or the sale or transfer of state enterprises to the private sector. For instance, the PNB sold some of its subsidiaries, which included sugar operations, to the Republic Planter's Bank (a bank owned by a former president of the PNB who was a known associate of Marcos) and its coconut operations to the United Coconut Planters' Bank (also owned by a businessman close to Marcos). The Manila Electric Company and the Jacinto interests (particularly in steel), which were taken over by the state after the imposition of martial rule in 1972, were also turned over to the private sector, albeit to members of the Marcos faction. Destatization accelerated during the early eighties as pressure mounted for the divestiture of the increasing number of private corporations previously taken over by the state.

Pressure for destatization mounted with the growing clamor for the democratization of Philippine society after the formal lifting of martial rule in 1981. Even groups in society which were initially supportive of the authoritarian regime joined the growing opposition to the Marcos regime. In 1981, for instance, a group of Filipino businessmen and economists complained publicly that

> [t]he invisible hand of Adam Smith usually associated with the free play of market forces has become a highly visible hand belonging to the government, regulating where it need not do so. Public policies have been detrimental to the private sector.[46]

The same group also called for the liberalization of government policies and for increased participation by the private sector in economic policy-making. Other groups went as far as to call for the restoration of the pre-martial law freedoms and the democratization of Philippine society. After keeping silent or even actually collaborating with the Marcos authoritarian regime for many years, some of the more farsighted members of the Philippine bourgeoisie, like their counterparts elsewhere (e.g., Brazil), probably realized that, despite the obvious short-term advantages of an authoritarian model of accumulation (among others, the suppression of potentially disruptive popular organizations, and anti-labor and pro-business bias), a return to a form of liberal-democratic rule was more consonant with their long-term interests, or with continued capitalist accumulation.

The growing demand for a leaner state sector was moreover justified on grounds of economic efficiency. Government corporations increasingly represented an enormous drain on the state treasury. For instance, in 1981 the Commission on Audit (COA) estimated (conservatively, I believe) the subsidy to state corporations from the national treasury to be around 2.5 billion pesos (approximately $250 million), an amount bigger than the combined net income of 1.63 billion pesos ($163 million) of all the govern-

ment corporations. On top of outright subsidies, billions of pesos in government loans (a form of indirect subsidy) were funnelled to near-bankrupt private firms, most of which were owned by close associates of President Marcos.

Of equal importance was the support of the World Bank and the IMF, two international agencies which had closely embraced the Marcos authoritarian regime from the latter's inception, for the destatization movement. Among the standard prescriptions of the IMF for countries which are heavily in debt and are in "external disequilibria" are the freezing of the wages of workers in the state sector, a balanced budget, reduced allocation for social services, and a smaller public sector, which in effect meant the liquidation of state enterprises, including their subsidiaries and the firms under their supervision. The increasingly desperate financial condition of the Philippine government at the start of the 1980s made it highly unlikely that the recommendations of the IMF and the World Bank would be brushed aside by the Marcos administration.

This is not to say, however, that forces opposed to destatization would yield without a fight. Obviously, the top Marcos bureaucrats had a material stake in an expanded state sector; after all, their power and perquisites grew in direct proportion to the number of directorships which they held in government corporations. Indeed, the contradictory pulls and pushes inside and outside the state suggest that destatization would not be exactly a smooth process.

Some Tentative Conclusions as Agenda for Further Research

This essay has attempted to describe the changing form, extent, and intensity of state intervention through government corporations in the Philippine economy. A number of "cycles" of state intervention have been identified. During the later part of the American colonial period, the state assumed an active role in the economy through the organization and operation of a number of state enterprises and the assumption of certain activities designed to encourage domestic entrepreneurship. The experimentation with state entrepreneurship was, however, cut short by World War II. State interventionism resumed after independence from the US in 1946, although it took a different form. In lieu of entrepreneurship, the state sought to direct and influence the pace and pattern of accumulation and industrialization through discriminatory import and foreign exchange allocation, subsidized credit to industry, and various other incentives which favored domestic capital. The 1950s also saw the first major attempt at destatization, which was given further impetus by the free market economic policies of Macapagal during the 1960s. The imposition of martial rule in 1972 ushered a new era of state interventionism in the Philippine economy. The state became a

major force in pushing industrialization forward, in the monopolization and rationalization of important sectors of the economy, and in the internationalization of the Philippine economy — in short, in deepening capitalist development. By the 1980s, however, a reaction against the excesses of authoritarianism, especially against pervasive "crony capitalism," had set in and a new phase of destatization and liberalization was set in motion.

A number of hypotheses may be (and have been) suggested to explain the cycles of state intervention in the economy. One is that the nature, extent, and timing of state intervention in the Philippine economy may have something to do with the strength of the domestic capitalist class. Where the indigenous bourgeoisie is non-existent or weak, the state expands in order to take the place of the former in the economy. But where the domestic capitalist class is strong, the state withdraws from direct production, confining its role instead to the more traditional functions of providing public goods and managing aggregate demand. Thus, the relative absence of an indigenous entrepreneurial class during the American colonial period may account for the organization of state enterprises, especially during the second half of the 1930s. The dislocation of the capitalist class during the Second World War resulted in the revival of state enterprises during the late forties and the early fifties. By the middle of the 1950s, however, a Filipino entrepreneurial class had emerged, and, accordingly, the state withdrew from many areas of economic activity. But by the seventies, the economic liberalization initiated by Macapagal and subsequently continued under Marcos had again so weakened the Philippine bourgeoisie that the state had to assume an importance in the economy that was greater than during the preceding periods.

A second and somewhat related explanation has to do with the cycles of the capital accumulation process, in particular to its crises and turning points. More specifically, the state expands during periods of crisis, when the domestic bourgeoisie is crippled or is unable to perform its capital accumulation function, and contracts during period of relative normalcy, when the domestic bourgeoisie's confidence is at a high level.

Our examination of the Philippine experience seems to show a striking coincidence of periods of crises and state expansion. For instance, the expansion of the state during the 1930s occurred against the background of the Great Depression. The relative prosperity of the 1950s and the 1960s saw the state withdraw in favor of the private sector from many areas of the economy. And finally, the rapid postwar expansion of the state occurred in the context of the recession of the seventies.

The foregoing conclusions are very tentative and need to be subjected to a more exacting test. As stated at the outset, this essay is essentially exploratory. It was not intended to test existing theories on the state (however

useful this enterprise would have been) but merely to highlight certain phenomena in a manner which, hopefully, suggested certain propositions that can be pursued in future research.

Endnotes

[1]Christian Anglade and Carlos Fortin, *The State and Capital Accumulation in Latin America: Brazil, Chile, Mexico* (Pittsburgh: University of Pittsburgh Press, 1985), pp. 21-22.

[2]Some of the earlier contributions to this debate are Hamza Alavi, "The State in Post-colonial Societies—Pakistan and Bangladesh," *New Left Review,* No. 74 (July-August 1972); Ralph Miliband, "Poulantzas and the Capitalist State," *New Left Review,* No. 82 (November-December 1973); Colin Leys, "The Overdeveloped Postcolonial State: A Re-Evaluation," *Review of African Political Economy,* No. 5, April 1976; and John Saul, "The State in Postcolonial Societies: Tanzania,"*Socialist Register 1974.* A comprehensive statement and summary of the issues involved can be found in M. Lanzendorfer and W. Ziemann, "The State in Peripheral Societies," *Socialist Register 1977.* Rahman Sobhan, "The Nature of the State and its Implications for the Role of Public Enterprises in Asia," *Journal of Contemporary Asia,* Vol. IX, No. 4 (1979) provides an empirical, if preliminary, test of theories of the state as these specifically relate to public enterprises. Peter Evans, *Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil* (New Jersey: Princeton University Press, 1979) is an excellent case study of the contradictory relationship of conflict and cooperation between the state and local/foreign capital in a large semi-industrialized developing economy.

[3]These countries were Cuba, Japan, Spain and Thailand. It must also be noted that the Philippines was practically self-sufficient. Only the expenses of the military were borne by the US government. The expenses incurred in administering the colony, including the salaries of American administrators in the Philippines, were defrayed from the colony's fiscal revenues. See Bureau of Commerce and Industry, *Commercial Handbook on the Philippine Islands* (Manila: Bureau of Printing, 1924), p. 183.

[4]The expenditures and revenues of the colonial government were as follows (in US $ million):

Year	*Expenditures*	*Revenues*
1903	6.3	14.1
1905	—	15.8
1908	13.0	—
1910	—	—
1913	14.8	—
1920	—	36.5
1923	33.4	35.5
1927	31.9	33.7
1928	32.6	36.4
1929	34.7	38.9
1930	39.8	35.3

1931	41.4	34.5
1932	36.4	33.5
1933	31.7	30.4
1934	32.5	33.4
1935	35.1	35.2
1936	37.5	42.2

Sources: Onofre Corpuz, *The Bureaucracy in the Philippines* (Manila: Institute of Public Administration, University of the Philippines, 1957), p. 202; Bureau of Commerce and Industry, *Commercial Handbook of the Philippines Islands, 1924* (Manila: Bureau of Printing, 1924); and the *Report of the Joint Preparatory Commission on Philippine Affairs* (Washington, D.C.: US Government Printing Office, 1938), p. 108.

[5]Frank Golay, "The Philippines," in Frank Golay, et. al., *Underdevelopment and Economic Nationalism in Southeast Asia. (Ithaca:* Cornell University Press, 1968), p. 30.

[6]Jose Apostol, *The Economic Policy of the Philippine Government: Ownership and Operation of Business* (Manila: University of the Philippines, 1927), pp. 14-15.

[7]Jack Shepherd, *Industry in Southeast Asia* (New York: Institute of Pacific Relations, 1941), p. 114.

[8]Apostol, *op. cit.*, p. 18.

[9]*Ibid.*, pp. 86-87.

[10]Peter Stanley, *A Nation in the Making: The Philippines and the United States, 1899-1921* (Cambridge: Harvard University Press, 1974), p. 239.

[11]Many of the loans granted by the bank during its early years went to the construction of sugar centrals, even when there was a widely expected contraction in the world sugar market (during the early twenties).

[12]Stanley, *op. cit.*, p. 235.

[13]Apostol, *op. cit.*, pp. 72-76.

[14]*Ibid.*, pp. 94-95. The American administrators, reflecting the predominant pre-New Deal ideology of the US government, were not receptive to the idea of a state-owned or operated bank. While outwardly professing not to be opposed to the establishment of the state bank, the American governor-general cautioned the Filipino legislators not to prejudice the private sector by organizing a state bank. Despite the high interest rates, it was argued that the credit needs of the business sector were being met by the existing private banks. Even the Chamber of Commerce of the Philippines, the major prewar business association in the country, was opposed to the creation of the PNB, proposing instead an increase in government allocation for agriculture compared to commerce and industry. See Jose Apostol, *op. cit.*, p. 51 and Peter Stanley, *op. cit.*, pp. 234-236.

[15]Quoted in Shepherd, *op. cit.*, pp. 113-114.

[16]*Ibid.*, p. 110.

[17]Golay, *op. cit.*, p. 54.

[18]A.V.H. Hartendorp, *History of Industry and Trade in the Philippines* (Manila: Philippine Education Co., 1961), pp. 49-63.

[19]Frank Golay, *The Philippines: Public Policy and National Economic Development* (Ithaca: Cornell University Press, 1961), p. 347.

[20]Shepherd, *op. cit.*, pp. 112-113.

[21]Usha Majahani, *Filipino Nationalism: External Challenge and Filipino Response, 1565-1946* (St. Lucia, Queensland: University of Queensland Press, 1971), p. 320.

[22]Golay, 1961, *op. cit.*, pp. 242-243.

[23]Robert Baldwin, *Foreign Trade Regimes and Economic Development: The Philippines* (New York: National Bureau of Economic Research, 1975), p. 43.

[24]Development Bank of the Philippines, *Thirty Years of Growth, January 2, 1947-December 31, 1976*, n.d.

[25] Samuel Seidman, "Enterprise and Entrepreneurship in the Philippines, 1949-1959" (Ph.D. dissertation, New York University, 1961), p. 224.

[26]World Bank, *The Philippines: Priorities and Prospects for Development* (Washington, D.C.: The World Bank, 1976), p. 362.

[27]Seidman, *op. cit.*, pp. 228-229.

[28]Baldwin, *op. cit.*, p. 26, 30. The seemingly low mean rate of protection is due to the fact that for some categories of goods, the rate was actually negative.

[29]Bela Balassa, 1971, *op. cit.*, pp. 275-279.

[30]Seidman, *op. cit.*, p. 290.

[31]Golay, 1969, *op. cit.*, pp. 57-58.

[32]Abelardo Samonte and Ledivina Vidallon, "The Sale of the Maria Cristina Fertilizer Plant," in Raul de Guzman, ed. *Patterns in Decision-Making: Case Studies in Philippine Public Administration* (Manila: Graduate School of Public Administration, University of the Philippines, 1963). The Marcelo group won over a rival Filipino industrial group, the Cabarrus family of Marinduque Mining and Industrial Corporation. Although the Cabarrus group initially submitted higher bids, Marcelo managed to have the sale delayed, and other bidding conducted, until he was awarded the fertilizer plant.

[33]David Cole, *The Growth and Financing of Philippine Manufacturing, 1948-1958* (Quezon City: Institute of Economic Development and Research, University of the Philippines, 1962), p. 10.

[34]Alejandro Lichauco, *Imperialism in the Philippines* (New York: Monthly Review Press, 1973).

[35]Francisco Tantuico and Leonor Briones, *Reforms in Philippine Public Administration and Finance in the Seventies* (Quezon City: Commission on Audit, 1980), p. 62, give a much higher estimate of 1.26 million employees for 1979. But even if the lower estimate of the Ministry of Labor and Employment is accepted as the more plausible figure, the increase in government personnel during the period is still quite impressive. The military, on the other hand, grew even faster, doubling its number of personnel in the first few years of martial rule.

[36]National Economic and Development Authority (NEDA), *1981 Philippine Statistical Yearbook*.

[37]NEDA, *1982 Philippine Statistical Yearbook*.

[38]Tantuico and Briones, 1980, *op. cit.*, pp. 67, 77.

[39] *Ibon Facts and Figures,* 30 September 1983, p. 2.

[40] These computations are based on figures from *Business Day's 1000 Top Corporations in the Philippines.* Figures after 1980 generally confirm this trend. In 1982, the 45 state enterprises in the list of 1000 top corporations accounted for almost a quarter of the combined gross revenues of 250 billion pesos of the top 1000 corporations. See also "Government: Bailing Out Bad Business," *IBON Facts and Figures,* No. 123 (September 30, 1983).

[41] Bernardo Villegas, *Strategy for Crisis: The Story of the PNOC.* (Manila; Center for Research and Communication, 1983), pp. 59-68.

[42] *Business Day,* 24 January 1983, p. 8.

[43] The eleven industrial projects, which were regarded by Marcos' technocrats as an important base for the move into the intermediate and capital-goods stages of industrialization, were a copper smelter, an aluminum smelter, a phosphate fertilizer plant, diesel-engine manufacturing, cement industry expansion, coconut industry rationalization, alcogas (alcohol and gas) production, an integrated steel mill, a petrochemical complex, an integrated pulp and paper mill and a heavy engineering industry. However, most of these projects had to be postponed, if not abandoned, due to financing shortfalls as well as pressures from the World Bank and the IMF.

[44] *IBON Facts and Figures,* 30 September 1983, p. 9.

[45] Mamoru Tsuda, *A Study of Japanese-Filipino Joint Ventures in the Philippines* (Quezon City: Foundation for Nationalist Studies, 1978), pp. 120-121, passim.

[46] *IBON Facts and Figures,* 15 July 1983, p. 5.