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Abstract

Part of a proposed anthology, this article provides a concise review of the economic performance during the period of the Marcos dictatorship (1972-1985) from a comparative historical perspective. We examine the external events and internal policy responses that made possible the high growth in the early years of martial law and show that these are integral to explaining the decline and ultimate collapse of the economy in 1984-1985. The macroeconomic, trade, and debt policies pursued by the Marcos regime—particularly its failure to shift the country onto a sustainable growth path—are explained in the context of the regime's larger political-economic programme of holding on to power and seeking rents.

Keywords: martial law, Philippine economy, economic history, political economy
JEL Classification: N15, O53, P48

It may be false-memory syndrome, confusion due to social media, or perhaps the way the period is treated in the schoolbooks[1], but a generation or more of Filipinos has somehow been reared to regard the martial law period (1972 to 1981) as the "golden years" of the Philippine economy.

Those who propagate or subscribe to this view typically cite GDP growth—the usual metric used to assess economic performance—as evidence. Their assertion is lent half-credence by the fact that, in two years of the martial law period, the economy showed the highest annual GDP growth it has ever attained since the 1960s[2]—8.9 percent in 1973 and 8.8 percent in 1976. Those rates have not been surpassed to date (see Figure 1).

But just as it is unfair to evaluate a pupil based on one or two quizzes, so it is anomalous to judge an entire historical period based only on a few years' performance. Viewed from a longer and comparative perspective, the remarkable economic numbers for just those two years, or even the martial law period itself, are the notable exceptions rather than the rule.

[1] Examples of textbook treatment are provided by Go [2017]; significantly, nothing is mentioned regarding economic performance or consequences. By contrast, post-war Germany made it a point to analyse and sum up lessons from its Nazi past. *Vergangenheitsbewältigung* (i.e., coming to terms with the past) entails the renunciation of Nazism in all spheres of public life and the mandatory treatment of its history and human cost as part of the German education system.

[2] These however are not the highest growth rates ever attained in the entire post-war era. The economy grew by 15.5 percent annually in 1947-1951—a plausible development considering the rebuilding efforts that occurred immediately after the war. (See official PSA statistics for the period as well as Baldwin [1975:3].)

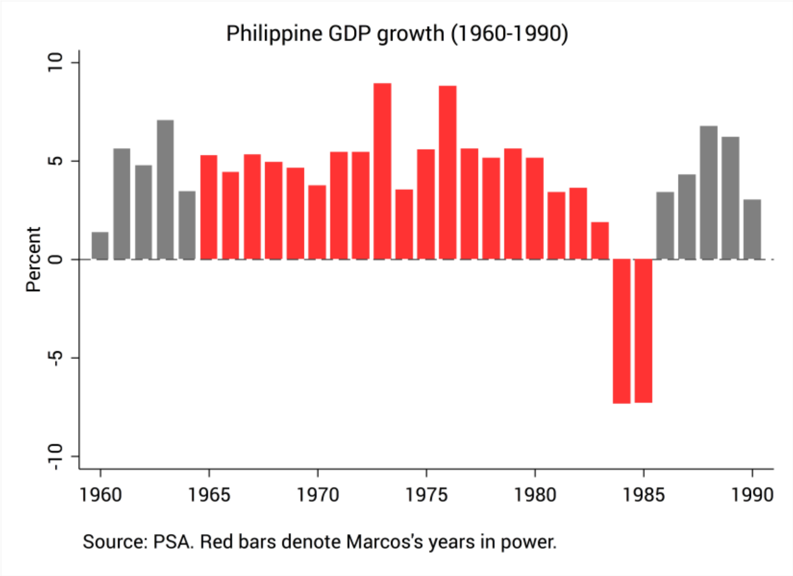

Figure 1.

The years during which Ferdinand Edralin Marcos ruled the Philippines spanned roughly two decades, 1966-1985. During that time, he ruled first as elected president[3] from 1966 to 1972, then as dictator for the rest of the period. Martial law proper was legally in force from 1972 to 1980, but apart from cosmetic changes the period of de facto dictatorship actually lasted from 1972 to 1985 (i.e., until the EDSA People Power Revolution in February 1986). In what follows, the term "martial law period" is used to designate 1972-1980; the period of "dictatorship" or "authoritarian rule" refers to the years 1972-1985; and the "Marcos era" or the "Marcos regime" covers 1966-1985.

On the crudest measure, how did the economy fare in each of those periods? Average annual GDP growth for the entire Marcos era, 1966-1985, was 3.8 percent. Over the period of dictatorship (1972-1985) it was 3.4 percent. For the narrowly defined martial law period, it was 5.98 percent, a figure that includes the exceptional years 1973 and 1976.

Clearly, therefore, the best performance in the Marcos era occurred in 1972 to 1980 (Figure 1). This precedes the decline from 1981, which then ended with the crash of 1984 to 1985—the Philippines' worst economic recession since World War II.[4] Why and how that crash occurred will be discussed shortly. It will suffice first to compare the country's growth record with a similar stretch of history for its neighbors. It will be evident from Figure 2 that even the country's best economic performance at the time was unremarkable in regional perspective. In the same period of almost a decade, all other ASEAN-5 countries managed to attain average GDP growth rates in excess of 7 percent. The Philippine economy under martial law barely reached 6 percent.

[3] Presidential elections under the 1935 constitution were held in November and the term of office actually began the following year.

[4] The 14.1 percent decline of GDP from 1983 to 1985 also surpasses the 9.6 percent contraction of GDP in 2019 to 2020 during the COVID-19 pandemic recession.

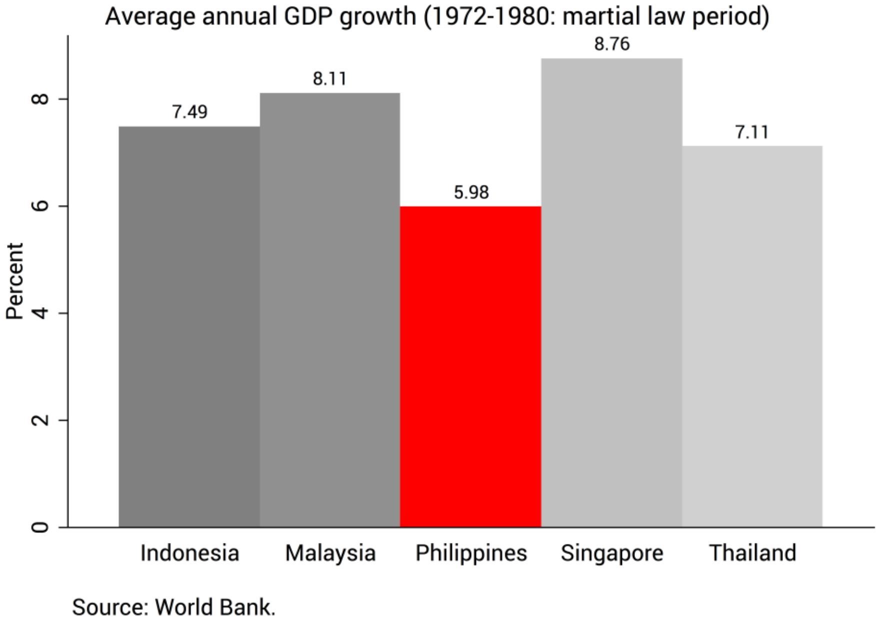

Figure 2.

A more telling comparison however is that between the "best" years under the dictatorship and the more recent and familiar period under democratic government. In the latest nine-year period 2009-2017, annual GDP growth averaged 5.76 percent, which differs only slightly from the 5.98 percent in the nine years of martial law (lower bars in Figure 3). What really matters however is GDP growth *per capita* (the upper bars in Figure 3). Reckoned on a per-person basis, the period of democratic government is associated with faster GDP growth than even the best performance achieved under authoritarian rule, i.e., 4.03 percent in 2009-2017 versus 3.17 percent in 1972-1980.[5]

Needless to say, more recent performance also overshadows the performance during the entire period of authoritarian rule (1972-1985) and the Marcos era more generally (1966-1985). To compare like with like, however, one can also take the two decades of the Marcos regime (1966-1985) and compare it with the last two decades under democratic government (1998-2017). Again the superior economic performance in the latter is evident (Figure 3), whether in terms of annual GDP growth (4.89 versus 3.83 percent) or growth in GDP per capita (3.04 versus 1.09 percent).

The deeper question in assessing economic performance under martial law, however, is why growth performance could not be sustained. The important distinction between recent growth and that under martial law was that these "best years" of dictatorship were followed by a period of crisis and collapse, from 1982 to 1985. Real per capita incomes dropped in 1982 and were not regained until 2003, resulting in "two lost decades of development". By contrast, there are (thus far, anyway) no indications of a catastrophic end to the growth observed over the past decade.

[5] The significantly higher per-capita growth despite almost identical GDP growth is due to lower population growth in the more recent period.

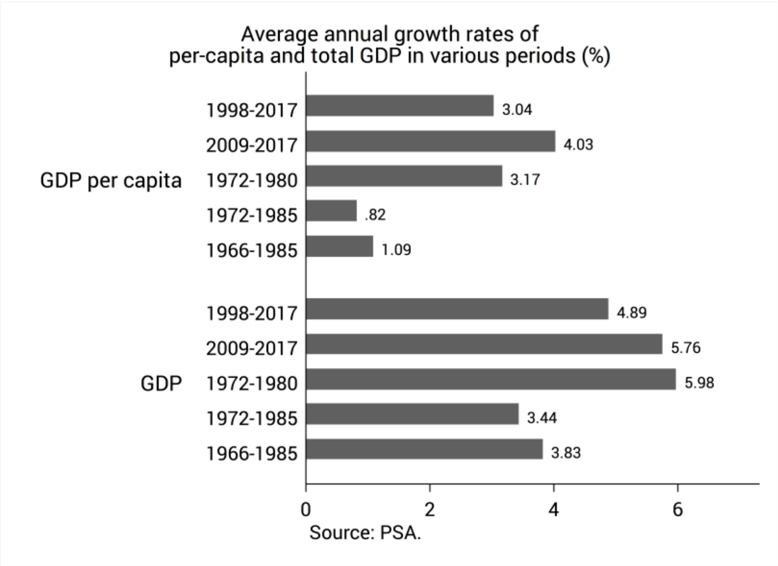

Figure 3.

Before martial law

The inability to sustain high rates of growth was the evident characteristic of the Philippine economy in the past, a feature not unique to the martial law period. But this is not to say the martial law period was largely the same as or typical of any other period in Philippine economic history. That much is evident when one examines the growth record of an even earlier period.

The Philippines actually had the highest GDP growth rate in per capita terms in Southeast Asia in 1950 to 1960. GDP per capita grew at an annual average rate of 3.6 percent in this period, much higher than the Southeast Asian regional average of 2.1 percent, Malaysia's 1.0 percent, Thailand's 2.8 percent, Indonesia's 1.9 percent, and Singapore's 1.3 percent (1956-1960) (Oshima [1983] cited in de Dios et al. [1984:8]).

The following decade, 1960-1970, witnessed a complete reversal. Not only did Philippine annual average per capita GDP growth buck the upward regional trend and decelerate from its record in the previous decade, the Philippines became the slowest-growing country in Southeast Asia. Its annual average per capita GDP growth rate of 2.2 percent, only slightly lower than Indonesia's 2.3 percent, was below the Southeast Asian annual average per capita GDP growth rate of 3.8 percent, up from the earlier regional per capita average of 2.1 percent [Oshima 1983].

The slowdown throughout the 1960s was ultimately traceable to the prolonged failure of the government's program of industrial protection. The country in the 1950s had used extensive and complex trade restrictions to limit the imports of finished consumer goods. The hope was that by constricting imports, local industries and Filipino entrepreneurs would emerge to supply a protected domestic market, thus laying the basis for a thoroughgoing industrialisation. A complex system of foreign-exchange controls and allocation according to strict priorities and quotas—essentially restricting imports of final consumer goods and favouring imports of inputs and capital goods—was employed from the 1950s to 1962.[6]

These policies were the basis of the high growth in the 1950s. Ultimately, however, what was later called the strategy of "import substituting industrialisation" (ISI) was unsustainable and proved a failure. Imported consumer goods were indeed replaced by manufactured local substitutes, but the composition of the country's imports—and the state of its dependence—

[6] Baldwin [1975] and Power and Sicat [1971] are useful references.

merely shifted to imports of capital goods and intermediate inputs. Even as the country stopped importing refrigerators and air conditioners, for example, it began to import sheet steel, compressors, and other machinery. It stopped importing canned milk but began importing tin plate and powdered milk to produce substitutes. By the late 1950s, almost all of the country's imports (around 90 percent) already consisted of producer goods and no further easy possibilities existed for import-substitution. The domestic market proved too small to reap economies of scale and reduce costs, while protection removed the pressure for the "infant industries" to become efficient.

Meanwhile the country's exports remained confined to raw materials and semi-processed products (coconut, sugar, abaca, minerals, and later timber), the demand for which was sluggish and erratic. Exports were penalised, with exporters made to surrender their foreign exchange-earnings at unfavourable exchange rates. Beyond economics, however, what made the system more objectionable was its proneness to corruption, with politicians interceding to allocate scarce dollars in behalf of favoured clients—in exchange for bribes.[7]

As a result, the pre-martial law economy was characterised by perennial trade deficits and balance of payments crises, which resulted in an economy that could grow only in fits and starts. From double-digit growth rates in the early 1950s, manufacturing was only growing at four percent annually by the early 1960s.[8] Growth would resume or accelerate, only to run up against shortages of the foreign currency needed to sustain the demand for higher imports. The Macapagal administration in late 1962 finally took the unprecedented step of abolishing the exchange-controls system, allowing its replacement with a system of high tariffs, while at the same time devaluing the peso by 48 percent.[9] These moves resolved the problem in the short term, and the country for a time ran nearly balanced (and occasionally even positive) current account balances.

But this first devaluation provided only temporary relief: foreign-exchange crises would continue to hound the economy even after Marcos took over. The quota system was abolished, average protection was significantly reduced, but the protectionist system remained in the form of high tariffs on finished products. This meant that industries continued to be geared towards the small domestic market, and all the disadvantages of import-substitution still had not been overcome.[10] Even the corruption that had plagued the exchange-controls system merely morphed into physical and technical smuggling in the effort to evade high tariffs. In the meantime, a number of the country's neighbours—notably Taiwan, South Korea, Singapore, and Thailand—had completed or had at least begun to shift to a strategy of export-oriented industrialisation, choosing instead to serve a larger global market.

When Marcos first assumed office in late 1965, his administration largely took over and did not change the protectionist system with its attendant faults. An influential study in the late 1970s concluded that a decade later, "the structure of protection has apparently not changed much in its overall character since 1965" [Bautista, Power, et al. 1979]. The protection of consumer goods remained much greater than that of intermediate inputs and capital goods[11] (see Figure 4).

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[7] Manapat [1990:80] notes that the quota system was one of the first sources of Marcos's accumulated wealth. As congressman, Marcos was chair of the committee on industry and a member of the special committee on import and price controls and reparations; this position allowed him to exert influence with the central bank, which was in charge of granting import permits and dollar allocations.
[8] See Baldwin [1975:3, Table 1-1].
[9] The peso was devalued from ₱2 per dollar to ₱3.90. Currency devaluation was not an action the Philippines could undertake without U.S. concurrence under the Philippine Trade Act of 1946. This move became possible only after the Laurel-Langley Agreement amended that law-cum-treaty in 1955, and even then the measure was resisted by Pres. C. Garcia and the central bank governor M. Cuaderno.
[10] A good summary of the problems of import-substituting industrialisation in general is given by Szirmai [2015:347ff].
[11] Table 1 shows *effective* rates of protection, reflecting not only differences in tariffs on the various types of output but also differences in the tariffs on the inputs to those outputs.

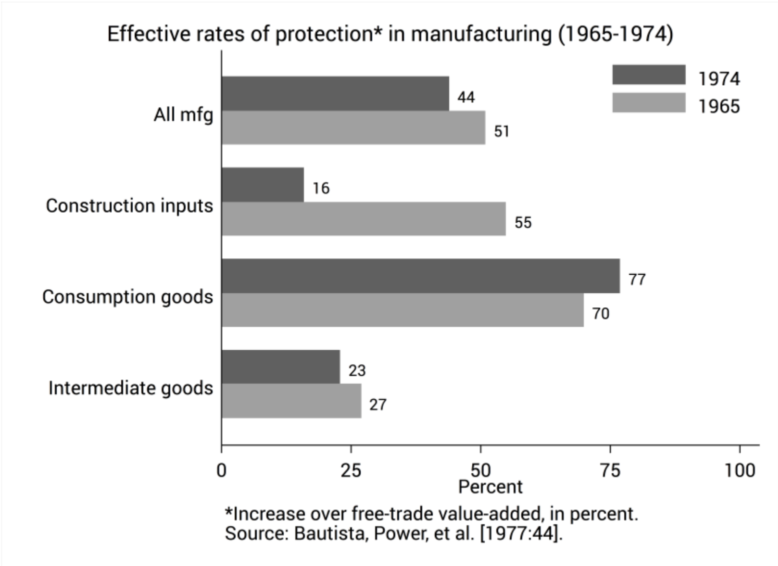

Figure 4.

Under fixed exchange rates, with little or no change in the import-dependent industrial structure, and with the economy relying on the erratic fate of traditional exports, any economic expansion was bound to be limited by the available amounts of foreign exchange. Surges of private or public investment beyond saving were bound to manifest themselves as current-account deficits, leading to foreign borrowing, declining international reserves, or both.

In the event, under a slogan of "rice, roads, and schoolhouses", the first Marcos administration (1965-1969) broke with the conservative fiscal and monetary policy tradition of previous administrations and instead pursued highly expansionary monetary and fiscal policy in an attempt to accelerate economic growth. Government construction spending surged by 92 percent in 1966-1970 relative to the annual average in the previous five years, i.e., from ₱273.8 million to ₱525.6 million, rising from 15.8 percent to 20.7 percent of all construction spending—trend rising [de Dios et al. 1984: 11, Table 2]. Government spending, including expenses by government corporations and financial institutions, continued unabated and rose by 25 percent in 1969, with the national government budget deficit tripling.

Monetary policy was equally expansionary: from growth of just 6.3 percent in 1965, money supply (M3) grew by 15.4 percent in 1966 and by 21.3 percent in 1967. The central bank greatly expanded its lending to government corporations and financial institutions through state banks. Part of this expansion however was also political in a narrower sense and was related to electoral contests. Mainstream press coverage of the time referred to the 1969 re-election victory of Marcos in particular as the "dirtiest", "most violent", and "most corrupt", in which huge amounts were spent on propaganda, fraud, and patronage.[12]

As might be expected (see Box: Open-economy accounting), such an expansion of spending showed up as large deficits on the trade balance, the current account, and as a fall in foreign-exchange reserves, putting pressure on the exchange rate. The annual average current-account deficit widened almost tenfold from $22 million in the 1960-1965 period to $213.6 million in 1966-1970. From a trade surplus in 1966, imports outpaced exports beginning in 1967, leading to a current-account deficit equivalent to 3.2 percent of GNI by 1969. The country's foreign-exchange reserves, on an uptrend since 1962, fell from $193.6 million in 1965 to $121.3 million by 1969. Indeed just between 1968 and the election year 1969, total reserves fell by some 43 percent.[13] The latter lends credence to Salonga's [2001:140] contention that,

[12] Editorial comments from *Newsweek* (24 November 1969 and 16 February 1970) and *Time* (16 February 1970), as quoted in Salonga [2001:140]

[13] These data are obtained from the World Development Indicators.

"Marcos used up the foreign exchange reserves [for the elections] and so depleted the National Treasury that not enough resources were left to service the mounting external debt and cover a huge trade deficit".

These deficits were ultimately financed by both domestic and foreign borrowing. Foreign borrowing to replenish the reserves accelerated in 1969, significantly involving an IMF loan that required a peso devaluation among its conditions. The government abandoned the fixed exchange rate system and adopted a floating rate (actually a managed float) in 1970, resulting in an effective peso devaluation of 39 percent, from ₱3.90 to ₱6.40 per dollar. Aside from a devaluation, the stabilization program required tighter fiscal and monetary policies to reduce domestic spending and restore internal balance between saving and investment. From a peak of 56.4 percent in August 1973, annual growth in the monetary aggregate M3 declined to 7 percent by May 1980 (see Figure 5).

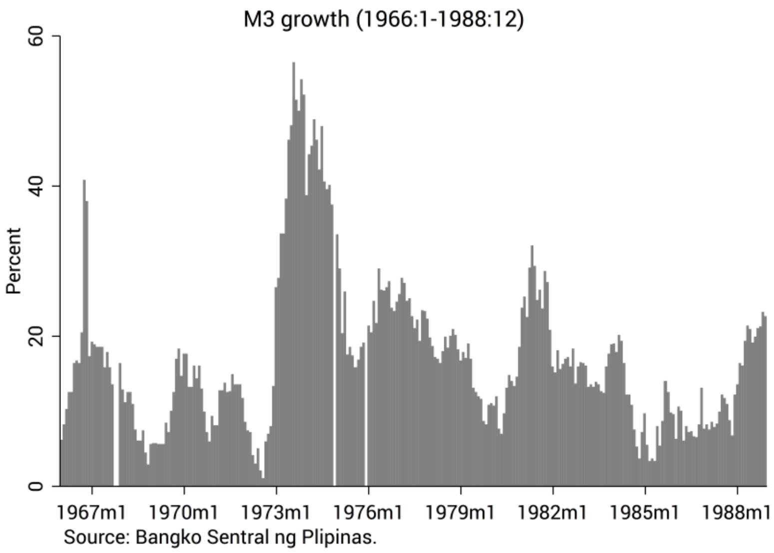

Figure 5.

Gross fixed capital formation as a percent of GDP fell from 19.7 percent in 1969 to 18 percent in 1970 and further to 17 percent in 1973 (see Figure 6).

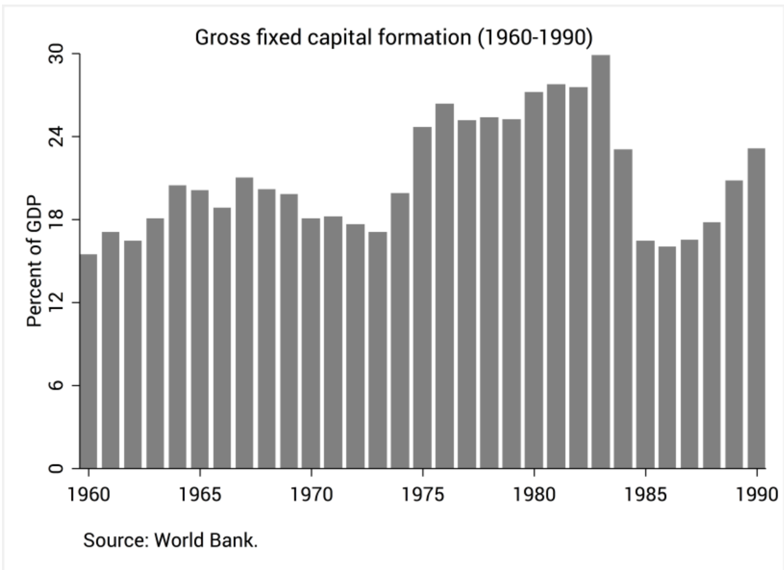

Figure 6.

Devaluation, combined with a series of devastating typhoons,[14] set off a spike in inflation, which rose from low single digits in the preceding period to an unprecedented 15-16 percent in 1970-1973, before peaking at 34 percent in 1974, the year of the global oil-price shock. (see Figure 7) The resulting erosion of real wages and living standards due to rising fares and goods-prices was a major catalyst for transport and labour strikes and increasingly strident mass demonstrations in the 1969-1972 period—which in turn were subsequently exploited by the Marcos regime as a rationale for declaring martial law.

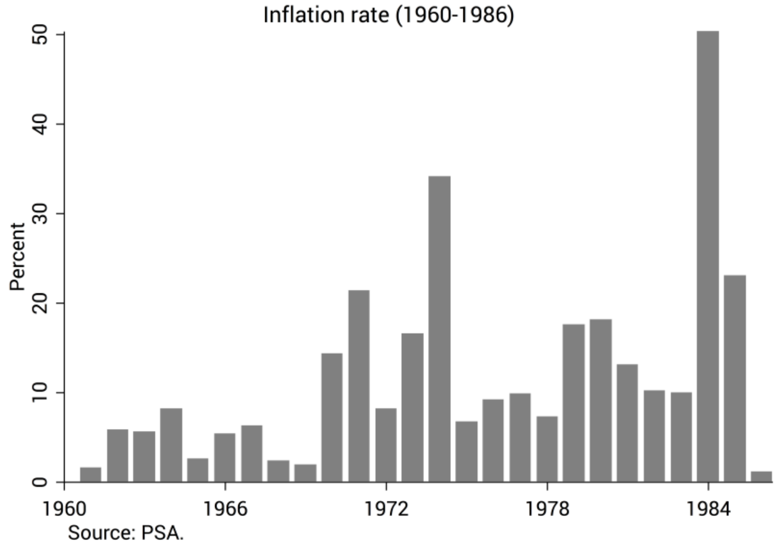

Figure 7.

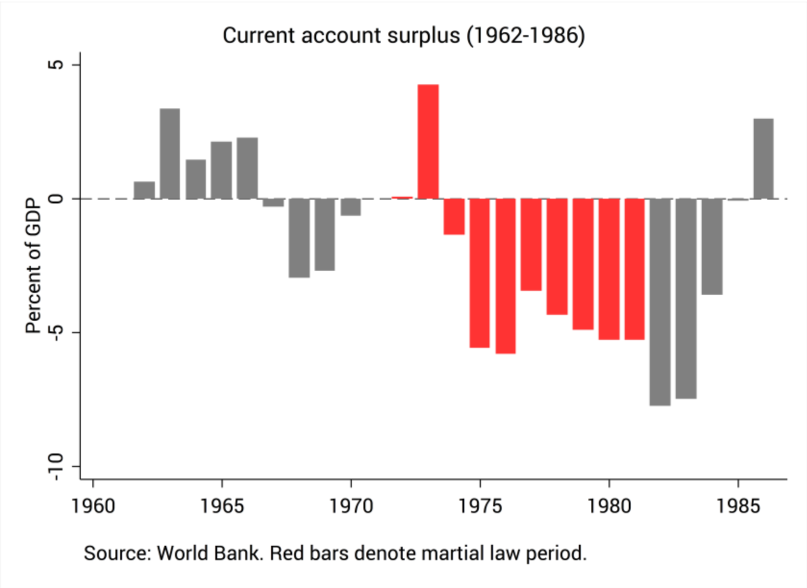

Figure 8.

As in 1962, the devaluation-cum-fiscal and monetary tightening resolved the immediate problem of fixing the current account deficit; this shrank from 3.2 percent of GDP in 1969 to 0.7 percent in 1970 (see Figure 8). By 1971, the current account was in balance and in surplus by 1972. Furthermore, the terms of trade—the price of exports relative to that of imports—

[14] The super typhoons Pitang, Sening, Titang, and Yoling all passed the country in 1970. Titang in Mindanao and the Visayas and Yoling in Luzon were particularly destructive in terms of deaths, property damage, and lost output.

had turned in the Philippines' favor at least temporarily, and also helped boost export values. The prices of tradable relative to non-tradable goods increased and maintained its upward trend until about the mid-1970s. The real exchange rate index, for example, increased from 74 to 109 between 1969 and 1970, while the real price index of exports rose from 90 to 118 between the two years [Dohner and Intal 1989:180].

Martial law and debt-driven growth

If nothing else had occurred, it would have been easy to predict a repeat of the past boom-bust syndrome that the economy had experienced since the 1950s. That was a pattern where expansionary fiscal spending and loose monetary policy—often motivated by a political cycle—would create a growth spurt that would ultimately hit a wall after a few years when foreign-exchange reserves threatened to run out.

That was indeed what initially happened: after martial law was declared, government's capital outlays practically doubled from ₱1.2 billion in 1972 to ₱2.28 billion in 1973, of which outlays for infrastructure rose from ₱679 million in 1972 to ₱1.1 billion in 1973 [WP 1984: 33]. Public sector fixed investment increased from two percent to 6.5 percent of GNP between 1972 and 1976, even as tax revenues as a share of GNP barely changed from 12.5 to 13.5 percent [Dohner and Intal 1989: 178]. The government consciously pursued expansionary fiscal policy in the early 1970s (or at least until the IMF's Extended Fund Facility (EFF) program took effect in 1976). As a result, the consolidated public sector deficit—which includes the fiscal position of the national government, LGUs, GOCCs, social security systems, etc.—reached 13.1% of GDP in 1976, and again hovered between 13% to 14% in 1980, 1981, and 1982 before abating (see Figure 9).

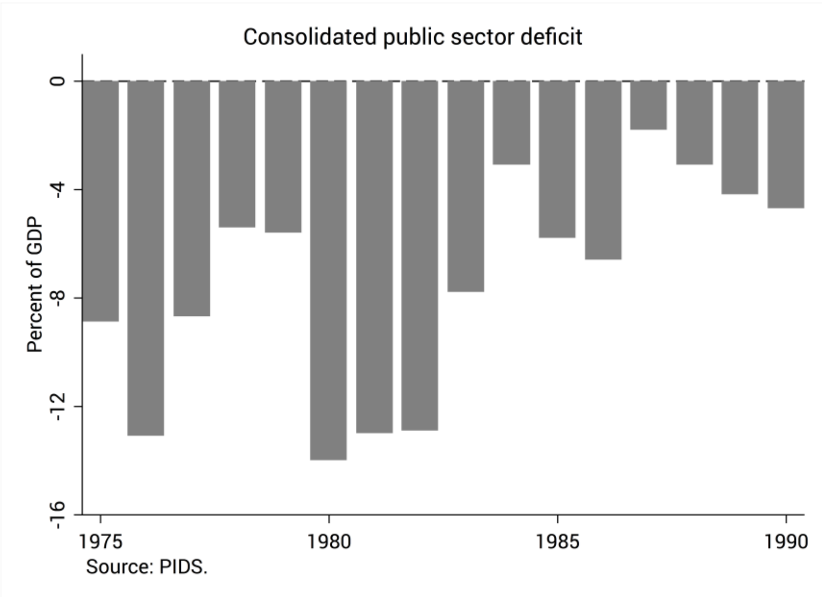

Figure 9

Monetary policy was expansionary as well. From a low annual growth of 9.7 percent in the 1966-1970 period, narrow money (M1) grew at an average annual rate of 16.8 in 1971-1975 [Dohner and Intal 1989:11]. The economy also benefited from rising prices for major commodity exports like sugar and coconut oil which had already begun in 1973.[15] The share

[15] Sugar prices rose from 9.9 cents (US) per kilo to 20.9 cents between 1971 and 1973. The price of coconut oil rose from $365 per metric ton to $513 between the same years. These would rise even further, reaching a peak in 1974, although these would fall back soon after (Figures 10a and 10b).

of exports in GDP rose as a result from 12.8 to 16.7 percent between 1972 and 1973. In a rare feat, the current account surplus rose even as GDP growth rose. But this would be the first and last time the country would run an active current account under the Marcos dictatorship (Figures 10a and 10b).

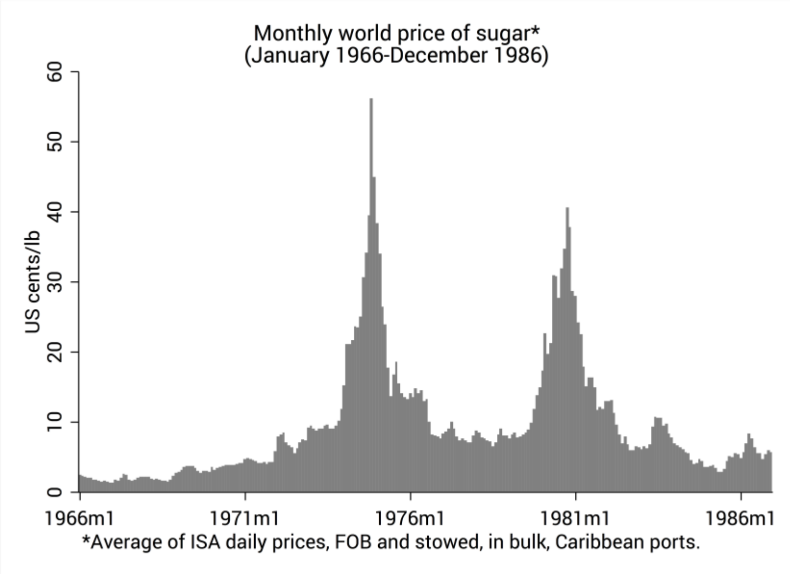

Figure 10a.

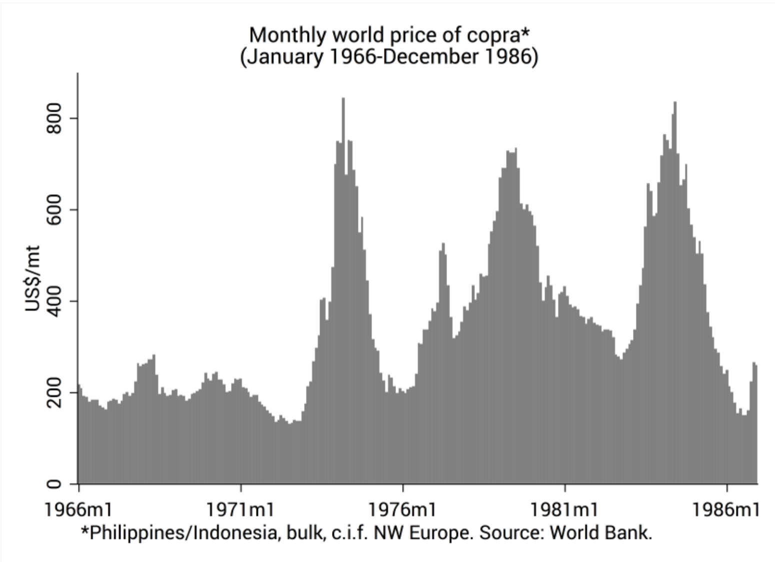

Figure 10b.

The double-barrelled expansion of domestic and foreign demand explains the high growth achieved immediately after martial law. The real question however is what allowed growth to persist thereafter. As it turned out, significant developments would change the old pattern to the regime's benefit and permit an extended period of growth.

In October 1973 Middle East oil-exporting countries imposed an embargo on their oil exports that resulted in a drastic quadrupling in the world price of crude oil.[16] This by itself would have permanently killed off the growth episode as the country's import bill jumped from 14.3 to 20.6 percent of GDP owing to its oil dependence[17]; the current account also promptly swung back into deficit. The unprecedented high GDP growth of almost 9 percent in 1973 was followed by a collapse to just 3.6 percent in 1974, basically stagnation in per-capita terms.[18] Inflation rose to an unprecedented 34 percent for the year. The sudden spike in world petroleum prices, however, caused a sympathetic jump in the prices of most world commodities, including the Philippines' major exports, whose prices were already rising to begin with. The price of coconut oil shot up from US$365 per metric ton in 1973 to US$998 in 1974. That of sugar trebled from 20.9 US cents to 66 per kilo in the same period (Figures 10a and 10b). This prevented the oil price shock from being a complete rout of the current account.

More crucial than world prices of traded commodities, however, were developments in international finance. The huge foreign-exchange reserves earned by the Middle East oil producing countries from their oil embargo and price hikes needed ultimately to be "recycled", i.e., deposited in non-U.S. banks, especially in London, to earn from being lent out. What became known as the "eurodollar" loan market[19] then expanded rapidly from just US$ 42.2 billion in 1970 to US$198.7 billion in 1975 and US$614.6 billion by 1980.[20] Prime clients for such loans from commercial lenders were the less-developed countries (i.e., what would now be called "emerging economies") in Latin America and East Asia, such as Brazil, Mexico, and Argentina—including the Philippines—which seemed at the time to show great promise of growth but which were experiencing payments difficulties because of global price shocks.

The availability of large amounts of commercial-bank credit proved a game-changer for the Philippines and other emerging economies. Most international lending to governments until then had come from multilateral and bilateral sources and was inevitably bound up with prior stipulations, such as restrictions on use, the nationality of suppliers, or macroeconomic "conditionalities" on fiscal and monetary policy. (An example of the latter was such as the EFF from the IMF already referred to.)

The eagerness of commercial lenders to extend credit to sovereign governments, on the other hand, meant such banks became less discriminating in their appreciation of the programmes that borrowing countries undertook. The important condition, as far as these private banks were concerned, was that such loans were backed by the "full faith and credit" of the borrower-governments, which meant these were government-guaranteed and risk-free—at least in principle.

An added attraction to commercial lenders was that most loans carried floating or adjustable interest rates. The typical contract for a medium- or long-term commercial loan stipulated that interest payments due would be recalculated every six months over the term of the loan based on a spread over some reference global interest rate[21]. This protected the lenders against

[16] The 1973 oil embargo was as much an assertion of political power of these countries as a pragmatic exercise of economic leverage. It was primarily directed at the Western countries that had supported Israel in the Yom Kippur War in October of the same year.
[17] The Philippines was then still heavily reliant on imported oil, not just for transport but for power as well.
[18] Per-capita GDP growth was 0.76 percent for that year.
[19] The politics of the era and laxer banking regulations in Europe made most Middle East governments of the time prefer to hold their reserves outside the U.S. A "eurodollar" was a dollar-denominated short-term deposit held outside the U.S. in a non-U.S. bank or a subsidiary of a U.S. bank, typically located in London or some other European financial centre; hence the prefix "euro-". (This had nothing to do with the "euro" currency, which came into existence only in 1999.)
[20] These figures refer to the dollar value of nonbank liabilities of banks active in the eurodollar market and are taken from Altunbas et al. [2006:18, Fig. 3.4].
[21] These days this reference rate is typically the LIBOR (London Interbank Offer Rate), which established itself as a benchmark only from 1986.

inflation, although it left borrowers at the mercy of fluctuating world interest rates—ultimately a fateful complication.

In the meantime, this heralded a historically unprecedented episode for the Philippines: the country was able to run current account deficits averaging five percent of GDP annually for an entire decade (1973-1982) without running into a payments crisis (Figure 8). The bulk of the deficits were financed precisely by the more liberal foreign loans that had become available. The share of foreign-bank creditors in the country's external debt rose from just 27.3 percent in 1972 to 49.6 percent by 1982.[22] The stock of foreign debt rose accordingly from $2.67 billion in 1972 to $24.4 billion by 1982 and $28.2 billion in 1985, the regime's last full year. These were equivalent respectively to 34, 68, and 91 percent of GNI for those years (Figure 11).[23] In the meantime, this period of debt-driven growth allowed GDP to grow more or less continuously by an average 5.5 percent annually—a respectable achievement, though by no means a regional standout.

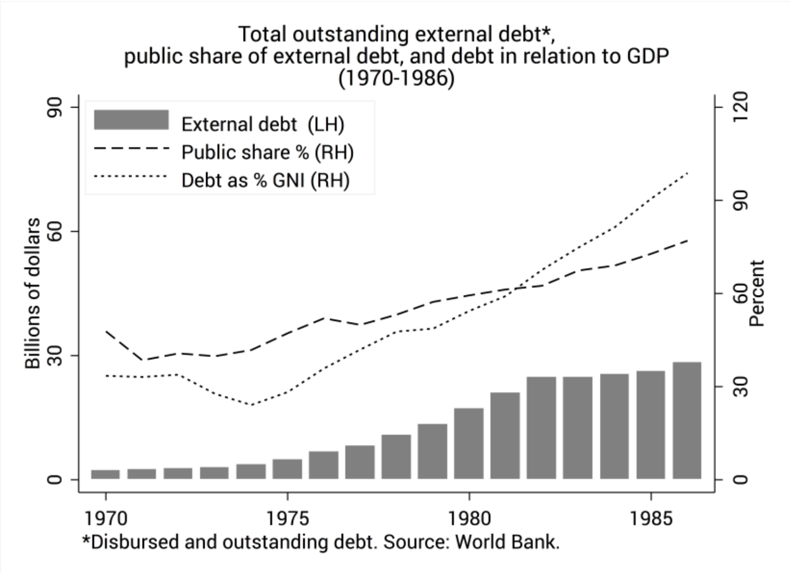

Figure 11.

Debt crisis

The end of this growth episode finally came in 1981-1982—provoked likewise by global financial events. US monetary authorities from 1981 had begun to pursue drastically tighter monetary policies to stem inflation. This resulted in high US interest rates and ultimately provoked a recession in that country. While meant primarily to solve a domestic problem, the US policy had far-reaching global repercussions, for US and global interest rates were (and are) inextricably linked by international capital flows, and the tightening of US monetary policy meant other developed countries had to keep in step by raising their own interest rates. As the US federal funds rate rose from around 9 percent in July 1980 to 19 percent by June 1981, the six-month eurodollar deposit rate also rose from 9.5 percent to 18.8 percent in August 1981.[24] Ultimately the major developed countries also experienced negative growth and high unemployment.

[22] These figures are from Boyce [1993:268, Table 9.5].

[23] These figures are from the World Bank. Owing to changing estimates of the foreign debt at the time, these figures differ slightly from those given in earlier sources, e.g., Dohner and Intal [1989: 506-507, Table 6.1].

[24] These data come from FRED, Federal Reserve Bank of St. Louis.

For the debt-reliant countries, the Philippines included, this represented a double-whammy. On the one hand, the demand for exports weakened because of the global recession (see the fall in commodity prices from 1981, Figures 10a and 10b). On the other hand, those countries confronted an ever-rising debt service bill since, as mentioned, many of the contracted loans were indexed to world interest rates. The upshot was that large borrowers, notably Mexico and Argentina, declared a payments moratorium on their debt in 1982. The Philippines soon followed suit in October 1983. All in all 27 indebted countries would declare a moratorium or seek a debt rescheduling.

Writing in the aftermath of the 1982 debt crisis, R. Dornbusch and S. Fischer [1986:837] summarised its origins: “The question of the origin of the 1982 debt crisis is easily answered. Imprudent borrowing policies in the debtor countries and imprudent lending by commercial banks had a chance encounter with extraordinarily unfavorable world macroeconomic conditions that exposed the vulnerability of the debtors and the creditors.”

After Mexico’s default, global lending to developing countries essentially dried up. Banks that had previously lent out money so liberally now became miserly and skittish about extending further credit to countries that had run into payments difficulties—suddenly fearful of not being repaid and of “throwing good money after bad”. During this period, the Philippines was able to successfully syndicate and access only a single loan of $300 million.

For the Philippines, the debt crisis was precipitated by a fourfold increase in interest payments on external debt between 1978 and 1982, from $379 million to over $1.65 billion, owing both to the accumulated borrowing and to the higher interest rates in capital markets [Dornbusch and Fischer 1986: 837]. Interest payments on foreign debt had been declining as a percent of national income in the early half of the 1970s until 1975, but these rose steeply beginning in 1976 from 1.08 percent to 6.82 percent in 1982 (Figure 12).

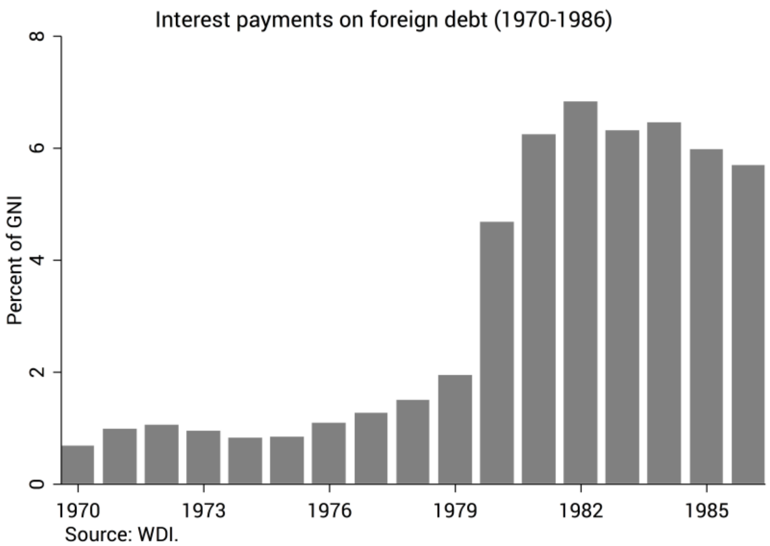

Figure 12.

The country was also borrowing on an increasingly short-term basis simply in order to repay its maturing debt. Short-term debt as a percent of total international reserves was over 1,000 percent and had not even peaked (Figure 13).

Figure 13.

By 1982 the country's international reserves had become so depleted they would not even cover a month's worth of imports (Figure 14).

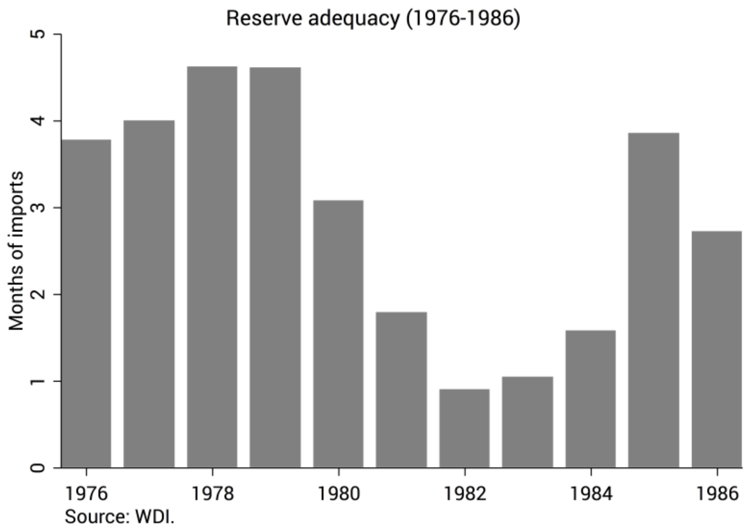

Figure 14.

The collapse of investment confidence owing to the brewing crisis was aggravated by the public outrage and political turmoil caused by the brazen assassination of ex-Senator Benigno Aquino, Jr. in August 1983 and the uncertainty over the ill health of and succession to Marcos. In 1984, after the country had declared a moratorium on its debt payments, added burdens came in the form of punitive monetary policies imposed by the IMF: the government had failed to achieve previous IMF performance targets and to conform to conditionalities. What was worse, the central bank under J. Laya had been found out overstating the country's international reserves which, aside from breaching trust, meant the situation was even more desperate than the regime presented it to be.

With credit lines cut off, the Philippines basically had to subsist only on export earnings for its foreign exchange needs. The country had to cut back on producer (and even more on consumer-goods) imports, and a system of foreign-exchange rationing was re-imposed. As part of conditions for securing new emergency funding, the peso was devalued in 1983 from about ₱10 per dollar mid-year to ₱14 by year's end. By end-1984 the exchange rate would be almost ₱20 to the dollar. Money supply was drastically contracted through the issuance of high-interest bearing securities by the central bank (the so-called "Jobo bills"[25])

The resulting supply shock had a crippling impact on production and employment. The sharp peso devaluation, the high interest rates, and the physical shortages of input-supplies caused inflation to spike from an already high 10 percent in 1982-1983 to an unprecedented 50.3 percent in 1984 (Figure 8).

In a classic case of supply-side shock, output contracted by 7.3 percent in 1984 and fell by another 7.3 percent in 1985—the worst recession the country had experienced since World War II. The resulting factory closures and layoffs led to a rise in open unemployment from 5.3 percent in 1981 to 7.1 percent in 1984.[26] But it was underemployment that rose even more drastically—from 24 percent to fully one-third of the employed in the same period, as self-employment and informal-sector jobs replaced formal work for many people. The dire social effects are discussed more fully in later sections. As is well known, this economic debacle spelled the end of the entire experiment of Marcosian authoritarianism, as finally even a large segment of the business and financial sector joined the popular opposition to the regime.

Bad luck, bad policy, or bad faith?

The crucial question for students of the period and citizens alike is whether the economic crisis under the dictatorship was due to unfortunate circumstances, misguided policy, or deliberate malfeasance and corruption—was it bad luck, bad policy, or bad faith? The short answer is not one but all of the above.

A view easily disposed of is that unfortunate political factors were mainly responsible. While the collapse of business confidence immediately after Aquino's assassination in 1983—plus the uncertain leadership succession given Marcos's precarious health—certainly exacerbated the crisis, it by no means created or precipitated it. As the de Dios et al. [1984:2] (henceforth "White Paper") put it, "The Aquino assassination...simply tore through the already weakened fabric of the economy". Indeed, Aquino's return (and eventual assassination) in 1983 was motivated by the *prior* realisation that the country was facing a crisis.[27]

Another "bad luck" story that must be qualified is the occurrence of the second oil-price shock[28] of 1979. As in 1974, this also substantially raised the country's oil import bill and widened the current account deficit. It was sometimes contended the Philippines had "no choice" but to engage in heavy borrowing to keep the economy afloat during the shock, and that the country was simply an unwilling (and innocent) victim of the global panic among commercial creditors following the Mexican default.

While foreign borrowing is certainly justified as mode of adjustment to external shocks, the country was already rapidly digging a debt hole well before the second oil crisis in 1979. As a percentage of total external debt, international reserves fell continuously from 50 percent to 20.2 percent between 1974 and 1977 (see Figure 15). This figure would deteriorate further to 13.7 percent to 1981 and to only 3.5 percent by 1983.

[25] The reference is to the byname of central bank governor J. Fernandez, who replaced J. Laya, following the latter's firing for the overstatement of the Central Bank's dollar reserves under his tenure. These central bank certificates of indebtedness carried interest rates in the order of 40 percent per annum.
[26] One should be cautioned, however, regarding the reliability of some statistics during the time of the dictatorship.
[27] Aquino's awareness of the worsening crisis was evident in his planned arrival speech, in which he wrote, "I could have opted to seek political asylum in America, but I feel it is my duty, as it is the duty of every Filipino, to suffer with his people *especially in time of crisis*" [Emphasis supplied]. In this sense, at least, Aquino's assassination did not cause the crisis.
[28] This time the shock was precipitated by the Iranian Revolution, which disrupted and reduced world oil production and caused the world price of oil to double.

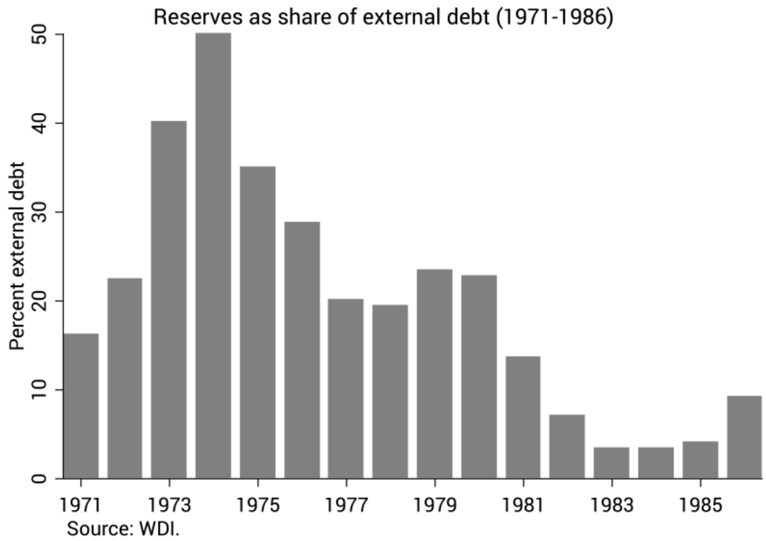

Figure 15.

Meanwhile, short-term debt as a percentage of international reserves climbed from 52.9 percent in 1974 to 92 percent in 1976, and up to 183.5 percent in 1978 (Figure 12). (This would worsen finally to 329 percent by 1981—three-and-a-half times that in 1976.) This meant that the country had to increasingly resort to short-term borrowing to remain liquid.

The country ran up a debt stock more aggressively than some of its neighbours. Well before the second oil shock, the country's ratio of external debt to GNI had reached 42 percent in 1977, even higher than Mexico's 39 percent. These ratios continued to rise so that by the time of its moratorium in 1982, Mexico's debt was 52 percent of its GNI—that of the Philippines was 68 percent.[29] These patterns suggest that well before the oil price shock, the regime's economic managers had deliberately decided to take on the risks of an aggressive borrowing plan. That much, therefore, was not bad luck but conscious policy.

But even such data are not necessarily a cause for reproach. In its post-mortem of the crisis, the White Paper pointed to other countries (South Korea, for example) that had comparable pre-crisis levels of indebtedness but did not necessarily run into debt trouble. From this perspective, the Philippine case only raises further questions. After all, even at a rudimentary level, if foreign borrowing was undertaken to acquire financial or physical assets, i.e., investment, then the value and returns from such assets should have sufficed to stave off future repayment difficulties. The record indeed shows (Figure 6) some of the highest rates of investment occurring during the martial law period. From a low of 20.8 percent in 1972, investment rose consistently as a percentage of GDP and peaked at percent 32.9 percent in 1976. But whether investment contributes to future growth—which is what it is mainly supposed to do—depends on how well those investments were chosen and the time-pattern of their payoffs.

Two observations speak to less innocent or benign factors relating to investment—and both are related to the political economy of martial law that will be discussed further below. Apparent in aggregate data is the growing inefficiency in the selection of projects, for which the foreign funds were presumably used. This can be seen first of all in the falling trend of capital productivity beginning in the mid-1970s (Figure 16). The productivity of capital was low and plunging dramatically between 1973 and 1985. From 1.67 in 1973 (where 2000=1.0), the capital productivity index plunged to 0.97 in 1985. This is consistent with a high capital-

[29] Corresponding 1982 figures for Thailand and Indonesia were respectively 34 percent and 29 percent. These figures come from the World Bank..

intensity of the projects undertaken by the regime during the period, as borrowed funds became readily available to favoured state and crony firms (discussed further below). The decline reflects the deteriorating efficiency of many of these projects through time.

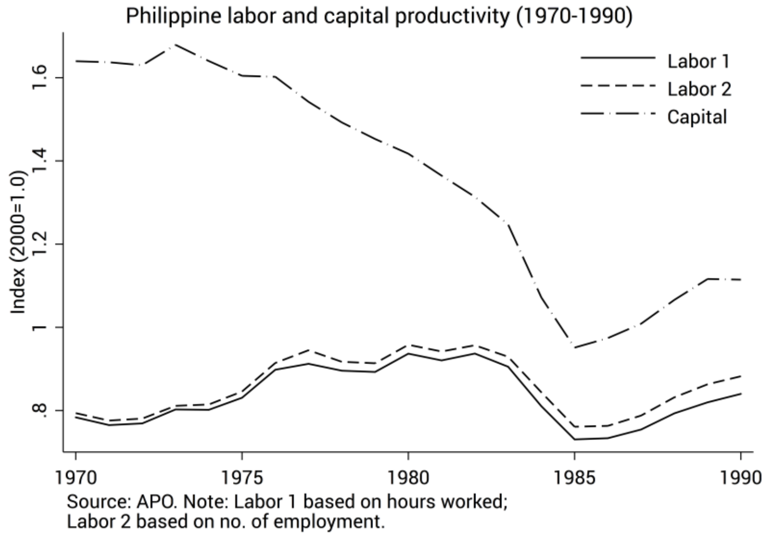

Figure 16.

The same trend can be seen in another measure of investment efficiency, the ICOR or incremental capital-output ratio (Figure 17).[30] Compared to the earlier period 1967-1972, ICOR had already risen—a worrisome trend—from 3.9 to 4.57 in 1974-1980 and rose further to 7.3 in 1980-1982. By 1983, ICOR had reached 15.72. Such numbers suggest that increasing amounts of capital were needed to "purchase" growth. Over the entire period 1974-1980, the Philippines' average ICOR OF 4.57 was the highest among its regional neighbours.[31] South Korea had the second highest ICOR of 3.87 in the same period, while Indonesia had the lowest. At any rate, those countries used capital more efficiently to produce output and generated annual average GDP growth rates in excess of 7 percent; the Philippines only grew at 6.46 percent.

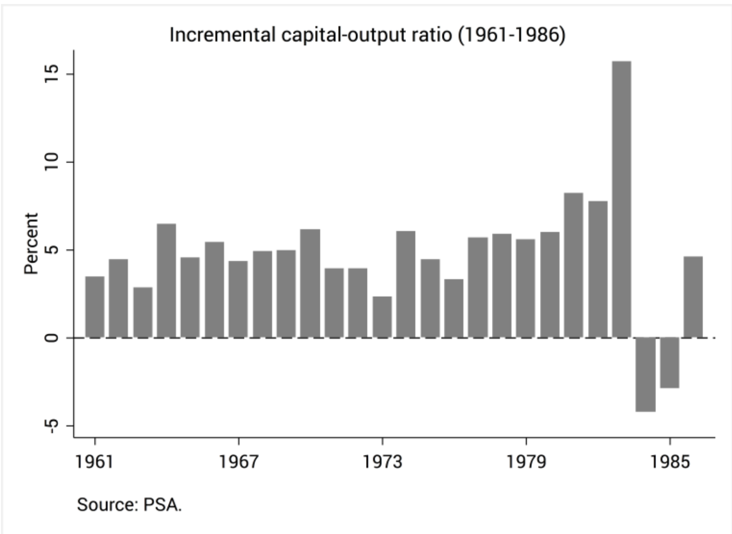

Figure 17.

[30] The ICOR is the ratio of investment to a change in output. On the premise that an increase in the capital stock ought to produce a long-term increase in output, the ICOR asks whether that needed increment in the capital stock is large or small to produce a given increase in output—a smaller number implying greater efficiency.
[31] Dohner and Intal [1989:176].

A second phenomenon to explain the inefficacy and unsustainability of foreign borrowing is capital flight. A significant fact—not widely reported during the period itself—is how the level of contracted debt is only partly explained by the need to support the current account.

For 1972-1985, total external debt in nominal terms increased by $27.4 billion. The cumulative current account deficit for the same period however was $16.3 billion, so that only some 59 percent of the additional debt could be accounted for by the need to finance the current account.[32] This implies that a significant part of the debt may not even have been productively invested in the country but rather used to finance capital flight. While no official statistics are available, the careful estimates by Boyce [1993: 279-301] give an idea of the problem's scale. These estimates are based on the discrepancy between cumulative current account deficits and the additional debt accumulated over a period, less recorded foreign investments by Filipinos, the assets still held abroad by local banks, and the central bank's reserves. Possible understatement of exports and overstatement of imports—common means of "dollar salting" even before martial law—are also included.

The results are shown in Figure 18, which shows an intensification of capital flight beginning 1975, when commercial loans became available, the biggest spike occurring just before the debt moratorium of 1983. Given the regime's tight control of the economy at the time, it is not far-fetched to think much of this capital flight occurred with prior knowledge and to the benefit of the members and cronies of the Marcos family.

Estimated capital flight under the dictatorship (1973-1986) was $9.7 billion in nominal terms and $11.3 billion in real terms[33]—or 34 percent and 40 percent respectively of the $28.36 billion total external debt outstanding by 1986. Put differently, without capital flight, outstanding debt would have been just $17 billion in 1986, or 60 percent rather than 98 percent of GNI in that terminal year. This is comparable to the debt-to-income ratio of 56 percent for Indonesia, which did not suffer a debt crisis. The question must be asked: without capital flight, would the Philippines have suffered a debt crisis?

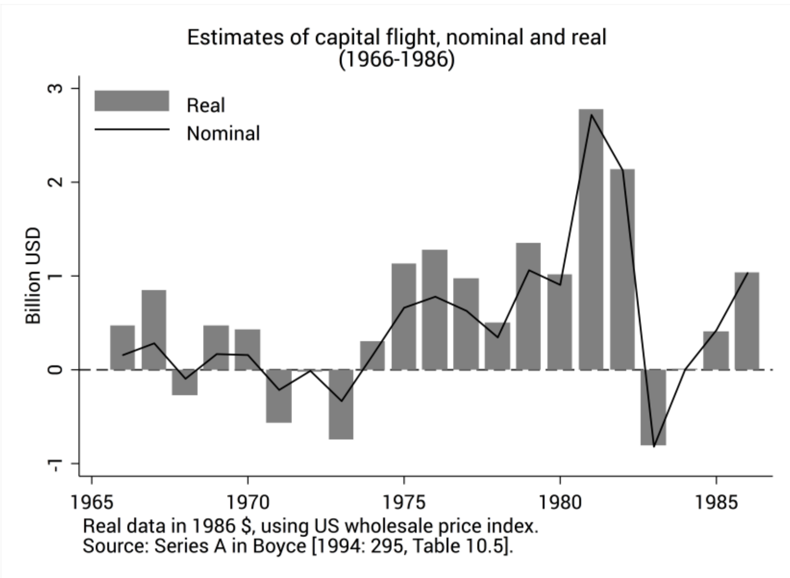

Figure 18.

[32] Current-account figures are computed from Boyce [1994:287-288, Table 10.2]. Data on debt are from the World Bank and are consistent with Figure 8. There is a slight discrepancy between Boyce's figures and later World Bank statistics.

[33] Boyce uses the US wholesale price index to deflate foreign stocks and flows of past years.

Trade and investment regime

The real question is why the Philippines failed to snap out of the spell of current account deficits but rather kept on borrowing more intensively, apparently heedless of an incipient crisis. One factor is the apparent calculation by the economic managers at the time that the country could ride out the second oil price shock by foreign borrowing. The technocrats (discussed further below) may have been lulled into complacency by the fact that the economy was not badly affected by the first oil shock. Historically high GDP growth may have allayed fears and concerns to reduce spending. A sanguine attitude to borrowing may also have been encouraged by positive advice from multilateral creditors, such as the World Bank and the IMF, to aggressively tap the private credit markets.[34]

Whether and to what extent the regime's economic managers took a risk-management approach is unclear. Otherwise they could have provided for more international reserves to address potential risks, such as a drying up of foreign sources to fund both domestic expenditure and debt service. In current practice, central banks scrupulously build up international reserves as insurance against financial crises and dollar liquidity shortages.

Ultimately a deeper answer must implicate the policies pursued by the regime during the period. Why did the regime's trade and investment strategy fail to produce sustainable growth results?

In the 1970s the country on the surface seemed about to begin a promising shift towards a more export-oriented strategy. Even before martial law was declared, Congress in 1969 had passed an investment incentives law that provided fiscal incentives to players in new industries; an export incentives law was also passed in 1971. In the meantime export-processing zones were established in Bataan (1969), Mactan-Cebu (1979), and Cavite and Baguio (both in 1980).

These measures yielded a measure of success: a distinct change in the composition of gross exports was observed with the emergence of non-traditional exports—mostly based in the export-processing zones—like semiconductors and other electronics, garments, and footwear. In 1975 such non-traditional labour-intensive manufactured exports[35] made up only some 16 percent of total exports; by 1986, these had come to constitute half of the value of exports. But while significant, such figures need to be qualified when judging the degree of change in the country's strategy. The new exports involved mostly subcontracted tasks of testing and assembly of imported components and sub-assemblies and were characterised by low value-added. Value added (consisting mostly of labour input) in these industries was estimated by the World Bank in 1979 at an average of 25 percent, ranging from 44 percent in garments to 13 percent in integrated circuits.[36] Apart from labour, however, their connection with the rest of the economy was limited, as was their impact on *net* export earnings and the current account. Surprisingly for a supposed labour-intensive approach, even its employment impact fell below expectations.[37]

What prevented the non-traditional export sector from making a bigger contribution to exports and to growth? Located in export-processing zones and mostly foreign owned, these new industries were privileged in being able to obtain their inputs at world prices, i.e., tariff- and tax-free. This allowed them to capitalise on their innate advantages and efficiently supply the world market, which explains the surge in new manufactured exports. But it also meant

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[34] In the aftermath of the 1970 devaluation, a Consultative Group for the Philippines was formed chaired by the World Bank that oversaw official financial flows and implicitly gave an imprimatur to the government's plans to borrow from the commercial market. See, e.g., Boyce [1993: 255-256]. A more detailed narrative of the country's relationship with the multilaterals can be found in Broad [1988].

[35] These include only labor-intensive and not resource-based products.

[36] Quoted by Broad [1988:192-193].

[37] The World Bank, as reported in Broad [1988:124], had projected some 360 thousand new jobs would be created between 1980 and 1985 under a successful export-oriented industrial promotion strategy. Employment in the three operating export-processing zones, however, amounted to only 23 thousand in 1980, 22.6 thousand in 1980, and 21.1 thousand by 1986.

that new-found efficiency at exporting would be confined to just a few firms in economic enclaves. The rest of the economy—the larger part—remained enmeshed in protectionism due to high tariffs and import restrictions. No matter its export potential, for example, food processing was hampered by such simple hurdles as the high cost of tin plate for cans, glass bottles, and other packaging.

The overall direction of the regime's trade and investment policy can be somewhat confusing, given the need to track many moving parts. Three important policy measures however are worth documenting for their interaction: tariffs, import restrictions, and the level of the exchange rate. For a broad-based export-oriented strategy would have required the coordination of these essential ingredients: (a) an abandonment of discretionary import restrictions and a reliance instead on tariffs; (b) tariffs that were themselves not too divergent across types of goods (e.g., as between final goods and inputs); and (c) an exchange rate that sufficiently encouraged exports and discourages importation.

In the early 1970s, aside from the initial effects of the devaluation (via the "floating rate"), export incentives in export processing zones mitigated what was still a highly protective system. While it made possible an initial surge in new manufactured exports, the pro-export thrust was largely confined to firms in economic enclaves. From 1973, therefore, prodded by the World Bank via a structural adjustment loan, a process of reducing tariffs was begun. But this again fell short of an unequivocal policy shift. For even as tariffs were being lowered, new nontariff import restrictions were creeping in, many administered by the central bank.[38] Following the payments crisis that led to the floating of the peso, the number of regulated commodities in 1970 had already been high at 1,307, covering 23 percent of all commodity lines. That number kept on rising, however, so that by 1980, import regulations covered 32 percent (1,820) of all commodity lines (see Figure 19a). Import regulations thus offset much of the effects of tariff rationalisation and preserved the protectionist bent of policy.

By 1980, again with World Bank and IMF support, another attempt was made to shift the trade and investment regime decisively by addressing *both* tariffs and import restrictions through a twin programme of "tariff rationalisation" (lower and more uniform tariffs) and "import liberalisation" (removal of most import restrictions). This attempt met with somewhat more success. The trend of increasing import restrictions was reversed beginning in 1980 as the programme took effect (Figure 19a). This development was short-lived, however, since by 1982, the onset of the debt crisis caused increasing balance of payments difficulties that made the re-imposition of many import controls necessary. Only in 1986, with the installation of a new regime after the EDSA revolution, would the import liberalisation effort be carried out in earnest.

[38] Reasons cited for these controls were national security, public health and safety, and protection of local industry [de Dios 1998:13].

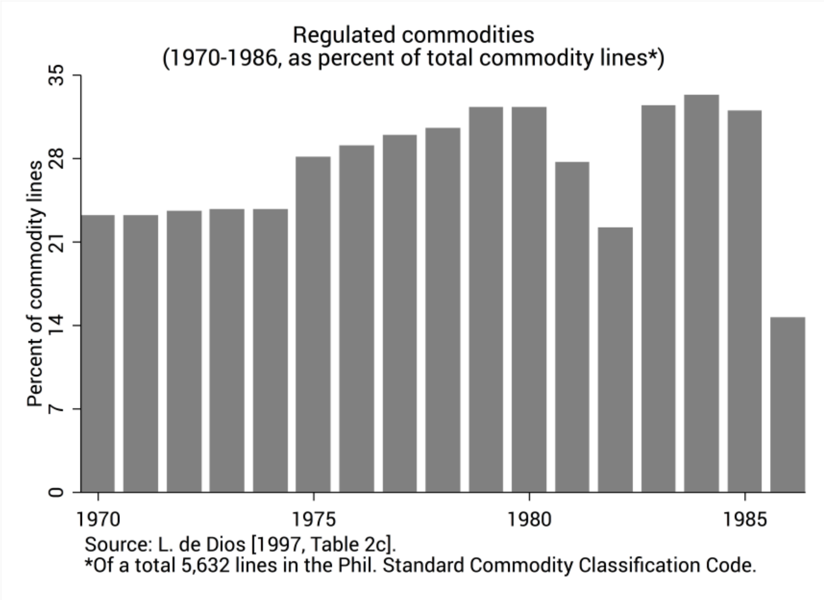

Figure 19a.

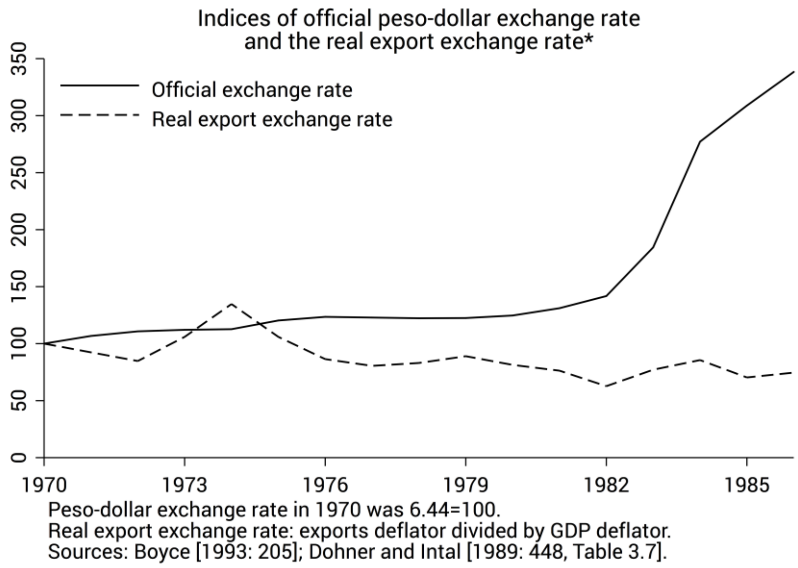

Figure 19b.

Import controls, together with foreign borrowing, had helped to steady the exchange rate, which moved only moderately between 1970 and 1980 from ₱6.44 to ₱7.60 per dollar, a mere 15 percent depreciation over an entire decade, or about 1.4 percent annually. Figure 19b shows the official exchange rate barely moving for most of the 1970s. In the meantime, however, inflation was averaging 15 percent annually in the CPI. This meant that export success would remain superficial, since the rise in prices received by exporters, influenced to a great degree by the exchange rate, was far less than the rise in home prices. The second curve in Figure 19b shows the trend of this "real export exchange rate"[39] which approximates the prices exporters receive from selling overseas as compared with overall prices in the economy. It is therefore a gross measure of the attractiveness of exporting. Except for the

[39] The real export exchange rate as used here equals the ratio of the price deflator for exports to the GDP deflator, which roughly approximates average export prices times the exchange rate received by exporters, divided by the country's average price level.

years 1973 and 1974[40], this figure was declining for the entire period, notably even after large devaluations were finally undertaken in 1983 and 1984—reflecting the fact that domestic inflation was even faster. The resulting overvaluation of the currency was a further important reason that serving the domestic market remained more attractive (or at least more accessible) for most firms outside the export enclaves. As G. Sicat, the regime's former planning minister, would observe on hindsight, "The main culprit for failing to perceive the advantages of developing according comparative advantage was the movement away from a market-determined, or realistic, exchange rate policy. This was the critical policy variable for export and trade realignment" [Sicat 1984:10].

Unfortunately, even the final attempt to shift strategy in 1980 through tariff reform and import liberalisation failed to incorporate an appropriate exchange-rate policy. A weaker currency could (and should) have compensated for the tariff-reductions and removal of import controls. Since this did not happen, domestically oriented firms, particularly small- and medium-scale enterprises, were hard-pressed to respond to import competition, with corresponding repercussions on sales and employment: GDP growth had already dropped to only three-plus percent in 1981 and 1982. In the event, larger developments would supervene and lead to the abandonment of these liberalisation reforms by 1982, as the regime now confronted the chaos of global recession and the consequences of a self-inflicted debt crisis.

The preceding narrative should modify a frequent characterisation of the Marcos regime[41] as having consistently pursued a "neoliberal" strategy of trade and investment. Such a depiction assigns a central role to "technocrats" as the ideological advocates of neoliberalism. The Marcos regime was noted for recruiting into government the most number of such individuals whose political authority or legitimacy was based on superior education or training credentials rather than, say, wealth, political networks, or popular support.[42] But while it is true that many technocrats broadly supported liberalisation—and were encouraged in this by multilateral lending agencies like the World Bank and the IMF—it is not true that they were uniformly in favour of the strategy or that they exercised the decisive influence on policy. The record of adopted policy until the eve of the debt crisis was at most ambivalent, if not predominantly protectionist, and the Marcos technocrats as a whole were less ideological, less cohesive, and less united in a common vision than their counterparts in Latin America (notably the "Chicago Boys" of Chile[43]). Their allegiance was dominated not by a programme but by their individual loyalties to and admiration of Marcos. Ultimately the attempts at promoting an export-oriented industrialisation strategy was overshadowed and frustrated by the more consistent agenda pursued by the regime—crony capitalism.

Crony capitalism

On the surface, economic policy under the Marcos regime appeared to shift erratically between liberal and protectionist tendencies. Half steps towards liberalisation—helped in no small part by the reassuring visibility of the technocrats—sufficed to win the continuing support of multilateral lenders, which in turn warmed the hearts of private commercial banks. But the constant thread running through the period was really the redistribution of economic

[40] The years 1973 and 1974 were those of the commodity boom, when the world prices of the country's principal exports rose. This raised the prices of exports notwithstanding the unfavorable exchange rate.

[41] This comes especially from nationalist or Left critiques of the regime. See, e.g., Lichauco [1988] or Bello et al. [2004].

[42] Prominent early examples of Marcos technocrats were R. Salas and A. Melchor and later C. Virata, G. Sicat, J. Laya, R. Ongpin, V. Paterno, and O. Corpuz, among others. For a more detailed discussion focusing on the technocrats from a Left perspective, see Tadem [2013].

[43] The Marcos technocrats differed from their Chilean counterparts in that the latter shared a common educational background (economics) with a strong ideological flavour (Universided Catolica and University of Chicago under the tutelage of M. Friedman and A. Harberger) and were already assembled as a group with definite policy views even before joining the dictatorial goverment of A. Pinochet (Centro de Estudios Socioeconomicos). See, e.g., Silva [1991].) By contrast, the Marcos technocrats were heterogeneous in terms of both social and educational background and loyalties.

power. According to the White Paper, “The main characteristic distinguishing the Marcos years from other periods in our economic history has been the trend towards the concentration of power in the hands of the government” [de Dios et al. 1984:10]. Even this assessment is somewhat elliptical upon hindsight: for it was not government per se that amassed economic power but rather a small coterie that came to control the economy’s commanding heights for their private benefit.

The practice of crony capitalism[44] during the Marcos regime took many forms. Its common element however was the use of the government’s expanded powers under a dictatorship to grant extraordinary privileges to business interests allied with the Marcos family, their relatives, and friends. This was neither the first nor the last time government power would be misused for private gain—the very definition of corruption, which after all has always existed. What distinguished corruption under the regime, however, was its grand scale, its impunity, and the resourcefulness of the enterprise.

The regime of protection, as in the past, was a convenient vehicle for corruption both when trade was restricted and when it was selectively relaxed. The regulation of imports served directly to protect the regime’s supporters who owned the competing domestic supply—automobiles, paper and paper products, cigarette filters, cement, and synthetic resins (used in weaving polyester fabric) were well-known examples of sectors where cronies dominated the protected domestic market, allowing them to raise prices well above world prices to the detriment of consumers and input-users alike. Restricting imports was also instrumental because it allowed privileges to be dispensed to cronies who were exempted from such restraints. This was the case for such products as peroxide, automobile components, alkyl benzene (an input into detergents), black and white TV sets, meat products, and cigarette filters, to mention only a few.[45] Classic rents would obviously arise from the difference between the lower world prices of imports and the higher prices at which these could be sold locally. In many cases, firms that controlled the domestic supply were also given the right to import the competing product or the necessary input either exclusively or at markedly reduced duties thus giving them an undue advantage over their domestic competitors. In an egregious case, even as luxury-goods imports were prohibited or taxed heavily, a crony family operating a luxury-shop chain was given the monopoly of all duty-free shops in the country, allowing it to import luxury goods duty- and tax-free.

Monopoly rents to private individuals went well beyond import privileges, however, and came to include such government-franchised or -contracted activities as gambling casinos and jai-alai operations, major government infrastructure projects, the operation of US-bound container ships, insurance brokerage for GSIS, medical supplies for the department of health, the sweetheart lease of prison lands for use as banana plantations, timber and mining concessions, and the deployment of overseas construction workers. In the past, the threat of exposure and of changing political tides meant that such privileges could always be challenged, or at least never permanently assigned. In contrast, under the Marcos regime, which suppressed the press and the political opposition, a stable monopoly of privilege became the general rule.

In the pre-martial law order, which was far from perfect, a clear line nonetheless existed between political competition and wealth assignment. While a new administration might favour its supporters with new privileges and a reassignment of corruption rents, it would leave existing wealth—even of its political rivals—largely untouched, to that extent respecting property rights. The dictatorship “innovated”, however, by brazenly taking over the assets of its prominent political enemies. This was done either through forcible expropriation and threats—as in the takeover of the assets of the media network (ABS-CBN

[44] “Crony capitalism” as a term in English was first used (in the *Time* magazine issue of 21 April 1980) to refer to the Philippines’ distorted and biased policies favouring the Marcos family and its associates.
[45] A more detailed enumeration is given in Dohner and Intal [1990:469ff].

TV and radio and the *Chronicle* newspaper) and largest electric power utility (Meralco)[46] all owned by the Lopezes—or through the thin veneer of foreclosing on government debt and nationalisation—as in the regime's expropriation of the steel-mill assets of the Jacintos and folding these into the National Steel Corporation. To be sure, Marcos had announced his New Society would be "revolutionary" and wage war against the existing elite ("oligarchs"). This was a sham, however, since the only redistribution that took place was a reassignment of assets from one section of the elite to another, i.e., from the established elites to the Marcos family, its relatives, and its arriviste associates.

On the pretext of breaking the stranglehold of the "oligarchs" or for some high-flown public-economics rationale, the regime organised state monopolies, such as those in steel processing, electric power, petroleum (from procurement to shipping, refining, and distribution), copper smelting, and so on. In practice these opened up further opportunities for graft than were previously available, both for the officials appointed to head those corporations (including "technocrats") and for favoured cronies who dealt with them. Examples range from the dollar salting by top officials of Philippine National Oil Company via excessive broker's fees on oil imports, to the egregious billion-dollar overprice of the Bataan Nuclear Power Plant contracted with Westinghouse of the US mediated by a crony.

The most extensive and intricate web of monopoly ventures under the regime, however, were those affecting the country's major export industries, sugar and coconut, which at the time still accounted for one-third of export revenues. On the pretext of restructuring and modernising these sectors and eliminating the rents of middlemen, the regime centralised the processing and trading of these major products under newly created government entities[47], which in turn were placed under the control of the very closest Marcos cronies—R. Benedicto for sugar and E. Cojuangco for coconut products.

The common feature in both was the realisation of great profits from an exercise of monopsony power—buying from local producers at depressed prices and selling these products at higher world prices. Since the Philippines was effectively a price-taker in international markets for these products, the only profits to be made from trading them had to come at the expense of domestic producers, not the foreign buyers.[48] It is estimated that coconut farmers effectively gave up 19 percent of their incomes on average in 1972-1978 and as much as 42 percent in 1979-1982 because of the coconut monopoly. On the other hand, sugar producers are estimated to have lost some 30 percent of their incomes in 1972-1982 owing to the sugar monopsony.[49]

In the coconut sector, crony control and wealth-accumulation was achieved using public funds in the form of a tax on coconut producers (the infamous "coconut levy). Technically held in trust for coconut farmers, the collected funds were then used to acquire various assets including coconut mills, a major commercial bank[50], and shares of a major food conglomerate (San Miguel Corporation), and to support a privately owned coconut-replanting monopoly.[51] The acquisition of a bank made it easier to funnel what were effectively public funds into private projects. Public funds were illicitly leveraged to acquire private assets that could not

[46] A detailed account of this takeover through forced sale is given by Manapat [1990]. A notable component was the fact that some members of the Lopez family were being held in detention and held hostage and their release made a condition of the sale.
[47] For sugar, this was first the Philex, a subsidiary of the Philippine National Bank, then subsequently the Philippine Sugar Commission and its trading subsidiary the NASUTRA. For coconut there was a more complicated layering through the COCOFED, the Philippine Coconut Authority, the United Coconut Planters Bank, and the United Coconut Mills, all of which were under the control of E. Cojuangco.
[48] This did not prevent such monopolies from losing money, however, as the sugar trading monopoly did in 1977 owing to its inept speculation on prices abroad.
[49] Both estimates come from Dohner and Intal [1989:461, 469 Tables 4.1 and 4.2], citing earlier work by Intal and Power. On the coconut industry, see also Clarete and Roumasset [1983].
[50] What was formerly the First United Bank, now the United Coconut Planters Bank.
[51] See Manapat [1990] and Dohner and Intal [1989] for details. Until the present, the ownership of these "coconut levy" funds remains the subject of legal dispute.

have been acquired with private means alone; at the worst, public funds were simply stolen. The recovery of the fund proceeds and acquired assets in favour of coconut farmers was not judicially settled until very recently.

In the sugar industry, on the other hand, expanded crony influence was underwritten mostly by bank loans to finance export trading and the acquisition of assets, including sugar centrals, transport, and storage facilities. Crony hubris and trading incompetence led to the overexpansion of sugar cultivation and sugar-milling capacity causing especially severe losses when the world price of sugar finally fell disastrously in 1985 (in fact leading to severe malnutrition in some sugar-growing areas). For the crony interests, however, such losses did not exist or were at least mitigated by the fact that most of the investments had been financed by bank loans. It was moreover a widespread practice under the Marcos regime that money could already be made on the "front end" by earning commissions and kickbacks from equipment purchases and the construction of sugar mills.

Cronyism and the debt crisis

Imprudent and corrupted crony projects were a major reason for the subsequent bankruptcy of state-owned financial institutions such as the Philippine National Bank, the Development Bank of the Philippines (DBP), and even the group pension funds SSS and GSIS. The PNB's losses from its crony-motivated speculative trading and the overexpansion of the sugar industry have already been discussed. But it was also involved in lending to other capital-intensive or crony-associated industries and companies such as CDCP, Delta Motors Corporation, and Marinduque Mining. A similar situation prevailed at the Development Bank of the Philippines (DBP), which also extended "behest loans"[52] to favoured firms in mining, cement, automotive, and textile industries, many of which ultimately became insolvent. Meanwhile the insurance funds SSS and GSIS, managed by acquiescent Marcos appointees, were made to invest in dubious ventures completely out of their mandates, including overbuilt luxury hotels as part of a vain display before an IMF-World Bank meeting, as well as extending loans to Imelda Marcos's human settlements projects, and investing in firms such as R. Cuenca's CDCP and the Philippine Airlines, even after these had run into financial trouble.

In a remarkably frank interview in 1984, C. Virata, who was then prime minister and finance chief, observed: "We were quite liberal in guaranteeing loans, so that investors could go on with their projects on the basis of commercial loans. We found out later that their motives were not as pure as we would have liked. In other words, *some of the companies really wanted to make money out of purchases of equipment rather than by operating it. This has been one of the major faults in our system*."[53] (Emphasis supplied.) In "front-loaded"[54] corruption, profits were not principally made from operating a firm even if it already benefited from privilege or monopoly. Instead, profits were made from commissions and kickbacks even before the project had started. The worst example, of course, was the Bataan Nuclear Power Plant project, which entangled the country in a billion-dollar overprice for a power plant that never produced a single kilowatt of energy.

The highly leveraged nature of many of the crony ventures—i.e., the fact that capital was mostly borrowed rather than equity advanced by the proponent—distorted the incentives for

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[52] The administration of Pres. Ramos in 1992 specified the following elements in its definition of a behest loan: (i) it is under-collateralized; (ii) The borrower corporation is undercapitalized; (iii) direct or indirect endorsement by high government officials like presence of marginal notes; (iv) stockholders, officers or agents of the borrower corporation are identified as cronies; (v) deviation of use of loan proceeds from the purpose intended ; (vi) use of corporate layering; (vii) non-feasibility of the project for which financing is being sought; and (viii) extraordinary speed in which the loan release was made. (These are as cited in Supreme Court decision GR 130140, 25 October 1999.)

[53] As quoted in Boyce [1993: 319].

[54] The term "front-loading" was also a facetious cultural reference to a type of cassette-tape player, an analogue playback device using small magnetic tapes that was popular at the time—the humor will undoubtedly be lost to generations used to web streaming.

those businesses to make prudent business decisions. In the typical modus, an undercapitalised but well-connected crony corporation would take out a loan denominated in dollars from some government agency or bank, say the National Development Corporation (under the department of trade and industry) or directly from the DBP or PNB. Using the loan proceeds, crony-owners could milk the corporations in various ways, e.g., by buying overpriced imported equipment with hidden commissions and kickbacks from suppliers, or by paying themselves huge emoluments. In the event that the ventures failed—which they often did—it was government financial institutions and ultimately the national government itself that ended up holding the bag. DBP or PNB would be ordered to extend further loans and ultimately foreclose on assets that were overvalued, turning the loans into equity, but with the government still having to service the original foreign loans. Meanwhile the erstwhile owners could simply declare bankruptcy and move on: they would already have made their gains in other ways.[55] No definitive figures are available of the total government exposure to distressed crony firms. In just the case of the group of H. Disini, however, of an original 51 firms, only 25 survived, of which 18 were taken over by government and 7 retained by Disini, who subsequently fled to Austria. Total government exposure to this group alone was ₱4.6 billion [Dohner and Intal 1989].

In a domino-like process, enough of such developments weighed down the portfolios of government financial institutions with distressed, nonperforming assets, which then prevented these institutions from meeting their own loan obligations to the originating creditors (i.e., directly to the central bank and indirectly to foreign commercial banks). The regime went through grotesque contortions to avoid having the incipient crisis show up in the government's official budgets. Hence, at first the burgeoning bad-loan portfolios of PNB, DBP, and Landbank were covered up by having the SSS and GSIS infuse new capital into them—until the latter ended up in trouble themselves. Then it was the turn of the central bank to extend further loans to these banks—until the IMF wised up to the scheme and stopped it in 1984, though not before even the central bank's balance sheet itself had fallen into serious disrepair.

Initially, almost 70 percent of central bank credit went to private commercial banks and rural banks, but these later became concentrated in PNB and DBP, with implicit government guarantees on loans extended. From 1984, therefore, these attempts to bail out failing banks and corporations showed up in the national budget, pre-empting as much as 17 percent of total government spending and 3 percent of GDP by 1986 [Dohner and Intal 1989].

On the eve of the EDSA revolution in 1985, the overall losses of the central bank had mounted to P16.2 billion, or a cumulative amount of P57.6 billion between 1982 and 1985, the repayment of which would represent a huge drain on national budgets for decades to come.[56] These huge losses, atypical for an institution that earns seigniorage revenue from having the monopoly privilege of printing money, would not ordinarily matter if such losses were incurred in the conduct of appropriate monetary policy.

The fact that the Central Bank took on all the exchange rate and other risks and incurred losses would not have really mattered materially had this been the outcome of the Central Bank doing its job of conducting appropriate monetary policy.[57]

However, what transpired was merely an unwinding of the original convolution: for the government earlier used the central bank to borrow abroad aggressively (e.g., $2.4 billion in 1978-1983 alone) and re-lend the proceeds equally recklessly to public and private entities, using entities such as the PNB, DBP, Landbank, and other financial institutions as conduits

[55] A relatively minor but well-documented example is the case of Romualdez interests in Golden Country Farms, Inc., which reached the Supreme Court (GR 135703).
[56] Calculated from Table 2 in Lamberte [2002: 11].
[57] This is broadly characterized as a policy that anchors inflationary expectations, controls inflation, and ensures financial stability in order to provide an environment in which the economy can grow.

through these various financial mechanisms[58]. A good amount ended up with crony businesses, of which a large number failed, for reasons already discussed. The failure of these businesses and their takeover or liquidation, however, had not extinguished the original foreign obligations contracted by the government, since the loans ultimately carried sovereign guarantees.

The central bank took on all the risks, such as exchange rate risk, default risk, and credit risk, which should have ordinarily been borne by banks and end-user non-financial corporations. Under a swap arrangement, for example, a domestic bank could borrow from a bank abroad in US dollars, exchange it for pesos with the Central Bank and then get dollars back from the Central Bank at maturity at a pre-agreed upon exchange rate. The domestic bank, in effect, does not have to bear any exchange rate risk. In a similar way, a domestic corporation could borrow from a foreign bank abroad in dollars through a domestic bank. The domestic bank would then exchange these dollars for pesos at the Central Bank and lend the pesos to the domestic corporation. The domestic bank would similarly settle in dollars with the Central Bank at a pre-agreed exchange rate in the future.

Similarly, the Central Bank also extended forward cover to certain domestic corporations which borrowed in dollars long-term from international capital markets and provided these domestic corporations with foreign exchange at some time in the future under a guaranteed exchange rate. The Central Bank incurred large losses of about P5 billion per year between 1983 and 1985 [Lamberte 2002:12].[59] But the largest source of Central Bank losses came from bad loans and interest rate losses from its lending and borrowing operations. It lent at subsidized rates, lower than its borrowing rate, to so-called priority sectors.

This was compounded by the collapse of several financial institutions and banks since 1983. Because favoured entities had no incentive to prudently use essentially risk-free credit guaranteed by the Central Bank, the latter incurred all the losses from so-called interest rate losses, losses on its forward cover facility, and losses from its swap facility. The Central Bank losses become magnified even more when the peso depreciates or is devalued, as it was in 1983 and 1984.

Furthermore, a large share of foreign liabilities relative to foreign assets in the Central Bank's balance sheet also implies that the Central Bank is vulnerable to incurring losses when the peso depreciates or is devalued. In 1990, for example, the Central Bank's balance sheet showed that 61 percent of its total liabilities were foreign liabilities while only 41 percent of its total assets were foreign assets [Lamberte 2002:17]. The subsequent Central Bank Act of 1993, aside from rebranding the Central Bank into the Bangko Sentral ng Pilipinas, transferred to a board of liquidators around P300 billion worth of losses incurred by the old Central Bank [Gochoco-Bautista 1999].

Regardless of how the regime moved the chairs on the deck on a sinking ship, therefore, the fact remained that the national government was liable for all the foreign debt it had contracted and used to finance crony (as well as non-crony) businesses. A full circle may therefore be drawn from crony capitalism to the debt hole that the regime dug for itself—and the whole country.

It must remain a matter of speculation why and how the regime followed such a reckless strategy based on unsustainable and predatory actions. Ex-post attempts to find an economic rationale for the crony-capitalist phenomenon through comparisons with the Japanese *zaibatsu* or Korean *chaebol* that played significant roles in their countries' breakout industrial development economies remain unconvincing. A crucial difference was that the Japanese and

[58] Some discussion can be found in Lamberte [2002:12-13].

[59] These losses were not explicitly recognized in the books of the Central Bank as Marcos issued a Presidential decree that created so-called 'suspense accounts' under which these losses appeared as Central Bank assets, like a 'due from loans' would be regarded as a bank asset. However, when there is no hope that the loans will ever be repaid, these are normally written off and recognized as losses, chargeable against bank capital.

Korean conglomerates were promoted and rewarded based on an environment of keen competition among themselves and a striving for export success. Crony interests by contrast were fostered in an environment of protectionism based on permanent privilege, corruption, and wealth-grabbing.

Ultimately, the imperative for crony capitalism was not primarily economic but a political need to destroy the economic base of the Marcoses' political opponents in order to secure the Marcos family's indefinite hold on power. This objective was facilitated by reassigning wealth and privilege to their relatives, trusted lieutenants, and surrogates. Much of the tenacity of the cronies' hold on the economy and influence on policy—notwithstanding some technocrats' feeble attempts to thwart them occasionally[60]—may also be explained by the fact that the Marcoses were not merely sponsors but direct beneficial owners of crony businesses.

In a deposition after the EDSA Revolution, Imelda Marcos, seeking to thwart cronies who wanted to compromise with the new government on ill-gotten wealth[61], claimed that most of the cronies were not in fact independent business actors but simply dummies and agents of the Marcos family[62] [Salonga 2000: 17]. It is possible the Marcoses and their surrogates may have calculated that the process of predatory wealth accumulation and the maintenance of power within the Marcos family were compatible with an acceptable level of aggregate economic growth, perhaps even development. If so, then this was a gross self-deception. The extent of that deception may be seen in that the Marcos family continued to acquire assets abroad as late as 1983, at the very cusp of the economic crisis.[63] This suggests either a gross miscalculation regarding the emerging crisis—or an unparalleled callousness to the fate of the country.

Poverty, inequality, and labor market outcomes

The economic events under the dictatorship had an obvious and direct social impact. But since some of this overlaps with other contributions to this volume, this following discussion focuses on broad socioeconomic development outcomes, namely, poverty, inequality, underemployment, health, education, and law and order. From the very start, however, a cautionary note must be sounded regarding data. Especially when it came to sensitive social and political information, the dictatorship was not beneath falsifying statistics or simply suppressing data. The willingness to do the former was already evident in the misrepresentation of the central bank's international reserves and the sophisticated operation of a black market "Binondo central bank" to falsify recorded level of the exchange rate. In the case of real wages, on the other hand, the central bank simply discontinued its long-running survey of wages beginning in 1980 when it became apparent that real wages were falling precipitously. A further instance was the suppression of the publication of the first social

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[60] It is known, for example, that Virata registered his opposition to the coconut levy but was directly countermanded by Marcos himself.

[61] Mrs. Marcos claimed the Marcoses had merely entrusted many of the their interests with the cronies. These cronies therefore were in no position to segregate their own assets from the Marcoses' ill-gotten wealth—keeping a share for themselves—since the assets in question belonged entirely to the Marcoses.

[62] Among the alleged "trustees" Imelda named were Lucio Tan, Eduardo Cojuangco, Ramon Cojuangco and Antonio Cojuangco, Imelda Cojuangco, Herminio Disini, Rolando Gapud, Jose Yao Campos, and Roberto Benedicto. Others associates and partners: Edna Camcam, Roman Cruz, Jr., Andres Genito, Gliceria and Bienvenido Tantoco, Geronimo Velasco, Fabian Ver, Ignacio Jimenez, Baltazar Aquino, Rolando Gapud, Rodolfo Cuenca, Antonio Floirendo, Fe Roa Jimenez, Alfredo *Bejo* Romualdez [Salonga 2000:17]. She maintained that the Marcoses were in fact the real owners of such major corporations as PLDT, San Miguel Corporation, PAL, Fortune Tobacco, Allied Bank, United Coconut Planters Bank, Meralco, Manila Bulletin, and others [Salonga 2000:16].

[63] The PCGG estimates the Marcos's ill-gotten wealth to be somewhere between USD 5 billion to 10 billion. < http://www.gmanetwork.com/news/news/nation/657707/pcgg-more-than-p171-billion-in-marcos-family-rsquo-s-ill-gotten-wealth-recovered/story/ >. Indeed, this holds the record for the "Greatest Robbery of a Government" in the Guinness World Records. As of June 2018 the PCGG has reportedly recovered around P170 billion from the Marcoses and their cronies.

opinion surveys in the country[64] (1981-1982), just as these were about to be released in 1983. Such actions tended to occur more frequently as the economic situation worsened and the regime's political position became more precarious.

In any case, it should be expected that social outcomes under the dictatorship should broadly mirror the economy's rise and fall. This means that questions of distribution aside, one should expect there to be less pressure during the "good times" of rising per capita GDP and easy credit, but enormous dislocation and human misery especially from onset of the debt crisis.

No official poverty statistics exist for years before 1985. What exist instead are poverty estimates by scholars and multilateral institutions such as the World Bank based on differing household surveys processed under differing assumptions on thresholds, methodologies, and coverage. Even estimates from various World Bank reports of the period yield conflicting and inconsistent results and perhaps cannot be divorced from the imperatives of the highly politicised lending environment of the time. For this reason, we shall focus in the following discussion on trends rather than comparisons of absolute levels of poverty.

A fair degree of agreement exists among researchers that poverty worsened during the first years of martial law. Tan and Holazo [1979] estimated poverty incidence to have risen from 41 percent to 51.5 percent between 1965 and 1975. Similarly, the World Bank [1980: 160] noted a rise from 43.3 percent to 53.2 percent between the same two years. This trend is consistent with falling real wages over the period (see Figure 20). A principal reason for this trend was high inflation, driven by both the high oil prices owing to the first oil price shock and the expansionary direction of fiscal and monetary policies. Inflation in consumer prices in 1973 and 1974 was 16 and 34 percent, respectively, leading to a decline in unskilled real wages of as much as 12 percent and 20 percent during those years. The state of martial rule and the resulting suppression of workers' rights also meant that workers did not have the means to bargain collectively for higher wages.

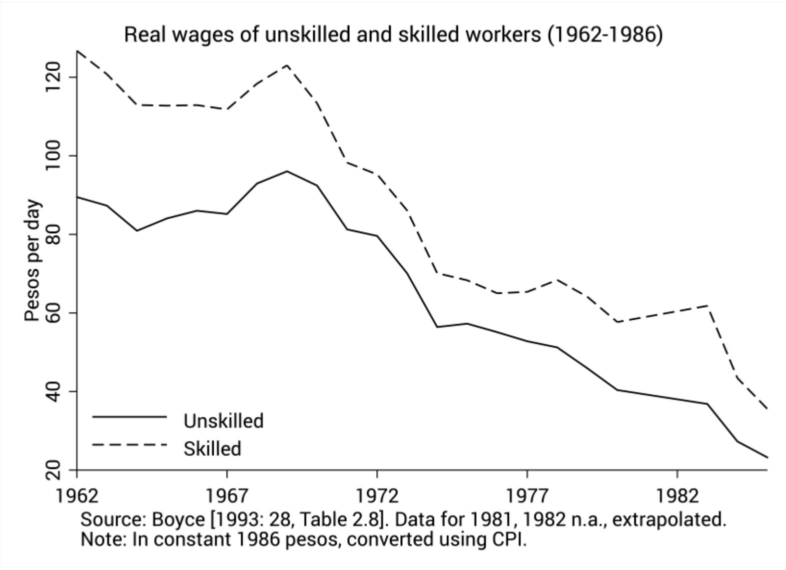


Figure 20.

Trends in the immediately succeeding period (1975-1981)—the height of the borrowing-and-spending spree—are more difficult to pin down. Some scholars who have sought to

[64] The original social indicators project of the Development Academy of the Philippines was led by M. Mangahas and F. Miranda, who would together later organize Social Weather Stations. On this, see <http://opinion.inquirer.net/38134/surveys-suppressed-by-martial-law>.

retroactively impute missing data points find poverty to have decreased. Fuwa [2002] and Fuwa et al. [2004], for example, find a decrease in poverty from 56.2 percent in 1977 to 48.6 percent in 1980. This seems to accord with the findings of a later World Bank [1985:10] report that also finds an improvement in poverty incidence from 60.6 to 40.8 percent between 1975 and 1980, ending at 39 percent poverty incidence by 1983. Such a result has not gone unchallenged. In particular, it flies in the face of the evidence real wages that continued to fall during the period.[65] Between 1965 and 1975, a period generally agreed to be one of rising poverty, real wages among the unskilled fell by roughly 32 percent. Similarly, between 1975 and 1980 real wages among the unskilled also fell by almost 30 percent; the second oil price shock of 1979-1980 would push annual inflation to almost 18 percent in those two years. It strains credulity that such developments should then be associated with 20-point reduction in poverty incidence.

The other side of the argument is that the period 1975-1981 was one with the highest sustained GDP growth rates for the regime. The collapse of the world price of sugar that would wreak havoc on sugar-growing areas would not yet happen until 1984. The regime's agricultural credit programmes, notably Masagana 99—which ultimately turned into a financial fiasco given low repayment rates—was still in operation, and export-processing zones offered new employment opportunities to new labour force entrants, particularly women[66], though not necessarily at higher wages. Taking both sides into account, therefore, if not necessarily a drastic reduction, then one might allow that this period may have provided a respite from the previous trend of worsening poverty.[67]

What is not in dispute, however, is that the final period of the dictatorship (1982-1986) was a complete social debacle. Per capita income had already begun to fall in 1982 and the debt crisis hit with full force by 1984-1985. This was compounded by the collapse in world sugar prices in 1984, which brought the sugar industry—already bankrupted and abandoned by its crony leaders—to its knees and caused a famine in Negros Occidental and other sugar-growing areas. At this point even Fuwa's reconstruction shows a rapid increase in poverty incidence to 60.6 percent by 1983 (see Figure 21), the highest poverty incidence in Philippine history. This accords with some of the World Bank's [1988: 115] estimates at the time, which showed more than half the population (51.7 percent incidence) was in poverty by 1985.

The severe recession of 1984-1985 was characterised by sharply rising inflation, goods shortages, large contractions in output, and worker layoffs. In 1984 the country recorded the highest inflation rate ever recorded in a single year, 50.3 percent; the average inflation rate in 1980-1984 was double the average rate five years before it, or in 1975-1979.

The recession also led to some of the worst labour market outcomes in the country's history (see Figure 22). While unemployment showed a long-run trough during the martial law years (averaging 4.9 percent from 1972 to 1981), the underemployment rate—probably a better measure of labour underutilisation in a developing country—surged from a low of 10.2 percent in 1974 to a historical high of 32.9 percent by 1984. High prices, joblessness, and low incomes all combined to cut households' purchasing power sharply and jointly explain the spike in poverty.

[65] This is also the point made by Boyce [1993: 47-48].
[66] The garments and semiconductor industries, for example, employed primarily women workers that may have previously not been in the labour force.
[67] Given data consistency and comparability issues, Fuwa [2002] noted that, "it is not possible to draw a definitive conclusion about whether and to what extent there was poverty reduction in the Philippines in response to the aggregate growth during the 1970s."

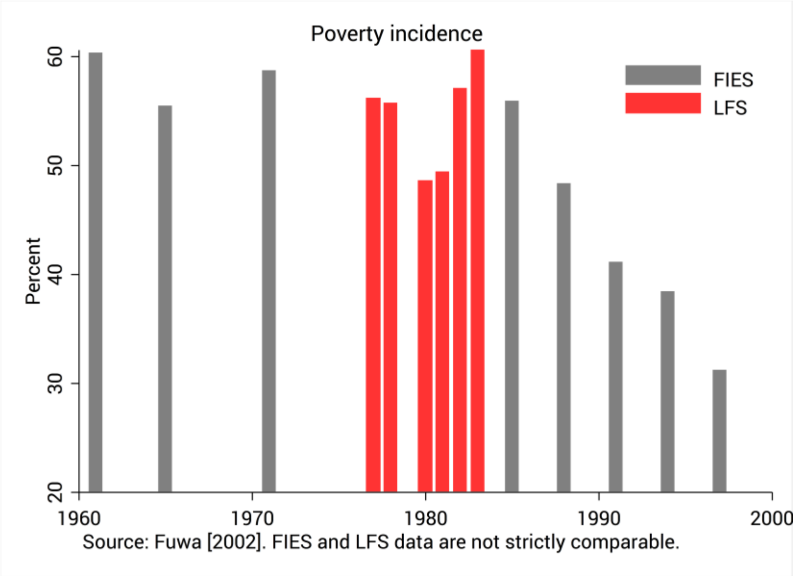


Figure 21.

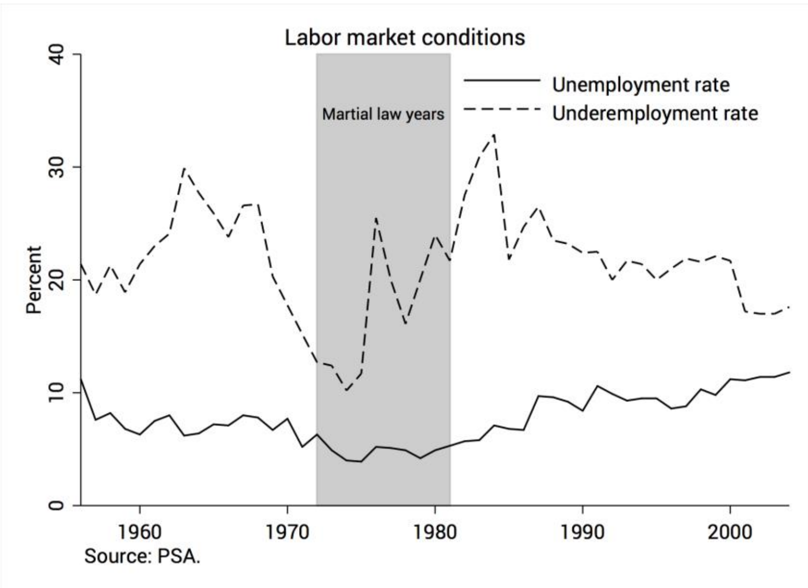


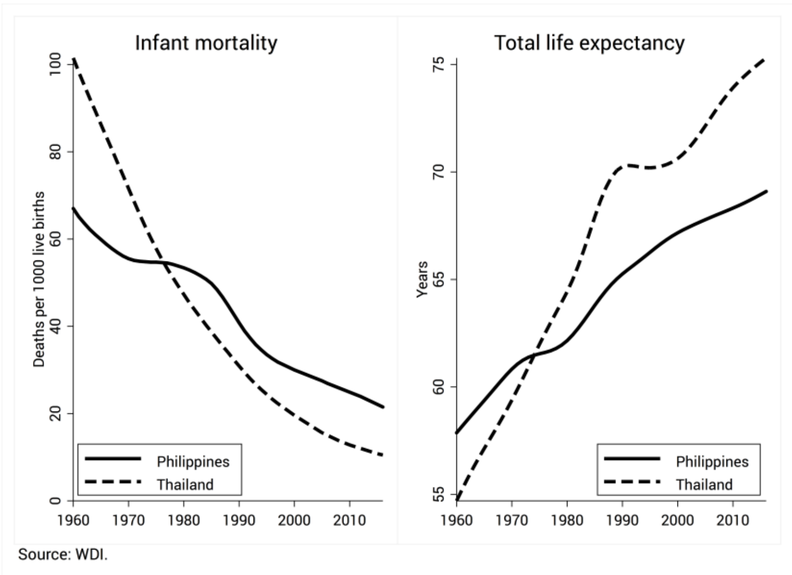
Figure 22.

This is not to say the long period of Marcosian rule yielded no positive results for the health sector. The first Marcos administration—properly elected in 1965-1969—should be credited as the first to seriously regard population growth as a serious development issue[68] and to enact regulations that led to the establishment of the Population Commission (Popcom) and the National Population Program, to the vexation of the Catholic Church [Herrin 2002]. From a

[68] Marcos's involvement in population issues was also partly fortuitous. He happened to be the president when 18 heads of state came together to sign the UN Declaration of Population in 1967. His executive secretary, R. Salas, was also a strong advocate of what was then known as "birth control" and ultimately came to head the UN Fund for Population Activity after leaving the Marcos cabinet.

low figure of 15.4 percent in 1968, the contraceptive prevalence rate[69] rose to 36.2 percent in 1978 and to 43.6 percent by 1986.

Other parts of the health programme for which the Marcos regime is remembered are more problematic. The construction of the so-called "*bopis* hospitals" (centres for heart, kidney, and lung diseases), on the other hand, was an expensive undertaking motivated more by prestige and image[70] than any well-conceived programmes of public health and tertiary care for the broad masses of the population. In nutrition, a much-publicised feeding programme, focused on the free distribution of "nutribuns" among schoolchildren, was in reality a case of credit-grabbing, where an initiative conceived and financed by USAID was relabelled as a project of Imelda Marcos. At any rate, such programmes did little to prevent the surge of malnutrition in later years, as exemplified by the disastrous famine in Negros island in the mid-1980s which Marcos's agricultural policies had a direct hand.[71] At best, the effect of the regime's policies on children's health outcomes may be characterised as muted. In a thorough review, del Mundo et al. [1987] concluded that, "an overall improvement in the health and nutritional status of children 0-19 years in the decade 1973 to 1983 is reported, although this may not be impressive nor highly significant". Such superficial efforts failed to be reflected in trends of key health indicators that should have mattered. On the contrary, the martial law years actually show a distinct slowdown or flattening in what should otherwise have been linear improvements in life expectancy and infant mortality. The contrast is most evident in a juxtaposition with what was then the country's favourite country-comparator, Thailand (see Figures 23a and 23b), which managed to sustain progress in both indicators. As a result, well before the recession and the debt crisis, the Philippines had already been overtaken by Thailand, in terms of both health indicators.



Figures 23a and 23b.

[69] That is, the use of any contraceptive method by women aged 15-49 years. The figures cited are from Data.worldbank.org [2018]. The aggressive government family planning policies were suspended after the EDSA revolution with the ascent of Cory Aquino, a devout Catholic. By 1988, the contraceptive prevalence rate had retreated once more to 36.2 percent.

[70] The attention and resources lavished on the kidney and transplant hospital in particular was also connected with the fact that the dictator suffered from lupus erythamatosis and needed to cultivate a corps of highly skilled specialists who would keep his illness confidential.

[71] The monopolization of the sugar industry, care of Marcos's establishment of the Philippine Sugar Commission (Philcusom) resulted in many farmers' indebtedness and unemployment. Many blame this for the famine in Negros Occidental which affected around a million people.

Human cost and institutional damage

No accounting of the social costs of the martial law regime is complete without a reference to social disorder and the loss of life and liberty.

The suppression of the political opposition and the shutdown of channels of legitimate dissent served to radicalise or drive underground significant sectors of the population. Many of the youth across income classes either persisted in peaceful but now-clandestine activism, (e.g. in underground workers' unions and organisations of youth and urban poor), or dropped out to join the ranks of the armed Left and Moro insurgencies. The regime's crackdown on both peaceful and armed resistance was marked by atrocities and torture: 3,257 persons were killed under brutal circumstances by the military, 737 of whom were victims of forced "disappearances". Some of 35,000 cases of torture were documented and 70,000 people arrested, mostly without warrant.[72] The government in 2013 officially recognised these past abuses by recognising the wrongs suffered by human rights victims of martial law and mandating redress and compensation.[73]

Meanwhile both the New People's Army and the Moro National Liberation Front reached their high points of recruitment under the dictatorship. The NPA in particular rose from just a few hundred armed fighters before martial law to some 12,000 by 1985.[74] In Mindanao, open armed conflict with the MNLF worsened during 1972-1976 resulting in the death of tens of thousands on both sides[75], massive population displacement, and ethnic-religious and economic resentments that continue to hound society to the present day. By 1977 unofficial estimates placed the death toll at 40,000 Moro combatants and 5,000 government soldiers killed, with 10,000 casualties among noncombatants and 1.7 million internally displaced civilians.[76] Despite its ostensible aim to quell "lawless elements", therefore, martial law actually led to a higher level of conflict and to more frequent military encounters with dissident groups. Such conflicts inflicted deep social wounds that resulted in unrest and instability long after the dictatorship itself had fallen. The Moro and communist-led insurgencies originally stoked by martial law—through their various incarnations and offshoots—continue to stymie development especially in Mindanao to the present day.

Such developments point to the broader issue of the damage martial law wrought on the country's political and economic institutions. Douglass North and others[77] observed that over the long term, institutional progress in countries that ultimately succeeded in growth and development—including dictatorships and other nondemocracies—was characterised by the following minimal "doorstep" conditions: (a) the emergence of rules that come to discipline the conduct of ruling elites themselves; (b) the development of long-lived impersonal organisations in both political and economic life; and (c) a firm control over the military and social violence.

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[72] These figures are from McCoy [2009], thus far the most widely cited. They augment the 1975-1985 data from Kessler [1989: 137, Table 5.1], which in turn aggregates figures from monthly reports of Task Force Detainees Philippines covering the years 1975-1988. Vivid descriptions of torture based on testimonies can be found in Robles [2016].

[73] This was done through RA 10368. The board established under this act received some 75,000 claims for reparation, of which only 11,103 were finally approved.

[74] Objective estimates that are not self-serving are difficult to come by. These figures are conservative ones from the military, as reported in newspapers of the time, e.g., S. Lohr, "Inside the Philippine insurgency", *New York Times Magazine*, 3 November 1985, and in Salonga [2001].

[75] News and details of the Mindanao war were heavily suppressed or minimised by the regime. Accurate information on the casualties in the Battle of Jolo (7-8 February 1974) in particular has never become available, although it is known that virtually the whole town was razed, napalm was used, and casualties among civilians and combatants are loosely reported to have run into the thousands.

[76] Estimates from a report in the *Far Eastern Economic Review* (13 May 1977) as quoted by Rachagan and Dorall [1981:61].

[77] For more on these "doorstep conditions" for institutional development, see North, Wallis, and Weingast [2009: 148ff].

The retrogression that martial law represented in each of these dimensions can be illustrated in turn.

First, it is obvious that the small ruling clique that seized power in 1972 felt itself unfettered by any political, legal, or business rules that would have hindered their quest for wealth and power. The blatant bias shown for members of Marcos-Romualdez family and their cronies in the assignment of rents and privileges from government flouted the norms of fair competition and prudent business. Behest and bias were ruling principles: property could be seized, human lives threatened, competing businesses seized or destroyed, constitutional procedures perverted, and hitherto existing democratic and legal guarantees swept aside—all demonstrating that few if any rules applied where interests of the Marcos-Romualdez family and its associates were involved.

With respect to the second doorstep condition (establishment of long-lived impersonal organisations), the martial law regime moved in the opposite direction. It undermined the continuity and existence of long-established businesses by taking them over and burying them in debt. Many of the country's largest private and public commercial and financial institutions —not the least being the central bank itself—were in distress if not bankrupt by the end of the regime; many had to be dissolved or taken over by government for rehabilitation. Questions of corporate debt and ownership would remain major obstacles to investment and economic recovery after the EDSA Revolution. Politics fared no better. The already weak political party system of the pre-martial law period was dismantled and replaced by authoritarian rule. Government itself came to hinge on Marcos's charisma and authority and the personal allegiance of his coterie. The dictator however failed to define any rules of transition, or to create a stable party or organisation that might provide for an orderly leadership succession beyond his rule. The inevitable result was a profound uncertainty and instability when Marcos himself became seriously ill.

Finally, with respect to the control over the military, the regime politicised the military establishment as had no other government in Philippine history. The regime dismantled the old legal and political institutions of civilian control and replaced them with a system where career advancement and privilege were based on personal loyalty to Marcos himself. Martial law, of course, entailed a system that allowed the military to intrude systematically into civilian life and created leeway for abuse and corruption. Retired military leaders were appointed to important civilian posts, and active military officers loyal to the regime were given preference in promotion and provided with access to corruption rents in the defence establishment and elsewhere (e.g., agricultural leases, logging, and mining concessions). The result was a decline in the legitimacy and professionalism of the military hierarchy, discontent among younger officers and a deep factionalisation in armed forces. The consequences finally became evident in the emergence of rebel military factions such as the Reform the AFP Movement (RAM), which launched a failed coup d'etat against the Marcos regime. The institutional damage lasted well beyond the period of dictatorship, when such politicised military factions continued to launch destabilisation attempts (notably in 1987 and 1989) against the fledgling post-EDSA democratic governments. Only after some time would the military relearn its proper subordinate role under a civilian government.

In these vital respects, therefore, the dictatorship was an institutional retrogression; it failed to provide that modicum of certainty and stability needed to encourage investment and economic activity, not only relative to democracies but even relative to other more successful authoritarian regimes of the period (e.g., those of South Korea, Singapore, Chile, or even Indonesia). The institutional damage it wrought had consequences that lasted well beyond the downfall of Marcos. What the succeeding democratic government inherited instead was a rebellious and politically adventurous military, a host of crippled major businesses of disputed ownership, a government burdened by debt and bad assets—and a wave of high expectations from disparate social interests, whose only common ground was the impatient desire to recoup the losses they suffered under the Marcos dictatorship.

More than a decade would be required before the institutional damage from that period would be repaired and the momentum for economic growth resumed. Painful and difficult as that period was, however, it would be an even greater tragedy if its lessons and sacrifices were to be forgotten by some future generation oblivious to the fact that it was about to repeat past mistakes.

–END–

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Box: Open-economy accounting

A fundamental accounting identity in macroeconomics is the following:

$$(NX + R) = (S - I) + (T - G)$$

NX is net exports, the difference between exports, X, and imports, M, of goods and services, and also commonly referred to as the trade balance.

R is net international transfers, consisting of the sum of net investment income from abroad and net unrequited transfers from abroad. The latter includes remittances from abroad, foreign grants, and foreign aid.

$(NX + R)$ is the current account (CA) balance, the balance on an external account. A positive CA balance, i.e., a CA surplus, for example, implies the build-up of claims by the domestic country on the output of the rest of the world. In this case, the domestic country's net foreign assets or international reserves are increasing and the country can potentially lend abroad, depending on whether or not the world interest rate exceeds the domestic or autarkic interest rate. The converse case holds as well.

The CA's counterpart on the right-hand-side of the identity reflects the amount of total national saving—the sum of private saving and public saving. National saving is measured as the sum of two differences—the difference between private saving, S, and private investment, I, $(S - I)$, and the difference between total tax revenues, T (net of domestic transfer payments) and government spending, G, $(T - G)$, or the government budget surplus or deficit.

Hence, while not a behavioral relationship, the accounting identity above shows how private and public saving and spending are automatically reflected in the external account balance. It tells us that an external imbalance, such as a CA deficit, for example, is merely the counterpart of and is automatically reflected as an internal imbalance—insufficient national saving, either because both the private and public sectors are dissaving, or because the positive amount of saving by one sector is insufficient to cover the amount of dissaving by the other sector.

Re-arranging this basic identity leads to another useful identity that shows how domestic investment may be financed in an open economy setting:

$$I = S + (T - G) - (NX + R).$$

This identity says that domestic investment, I, may be financed by any or all of the following—private saving, S, a government budget surplus (tax revenues, T, exceeding government spending G), and/or a CA deficit in which we import more goods and services than we export and/or we transfer more investment income and unrequited transfers abroad than we receive to allow us to invest (and consume) more domestically as well as finance the additional domestic investment (and consumption) despite insufficient domestic saving. The principle involved is that spending on investment must always come from somewhere—either private saving, government saving, or a current account deficit, $-(NX + R)$, implying borrowing from abroad or using foreign saving to make up for the inadequacy of domestic saving.

Applying this to the case at hand, the dictatorship encouraged an ambitious investment drive (set a higher I) by both the public sector and the private sector (e.g., especially its cronies) that clearly exceeded the country's level of saving, S. At the same time, however, the government was running large budget deficits, i.e., $(T - G)$ was negative. The above equation then says the inevitable result is that the country will run current account deficits, $-(NX + R)$, as was observed in the text. Imports can exceed exports, however, only if the country uses up its foreign-exchange reserves, or borrows from abroad, or both. The above identity may then be succinctly expressed as saying that investment is ultimately financed either by private saving, government saving, or the saving by foreigners which we borrow.

In the actual case, easy borrowing conditions from 1978 to 1982 allowed the regime to run large current account deficits. When the debt crisis occurred and the cessation of lending, CA was forcibly brought to zero, which therefore meant budget deficits had to be reined in and investment reduced, all of which had a severe recessionary impact. The typical IMF prescription for closing an external deficit works on the same principle. It typically involves decreasing money supply and raising interest rates—which lowers investment—and a tighter fiscal policy (raising taxes and reducing government expenditure) to close internal and external deficits.

There is an inevitable tradeoff between increasing domestic expenditure to grow national income, and closing both internal and external deficits. Politicians with fixed terms in office and who want to be elected or re-elected into office also tend to have a bias for expansionary policies in the short run to immediately boost the economy, rather than undertaking painful structural reforms whose benefits will not be evident during their tenure in office. It remains an open question why the Marcos regime, which was not encumbered by term limits, did not pursue a more prudent macroeconomic policy.

If any economic logic is to be attributed to its actions, the Marcos regime may possibly have gambled that sustained high investment would raise national income soon and significantly enough to ultimately promote higher saving and raise tax revenues as well (a higher S and T). That would have closed the investment-saving gap and relieved the pressure on the external account, and indeed ultimately permit a repayment of debt through higher incomes.

Still another way to grow out of an external deficit directly however is by shifting the composition of output to increase exports relative to imports to close the external (and therefore, internal) deficit. An increase in export demand is an increase in the demand for a country's goods from the rest-of-the world. This too stimulates domestic production and raises national income. Unlike our neighbors in the region who became "tiger economies" under an export-led growth strategy, however, the Philippines was unable to export its way to high levels of national income and growth.

There is nothing inherently wrong with using foreign saving or borrowing from abroad to finance domestic expenditures and raise future national income and output. Problems arise only when overspending is extreme over too long a period, i.e., domestic expenditure becomes so much larger than national income, or national income either does not increase commensurately with the investment, or if access to foreign saving stops.

Nor will income increase sufficiently if expenditure goes into unproductive investments that fail to produce a sufficiently large stream of (future) income or output of goods and services, or if resources are stolen outright. Without higher productivity, the streams of income generated from investment in the current period will not be enough to repay borrowed resources in the future. Then a country is almost begging for a crisis.