

CAROLINE KENNEDY: MY TRAVELS

The Philippine Economy in the Martial Law Years

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EDSA People Power Monument. FILE PHOTO

I am posting this article by Cesar Polvorosa Jr. who is a business school professor of economics, world geography, and international business management in Canada. He is also a published writer in economics, business, and literature. Polvorosa is, arguably, also the most knowledgeable person to have written on the Philippine economy during the martial law years.

These were some of the most enduring and awe-inspiring images of the past generation: multitudes praying, singing and demonstrating peacefully stopping armed soldiers and battle tanks. The Philippine People Power Revolution of February 1986 became a worldwide symbol of regime change through peaceful means. It would be an inspiration for the People Power Revolutions in other countries. The EDSA sea of yellow would be transformed into the Color Revolution – Velvet for Czechoslovakia, Orange for Ukraine, and Rose in the case of Georgia.



EDSA REVOLUTION / FEBRUARY 1986 Catholic nuns and supporters of the EDSA people's revolt greets a soldier on board his V-150 armored tank at EDSA. PDI PHOTO/BOY CABRIDO

How would history judge the People Power Revolution of 1986? Are Filipinos better off economically because of that momentous undertaking? Historical validation is critical in the light of efforts at revisionism to recast the Marcos Regime as a golden era of prosperity for Philippine society signifying that the People Power Revolution was unjustified and likely, the machinations of sinister "yellow" forces. One variation of this historical revisionism being shamelessly peddled was that President Marcos though authoritarian was not an iron fisted ruler which thus

prevented him from engineering the economy to reach its full potential. If the Truth is liberating then the lies and illusions perpetrated about the economic record of the Martial Law era becomes the chains of bondage for the Filipino and it is imperative to expose them.

An effective and encompassing framework to analyze the economic performance of countries is simply to interrogate two major issues that impacts on poverty and underdevelopment: Did the economy achieve respectable and sustainable growth? How were the fruits of economic growth distributed among the population? Other aspects of economic policymaking simply follow from those two major issues. Promoting economic growth enhances employment and livelihood opportunities. In turn, sound economic policies that keep inflation at bay and achieve a viable BOP position sustains economic growth. Good governance, transparency, providing equal access to resources and economic opportunities addresses inequality and promotes an egalitarian society.

An overall framework of analysis also avoids the “cherry picking” that advocates of the Martial Law regime disingenuously use to defend the accomplishments of that era and place the present Administration in an unfavorable light. While individual narratives are not to be devalued just citing “lighter traffic” etc. in the Martial law years will be easily countered and the back and forth can degenerate into an unending and convoluted argumentation. To reiterate, what was the overall performance of the economy and who became the beneficiaries?

So how did the Martial Law economy of 1972 to 1986 perform? How does this compare with the economic record of the current Administration?

Economic Growth, Employment and Inflation. In the Martial Law Regime of the 1970s, economic growth of the country initially averaged a strong 6% (actually similar to the present Administration) but this would soon sputter into just +1% in the first half of the 1980s. The growth strategy of the Martial Law era economy was based on excessive borrowings. As is the case with households and companies, the growth of economies built

on a foundation of excessive debt aggravated by behest loans, corruption and mismanagement would not be sustainable. Foreign debt jumped from \$2.66 billion in 1972 to \$17.3 billion in 1980 and about \$26 billion by 1984 (Celoza, A. Ferdinand Marcos and the Philippines). There was capital flight associated with a Marcos crony and U.P. Prof Joseph Lim noted that important sectors became more monopolized by the cronies of Marcos. A full blown debt crisis by the early 1980s ravaged the economy and forced the government to declare a debt moratorium. The debt became an onerous burden on the new government after 1986 and the Aquino government's decision to honor all obligations remains highly controversial. Marcos and his cronies were holding the levers of power when these loans were contracted which eventually became an albatross on the neck of the Philippine economy.



Current Philippine economic growth is likely to be more sustainable due to prudent economic management- the debt burden has steadily declined. In fact, in the recent European economic crisis the Philippines became a lender to troubled European countries coursed through IMF- a complete reversal of its crisis wracked debtor status in the early 1980s! External debt

to GDP ratio has considerably improved from 68.6% in 2003 to only 27.3% in 2014 (BSP). Similarly, Fiscal deficit has moderated to -0.6 in 2014 from an average of -2.3% in 2010 – 2013.

Inflation management of the Martial Law technocrats had been an abject failure. During the period 1972 to 1976 the inflation rate (CPI) was an uncomfortably high 14.9%. Granted that the major global oil shock occurred during this period there was only a marginal improvement to an average of 13.2% during 1977 to 1981. To illustrate that this was structural in nature average annual prices further spiked to 18.9% during 1982 to 1986. Thus, the entire Martial Law period was marked by average inflation rates that were in the teens- a clear cause of concern for economists for that would require slowing down economic growth to rein in inflationary pressures.

On the other hand, average inflation rate for 2010 – 2015 was a negligible 3.1%. Even discounting the recent dive in oil prices, Philippine inflation rate has stabilized at an average of 3.7% during 2010 – 2013. In fact; a gradually decelerating inflation rate has characterized the Philippine economy since the 1990s. This is vital as lower inflation rates mean strong purchasing power for the Filipino consumer but also in terms of macroeconomic management this signifies that higher economic growth can be accommodated and sustained over the medium term.

Because of the mediocre growth rates that hounded the economy by the late 1970s, the unemployment rate rose from 5.2% to 5.9% from 1978 to 1983 while underemployment tripled to 29%. (E. De Dios). Unemployment rate was 5.7% in October 2015 and though representing a significant improvement from the high of 13.9% in the 1st quarter of 2000 illustrates the challenges to policy makers.

The Philippine economy was already in ICU in the early 1980s with the repressive and corrupt government needing excision like a malignant tumor if the patient is to live. The economic case is compelling that If the EDSA Revolution did not happen it's likely that the Philippine economy

was headed to complete collapse triggering large scale anarchy and turmoil in its wake. One journalist noted that unlike other regional authoritarian leaders, Marcos was not in power for a long time- just imagine the even greater damage if he did!

The Great Recession of 2007-08 roiled the Philippine economy but the country proved resilient from a strong domestic base and sound economic policies. GDP growth decelerated to 1.15% in 2009 but bounced back to an average of 6.2% until 2015. Subsequently, the country received investment status upgrades from major international credit rating agencies Moody's, Fitch, and Standard & Poor's.

Poverty, Corruption and Inequality. So who benefitted from economic growth in the Martial Law economy? The World Bank reported in 1980 that 42% of the population lived below the poverty level. Even when there was growth, the growth in the Philippines tended to reinforce uneven income distribution. It was reported by the Asia Yearbook that in the early 1970s 2.6% of Filipino families earned P10,000 or more a year and the overwhelming majority of 77% earned far below 3,000 and even 12% had incomes below 500 pesos per annum.



Residents living in a squatters area wait for a free meal given by a religious organization in Manila September 21, 2012. Picture taken September 21, 2012. REUTERS/Erik De Castro (PHILIPPINES)

UP Prof de Dios noted that income inequality grew during the Martial Law era as the poorest 60% of the nation contributed only 22.5% of the income in 1980, down from 25% in 1970. The richest 10% had a larger share of income at 41.7% from 37.1% in the same period.

Favored associates, friends, and relatives guaranteed unequal access to the country's resources and perpetuated a distorted unequal distribution of income. As author Celoza observed "The government granted monopolies of key industries and products to selected business people and increased its involvement in the private sector by granting tax exemptions, loan

guarantee, and other privileges...By the end of the 1970s, most businesses in the Philippines were controlled by eighty one families with close ties to the Marcos regime.” (page 76, Ferdinand Marcos and the Philippines).

At present, the World Bank reported some tentative progress made in achieving inclusive growth with poverty incidence decreasing from 27.9% in 2012 to 25.8% in 2014- an improvement but still alarmingly high. It's a world of difference from the crippling penury and misery of the early 1980s but at the same time it shows that a generation after EDSA there's still a lot of work to be done and this will be the great task in the years ahead.

As Acemoglu and Robinson explained in their influential book “Why Nations Fail” (2012) countries with extractive political and economic institutions may grow but it will be unsustainable. In short, institutions need to be inclusive to usher in long term and wide spread development. Misallocation of resources from corruption make it harder to achieve and sustain growth. Philippine economic growth has disproportionately benefited the country's elite- this is endemic in the Philippines and continues to the present but especially so during the Martial Law years.

Regional Ranking. Finally, if the Martial Law economy was growing at a respectable and sustainable rate it would have kept pace with its regional peers in income levels and economic ranking. During the 1950s and 1960s the Philippines was usually regarded as only second to Japan in Asia in terms of economic development as measured in per capita incomes. Then, in the course of the next two decades South Korea and Malaysia overtook the Philippines. Indeed, Thailand caught up with the Philippines by 1982 in per capita income (around US\$750) at the eve of the governance crisis. The country has by then cemented its reputation as the “sick man” of Asia. Rebuilding the economy that was in utter ruins by 1986 would take time that included muddling through policy issues e.g. crippling brownouts and consolidating to ward off destabilization plots. Thus, Indonesia also surpassed the Philippines and Thailand widened its income gap over the latter in that period. If not for the robust growth of the Philippines since

2010, Vietnam would have also overtaken the country by this time. Estimated 2015 GDP per capita (PPP) of the Philippines amounts to US\$7,500 compared to US\$6,100 of Vietnam (CIA World Factbook).

The 1960s to 1980s marked the take off stage for the major Asian economies and the emergence of the NICs (Newly Industrialized Countries). It was an exhilarating time for East and Southeast Asian economies. The 21st century as the “Pacific Century” became a beguiling vision. So why was the Philippines left eating the dust of its neighbors? Part 2 will discuss this topic particularly relevant to the country’s Hispanic heritage and the role of the developmental state.

Why would the Philippine Martial Law economy from 1972 to 1986 be the “golden era of prosperity” if it was precisely in that period that the economies of the neighboring countries surpassed it?

The once proud cosmopolitan Filipino looked up to by fellow Asians in the heyday of the 1950s and 1960s had departed by the 1980s. The Filipino by the 1980s was regarded as coming from an impoverished country relegated to the role of hewers of wood and drawers of water. The Martial Law era for the Philippines was in fact a period of disastrous national decline.

Again, there is a remarkable contrast to the present where the Philippine economy is recognized as one of the most vibrant economies of Asia. Since 2010, Philippine GDP has grown at a robust annual average rate of 6.2% which is in fact the highest in 40 years (What are the Prospects of the Philippine Economy in 2016, InterAksyon, Jan. 11, 2016 (<http://www.interaksyon.com/business/122550/opinion--what-are-the-economic-prospects-for-philippines-in-2016>)) reversing its status as an economic laggard in the past decades. The country now outperforms most of the traditional economic achievers of Asia but make no mistake about it – the country is just trying to make up for lost ground that dated back to the Martial Law era. The country remains as one of the underdeveloped countries in the region and it will take several years of robust growth

before significant income gains are made and progress achieved through a more equal income distribution.

Nation-building is generational: The Legacy of the EDSA Revolution

The EDSA Revolution certainly did not set out to be a revolution. As is well known, some military officers tried to pre-empt their arrest by the regime by occupying Camp Aguinaldo and then Camp Crame and appealed for public support. It became revolutionary in its execution through a mustering of the people by the hundreds of thousands in a popular and peaceful protest.

The outcome was less revolutionary. The dictator was overthrown and his regime met its ignominious end. However, the same extractive and suppressive institutions were maintained. The powers-that-be simply ensured that their class interests prevailed. A rare historical opportunity was squandered in transforming the existing social order toward a more equitable society. When the heady afterglow of EDSA faded many of the corrupt officials of the previous regime were rehabilitated and oligopolies restored and the oligarchic structure was maintained. There would also be a new group of favored businessmen and politicians that essentially maintained the system of vested political interests, dynasties, and powerful clans. There had been no structural transformation of the Philippine economy to empower ordinary citizens to participate actively and benefit equitably from the fruits of development.

National progress does not follow a linear path. Development is sustained or setbacks endured on the basis of choices that people make as impinged upon by institutions over decades. The 1986 EDSA Revolution would be a rare historical moment but EDSA II would be a pathetic necessity and EDSA III a farce. EDSA I was a singular historical moment for Filipinos to get rid of a repressive regime through the Parliament of the Streets. But EDSA II was a stark admission that Philippine democratic institutions had been perverted and that a wrong choice was once again made in the choice of national leader. In the succeeding years one Supreme Court Justice

would be impeached and another President would be detained to face charges that are still unresolved. As I have argued before (Philippines the Next Tiger Economy, Interaksyon, March 31, 2014 (<http://www.interaksyon.com/business/83804/philippines-the-next-economic-tiger-lets-ponder-that-for-a-minute>)) that historically, the People Power Revolution may represent only the initial crucial step to establish good governance in the country. Nation-building is a generational process.

In just about a decade and a half after kicking out an authoritarian leader the Parliament of the Streets need to be mobilized once more to oust a corrupt and inept leader. The Philippines has the dubious record of being the only country with more than one leader in the Forbes list of “World’s All Time Most Corrupt Leaders” (originally obtained from Transparency International.) http://www.forbes.com/2004/03/25/cx_vc_corruptslide_2.html. Marcos is #2 (http://www.forbes.com/2004/03/25/cx_vc_corruptslide_2.html.%20%20Marcos%20is%20#2) in the list, estimated to have embezzled up to US\$10 billion. Is this indicative of a benign dictator? It had been argued that some East Asian strong men may be more repressive than Marcos- but do these iron fisted rulers ever make the list of world class plunderers? Estrada is #10 in the list with estimated embezzlement of \$80 million. As Savoyard diplomat and lawyer Joseph de Maistre stated, “Every nation has the government it deserves.”

Economist and Nobel Laureate Douglass North observed that formal institutions which consist of laws and regulations are likely easier to change. However, informal institutions such as the mindset, norms, ethics, and culture will take a much longer time to change and these have development implications. There is for example strong association between political dynasties and economic stagnation. Yet, there is acceptance of the dynasties as articulated through voting preferences of Filipinos which thus amplify the vicious cycle of underdevelopment. Achieving development spans generations.

For all its challenges, the Philippines is well past the major governance

upheavals of the past decades that hobbled economic growth then. Stability and good governance are vital in fostering conditions conducive to respectable and sustainable economic growth of the country. The nation though needs to be vigilant in voting wisely as retrogression in good governance can easily plunge again the country in a renewed crisis – just look at Thailand. Memories are frail while a new generation has no memory at all of the Martial Law years. It is vital to remind people of the gains that had been made- but also to be critically aware of the arduous tasks that still lay ahead especially in resolving poverty and unequal income distribution.

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