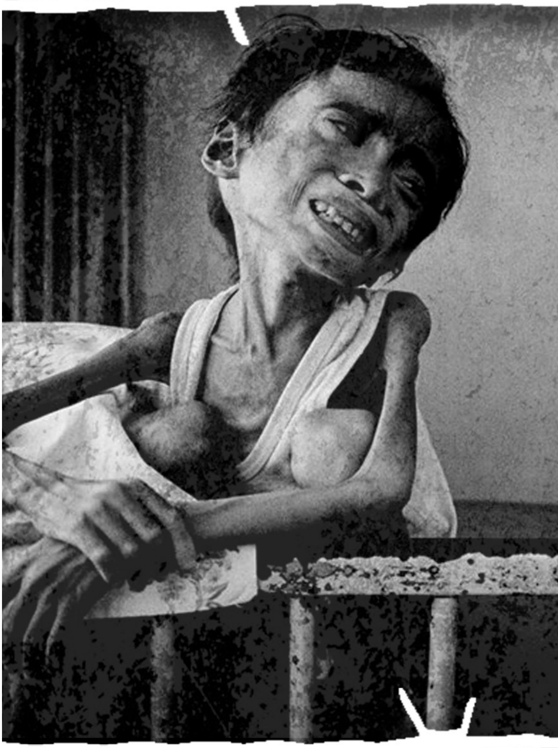

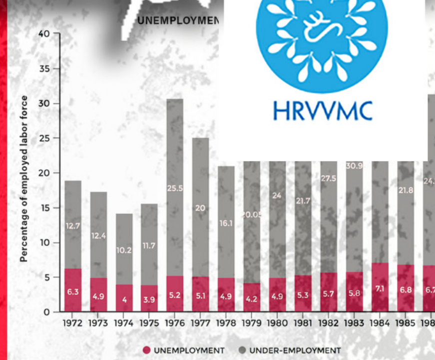

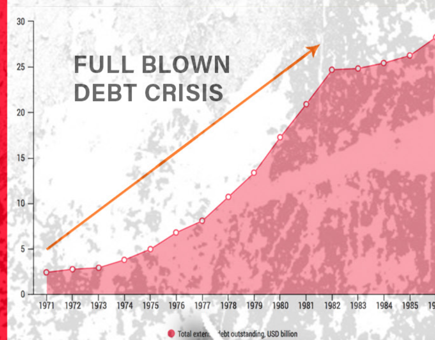

ESSENTIAL TRUTHS ABOUT 1972–1986

MARTIAL LAW ERA

2

The Economy During the Martial Law Era

This book is based on facts and evidence.
Names, characters, places, and incidents are historically accurate.

Published in the Philippines by the
Human Rights Violations Victims' Memorial Commission

Originally published in softbound in the Philippines
by the Human Rights Violations Victims' Memorial Commission
a Philippine government agency created by Republic Act 10368

Visit us on the Web! thefreedommemorial.ph

For Educators and Teachers visit us at thefreedommemorial.ph/educators

This book is available in softcopy at thefreedommemorial.ph

Summary: The Essential Truths about the Economy during the Martial Law era
(1972-1986).

Printed in the Philippines

First Educators Edition 2020

ESSENTIAL TRUTHS ABOUT

THE ECONOMY DURING THE MARTIAL LAW ERA (1972-1986)

FOREWORD

The Human Rights Violations Victims' Memorial Commission (MemCom) was established in 2013 under Republic Act No. 10368:

> *"An Act Providing for Reparation and Recognition of Victims of Human Rights Violations during the Marcos Regime, Documentation of Said Violation, Appropriating Funds Therefor and for Other Purposes".*

It's mandate as spelled out in RA 10368, is to:

> *"...establish, restore, preserve, and conserve the Memorial, Museum, Library, and Compendium in honor of the Human Rights Violations Victims (HRVVs) during the Marcos Regime. It shall coordinate and collaborate with the Department of Education, the Commission on Higher Education and other partner institutions to ensure that the teaching of Martial Law atrocities, the lives and sacrifices of HRVVs in our history are included in the basic, secondary and tertiary education curricula."*

The series on the Essential Truths about the 1972-1986 Martial Law Era seeks to provide teachers and instructors a quick reference guide that is evidence-based. This series is divided into key topics and will be issued separately.

The "Essential Truths about the Economy during Martial Law Era" is the second of the series.

It carefully disseminates half-truth allegations and misconceptions in a scientific manner. This condensed version of the economic history pf the country during that period is an invaluable source. Serious scholars can further their knowledge by going through the references provided.

We hope that the reader will have a deeper understanding of the danger of capitalist forces when it captures government bureaucracy to turn polices to favor a few against the interest of millions of ordinary Filipinos.

For a Just and Humane Society,

Carmelo Victor A. Crisanto
Executive Director
Human Rights Violations Victims'
Memorial Commission

INTRODUCTION

This is the second of the series tackles the essential truths about the impact of Ferdinand Marcos's martial law on the Philippine economy.

It examines economic data before and during the Marcos Martial Law period and analyzes the regime's economic policies and governance. Such examination reveals that the imposition of Martial Law resulted in abuses in economic governance and became a way for the Marcos family and their close friends and favored associates (popularly known during that time as Marcos cronies) to enrich themselves from the Philippine economy.

This second of the series proceeds as follows. First, we give an overview of martial law's impact on the Philippine economy in general—that is, from a macroeconomic perspective. Second, we examine the consequences of the economic policies of the Marcos regime on specific vital sectors of the economy. Third, we focus on the impact of the Marcos regime's large-scale infrastructure projects. Lastly, we look into the country's finances and determine Martial Law's impact on poverty and inclusive development.

All in all, it will be apparent from the evidence that the Marcos martial law years can hardly be called the "golden age" of Philippine economy.

ESSENTIAL TRUTHS
about the Economy during the Martial Law Era (1972-1986)

There are claims that the Marcos' Martial Law era was the "golden age of Philippine economy". This claim is purportedly backed up by the selective choice and presentation of data that showed robust economic growth during the early years of the Marcos Martial Law era and the various infrastructure projects undertaken by the regime. But the Essential Truth is that, after the early years of growth, Marcos' debt-driven economic strategy along with the systematic plunder and mismanagement of the economy plunged the country into deep economic crisis from which it took two decades to recover and further impoverished the poor. This can be gleaned from the analysis of the entire set of economic data during the years before, during and at the end of the Marcos era.

A. The Philippine Economy Before the Declaration of Martial Law

By most accounts, the Philippine economy during the post-World War II period before the imposition of Martial Law was doing quite well in comparison with its Asian neighbors. In the years immediately after the end of World War II, the Philippines had one of the highest growth rates in Asia. In the period from 1950-1960, the country's economic growth rate (as measured in terms of annual growth rate of per capita GDP[1]) was higher than that of Singapore, Indonesia, Malaysia, Thailand and even South Korea though the succeeding decades saw the Philippines' economic growth rate declining compared to these countries [Alburo, 2015, Oshima, 1983]. Average growth rate of the country's Gross National Product[2] was 6.5% in the 1950-1960 period and 5.1% from 1960-1970 [Oshima, 1983, 13]

---

[1] Gross Domestic Product or GDP is the monetary value of all goods and services produced within a country within a specific period (usually one year). It is an indicator of the size of the economy and how the economy is performing. GDP per capita is the measure of a country's economic output for each person. It is computed by dividing the country's GDP by its population for a specific year. GDP per capita is one of the indicators of a country's standard of living.

[2] Gross National Product (GNP) is the estimated value of all goods and services made by a country's residents and businesses regardless of whether these were made inside or outside the country.

During the 1960's and up to the declaration of Martial Law, the Philippine economy was mainly agricultural with 60% of the labor force working in the agricultural sector in 1957 and 1964 but going down to 50% in 1971 [NCSO[3] cited by Tidalgo and Esguerra, 1982, 55]. But family farm income was small and remained stagnant. According to the Family Income and Expenditure Surveys of the NCSO for the years 1961 and 1971, agricultural family income was less than half of non-agricultural farm income, Average growth rate of agricultural family income was a measly 0.2% over those years [Oshima, 1983, 15-17].

The meager rural family income and equally meager (though higher) urban family income is the reason why poverty was widespread. Not only was proverty widespread, it was becoming worse by the time Martial Law was declared. Official data shows that in 1965, about 41% of families were poor. But by 1971, poverty incidence had increased to 43.8% of families. Rural poverty was higher with more than half of farming households living in poverty.[4]

Poverty especially in the rural areas can be traced to the unequal landownership pattern and the failure of government to implement meaningful land reform. The various attempts at instituting land reform were blocked by the landlord class since land ownership is the economic base of powerful dynastic families. During that period, the country's political and economic power was in the hands of around sixty dynastic families (also known as oligarchs[5]). Collectively, they received half of the country's income [Karnow 1989 cited by Hutchcroft 1991].

These dynastic families used their political power and influence to protect and increase their wealth. Economists often refer to activities that aim to increase the wealth of individuals without creating any wealth or benefit to society as "rent seeking". Oligarchs manipulate the levers of power (particularly the political process) to obtain more wealth or benefits. Methods used include protecting favored enterprises or businesses from competition through regulatory measures and state-engineered privileges such as quotas, subsidized credit, and access to government resources.[6] However, to maintain political power, politicians must maintain a patronage network: political leaders that deliver votes, private armies

[3] National Census and Statistics Office, a precursor agency of the Philippine Statistics Authority (PSA).
[4] Data compiled by the Martial Law Museum (https://martiallawmuseum.ph/) from various sources.
[5] In general, an oligarchy is the government by a few. Thus, oligarchs are people who control a country by controlling both wealth and politics.
[6] Readers wishing for more detailed discussion of rent-seeking in the context of the Philippines and especially during the Marcos dictatorship, is referred to Paul Hutchcroft's "Oligarchs and Cronies in the Philippine State: The Politics of Patrimonial Plunder"

that protect them against political rivals, and bureaucrats and lower level politicians that safeguard their interests. This, of course, needs lots of money and most of this money comes from the public coffers. Thus, the country had a dysfunctional, inefficient and corrupt government bureaucracy that failed to provide needed public service.

By the late 1960s, the Philippine economy had started to stagnate and was plunged into a full-blown economic crisis in the aftermath of the 1969 election which Marcos won to become the first Philippine President to be reelected. The crisis was largely caused by reckless spending of government funds by Marcos in his reelection bid. As a consequence, the government was unable to meet payments on its US$2.3 billion international debt and had to borrow a US$27.5 million standby credit with the International Monetary Fund (IMF). To access this loan, the Philippines had to renegotiate the country's external debt and devalue the Philippine peso. This pattern of submitting to the dictates of the IMF and the World Bank in order to secure loans to tide over the Philippines during times of economic difficulties brought about by economic mismanagement would be repeated with increasing frequency for the next twenty years. [Dolan, 1991]

B. The Global Economy in Brief

The global economy too grew after the Second World War. Growth accelerated in the 1960s with an average global GDP growth at 5.3% from 1961-1970 [World Economic Survey, 1971, 1972, 20]. The United States had become the leading economic power in the world by then. Traumatized by two successive world wars, the countries of Western Europe were moving towards economic integration on the hope that an economically integrated Europe will prevent the repeat of these catastrophic wars. The European Economic Community (the precursor of the European Union) was set up in 1957 and this set the stage for the impressive economic growth in Western Europe. Also by the 1960s, Japan was emerging from the devastation of World War II to become an economic power itself. The advanced capitalist countries, then collectively known as the First World (or, as they called themselves, the free world), was moving towards a new integrated market in part through the creation of such institutions as the International Monetary Fund (IMF)[7] and the World Bank.[8]

[7] The IMF was created in 1945 and its "primary purpose is to ensure the stability of the international monetary system". One of its function is to lend to countries with balance of payment difficulties. (From the IMF website, www.imf.org)

[8] The World Bank is an international financial institution set up ostensibly to provide "development assistance" to middle- and low-income countries. It consists of two organizations: the International Bank for Reconstruction and Development and the International Development Association. The USA has controlling voting interest in the Bank.

The rival bloc of nations of centrally planned economies[10] led by the USSR[11] was also experiencing robust growth as the communist parties of Eastern Europe and China consolidate power in their countries. The developing countries (the so-called Third World) also experienced vigorous growth with the developing nations of Asia growing by an average of 7.6% from 1961-1970. [World Economic Survey, 1971, 1972, 20]

But by 1970, the world economy had slowed, and inflation became persistently high in a number of advanced capitalist countries. They were faced with business stagnation coupled with high inflation that many feared would further fuel the social unrest then prevalent in many countries. Then in 1971, the United States totally abandoned the gold standard[12] with the announcement of US President Richard Nixon that the US dollar will no longer be convertible to gold. This was a response to its large balance of payment deficits[13] and double-digit inflation. International transactions became unstable as the currencies of different countries sought to adjust to this new reality thereby delaying recovery of businesses in many countries. The developing countries suffered as a result given their very weak position in the world economy. [World Economic Survey, 1971, 1972]

I. Was martial law good for the Philippine economy?

ESSENTIAL TRUTH: ***The Philippine economy suffered its worst postwar or recession by the end of the Marcos regime. We lost our standing as an economic leader in Asia.***

Today some people think and believe that President Marcos's regime was good for the economy. They even say it was the "golden age". In a 2016 *New York Times* article a number of people said that during that time "the Philippines was the

[10] A centrally planned economy is an economic system in which a central authority, such as a government, makes economic decisions regarding the manufacturing and the distribution of products. During that time, countries ruled by communist parties are centrally planned. This is in contrast with market economies of capitalist democracies wherein production and distribution of products are made by private businesses and consumers.
[11] The Union of Soviet Socialist Republics (USSR) is the rival superpower of the United States during that time. It was the leader of the communist world and was locked in a Cold War with the bloc of capitalist democracies led by the USA. It was dissolved in 1991 and lost its status as a superpower. Twelve independent states emerged out of the dissolved: are Russia, Georgia, Ukraine, Moldova, Belarus, Armenia, Azerbaijan, Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, and Tajikistan.
[12] The gold standard is a monetary system in which the value of the currency of a country is linked to the value of gold. A country on a gold standard cannot increase the amount of money in circulation without also increasing its gold reserves. (https://www.mentalfloss.com/article/12715/why-did-us-abandon-gold-standard)
[13] A balance of payments deficit means the country imports more goods, services and capital than it exports. It must borrow from other countries to pay for its imports.

leader of Asia," "life was easier under Marcos," and "the economy was booming.[14]"

The early years of the Marcos regime indeed saw respectable economic growth. Gross domestic product or GDP—which roughly measures a country's total income—grew at an average of almost 6% per year from 1972 to 1980. This is good insofar as high economic growth is typically (or at least in principle) a necessary (though not sufficient) condition for achieving higher incomes and more jobs for the people.

However, in the early eighties, the Philippines dramatically—but expectedly—plunged into its worst postwar recession or economic downturn. GDP shrank by 7.3% for two consecutive years, 1984 and 1985; the last time an economic downturn of this magnitude happened was in World War II. Meanwhile, GDP per person, which can be interpreted as the average income of the Filipino, also fell by a whopping 9.4% in those two years.

So large was this downturn that it took the country more than two decades to recover the level of GDP per person in 1982. GDP per person back in 1982 was more than P48,000. This dropped sharply because of the economic crisis during the Marcos regime's waning years and did not recover until 2003 (Figure 1). These so-called "lost decades of development" singularly demonstrate the pernicious impacts of the Marcos regime on the economic lives of Filipinos.

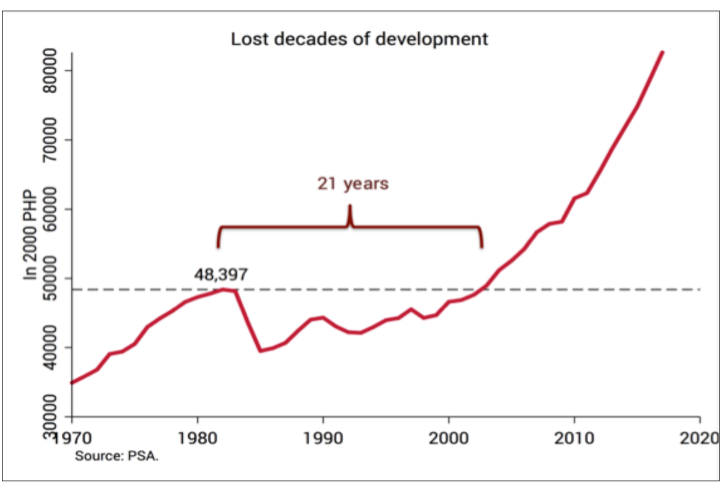

Figure 1: GDP per capita: 1970-2017

[14] https://www.nytimes.com/2016/02/24/world/asia/30-years-after-revolution-some-filipinos-yearn-for-golden-age-of-marcos.html

During the Marcos years we also lost our standing as one of the economic leaders in Asia. Back in the 1950s and 1960s, barring small nations like Brunei and Singapore, we had in fact the largest per-person income among ASEAN countries. But one by one our neighbors overtook us: Malaysia in the mid-sixties, Thailand in the early eighties, and Indonesia in the late eighties. Today, the average Malaysian, Thai, and Indonesian are much richer than the average Filipino. Even in times of growth during the Martial Law years, our economy was not outstanding in performance in comparison with our neighbors: Philippine GDP grew by an average of 6%, while Malaysia grew by 8.1%, Indonesia by 7.5%, and Thailand by 7.1%. If you include the crisis years of 1984 and 1985—which fall squarely within the Marcos regime—our performance was even worse.

Finally, the economic crisis due to the Marcos regime pulled down our country's long-term economic trajectory. Filipinos today would have been richer had we not deviated from the growth performance of our ASEAN neighbors. Based on estimates by J.C. Punongbayan and Prof. Manuel Albis of the University of the Philippines, and based on various assumptions, per-person incomes in the Philippines would have been 3 to 4 times larger than present. This would have catapulted us to the top of the ASEAN region in terms of average incomes.

All in all, the Philippine economy suffered its worst during the Marcos regime. Marcos brought the economy to its knees, pulled down our country's trajectory, and effectively "stole" our future incomes.

"Far from being a golden age, it was a dark age for our economy."

II. How did Marcos ruin the economy's major sectors?

The next question is: Why did the economic crisis happen in the first place? We approach this question by first looking at the various sectors of the economy, namely agriculture, industry, and services. Then we explore specific policies that Marcos implemented in each.

Analysis of Marcos' economic policies would indicate that the regime was not genuinely interested in growing the pie that was the Philippine economy. Instead, he viewed the economy largely as a way to make money, and sought to control and garner for himself, his family, and his friends an ever-increasing share of that economic pie.

Marcos did so primarily by creating monopolies (markets with single sellers) in key industries, assigning family and friends to head these industries, and divert earnings and taxes direct to the bank accounts of cronies and Marcos himself. The amounts plundered got so huge that Marcos had no choice but to stow away most of them in offshore bank accounts.

A. Agriculture and Agrarian Reform

> **ESSENTIAL TRUTH: *Marcos created export agricultural monopolies in major agricultural industries (such as bananas, sugar, coconut) which gave Marcos and his cronies (relatives and close friends and associates) the opportunity to enrich themselves.***

Nowhere was the perversion of markets starker than in the agriculture sector. Over the years Marcos set up major monopolies in major agricultural products for export like bananas, sugar, and coconuts. These monopolies especially in sugar and coconut, "taxed the farmer for benefits that he would never receive, increased the difference between what the farmer received and what the world market paid for his crop, and successfully siphoned off a large proportion of farmers' incomes into the hands of Marcos cronies" [Overholt, 1986].

Let's us examine three of these agricultural sectors in turn.

The banana industry was monopolized by one of Marcos' closest cronies, the Mindanao-based businessman Antonio Floirendo. Floirendo was a close associate and friend of the Marcoses who partly funded Marcos' 1965 and 1969 presidential campaigns. As compensation for this financial support and loyalty, he gained control of the world's biggest banana plantation at the time, the Tagum Agricultural Development Company, Inc. (TADECO). TADECO covered 5,000 hectares of the Davao Penal Colony and essentially used as laborers the 1,500 prisoners there, in coordination with the Bureau of Prisons. Prison laborers worked from 5 AM to 11 AM while earning P1.65 each day per person.

The sugar industry, meanwhile, was dominated by Roberto Benedicto, who hails from a long line of sugar barons in Negros Island from as far back as the 1800s. Benedicto was a classmate and fraternity brother of Ferdinand Marcos. Eventually he was tasked to head the Philippine Sugar Commission (PHILSUCOM), which acted as "the single agency engaged in the buying and selling of sugar." PHILSUCOM's trading arm, the National Sugar Trading Corporation (NASUTRA) was also headed by Benedicto. This vertical integration[15] of the sugar industry, and the consolidation of power in Benedicto, greatly enriched Marcos and his cronies. According to Manapat [1991]:

> *"Benedicto and his associates took advantage of their positions by milking the sugar industry at each opportunity they had. The methods they used involved manipulating the trading and pricing policy, stealing from industry inventories, smuggling of goods and raw materials, control over the mills, financial coercion of competitors, and the use of the military to massacre workers who protested against their working conditions."*

Lastly, the coconut industry was essentially controlled by Eduardo "Danding" Cojuangco.[16] Danding was an erstwhile politician of Tarlac province who became a close friend and adviser to Ferdinand Marcos. He was one of the only two civilians among the so-called Rolex 12, the group that planned and implemented Martial Law[17]. During martial law he monopolized the coconut industry through

[15] Vertical integration is the control by a single entity of two or more stages of production normally operated by separate companies.

[16] Danding Cojuanco is a cousin of former President Corazon "Cory" Aquino and uncle to former President Benigno "Noynoy" Aquino III. Cory Aquino is the daughter of Jose (Pepe) Cojuanco, Sr. Pepe's brother, Eduardo (Endeng) Cojuanco, Sr. is the father of Danding. These two branches had been at odds politically since the 1960s.

[17] "Rolex 12" refers to Marcos' twelve close confidants who engineered and implemented Martial Law. Ten were top ranking military men. The only two civilians were Juan Ponce Enrile (who was Defense Chief then) and Danding Cojuanco.

United Coconut Oil Mills, Inc. (UNICOM), which at the time held 93% of the country's coconut milling capacity and controlled copra trading nationwide. Danding also became the administrator of the Coconut Levy Fund, which comes from the Coco Levy[18] imposed on coconut farmers from 1971 to 1983 supposedly to help develop the industry. The Philippine Coconut Authority (PHILCOA, today known as PCA) was tasked to collect and manage the Coco Levy Fund. The initial PhP100 million collected was used to establish the Coconut Industry Fund. The collection which reached PhP 9.7 billion[19] was used by Marcos and his cronies (Danding Cojuanco and Juan Ponce Enrile among them) to set up or invest in their businesses. Money from this Find was used to acquire two huge blocks of shares from San Miguel Corp. Despite the huge amount collected from coconut farmers, they remained one of the poorest in the country. To this day coconut farmers are pushing to gain the promised benefits of the Coco Levy Fund.

ESSENTIAL TRUTH: *Marcos' much-touted land reform program fell short of the its stated objective of liberating the peasantry from bondage.*

Shortly after declaring Martial Law, Marcos issued Presidential Decrees No. 2 and 27 which declared the whole country as a land reform area. Marcos called land reform the "cornerstone" of the New Society (PDE, 22 Sept. 1973 cited in Wurfel, 1989]

But the land reform program was limited to agricultural lands planted to rice and corn and did not cover lands planted to export crops such as coconut, sugar and banana. Moreover, the coverage was limited to tenanted lands and did not cover hacienda lands and lands owned by agricultural corporations. Because of the exclusion of haciendas and agricultural corporations from coverage of land reform, landless farm workers were not included as beneficiaries of the Marcos land reform program. And because of its limited scope, only 12 percent (1.01 million hectares) of the 8.49 million hectares of agricultural land were covered by PD 27.

Furthermore, only a few received actual land titles (called Emancipation

[18] The coco levy was the tax imposed on coconut farmers from 1971-1983. The initial tax imposed was 55 centavos for the first domestic sale of every 100 kilos of copra. This was high for that time. For comparison, the minimum wage of agricultural workers in 1971 was PhP4.75 according to data from the National Wages and Productivity Commission. Over the years, the levy collected increased reaching PhP100 per 100 kilos.

[19] The value of the coco levy assets today is estimated to be PhP 100 billion.

Patents) for the land. Most of the tenants received Certificates of Land Transfer which is not actually a land title but an instrument attesting that a particular tenant is tilling a particular parcel of land and has future right to own the land pending completion of landlord compensation and amortization by the beneficiary. By 1987, only 314,000 former tenants have received CLTs for 539,000 hectares. Wurfel [1989] citing Ministry of Agrarian Reform data said that by December 1984, only 120,702 tenant-beneficiaries received Emancipation Patents for 164,881 hectares of land. This, however, turned out to be an overestimation. Data from the Department of Agrarian Reform (DAR) would show that only 15,061 hectares were issued Emancipation Patents [De los Reyes, Librojo and Capacio, 2016]. This is so because the original implementing rules of PD 27 provided that Emancipation Patents can be issued to the beneficiary only upon full payment of the awarded land. [De los Reyes, 2016]

Wurfel [1989] would claim that the primary desire of the Marcos land reform program was to undermine the strength of the landed elite who oppose Marcos. Moreover, as Elvinia [2011] noted, the Marcos land reform program enabled many Marcos supporters among the landed elite to gain more land . [Hayami et al., 1990: 69 cited by Elvinia, 2011].

B. Industry

> **ESSENTIAL TRUTH:** ***Marcos' import substituting industrialization policy and its export- oriented industrialization policy did not produce the expected results. Moreover, industrial and development projects were financed by debt and became a means for Marcos and his cronies make money through fat commissions.***

Ostensibly, Marcos continued the post-World War II industrial policy of ISI, short for "import substituting industrialization," as his main industrial strategy. Essentially, it meant that the government wanted to promote domestic industry through the assembly of imported raw materials. This is a form of "protectionism," where domestic firms were essentially shielded from foreign competition at least until they could develop their production processes and later on stand up on their own.

ISI has its upsides. It allowed domestic firms—so-called "infant industries"—

at least in principle to expand and achieve higher productivity through economies of scale (the larger the scale of operation, the lower the costs). Moreover, ISI allows domestic firms to master their own production processes and learn by doing. ISI also reduces a country's dependence on imported goods and allows it to diversify (say, wean itself off primary exports like sugar, coconut, and tobacco).

Other East Asian and ASEAN countries had, in fact, relied on protectionist measures akin to ISI to grow their economies and become the "tiger economies" of Asia. Yet Marcos's implementation of it did not yield similar results. Infant industries never learned to walk and stand on their own. They grew too dependent on the protections they were enjoying against international competition. As a result, manufacturing failed to take off for most of the seventies and eighties. Whereas manufacturing's share to GDP blossomed in Malaysia, Thailand and Indonesia—doubling or even tripling—manufacturing in the Philippines over the same comparable years even shrank. Moreover, the ISI strategy failed to take off because, as Rivera [1994] pointed out, it was the landed capitalist class who dominated ISI manufacturing. The redistribution of assets and resources through agrarian reform which was a key to sustaining and deepening industrialization was blocked by the power of the landed capitalist class.

In 1979, Marcos, with much fanfare announced the plan to undertake eleven major industrial projects (MIPs). These MIPs included copper smelting, phosphate fertilizer, aluminum smelter, diesel engine manufacturing, cement industry expansion, coconut industry rationalization, integrated pulp and paper mill, petrochemical complex, heavy engineering industries, integrated steel project, and alcogas. But these proved to be too ambitious and required heavy borrowings which further increased the country's debt stock. Moreover, Marcos made money out of these projects and allowed his cronies to earn fat commissions from these projects. [Lustre, 2016]

ISI also resulted in our country's hemorrhage of dollars. We were importing so many raw materials for our domestic industrialization, but throughout the late seventies and early eighties our country's current account (comprising mostly exports less imports) turned negative and worsened for many years (*Figure 2*). To ensure a stable supply of dollars, the government required all exporters to hand over all their dollar earnings. Because of this our country's foreign currency reserves dwindled, and it became increasingly difficult for us to repay our piling external debt obligations.

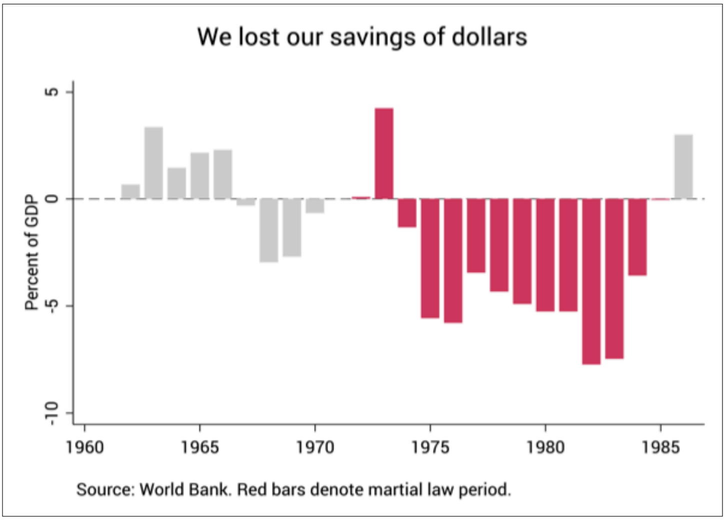

Figure 2: Current account surplus 1962-1986

Upon prodding by the World Bank, the Marcos government half-heartedly pursued export-oriented industrialization. But aside from the setting up of export processing zones, EOI failed to take off because of its focused on opening up the economy but not on industrial upgrading [Ofreneo, 2014]. Ofreneo further pointed out that "there were no value-adding linkages with the domestic economy, home-grown export processing zones, EOI failed to take off because of its focused on opening up the economy but not on industrial upgrading [Ofreneo, 2014]. Ofreneo further pointed out that "there were no value-adding linkages with the domestic economy, home-grown export champions, program for upgrading and infrastructure and support institutions for national producers".

C. Services

ESSENTIAL TRUTH: ***As the economy grew weaker and weaker, and in the wake of poor job creation, the Marcos government adopted labor exportation as an official policy. This led to the OFW (overseas Filipino worker) phenomenon. The Marcos regime also invested heavily on the tourism industry, but it had its dark side and eventually led to the export of women entertainers to Japan.***

Contrary to common wisdom, the Philippines has always been predominated by the services sector. In fact, except for 1981, the share of services in Philippine GDP has always been in excess of the share of industry, since the first GDP data was recorded in 1946. It's also true, though, that the share of industry rose steadily from 23% in 1946 to 42% in 1981, as a reflection of the industrial nature of growth after World War II. Despite this, industry did not take off in the same way it did in many of our East Asian and ASEAN neighbors.

At any rate, labor market conditions during martial law were dire. Though, unemployment levels remained low even during the martial law years, working conditions began to deteriorate. The number of underemployed (employed workers who wanted to work more hours or wanted to augment their incomes through additional work) began to rise. Starting 1976, underemployment rate was more than 20% (except for 1978). At one point (1983 and 1984) almost one-third of employed workers were underemployed (*Figure 3*).

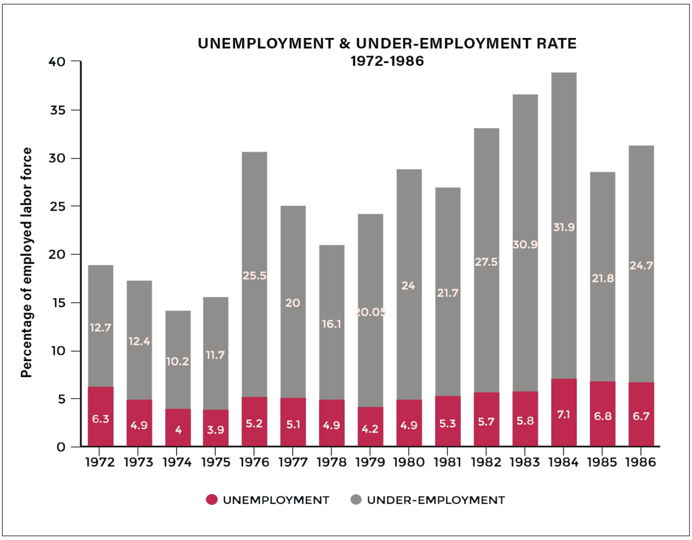

Figure 3: Unemployment and Under-Employment Rate 1972-1986

Prices of essential goods rose steadily. And poverty worsened. The percentage of families living in poverty rose from 43..8% in 1971 to 51.5% in 1975 to 58.9%.

This lack of good, high-quality jobs and the worsening economic condition led many a Filipino to seek greener pastures abroad. For millions of breadwinners, working abroad was the only option. Thus, one might argue there's a direct link between the Marcosian economic crisis and the so-called OFW phenomenon.

More accurately, though, the government turned labor exportation as part of its official policies. It was a deliberate state policy. The Labor Code of 1974 explicitly aimed "to insure careful selection of Filipino workers for overseas employment in order to protect the good name of the Philippines abroad." In 1982, that the Philippine Overseas Employment Authority (POEA) was established to facilitate labor exportation. As a result, the deployment of land-based OFWs or overseas Filipino workers grew the most during the seventies. From 1972 to 1985, the number of deployed OFWs grew from 10,366 in 1972 to almost 320,494 in 1985 (*Figure 4*).

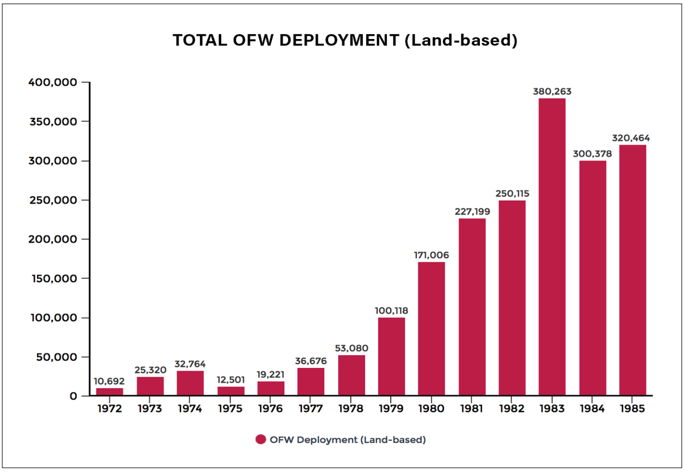

Figure 4: Total OFW Deployment (Land-based) 1972-1986

Leading this move to export Philippine labor for the private sector was Jose de Venecia, Jr. who was the first prime contractor for the export of Philippine labor to the Middle East. De Venecia was a Marcos crony who controlled Landoil.[20] The number of Filipino overseas worker in the Middle East ballooned from just 7,800 in 1976 to more than 250,000 in 1975. At the start, overseas Filipinos working in the Middle East consisted of engineers and skilled construction workers. Later, with a push from the Philippine government, Middle Eastern countries opened their

[20] Landoil, where Marcos had a 45% equity, borrowed USD 120 million, guaranteed by the Marcos government, to build ports and drill for oil in the Middle East. The company eventually failed and left the Philippines with the USD 120 million debt.

doors to services workers like hotel staff and nurses and to the most vulnerable of all workers, women domestic workers. This last suffered the worst working conditions and were, in many instances, treated as slaves by their employers. Working alone within the confines of a single household in a foreign country, many women domestic workers worked long hours and were in many cases subject to abuse and even sexual abuse and rape. Eventually, the destination of women domestic workers expanded to include Europe (Spain and Italy were favorite destinations), Hongkong and Southeast Asia (particularly Singapore and Malaysia).

The OFW phenomenon is credited later on as the lifeblood of the Philippine economy, specifically as one of its top dollar-earning industries. Yet at the same time the phenomenon has led to the disruption of millions of Filipino families who have had to live away for long stretches of time. Francisco [2016] documented some of the socioeconomic consequences on the children left behind by OFW breadwinners.

One priority of Marcos not mentioned as such when Martial Law was declared was tourism development primarily for legitimacy, international influence, patronage and personal fortunes. The regime invested substantial resources for tourism development. In 1976, for example, between one-seventh and one-fifth of government expenditures was allocated for tourism. The Development Bank of the Philippines lent USD229.29 million in the first half of 1976 on tourism projects. Jose Aspiras, the Secretary of Tourism then was one of the most powerful and influential of Marcos' cabinet. (Richter, 1980)

However, tourism promotion had a dark side. In 1979, 26% of the tourists were Japanese, of whom 95% were males, traveling in groups. Most of their activities had to do with visits to clubs, massage parlors, bars which proliferated in Manila. The Japanese underworld organization, the Yakuza played a key role this kind of tourism, facilitating the contacts with local operators and financing also the clubs which offered these sexual services (De Dios 1992: 43 cited by (Bonnet, 2017)). The number of cocktail lounges, bars and clubs increased exponentially from 225 to 436. The number of "hospitality women" in Manila issued with health certificates increased from 1,700 in the early 1980s to more than 7,000 in 1986 (Manahan, 1991, 5 cited (Lim, 1998) and these are only the registered "entertainers". In the 1980s, because of international pressure, the Japanese government began cracking down on sex tour. At the same time, changes in regulations in both the Philippines and Japan led to the influx of Filipina “entertainers” to Japan. In other words, instead of the Japanese going to the Philippines, the country started exporting its women to Japan.

III. What were the consequences of Marcos’ big-ticket infrastructure projects?

> ESSENTIAL TRUTH: ***The big-ticket infrastructure projects during this period was wasteful and prone to corrupt practices and were financed through exorbitant debts.***

Today some people thank President Marcos for all the infrastructure projects he built during his regime. Indeed, this plays an integral part of the “golden age” myth.

Such projects include many buildings and edifices (like the Philippine International Convention Center, Philippine Film Center, Folk Arts Theater), hospitals (Heart Center, Lung Center, Kidney Institute, Philippine Children’s Medical Center), roads and bridges (North Luzon Diversion Road, San Juanico Bridge), hotels (today’s Sofitel), and even a nuclear power plant (Bataan Nuclear Power Plant).

There’s no denying the scale of infrastructure expansion during the Marcos regime. That is plainly evident in the data on government spending and investments. however, a lot of these projects became instruments for Marcoses’ plunder of the economy. University of the Philippines economists, in a famous 1984 “white paper,” showed that “the bulk of construction and other capital outlays in both the private sector were not very productive and many were outright wasteful.” Moreover, “overdesigned bridges, highways, public buildings or large energy projects designed to secure a political constituency, to get a commission, or to corner a contract” [de Dios et al. 1984]. The Bataan Nuclear Power Plant, for instance, which produced not one kilowatt of energy and took us several decades to pay for, was a white elephant. Crony Herminio Disini arranged to be the broker for the project, and from that deal he and Marcos himself were able to extract huge commissions.

More importantly, the white paper also found that: "In a number of instances, though the outward purpose of projects might be endowed with some plausible or social justification, a more urgent reason for pursuing them was the opportunity to use government activity as a vehicle for private gain, whether pecuniary or political."

Just as politicians today like to plaster their names on public works like basketball courts, waiting sheds, and ambulances, Marcos favored large-scale public infrastructure projects that people can easily associate with him and his regime. True enough, people do that to this day.

It must be remembered that what Marcos spent on all these projects came mostly from the colossal debt he accumulated in behalf of the country. Economic growth at the time was debt-driven. During that period the Middle East countries was awash with cash, what with oil price shocks[21], and this led to a surfeit of "petrodollars" which they sought to invest around the world. Marcos benefited in part from the surplus, financing many of his projects.

In a span of five years, from 1977 to 1982, our country's external debt grew by a whopping $16 billion (*Figure 5*). Interest payments ballooned. Many of

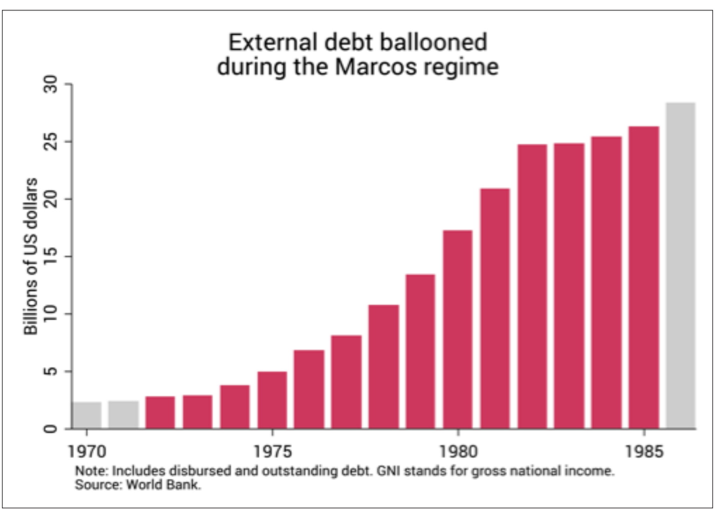

Figure 5: External debt ballooned during 1972-1986

[21] From October 1973–January 1974, the price of oil nearly quadrupled the price of oil from $2.90 a barrel to $11.65 a barrel.

the new debt accrued to the public sector: the share of debt that went to the public sector doubled from about 40% to 80% at the beginning and end of martial law. At the same time, however, our country was running out of dollars to finance for this debt. Apart from the excessive importation which resulted in the worsening current account deficit[22] (*Figure 2*), growing debt further bled our country dry of foreign reserves.

Thus, while the economy unarguably grew especially during the early years of martial law, debt piled up at the same time. From 1972 to 1981, debt growth exceeded GDP growth by a factor of 3.4. Debt growth outstripped export growth—a potential source of dollars—by a factor of two. Clearly, the debt was unsustainable.

Even with all the incurred debt, some of Marcos' infrastructure projects were especially unproductive. The Bataan Nuclear Power Plant, for instance, never produced a single kilowatt-hour of power. The specialty hospitals—Heart Center, Lung Center, Kidney Institute—all of which are found in Manila and were the brainchild of Imelda, were also inefficient in the sense that they were grandiose medical projects that focused the provision of health services in Manila and served mostly the rich at the expense of the medical needs of our people in the provinces. Inefficiency was rife across many other different projects, and this is plainly evident in the country's data on productivity and inefficiency.

It should be pointed out that debt per se is not bad as long as it is not beyond the capacity of the country to pay. In the crisis year of 1983, debt-to-GDP ratio grew to 56%, that is, the country's debt was more than half of its domestic income. Debt service ratio[23] was 38%. This is clearly unsustainable and it took several years for successive Administrations to lower the debt burden to sustainable levels.

IV. What were the effects of Marcos' policies and actions on the financial health of the country?

ESSENTIAL TRUTH: ***Marcos plundered many of the government's financial institutions to the point that he bankrupted even the Central Bank.***

[22] A current account deficit occurs when a country spends more on imports than it receives on exports.
[23] A country's debt service ratio is the ratio of its debt service payments (principal + interest) to its export earnings.

One of the prominent ways by which Marcos accumulated wealth was through “behest loans”. Essentially, Marcos would order lending institutions like the Development Bank of the Philippines (DBP)P or the Philippine National Bank (PNB) which was a government bank at that time, to lend money to the businesses of the cronies. However, the loan amounts were usually well in excess of the total value of the projects, the difference was usually siphoned off and diverted to the properties of Marcos and his cronies.

In 1984, then Prime Minister Cesar Virata admitted that such behest loans were abused:

> *“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”.*

Even the then Central Bank (the progenitor of the Bangko Sentral ng Pilipinas) became bankrupt. This is astounding and jaw-dropping because a central bank is literally the only institution that can print money. Marcos appointed friends as Central Bank governor . He ordered them to lend loans to cronies which soon became known as behest loans. This ran contrary to the typical function of a Central Bank, which is supposed to be a banker of last resort of private banks and not to individuals or corporations.

Since many of these projects were unproductive—and in fact created solely for corrupt purposes—the Central Bank was left with bad loans it could not collect. The eminent economist and Nobel laureate Paul Krugman visited the Philippines in the post-Marcos years to diagnose what happened to the Central Bank, among other things. He concluded in 1992 that:

> *“In essence the problem is that the Central Bank is itself insolvent. Abuse of its domestic credit creation during the Marcos era has left the Central Bank with a portfolio consisting largely of uncollectable loans—effectively fictitious assets— while past borrowing leaves the Central Bank with real liabilities. The result is that the monetary authority runs a substantial deficit and must be supported by the Treasury.”*

Debt was so unsustainable that in 1983 Marcos’s economic managers had to declare a debt moratorium: basically they announced to the world that the Philippines could no longer pay its debts.

Since that announcement previous creditors did not want to touch the Philippines with a 10-foot pole. It became extremely difficult to obtain more foreign funds to finance our dollar needs. Only the International Monetary Fund (IMF) was willing to lend us any money with restrictive conditions that gave priority to paying foreign creditors instead.

This required a shift to a floating exchange rate regime (from a fixed exchange rate regime) which made imports terribly expensive. Inflation shot up to more than 50% that year. Food prices sharply rose and famine stacked the land in certain regions. This, among other policy changes, was a bitter pill that the country needed to take after years of economic mismanagement.

V. Did Marcos improve Filipinos' quality of life?

ESSENTIAL TRUTH: *Overall quality of life in the Philippines fell below our Asian neighbors.*

Inflation, which measures how fast prices are rising, reached 50.4% in 1984, at the same time that our economy entered a deep trough. Before that, inflation rates in excess of 20% or even 10% were commonplace. Skyrocketing inflation eroded the purchasing power of people and made life harder for millions of Filipinos. At the same time, workers' real wages—or wages adjusting for inflation—fell dramatically and steadily from the late sixties through the early eighties. In 1984, the Philippines was forced by the IMF to implement structural reforms which involved belt-tightening measures.

Spending on key social services also took a hit. Whereas government spent 37% of its spending on education, this dropped to around 8% in 1984. By contrast, spending on national defense grew from 17% in 1965 to 23% in 1977. Marcos prioritized the military and infrastructure spending at the expense of social services like health and education.

Filipinos' overall picture health suffered. Back in the 1960s the Philippines had lower infant mortality and higher life expectancy than Thailand. But right in the eighties the two countries switched places. Moreover, just as the decline of infant mortality slowed down for the Philippines, so the rise of life expectancy here also slowed down. More studies need to establish the causal link here, though. But the slew of fancy if luxurious hospitals that Marcos had ordered built catered mainly to the rich dwellers of Metro Manila. Health in the countryside, by comparison, deteriorated.

Millions were also subjected to poverty and hunger. The rice sector saw a renaissance of sorts, for rice productivity doubled from the mid-sixties to the mid-eighties, from 1.24 metric tons of palay per hectare to 2.48.[24] However, this did not eradicate poverty and hunger. Poverty in fact demonstrably increased during the martial law years as real wages went down and inflation went up. But this finding was based on subsequent economic studies because during that Marcos regime the government withheld (or stopped publishing altogether) poverty statistics(*Figure 6*).

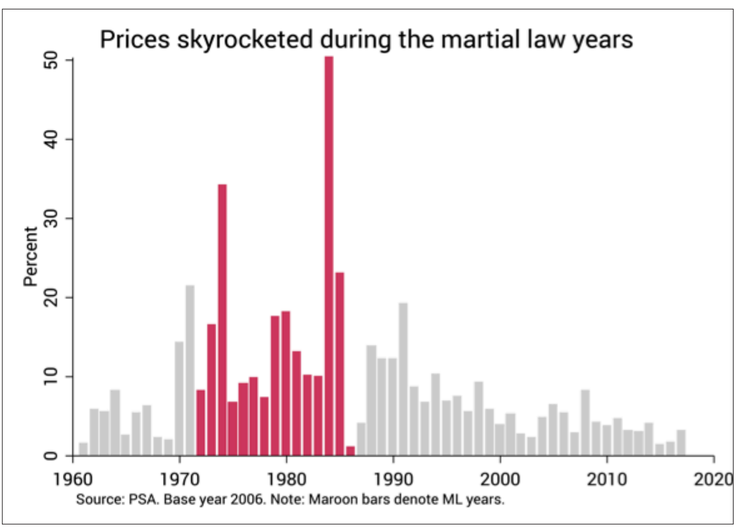

Figure 6: Prices rocketed during 1972-1986

[24] https://www.manilatimes.net/marcos-green-revolution/246377/

Far from solving the country's malnutrition problem Marcos did not solve it. In 1982, two of three families were not consuming the recommended minimum daily calorie intake, and a whopping 69% of pre-schoolers were underweight. The famed Nutribun intervention, credited as a flagship nutrition project of Marcos, was in fact a USAID[25] brainchild, specifically its Food for Peace program. Meanwhile, the famines in Negros Island at the height of the economic crisis led to such deplorable cases as Joel Abong (see next page), whose sorry plight and emaciated figure drew the attention of the global press at the time. His severe malnutrition was especially made striking by the fact that the Marcos government had been portraying all along a robust economic situation, boasting abundance and prosperity. The truth could not be farther from that.

(The photo above was featured on the website of Atlas Obscura[26])

"Young malnutrition victim Joel Abong sits in a crib at the Corazon Locsin Montelibano Memorial Regional Hospital in Negros Occidental. Joel was plagued by illnesses through his short life. His condition was not helped when sugar cane prices fell to a near all-time low in the mid-1980's, causing workers like Joel's father to lose their jobs. Dozens of children, including Joel Abong, died on Negros Occidental in 1985."

-Burgess, Anika (2016)[27]-

[25] United States Agency for International Development is an independent agency of the United States federal government that is primarily responsible for administering civilian foreign aid and development assistance.
[26] Komenich, K. as cited in Burges, Anika [2016], Stark Photos of the 1986 Philippine Revolution that Took Down a Dictator, Atlas Obscura. Retrieved from https://www.atlasobscura.com/articles/stark-photos-of-the-philippine-revolution-that-took-down-a-dictator
[27] Burges, Anika [2016].

VI. Conclusion

In sum, the Martial Law era was emphatically not the "golden age" of our economy. The country experienced its worst postwar recession. Protectionism failed to develop our industries. Growth was largely debt-driven. Debt accumulated at shocking and unsustainable rates. The Central Bank became bankrupt. The Marcoses and their cronies plundered both the public and private sectors. Inflation reached an all-time high. Underemployment skyrocketed. Poverty increased. Filipinos' health outcomes deteriorated.

At the end of the Marcos Administration, it was the **dark age of Philippine economy.**

REFERENCES

[1972]. Current of the World Economy. Diplomatic Bluebook for 1971. Japan Reference Series No. 1-72, Ministry of Foreign Affairs of Japan, Public Information Bureau. Retrieved December 18, 2019, from https://www.mofa.go.jp/policy/other/bluebook/1971/1971-1-14.htm

[1972]. World Economic Survey, 1971. United Nations, Department of Economic and Social Affairs. New York: United Nations Publication. Retrieved December 18, 2019, from https://www.un.org/en/development/desa/policy/wess/wess_archive/1971wes.pdf

Alburo, F.. [2015] *Development dynamics in the Philippines historical perspectives:* 1950 2010, UPSE Discussion Paper, No. 2015-14, University of the Philippines, School of Economics (UPSE), Quezon City Accessed from: http://hdl.handle.net/10419/149111

Boyce, J. [1993] *The political economy of growth and impoverishment in the Marcos era.* Quezon City: Ateneo de Manila University Press.

de Dios, E. (ed.), D. Canlas, R. Fabella, F. Medalla, S. Monsod, M. Montes, Paqueo, E. Remolona, E. Tan, R. Tidalgo [1984] An analysis of the Philippine economic crisis. (UP School of Economics "White Paper"). Quezon City: University of the Philippines Press.

Dohner, R. and P. Intal [1989] "Debt crisis and adjustment in the Philippines." in J. Sachs, (ed.) *Developing country debt and the world economy.* Chicago: University of Chicago Press: 169-192.

Dolan, R. E. (Ed.). [1991]. *Philippines: A Country Study.* Washington: GPO for the Library of Congress. Retrieved December 3, 2019, from http://countrystudies.us/philippines/57.html

Elemia, C. (2017, January 30). Coco levy fund scam: Gold for the corrupt, crumbs for farmers. Retrieved December 19, 2019, from Rappler: https://www.rappler.com/newsbreak/in-depth/158066-coco-levy-fund-scam-coconut-farmers-quezon

Esguerra, Emmanuel F. & Tidalgo, Rosa Linda [1982] "*Philippine Employment in the 70's*," Working Papers WP 1982-02, Philippine Institute for Development Studies. Retrieved from https://ideas.repec.org/p/phd/wpaper/wp_1982-02.html

Francisco, R. [2016] *Essays on the socioeconomic consequences of parental migration for children left behind*. Ph.D. dissertation. UP Diliman, Quezon City.

Fuwa, N. [2002] "Evolution of rural poverty in Indonesia, the Philippines and Thailand," in *Dynamism of rural sector growth: policy lessons from East Asian countries*. Washington, D.C.: World Bank.

Hays, J. [2015, June]. "*Economic History of the Philippines*". Retrieved November 18, 2019, from Facts and Details: http://factsanddetails.com/southeast-asia/Philippines/sub5_6g/entry-3916.html

Hooley, R. [1985] "*Productivity in Philippine manufacturing: retrospect and future prospects*". Makati: Philippine Institute for Development Studies.

Manapat. R. [1990] "*Some are smarter than others: the history of Marcos crony capitalism*". New York: Aletheia Publications.

Oshima, H., [1983]. "*Sector Sources of Philippine Postwar Economic Growth: The Over-all Record in Comparative Perspective*". Philippine Journal of Development JPD 1983 Vol. X No. 1-a, Philippine Institute for Development Studies. Accessed from https://dirp4.pids.gov.ph/ris/pjd/pidsjpd83-1postwar.pdf?fbclid=IwAR1kA9aAnFym9NQ9XRrxvbKX9Eg8HiHNCAc0Iu_xgrQZztRV2y9dCiEqc54

Overholt, W. H. [1986, November]. *The Rise and Fall of Ferdinand Marcos*. Asian Survey, 26(11), 1137-1163. doi:10.2307/2644313

Power, J. and G. Sicat [1971] *The Philippines: industrialization and trade policies*. Oxford University Press.

Rivera, T. (1994). The State, Civil Society, and Foreign Actors: *The Politics of Philippine Industrialization.* Contemporary Southeast Asia, 16(2), 157-177. Retrieved February 24, 2020, from www.jstor.org/stable/25798242

ACKNOWLEDGEMENTS

Special mention is given to Jan Carlo B. Punongbayan who primarily wrote this piece in a very straightforward and understandable manner. JC Punongbayan is a PhD candidate from the School of Economics, University of the Philippines, Diliman (UPSE). He graduated summa cum laude and valedictorian from USPE in 2009 and was awarded the Jose Encarnacion Jr. Award for Excellence in Economics and the Gerardo P. Sicat Award for the Best Undergraduate Thesis. He later obtained his M.A. degree from the same school in 2013.

Rolando "Bobbit" Librojo, former Executive Assistant of the Department of Agrarian Reform contributed in writing portions on the land reform and the labor exportation sections. He is currently working as Director for Planning and Development for the National Union of Bank Employees – Insurance and Finance Organization (NUBE-IFO).

NOTES

ESSENTIAL TRUTHS ABOUT

1972-1986

MARTIAL LAW ERA

Human Rights Violations Victims'
Memorial Commission