



Papers on The Philippine Financial Crisis and its Roots

by:
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INTRODUCTION

5 November 2004

The Committee for the Defense of Prof. Jose Maria Sison's Democratic Rights – Philippines (DEFEND-Philippines) is committed to raise public awareness of and support for the campaign to defend Prof. Sison's democratic rights in the face of the unjust and unfounded listing of Prof. Sison as a "terrorist" by the US, EU and other states with the knowing collaboration of the government of Pres. Gloria Macapagal-Arroyo.

DEFEND-Philippines is publishing this booklet containing the recent public exchange of letters of Dean Alejandro Lichauco, respected Filipino economist and nationalist, and Professor Jose Ma. Sison, chief political consultant to the National Democratic Front of the Philippines (NDFP) in the ongoing peace negotiations with the Government of the Republic of the Philippines (GRP), as well as Sison's most recent paper on the chronic financial crisis plaguing the country and Lichauco's analysis on the roots of crisis and what is to be done.

Although the exchange of letters between the two renowned nationalists was published in the newspaper, *Today*, Defend-Philippines wishes to bring the incisive analyses and creative proposals of these two intellectual giants to a wider audience through this booklet.

Sison's in-depth discussion of the chronic financial crisis that has reached critical proportions under the Macapagal-Arroyo administration, traces the historical roots of the problem and provides a far-reaching perspective on the solutions to the crisis given the interplay of conflicting forces and countervailing factors. Lichauco pins the blame for crisis squarely on neocolonialism and proposes radical and sweeping steps to address this lingering malady..

We include as well the analysis of the fiscal crisis by Dr. Edberto M. Villegas, a member of DEFEND-Philippines, published in the Philippine Daily Inquirer in September 2004.

We hope you will find this booklet useful. You may send your feedback at defenddemrights@yahoo.com and visit <http://www.defendsison.be> for further information and reference materials.

²⁹ 40% of the Lower House of Congress come from the landlord class, while the rest have their families in various business like real estate, manufacturing, etc. Only a very few, around 1%, mostly from the party list, are from the lower middle class. In the Senate, all are multi-millionaires or millionaires, belonging to the landlord class or attached to business.(from the

Rulemakers

, Sheila Coronel et al, PCIJ, 2003, passim

) Also see Dante Simbulan,

A Study of the Socio-Economic Elite in Philippine Politics and Government

, a doctoral dissertation, The Dept. of Political Science Research School of Science, Australian National University, 1965.

³⁰ "Labor Conditions in the Philippines",

Bulletin of the Bureau of Labor

, 1905, Washington, Government Printing Office, p. 777.

³¹ Data from the Agricultural Division, NSO.

³² Edberto M. Villegas,

Studies in Philippine Political Economy

, Revised Edition, 1984, Silangan Publ., 1984, Chap. I-III, V;

Global Finance Capital and the Philippine Financial System

, Institute of Political Economy, 2001, Chap. 3.

³³Some of the fraudulent debts of the Marcos cronies are:Rodolfo Cuenca, CDCP, \$323 million, Alfredo Montelibano, Planters Products, \$150 M, Roberto Benedicto, Nasutra/Philsucom, \$265 M, Benjamin Romualdez, Meralco/First Holdings, \$370 M, Marcos/Jose de Venecia, Landoil, \$165 M, Genonimo Velasco, PNOC, \$123 M, Geronimo Velasco, Nobel Phil.,\$14 M, Geronimo Velasco, Republic Glass, \$2M, Herminio Disini, NPC, \$795, Roberto Ongpin, NIDC, \$795 M, Roberto Ongpin, NIDC, \$157 M, Roman Cruz, PAL, \$321 M, Conjuancos, PLDT, \$654 M.(From data of NEPA and IBON data bank)

³⁴

The Philippine Debt Crisis

, published by the Freedom from Debt Coalition, March 1989, pp.25-26.

³⁵ The lowering of tariff rates for cabbages, lettuce, string beans, tomatoes, etc., that farmers in Northern Luzon produce in abundance, has bankrupted these farmers after the entry of the Philippines into GATT.

¹⁵ The tandem of the IMF-WB-WTO has been called the three musketeers of the international capitalist order. The IMF is widely known among NGOs in Africa as the Institute of Misery and Famine.

¹⁶ Data from Kilusang Mambubukid ng Pilipinas.

¹⁷ Gemma Luz Corotan, "The Rice Scam",

Betrayal of the Public Trust

, PCIJ.

¹⁸ Data from Bayan Muna party list.

¹⁹ Memorandum of Economic and Financial Agreement, 1989-1992.

²⁰ Ibid.

²¹ We prefer to use the criteria of the increasing incomes of the majority of the people especially of the last three deciles of the populace and decreasing unemployment rate as measurements of economic growth rather than the mainstream economic measures of the growth of GNP and GDP. While, GDP may grow, as the Arroyo government is claiming that it grew from 4.1% in 2003 to 6% in the second quarter of 2004, yet unemployment continues to grow in 2004 and many more Filipinos are falling below the poverty level.

²² Data in 1975 from US AID,

Country Development Strategy

Statement

, Jan. 1980, p.2, and from 1998 and 2004 from IBON Phil.

²³ The Paris Club, which relies on the IMF-WB good listing of a country as a reliable debtor, is composed of 400 transnational banks while the London Club, which is also advised by the IMF-WB, is composed of 700 TNBs.

²⁴ Data from the Center for Research and Communication(CRC), 1984, now the University of Asia and the Pacific.

²⁵ It has been estimated that Filipino OFWs

' remittances to the Philippines is 285% of foreign direct investment(FDI) and 1047% of ODA, and 14% of export of goods and services in the Philippines.(from a speech of former Finance Secretary Roberto Ocampo, BW, Jan. 16, 2004, p. 25).

²⁶ Standard Chartered Bank of London has warned of an Argentina crisis befalling the Philippines,

Inquirer News Service

, Aug. 8, 2004.

²⁷ Deregulation of oil prices and other commodities and austerity measures by the government, including a freeze on the wage and salaries of government rank-and-file employees, and the control of the minimum wage are contained in the MOEFA of Aquino, Ramos and Estrada with the IMF.

²⁸ At one time, in 1962 a governor of the Philippine Central Bank, Miguel Cuaderno, complained of the dictatorial policy of the US state Department in influencing the IMF to make the Philippine shift dractically from a control to a decontrol policy(From Cheryl Payer,

The Debt Trap

, Penguin Bks., 1976, p.59-60.

Open Letter to Jose Ma. Sison

by Alejandro Lichauco



Dear Joe:

Nine years ago, in a letter dated January 29, 1995, you invited me 'to provide the National Democratic Front with a draft comprehensive agreement on economic and social reforms as a contribution to the talks between the GRP (Government of the Republic of the Philippines) and the NDF.'

I didn't respond to your letter for two reasons:

One, I believed then, and I still believe even more so now, that the NDF couldn't possibly have been serious about negotiating with a government as committed to globalization as the NDF is committed to nationalism. Globalism and nationalism are as oil and water to each other, and I couldn't see how both could possibly mix.

Globalism, in my view, is the incarnation of evil and one doesn't talk and negotiate with evil, either as a communist or an anticommunist.

The other reason was that if I had acceded to your invitation and submitted a draft agreement to the NDF, that would have made me a de facto consultant of the NDF—and that, I didn't want to be.

But the situation is a lot different now; and we should talk about now and the future. We, as Filipinos, are racing against time.

The government has really one adversary to worry about — and that isn't the CPP/NDF. That adversary is mass hunger and it is the adversary of the CPP/NDF, too. But mass hunger isn't really the most disturbing aspect of our situation. The most disturbing aspect is that, anytime, Osama's zealots might just succeed in realizing their long cherished dream of seeing the Western financial system collapse and all it might take to accomplish that isn't through one of those suitcase nuclear bombs but a mere dirty (radiation) bomb exploded at the very building on Wall Street, where the New York

Stock Exchange conducts business. And that would be sheer nightmare, even without the benefit of a suitcase nuclear bomb.

Which brings me to the point. And my point is this:

This government isn't any more prepared to deal with the problem either of mass hunger or a radiation bomb on Wall Street as a first grade pupil is prepared with an exam in Calculus.

If that perception is correct, then the Filipino people might just have to take matters in their own hands and act as if there isn't any government except that which they can put up by themselves. And they have to put up one soon if they are to avert what seems to me could easily be an imminent catastrophe.

What then do I propose? I propose the following:

That the CPP/NPA unilaterally announce that they are declaring a ceasefire — without in any way surrendering their arms — and to make that announcement by way of giving proof to the whole world, including to the world of that imbecile at the White House that the CPP/NPA aren't terrorists at all, but simply a bunch of intelligent Filipinos terrified at what US imperialism and their local agents are doing to this country and determined to see a Philippines truly sovereign and independent.

With that announcement, you and Louie Jalandoni then come back to the Philippines to talk about the needed economic, social and political reforms that in your view should be mounted immediately if this country is to escape the catastrophe which even a sixth grader can see is coming and the problem particularly of hunger.

Simultaneous with the announcement of your return, we can invite all concerned to convene as a Congress of the People. Such a congress should operate separately from and parallel with the present Congress, whose main concern isn't really about the hunger but about how much of their pork to give up, or how much of their pork to retain while seeming to give up every piece of pork.

Instead of professional politicians, the Congress of the People shall be composed of delegates from the various sectors of society — labor, farmers, business and industry, academe, professionals, artists, the aged and the handicapped, and the like — whose interests haven't only been ignored by Congress but defiled as well as when Congress ratified the nation's accession to GATT and the WTO.

(Footnotes)

¹ IBON Facts & Figures, The Economy in 2003

, Mismanaging the Crisis, Vol. 27, No. 1, Jan. 15, 2004.

² Quoted from a speech of Senator Joker Arroyo, Philippine Daily Inquirer, Sept. 6, 2004, A4.

³ Memorandum of Economic and Financial Agreements of the Philippine government with the IMF(MOEFA), 1989- 1992, MOEFA, 1994-1997, and MOEA(Memorandum of Economic Agreement), 1998-2000.

⁴ All these debts are not included in the statement of annual national budget, because they are considered off-item budget by the government.

⁵ Rosario G. Manasan, Fiscal Reform Agenda: Getting Ready for the Bumpy Ride Ahead, PIDS, p. 2,

⁶ From Department of Budget and Management(DBM) - only interest payment is included in the annual budget declared by the government, while payment for the principal is from data of the Bureau of Treasury, not stated in the annual budget of Congress. This is due to a dictum of the IMF regarding the manner of reporting the national debt.

⁷ Business World, Jan.30-31, 2004.

⁸ For a thorough discussion on the EPIRA, see "Power Sector Restructuring Under EPIRA", IBON Facts and Figures, Vol. 27, No.12, June 30, 2004.

⁹ The Bataan Nuclear Power Plant was built through a loan of \$2.3billion and the government up to the present is paying its creditors \$170,000 daily as interest alone for this loan, which it conveniently passes to the public in the forms of taxes and fees. The consummation of the debts incurred for the nuclear plant will be up 2018.

¹⁰

Memorandum of Economic and Financial Agreement with the IMF, 1989-1992.

¹¹ Emmanuel de Dios, et al, The deepening crisis: the real score on deficits and the public debt, pp.14-16.

¹² De dios, et al, pp. 14 -24

¹³ Statement by IMF Staff Mission to the Philippines, July 12, 2004, International Monetary Fund, Washington DC, and from Business World, June 30, 2004. With regards to the debts of Napocor from World Bank, ADB, and Japan Bank for International Cooperation, IMF recommended that it be taken over by a newly created Power Sector Assets and Liabilities Mgt.(PSALM) of the government.

¹⁴ Giovanni Andrea Cornia, " Adjustment Policies 1980-1985: Effects on Child Welfare", Adjustment with

a Human Face, Protecting the Vulnerable and Promoting Growth, A Study by Unicef, Clarendon Press, Oxford, 1987, pp. 48-72.

from the national budget has been the focus of the mainstream media as the supposed primary cause of the fiscal crisis. In an effort to divert public attention from the need to renegotiate the huge Philippine foreign debts, Malacanang has been announcing vociferously complete with moral indignation for publicity sake that the fat cats in the GOCCs and congressmen should trim their big salaries and reduce their pork barrels. But this is like wishing that the tiger shed off its spots since Malacanang is the leading scrounger of the money of the people with its huge presidential discretionary fund of P3 billion which Arroyo refuses to cut.

The road we are opening may be too demanding and risky for the present government. We know that it will require great courage and the support of the masses to enter this road, and the government does not have both these strengths. In the final analysis, it is a true government of the people who will traverse this road which can lead to the emancipation of the majority of the people and prosperity for our country. Saving from foreign debts, increases in government revenues from tariffs, and the final elimination of bureaucrat capitalism, can generate funds to launch a genuine land reform program, which will not this time be defeated by a landlord-dominated Congress. An effective and successful land reform program will lead to an effective national industrialization program for the Philippines, one that is not geared towards the needs of foreign countries but to provide for the welfare of the Filipino people. Higher revenues for the government can also subsidize substantially social services like education, health for the people, housing, transportation, etc. Greater capital outlay from the national budget can support infrastructures for development, all planned for the advancement of the greater good. We as an organized people must act immediately to travel the road that we are showing for the time is fast ticking away before our national wealth may be completely dissipated and the country brought into great economic chaos.

END

You and Jalandoni might even consider extending a public invitation to progressive elements of the Armed Forces who, after all, are under constitutional command to “protect the people and the State.”

You might make clear whether you are first and foremost a Maoist, as you once proclaimed yourself to be, or whether you are first and foremost a Filipino revolutionary nationalist in the mold of Bonifacio and his revolutionary Katipuneros; and that you will be negotiating peace as such.

If you were to talk so, I have no doubt that we shall be able to mount that Congress of the People and by that take the first step in the proverbial journey of a thousand miles to establish a government that is truly sovereign and truly representative of the Filipino people.

On that basis, I think we can talk and get every Filipino of good will, intelligent enough to perceive that this social order serves nobody, including the rich, to talk with us through the Congress of the People here proposed.

As to a program of government which we might ask the proposed Congress of the People to use as a starting point of deliberation, I would suggest the program which the Movement for the Advancement of Nationalism (MAN) crafted in the late 1960s.

After all, you and I were members of that body, which had for its chairman the late senator Lorenzo Tañada and embraced a broad coalition of elements representative of the major sectors of Philippine society.

If the proposal here conveyed is acceptable to you, let me know so that I can take steps, with colleagues in MAN, for the convening of a Congress of the People.

We aren't talking, Joe, of the future of Maoism in this country but of the entire Filipino people living under a social system which, to paraphrase a mutual friend — the late Pepe Diokno — works for the interest of all Filipinos and not only in the interest of a few Filipinos such as those Filipinos in Makati and the Opus Dei, or even of those who comprise the membership of the Communist Party.

That's what MAN stood for; and so I address you as one MAN member would address another in the name of our numerous colleagues who made up MAN and lived under its vision. And whose memory I now invoke. #

Sunday, September 12, 2004
Utrecht, The Netherlands

REPLY TO OPEN LETTER OF ALEJANDRO LICHAUCO

By **Jose Maria Sison**

Chief Political Consultant
National Democratic Front of the
Philippines



Dear Ding,

Thank you for your open letter dated September 9, 2004 in your op-ed column in the ABS-CBN.news.com. I appreciate the serious patriotic intent and urgent tenor of the letter. Indeed, in this time of unprecedentedly grave crisis, we are all challenged to do what best we can do to overcome the lethal problems besetting our motherland.

I understand and respect your reasons for not responding to my request in 1995 to help the National Democratic Front of the Philippines (NDFP) in drafting a comprehensive agreement on social and economic reforms. Anyway, your writings have been important reference materials. What is important now is that you, the distinguished nationalist, are making a proposal to the NDFP.

I agree with you that imperialist globalism is the evil that all of us must abhor and combat. The myth of “free market” globalization has been used by the United States and its camp followers to prettify the rapacity of the monopoly capitalists. This is diametrically opposed to the people’s demand for national liberation, nationalization of the economy and socio-economic reforms.

The purpose of the NDFP in negotiating with the Government of the Republic of the Philippines (GRP) is not to compromise with or capitulate to the evil of foreign monopoly capitalism but to propagate the people’s program for national liberation, democracy, development, social justice and peace. The NDFP avails of every possible way to broadcast this program.

I welcome your declaration that the time has come for you to make a proposal to the NDFP. As you say, the situation is a lot different now from

building railroad networks in the 1800s. Several of the American allies also never paid back debts to the US acquired during World War I.³⁴

When Corazon Aquino succeeded the dictator Marcos after EDSA I, she had all the moral ascendancy at that time to repudiate Marcos’ debts of dishonor since world opinion was behind the people’s movement that toppled the dictatorship. But Aquino instead promptly went to deliver a speech before the US Congress as an invited special guest to assure all the Philippine foreign creditors that the country will pay for all its external debts, including the loot that Marcos has stashed away in foreign banks, mostly in Switzerland, which is estimated to be around \$13 billion to \$20 billion. Indeed, this subservience and cowardice of Aquino is one of the major factors why we are in our present crisis.

The solution to our fiscal crisis is not for the people to carry its burden since they had not been responsible for it in the first place. In fact, the masses have long been subjected to the effects of the constant scrimping of the national budget, mostly affecting the appropriations for social services, in order to defray government debts. The solution is not to increase all kinds of taxes, like what the government and the 11 UP professors are clamoring for, which will just exacerbate the miseries of the people, but for the government to have a strong political will to renegotiate all debts, specially foreign.

Another way out from the fiscal crisis is to likewise to renegotiate the Philippines’ commitments under various trade agreements to lower down and eventually eliminate its tariffs for all sorts of products, particularly agricultural, which ridiculously include products that the country has in abundance like vegetables.³⁵ Revenues foregone from custom dues, which are estimated at P100 billion annually, for the entry of diverse products into the Philippines, have contributed greatly to the escalation of the government deficit. Still another alternative to confront this particular diminution of government revenues is for the Philippines to withdraw from WTO as a member. Instead the Philippines can enter into various bilateral trade agreements with countries, whose products we need. Countries like Taiwan and Vietnam are not members of WTO and yet they get along very well with their foreign trade, compared to the Philippines with its richer natural resources.

The drain of around 20% from the annual national budget due to graft, patronage and tax evasion must also be eliminated. This massive leakage

³⁵ The lowering of tariff rates for cabbages, lettuce, string beans, tomatoes, etc., that farmers in Northern Luzon produce in abundance, has bankrupted these farmers after the entry of the Philippines into GATT.

With the Philippine state deeply mired in foreign debts, which even forebodes a closing of its government within the next two years, its foreign creditors through the IMF can bring it down to its knees and impose such deadly requirements for the economy that its people will bleed white.. Such a situation will bring ruin to all, including the banks and the business of the komprador bourgeoisie, ever faithful but dispensable partners of US imperialism. But the majority of the people have long been ruined, forced to a hand to mouth existence, millions robbed of their human dignity, subsisting on morsels thrown by the government and the rich and living in squalid places only fit for animals. The masses have seen one Philippine president after another come and go without the least improvement in their lives even in times of government budget surplus and supposed economic growths of GDP and GNP. In fact, the plight of the masses has worsened through the years as we have seen. Thus, one fiscal crisis after another, and there had been several in the past, though the present is the most severe, have become of no concern anymore to the long enduring and suffering masses.

What can be done?

The Philippines must first and foremost re-negotiate all foreign loans, since a great part of these are odious loans, particularly those incurred during the Marcos regime, when our external loans ballooned from \$599.5 million in 1965 before Marcos to \$28.2 billion after he was ousted in 1986. Thus, Marcos incurred a total of \$27.8 billion loan during his regime, including the scandalous \$2.3 billion for the defunct Bataan Nuclear Power Plant and other loans to his cronies.³³ The Philippine government still continues to pay for the interests and principals of many of the Marcos loans, which formed part of the total current \$57.8 billion foreign debt of the country. And there are other questionable foreign debts like those incurred by Napocor from the Ramos up to the Arroyo regimes that a tough and determined government mission can negotiate with the country's foreign creditors. Other countries like Peru, Bolivia, Ecuador, Cuba, Ivory Coast, Nigeria, Tanzania and Zaire have at one time or another unilaterally suspended or repudiated part or all of their debt servicing. Even the United States repudiated some of its debts, such as those which she incurred from British financiers in

³³Some of the fraudulent debts of the Marcos cronies are:Rodolfo Cuenca, CDCP, \$323 million, Alfredo Montelibano, Planters Products, \$150 M, Roberto Benedicto, Nasutra/Philsucom, \$265 M, Benjamin Romualdez, Meralco/First Holdings, \$370 M, Marcos/Jose de Venecia, Landoil, \$165 M, Genonimo Velasco, PNOC, \$123 M, Geronimo Velasco, Nobel Phil.,\$14 M, Geronimo Velasco, Republic Glass, \$2M, Herminio Disini, NPC, \$795, Roberto Ongpin, NIDC, \$795 M, Roberto Ongpin, NIDC, \$157 M, Roman Cruz, PAL, \$321 M, Conjuancos, PLDT, \$654 M.(From data of NEPA and IBON data bank)

³⁴ *The Philippine Debt Crisis*, published by the Freedom from Debt Coalition, March 1989, pp.25-26.

1995 and we should talk about now and the future as Filipinos racing against time.

You refer to mass hunger as a common adversary of the GRP and the NDFP. You also point to the looming collapse of the Western financial system as the most disturbing aspect of the situation. I agree with your critical view that the GRP is not prepared to deal with the problem like a first grade pupil not prepared with an exam in calculus.

Thus, you observe that “the Filipino people might just have to take matters in their own hands and act as if there isn’t any government except that which they can put up themselves.” You urge that the people put up one soon if they are to avert what is an imminent catastrophe.

Let me point out that a people’s democratic government already exists, consisting of the organs of democratic power established by the people and revolutionary forces in the countryside. It is basically a revolutionary government of the workers and peasants in opposition to the counterrevolutionary government of big compradors and landlords headed by the Macapagal-Arroyo reactionary ruling clique.

In peace negotiations with the GRP, the NDFP has been representing the broad masses of the Filipino people, the people’s democratic government, the communist party, the people’s army and the mass organizations. These revolutionary forces are resolutely and militantly fighting against US imperialism (the main cause of that mass hunger that you perceive as the common adversary) and the reactionary puppet classes of big compradors and landlords.

Truce and alliance between the NDFP and the GRP are realizable if these contending forces succeed in following up the GRP-NDFP Comprehensive Agreement on Respect for Human Rights and International Humanitarian Law with comprehensive agreements on social, economic, political and constitutional reforms. These agreements can be reached only if the people and the patriotic and progressive forces can prevail over the US imperialists and their most rabid agents within the GRP.

You seem to have given up on the GRP because of the puppetry and corruption of its officials. The GRP-NDFP peace negotiations have come to a standstill because of US intrusions and interferences that the NDFP consider unacceptable. The GRP has shown complete incapacity to go along with the NDFP on asserting national sovereignty and independence against US interventions and obstructions in the peace negotiations.

By listing the Communist Party of the Philippines, the New People's Army and the NDFP chief political consultant as "terrorists", the United States violates the national sovereignty and jurisdiction of the Filipino people over events in the Philippines. It also transgresses the safety and immunity guarantees for duly authorized persons in the peace negotiations. It has shown utter contempt for the civil and political rights of Filipinos and the Hernandez political offense doctrine pertaining to armed revolution.

The GRP has failed to oppose US encroachment upon the national sovereignty and jurisdiction of the Filipino people and has even applauded it. At this time of severe economic and financial crisis, the GRP does not seriously seek the alliance of the NDFP. It does not seek the support of the people but it imposes on them all the burdens of crisis, especially mass unemployment, peso depreciation, a heavier tax burden and austerity measures.

It continues to sink the country in underdevelopment, deficits and indebtedness. Being so bankrupt not only in economic and financial terms but also in political and moral terms, it follows the US dictate of neoliberal globalization and collaborates with the US in the worst crimes of terrorism, such as wars of aggression and the brutal repression of entire nations and peoples.

In general, the NDFP can easily agree with you that there is a need for a new government established by the people and serving them. But would the US and the current reactionary government allow such a new government to exist? Would both of them not use the coercive apparatuses of the state to suppress those forces trying to establish the new government?

As NDFP chief political consultant, I estimate that the NDFP would welcome your proposal for the establishment of a broad united front government through a Congress of the People, using the 1966 Program of the Movement for the Advancement of Nationalism as a starting point for deliberating on a program of government. I think that the NDFP would be open to considering the possibility of a broad-based government of national unity against the domination of foreign monopoly capitalism.

But I do not think that the NDFP will ever declare any indefinite ceasefire or truce prior to a clear program and solid foundation for a united front government that is much broader than the current worker-peasant government in the countryside. I think that the NDFP would be willing to explore the possibilities for such a government either through peace negotiations with the GRP or through an assembly of the patriotic and progressive forces of the people.

first free trade law in the Philippines) in 1909. The retention of semi-feudalism in the Philippines, semi since a great part of the Philippine agricultural produce are exported, would reduce the production costs of the komprador bourgeoisie in the countryside to their advantage as well as their trading partners, since tenants and sacadas (seasonal workers in haciendas many of which are tenants) incur for the komprador lower payments for labor and thus cheaper export goods. The komprador bourgeoisie have also maintained the backward state of technology in their haciendas since manual labor in the countryside is plentiful and the acquisition of machineries in their farms will just increase their cost of production. Thus, throughout the years even with various land reforms, which are always diluted by a landlord-dominated Congress, the tenancy and the sacada systems persist in the countryside. In 1980 tenancy still existed in 26% of total farms in the Philippines and this further increased to 35% of all farms by 1996.³¹

The IMF Post Program Monitoring Team

Yearly, the IMF sends survey missions to the Philippines to monitor closely whether the Philippine state is faithfully following its various commitments under its programs with the Fund (the term commonly used to refer to the IMF), especially with regards to debt servicing. An IMF survey mission conducted a so-called post program monitoring (PPM) from June to July, 2004, on how the Philippine government is managing its deficit as we have already discussed above. The Philippine government last entered into a stand-by agreement (under a credit line called by the Fund as a precautionary agreement) during the Estrada administration, which secured a \$1.3 billion from the Fund. The IMF survey team last June made sure that all the commitments under this precautionary stand-by agreement are being complied with. The Arroyo administration is contemplating to borrow under another new stand-by agreement with the IMF to meet the current fiscal crisis. With the entry of WTO in 1995 to supervise more stringently the observance of the trade liberalization policy (a continuing commitment with the IMF) of the Philippines, the country has been more closely integrated to serve the business agenda of the TNCs in the name of so-called globalization.³²

³⁰ "Labor Conditions in the Philippines", Bulletin of the Bureau of Labor, 1905, Washington, Government Printing Office, p. 777.

³¹ Data from the Agricultural Division, NSO.

³² Edberto M. Villegas, Studies in Philippine Political Economy, Revised Edition, 1984, Silangan Publ., 1984, Chap. I-III, V; Global Finance Capital and the Philippine Financial System, Institute of Political Economy, 2001, Chap. 3.

Diosdado Macapagal, and the various very liberal investments laws of Marcos (Investment Incentive Act of 1967, Export Incentive Act of 1970, PD 1034, the latter allowing offshore banking units in the Philippines, etc.), all compiled under the Omnibus Investment Act, the Labor Code of 1974 (disallowing strikes in so-called vital industries) and the laws under various structural adjustment programs of liberalization, privatization and deregulation, implemented by the Aquino up to the Arroyo regimes. Most of these laws since 1949 have been commitments under various letters of intent with the IMF, now called Memorandum of Economic Agreement.²⁸ Such agreements are made to appear as if they embody reforms formulated by the Philippine government itself, though they are in fact based on recommendations from various studies conducted by IMF-WB survey missions before such economic reforms are adopted by the Philippine government. Thus, there were the industrial reforms of 1956 and 1979, financial reforms of 1972 and 1980, agricultural reforms of 1980 and 1996 and educational reforms of 1982, 1997 and 2001 implemented in the Philippines following the proposals of sundry IMF-WB survey missions, from the Bell mission, Ranis mission and others.

Neo-colonial laws are easily enacted in the Philippines due to the fact that Congress is dominated by the upper classes of our society, composed mostly of the landlord class and the komprador bourgeoisie or their representatives.²⁹ The komprador class basically favor a dependent trade relationship with the US since their business in cash crop exports, like sugar, coconut, hemp, etc., benefit from this relationship. Thus free trade arrangements like the Bell Trade Act and export incentive laws are to the great advantage of the Philippine landed gentry. This is the reason why this class supported the US policy of not dismantling the semi-feudal structure of Philippine agriculture when the country became an American colony in 1899. A study of the US Bureau of Labor in the first decade of the century recommended to the US government that the feudal relationship of tenant to landlord already entrenched during the Spanish regime must not be disturbed.³⁰ Soon after, the US passed the Payne-Aldrich Act (or the

²⁸ At one time, in 1962 a governor of the Philippine Central Bank, Miguel Cuaderno, complained of the dictatorial policy of the US state Department in influencing the IMF to make the Philippine shift drastically from a control to a decontrol policy (From Cheryl Payer, *The Debt Trap*, Penguin Bks., 1976, p.59-60).

²⁹ 40% of the Lower House of Congress come from the landlord class, while the rest have their families in various business like real estate, manufacturing, etc. Only a very few, around 1%, mostly from the party list, are from the lower middle class. In the Senate, all are multi-millionaires or millionaires, belonging to the landlord class or attached to business. (from the *Rulemakers*, Sheila Coronel et al, PCIJ, 2003, *passim*) Also see Dante Simbulan, *A Study of the Socio-Economic Elite in Philippine Politics and Government*, a doctoral dissertation, The Dept. of Political Science Research School of Science, Australian National University, 1965.

Louie Jalandoni and I would have no problem of returning to the Philippines permanently and calling on the patriotic and progressive sections of the bureaucracy and military of the GRP to cooperate with the broad united front government if in the first place the revolutionary forces and people recognize and accept that there is a program and organizational basis for such government. Maoists, nationalists, Christians, Muslims and other people can support such a government in their best possible common interest.

All the Filipino people of different philosophical persuasions, religious beliefs, social circumstances and ethno-linguistic background should take pride in living up to the revolutionary legacy of Andres Bonifacio and the Katipunan and be able to unite on a program of establishing and developing a government that upholds the national sovereignty and independence of the Filipino people.

I agree with you that the program of the Movement for the Advancement of Nationalism in 1966 is still valid and relevant today. Such basic problems of the Filipino people as US monopoly capitalism, feudal and semifeudal exploitation and bureaucratic corruption, have persisted and have become aggravated. Thus, the MAN program is still a useful guide or reference material for all patriotic and progressive Filipinos.

It is fine that you invoke the memory of MAN. I continue to cherish how at best we, together with the late Senator Lorenzo Tanada, Renato Constantino, Dean Jose Lansang, Rogaciano Mercado, Felixberto Olalia, Ignacio Lacsina, Satur Ocampo and many other patriots and progressives, could formulate a program and work together to advance the national and democratic rights and interests of the Filipino people.###

CHRONIC FINANCIAL CRISIS AND THE WAY OUT

By Prof. Jose Maria Sison

Chairman, International Network for Philippine Studies
Chief Political Consultant, National Democratic Front of the Philippines
October 2, 2004

First of all, I wish to thank the rank and file of Bayan-National Capital Region for inviting me to this forum on the Philippines' chronic financial trouble and on seeking the way out of the rut. I am honored and pleased to serve as the main speaker on a subject that is so important and so urgent.

I will try to provide you with the facts and analysis of the problem and state a number of solutions proposed from various points of view. I hope that this forum would raise the level of our understanding of the problem and our determination to seek and carry out the solution with the participation of the broad masses of the people, especially the working people.

It is understandable why Bayan-NCR is acutely interested in analyzing the problem and identifying courses of action towards the solution. Anytime soon the worsening conditions of mass unemployment, poverty and hunger are likely to result in unprecedented mass protests. Certainly you are interested in galvanizing the people through an understanding of the problem and leading them to the best possible course of action.

The Problem: Chronic Financial Crisis

The subject of chronic financial crisis in the Philippines is complex enough. But the puppet politicians and their retinue of economists and propagandists make it appear as far more complex than it is by obscuring its root causes. Out of fear, habitual ignorance or craven dishonesty, they conceal above all the principal responsibility of the US imperialists or finance capitalists for the chronic and current economic and financial crisis.

Usually, puppet politicians blame each other for corruption and wanton spending. However, to evade or mitigate their major share of culpability, they sometimes refer to the crisis of the US and world capitalist system as the cause of the Philippine economic and financial crisis. Of course, they do not mention the fact that they are willing puppets who benefit from the status quo and accept the economic and financial bondage of the Philippines to foreign monopoly capitalism.

employees and legislate an increase of a measly P125 of the minimum daily wage, due to the dictates of the IMF.²⁷

Ever since the Philippines became an American colony in 1899, the Philippine government has always placed first its obligations to US business rather than its social responsibility to the Filipino people. This is presently especially exemplified in the notorious Presidential Decree 1177, formulated during the martial law regime of Marcos and re-enacted as Executive Order 292 by President Aquino, which requires the government to pay for its foreign debts before any other expenditures. In principle, the annual budget allocations for all other operations of the government, most particularly for social services, can become zero if nothing is left after meeting the country's debt obligations, specially now with our ever burgeoning debts. Such a law is unique in the Philippines, and has been called a classic example of an exploitative neo-colonial policy. While many oppressive laws enacted by the dictator Marcos through presidential decrees (note that monarchs once issued laws known as monarchical decrees) have been rescinded, PD 1177 has been retained under the pressure of the IMF-WB by the Aquino government and all other successive Philippine administrations.

PD 1177 is just an extreme manifestation of neo-colonial laws vis-à-vis the US that our supposedly independent government has been forced to abide by since 1946 (when the Philippine state became a member of the IMF-WB). Another example of an unabashed US neo-colonialism policy in the Philippines was the threat of not granting to the latter a \$430 million loan in 1946 for war damages incurred during the Second World War (it was US planes and guns that actually wrought extensive damage in the Philippines), if the Philippine government does not amend its 1935 constitution with the incorporation of Parity Rights for US business in the Islands. Parity Rights would extend the same privileges to exploit the natural resources of the Philippines to US business as enjoyed by Filipino nationals. Though Parity Rights was gradually phased out in 1974, it was nevertheless substituted by equally liberal investment laws during the Marcos era. Other neo-colonial laws enacted in the Philippines are: the Bell Trade (free trade) law in 1949, the 1962 decontrol law (which devalued the peso for the first time) of

²⁵ It has been estimated that Filipino OFWs' remittances to the Philippines is 285% of foreign direct investment (FDI) and 1047% of ODA, and 14% of export of goods and services in the Philippines, (from a speech of former Finance Secretary Roberto Ocampo, BW, Jan. 16, 2004, p. 25).

²⁶ Standard Chartered Bank of London has warned of an Argentina crisis befalling the Philippines, *Inquirer News Service*, Aug. 8, 2004.

²⁷ Deregulation of oil prices and other commodities and austerity measures by the government, including a freeze on the wage and salaries of government rank-and-file employees, and the control of the minimum wage are contained in the MOEFA of Aquino, Ramos and Estrada with the IMF.

During the year 1983, when new loans from the IMF(\$630 million) to the Marcos regime was not granted, Philippine industrial production went down by 40%, average interest rate shoot up to 31% and inflation rate by 60%.²⁴ Such a scenario is most feared by the local bourgeoisie and this is the reason why they are one in asking the people to help the government in solving the fiscal crisis with some of them even doling out P1 million(including the billionaire Lucio Tan, who has a pending charge of tax evasion of P12 billion) to the “Bayanihan” Fund. Like the IMF-WB, which salvage the big TNBs when they get into financial trouble by imposing more austerity measures on a people, the komprador bourgeoisie have also no compunction in appealing to the people to bail out the government from the latter’s own self-made fiasco.

The Neo-Colonial State and the Semi-Feudal Agricultural Economy

The root of the present fiscal crisis and the economic crisis of our society is the neo-colonial status of the Philippine state. A neo-colonial state, though it is not directly governed by another country like the Philippines under direct American rule from 1899 to 1946, is, however, dependent on external sources for its economy to function.. In the Philippine case, the country is dependent on loans and investments supported by US monopoly capitalism or imperialism, for its economy to survive. It is a situation where the subservient economy is forced to abide by agreements and other treaties in favor of foreign business allied with imperialism. For instance, the conditionalities of the IMF-WB-WTO are made to be religiously followed by the Philippine state in order for the latter to be assured of new loans. But as we have seen, since the people can only produce so much, even including the remittances of OFWs to the Philippines, which have precariously propped up the Philippine GNP for many years²⁵, and that corruption of the bureaucrat capitalists also eats up a substantial amount of government money, the deficit of the government continues to grow at the consternation of its foreign creditors.²⁶ Thus, the government is constantly sinking in its own neo-colonial quagmire and its profit-seeking foreign creditors may altogether halt granting new loans unless the government squeezes more sweat and blood from the toiling masses. For who else will it squeeze if not the hapless and often unknowing masses. While the government is quick to deregulate prices of the leading TNCs in the Philippines, particularly in the oil industry, it refuses to increase the wages and salaries of government

²³ The Paris Club, which relies on the IMF-WB good listing of a country as a reliable debtor, is composed of 400 transnational banks while the London Club, which is also advised by the IMF-WB, is composed of 700 TNBs.

²⁴ Data from the Center for Research and Communication(CRC), 1984, now the University of Asia and the Pacific.



The economists and propagandists serving every reactionary regime never cease to sing the virtues of staying within the bounds of the economic, financial and trade policies dictated by the United States and such US-controlled multilateral agencies as the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO).

Since the time that the Philippines became a US colony in the early years of the 20th century, the US imperialists have ensured political control of the Filipino people through acts and threats of military and police suppression. This has enabled them to hold the Philippine economy in their vise, keeping it pre-industrial, agrarian and semifeudal, afflicted by chronic budgetary and trade deficits and therefore ever vulnerable to foreign indebtedness and financial manipulation.

Since their grant of nominal independence to the Philippines in 1946, after reconquering it from the Japanese fascists, the US imperialists have conceded national administration to the politicians of the big kompradors and landlords but maintained a strong grip on the levers of political, military, economic, financial and cultural control over the people.

Among such levers of control, what the imperialist master considers the smartest is financial. This is supposed to be the most effective tool of neocolonialism, in combination with the other tools, especially in ever prostrate economically backward colonies or semicolonies like the Philippines. Financial control by the foreign monopoly capitalists negates or hollows out the substance of what the rulers of the semicolonial client state claim as political and economic independence.

What differentiates modern imperialism or monopoly capitalism from old style colonialism in the period of free competition capitalism is the growing importance of the export of capital over the export of goods. Basically, the export of capital from the imperialist country to the Philippines takes two

forms: direct investments for internal control of the client economy and indirect investments or loans to the puppet state and to private entities. Ultimately, the superprofits drawn from direct investments and the servicing of loans far exceed any new capital export from the imperialist countries.

The US has gained control over the Philippine economy by using various kinds of financial instruments. Let me mention some at crucial points in Philippine history. After conquering the Philippines, the US colonial authorities floated bonds on Wall Street in order to pay the costs for the invasion and occupation of the Philippines and collected taxes from the Filipino people in order to redeem these bonds. The US would get far more in return after paying Spain USD 20 million for the Philippines.

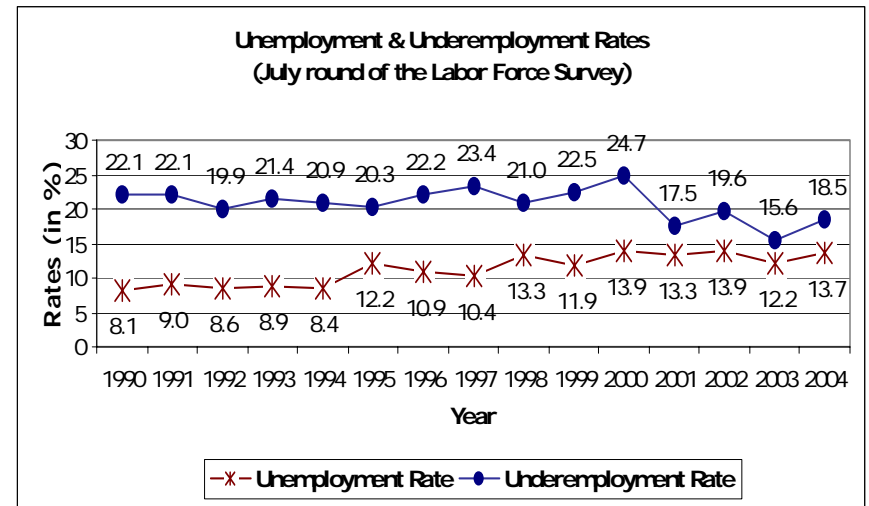
After reconquering the Philippines from Japan at the end of World War II, US war damage payments to the Philippines were made mainly to US firms to assist these in rebuilding their plants and inventories. The rest went to the puppet government and private claimants, both of which promptly spent the money for consumption, especially the importation of consumption goods.

After the basic recovery of the Philippines economy from the ravages of World War II, the first big financial crisis in the Philippine semicolony occurred when in 1949 the foreign exchange reserves amounting to USD 2 billion (mostly from war damage payments) were depleted. The trade deficit had widened because of unbridled importations of consumer goods. Austerity measures had to be adopted.

The US conceded for a while up to 1959 to the puppet government the institution of foreign exchange controls and the establishment of so-called import-substitution industries. These encouraged Filipino entrepreneurs to raise the demand for national industrialization. Even the Garcia regime espoused the “Filipino First” policy. The US reacted by cutting off loans from the US Export-Import Bank and US private banks, thus causing a financial crisis. This destabilized the Garcia regime in 1960 and paved the way for Macapagal to get US support for ensuring his election to the presidency.

Thus, it was the Macapagal regime that proclaimed the full decontrol policy, which enabled the US monopoly firms to remit superprofits freely and legally. This policy caused the first big devaluation of the peso. The trade deficits widened from year to year as the importation of consumer goods increased. The regime touted a “land reform” program and an integrated steel mill project but failed to develop the economy as a whole. It used the slogan of

Chart 3. Unemployment and Underemployment Rates



Source: Yearbook, National Statistics Office & Current Labor Statistics, Bureau of Labor Statistics

The implications of the government defaulting its debts because of the fiscal crisis is horrendous for the upper class of Philippine society to contemplate. Government treasury bills (TBs) and bonds held by local banks, corporations and rich individuals may become worthless and this situation may force many banks to declare a holiday (hold the withdrawals of deposits). With the unavailability of new dollars, which have been the oxygen tank of our dependent economy, from local and external sources, factories and other business concerns may not be able to finance their imports of capital goods and other inputs. Since the Philippines is unable to produce its own heavy machines and other vital facilities for industrialization and is forced to rely on imports, a scarcity of dollars to buy these imports will deal a heavy blow to the life of our economy. Government guarantees of new dollar loans to the private sectors will likewise not be honored anymore by foreign creditors, if especially the IMF-WB brands the Philippines as a risk for the extending of loans from its consortia of banks under the Paris Club and the London Club.²³

²¹We prefer to use the criteria of the increasing incomes of the majority of the people especially of the last three deciles of the populace and decreasing unemployment rate as measurements of economic growth rather than the mainstream economic measures of the growth of GNP and GDP. While, GDP may grow, as the Arroyo government is claiming that it grew from 4.1% in 2003 to 6% in the second quarter of 2004, yet unemployment continues to grow in 2004 and many more Filipinos are falling below the poverty level.

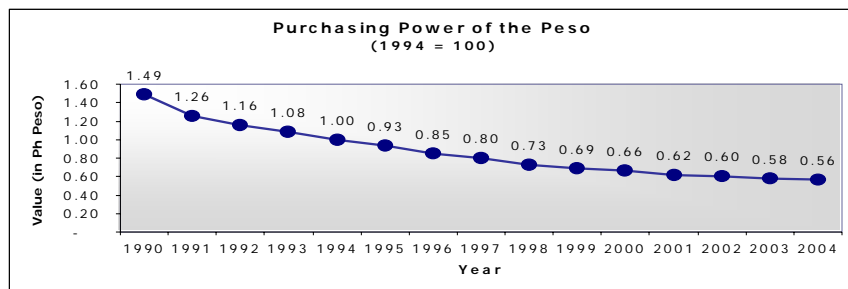
²²Data in 1975 from US AID, *Country Development Strategy Statement*, Jan. 1980, p.2, and from 1998 and 2004 from IBON Phil.

deregulation of prices, as also advocated intensely by the GP, need we say anything more concerning its debilitating effects on the populace? The almost weekly increase in the price of petroleum products, which the GP will aggravate with their proposal of a P2 petroleum tax, is testimony enough to this kind of callous policy to solve the fiscal crisis of the government proposed by the IMF-WB and its local cohorts.²⁰

The Fiscal Crisis and the Economic Crisis

When one understands the difference between a fiscal crisis and an economic crisis one will realize the magnitude of the callousness of the government to the plight of the people. A fiscal crisis is characterized by an unmanageable budget deficit, with government spending more than its revenues, which in the case of the Philippines is due to its heavy debt servicing. An economic crisis, on the other hand, is the growing impoverishment of the majority of the people.²¹ Philippine society has long been suffering from a worsening economic crisis from the year 1975 up to the present. Filipinos living below the poverty line have increased from 57% of total Filipino families in 1975 to 70% in 1998 then to 85% in 2003.²² The purchasing power of the peso has dropped to P.56 in 2004, with 1994 as the base year. The minimum wage has been pegged at P250/day but the income required to enable a family of six (the average size of a Filipino family) in 2004 to live on a subsistence level(poverty level) is P479.06 per day. Unemployment has also grown from 8.1% in 1990 to its highest ever at 13.7% in the first quarter of 2004. But in spite of the deteriorating conditions of the majority of the people, the budget for social services continues to be cut by the government through the years to accommodate the payment of foreign debts..

Chart 2. Purchasing Power of the Peso



Source: Yearbook, National Statistics Office

¹⁶ Data from Kilusang Mambubukid ng Pilipinas.

¹⁷ Gemma Luz Corotan, “The Rice Scam”, *Betrayal of the Public Trust*, PCIJ.

¹⁸ Data from Bayan Muna party list.

¹⁹ Memorandum of Economic and Financial Agreement, 1989-1992.

²⁰ *Ibid.*

“free enterprise” to mean further opening up the economy to foreign monopolies. The USD 200 million foreign debt at the end of the Garcia regime reached USD 600 million at the end of the Macapagal regime.

The Marcos regime adopted and implemented the “development plans” designed for the Philippines by the World Bank and the Asian Development Bank (ADB). These plans involved using domestic resources, Japanese reparations and foreign loans for rapid and massive infrastructure projects and encouraging foreign monopoly firms to invest in raw material production (sugar and coconut mills) and mining mills (copper and nickel). The regime did not carry out any real program of land reform and national industrialization despite bombastic pretenses. It used colossal foreign borrowing in the name of development in order to favor big comprador enterprises and undercut the people’s demand for national industrialization.

After the declaration of martial law in 1972, the regime engaged in unbridled foreign borrowing. This went on under the encouragement of the World Bank, even as the inability of the Philippines to repay the loans became more and more obvious. The IMF offered special drawing rights, debt restructuring and structural adjustment plans, always demanding more incentives to foreign investments and ensuring foreign capital repatriation, profit remittances, state guarantees for private debt and priority for debt servicing. Ultimately, the regime pushed foreign debt to the level of USD 27.2 billion at the time of the Marcos fall. In addition, it left a local public debt of PhP 144.4 billion.

The flow of international credit started to slow down after 1979 when the crisis of overproduction in raw materials began to hit hard the third world countries, including the Philippines. The US policy makers began to criticize the World Bank policy of undertaking “Keynesian” official lending for infrastructure building and enhancing raw material production. They began to favor a monetarist and neoliberal policy of using high interest rates to attract global funds to the US.

The Philippines suffered a severe financial crisis in 1983. By then, the foreign debt level had reached USD 24.6 billion. Exports in sugar, coconut and copper concentrate fell. The favored construction and related firms floundered. The Marcos regime had to declare a moratorium on foreign debt payments. This combined with the public outrage over the killing of Aquino to mark the beginning of the rapid fall of the fascist regime.

The Aquino regime tried to take new foreign loans but could not get much beyond the amount needed to service the accumulated foreign debt, cover

the growing trade deficits and buttress government deficit spending. It harped on the slogans of free market and import liberalization. It did not undertake genuine land reform and national industrialization. It could not borrow much from abroad because global funds were attracted to the US by high interest rates and investment returns. It had to resort to local public borrowing, thus local public debt rose to PhP 521 billion in 1992. Foreign debt at the end of Aquino regime stood at USD 29.9 billion.

The Ramos regime surpassed the rate of both local and foreign borrowing by the Marcos regime that under its 20-year watch had accumulated some PhP 144 billion in domestic debt and USD 26.6 billion in foreign debt. In only six years, local public debt ballooned to PhP 922 billion and foreign debt to more than USD 45 billion. The regime's so-called medium term development program completely ignored land reform and national industrialization.

It used the local public debt to increase graft-ridden spending for the benefit of "independent power producers", special projects of various sorts, infrastructure related to private real estate projects and state purchases of computers and vehicles. It used the foreign loans to cover the trade deficits that were due to high import costs of components for the so-called export-oriented low value-added semi-manufacturing and to finance a boom in private construction, which went bust in the Southeast Asia-wide financial crisis of 1997. The foreign loans came mainly from foreign commercial banks.

Since 1997, the Philippines has been in a protracted and unprecedentedly severe financial crisis. This was clearly due to an unrelieved crisis of overproduction in the types of goods for export (raw materials and low value-added semimanufactures) to the industrial capitalist countries and in the overcapacity generated by the private construction boom. The financial crisis has followed from the crisis of overproduction and the failure to pay the loans. Ramos was complicit with the imperialists in further bankrupting the economy and making the people suffer. Ironically, the reactionaries still tout him as a great manager.

The Estrada regime was in dire financial straits from the very beginning because of the economic and financial state left by the Ramos regime. At any rate, it was still able to push the foreign debt level to USD 50 billion and the local public debt level to PhP 1.068 trillion at year end 2000. The new foreign loans were used for servicing the accumulated foreign debt and covering new trade deficits. With less foreign funds to manipulate for serving his corrupt ends, Estrada turned to local public borrowing, raiding social

continuously being thrown into the streets, many migrating to the cities and hawking for any jobs available.¹⁶ Also during the third quarter of 1995, the Philippines suffered a rice shortage with the price of one ganta of rice increasing from P10 to P20.22 as a result of the closing down of many small farms, aggravated by the lowering of the farm gate price of rice paid to the small farmers by the NFA.¹⁷ The reduction of the farm gate price of rice by the NFA is part of the conditions of WTO for governments to gradually remove subsidies to farmers. A direct effect of the liberalization policy on the budget deficit is that the foregone revenues of the Bureau of Customs due to various tariff rates reductions amount to P100 billion annually from 1994 to 2001.¹⁸

The policy of privatization of government corporations, also a condition of the IMF for new loans from it and its consortia of banks, has affected thousands of government workers and the quality of service formerly offered by the government. Thousands of government employees have lost their jobs when this policy was first started in 1989 after the implementation of the MOEFA¹⁹ of the Aquino government with the IMF. At the PNB 3,500 workers lost their jobs and at the MWSS, 3000 more suffered the same fate. And as part of the cost-saving measures by the Arroyo government to meet its present fiscal crisis, it is also planning to reduce government personnel by another 30%.

The quality of service of government GOCCs does not improve at all after privatization; as a matter of fact, it even worsened at Maynilad, the privatized west portion of MWSS controlled by the Lopez group. Because it could not maintain good services and with its debts accumulating, Maynilad appealed to the government to bail it out from its \$180 million loan, which the latter agreed to do. In the first place, Maynilad should be taking care of its own and providing quality service at affordable price of water to the public. But instead Maynilad together with Manila Water (the east portion of the privatized MWSS and majority-owned by the Ayala family) reneged on their contracts with the government not to raise the price of water within a period of 5 years and the former now has the audacity to ask for government assistance, which was duly given. Talk about the alliance of the bureaucrat capitalists and the komprador bourgeoisie, in which latter category the Lopez family belongs to (the Lopez family is likewise the majority-owner of Meralco, another favorite cow of the government). With regards to the

¹⁴ Giovanni Andrea Cornia, "Adjustment Policies 1980-1985: Effects on Child Welfare", *Adjustment with a Human Face, Protecting the Vulnerable and Promoting Growth*, A Study by Unicef, Clarendon Press, Oxford, 1987, pp. 48-72.

¹⁵ The tandem of the IMF-WB-WTO has been called the three musketeers of the international capitalist order. The IMF is widely known among NGOs in Africa as the Institute of Misery and Famine.

world market (p.16) and an increase in interest rates for credits extended to the country due to an escalating budget deficit(p.22). Though the GP also recommends a cut in the pork barrel of Congress by one half and the reduction of the pay of management in government corporations, most of its policy proposals would cut deeply on the livelihood of the ordinary people like the introduction of new taxes and the increase of prices. The GP claims that there should be an equitable share of meeting the fiscal crisis both from the government side and the people, and that the government must be “first in the line of fire”. However, its proposals would squeeze the meager money of the people more thoroughly, following the regular medicines of the IMF-WB in demanding greater stringent measures from its client governments when they get into a fiscal rut.

However, It has been proven time and time again that abiding by the malodorous receipts of the IMF-WB to cure its patient only makes the patient sicker. A study by the UNICEF of 56 countries (26 from Africa, 19 from Latin America, 8 from Asia, including the Philippines, and 3 developing countries in Europe), which had undergone so-called stabilization programs and structural adjustment programs of the IMF-World bank from 1980 to 1985 to hurdle their budget and trade deficits, found out that the poverty situations of these countries have only worsened through the application of the IMF-World Bank programs. The UNICEF study concludes that: “The urgency of finding new solutions is especially pressing when considering the poverty-inducing effects that the current approach(the IMF-WB programs) tends to have, and the direct negative effects that some macro-economic policies have on the health and nutritional status of the poorest, and of children in particular....”(Parenthesis ours)¹⁴ In the 1990’s one can only remember the economic crises that wracked the former USSR, Brazil, Mexico, Argentina and Indonesia , which have been likewise victims of the policies of privatization, deregulation and liberalization peddled by the Big money-baggers of the world and their local subalterns in the Philippines, including the group of professors at the UP school of economics. It can be said that dire lessons in history are not learned by those who benefit from them.

Liberalization, Privatization and Deregulation

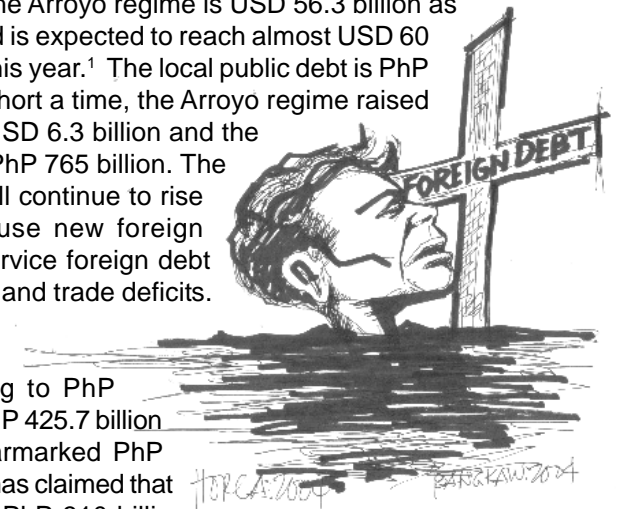
In the Philippines with the introduction of more aggressive liberalization policies in 1995 through the entry of the country into the WTO (closely synchronizing its policies with the IMF-WB)¹⁵, thousands of farmers became bankrupt because of the influx of agricultural goods, particularly from the United States, into our economy. Around 25,000 farmers became deprived of their livelihoods at the second quarter of 1995, and thousands more are

security funds for financing scams and collecting cash from the numbers game and other forms of gambling.

Focus on the Arroyo Regime

So long as it can still borrow from domestic sources and from abroad, a puppet regime would not admit that the Philippines has a chronic financial crisis. But now the crisis has become so severe that the Arroyo regime cannot deny it. The widespread collapse of enterprises, massive unemployment, depressed incomes, peso devaluation, inflation due to scarcity of basic goods, declining social services and other realities expose the grave economic and financial crisis.

Foreign debt under the Arroyo regime is USD 56.3 billion as of end June 2004 and is expected to reach almost USD 60 billion by the end of this year.¹ The local public debt is PhP 1.833 trillion. In so short a time, the Arroyo regime raised the foreign debt by USD 6.3 billion and the local public debt by PhP 765 billion. The accumulated debt will continue to rise to new levels because new foreign loans are used to service foreign debt and cover budgetary and trade deficits. The Arroyo regime has made debt payments amounting to PhP 358 billion in 2002, PhP 425.7 billion in 2003, and has earmarked PhP 542 billion in 2004. It has claimed that in 2005 it can make PhP 310 billion and PhP 385 billion respectively in interest and principal payments or a total of PhP 695 billion.



Clearly, the “normal” or “non-crisis” situation, from the viewpoint of reactionary regimes, is for the debt payments to increase as foreign debt correspondingly increases. Despite all these, the balance of payments, which takes into account loans and debt repayments, as well as the trade balance of goods and services and transfers such as OFW remittances, is still projected to be at a deficit of USD 600 billion in 2004.

The IMF prescription is for the Arroyo puppet regime to give priority to automatic appropriations for servicing the accumulated foreign debt, to raise the tax burden, to reduce deficit spending and adopt austerity

measures at the expense of the people in an already devastated economy supposedly in order to counter inflation due to scarcity of goods and the printing of money. The regime is frenziedly trying to con the Filipino people into accepting more and higher taxes, more wage cuts and freezes, more cuts on the already deteriorated social services, the privatization of government-controlled corporations and the assumption of their debts by the state, especially the colossal debts of the National Power Corporation.

Arroyo's economic managers claim that the regime would be able to raise additional revenues and cut this year's gargantuan P200 billion government deficit to more manageable levels, continue to making bigger debt payments, and thereby convince the IMF-WB and foreign commercial creditors of its ability to incur more and bigger debts.

The Arroyo regime is silent on losses due to rampant and high-level graft and corruption and the tax evasion by the wealthiest and most rapacious big compradors and landlords. Conservative estimates place losses due to graft and corruption at P100 – 120 billion annually. The most recent and most serious charges of graft and corruption have involved not only members of Macapagal-Arroyo's official family such as the alleged \$14 M IMPSA scam bribe and P1.1 B GSIS loan to PEA for the Macapagal Highway, by members no less of Macapagal-Arroyo's immediate first family.

The Arroyo regime is deaf to proposals for a review, not to mention reversal, of the policy of automatic appropriations for debt payments and adherence to the impositions of foreign monopoly capital. It persists in imposing new and higher taxes in accordance with IMF-WB and WTO prescriptions and impositions.

The fact is that time is fast running out on the Arroyo regime and the people are bound to rise up and resist the blatantly anti-people and anti-national policies and pretended solutions which are in fact further impositions and exactions. These so-called solutions will only aggravate the situation and exacerbate the suffering of the entire nation.

The Arroyo regime blames the crisis on an unfavorable international economic situation, and on the large deficits and debts that its predecessors incurred. But the main point of Arroyo is to conceal from the public her own culpability for subservience to the interests of foreign monopoly capitalism and the local exploiting classes and for taking the path of surpassing the rates reached by her predecessors in local and foreign borrowing and in further sinking the Philippine economy into bankruptcy and beggary.

tariff adjustments”(p.19), a shortcoming which is not, however, “encountered when the tax is domestic.” (Ibid.) With this self-assurance, the GP therefore recommends an additional two-peso domestic tax(called excise tax) on petroleum, purportedly to control air pollution(!), a two percent increase in VAT and its expansion to cover finally all professionals like lawyers and doctors, an increase of 10% tax on new cars and an indexation(or continuous adjustment of taxes, which often go up) on the so-called sin products like tobacco and alcohol, this latter tax along the comprehensive tax reform program, first advocated by the IMF in the 1992 memorandum of agreement of the Philippines with this institution. To reduce the servicing by the government of its off-budget liabilities by 1.5 % of GDP, the GP advises price and fee-adjustments (especially higher power rates for Napocor to pay off its debts) of government corporations. Another measure backed by the GP which will hit the poor mostly, is the reduction of IRA releases to 30% from its current 40%. Aware of the corruption in the government, which the WB solely singles out as the main cause of the Philippine fiscal deficit, the GP is also for plugging tax leakages and the reduction of the salaries of management in government corporations.¹²

It must be noted that an IMF post program monitoring team visited the Philippines in June, 2004 to find out how the Philippine government is abiding by its commitments to balancing its budget. The team was particularly worried about the growing budget deficit of the government and warned that it was in a “crucial juncture” (Arroyo used the same term “crucial juncture” when she announced that the country is in fiscal crisis last Aug. 23, 2004). The IMF team recommended among other things: government assuming Napocor debts and fast tracking its privatization, increases in taxes like that of VAT and on petroleum, and a more efficient tax administration.¹³ Soon afterwards, Arroyo announced her 8 tax measures during her State of the Nation Address and the GP came out with their position paper. Notice the pattern.

It could be seen that the main brunt of the GP's proposals to solve the fiscal crisis is anti-people. It is primarily concerned with restoring investor's confidence, with an eye for a favorable foreign credit rating as an investment destination for the Philippines, in the country's capacity to pay off its foreign loans and to become an attractive place for good profits.(p.22-23) The GP is also worried of the eroding competitiveness of the Philippines in the

¹² De dios, et al, pp. 14 -24

¹³ Statement by IMF Staff Mission to the Philippines, July 12, 2004, International Monetary Fund, Washington DC, and from Business World, June 30, 2004. With regards to the debts of Napocor from World Bank, ADB, and Japan Bank for International Cooperation, IMF recommended that it be taken over by a newly created Power Sector Assets and Liabilities Mgt.(PSALM) of the government.

investment destination and new foreign loans may not be forthcoming if government deficit keeps on increasing. This may lead to a defaulting by the Arroyo administration of its foreign loans since new loans are spent to pay for old loans in a vicious cycle which again hikes total loans. The new taxes being vied for by the government have been referred to Congress for legislations since members of Congress are also reluctant in giving up their pork barrels, P70 million annually for each congressman and P200 million for each senator. Everyone is ganging up on poor Juan de la Cruz, as most of the taxes being considered are regressive in nature like the VAT and taxes on petroleum, the latter causing a chain reaction of an increase of prices of basic commodities.

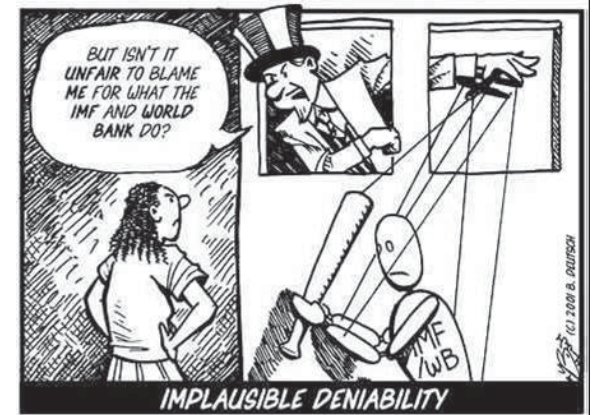
A group of 11 UP economics professors have also come out with their proposals to hurdle the fiscal crisis of the government. In a paper entitled "The deepening crisis: the real score on deficits and the public debt", recognizing the unprecedented and the seriousness of the fiscal crisis, they recommend that the government should increase its surplus by 3.5% of GDP (using the nominal value of P4300 billion as of 2003) from its present 0.6% to maintain current debts and support the budgets for vital infrastructure and education. According to this group of professors, the government must also limit the servicing of the off-budget liabilities (items not stated in the annual government budget or the General Appropriation Allocation, called off-items, the most notable of which are debts of the GOCCs) by 1.5% of GDP.¹¹ But how to do these? This group of professors(GP for short) advised measures which are mostly along the vein of the government's proposals and which reiterate the usual IMF policy recommendations for the Philippines and other Third World countries to confront their debt problems. These recommendations adopt the free-market framework (called neo-liberal reforms) under the aegis of globalization or a policy of open economy, specially promoted by the US under the Uruguay rounds of talks, which established the WTO, but which is not taken seriously by even the US itself and the leading capitalist countries (members of the European Union and Japan), who have become more protectionists in their economies starting in the late 1990's.

The GP's policy recommendations include: privatization, especially of Napocor; deregulation, or what the group calls the abolition of the "politicization of prices"(p.24); and liberalization of tariffs. For liberalization of tariffs, the GP is particularly against increasing the tariffs on oil imports, because, according to them, "international commitments prevent significant

¹⁰ Memorandum of Economic and Financial Agreement with the IMF, 1989-1992.

¹¹ Emmanuel de Dios, et al, *The deepening crisis: the real score on deficits and the public debt*, pp.14-16.

The Arroyo regime fails to mention all the root causes of the financial crisis: foreign domination of the economy, feudal backwardness, and bureaucrat-capitalism. The current regime, like all its predecessors, conceals the culpability of US and other foreign monopoly capitalists in keeping the Philippine economy agrarian and pre-industrial, with the collaboration of bureaucrat capitalists who are themselves big compradors and landlords.



Foreign monopoly and feudal exploitation of the people over the past century has resulted in economic stagnation, chronic crisis, the absence of basic industries, chronic trade and current accounts deficits, deepening indebtedness, and a quagmire of poverty and misery into which more and more of the toiling masses are forced to flounder. Even the doctored and manipulated government statistics would reveal that the percentages of employment in the industrial and manufacturing sectors have not increased over the past four decades but have in fact steadily decreased from 16.5% (industrial) and 12% (manufacturing) in 1970 to 15.1% and 9.2% respectively in 2003. Further underdevelopment and worsening crisis have pushed more than 80% of the population below the poverty line.

The Arroyo regime refuses to admit that the Philippine economy has further deteriorated and has been stricken with an unprecedented crisis after being brought into the WTO under the neoliberal policy of "free market" globalization. It must be recalled that it was through a legislation sponsored by then Senator Macapagal Arroyo that Philippine entry into the WTO was effected.

"Free market" globalization enabled the foreign monopoly capitalists to plunder with utmost rapacity the third world economies and to degrade the so-called "tiger" and "emergent" economies and weaker capitalist countries. The result has been the rapid reconcentration of capital into the hands of a few giant monopoly capitalists in the US principally and in the two other centers of capitalism, Europe and Japan; and the consequent devastation of the third

world and retrogressive countries, which continue to sink in the ocean of foreign debt and poverty.

Third world countries are being crushed by a mounting debt burden. Total third world debt amounts to US\$ 3 trillion. Debt service, the ratio of debt to GNP, and the ratio of debt service to exports have rapidly increased over the decades, as the following table shows:

	1970	1980	1990	2000
Third World debt		72.8	609.4	1458.4 2492.0
Debt service		9.2	93.4	163.8 398.9
Debt/GNP ratio		10.9	21.0	34.1 39.1
Debt service/exports			13.5	18.1 18.1

(Source: WB, Global Development Finance, different years)

For the Philippines, the average debt-to-GDP ratio from 1972 to 1980's was 15%. From 1980 to 1986, it had shot up from 19% to 55.6%, to 67.1% in 1993 and 77.3 % in 2003. Clearly, the 1990s figures were way above the third world average.

Even as the US and other imperialist countries enjoy the privileges of power within the WTO, they are nonetheless afflicted by economic and financial crisis arising from the inherent contradictions of capitalism. Japan and Europe were struck hard by the crisis of overproduction and recession in the wake of the 1997 Asian financial crisis. Then, the "high tech bubble" burst in the US in 2000. Since then, the global depression has worsened, driving the major imperialist powers all the more to intensify the exploitation and oppression of the proletariat and people of the world. At the same time, they have heightened their own competition and contention.

The worsening crisis of the world capitalist system has driven the US to become ever more rapacious and violent, to the detriment of the proletariat and people and even its imperialist allies. The US has been trying to stimulate its economy by giving tax cuts to the monopoly bourgeoisie and stepping up military production. Relatedly, it is whipping up repression on a global scale under the pretext of anti-terrorism and launching wars of aggression in order to assert hegemony and seize sources of raw materials (especially oil), markets, fields of investment and spheres of influence.

All these nefarious deals within Napocor, including its infamous contract with Westinghouse during the Marcos regime to build the now defunct Bataan Nuclear Power Plant, which has not produced a single watt of electricity,⁹ has pushed its debts to \$23.5 billion (P1.3 trillion) more than a third of the national debt of P3.32 trillion as of October 2003. And now the national government has the temerity to ask the people to practice austerity and contribute their small pittance to the "Bayanihan" Fund, when all the fat cats in the bureaucracy together with their foreign partners have already long been feasting on the blood of the people. And when we consider other anomalies at other government corporations, Public Estates Authority (Amari scam, Diosdado Macapagal Boulevard scam, Expo Filipino scam) and the GSIS (BestWorld scam), no one will wonder anymore where a great bulk of all the borrowings of the government are disappearing to.

The Government and the Group of 11 UP Economic Professors' Proposals to Solve the Fiscal Crisis

To confront the magnitude of the fiscal crisis, the Arroyo government is again resorting to transferring the burden of solving it to the people by introducing 8 new tax measures to raise an additional P84 billion. As usual, these follow the receipts of the IMF which is constantly worried that the Philippine government may not be able to pay its foreign loans. Among these onerous tax measures which will hit the lower-income classes more adversely are an increase of value-added-tax or sale taxes (note that it was the IMF that imposed on the Philippines the adoption of VAT during the Aquino regime) and an increase in petroleum taxes.¹⁰ Malacanang also would reduce the IRA for local governments, but refuses to cut its huge pork barrel, the so-called presidential discretionary fund, which amounts to a hefty P3 billion.

The government is specially alarmed of the current fiscal crisis because foreign credit analysts have started downgrading the Philippines as an

⁵ Rosario G. Manasan, *Fiscal Reform Agenda: Getting Ready for the Bumpy Ride Ahead*, PIDS, p. 2.

⁶ From Department of Budget and Management (DBM) - only interest payment is included in the annual budget declared by the government, while payment for the principal is from data of the Bureau of Treasury, not stated in the annual budget of Congress. This is due to a dictum of the IMF regarding the manner of reporting the national debt.

⁷ Business World, Jan.30-31, 2004.

⁸ For a thorough discussion on the EPIRA, see "Power Sector Restructuring Under EPIRA", IBON Facts and Figures, Vol. 27, No.12, June 30, 2004.

⁹ The Bataan Nuclear Power Plant was built through a loan of \$2.3 billion and the government up to the present is paying its creditors \$170,000 daily as interest alone for this loan, which it conveniently passes to the public in the forms of taxes and fees. The consummation of the debts incurred for the nuclear plant will be up 2018.

The debt of the national government has already reached 78% of GDP at the end of 2003. And if you add the debts of the government owned and controlled corporations, (GOCC), the GFIs (government financial intermediaries), LGUs, projects under BOT, and those of the SSS and GSIS,⁴ debts the government assumes, total consolidated public debts at end of 2003 amount to P5.9 trillion or 137% of GDP! This indeed is alarming and is creating grave apprehension to the country's foreign creditors and potential investors. In fact, Standard and Poor, an international credit rater for countries, has downgraded the Philippine long-term currency rating by a notch to BBB-minus. The Philippines has already surpassed all other countries in Asia in the size of its consolidated public debts.⁵

The Napocor Debt

But where do all the money go? A great portion of these debt go to the payment of the interest and principal of the national debt, for instance, 49% (33% interest, 16% principal)⁶ for the year 2004, and another big hunk is lost to corruption of bureaucrat capitalists. Among such big cases of bureaucratic corruption is the sweetheart deal that Napocor made with independent power producers (IPPs). Under Executive Order (EO) 215, the IPPs were funded by foreign loans secured by a government guarantee and most contracts with the IPPs even included a "take or pay" onerous (but profitable to the bureaucrat capitalists) provision, which required Napocor to pay for 70% to 100% of the output of an IPP whether or not the electricity is actually used by the public. For 2004, Napocor will pay to the IPPs P19 billion worth of power which is not yet consumed.⁷ On the average, Napocor only utilized 20% to 40% of the power it buys from the IPPs. Such shady going-ons of course enriched former President Ramos and his cohorts but Napocor is now saddled with a \$7.4 billion debt which the government through the so-called Electric Power Industry Reform Law (EPIRA) has the gall to allow power distributors like Meralco to pass on to the ordinary consumers. Meralco owes Napocor P13 billion but was allowed by the Arroyo government to rescind its contract with Napocor and to purchase power from its own IPPs. Thus, Meralco in order to defray its past obligations to Napocor has been allowed by the government to pass these debts to the consumers. Notice the Purchased Power Cost Adjustment (PPA), the Fuel Cost Adjustment (FCA), and other such euphemistic terms in your monthly electric bill.⁸

³ Memorandum of Economic and Financial Agreements of the Philippine government with the IMF (MOEFA), 1989-1992, MOEFA, 1994-1997, and MOEA (Memorandum of Economic Agreement), 1998-2000.

⁴ All these debts are not included in the statement of annual national budget, because they are considered off-item budget by the government.

Acting in subservience to US imperialism, the Arroyo regime is imposing on the Philippines all the US policy dictates on the economy, finance and other matters. Thus the crisis of the US and world capitalist system will continue to worsen the crisis of the Philippine ruling system. There is no way out for the Filipino people but to fight for their national and democratic rights and interests in a comprehensive way against US imperialism and the local puppets.

The Solution: Reforms and Revolution

The broad masses of the people demand the strengthening and completion of the struggle for national liberation and democracy, the cancellation of all fraudulent and odious



foreign loans benefiting the foreign and local exploiters, the confiscation of ill-gotten assets obtained through such loans and the termination of the puppet law providing automatic appropriations servicing foreign debt. They know that there can be no end to the chronic economic and financial crisis and to the monopoly capitalists' practice of international usury, unless the entire nation, especially the toiling masses of workers and peasants, are able to wield power.

The comprehensive solution to the chronic economic and financial crisis is for the Filipino people themselves to gain power by fighting for national and social liberation, undo the dominance of US imperialism, domestic feudalism and bureaucrat capitalism, uphold national sovereignty and independence, defend economic sovereignty and national patrimony and undertake economic and social development through genuine land reform and national industrialization.

There are various ideas on how to carry out the solution. These include carrying out the electoral struggle to put into office good men and women who will push the necessary reforms, using the GRP-NDFP peace negotiations to forge agreements on reforms and arrive at truce and alliance against common problems, changing the present regime through a peaceful mass uprising in order to put up a new government that would undertake reforms and overthrowing the ruling system through armed revolution in order to make a social revolution.

1. Let us consider electoral struggle. It is possible to put into executive and legislative offices some good men and women. They can advocate economic, financial and other reforms and in the process expose the rottenness and puppetry of those who oppose these as well as the entire ruling system. However, they need to be aware that the US and the local exploiting classes will always seek to ensure the overwhelming dominance of the rabid reactionaries and buy off or discredit those who seek to change or challenge the fundamentals of the system.

A good indicator of the rottenness and subservience of the local wielders of power in the semicolonial and semifeudal system is the fact that the presidential decree of Marcos providing for automatic appropriations for debt servicing remains a law more than 18 years after his fall, through one presidential successor to another and one Congress to another. This is not proof of how powerful is the ghost of Marcos. This is proof of how powerful is the US master over its series of puppets with regard to economic and financial policy.

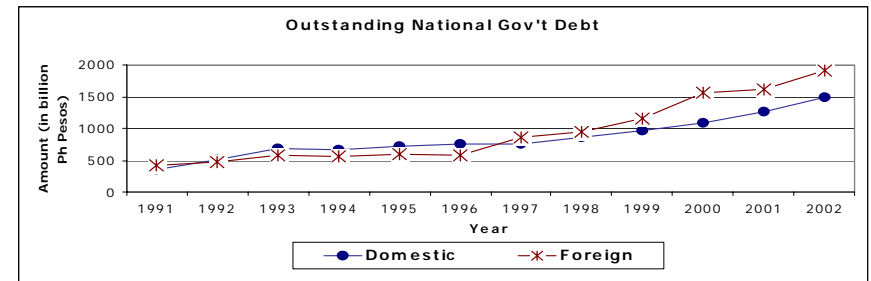
A very small number of national executive and legislative officials express patriotic and progressive views. The US and the ruling politicians see them as ineffectual against the scheme to amend the 1987 constitution for the purpose of undercutting civil and political liberties, removing the nationality provisions that seek to limit foreign investments and paving the way for the return of US military bases and the deployment of foreign troops on the Philippines. They are pushing the scheme under the guise of changing the form of government from presidential to parliamentary and shielding the Arroyo regime from a people's mass uprising similar to those against Marcos in 1986 and against Estrada in 2001.

2. Let us consider the GRP-NDFP peace negotiations. The NDFP can clarify and ventilate the reforms that need to be adopted and implemented. The objective is to work out comprehensive agreements in economic, social, political and constitutional reforms and go for a truce and alliance against common problems or inimical forces. But these negotiations are easily subject to sabotage by the US and its worst puppets.

Right now, the NDFP wishes to negotiate social and economic reforms. With regard to economic and financial policy, the objective of the NDFP is to persuade the GRP to agree on the adoption of certain measures to protect the people from the devastating consequences of the policy dictates of the US and such US-dominated multilateral agencies as the IMF, World Bank and WTO. The Philippine government in the 1950s adopted some of these measures to some extent. In recent times, China and Malaysia have

Chart 1. Outstanding National Government Debt

Source: Bureau of Treasury



The heavy debt of the government has thereby brought about its current huge fiscal crisis, with budget deficit nearing P200 billion, since revenues from taxes and other non-tax sources have been greatly left behind by its galloping debts to foreign and local creditors.. Even with the heavy budget reduction for social services through the years, mandated by memoranda of agreements with the IMF,³ to assure debt payments, the continuous increase of the national debts, especially during the Arroyo administration, has made all the cost-savings measures of the government meaningless but debilitating to the Filipino people, who have to suffer poor government social services like in education and health.

Table: Real Per Capita National Government Expenditures on Social Services, 1996-2004 (2000 Prices)

	1996	1997	1998	1999	2000	2001	2002	2003 Prel	2004 Pres
Total Social Services	2,188	2,487	2,417	2,323	2,302	2,035	2,002	2,016	1,999
Education	1,534	1,789	1,761	1,675	1,608	1,515	1,505	1,455	1,415
Health	230	266	221	223	202	166	171	151	141
Soc. Security Welfare & Employment	317	392	387	364	376	331	327	392	418
Housing & Com. Devt.	107	39	48	61	115	22	19	19	29

Source: Rosario G. Manasan, Fiscal Reform Agenda: Getting Ready for the Bumpy Ahead, Table 2, p.5

¹ IBON Facts & Figures, *The Economy in 2003*, Mismanaging the Crisis, Vol. 27, No. 1, Jan. 15, 2004.

² Quoted from a speech of Senator Joker Arroyo, *Philippine Daily Inquirer*, Sept. 6, 2004, A4.



The Philippine Fiscal Crisis and the Neo-Colonial State

by Dr. Edberto M. Villégas

The fiscal crisis that the Philippine government is presently undergoing is the worst ever in the history of the country, and is caused by its own doing. And yet the government would pass the burden of solving this crisis to the people, with increases in taxes and prices like those for electric power and petroleum. It has even put up a so-called Bayanihan Fund so that ordinary citizens can contribute their shares for the government to weather the storm.

It must be emphasized, however, that the fiscal crisis that the government is experiencing was bound to happen based on its heavy indebtedness to foreign and domestic creditors, the latter also affiliated with foreign capital like Citibank and the Bank of America from which the government heavily borrows. The country's external debt alone as of September 2003, already stood at P1.5 trillion, of which 51% are direct government debt from international financial institutions, like the IMF and World Bank, and bilateral creditors, and 49% are from foreign bonds.¹ By January, 2004, total outstanding debts of the government already exceeded the P3 trillion mark, surging particularly in the second half of 2003. It is Gloria Macapagal Arroyo who has borrowed the most among all Philippine presidents, with her borrowing binge, mostly from the US, from 2001 to 2003 "more than the combined borrowings of Presidents Ramos and Estrada for eight years, 1992 to 2000."² The Arroyo administration has been accumulating debts to the tune of P1.2 billion daily.

been able to hold their ground against the worst US and IMF dictates on financial policy. But so far, the Macapagal Arroyo regime is tightly bound to US dictates and the myth of "free market" globalization.

The rabid puppets of the US imperialists in the Arroyo cabinet and in the military as well as agents of clerico-fascism are in control of the GRP side of negotiations and are blocking the progress of the GRP-NDFP peace negotiations. They endorse, condone and applaud US imperialism for listing the Communist Party of the Philippines, New People's Army and the NDFP chief political consultant as "terrorists". They agree to the US violation of the national sovereignty of the Filipino people and to the usurpation of jurisdiction over the internal affairs of the Philippines. They attack the safety and immunity guarantees for duly-authorized persons in the peace negotiations. They connive with the US in using the "terrorist" label to violate human rights in general and the Hernandez political offense doctrine in Philippine jurisprudence in particular.

3. Let us consider how a broad united front can replace the Arroyo regime. It is possible for a people's uprising to occur as it did in 1986 and 2001 in order to remove the incumbent ruling clique from power, and to install a new government that is patriotic and progressive, enjoying the support of the broad masses of the people and a broad range of forces bound by a program of reforms similar to those envisioned by the Movement for the Advancement of Nationalism in 1966. I think that the NDFP would be open to such a possibility.

Recently, I have publicly exchanged views with the distinguished nationalist economist Alejandro Lichauco on how to confront the chronic all-round rotteness and crisis of the ruling system and how to constitute a new government that can be the instrument for realizing the people's demands for national independence, democracy, development, social justice and peace. May I reiterate my view that all patriotic and progressive forces can try working together in forming a united front government, which includes the real and sincere representatives of workers, peasants and the middle social strata as well as the civil bureaucrats and military personnel who criticize and repudiate the corruption and subservience of the ruling politicians to the US.

If such a government can arise, the question of economic and financial policy can be resolved along the anti-imperialist and anti-feudal line. It is possible for the working people and the middle social strata, represented in such a government, to agree on a firm policy of canceling all fraudulent and odious foreign debts, undertaking genuine land reform and national industrialization

and strengthening diplomatic and economic relations with the ASEAN, China and Japan as well as Russia, France and Germany against the hegemony of the US.

4. Let us consider the new democratic revolution through people's war. It has been going on since 1969. It aims at the armed seizure of political power in order to carry out the all-round social revolution of the working people and the middle social strata. It is the people's ever available and effective method for achieving optimal results.

It is extremely difficult or impossible to achieve basic reforms (like the end of foreign monopoly domination, land reform and national industrialization) within the ruling system because the US and the exploiting classes of big compradors and landlords wield powerful instruments of violence against the people. Thus, the people have chosen the path of armed revolution and built their own revolutionary army in order to carry out a new democratic revolution, with a socialist perspective.

Only when the workers, peasants and the middle social strata have won power would they be able to adopt and implement an economic and financial policy that defends economic sovereignty and the national patrimony, abolishes completely the dominance of imperialism, feudalism and bureaucrat capitalism, develops the economy on a self-reliant basis through centralized planning and carries forward an independent foreign policy of promoting international solidarity, development, fair and equitable economic relations among all countries and fostering world peace. ###

(Footnotes)

¹ These figures and subsequent ones on GRP indebtedness are sourced or derived from Bureau of Treasury statistics

<http://www.treasury.gov.ph/statdata/statdata.html>

a nationwide coalition that would complete the unfinished revolution.

The principal contradiction-

The contradiction between colonialism and nationalism remains the principal contradiction of Philippine society. To the resolution of that contradiction all other contradictions should be subordinated.

The road to peace starts with that. It starts with the drive to eliminate colonialism in all its forms and from whatever source.

Recto, the consummate Filipino nationalist and Mao, the consummate Chinese Communist, will shake hands on that.

adoption, as a working basis of dialogue, an emergency program of government proposed by the *Citizens Committee on the National Crisis* last January, which I also incorporate by way of reference.

We must complete Bonifacio's unfinished revolution if we are to face up to the crisis that has made this only Christian nation in Asia a humanitarian disaster, where 80 percent of Filipino households live under hunger conditions. The imperatives of national survival and the revolution against hunger which has now overtaken us call for nothing less than the revolutionary nationalism which forged Filipinos into one nation.

Only when the country commits itself to a program of government that would unleash the three processes of de colonization, industrialization and economic democratization can it begin the march toward social peace because only a government committed to the unleashing of those three processes would have the credibility to deal with the insurgents and the secessionists.

That is one way of saying that the road to social peace begins with the struggle to regain the sovereignty and independence which U.S. imperialism stole from Bonifacio's revolution.

That sovereignty and independence should be recovered at all cost if we are to survive as a viable society.

One final and concluding note.

Debt repudiation

There isn't any way we can proceed to retrieve our sovereignty and independence unless we first repudiate the foreign debt. The repudiation of that debt should be the starting point of any genuine effort at national independence and sovereignty.

I have written the Senate a letter memorandum outlining the case for unconditional debt repudiation and I incorporate that letter memorandum to this paper by way of reference.

I suggest that the Pilgrims for *Peace* initiate a signature campaign urging the Senate to adopt the letter memorandum for debt repudiation. Such a campaign could well serve as the catalyst for

THE ROOTS OF CRISIS:

**A NEO COLONIAL STATE
PRESERVED AS A RAW
MATERIAL ECONOMY
BY THE GEOPOLITICAL
REQUIREMENTS OF U.S.
POST WAR IMPERIALISM**

&

WHAT IS TO BE DONE



By: Alejandro Lichauco
Paper prepared for delivery before the *Pilgrims for Peace* scheduled October 27, 2004, Quezon City.

Introductory

Any attempt to understand the essence and roots of the nation's crisis must begin with recognition of the nature of the Philippine state. The Philippines isn't -- and one must stress that -- a sovereign, independent state that it is assumed to be and which its constitution claims it is.

A neocolonial state

The Philippines is a neocolonial state -- which, by definition, means a state that is sovereign and independent in theory but which in fact is the colony of another, or of others. As a people, we are the classic victim of what Webster's New World Dictionary calls **neocolonialism** and which it defines as **"the exploitation of a supposedly independent nation as by imposing a puppet government."**

This has been so from the day and moment that we assumed the status of sovereign nationhood in 1946. That sovereign nationhood was pure fiction. It was pure fiction because the colonial power which supposedly returned to us the independence which it had

wrested from Bonifacio's revolution never really left and never really allowed us to exist and act as a free and sovereign people.

The process by which we have been preserved as a neocolony is a story of its own, and neither time nor space allows that I deal with it in detail. It should suffice to focus on the essentials of that process. We have been preserved as a neocolonial state through the flagrant and systematic intervention of the U.S. government in our political process and in the creation of a collaborator class.

Neocolonialist intervention, of course, hasn't been confined to the political process. You see and feel the hand of that intervention in just about every aspect of Philippine society and the political economy. You see and feel it not only in government and politics but in the business community, in our schools, civil society, media and even the churches.

But the intervention has been most crucial and fatal at the level of our presidential politics. As the late and former President Diosdado Macapagal admitted in an article he wrote for the *Bulletin* a few years before he passed away, the U.S. government has been a decisive factor in every presidential election since 1935, and no presidential aspirant objectionable to Washington has ever been elected president. By the same token, any sitting president who manages to displease Washington invariably winds up unseated by Washington. That has been generally the fate of all incumbent presidents. They were mounted to office by Washington and eventually unseated by Washington.

That's how puppet governments are mounted and that's essentially how we have been preserved as a neocolonial state.

But that's for another paper. At the moment we are focused on the economic crisis.

The fiscal crisis as a diversionary issue

The fiscal crisis, which you invited me to discuss, is in truth only one of the many facets of the economic crisis that grips the nation. There is the **crisis of the peso, the crisis of unemployment and inflation**; there is **the crisis of the industrial and agricultural sectors**, and there is the overall **crisis of underdevelopment and poverty**.

Three processes that should be unleashed if social peace is to be achieved.

Such a coalition could be forged on the basis of a program that would unleash three vital processes, namely: The process of **decolonization**, the process of **industrialization** and the process of **economic democratization**.

Only when these three processes are unleashed simultaneously, through a program of government crafted specifically for that purpose, can the nation begin the journey towards social peace. The reason is that social peace can only come with social justice and economic democracy. But social justice and economic democracy can come about only if there is economic development, and economic development can come about only with an industrial revolution which in turn can come about only with national independence.

I propose accordingly that no time be lost organizing a national coalition based on a program that would unleash the three processes of decolonization, industrialization and economic democratization.

In 1986, I proposed such a program to the then ongoing Constitutional Commission which that body completely ignored. I now propose that that program be adopted as a **working basis** of dialogue among all elements in Philippine society determined to transform the Philippines into a truly sovereign and independent state so that it may proceed with the war on mass poverty and thereby pave the way for the much longed social peace which has long eluded us.

That program is embodied in a slim volume I authored titled *Towards a New Economic Order and the Conquest of Mass Poverty*, and which I incorporate by reference in this paper. **That program, incidentally, is a synthesis of the basic principles found in the program of the *Movement for the Advancement of Nationalism* and the Vatican encyclicals which condemn laissez faire capitalism and justify on moral grounds the principle of state activism in the economy.**

Along with the program outlined in *Towards a New Economic Order and the Conquest of Mass Poverty*, I recommend the

WHAT THEN IS TO BE DONE?



Complete the unfinished nationalist revolution of Bonifacio.

What needs to be done is clearly to forge a national coalition of forces committed to recovering the sovereignty which American imperialism wrested from Bonifacio's revolution and to transform the Philippines from the **neocolonial state** that it is to the truly sovereign and independent state that it claims to be and should be.

Only when the Philippines becomes a truly sovereign and independent state can it then proceed to pursue the kind of developmental policies necessary to lift the economy out of the pre industrial age of history and to catapult it to the ranks of newly industrialized countries.



There is the crisis of the very economic system by which we have lived all these years.

To be lured into a discussion of the fiscal crisis therefore is to be lured away from a discussion of the totality of the crisis and the nature as well as the root of that crisis. And that I suggest to you is exactly what the enemies of the state intend. They intend to lure us away from an examination of the total crisis and to trivialize that crisis by luring us into a discussion of what they call the "fiscal debt crisis."

But it is the essence and root of the total economic crisis that we should focus on.

The economic crisis as the crisis of a neocolonial state

If we have a total economic crisis in our hands -- a crisis whose most visible and terrifying manifestation is the mass hunger, and not only the mass poverty, that now grips the land and which government itself has acknowledged -- it is because in this post-industrial age, we remain a nation of 80 million mired in the pre industrial stage of history.

The question is: Why have we remained stuck in the pre-industrial age of history when neighbors once more impoverished and backward than we are have either graduated, or are dramatically in the process of graduating, into the age of science and industry?

And the answer is that it has been planned that way. From the beginning, it was planned in Washington that the Philippines shall remain essentially a raw material economy in order to service the raw material requirements of an industrial Japan.

The *Dodds Report* and the origin of the Philippine crisis

In 1946, the Truman administration adopted the recommendation of the report which proposed that Japan be developed as the primary, if not sole, industrial powerhouse in the Asia Pacific region and that countries like the Philippines should be preserved as raw material economies, obviously to service the requirements of Japan's factories.

As the Asia Pacific war came to a close, the U.S. obviously made a fateful decision to utilize Japan as the base from which to project U.S. military power, and that required the development of Japan as an industrial powerhouse. But since Japan is a nation bereft of natural resource, the plan obviously required that countries like the Philippines be preserved as raw material economics to ensure Japan with a continuing and permanent source of raw material.

We owe our knowledge of the *Dodds Report* to the late Salvador Araneta who, during his self exile in Canada during the martial law years, uncovered the existence of the document and denounced it in his book *America's Double Cross of the Philippines*.

These were Araneta's denunciatory words, as he explained the failure of the nation to industrialize: **"The indifferent economic development of the country ... was due to America's policy toward Japan and the Philippines. This policy was the result of the *Dodds Report* which Truman accepted and which had as its objective to make Japan the industrial workshop of Asia and the Philippines a mere supplier of raw materials."**

As Araneta bitterly continued: **"We do not argue against the wisdom of providing Japan with the means to rehabilitate herself and allowed to become an industrial country once again, although this was contrary to the prior recommendation of a post war planning committee headed by Secretary Morgenthau, a recommendation which was in line with the prevailing sentiment at the end of the war. *But certainly we can argue against a policy that would make Japan the exclusive industrialized country in the Far East, for such a policy was most detrimental to the Philippines. Indeed, the United States could not justify a policy that provided all kinds of stumbling blocks, to the***

corporate farmers of the industrial countries, who do their farming with the aid of satellites.

The authorities must be reminded that any underdeveloped economy struggling to industrialize would have to protect its basic industries from foreign competition, whether fair or unfair. To insist that even infant industries should be competitive in the foreign markets would be tantamount to killing these infant industries from the start.

The question is: Why did the authors of the present Constitution feel it necessary to qualify the industrialization mandate with the kind of restrictions they placed on it?

And the answer is that the authors of the cited provision were the very elements who had opposed the heavy industrialization program launched by Ferdinand Marcos in 1979. The Marcos industrial program was based the establishment of industries driven by machine power and not repeat, not by "sound agricultural development and agrarian reform" as stipulated by the present Constitution.

In brief, no less than the Constitution has become the barrier to the real industrialization of our economy. Under the "industrialization" provision of the Charter there isn't any way that this country can transform into a newly industrialized country or NIC. Which means that there isn't any way we can get out of the poverty trap which has now mutated into a hunger crisis.

ARTICLE XII, SEC. 1 PAR. 2 OF THE CONSTITUTION IS THE BEST EVIDENCE OF OUR STATUS AS *NEOCOLONIAL STATE*. IT IS ALSO THE ULTIMATE WEAPON WHICH ENSURES THAT THE ANTI-INDUSTRIALIZATION AGENDA OF THE *DODDS REPORT* WILL REMAIN UNCHALLENGED BY ANY GOVERNMENT ELECTED UNDER THE PRESENT CHARTER.

If by some miracle we should have a government tomorrow bent on industrializing the economy by adopting the same industrial policies that have made industrialized countries of our neighbors, such a government would run afoul of the Constitution.

provision of our Constitution. Those countries, imitating Japan, pursued an industrialization strategy anchored on the development of industries based on and moved by **machine power** rather than on “sound agricultural development and agrarian reform.”

A real industrialization program is one that is based on what is known as the *capital goods* industry industries based on machine power and the production of what is known as the **means of production.**

Any other industrialization program can only be a program based on light consumer industries that are totally dependent on industrial raw material and industrial machines produced by the industrialized countries.

You will further note that the constitutional provision insists that industries should be competitive in both the domestic and foreign markets. With that provision, there is hardly any industry that can qualify for government support and protection, and that is precisely what the provision intends. That provision serves as justification for our reckless entry into GATT and the equally reckless accelerated tariff reduction program of the government programs which have contributed heavily to the bankruptcy of National Steel Corporation, the closure of Caltex refinery and the financial problems of an enterprise like Hacienda Luisita, all of whom have attributed their crisis to the flood of imports unleashed by the government’s commitments to the WTO.

No country rose from rags to riches through industrialization by exposing its industries to foreign competition the way we have done. Examine the industrial policies of the Asian NICs and you will see how protective those policies are of their basic industries, even if these are not competitive in the foreign markets.

While the constitutional provision does provide that the State shall protect Filipino enterprises against unfair foreign competition, it doesn’t define what unfair foreign competition means. For example, we have exposed our agricultural sector to competition from subsidized agricultural imports, but the authorities don’t consider that a contravention of the Constitution. The result is that even the agricultural sector has been marginalized. Apparently, the authorities see nothing wrong with pitting our farmers, most of whom hardly made it to sixth grade, with the

industrialization of her ally (Philippines) in the war against Japan. As a result of this policy, industrialization in the Philippines suffered severe setbacks...”

It was a division of labor, or of functions, which the *Dodds Report* crafted for America’s allies in the Far East.

The *Dodds Report* explains the continuing obsession to this day of U.S. foreign policy to keep the Philippines a free and open market for imports because a liberal import policy another name for free trade ensures that this country will never be able to industrialize and take the same protectionist, nationalistic developmental strategy that enabled once poorer neighbors like Taiwan, Malaysia and Thailand, to transform into the newly industrialized countries that they are today.

The geopolitical plan embodied in the *Dodds Report* explains what the late Claro M. Recto described as “America’s anti industrialization policy for the Philippines.”

Although Recto had no knowledge of the existence of the *Dodds Report* at the time its existence would surface only in the ’70s after Araneta exposed it his enormous analytical power enabled him to deduce from policy statements of U.S. officials that behind U.S. policy in this country was a malevolent design to see to it that we never industrialize.

Conclusive proof of what Recto described as America’s “anti industrialization policy for the Philippines” came when Marcos formally launched an industrialization program in the late ’70s based on 11 heavy industries led by the steel, petrochemical and engineering industries.

The announcement of that plan was swiftly followed by protest from the IMF and the World Bank and the pro American technocrats in the Marcos cabinet led by no less than his then Prime Minister.

In the end, after four years of struggle with the IMF, the World Bank and his own technocrats over his industrialization plan, Marcos gave up the plan but not until after he had expressly denounced a conspiracy between his own technocrats and the IMF WB to keep the Philippines under the heels of the industrial powers.

Soon after his election to the presidency, Joseph Estrada in an interview with Asiaweek confirmed that the U.S. has indeed sabotaged the industrialization plan of Marcos.

The U.S. anti industrialization policy for the Philippines is what those IMF conditionalities are really about. The anti industrialization policy has been implemented all these years through the IMF conditionalities and it isn't any coincidence that for the last forty years this country has been under the continuous economic supervision of the IMF. There is no country in the world that can claim to be under the supervision of the IMF for even a fraction of that time.

And it isn't coincidence either that this country, which has been under the continuous supervision of the IMF for 40 years, is the only country in the region that isn't making any headway toward industrialization.

When the Asean was founded in the early 160s by the Philippines, Malaysia, Thailand, Indonesia and Singapore, not a single one of them was an NIC.

Today, only the Philippines remains outside the magic circle of NICs. The four other co founders of the Asean are now acknowledged NICs.

That should explain why the Philippines has the longest and oldest communist insurgency in the region.

A nation of 80 million without even the capability to produce a decent hammer or a decent toy gun can't possibly have any future except hunger.

We are today a hungry people in a land so fertile that one can drop a seed anywhere and see it sprout into something he can eat. And we are hungry because we are a nation frozen by design in the pre industrial age, preserved as a raw material economy.

The essence and root of our crisis, to stress, are to be found in the nature of the Philippines as a neocolonial state preserved by U.S. post war imperialism as a raw material economy to service the raw material requirements of an industrial Japan.

The treason of the Edsa Constitution: Art. XI 1, sec. 1, par 2 and the constitutionalization of the formula for underdevelopment and poverty

The ultimate tragedy of a neocolonial state is that even its own Constitution becomes an instrument of its own and perpetual enslavement.

And the Philippine case is a classic illustration.

I invite your attention to Art. XII, Sec. 1, par. 2 of the Constitution which reads as follows: ***"The State shall promote industrialization and full employment based on sound agricultural development and agrarian reform through industries that make full and efficient use of human and natural resources, and which are competitive in both domestic and foreign markets. However, the State shall protect Filipino enterprises against unfair foreign competition and trade practices."***

That provision you will note automatically prohibits an industrial policy based on the heavy industries and the application of protectionist measures against foreign competition, whether fair or unfair.

While the provision stipulates that the "State shall promote industrialization" it simultaneously qualifies that constitutional directive with an entire complex of conditions and limiting reservations which makes it impossible for the State to adopt any industrialization strategy other than one that is specifically and exclusively based on "sound agricultural development and agrarian reform" whatever that means.

For example, the provision literally prohibits an industrialization strategy based on the heavy industries, like steel, chemicals, machine tools and machine production. But that's precisely the kind of strategy that made NICs of our neighbors.

Our neighbors particularly South Korea and Taiwan didn't transform into newly industrialized countries through the industrialization strategy explicitly mandated by the above cited