

**Marcos' Fatal Conceit:
The Economic Fatality That Led to His Downfall**
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The Marcos regime, from 1965-1986, was one of the darkest periods in contemporary Philippine history. Its record reeks of, among others, massive human rights violations, corruption, cronyism, debt-driven economic stagnation, and massive inflation. The period's record of massive deficit spending produced short-run gains in exchange for long-run damage, most notably in the form of the Philippine's national debt, which up to this day, is still being paid for by the Filipino taxpayers. Corruption was also rampant in the regime, as the Marcos family was able to pocket public funds for their personal gain.

Ferdinand Marcos' vision of a new society was one in which the government would have a responsibility to play an active role in society. He did not want socialization or the abolition of private property as the communists wanted, but rather his vision was democratizing private wealth "by regulation for the worthy ends of human society."¹ Its very nature was rooted upon a middle-of-the-road policy that tried inasmuch as it could to unify the "positive" aspects of both socialist central planning and *laissez faire* capitalism. However, as Ludwig von Mises pointed out, "the middle-of-the-road policy is not an economic system that can last. It is a method for the realization of socialism by installments."² Mises was correct in pointing this out, as we saw the eventual demise of the Marcos regime, in which its very economic practices was the root cause of it.

Friedrich Hayek would also share the same sentiment as Mises, noting that, "to assume all the knowledge to be given to a single mind...is to disregard everything that is important and significant in the real world."³ Marcos was out of touch with reality and what was actually occurring as a result of his policies.

The ousting of the regime was realized when the agitated masses peacefully marched down EDSA highway. It was a historic event—a nonviolent overthrow of the regime. What is common in Philippine media is that the revolution was simply the spontaneous outburst of emotional outrage that was triggered by the death of former Senator Ninoy Aquino in August 21, 1983.⁴ It is important to note that the EDSA Revolution happened from February 22-25, 1986, three years after Ninoy's death. This is not to entirely dismiss the narrative as it does have its merits. However, this narrative does not take into consideration what were the events—both domestically and internationally—that happened three years before and after the assassination.

Tight monetary conditions brought about by high interest rates in the 1980s made it difficult for the Marcos regime to refinance its domestic spending. When investors started pulling out, and when local industries started failing, the Marcos regime acted quickly by preparing a bailout package in the form of new printed money. This however, following the narrative of the Austrian school, created an investment boom which eventually led to a bust. This bust came when inflation peaked at 20% in 1983, and the central bank was forced to stop printing new money, increasing its lending rate in the process so as to not contribute more to the severity of inflation. These events led to the economy shrinking, lowered income per capita, lowered standards of living, and an agitated constituency who have lost faith in the capabilities

¹ Ferdinand E. Marcos, *The Democratic Revolution in the Philippines* (Manila, Philippines: Ferdinand Marcos, 1973): p. 125.

² Ludwig von Mises, *Planning for Freedom and Twelve Other Essays and Addresses* (South Holland, Illinois, USA: Libertarian Press, 1974): p. 32-33.

³ Friedrich Hayek, "The Use of Knowledge in Society," *The American Economic Review* Vol. 35, Issue 4 (September 1945): p. 530.

⁴ Rommel Curaming and Lisandro Claudio, "A Historicised (Re)Assessment of EDSA 'People Power' (1986)," (Working Paper Series No. 134, Asia Research Institute, National University of Singapore, 2010): p. 8.

of the regime.

When the economic outlook does not look great, and situations become more unstable, people get desperate and will be open to more radical change. Again, drawing upon the insights of Mises, “the effect of [the government’s] interference is that people are prevented from using their knowledge and abilities, their labor and their material means of production in the way in which they would earn the highest returns and satisfy their needs as much as possible. Such interference makes people poorer and less satisfied.”⁵

There were many factors at play during the time, but the economic turmoil was an enormous factor that saw a greatly angered mass of people taking it out on the streets.

Ferdinand Marcos and His Regime

Ferdinand E. Marcos became the Republic of the Philippines’ president for over 18 years. His first campaign for the presidency started in 1965, when he won the election against the incumbent president Diosdado Macapagal of the Liberal Party. Fast forward four years later to 1969, we see that Marcos won a second term after the use of public funds to secure votes and win fraudulently.⁶

In 1970, under the leadership of Lieutenant Victor Corpuz, a Philippine Military Academy Instructor (PMA), New People’s Army rebels managed to ransack the hiding place of the PMA’s weapons and arms. In ransacking this place, the communist rebels were able to steal weapons and arms such as automatic rifles, machine guns, grenade launchers, and many others.⁷ Further, in 1972, two months before Marcos instituted martial law, the Liberal Party rally held in Plaza Miranda was bombed. In it were then-Senators Jovito Salonga, Eddie Ilarde, Eva Esrada-Kalaw; Liberal Party President Gerardo Roxas; and Sergio Osmeña, Jr. and his father Sergio Osmeña, Sr. Initially, the Liberal Party blamed Marcos for the bombing as an attempt to stifle them as they were opposition party. However, Marcos insisted that it was not him, but rather the communist rebels from the Communist Party of the Philippines-New People’s Army (CPP-NPA) coalition. In the following years, time and time again, CPP-NPA leader and founder Jose Maria Sison denied these claims, despite there being evidence to suggest that they were behind it.^{8 9}

Marcos was also paranoid with his belief that the political right was out to stage a *coup d’etat* and have him ousted. His belief that both the left and the right were out to get him may have formed the basis for his ideological formation for his vision of the ‘New Society.’ The necessity of the imposition of the martial law arose from, in his own words:

⁵ Ludwig von Mises, *Human Action* (New Haven, Connecticut, USA: Yale University Press, 1949): p. 736.

⁶ David J. Steinberg, *The Philippines: A Singular and a Plural Place* (San Francisco, California: Westview Press, 1994), 120.

⁷ “Victor Corpus and Jose Almonte: The righteous spies,” August 31, 2001, Asia Times Online Co., accessed on January 27, 2017, <http://www.atimes.com/se-asia/CH30Ae02.html>

⁸ Rigoberto Tiglao, “Days of Shame: August 21, 1971 and 1983,” August 20, 2013, The Manila Times, accessed on January 27, 2017, <http://www.manilatimes.net/days-of-shame-august-21-1971-and-1983/31664/>

⁹ Gregg Jones, “ExCommunists Party Behind Manila Bombing,” August 4, 1989, The Washington Post, accessed on August 11, 2015, <https://www.washingtonpost.com/archive/politics/1989/08/04/ex-communists-party-behind-manila-bombing/>

...the seven grave threats to the existence of the Republic. These were the communist rebellion, the rightist conspiracy, the Muslim secessionist movement, the rampant corruption on all levels of society, the criminal and criminal-political syndicates—including the private armies—the deteriorating economy and the increasing social injustice.¹⁰

However, William H. Overholt, in his article entitled *The Rise and Fall of Ferdinand Marcos*, disputes this claim. Overholt states that according to interviews with the Chief of Staff of the Armed Forces of the Philippines, there were fewer than 800 communist guerillas in the country at the time of the enactment of martial law. The so-called communist threat at the time, given this number, was hardly a threat and was easily containable. The same could be said with Marcos' paranoia regarding the political right, which he deemed equally as bad. Regardless, the truth of the matter was that he was widely supported by both the majority of the Filipino people and the United States (U.S.) Government at the time. There was a "broad consensus on the need for social and economic reforms that the democratic government of the Philippines had been unwilling to carry out."¹¹

Proclamation No. 1081, famously known as the declaration to instate martial law, was passed by Marcos on September 21, 1972, just before his second term as president was about to end. It was signed on September 17, 1972, but was eventually postdated to the 21st for superstitious reasons.¹² Strict implementation of curfews along with the suspension of civil law, human rights, and habeas corpus was observed. Further, to neutralize possible violent rebellions that would lead to civil unrest, his regime confiscated tens of thousands of weapons and had new measures in place to better handle crime.¹³

Under martial law, Marcos suspended and then overhauled the Philippine constitution to make it suitable for his continued reign. He silenced the media and his critics, and used violence and oppression to stifle his political opposition from both the left and the right. Because of the communist insurgency in the country, Marcos being in power to stifle them signaled to the United States that he could be an ally during the Cold War. Marcos used this to his advantage. In exchange for American aid to the Philippines, he committed to be an American ally in the fight against the growth of communism and the Soviet Union's global influence. The International Monetary Fund (IMF) was also generous in handing out loans to the Philippines at this time.¹⁴

To further gain domestic support, he used his newly formed political powers to court the political left. This would further delegitimize dissenters from the left, even when he already had massive public support. He appointed people like former labor leader Blas Ople to be the new Minister of Labor, former Supremo of the Hukbalahap communist guerillas Luis Taruc to become a land reform organizer and principal spokesman regarding land reform related-issues for the regime, public intellectual Adrian Cristobal to be the official spokesman and

¹⁰ Ferdinand E. Marcos, Notes on the New Society of the Philippines (Manila, Philippines: Ferdinand E. Marcos, 1973): p. 102.

¹¹ William H. Overholt, "The Rise and Fall of Ferdinand Marcos," *Asian Survey* Vol. 26, No. 11 (November 1996): p. 1140.

¹² "Declaration of Martial Law," Official Gazette of the Republic of the Philippines, accessed on January 27, 2017, <http://www.gov.ph/featured/declaration-of-martial-law/>.

¹³ Overholt, "The Rise and Fall of Ferdinand Marcos," p. 1140.

¹⁴ Jane Hutchinson, "Pressure on Policy in the Philippines," *The Political Economy of South-East Asia: An Introduction* (Melbourne, Australia: Oxford University Press, 1997), p. 81.

speechwriter, and many others. To further solidify his popular support, Marcos implemented more land reform than previous administrations had in the 25 years of democratic rule in the country. His massive agrarian reforms, development of roads, subsidized credits for farmers, putting electricity in the rural areas, and irrigation, all led to a boom in rice production to almost self-sufficiency in 1976. Marcos was key in the destruction of the landed oligarchy, which gained him more massive support, and further delegitimization of any opposition.¹⁵

Marcos' New Society

What characterizes Marcos' plans for the Philippines according to his writings was his vision for a 'New Society,' regarding previous administrations as the 'Old Society.' In his book entitled *An Ideology for Filipinos*, he states that, "the New Society government regards itself as being responsible for leading our people in achieving their aspirations. Responsibility for a mission carries with it the inherent right to have all authority required for its fulfillment. Responsibility without authority is meaningless; only responsibility with authority is useful."¹⁶ Marcos here believes that the government has a responsibility to play an active role in society, but in order to do so, requires the necessary authority to enact its policies.

Another point to consider in understanding Marcos' vision is his claim that he acknowledges the good points of both capitalism and communism. He claims that "it does not really matter which way we go: for economic development will be attained and mass poverty will be reduced, if not eliminated, and human life will be enriched." He admitted however that "there is no perfection on this planet," and that both systems had their faults.¹⁷ His vision was interventionist in nature, finding a middle way between pure capitalism and pure communism:

We have... selected as our means to bring about social equality a steady and determined bid to redistribute national wealth through better tax efforts, coupled with the use of such taxes and other revenue-raising means (such as government bonds) to build the public works needs of our people and to stir up economic activity in our towns and barrios. Of course, we at the same time buttress these economic efforts with laws and enforcement that channel both private and government resources to social usefulness, and that maintain the social order essential to all our plans for development.¹⁸

Marcos masked his economic vision as 'democratic,' stating that wealth can be 'democratized' in the same manner that power can be democratized by separation of powers and popular representation, free speech, freedom of association, et al. He further states that the 'democratization' of said wealth is nothing more than the 'sharing' of private wealth for the good of the entire society. This is all done for the country's collective human ends. He acknowledged the fault of the communists with regard to total abolition of private property, as he states it would "stultify private initiative and turn man into a pure collective being."¹⁹

As Mises pointed out in *Human Action*, interventionism is just a policy that takes from

¹⁵ Overholt, "The Rise and Fall of Ferdinand Marcos," p. 1141-1142.

¹⁶ Ferdinand E. Marcos, *An Ideology for Filipinos* (Manila, Philippines: Marcos Foundation, Inc., 1983): p. 104.

¹⁷ Marcos, *Notes on the New Society of the Philippines*, p. 84.

¹⁸ Ferdinand E. Marcos, *An Ideology for Filipinos*, p. 102.

¹⁹ Marcos, *The Democratic Revolution in the Philippines*, p. 125

one group in order to give it to another, a “confiscation and distribution.”²⁰ The assumption for Marcos’ vision is that, according to Mises, there exists an inexhaustible fund that can be repeatedly squeezed from. This is a delicate system, as the whole system will collapse when the source is gone or is cut off.²¹

Another problem with Marcos’ vision was that it required, again in Mises’ words, “subordinating the individual unconditionally to the state, the social apparatus of coercion and compulsion.”²² Given Marcos’ admission that the government must have the necessary authority in order to properly enact its wishes, the slow expansion of the state and its interventionist ways was an unfortunate assurance of that. This was evidenced by the regime’s rampant abuse of human rights violations to stifle political opposition and. As was mentioned previously, the confiscation of guns, that could have been used to defend against a tyrannical regime such as his.

According to Hayek, “the curious task of economics is to demonstrate to men how little they really know about what they imagine they can design”—Exactly what Marcos’ vision was, a design. The Marcosian view of Philippine society was disguised under a utopian-sounding idea that the government’s active role in society would yield a net positive benefit. Hayek continues, stating that, “to the naive mind that can conceive of order only as the product of deliberate arrangement, it may seem absurd that in complex conditions order, and adaptation to the unknown, can be achieved more effectively by decentralizing decisions and that a division of authority will actually extend the possibility of overall order.”²³ The Marcosian view was naïve enough to think that it could create order by design. As will be shown in the next sections, only chaos was created out of Marcos’ controls.

Thanks to Marcos’ eloquent public speaking skills, his noble-sounding aims and proposed reforms for the country were welcomed. He received strong support from a majority of the Filipino people. More importantly, a majority of his support believed that “Philippine democracy could not in any case long survive the perpetuation of crime, inequality, poverty, and incoherent economic policy.”²⁴ In practice however, what we instead saw was massive economic inefficiencies, corruption, favoritism, and a regime that could not deliver on its promise, in which, it could not have from the beginning.

Marcosian Corporatism

Marcos’ rhetoric was that of overthrowing the oligarchy to liberate the poor, as part of his plans for his ‘New Society.’ Marcos has an insightful analysis in his book *The Democratic Revolution in the Philippines*, in which he states that, “a society in which the majority of the people are poor is, as we have experienced, in constant danger of having its political authority corrupted and dominated by the rich minority.”²⁵ Here we notice that Marcos’ analysis of the oligarchic society is parasitic. Marcos’ massive support stems from this rhetoric which he delivered on, as was mentioned in the previous section, when he enacted a massive land reform

²⁰ Mises, *Human Action*, p. 851.

²¹ Mises, *Human Action*, p. 854.

²² Ludwig von Mises, *Omnipotent Government: The Rise of the Total State and Total War* (New Haven, Connecticut, USA: Yale University Press, 1944): p. 44.

²³ Friedrich Hayek, *The Fatal Conceit: The Errors of Socialism* (Chicago, Illinois, USA: University of Chicago Press, 1991): p. 76-77.

²⁴ Overholt, “The Rise and Fall of Ferdinand Marcos,” p. 1142.

²⁵ Marcos, *The Democratic Revolution in the Philippines*, p. 197.

program that brought down the oligarchic land owners.

In practice, the old oligarchy that he said he was against got replaced by a new oligarchy composed of his cronies.²⁶ Families like the Lopezes and the Osmeñas, who were not in the best of terms with the Marcos family, suffered during the Marcos regime. However, families who the Marcos family owed a favor to, became part of the inner elite circle. Some of these families include Romualdez, Benedicto, Enrile, Cuenca, Silverio, Oreta, Tantoco, Floreindo, Disini, and Martel. Even the Aboitiz, Elizalde, Concepcion, Palanca, Siguion-Reyna, Sycip-Yuchengco, Yulo, Alcantara, Fernandez, Tan, Tanjuatco families, who were not regarded as threats profited from the opportunities offered by the regime.^{27 28}

In this environment, competitiveness and efficiency were replaced by access and personal patronage to the president.²⁹ This, however, should not be a surprise since the Marcos regime was interventionist in nature, and as Mises points out, favoritism in this system simply cannot be avoided.³⁰ The vast amounts of power Marcos gave to himself during the martial law was enough to attract large corporations to get their share. This is an incentive unto itself for big businesses to take advantage of. To be under the good graces of the Marcoses would entail access and influence within the inner workings of the regime. Favoritism was bound to happen by the very design of the system itself.

As pointed out by Rothbard in *Man, Economy, and State*, the market is distorted because the efficient are penalized for the benefit of the inefficient. Since the basis of the relationship is patronage rather than whoever is the best at providing for the not-yet satisfied wants of the consumers at a competitive price, the life of these inefficient firms are prolonged and thus prevents the market from satisfying the actual wants and needs of the consumers. The main point of Rothbard was that “the greater the extent of government subsidy, the more the market is prevented from working, the more resources are frozen in inefficient ways, and the lower will be the standard of living of everyone.”³¹

Rothbard further points out that inefficiencies in government operations are inherent, and that “the excessive demand fomented by free and other underpriced services is just one of the many reasons for this condition”³² From this insight, we can then conclude that there would somewhat be a positive relationship between the size and scope of government and the amount of waste and inefficiency produced.

What could be said then, of the Marcos regime, given the previous insight from Rothbard, was that it was a regime filled with massive amounts of waste and inefficiencies. Marcos nationalized many enterprises, from 32 to over 300 government-owned corporations by the time his regime was overthrown in 1986.³³ What made it possible for this inefficient system to persist, as expected, was the access and influence these select few had with Marcos.

²⁶ Overholt, “The Rise and Fall of Ferdinand Marcos,” p. 1143.

²⁷ John Doherty, *Who Controls the Philippine Economy: Some Need Not Try as Hard as Others* (Manoa: University of Hawaii Press).

²⁸ Curamng and Claudio, “A Historicised (Re)Assessment of EDSA ‘People Power’ (1986),” p. 6.

²⁹ Overholt, “The Rise and Fall of Ferdinand Marcos,” p. 1148.

³⁰ Mises, *Human Action*, p. 735.

³¹ Murray N. Rothbard, *Man, Economy, and State with Power and Market* Scholar’s Edition 2nd Ed. (Auburn, Alabama, USA: Ludwig von Mises Institute, 2009): p. 942.

³² Rothbard, *Man, Economy, and State with Power and Market*, p. 1260.

³³ Steinberg, 168.

The economic policy making of the Marcos administration involved a “small circle of political and business allies and technocrats.”^{34 35}

This insight does not take into consideration the possibility of these firms pocketing taxpayer’s money from the government, or of the government itself pocketing said taxpayer’s money. In the words of Mises, “corruption is a regular effect of interventionism.”³⁶

Barriers to Entry and Protectionism Run Amok

It would not be corporatism if it did not have protectionism and other increased barriers to entry added into the mix. Close associates would want increased barriers to entry within the market they operate in order to protect themselves from competition. They would want this because it protects them from other individuals or group of individuals who are thinking of entering the market, and thus undercutting their already-established market share. Assuming further that demand for the good or service that they provide is inelastic, with industries like oil or sugar, then raising prices would not reduce the demand as much since these goods or services that they provide are essential.

Marcos’ regime, in line with his vision for a new society, focused on economic nationalism and self-sufficiency. To achieve this, he wanted to improve employment nationally by promoting local industries. Marcos stressed the government’s active role in the economy, and in his own words, “[the government] must create sufficient jobs to absorb the present ranks of the unemployed, and the 400,000 annual addition to the labor force. Public investments must increase to about 5% of the GNP by 1980.” Marcos also expressed his concern for the country’s heavy dependence on international trade, and the proper solution to this was protecting the domestic market to spur local industries.³⁷

The Marcos regime, along with the continued rebellion of different groups, and the violent responses the regime took to answer these, was met with negative effects. Those kinds of actions of a regime reflect political instability, which increases investment risk for foreign investors. Overholt points out in his work that:

Despite impressive paper revisions of the foreign investment laws, red tape and corruption continued to hamper foreign investment. Whereas foreign investment expanded enormously in Pacific Asia during the Marcos years, and although the Philippines had previously been a focus of foreign investment in Pacific Asia, during the Marcos years the Philippines became the least favored site for foreign investment among the market oriented economies of Pacific Asia.

Overholt continues in pointing out that despite the foreign investment incentives put in place by the Marcos regime, these were often offset by the multitude of presidential decrees

³⁴ Kenji Kushida, “The Political Economy of the Philippines Under Marcos,” *Stanford Journal of East Asian Affairs* Vol., 3 No. 1 (Spring 2003): p. 122.

³⁵ Boyce, 330.

³⁶ Mises, *Human Action*, p. 736.

³⁷ “Ferdinand E. Marcos, Eleventh State of the Nation Address, September 21, 1976,” Official Gazette of the Republic of the Philippines, accessed on January 27, 2017, <http://www.gov.ph/1976/09/21/ferdinand-e-marcos-eleventh-state-of-the-nation-address-september-21-1976/>

and restrictive practices that protected domestic industries. These barriers to entry by the regime allowed for the creation of monopolies and near-monopolies. Even export promotion policies did not incentivize domestic competitors since the barriers to entry were too costly to begin with. Marcos' policies, in actuality, inhibited a lot of exports from happening.

All this was done through executive orders signed by Ferdinand Marcos. For example, the Construction and Development Corporation of the Philippines (CDCP), was commissioned to perform construction works throughout the country. This organization became bloated and was a “subsidized organ of patronage.” Independent entrepreneurship was all but stifled because of measures like these, with the government draining out every last bit of taxpayer’s money to pay for these projects and initiatives. Massive foreign borrowings had to be maintained in order for the regime to keep refinancing itself, even going to a point where these foreign borrowings were just used as payment on the interest on the debt itself. The multitudes of abusive actions took by licensing authorities, tax authorities, and customs authorities bogged down on any potential competitor. It was all one big inefficient mess.³⁸

We see in Chart 1 below that the Philippine peso was relatively strong against the dollar up until 1981, when in 1982 onward, rounds of devaluation of the peso kept occurring. It is expected that the Philippines would be importing more. Imports that would have helped local industries by improving their operations with lower material costs and probably an increase in efficiency did not materialize. Despite tariff reductions, barriers to entry that consisted of quotas and licenses, and there also being cases of tax harassment, were still present that prevented the imports from happening.³⁹ Had those restrictions not been in place, Marcos’ cronies could have been challenged by other individuals or group of individuals seeking to enter the market. It is yet to be seen, however, if those industries would have been retaliated against by Marcos, or if Marcos himself would pick a new favorite and dump the non-performing one.

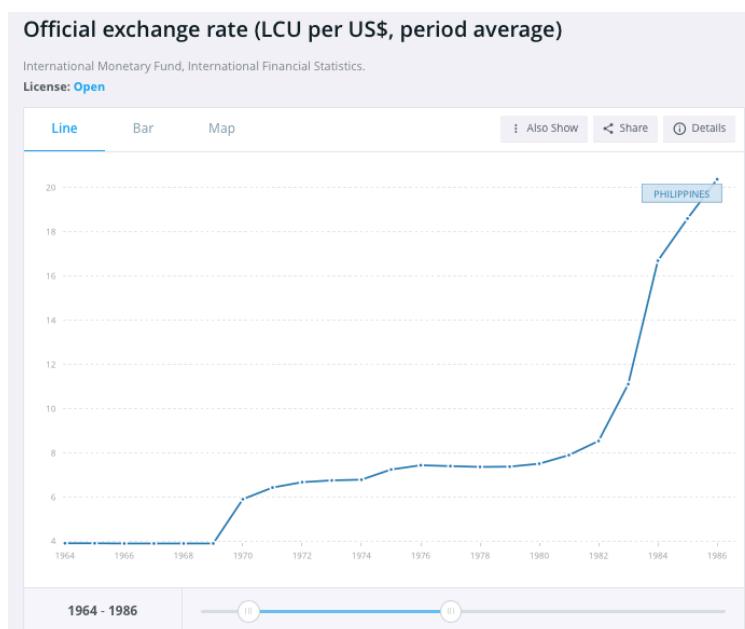


Chart 1: Graph of official exchange rate screenshot from data.worldbank.com.
<http://data.worldbank.org/indicator/PA.NUS.FCRF?end=1986&locations=PH&start=1964>

³⁸ Overholt, “The Rise and Fall of Ferdinand Marcos,” p. 1144.

³⁹ Overholt, “The Rise and Fall of Ferdinand Marcos,” p. 1145.

As was stated by Rothbard earlier, in this type of scenario, efficient producers are penalized for the continued survival of the inefficient ones, because of their support from the government. The Marcos regime instituted an export tax, and the effect was that efficient producers with the potential to export their goods and services were driven out of business in favor of the President's less efficient cronies, as expected. Overholt finally states that "a multibillion dollar corruption constituted a prohibitive tax that fell disproportionately on importers (thereby raising exporters' input costs), exporters, and foreign investors."⁴⁰

The Debt Trap

Prior to the 1980s, the Marcos regime had been accumulating debt in order to further finance its massive domestic spending. Marcos directed public funds to capital-intensive industries, mainly on nuclear power, steel, aluminum, copper, and others. However, these projects could be said to have been a scapegoat in order to pocket more public funds. The skills required for these industries were unsuited for the Philippine labor force's comparative advantage at the time, and the massive expenditures were done only so that the regime could be permitted to borrow more foreign money, which could then be transferred discreetly to their respective Swiss bank accounts.⁴¹

In reaction to the first oil price shocks, investments in the energy sector were attractive to make; The World Bank even preferred such investments. During this period, government corporations became an important source of investment, as most of the industries were nationalized by the time anyway, especially the energy sector. Marcos wanted to expand government corporations so it could secure foreign commercial loans.⁴² Come the 1980s however, coupled with the second oil price shock, the already bloated foreign debt of the country soared because of high interest rates, increasing from \$6.8 billion in 1976 to \$17.3 billion in 1980.

At this stage, the Philippines was trapped with high debt combined with high interest rates. The regime tried inasmuch as it could to cut the deficit year-after-year, but the international scene of high interest rates was in bad timing. Chart 2 below shows the graph of the total dollar reserves of the country. There was a massive outflow of reserves from the country after the 1980s, which made it even harder for the country to pay off its foreign debts. Three months before the assassination of Senator Ninoy Aquino in 1983, Development Bank of the Philippines Governor Melchor and Prime Minister Virata successively visited Prime Minister Nakasone of Japan to say that the Philippine financial situation was hopeless without a Japanese bailout.⁴³ And in 1983, a debt moratorium was declared, and the country defaulted in its debt payments.⁴⁴

⁴⁰ Overholt, "The Rise and Fall of Ferdinand Marcos," p. 1145.

⁴¹ Overholt, "The Rise and Fall of Ferdinand Marcos," p. 1143.

⁴² Joseph Y. Lim, Philippine Macroeconomic Developments: 1970-1993 (Manila, Philippines: Philippine Center for Policy Studies, 1996): p. 9-10.

⁴³ Overholt, "The Rise and Fall of Ferdinand Marcos," p. 1154.

⁴⁴ Lim, Philippine Macroeconomic Developments: 1970-1993, p. 13.

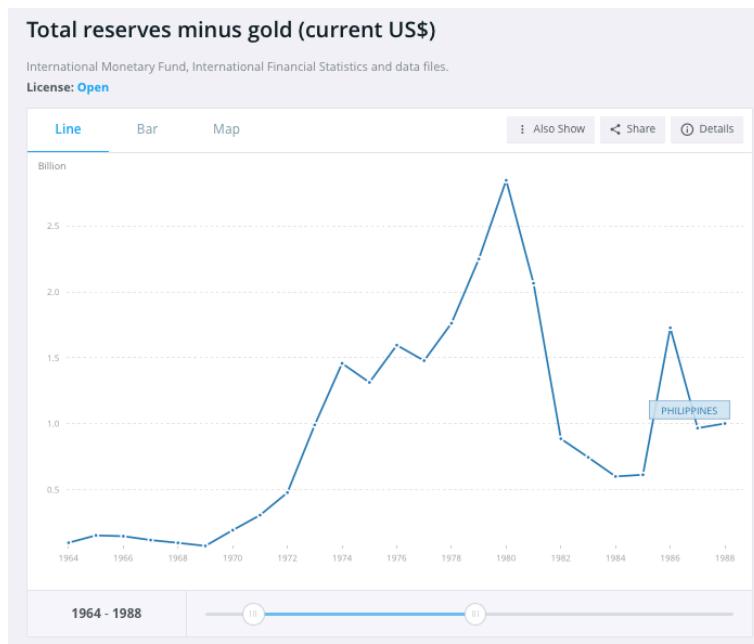


Chart 2: Graph of total reserves minus gold screenshot from data.worldbank.com.
<http://data.worldbank.org/indicator/FI.RES.XGLD.CD?end=1986&locations=PH&start=1964>

The End Game

A global environment of high interest rates made it difficult for the Marcos regime to borrow more money. Tight monetary conditions abroad left a lot of industries without funding. On top of that, the economic structure that the regime had managed to create was quite fragile by nature, as most of the industries in the economy were monopolies or near-monopolies. The fall of a certain industry with such status would certainly result in a lot of economic damage, as that industry is the only one providing for the good or service in its respective market.

Despite the fragile economic system that was in place, Marcos guaranteed his cronies that if ever there would come a time when their industry would fail, or would become unprofitable, a bailout for them would be assured.⁴⁵ This was problematic in two ways: 1) More foreign debt; or 2) Central Bank prints more money. The regime had amassed huge amounts of debt that if the situation were to come when a bailout would be needed, it would need to borrow more money in order to do so, because majority of tax revenues are not even enough to finance the massive government projects being done. If borrowing more money is not an option, printing more money would be the only other option. The problem here is that printing new money would cause an artificial boom that would lead to a bust, devaluation of the currency which would result in inflation, and a widening of the wealth gap between the rich and the poor.⁴⁶ Unluckily, the Philippines would experience both unfortunate causes.

The Philippines had, prior to the rise in global interest rates, already amassed massive amounts of debt. As we have seen in the previous section, the country was stuck in a debt trap because of increased payments to be made delivered by higher interest on the debt, when the

⁴⁵ Albert F. Celoza, Ferdinand Marcos and the Philippines: The Political Economy of Authoritarianism (Connecticut: Praeger Publishers, 1997), p. 89.

⁴⁶ Jörg Guido Hülsmann , “How Money Production Can Worsen Income Inequality,” February 28, 2015, Mises Institute, accessed on January 27, 2016, <https://mises.org/library/how-money-production-can-worsen-income-inequality>.

Philippines was not even capable of paying for it at the time. Second, it was only a matter of time before a Marcos crony-run industry failed during this period.

Coconut Oil Prices (dollar/metric ton) From 1975-1986



Chart 3: Time series data on world coconut oil prices from 1975-1986. Graph is a screenshot from quandl.com.
https://www.quandl.com/data/COM/WLD_COCONUT_OIL-Coconut-oil-Price-mt

Chart 3 was taken from quandl.com, with it tracking the monthly coconut oil prices from 1975-1986. Here we see that there was a price increase in the commodity starting around 1977, and peaked in July 31, 1979. However, prices started to drop well until 1983. After the expansion of the money supply by the Philippine Central Bank from 1980-1983, when the peso was once again further devalued, we see a rejuvenated market as prices once again started to rise, peaking on June 30, 1984. Since the peso was devalued, as can be seen in Chart 1 from earlier, looking at it from a foreign country's perspective, it was now much cheaper to import coconut oil. Soon after that date however, the price of coconut oil continued to drop up until 1986, the year Marcos got ousted.

The U.S. was one of the biggest customers of the Philippines' coconut oil market, having imported 40% of the world's total shipment of the good from 1959-1987. The Philippines also received preferential treatment from the U.S., with only a 34 cents per pound tariff, resulting in the Philippines providing all of the coconut oil needs of the U.S. Further preferential treatment was given to the Philippines, when in 1974, the tariff was lowered to 1 cent per pound. The U.S. would decide to also level the playing field by lowering every other coconut oil exporting country's tariff to the same level as the Philippines. Despite this, the U.S. still imported 82% of all its coconut oil imports from the Philippines.⁴⁷

The Philippines' share of world coconut oil export average at 79%.⁴⁸ The devaluation caused a boom in exports for coconut oil. The sudden drop in the world price starting June 30, 1984 are a combination of different factors.

⁴⁷ David E. Buschena and Jeffrey M. Perloff, "The Creation of Dominant Firm Market Power in the Coconut Oil Export Market," p. 1002.

⁴⁸ David E. Buschena and Jeffrey M. Perloff, "The Creation of Dominant Firm Market Power in the Coconut Oil Export Market," American Journal of Agricultural Economics, Vol. 73, No. 4 (November 1991), pp. 1000.

Although it was cheaper to import coconut oil as the Philippine peso was devalued, producers in the country still wanted to raise prices. Seeing as it was virtually a near-monopoly, consumers would have no other choice but to buy from them. The problem was that the demand for coconut oil was not inelastic. This can be seen when maturing investments were being made in palm oil as a substitute for coconut oil in places like West Africa and Malaysia. Much like how unfortunate the country was in its timing of having high debt with high interest rates, it was also unfortunate with coconut oil because when the country raised the prices for it to gain more revenue, a ready substitute was already in place in the global market. The coconut oil market in the Philippines crashed as world coconut prices plummeted because of reduced demand and more importers switching to palm oil. Over 16 million Filipinos were affected in this crash.⁴⁹

Sugar Prices (cents/kg) From 1975-1986



Chart 4: Time series data on world sugar prices from 1975-1986. Graph is a screenshot from quandl.com.
https://www.quandl.com/data/COM/WLD_SUGAR_WLD-Sugar-Price-world-cents-kg

For the sugar industry, we see falling prices post-1975 up until between 1979 and 1980 when a boom in sugar prices occurred, peaking in October 1980. The continued fall in prices was a sign that the industry was not profitable anymore. Despite this fact, bailouts were still readily available for failing industries that were not profitable anymore.

Another key weakness of the economic system was seen when Chinese businessman and financier Dewey Dee fled the Philippines with over \$80 million worth of debt. This action had only further distressed affiliated banks and investment houses, as they were already affected by high interest rates and tight monetary conditions of the global scene. According to Lim, rescue operations had to be done in the form of a bailout package, with government banks like the Central Bank, Philippine National Bank, and the Development Bank of the Philippines spearheading the operations. Non-performing and unprofitable firms were eventually taken over by the government. The expansionary monetary policies from 1980-1983 “had to do more with saving these industries and countercyclical policies than the financial liberalization that was crucial in the structural adjustment program.”⁵⁰

⁴⁹ Overholt, “The Rise and Fall of Ferdinand Marcos,” p. 1149-1150.

⁵⁰ Lim, Philippine Macroeconomic Developments: 1970-1993, p. 12-13.

As a response, a five billion peso bailout package was prepared by the Marcos regime to save industries who suffered, which included CDCP, Herdis Group, Disni Group, and Silverio Group. Investment housing industries that failed included Bancom and Philfrance, the country's leading brokerage house, who despite having Php 1 Billion worth of assets, suffered from a run that it did not recover from. Other industries included the mining, textile, and auto distributing industries.

As Overholt points out:

The root causes of the crises were Central Bank mismanagement and corruption; overborrowing by manufacturing and construction firms which salted away high proportions of the borrowed, government-guaranteed funds in foreign accounts; underbidding by major firms which later had difficulty delivering; the inefficiency of gigantic monopolies; loss of political confidence; and a series of interlocking management and financial arrangements that rapidly turned a localized problem into a chain reaction. The foundering of large firms with government guarantees soon made the government the new owner of 230 firms. Henceforth, government budgets were grotesquely unbalanced by the cost of subsidizing these firms.”⁵¹

These rescue operations done by the regime exposed the public to the worrisome levels of corporatism that was already in place, where it was now clear who Marcos' cronies were. According to Lim, “as the import liberalization program started to be implemented, important sectors such as sugar and coconut trading, construction, fertilizers, and tobacco became more and more monopolized by the cronies of Marcos... capital flight was beginning to contribute strongly to the foreign exchange depletion. The stage was set for the political and economic debacle of the following period.”⁵²

Although it is true that people were finally seeing the corruption and the back-of-the-room dealings that were happening between Marcos and his cronies, another important insight to look into are the income per capita, the lending rate, the percentage change of the M2 supply, and the inflation rate.

In Chart5, it is seen that a change in M2 supply happened from 1980-1983. This was the period the Central Bank was printing new money for the bailout package. Income per capita prior to 1980 was rising dramatically as the country had strong exports in goods like coconut oil, copper, and sugar. During this period, monetary conditions were relatively loose, and as such, borrowing more foreign money was not as difficult as it was during the time to high global interest rates. However, when the Central Bank stopped printing new money, we see a sudden drop also with income per capita. The severity of the drop set back the country by over 10 years. As the Filipino people saw it, that is 10 years of progress down the drain.

⁵¹ Overholt, “The Rise and Fall of Ferdinand Marcos,” p. 1150.

⁵² Lim, Philippine Macroeconomic Developments: 1970-1993, p. 13.

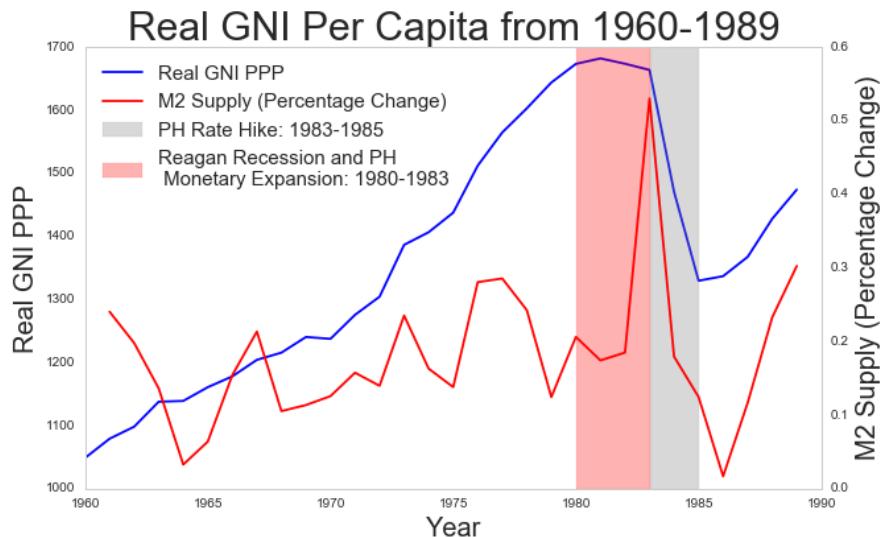


Chart 5: Trends between the Real Gross National Income Per Capita and the Percentage Change of the M2 Supply. Data gathered from the World Bank.

The narrative above is also consistent with when the data we look into are the trends between income per capita and the lending rate of the Central Bank below in Chart 6. Prior to 1980, there was a spike in progress in income per capita, while from 1980-1983, when the industry failures/crashes and bailouts were happening, it stagnated. However, when the Central Bank finally increased the lending rate, we see the same exact crash of income per capita, that set the country back 10 years, in the same time and manner. The spike in interest rate “mopped up liquidity” in the entire system and brought lending to a halt. A reason this was done was to lure back dollars that had flown out of the country.⁵³

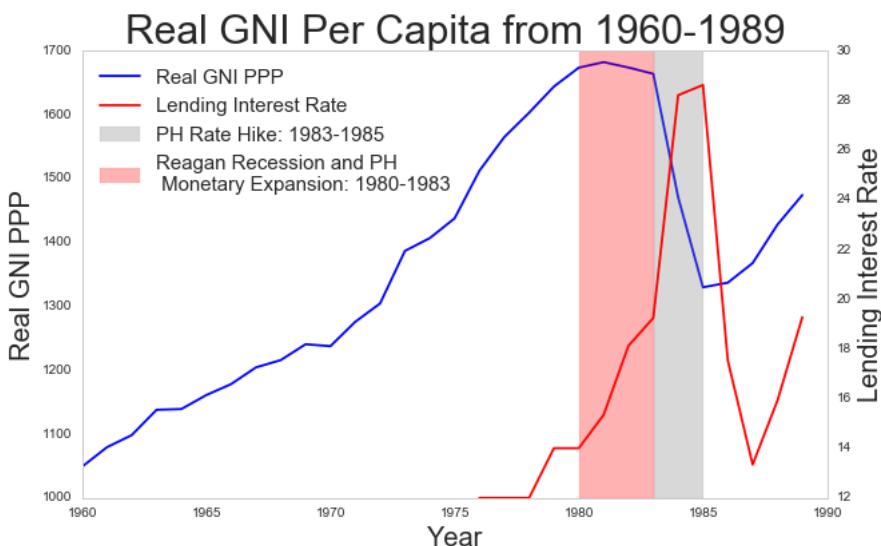


Chart 6: Trends between the Real Gross National Income Per Capita and the Lending Rate of the Central Bank. Data gathered from the World Bank.

Another reason the Central Bank may have increased interest rates was to tame inflation. Printing new money will cause each succeeding monetary specie to be less valuable than the previous one. The more money printed, assuming the supply of goods stays the same, the more prices will tend to shoot up.

⁵³Lim, Philippine Macroeconomic Developments: 1970-1993, p. 14.

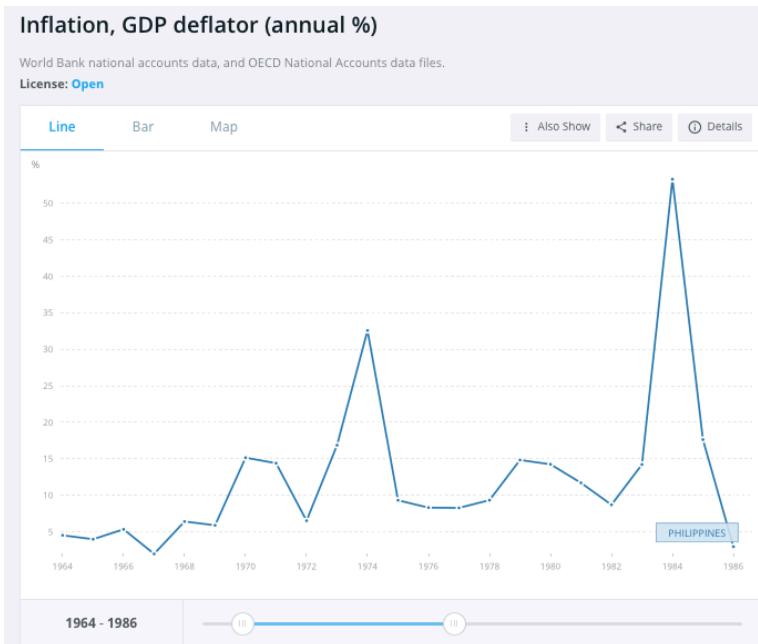


Chart 7: Inflation Rate (GDP Deflator) of the Philippines from 1986-1984. Taken from data.worldbank.com.
<http://data.worldbank.org/indicator/NY.GDP.DEFL.KD.ZG?end=1986&locations=PH&start=1964>

It is seen in Chart 7 the yearly inflation rate the country experienced from 1964-1986. The inflation rates from 1978-1984 were as follows: 9.332, 14.84, 14.25, 11.703, 8.701, 14.222, and 53.336. From 1978-1980, inflation peaked than stabilized at around 14%. Come the next two years however, from 1981-1982, all seemed fine as inflation was finally going down. However, come 1984, inflation managed to spike to such an unbelievable height that was 53.336%, the highest in the country's history. This pushed the central bank to stop printing new money, and as such, caused a crash in income per capita.

The year 1983 was marked with a weak Philippine economy, as is shown by the crash of per capita income in Tables 3 and 4. Its dollar reserves were also low, which made it difficult to pay off its foreign debt. With a weak economy, and with the outcry that happened because of the bailouts, political support at this time was close to zero. The Marcos regime was still running huge deficits in order to finance both its day-to-day operations and the inefficient and bankrupt companies owned by Marcos' cronies. Even when these companies have already proven to be both inefficient and unprofitable, Marcos continued to finance and support them.

What was striking in the loss of the political support came when both the elites of the country were united in their opposition against Marcos. The Catholic Church started the publication of two newspapers aimed at bringing to light truths the government did not want the public to see. On the other hand, the business elite, like members of the Makati Business Club, were actively expressing their dissent in challenging government policies.⁵⁴

What may have caused the persistence of the regime to last for so long was the economic "miracle" that the Filipino people thought happened. Despite there being rampant human rights violations and the corruption involved within the inner circles of the political and business elite, majority of the population did not join the dissenters in their quest to end the

⁵⁴ Overholt, "The Rise and Fall of Ferdinand Marcos," p. 1153.

nightmarish regime. However, an insight from Curaming and Claudio helps answers this, in which they state that:

It appeared for some time that people could bear the loss of their freedom provided their economic needs were met. But when the economic malaise exploded in an economic crisis in 1982/1983, making the economic tailspin and forcing the regime to default in its loan payment to international lenders, it became clear that the beginning of the end of Marcos's regime had arrived.⁵⁵

Although it is in popular media to point the revolution as being borne out of the popular emotional discontent with the regime after seeing the assassination of Senator Ninoy Aquino, it did not cause the political and moral crisis that resulted into the EDSA revolution. Overholt says that “the assassination focused attention on the preexisting crises and precipitated broader public involvement and more explicit political action. Most notably, it drew the business elite and the clergy into the streets.”⁵⁶

Combining both the insights of Overholt and Curaming and Claudio, what can be said about the eventual EDSA march was that the Filipino people were more open to radical change because of both the economic destruction that may have lead families with no food on the table, and the strong emotional response that was triggered from the assassination of Aquino.

Conclusion

The Marcos regime undoubtedly cast long-term damage to Philippine society. Not just economically as was demonstrated so far, but even politically. Even though he campaigned against the ‘Old Society’ and the need to defeat the old parasitic oligarchy, he himself did the exact same thing as they did, the difference being his was on a much grander scale. Patronage politics was rampant before the Marcos regime (apart from Ramon Magsaysay’s term as president), and was even more rampant during his stay as president. Instead of focusing on the livelihood of the Filipino people, what was reflected in his actions was his focus more on his cronies and the amount of wealth that they could pocket off of the productive forces of Philippine society. Marcos and his regime too, became the parasites that fed off of the Filipino.

Perhaps Marcos genuinely tried to help the Philippines become a greater nation. If it were the case, the blindness in his eyes is inconceivable. The disconnect from reality with regard to the actual effects, both of the seen and the unseen, were devastating to the Filipino. The effects of inflationary measures and massive waste and economic inefficiencies that instead of improving the standards of living of the Filipino, in actuality, set it back to more than 10 years, was not the mark of a great society. This ‘New Society’ he clamored for and tried implementing was the biggest failed experiment in Philippine history.

History teaches one the ways of the past in order to better propel oneself to the future. Despite the dark chapter which was the failed experiment of the Marcos regime, the persistence to create a world of free men must not diminish. In the words of Hayek, “we must try again. The guiding principle, that a policy of freedom for the individual is the only truly progressive policy, remains as true today as it was in the nineteenth century.”⁵⁷

⁵⁵ Curaming and Claudio, “A Historicised (Re)Assessment of EDSA ‘People Power’ (1986),” p. 7.

⁵⁶ Overholt, “The Rise and Fall of Ferdinand Marcos,” p. 1156.

⁵⁷ Friedrich Hayek, *The Road to Serfdom*, 1944 (New York, USA: Routledge, 2006): p. 246.

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