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THE CONFLICT OF POLITICAL AND ECONOMIC PRESSURES IN PHILIPPINE ECONOMIC DEVELOPMENT

DISSertation

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PREFACE

The purpose of this study is to examine the National Economic Council of the Philippines as a focal point of the contemporary life of that nation.

The claim is often made that the Republic of the Philippines, by reason of American tutelage, stands as the one nation in the Orient that has successfully established itself as an American-type democracy. The Philippines is confronted today by serious economic problems which may threaten the stability of the nation. From the point of view of purely economic considerations, Philippine national interests would seem to call for one line of policy to cope with these economic problems. Yet, time and again, the Philippine government has been forced by political considerations to follow some other line of policy which was patently undesirable from an economic point of view. The National Economic Council, a body of economic experts, has been organized for the purpose of formulating economic policy and recommending what is economically most desirable for the nation. But the fact that the Council has often acted otherwise than purely economic common sense would dictate indicates that there must be overriding political considerations which must at times prevail. What these political pressures are, and what the factors are that cause these political pressures to prevail, constitute the core of this study.

The study necessitates first, of course, an explanation of the historical background which has given rise to the grave economic problems which confront the Philippine nation. Part I therefore deals
with the economic problem in broad perspective and the consequence of the Spanish rule, of the American rule, of the transitional period of the Commonwealth, and of the conditions inherent in the arrangements under which political independence was attained. Part II deals with the National Economic Council itself, its structure and functions, its legal and political powers, and its activities and policies, all in relation to the nature of the economic problems with which it is primarily concerned. Part II also analyzes the political forces that exercise an influence over the actions of the National Economic Council, explains the reasons for the power of these political forces, and describes in what manner and to what degree these political elements have modified the economic policies of the National Economic Council. Finally, Part III comprises the conclusions regarding the dynamics of Philippine politics and the nature of the inter-relation between economic and political factors in Philippine life.

The writer has based this study primarily on three classes of materials: standard published works for the background, periodical accounts for recent and contemporary events, and interviews and correspondence with personages close to the activities under study. These have all been filtered through the writer's own criteria of judgment--formed through academic training and through the first-hand experience of living in the Philippines--for which he must in the final analysis assume personal responsibility.
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PART I
CHAPTER 1

THE PROBLEM AND OUR APPROACH

In the present age the Far East is both a critical and strategic area. It is a reservoir of practically unlimited natural and human resources and its vast economic potential remains largely undeveloped. The millions of people who inhabit this geographical complex constitute almost one-third of the world's population. The countries which comprise the region are of great diversity and are divided by sharp differences of tradition, religion, culture, circumstance and economic development. The economies range from the industrial, mercantile composite of Japan to the primitive economies of Viet-Nam, Laos and Cambodia, with those of the Philippines, India, Australia and Taiwan in between. Eight of the eleven Asian countries including the Philippines have achieved their independence since 1945.

Considered as a whole, the area reflects with few exceptions mass poverty, economic and political instability and underdevelopment, shortages of investment capital, technicians and educational facilities, deep resentment of Western colonialism, and fear of new exploitation. It is an area seething with a new spirit of nationalism, social unrest, rising aspirations for economic stability and security and a better life for its millions.

In some of the countries a small, landed and wealthy elite asserts a pervading political and economic dominance and influence. Too often ineffectual governments have failed to provide needed national
leadership. Graft and corruption have sometimes simultaneously represented diminished concepts of individual integrity and public morality. Interrelated with these problems throughout the entire region is a widespread fear of communist aggression and infiltration, attributed to objectives of the world center of international communism in Moscow and the Far East ideological center in Peiping.

Most observers, and the people of the area themselves, readily agree that the crucial requirement is the full development of national economies. This is an imperative for the present and future economic well-being of individual Asians, and also as a condition to ensure their present and future national security—and freedom. An illustration of the point is provided by the tiny Southeast Asian Kingdom of Laos. The nation is largely dependent upon foreign assistance for perhaps all its economic development and, even more significant, the cost of supporting its military forces—so as to provide for national security—is borne entirely by the United States. Yet there is a basic interrelationship between national security—in freedom—and national economic development. The primary element, that which must come first and upon which perhaps all else ultimately depends, is effective economic development.

What then are the essential requirements, the requisites, for successful national economic development? As a focal point of the present study and as a possibly useful tool of evaluation, it is postulated that at least the following constitute critical requirements: (A) adequate natural and human resources; (B) an energetic, potentially intelligent, resourceful and progressively inclined people; (C) applicable, effective development planning; (D) an astute,
capable and determined leadership in full control of a strong, centralized political organization; and (E) sufficient outside financial and technical assistance to activate and maintain, during the initial stages, the overall development scheme.

These factors and the trends which have accompanied them, whether or not they constitute positive requisites for successful economic development, vitally concern the Asian nations alike as well as the entire international community. This arises because of the predominately political nature of the factors involved, because of the indications that the present day global struggle between totalitarian and free nations increasingly focuses upon the Far East as a critical area, and because economic development in the mid-Twentieth Century not only constitutes the principal aspiration of the Asian people but may well be the key to the ideological struggle itself.

More specifically, our present concern is a special area of the total problem. On a continent where many nations are only now entering the stage of independence and self-government, there are few that possess an experienced and effective political organization. We must then focus on this question: What are the requisite conditions for a successful program of economic development in an underdeveloped Asian nation that does not have a strong, centralized political organization?

For some while, the attention of political scientists has been largely directed toward nations such as the Soviet Union, Communist China, India and the United States. Their common characteristic is that they have a strong, determined leadership and a political organization able to accomplish, at least in a substantial sense, the
programs of the leadership--be they political, economic or social. The
Soviet dictatorship has had political leaders such as Stalin and
Khruschev utilizing the Communist Party organization; the United States
has had Franklin D. Roosevelt utilizing the Democratic Party; and
India has had Nehru, who has utilized the Congress party organization
and other elements in Indian life to institute comparatively sweeping
economic and social reforms. However, in the young Republic of the
Philippines--as a particular case to which one may point--not even the
widely supported, immensely popular President Ramon Magsaysay possessed
either sufficient political authority or a highly centralized political
organization sufficiently strong to institute effective land reform
and economic development, although he was both the titular head and
uncontested leader of the controlling Nacionalista party. 7

Because of this contrast, a case study will be conducted of the
underlying, significant political forces in a nation such as the
Republic of the Philippines, which has many of the requisites for
success but has nevertheless--as will be shown--failed to accomplish
important progress in its program for broad economic development.
Since the causes of this failure may well be varied and many, the
interrelated aspects of the total situation will be carefully analyzed.

The Republic of the Philippines which came into being under
American tutelage is often regarded as the best exhibit of Western
democracy existing today in the Orient. The mythology of American
democracy is clearly visible in the public and private attitudes
and official ideology of the Philippine people. An examination of
Philippine life, however, unmistakably reveals that the stability
and future prospects of the young republic are precarious indeed and may well be in serious doubt—largely as a result of significant, far-reaching economic problems which have long existed and presently are not being solved.

The context of these problems and the specific nature of the difficulty can be stated succinctly. The nation does not produce enough food for its people. It has practically no manufactures. It buys food, raw materials and finished products from abroad. It does not have sufficient capital to develop an expanded industrial base. It does not sell enough products to pay for necessary imports, and total efforts to date have been unsuccessful in arresting the spiral of inflation and unemployment. Hence the national economy remains underdeveloped and government operations continue at a deficit until bankruptcy threatens.

Yet neither the vicious cycle nor this undesirable end result is inevitable. The Philippine area is an agriculturally productive land, relatively sparsely populated, and rich in natural resources. The Filipino people are capable, intelligent, resourceful and patriotic. They have a government which is, at least potentially, democratic and which should be capable of functioning on behalf of the welfare of the people. Further, relatively generous American financial aid and technical assistance have provided the nation an exceptional opportunity to harness its resources and effectively employ indigenous effort in broad economic development.

These potentials are even more puzzling as the nation's economic situation is examined more closely. The multiple and complex facets of
the Republic's economy—frequently intertwined with unresolved political, social and economic disparities—have been studied in detail and objectively analyzed during, particularly, the last two decades by an official agency of the Philippine government, the National Economic Council. The Council is staffed and led by some of the most dedicated and competent individuals in Philippine life. This body has the capability, but not always the necessary authority, required for developing a clear program of action to successfully deal with the central problems involved. Indeed, it has instituted applicable, requisite plans for a continuing, comprehensive national development program. Yet the Council's plans have never been fully implemented nor has the government given serious consideration to the fulfillment of the various recommendations which have been developed.

Why has this disastrous impasse and paralysis been reached in Philippine politics? Why has the Philippine government, with a vast potential at its disposal now and in the future, failed to deal effectively with the vital tasks before it? What are the significant elements of this young nation that explain the situation? These central questions constitute the core of the present study, and our effort to find an answer shall take us into several highly important areas of Philippine life and heritage.

First, there are the geographical, social and historical factors which are deeply influential and must be seriously analyzed. We shall examine the historical heritage, particularly that which has resulted from the long years of Spanish rule. Obviously we must also give serious attention to the half century of relationships between the Philippines
and the United States and we shall examine the continuing economic and political relationships of these two countries.

Second, we must examine the broad political forces that operate in the domestic life of the Philippines today. We are particularly interested in the nature of the political elite and its relationships with the economic leaders and the masses of Filipino citizens. In this connection it will be important to examine the hypotheses presented in some special situations in this field which often reveal a sharp contrast between ideology and reality in Philippine life. For example, it is suggested that the national mythology of the Philippine people is dominated by democratic attitudes and aspirations, but the actual functioning of the political system substantially conflicts with these attitudes and indeed is clearly inconsistent with the premises of an effective democratic system. To test this hypothesis we shall examine the position and operating methods of the political and economic elite. We shall study the role of the Philippine masses in the political processes of the country, and we shall try to determine how the changing role of the Filipino masses affects these political processes.

Unquestionably, some feel that the Philippine government and its activities reflect persistent influences of powerful vested interests in direct opposition to the national interests. Others, while acknowledging that this assessment is essentially correct, nevertheless, characterize Philippine democracy as being in a healthy state of ferment and discernibly moving toward full maturity.

Third, there are a whole series of important factors within the
national bureaucracy which determine the efficiency and final results
obtained by agencies such as the National Economic Council. In order
to understand these factors we shall examine the origins of the
National Economic Council, its path of development, its mode of
operations, and its problems and accomplishments over the quarter
century of its existence. The confluence of this analysis and the
inquiry into the conflicts in political, social and economic forces
in Philippine life should provide insight into why these factors
have hamstrung the policies of the Council and have precluded effec-
tive governmental action in developing the nation's economy.

The forces and factors which we are studying come into operation
within Philippine life around a variety of different focal points
depending upon the nature of particular problems and the instrumentali-
ties available for solving these problems. For example, there are
different approaches to the tasks of dealing with the Philippine need
for capital investment and for systematic and efficient use of the
nation's resources. These are, of course, basic problems for any
underdeveloped nation, particularly those hoping to find solutions
compatible to Western democracy. What kinds of internal and external
relationships should be created and maintained? What methods should
be used to insure the stability and expansion of a productive economy
while caring for the immediate needs of the people? If, in a fundamental
sense, a stable and productive economy consists of a national capacity
and capability to provide essentially full employment and an adequate
and increasing standard of living for all, then what procedures and
programs must be devised and implemented by the government for the
utilization of all its resources—natural, human and entrepreneurial?

The ostensible approach of Philippine government policy has been to encourage maximum diversification and increased production of raw materials so as to assure a practical self-sufficiency and to eliminate the undesirable features of a "raw material" type economy by creating an industrial base to provide for consumer requirements and for export. As a practical matter, the government recognizes that under any circumstance an absolute self-sufficiency is not desired or likely to be attained. However, it insists that a productive capacity which provides a surplus over requirements is necessary to pay for the import of items which cannot be produced, and for accumulating cash reserves beyond expenditures. The government quite clearly recognizes that domestic and foreign capital in increasing amounts will have to be channeled into the national development program. Even beyond this essential requirement, however, extensive internal austerity measures must be invoked and maintained to reduce both the level and cost of national consumption in order that accumulated resources can be compounded and directed into the development program.

Still, each of the Philippine administrations since 1946 has been criticized for its apparent inability to devise and accomplish consistent programs for development of the national economy. One interpretation of the reasons for this state of affairs places the problem in a socio-political context. The advocates of this hypothesis argue that the failure of various administrations in this regard is not solely attributable to the lack of ability or patriotism on the part of Filipino political leaders. The situation, it is said, cannot be
remedied merely by ejecting "bad men" from office and putting in "good men"; or by tinkering with the Constitution, for the constitutional and legal powers of the chief executive are perhaps as great as those of his counterparts in other constitutional democracies.

The underlying causes of the problem, they believe, are political and social rather than constitutional or personal in character. The situation is explained by the nature of the distribution of political power in the Philippines, and is traceable, in the final analysis, to the character and network of political loyalties of the Philippine electorate. We shall examine this hypothesis in some detail in this study.

Another aspect of this critical problem concerns the specific relationships of the Philippine Republic to the United States. Two principal alternatives have been proposed, one emphasizing continued reliance upon United States financial assistance and increased dependence upon the sale of principal Philippine exports in the American market; and the second emphasizing the effort to obtain eventually "free trade" through expansion of the nation's productivity, utilizing mostly local raw materials, and the acquisition of new foreign markets.

The first of these alternatives, which relies heavily on status-quo methods and objectives, appears to inhibit the long range development of the Philippine economy, since it promotes some key features implicit in a colonial economy and precludes full economic independence. Also, while such a policy seems justifiable during transitional stages in economic development, it may well prove inconsistent with Philippine political independence. The early opposition of the Filipino statesman,
Juan Sumulong, to the immediate grant of Philippine independence, expounded during the period of American rule, was predicated upon his belief in the inseparability of political and economic independence. He argued convincingly that the grant of one without the other would be meaningless and could not possibly endure.

Until quite recently the *status-quo* alternative has dominated Philippine economic development policy and the adherents of this view have been greatly in the majority.

Opposed to the *status-quo* view is the concept that the Republic itself can fully develop its own economy and that new markets for Philippine products can be found. It is claimed that internal austerity and "bootstrap" policies will provide an increased volume of Filipino products for international marketing at competitive prices, thereby achieving economic independence and eventually a developed economy. This policy would welcome trade and loans but not aid; would diversify so as to achieve a balanced agricultural-industrial base, thereby eliminating the "raw materials" type economy now existing; and assure that the fruitful results achieved directly benefit Filipinos and not the Chinese, American, and foreigners now controlling the economy. However, it is not at all clear that this policy alternative would be fully accomplished within the existing political, economic and social framework.

The adherents of the second view, presently far in minority but increasing rapidly, have been led by Senator Claro M. Recto.

*On October 2, 1960, Senator Recto died while on a foreign assignment for the Philippine government.*
The increasing influence of the economic-independence concept in present Philippine economic development policy can be seen in the trend of National Economic Council plans and programs which reflect "Filipino First" principles and also in the requirement that Central Bank dollar allocations be issued on the same basis.

It is to be noted that within the broad and partially generalized framework of each of the two policy alternatives indicated, the respective adherents display sharp differences of opinion concerning the so-called free enterprise versus state-controlled approach to Philippine economic development. Also, since the issue of nationalism, chiefly reflected in the "Filipino First" movement, has not proved a political liability, some opportunistic Filipino adherents of the status-quo policy have evidently tried to develop a "maverick" concept which preserves the basis dogma almost intact while clothed in the respectability presently enjoyed by the new surge of nationalism. Some portions of Ambassador Carlos P. Romulo's several speeches delivered before Filipino audiences during his early 1960 governmental consultations, have been interpreted in this manner.

The choices involved in choosing between these two policy alternatives reflect the forces in play which we shall examine and analyze in this study. We shall seek the roots of these forces in the historical, economic and sociological context of modern Philippine society; we shall attempt to understand the interaction of these
forces in the political processes that have influenced the planning and recommendations of the National Economic Council, the results of the Council's work and its actual fulfillment, and in the overall development of the Philippine economy.
CHAPTER 2

GEOGRAPHICAL, SOCIOLOGICAL, HUMAN AND OTHER FACTORS

The Republic of the Philippines, 115,600 square miles in area and some 20,000 square miles larger than Great Britain and only slightly smaller than Japan, is favored by a relatively large expanse of territory in proportion to its population, which numbers approximately 27 million. The nation has 31 exceptional harbors, and Manila Bay, which is probably the finest in the Far East, could support a greatly expanded commerce. There exist in the Islands exceptionally large deposits of valuable minerals. Over 60,000 square miles of forests contain valuable hard woods and commercial timber. Fish and marine products abound in the waters surrounding the Islands. The soil, essentially, is fertile and the mean annual temperature for the whole archipelago is $81.4^\circ$, and with irrigation during the dry season, two crops may be harvested during the year. The Philippines possess a relatively greater abundance of natural resources than many other nations of the international community, but something more appears to be required for a people to attain a reasonable degree of prosperity and well-being. Improvement of the individual's lot, in great measure, is predicated upon a nation's success in developing fully its resources. This in turn directly relates to certain characteristics of the people.

Some facets of the Filipino character have been similarly described by both Filipinos and foreigners. Jose Rizal was perhaps the first to point out the virility of the Filipino race, for nowhere has it
tended to die out as a result of contact with other races, and it has not only survived conquests, epidemics, and wars but has steadily increased. "The Filipino," Rizal stated, "embraces civilization and thrives in every clime in contact with every people."  Dr. David P. Barrows, a prominent university administrator, with long experience in the Philippines, suggested several decades ago that the Filipino has moral as well as physical fortitude, that he meets misfortunes uncomplainingly and sets to work promptly to repair any damage done. The courage and loyalty of the Filipino, particularly during the Japanese occupation of World War II, have received high commendation from officers of the United States Armed Forces.  Dr. Barrows further describes the Filipino as being not easily discouraged and willing to try any new kind of work which he thinks interesting or profitable.

Rizal directed attention to the Spanish effort to keep the Filipino "in holy ignorance," but "there exist writers, free thinkers, historians, philosophers, chemists, physicians, artists and jurists."  Dr. T. H. Pardo de Tavera cites the rapid development of the Spanish and English languages subsequent to the withdrawal of Spanish sovereignty from the Philippines as evidence of the mental adaptability of the Filipino.  Dr. Barrows stated that the Filipino has a great aptitude for tools and machinery, and an insatiable ambition to obtain an education. "He is, in fact, one of the most teachable of persons; and it is astonishing how quickly he can posses himself of the more obvious aspects of a problem."

Nowthwithstanding various conflicting incursions made in Filipino
customs by foreign cultural patterns—sometimes characterized by a Ford Thunderbird bogged down alongside a carabao and cart on a maddy barrio road during the rainy season; a television aerial protruding above a nipa hut; a barrio youngster, completely occupied in play and replete with all required "Roy Rogers" cowboy equipment, except that he is without trousers—it appears that the Filipinos posses those fundamental requisites which characterize progressive people.

The important consideration is that although Philippine political independence was almost 400 years in the making, it was achieved in 1946 and for the present appears fully secure. However, full economic independence is yet to be achieved. Philippine history reveals a persistent concern of the Spaniards, the Americans, and particularly since 1946, the Filipinos, with the so far insoluble problem of developing national resources and establishing economic stability. The concern has not always been altruistic, particularly during the Spanish regime, but increasingly through the years the goal of government has been that the population may realize improved living conditions and well-being, and the benefits of increased national economic security. It is significant that, on the whole, the Philippine approach toward resolving the problem has been political, and not exclusively economic. This is not to say that economic theory is inapplicable, but particularly, because of a highly centralized government in the Philippines and because economic development is national in scope, the full operation of political processes is required. In approaching the problem of the economic crisis in the Philippines, some authorities have argued
that the crux of the matter is almost exclusively political rather than
economic. Professor Pedro Abelarde, Dean of Iloilo College, University
of the Philippines, has stated that the conflicting economic theories
of the National Economic Council and the Philippine Government have
contributed greatly to the precarious national economic position.
Dr. Abelarde argues that the Philippines does not need "more economic
development programs because we have enough of these, but leaders who
are upright and with vision whose competence and dedication could bring
life to economic programs, providing meaning, vitality and a sense of

direction."

Except in 1952 during the Quirino administration, the Philippines
has operated on an unbalanced budget during its independent existence.
However, the deficit has never been as great as the $74 million accrued
in 1958. The balance of foreign trade has been unfavorable since
liberation, and in 1959 the deficit rose an estimated $190,725,026.
Although during the preceding decade the Philippine total annual gross
product increased five times in volume, value increased only four times.
As of December 1958 international reserves had decreased to $129.07
million. This reserve balance is quite low in relation to merchandise
imports since a larger amount ordinarily is required to meet even two
months' imports. An encouraging but moderate increase in reserves was
realized at the end of 1959, however. The cost of living price index
for lower income families in Manila is reported by the Bureau of Census
and Statistics to have reached 327.8 per cent as of December 1958 (1941
base - one hundred per cent); and the purchasing power of the peso has
decayed to only thirty centavos. Expressed in percentage terms,
purchasing power has diminished some 70 per cent. The public debt in
June, 1958 was $1,926.7 million which was equivalent to $963.35 million
at the official exchange rate of 2 to 1. The Philippine per capita
debt burden is about $100.

There are over two million Filipinos unemployed in the rapidly
expanding work force. It is estimated that a quarter million persons
are being added yearly and that there are more unemployed and under-
employed than ever in the history of the country. This is in spite of
over one thousand new industries supposedly established under govern-
mental policies for increased industrialization and development. There
are many complaints and grievances concerning improper, inadequate and
unequal allocation of dollars, rigidly controlled by the agencies of
the national government to foster indigenous production and development
and reduce imports. In short, it is evident that the Philippine has
not attained a meaningful degree of economic stability. Although it
does not follow that Philippine objectives for national economic develop-
ment cannot be realized because of present economic instability, it is
evident that the existence of these added pressures and inherent difficul-
ties, coupled with simultaneous problems in planning and implementing
national development programs, at least limits the early possibility
of success and may afford the probability of only a dubious future.

Of many paradoxes existing in the Philippine quest for financial
stability, economic security and broad national development, one
inconsistency seems to tower above all others. In a country unbeliev-
ableness rich in natural resources and populated by an imaginative, serious
and capable people, essential requirements of food, shelter and clothing
for the greater part of the nation have not been adequately provided. However, some hope is offered by the knowledge that the Philippine government is aware of the magnitude of the problem involved and, although it has been unsuccessful during its independent existence to accomplish stated economic development goals, some relative achievements and unsteady progress must be entered on the record. The Republic has repaired much of the widespread destruction of World War II; it has placed much new acreage under cultivation; the volume of foreign trade has been more than doubled and the national output of mineral wealth has been stepped up. But, as Miguel Cuaderno, Governor of the Central Bank, has stated, "our industrial and economic development program is not only bogged down in many places, it is even in danger of paralysis because of the serious lack of dollars". Inflation has tended to reduce the value of the funds available, and additional foreign assistance and investments simply are not available in sufficient quantity.

To a great extent the answer to the economic crisis is to be found in the nation's history, especially in the defective economic system inherited from the past. The Spanish era in the Philippines, extending over some 300 years, constitutes an appropriate beginning point for our analysis.
CHAPTER 3
SPANISH POLICY FOR THE PHILIPPINES

A. The Political Context

Spain came to the Philippines two generations after her Mexican conquest, deeply influenced by various political and economic experiences encountered in the New Spain colonial undertaking. The Philippine colonization was much more than a mere repetition of the Mexican experiment; it was characterized by features all its own. The Spaniards were determined to effect a peaceful occupation of the archipelago and also to institute drastic religious, political and economic changes in Philippine society.

The ambitious plan was only partially successful, principally because the Filipino people and Philippine conditions differed greatly from those of New Spain and because Spain was able to attract only a small number of her own people to the new oriental colony. The Filipinos proved resilient and adaptable, and since some indigenous leaders were permitted by the Spanish authorities to function as intermediaries in the more widely dispersed villages, it was sometimes possible to mitigate certain of the more extreme Spanish innovations which were intended to alter prevailing cultural, ecological and economic patterns. It was in this relatively narrow but very important area of colonial affairs that moderate Filipino creativeness and influence was possible, in reacting to certain of the Spanish innovations.

The most important of the gradual evolutionary changes effected by the Spaniards in the Philippines were largely accomplished not by
Spanish military force by a small number of Catholic missionaries scattered throughout the archipelago, who clearly demonstrated that the strongest Spanish influence was Catholicism. The enthusiastic response of the Filipinos and the unique emotional addition to the spiritual content supplied by them constitute an important feature of the Spanish colonial rule. The sometimes discernable ecclesiastical notion of moderation and humanitarianism in the exercise of power by lay officials; the vast landholdings of the Church, and so-called "Friar Lands" of more recent significance; the influence of the Church upon indigenous customs and cultural patterns, particularly in rural areas resulting from emphasis upon certain crops and agricultural methods as well as the plantation type economy fostered by the Catholic clergy—all indicated unique features of the Spanish colonial impact on the present-day development of Philippine economic policy.

Many of the shortcomings of the almost three centuries of Spanish tutelage of the Filipinos have already been isolated and studied in some depth by historians. It has been suggested that an inadequate base for self-government existed, that development of the abundant Philippine natural resources was never undertaken, and that in many respects conditions were unfavorable for the rapid development of democratic institutions. However, there is some tendency to underestimate a significant and partially counterbalancing aspect of the Spanish colonial era in the Philippines. The three centuries of Spanish rule did provide the Filipinos with a familiarity with the forms of western government possessed by very few of the Asian
nations. It provided a few Filipinos, the *principalia* of each of the municipalities in the Islands, with a certain measure of practical experience in the operation of modern occidental political institutions. The long period of Spanish rule accustomed the Filipino population to western forms of government. Perhaps most important, it gave rise to slowly mounting Filipino frustrations and discontent which at a subsequent date provided the basis for a national revolution and the widespread determination for independence.

The Spanish colonial era in the Philippines has been succinctly characterized as follows:

It failed to accomplish even the primary ends of good government - the preservation of peace and order, and even the administration of justice; nor can there be any doubt that it proved an engine of oppression and exploitation of the Filipinos...It seemed almost as though the great trust of government had been perverted into a mere instrument for the benefit of the governing class at the expense of their subjects. The revenues were swallowed up by salaries, most of which were unnecessary. The very category of public works is only another designation for salaries. There were in reality no public works.

The most prominent defects of the government were:
(1) The boundless and autocratic powers of the governor-general; (2) the centralization of all governmental functions in Manila; (3) the absence of representative institutions in which the Filipinos might make their needs and desires known; (4) a pernicious system of taxation; (5) a plethora of officials who lived on the country and by their very number obstructed, like a circumlocution office, the public business they professed to transact; (6) division of minor responsibilities through the establishment of rival boards and offices; (7) the costliness of the system and the corruption it bred; (8) confusion between the functions of the state and the functions of the Church and of the religious orders.

Undoubtedly adequate justification exists for the view that the Spanish colonial administration in the Philippines was in practice
ineffective, corrupt and demoralizing. This assessment, however, simplifies several complex considerations involved and tends to obscure some potentially constructive aspects of the Spanish colonial rule. What political factors existed which virtually assured that the functioning of the Spanish colonial bureaucracy in the Philippines would be ineffective?

First, one of the most striking features of Spanish imperialism, perhaps nowhere pursued with more vigor than in the Philippines, was the inseparable union of Church and State. Both retained considerable autonomy but the two institutions were inextricably interdependent. The Holy See granted Spanish monarchs sweeping powers over church revenues and in the selection of ecclesiastical personnel; in return the Crown supervised the conversion of colonial populations to Christianity. The common set of objectives endured, and conflict arose only over the choice of methods. Spanish imperialism then was not only theocratic, it was also profoundly bureaucratic.

At the very top, bureaucratic authority was highly centralized in the King and the royal Council of the Indies. The Council, by royal delegation of authority, exercised supreme jurisdiction over all phases of Philippine colonial life. There were four administrative hierarchies, namely, the viceroy and governors, the Audiencias, the ecclesiastics, and the fiscal authorities. Each level exercised certain autonomous powers although nominal authority was centralized in the viceroy and governors. The endless series of clashes between the various levels, which were both legendary and legionary, were motivated initially by the Crown who deliberately played one hierarchy against another. The
great distance from Spain to the Philippines and extraordinarily slow communications served to accentuate the abiding distrust by the Crown of its Philippine officials. As a consequence, the "I obey but do not execute" formula arose in the bureaucracy. By this device enforcement of legislation could be postponed until fresh instructions arrived from Spain proper or the Viceroy of New Spain. On the whole, the administrative channels served as sources of information for central authorities of particular Philippine conditions, but they also enabled local bureaucrats to influence the formulation of Spanish colonial policy.

Second, although authority was in practice multiple, the bureaucratic system did provide at least some balance between centripetal authority and centrifugal flexibility. The bureaucracy was slow-moving and not particularly efficient. Still, it successfully accomplished one of the three main Spanish objectives. These were (1) to share in the lucrative oriental spice trade which previously had been a Portuguese monopoly, (2) to establish direct contacts with China and Japan in order to pave the way for their conversion to Christianity, and (3) to Christianize the Filipinos. Dutch intervention deflated the Spanish dream of colonizing the Spice Islands (Indonesia) and monopolizing the spice trade, and the "spiritual conquest" of China and Japan was an illusion. Consequently, only the third objective of Spanish imperial policy was realized.

Finally, to balance the evaluation, recognition should be accorded the Spanish accomplishment of preserving her Philippine possession for over three centuries without significant dependence upon military coercion, and her notable efforts to protect the indigenous population.
The Spanish bureaucracy and the small number of Filipinos who were permitted to function as petty officials may have failed to maintain effective governmental standards, but constantly before them were the precepts and laws of both Church and State. History provides some support for the thesis that Aguinaldo, Mabini, Bonifacio and other Filipino revolutionary heroes, in revolting against Spain, were actually fighting for the political heritage of the West, and that the uprisings constituted evidence that although Spain had not granted liberty in the Philippines she unwittingly had taught the need for it there.

There was another important lesson here, however. Individual civil liberties and the potentials for national independence, inherent in western political organization, are practically sterile without the attainment of a reasonable degree of individual economic well-being. The long historical record of the intense Filipino nationalistic ferment indicates that the overriding indigenous concern has been at least as much for the effective development of the economy, with the expected resultant of improved individual security and well-being, as for the elimination of colonial tutelage.

B. Early Economic Factors and Policies

For almost half a century after Magellan's expedition in 1521, Spain made no serious attempt to colonize the Philippines or subject the Islands to complete Spanish rule. Then, in 1565, Don Miguel de Legaspi, a Spanish government official who had distinguished himself as a Crown representative in Mexico, imposed, on behalf of Spain, formal possession of the Filipinas Islas (Philippines). Spain soon began receiving cargoes of the rich "spices" of the Orient. It was primarily
for this that the earlier expeditions of conquest by Magellan, Saavedra, Villalobos, and others, had been undertaken.

By 1570 the Spanish conquest had been extended north to Manila on the northernmost island of Luzon. Records indicate that at the time an increasing Japanese trade existed, and while the flourishing trade came to an abrupt end early in the seventeenth century after the Dutch occupied Formosa, the Japanese maintained a settlement in northern Luzon until it was destroyed by the Spaniards in 1582.

The Chinese came to the Philippines originally to make their fortunes and return to China. However, the Spaniards found trade with China so profitable that the Chinese, who in great measure controlled this trade, were encouraged to settle as merchants and artisans. Moreover, the relative efficiency and the low cost of Chinese coolie labor were early recognized by the Spaniards and it appears to have been their desire to encourage the immigration of Chinese laborers. Continued residence of the Chinese eventually resulted in considerable inter-marriage between Chinese and Filipinos. However, the constant tendency of the Chinese coolie to develop into a merchant or landowner created a serious challenge to the Spanish policy of monopolizing commerce and restricting land ownership. The circumstance contributed to strained relations between the Spaniards and Filipinos on one side, and the resident Chinese on the other. The problem of the Chinese alien minority in Philippine economic development will be more fully considered below,* but it appears relevent to note that the Chinese were a significant element in the Philippine economy from the very beginning.

*See Chapter 7, infra.
In 1762, Spain, as an ally of France in the Seven Years' War with England, was defeated in a British attack on Manila. The British also overran southern Luzon and the Visayas. The British victory however was shortlived, since termination of the war resulted in British withdrawal from the Philippines. An important result of the British occupation was the awakening of merchants of other countries to the possibilities of profitable trade with the Islands. Previously, the Spaniards had maintained a monopoly of all trade between the Philippines and Europe in conformity with the prevailing concept of the use of colonial possessions. It evidently was the desire of the Spaniards to make Manila a great trading center to which they would gather, in the interest of Spanish merchants, as much of the oriental trade as they found it possible to obtain. During the period of British occupation a considerable number of foreign merchants established themselves in Manila.

It was not until 1837 that the port of Manila was opened to foreign trade. This action, and the subsequent opening of other ports to foreign trade, gave great impulse to economic development. The Spaniards, little inclined to engage in agriculture, left the land largely in the hands of the Filipinos, some of whom acquired relatively great wealth and whose family prestige and influence have increased and continued until the present.

Agricultural Policy

It is significant that the Spanish conquistadors who extended the empire of Spain over almost all of America from Mexico south, and over the Philippines, had no serious interest in agriculture. The expeditions to the Philippines were undertaken for the sake of adventure.
and glory, for the honor of Spain, for advancement of the Church and for personal profit. Likewise, those Spaniards who successively followed during the next three centuries displayed similar objections to tilling the soil, preferring instead to engage in easier, more dignified pursuits. The fortunes which could have been made through large-scale farming were bypassed for swifter and easier economic gains.

Some evidence tends to corroborate the view that the island of Luzon was originally chosen by the Spaniards as the seat of Philippine government because of its comparatively greater abundance of food. The region around Manila—particularly Pampanga in south central Luzon—was described as extremely fertile and the main source of rice. The greater agricultural potential of the Visayas and Mindanao, although even today undeveloped, appears to have been completely undetected. Also, other evidences affirmatively indicate that the Filipinos were at the time of Spanish discovery and settlement essentially agriculturally self-sufficient. The historic reasons for the gradual diminution and eventual loss of this productive capability deserves careful attention because possible alternatives and guides may be deduced which have applicability to present-day Philippine agro-industrial development policies.

The Spanish government endeavored to encourage and extend agriculture in the Islands principally through the Laws of the Indies, applicable to all Spanish overseas colonies, and by royal decrees specifically for the Philippines. However, these laws, like many other apparently well-intentioned Spanish colonial laws, were frequently ignored and unenforced.
However, it was urged that the Filipinos be taught European methods of farming by ordering them to "associate themselves with our farmers by just contracts and division," and that land tracts and plantations be granted on condition that they be cultivated. The Spanish government eventually enacted laws to increase indigenous agricultural production, with penalties for those Filipinos who disobeyed.

Early Industrial Development

Several primitive industries, involving recognizable skills, were successfully conducted by the Filipinos, both prior and subsequent to the arrival of the Spaniards. The Filipino people consisted of more than mere wandering savages, as evidently assumed by some later writers, and this is affirmed by the existence of comparatively advanced indigenous skills. However, considerable improvement was achieved under Spanish occupation and Filipino industrial development, though quite basic, continued to expand until the end of the sixteenth century. It compared quite favorably with that of several contemporaneous European countries; organized village life had been developed and permanent settlements developed under local, if not national, government, and the people were reasonably prosperous. The existence by the sixteenth century of various thriving industries, using a large portion of the Filipino people all over the archipelago, and the substantial export trade built up with neighboring countries, support the view that a relatively high degree of industrialization had been attained prior to the arrival of the Spaniards.

Some of the early Spanish policies apparently contributed to a decline in the existing level of Philippine industrialization, and
before a century of Spanish occupation had elapsed the Filipinos had
very largely abandoned many of the industries in which they had once
attained a high degree of skill and which had provided relative pros-
perity. The radical changes were described by Nicholas Ramos, a
Filipino chief and governor of a Cubao village, as follows:

...before the coming of the Spaniards, all the natives
lived in their villages, applying themselves to the
sowing of their crops and the care of their vineyards,
and to the pressing of wine; others planting cotton,
of raising poultry and swine, so that all were at work;
moreover, the chiefs were obeyed and respected, and the
entire country well provided for. But all this has
disappeared since the coming of the Spaniards.

One of the principal reasons for the industrial decadence was the
continued conflicts in which the Spaniards engaged with outside enemies
following the conquest of the Philippines, and for which they used
Filipino soldiers and sailors in large numbers. Spanish expeditions
were repeatedly sent against the Portuguese and the Dutch in the
regions to the south and southwest of the Philippines, to uphold the
honor of Spain and to try to extend its empire. On such military
expeditions, thousands of native archers and rowers were used and many
presumably never returned to their homes.

To the losses of men resulting from these military activities of
the Spaniards overseas must be added even greater losses suffered at
home through insurrections and the consequent punishment inflicted upon
those suspected of having participated. For, while the original occu-
pation of the Philippines by Legaspi was accomplished without very great
opposition or bloodshed, the ensuing oppression and requisition of men
and supplies by the conquerors aroused increasing resistance on the
part of the Filipinos, which was sternly suppressed by the Spaniards. Those regions in which expert sailors and oarsmen were found in large numbers suffered most, and it was reported that the number of families in some areas was reduced in a little more than a half century from fifty thousand to fourteen thousand.

Second, great numbers of Filipinos were either killed or taken prisoner in the attacks by the pirates from the south. Although losses were greatest among those engaged in shipbuilding, people in other walks of life were similarly affected. The increasing fury and number of Moro raids, reportedly occurring each five to ten years, and periodically continuing throughout almost three centuries, were probably due to the increasing defenselessness of the Christianized Filipinos, who were forced to depend largely upon the Spanish government troops to repel attackers, and perhaps even more to resentment of the Moros toward their group members who were serving in the armies of their sworn foes, the Spaniards. So daring were the incursions of the southern raiders that even the Walled City of Manila was eventually devastated.

Third, the construction of ships in very large numbers and at a forced pace by the Spaniards was disastrous to Filipino industries. Not only did many of the laborers die, but huge numbers were taken away from their normal activities for long periods of time to bring in the lumber required by the shipyards. To bring in the masts for a single galleon, a Spanish provincial governor once said, required the services of six thousand natives for three months to drag them some twenty miles, and during this time the workers were required to provide their own food or starve.
Fourth, the Spaniards' abuse of power had an inevitable effect upon the morale of the Filipinos. Such abuses included the selling of natives by one land-grant holder to another, flogging resulting sometimes in death, overwork combined with starvation, enslavement and even execution as a punishment for non-payment of taxes. These abuses frequently led the prouder spirits among the Filipinos to escape oppression by taking flight to the mountains.

And finally, the people were advised by the friars themselves to neglect their industries, in view of the fact that material wealth was promptly seized by the conquerors. For years following Legaspi's death, the clergy attempted, in the interests of their native flock to mitigate the brutalities of the Spanish officials, but with little success. It is a sad commentary on the hopelessness of the Filipino plight that the only remedy that the good fathers finally suggested was that the Filipinos stop producing wealth since it was certain that it would be confiscated.

These causes, in the Filipino view, resulted in the sharp decline in the seventeenth century of the Filipino civilization which had risen and flourished in the centuries before the arrival of the Spaniards. According to King Philip II himself, the population of the Philippines had, by a decade after Legaspi's death, been reduced by more than one-third. In their haste to capitalize on the wealth and resources of the Islands, the short-sighted Spanish conquerors unduly delayed, perhaps for centuries, the possible emergence of a developed Philippine economy. They not only turned a primitively prosperous country into a veritable poorhouse, but they completely undid Legaspi's earlier
accomplishment of winning the cooperation and friendliness of the Filipinos.

Commerce

Several centuries before the Spanish discovery the Filipinos were in regular commercial intercourse with the neighboring countries of China, Japan, Borneo, and others. Chao Ju-Kua, a Chinese geographer of the Thirteenth Century, in addition to describing the conditions under which trade was conducted, alludes to the honesty and integrity of Filipino merchants. His account indicated that foreign traders were not permitted in the Philippine villages, but carried on their business aboard the ships anchored in the harbors. Beyond these exchanges, the Filipino merchants would receive additional Chinese goods on consignment and transport the items to other parts of the Islands for sale. The native traders were frequently unknown to the Chinese visitors, yet mention is made of the scrupulous manner in which the Filipinos always paid for the consignments.

Internal Trade

Complementing the well-established albeit limited Filipino commercial patterns, which existed with the traders of China, Japan, Siam, Borneo, and India, were the inter-island trade relationships. Special mention is made in early Spanish accounts of the many traders from Luzon and the Moro areas of Mindanao who traveled continually throughout the Philippines looking especially for gold and for slaves in exchange for various produce.

In the conduct of both foreign and inter-island trade a form of credit prevailed in selling transactions, with delayed payments guaranteed by bondsmen. These bondsmen were as a rule, usurers, and realized
outrageous profits from such credit deals. It is significant that
today usurious practices in the Philippines remain somewhat common
and, in part, may be explained by the inadequate capital available
and the existence of usury practices for the past four centuries.

Following the Spanish conquest, trade relations between the towns
and villages became secondary in importance to the needs of a more
vital Spanish governmental policy, the Christianization of the Philip-
pines. So important was it considered that Filipinos receive religious
instruction that every native was forbidden to travel anywhere, whether
on business or for other reasons, unless he secured first the permission
of either the resident governor, the mayor, justice or parish priest.
With such permission it was still possible to move from one island to
another or from one province to another, paying the necessary tribute
at the place of destination, but permission could be refused for various
reasons. A native was prohibited from moving from a place where reli-
gious instruction was being given to one where such instruction was not
available, nor could he move about easily or very far within the same
village boundaries. The regulations were apparently so designed that
the authorities always knew where each resident was supposed to be.
It is entirely possible that the authorities were just as much concerned
to see that the native did not escape paying the burdensome taxes by
moving elsewhere as they were to see that he received continuous reli-
gious instruction. Consequently, it is not difficult to comprehend
the difficulties of travel under such conditions, and how the restric-
tions adversely affected the free and orderly flow of indigenous
goods and products between the different parts of the archipelago.
From the outset, the Spaniards appeared vitally interested in fixing prices and regulating trade in order that advantage could not be taken of consumers. This governmental policy was in accord with prevailing governmental practices in Europe, where control by public authorities was the dominant policy toward trade.

The Filipinos were required to sell their products to the Spaniards at just and prevailing prices, which were to be fixed and not subject to change. The Spanish Governor was to fix the price of articles imported from Spain for sale to natives, and these rates, also, were not to be changed.

Maximum prices were established for basic food products, and penalties were provided for failure to comply with the law. Prescribed penalties included confiscation, with final distribution of the item involved between city hospitals, the informant, and the official executing the decree; for repeated offenses, twenty lashes were inflicted on the offending seller. As Spanish control of the Philippines became firm and authority more compelling, a number of traditional occupations were abandoned by the Filipinos. Food production, particularly, decreased with the result that an acute shortage of food existed in Manila.

The Audiencia, which was both a court of justice and advisory body to the governing authorities, attempted to remedy the situation by ordinance. Audiencia fiats not only failed to increased the food supply for Manila; they contributed to the early emergence of a discernable Filipino indifference, if not disrespect, toward governmental policies and laws. As a consequence Spanish laws for the
Filipinos appear to have been seldom enforced effectively for any length of time. This, in turn, may have resulted from the greater concern of Spanish officials for quick personal gain, and therefore reflected relative indifference to indigenous problems and people.

The conquered Filipinos—predominantly illiterate, disorganized politically, and primitive—were unable to resist the new order, or to participate fully in it. The new relationships and procedures established by the Spaniards may well have been more astounding than provocative to the Filipinos. On this basis, indifference to those things which could not be understood may have been more often the case than resistance.

In accordance with European politico-economic theories of the period, various government policies were promulgated between producers and ultimate consumers. The Audiencia of Manila required producers to sell directly to consumers, not to retailers or middlemen. The idea behind the legislation obviously was to eliminate the profit which would accrue to the middlemen, to reduce consumer prices and probably to prevent "cornering." Severe penalties were provided for violation of the law.

Since the majority of the Spanish officials had come to the Philippines with the hope of amassing quick fortunes, it is not surprising that they frequently abused their powers, neglected their duties and engaged in prohibited trade. The salaries of public officials were low, and the temptation to add to the meager amounts received was ever present. The principal concern of Spanish government officials—particularly mayors, enforcement officers and their assistants—was not
the performance of prescribed duties but the increase and expansion
of opportunities for personal enrichment. To this end, they delayed
transmitting tax collections to the central authorities, and thence to
Spain, using the money in the interim to purchase food supplies and
commercial products for resale at a considerable profit. 37

Bishop Salazar, a famous defender of the Filipinos, is reported to
have pointed out that the result of such trading activities of both
government officials and religious orders was a general price increase.
Governmental attempts to curb such practices were largely unsuccessful.
In part, the failure reflected the dependence of the Spanish colonial
government upon the same officials for policy formulation and enforce­
ment, officials who were predominately motivated by personal gain and
much less by the public interest.

In the face of extensive restrictions on commerce and the increasing severity of Spanish colonial authority, the Filipinos developed a
distaste for trade. The disposition essentially prevailed until the
end of the Spanish colonial period, although previously the Filipinos
had built up and maintained a steady flow of commerce within and between
the Islands of the archipelago.

External Trade

The geographical location of the Philippines enabled the Spaniards
to open new trade routes, with Manila as a principal distribution center.
The Asian goods received were partly exchanged for the products of other
Asian countries but a greater amount was sent to New Spain (Mexico). By
buying merchandise from the Oriental traders for transhipment to Mexico,
the Spaniards in the Philippines were able to realize fabulous profits.
Spanish colonial policy and the orientation of Spanish officials in the Philippines therefore remained fully committed to a continuation of this highly satisfactory arrangement. "The capital of our colony, was therefore, a few years after the conquest, an emporium of wealth, which by its commercial activity, gained in those years the title of Pearl of the Orient"; wrote Manuel de Azcarraga y Palmero of the period.

The Filipinos, however, did not profit from this lucrative trade. Actually, the loss was twofold: they did not receive a share of the profits derived, and even more important, unrestricted trading with other countries subjected indigenous industries to competition from virtually the entire Orient.

The prosperity of Manila during the first thirty years after Spanish settlement may possibly be attributed to the existence of a governmental policy which in general permitted unrestricted external commerce. A principal effect of unrestricted trade was the settlement of numerous Orientals and Europeans in Manila. It has been reported that by 1603, there were 25,000 Chinese and a large number of Japanese living in Manila. Other accounts indicated the presence of foreigners from almost all parts of Europe and Asia, so that, "the diversity of the peoples...who are seen in Manila and its environs is the greatest in the world...and hardly is there in the four quarters of the world a Kingdom, province, or nation which has not representatives here, on account of the voyages that are made hither from all directions - east, west, north, and south".

The China-Manila trade developed rapidly and competition with goods imported from China proved disastrous to many Philippine industries,
some of which had already been adversely affected by the internal economic policies of the Spaniards. Cottonweaving, for example, which had once been an important local industry, suffered so severely from the competition with imported Chinese silk and cotton goods that many of the native weavers ceased operating their looms. Spanish government officials conflictingly endeavored to correct the anomaly, not by restricting the importation of competing articles, but by forbidding the Filipinos to wear silks or other clothing imports. The government policy was justified on the basis of testimony from leading Filipino chiefs and from Spanish officials concerning the effect of Chinese importations on the customs of the Filipinos and on the resulting decline in cottonweaving industries.

Whether the government edict forbidding natives to wear imported clothing stimulated indigenous weaving is not clear. The sometimes greater interest of Spanish officials in the profitable transhipment of Chinese goods to New Spain for disposition suggests a negative answer. Today, some 350 years later, the Filipinos are wrestling with a somewhat similar problem. Unable to produce cotton and other fibers in sufficient quantity for its population, the nation has transhipped a sizeable portion of its preponderantly imported raw materials to Japan and elsewhere for weaving and final manufacture. The problem points up the lack of a developed textile industry particularly prior to 1952, and perhaps more important, focuses upon the lack of a developed cotton cultivation program although crop experimentation, limited production and basic agricultural conditions have indicated feasibility.

Clearly some features of the earlier colonial problem are essentially
similar to the problem existing today. One may well ask if some of the basic mistakes of 350 years standing are not being repeated.

Spanish Mercantile Policy

Spanish restrictions on Philippine commerce reflected, in part, the politico-economic system known as mercantilism, which, taking form in the second half of the sixteenth century, dominated the commercial relations of perhaps all European nations until it was eventually broken down some two hundred years later. Customs duties were a part of the system.

The concept of mercantilism no longer has support today and has, for the most part, been discarded. The assumption upon which the system was based as summarized by Professor Frederick A. Ogg was that the strength of a nation is absolutely dependent upon the possession of a large and permanent stock of precious metals. It was a matter of common observation that the precious metals were in universal demand, that they were always acceptable in payment for goods, that wealth was estimated generally in terms of money. It was observed, too, that so long as Spain and Portugal had been in receipt of liberal supplies of gold and silver from the New World these states had been powerful and apparently prosperous. It became the fixed idea of the mercantilists, therefore, to control foreign trade in such a manner that the largest possible quantity of precious metals should be brought into a country, while exportation should be kept at a minimum.

Spain's commercial policy, as it affected the Philippines, was very largely determined in conformity with the prevailing principles of mercantilism.
Hardly had wealth been created in the Philippines by the unlimited commerce of the first years following the conquest when the policy of restriction found strong supporters in the merchants of Cadiz and Seville. These merchants, accustomed to monopolize the trade with Spanish America, looked enviously upon the growing prosperity of Manila, the new center of trade. Commercial activity was the outstanding phenomenon in the story of the Philippines for over two centuries, and had a particular influence upon its whole economic development.

In answer to the opposition of the merchants in Spain, the Spaniards of Manila maintained that the goods which they exported to Spanish America were different from those coming from Spain itself, and therefore there was really no competition between them. It was claimed that the silks and cottons, for example, were so far superior to competing Spanish products, in price and quality, that the natives of New Spain would prefer to buy nothing at all if prevented from buying the goods sent from Manila. As to the products of the Philippines itself, an appeal to justice was made, declaring that, "...it is not usual to prohibit to any province its own trade, and the exportation of its products wherever they may have a sale." In an obvious effort to placate the merchants of Spain, it was inferred that everything sent from Spain to the American colonies was ultimately sold and that additional goods could not be exported without depriving the Spanish people themselves of needed materials.

In later years, it was also charged that it was the foreign merchants in Spain who really opposed the commerce of Manila, because the bulk of the overseas commerce of ports like Cadiz was
controlled by aliens using Spaniards as figureheads in their enterprises.

The continued protests of the merchants in Spain finally led to a prohibition on the shipment from New Spain of Chinese fabrics brought from the Philippines. It was also decreed that the Chinese themselves would have to bring their goods to the Philippines and sell them at wholesale. Furthermore, it was required that any Chinese merchandise shipped from the Philippines to New Spain must be used there or sent on to Spain, and must under no circumstances be transshipped to other Spanish American colonies.

Even these restrictions were not rigidly enforced and evasion was tolerated largely because the very officials in Manila who were charged with enforcing the decrees were themselves personally engaged in the trade with New Spain. When it finally became apparent that the Manila officials would not rigidly enforce the restrictions, a special commissioner was sent to Manila.

...at the end of the (seventeenth) century, there was nothing but poverty and discontent in the city; the white population had hardly increased; commerce, confined within the narrow sphere of periodic voyages to Acapulco, was languishing, without attempting to engage in any other kind of traffic; and poverty was reflected even in the very troops stationed in the city, who did duty unshod and without uniform frequently committing robberies at the Chinese stores.

The Galleon Trade

The galleon trade was a Spanish government monopoly conducted by royal officials, and its profits accrued to the benefit of the government, the officials, including the clergy, and those deserving Spaniards whom the government desired to help or favor.

Rights to participate in each shipping venture were given to the
governor-general, the religious corporations, the political favorites and privileged, and the widows of retired Spaniards. Those who had no capital to invest in merchandise sold their rights to the merchants, and although such transfers were prohibited, the practice continued with impunity. The cargo was usually sold at one hundred per cent or more profit in New Spain.

To finance this trade, nearly all the merchants secured loans from the Obras Pías, funds donated for pious purposes and handled by designated trustees. Since these funds were not publicly accounted for, the trustees apparently could not resist the gambling spirit of the times, nor could they withstand the urging of their powerful friends and fellow trustees, with the result that most funds of the Obras Pías were devoted to the galleon trade at usurious rates. It was apparently an open secret that the trustees personally engaged in the trade, using the funds which were in their care, but in the name of third parties.

The administration of the galleon trade was characterized by frauds in the loading of goods on the part of the government officials, by nepotism, and by favoritism, all tending to demoralize the government service, especially in Manila.

There is a difference of opinion regarding the effect of the Manila-Acapulco trade upon the economic growth of the Philippines. On one hand, those who held that the policy of restriction was necessary to protect the industries of Spain insisted that the policy was beneficial. This group contended that no other economic activity was possible during the early part of Spanish domination, because at that time there were no products of the country which would serve as the basis of a rich
and flourishing commerce, and there was insufficient capital to exploit natural resources. To demonstrate that Manila benefited by acting as a distributing point for Oriental goods, this school cited the later prosperity of Singapore and Hongkong, which, it is alleged, arose from their role as collecting and distributing centers of the East. The very retention of the Philippines, it was claimed, depended upon its ability to support itself in large part, and it was the profits from the galleon trade that tended to make that possible. The galleon trade was profitable for those who engaged in it, and the proceeds helped to some extent to build up capital and trade in the Islands.

On the other hand, the galleon trade hindered Philippine economic progress and changed the attitude of the people toward economic enterprises. At least the following considerations are involved: In the first place, the galleon trade absorbed too much attention on the part of many Spaniards. The second archbishop of the Philippines complained that the Spaniards, except for the religious, were far more concerned with enriching themselves than in assisting in the conversion of the people to Christianity, and that in so doing they totally ignored the welfare of the natives. He also related that the wholesale violation of the royal decrees arose from this insatiable greed, and that everyone had become a merchant and trader, starting with the governor himself. It was much easier and more profitable to devote just three months of the year to the buying and shipping of goods for the Acapulco trade than to work twelve months in other types of activities.

Bourne, the eminent historian who specialized in Spanish colonialism, is reported to have pointed out that the galleon trade, as
restricted, did not prevent the decadence of Spanish industry either in Spain itself or in America. It enriched only a few Spaniards in Manila while, "the rest either lived on the King's pay or in poverty." The wealth acquired by the few was soon dissipated by their sons, and Manila never did become in later Spanish days, as had been envisioned by those who initiated the galleon trade, the great commercial center for Oriental trade. The wealth that could be obtained by a fortunate investment in the vessels plying the Acapulco run encouraged the Spaniards to neglect all other commercial possibilities in the Philippines.

Another unfavorable effect of this trade was that it attracted the Spaniards into Manila from the provinces and thus left the rest of the country without the benefit of whatever good they could have done. In Cebu there were at one time not enough Spaniards to fill available offices, and to encourage Spaniards to reside there a portion of the galleon rights had to be assigned to Cebu residents from the Manila share.

Lastly, it has been claimed that the absence of productive development checked the growth of Philippine population. The Philippine census for 1903 concluded that:

From the early part of the seventeenth century until 1837 the Philippines were in the grasp of a protective monopoly, which not only prevented the productive development of the soil, but kept the Filipinos down to those necessarily restricted numbers which attend a population that raises nothing in excess of its daily needs. If there is one thing to be learned from this and every other study of increase of population in a fertile and tropical country, it is that population increases in exact proportion to agricultural production and export.
The galleon trade, of course, was not the only deterrence to Philippine economic development; there were other influences which resulted in neglect of the country's resources. An important one was the Spanish dislike of industrial activity. As early as 1590 Bishop Salazar complained of this attitude to the King of Spain, saying that no Spaniard in Manila wanted to work at anything except, "trafficking (sic) in merchandise," and that, regardless of their previous station in Spain, here they wanted to be waited on. Almost two centuries later a royal fiscal in Manila, Francisco Leandro de Viana, criticized the same mental slant in his countrymen. He said that they disliked greatly going out into the provinces, because in Manila they were gentlemen and did not have to engage in any livelihood except commerce.

This attitude of the Spaniards has been explained by saying that eight centuries of continuous struggle to drive Moors out of Spain created a chivalrous spirit and a love of risky undertakings; the discovery of the New World furnished a wide sphere of action for that adventurous spirit; and the resulting emigration to the newly discovered lands depopulated their homeland to such an extent that sufficient labor could not be found in Spain for agriculture and for factories. All desired to take the sword and enjoy the spoils of conquest, and except for the missionaries it was only in conquest and exploration that they displayed initiative, fortitude, and persistence.

Roscher, another eminent historian who has specialized in the period, says in explanation of the Spanish attitude toward industrial labor that, "all thrifty activity was regarded as despicable", and that even as late as the end of the eighteenth century attempts were being made by the
authorities to overcome this attitude toward useful labor. This con-
tempt for labor, he says, resulted in a nation top-heavy in nobles,
soldiers, officials, lawyers, clerks, religious representatives, and
students, with their numerous servants and, on the other hand, the
greatest proportion of beggars and vagabonds of any great nation of the
world.

The Filipinos gradually acquired from the Spaniards the same con-
tempt for useful labor, "such is the example that we set to the Indians,
and they imitate us so perfectly that they all desire to live as the
Spaniards, to wear the same costly ornaments, and to be rich, but with-
out labor." Rather than engage in industries or take part in open
commercial competition, the Filipinos, like their Spanish models, soon
preferred to follow a career in the army or navy, the government, the
church, or any of the learned professions, and this attitude has
endured.

On the other hand, the Spanish dislike of industries in general and
their neglect of those of the Philippines proved in some respects a
blessing in disguise. The Filipinos were on the whole saved from the
losses which followed the exploitation of natural resources on a large
scale by organized colonizers. The Spanish system did not encourage
the exploitation of the resources of the Philippines; particularly after
it became apparent that the gold mines were not as rich or as easily
worked as those of Peru or Mexico. Nor did it encourage the working of
the land on a large scale, through slave labor, as was practiced in
other places. In view of conditions elsewhere, the lot of the Filipinos
in the seventeenth and eighteenth centuries could have been much worse.
C. Abandonment of Philippine Politico-Economic Isolation

Toward the close of the eighteenth century there were indications of growing interest in the economic development of the Philippine Islands and the beginning of a more liberal commercial policy.

The great interest in the Philippines displayed by the British when they took Manila, as well as the patriotic stand of Simon de Anda Y Salazar in trying to defend and preserve the Islands for Spain, aroused the attention of the Spanish king. To bind Philippine and Spanish interests more closely together, direct communication was established between the two countries by means of a warship which sailed annually from Cadiz via the Cape of Good Hope, loaded with European goods, and returned loaded not only with products of the Philippines but also with Oriental merchandise, including goods from China and Japan, thereby canceling the ancient prohibition against Spain's trading with the Orient.

The term of office of Spanish Governor Jose Basco y Vargas (1778-1787) provided a significant era in the political and economic history of the Philippines. During Basco's tenure Spain instituted perhaps its most serious effort to develop the natural resources of the Islands. The focal point of the governmental program was the Sociedad Económica de Amigos del Pais (Economic Society of Friends of the Country), established in 1781, and the Real Compania Filipinas (Royal Company of the Philippines), established in 1785.

Basco's idea was to make the Philippines economically self-sufficient and not dependent on Mexico. For this reason he encouraged the development of agriculture by offering prizes to those who excelled in cultivation, to those who opened various kinds of mines, to those who should
invent useful things, and to those who excelled in the arts and sciences. Furthermore, he issued circulars and pamphlets explaining the method of cultivating the different Philippine crops. In order to get the community's co-operation in carrying out his plan, he induced the King to issue a decree establishing the Economic Society, and, in spite of serious opposition on the part of many, it was auspiciously inaugurated in 1782.

It seemed, however, that Basco's ideas were too advanced for his time, for the life of the society steadily declined during its first four decades. However, the society maintained its existence for over a century, or until 1890.

The Royal Company

Another means resorted to by Basco to free the Philippines from its financial dependence on Mexico was the establishment in 1782 of a tobacco monopoly by the government. As a means of adding greatly to the revenue of the government, this monopoly had been recommended as early as 1766 by Fiscal Viana. The plan was vigorously opposed by the tobacco interests, among others, but it proved so greatly successful that the revenue derived from it soon became the largest single item in the government budget. However, the evils attending it were many. Abuses by government officials in enforcing the regulations and in trying to make profits for themselves, the lack of incentive on the part of the producers to improve tobacco quality, the existence of smuggling and bribery, and the poverty of the farmer accompanied the tobacco monopoly, which lasted until 1882.

In the contemporary period, some one hundred odd years following discovery of abuses attending the government tobacco monopoly in the
Philippines there is a historic coincidence which closely parallels the earlier situation. In the Philippines of today, both Virginia leaf and native leaf tobacco are grown. The former variety is of much higher quality and market value than the latter. However, because of cultivation, processing and other costs, only a relatively small amount of Virginia leaf is produced. These factors, during perhaps a great number of prior years, have evidently given rise to a deceptive tobacco grading practice by Philippine government officials of the national tobacco grading and purchasing monopoly. Further, officials of the Philippine Bureau of Internal Revenue and General Accounting Office have been implicated as accomplices in the illegal practice of upgrading lower valued native leaf for government purchase at the premium level established for Virginia leaf tobacco. The government loss in 1959 was determined as, "...not less than 43 million pesos..."; equal to 21.5 million dollars at the official exchange rate. The cumulative loss during prior years has not been estimated.

Under the circumstance, it is apparent that the evils attending the Spanish tobacco monopoly differed in no significant respect from those of the present-day Philippine government tobacco monopoly. Indeed, the anomalies of the latter apparently have resulted in the loss of an infinitely greater amount of governmental revenue.

The Royal Company was provided governmental subsidies and incentives to aid the Company, and laws and decrees which prohibited the importation of various Oriental products into Spain were repealed. The products of the Philippines were exempted from all duties both in Manila and in Spain.
Great hopes were entertained for indigenous cotton, because of the good quality and the price received. At one time plans were made to capture the entire Chinese market. A fair start was made in this direction, and it was planned to establish textile factories to produce finished products. For various reasons, however, less was done with cotton production than with sugar cane.

In spite of the special protection and privileges granted to the company, it declined from year to year. In 1830 its privileges were revoked, and Manila was left open to foreign commerce and navigation.

Of the two main objectives of the Royal Company, stimulation of trade among Spanish colonies and with Spain, and the encouragement of agriculture, it for the most part failed in the first but was somewhat more successful in the second.

Various reasons have been given for its failure to remain profitable. In the first place, the Spaniards in the Philippines were not businessmen, and on the whole despised trade. Those connected with the operation of the company failed to import into Manila profitable goods such as wines and foodstuffs and instead of purchasing export items directly from China and India, they bought goods from Chinese and other foreign traders in Manila, thus increasing the prices of the Oriental goods shipped to Europe.

In the second place, the company engaged in unwise speculations with its capital. In spite of the fact that it was permitted to invest only 4 per cent of its net profits in agriculture during its early existence, it invested great sums in buying land and in making advances to producers. It encouraged the production of certain products, like
spices, which could have been grown more economically in Sumatra and Java, and it gave premature attention to the development of manufac-
turing.

Third, and this may have been the principal cause of its failure, it was not given control of the Manila-Acapulco trade, which continued to absorb the attention of the very men who, because of experience in the country, could have helped the company during its formative years.

On the credit side, however, was the company's success in intro-
ducing and encouraging the production of certain agricultural crops, such as cotton and sugar cane, and the fact that it introduced into the Philippines much-needed foreign capital.

The Changing Trade Policies

Even before the tenure of Governor Basco there had been a tendency toward a more liberal politico-economic policy in the Philippines. The occupation of Manila by the English in 1762 had a good effect, for it acquainted England with the natural resources of the Philippines and the possibilities for material development. In 1814, probably owing to the liberalizing influence of the war of independence just closed in Spain, it was stipulated that all colonial ports still restricted should be opened to foreign traffic, and that foreigners should be allowed to enter and engage in commercial activities. Thus was swept away the restrictive colonial policy which had prevailed among the European nations, and which Spain was the very last to abandon. An earlier edict of the Spanish government in the Philippines, repeated in 1828 and again 1840, forbade foreigners to sell at retail or to enter the provinces to carry on business of any kind. The substantial limitation on alien
participation in Philippine retail trade, subsequently prescribed by the
Republic's present-day Retail Trade Nationalization Law, is an interest-
ing repetition of the restrictive-type policy employed by the Spanish
colonial government.

In 1842 there were in Manila thirty-nine Spanish shipping companies
and commercial houses, and about a dozen foreign companies, of which
seven or eight were English, two were American, one French, and another
Danish. Consuls of France, the United States, Denmark, Sweden, and
Belgium were in residence.

In spite of the official change of policy, the Spaniards in the
Philippines nevertheless persisted in their opposition to the entrance of
foreigners. The first result of the arrival in Manila of foreign traders
was their collision with the exploiters of the old order, who were,
"suddenly threatened by the competition of more active, more industrious,
better prepared, and richer individuals, supported by firms located in
the most important centers of the commercial world."

Once Manila was opened, the advocates of greater freedom did not
rest, for there were great difficulties in connection with the exploita-
tion of products from the places far from Manila. Accordingly, at the
request of the Spanish government of the Philippines, a royal order of
September 29, 1855, approved the opening of the ports of Sual (Panga-
sinan), Iloilo, and Zamboanga and later, by a royal decree of July 30,
1860, Cebu, which previously had been obliged to ship export products
either to Manila or to Iloilo.

The opening of Philippine ports to foreign trade resulted in
extensive changes in the Philippine economy. The defenders of the old
order believed that the welfare of the archipelago depended upon the
Acapulco trade and the monopoly that accompanied it. Advocates of this
view appeared convinced that any interference with the monopoly would
ruin the country. Those groups opposed to the status-quo argued that
the Acapulco trade merely brought to the Philippines funds from New
Spain to be exchanged for goods from China and India, and that no one
gained by it except those who controlled the galleons and the shipments
made in them. It was insisted that the country on the whole gained
practically nothing from this trade. During the period, the importation
of foreign goods consumed in the Philippines amounted to approximately
900,000 pesos annually, and the exportation of Philippine products
amounted to less than 500,000 pesos annually. Practically from the
beginning of the Spanish administration, the Philippines had an unfavor­
able balance of trade. The excess of imports over exports was quite
possibly diminished by the profits of the Acapulco trade, but this was
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primarily beneficial to only a favored few.

With the opening of the ports, however, the situation was complete­
ly changed. As an indication of the greater agricultural and commercial
activity, exports increased and now consisted of the products of the
country instead of manufactured goods brought from elsewhere in the
Orient. By 1839 the Philippines exported its own products to the value
of $2,674,220, as against approximately $500,000 in 1810.

In 1782 sugar was the product which attracted the attention of
producers. At that time, approximately 30,000 piculs* were exported
annually; 146,661 were exported in 1840; in 1854 the amount had increased

*Picul: A unit of weight equaling in the Philippines, 139.44 lbs.
to 566,371 (almost four times as much as was exported in 1840); and in 1857 the amount reached 714,059.

The opening of Iloilo encouraged production in the island of Negros. Except for a few government officials and the curates, there were no Spaniards living in Negros, and the island, with a very small population, produced almost nothing for export except a small amount of sugar. In 1857 there was not one up-to-date mill to be found there. In working with the old-fashioned wooden mills, about 30 per cent of the sap remained in the sugar cane, even after it had been passed through the mill three times. However, before 1900 the old wooden presses were gradually being supplanted by iron mills worked by steam or carabao.

In agriculture, progress was also noticeable and improved plows, carts, and farming implements generally were available.

Similar economic progress characterized other parts of the Philippines, and continued until the revolution against Spain. The abaca industry began to flourish in the Bicol provinces; coconut groves multiplied in various places; expansion took place in the cultivation of tobacco in the Cagayan valley and the Ilocano coast; coffee was raised in Batangas; and sugar production boomed, not only in Negros, but also in the provinces around Manila. This rapid expansion of agricultural production resulted from the new freedom of trade, and it is interesting to note that, according to the Census of 1903, "the money that was invested here was not brought in by capitalists but was made here."

The competition of the Chinese dealers forced a great many people, especially mestizos, to abandon their business of trading in goods manufactured in Manila. Instead they engaged in the raising of sugar
and other products, to the great benefit of the country. It was in this manner that several of the now prominent Filipino families of Iloilo staked out and developed plantations in Negros.

The stimulating effect of the opening of the ports on agriculture perhaps chiefly reflected the foreign influence that was responsible for the sudden development, not in the actual growing of the crops, but mainly through the energy of the foreign traders in pushing the sale of modern agricultural machinery and perhaps even more so in advancing through crop loans the capital necessary for its purchase.

D. The Plantation-Type Economy and the Exploitation of Labor: Present-Day Implications

So far, several political and economic features of Spanish colonialism in the Philippines have been considered in an attempt to provide a necessary background and convenient framework for analysis of economic development policies of the contemporary Philippines. One additional facet, possessing sociological, political and economic ramifications, deserves careful evaluation— the colonial exploitation and subjection of Filipino workers. This factor has implications which are directly pertinent to Philippine economic development.

Centuries of Spanish domination and denial of political freedom, while acknowledge and understood by some historians and writers, may not have been the dominant factor in the molding of the Filipino character, which appears on the surface as gay, reckless, languid and ambitious. Such apparent behavior may hide deep wells of feeling. Long subjection and submission to the will of the Spaniards eventually led to Filipino resistance and a demand for political freedom and
improvements in material conditions. However, although the eventual contraction of political restrictions was important, the significant fact is that economic poverty continued to be the controlling force. Moreover, limitations on personal choice arising from conditions of deprivation and poverty should be carefully distinguished from institutionalized restrictions such as forced labor, peonage, debt bondage and similar servitude.

Economic pressure degraded the life of Filipino workers during the colonial period and this phenomenon is evident today, although to a much lesser extent. The laboring masses have been incapable of emancipating themselves unaided from the burden of adverse economic conditions, and for many there are various forms of exploitation resembling plantation-sharecropper and landlord-tenant types of relationships.

Filipino agricultural workers in 1957 averaged approximately 97 cents daily in wages and constituted the greater portion of the entire workforce. Because of this and other reasons Filipino wage earners possess only an impaired freedom. For, although the worker is free to seek a livelihood in non-agricultural pursuits, his choice is severely restricted and there exist arbitrary limitations upon his ability to effect personal changes in his life or improve his lot. Under Spanish rule a choice was practically nonexistent. In recent years, in spite of some changes, the cumulative result has continued in essence, with various forms of institutionalized exploitation, and these definitely limit Filipino economic potential.

It may be argued that any social structure—Filipino or other—which permits one class to exercise power over another, rests, in the
final analysis, upon an inadequacy of resources. This inadequacy allows one group or another to exploit the masses to its own advantage, either through access to, or control of political power, or possibly by appeal to sanctified tradition (as in the case of a widely acknowledge priesthood). Whatever the explanation, a mixed economic, political and sociological set of basic factors is involved, and each has its own historical antecedents.

Of particular significance in the historical heritage were the institutions of involuntary servitude and other restrictions on individual Filipino freedom. Slavery was an established institution in the Islands when Spanish rule began. However the Spaniards defended their claim to the Philippines before the Vatican with the plea that they were more concerned with converting the heathen than with enslavement. Nevertheless, a mild form of slavery spread through the Islands under Spanish rule. Both the Spanish government and the Church at various times issued decrees to regulate the trade in slaves and their treatment, and in the nineteenth century prohibited it. But slavery still existed in the Islands when the United States took over, and may even exist to a very small extent today. Although slavery was not legally abolished until 1911, the Philippine legislature refused even then to admit that slavery as an institution existed, in spite of positive evidence indicating that the denial was based on at least partially erroneous facts. Still, aside from mere historic interest, it must be concluded that slavery as such has been of little importance as a impediment of Filipino worker freedom, and it is clear that other restrictions were more often employed.
An impediment of much greater significance was peonage, an exploitative practice which actually preceded the Spanish period. According to Lasker it stemmed from the Malayan *Rasama* or sharecropping system and denoted a peon who worked the land for the owner and retained a part of the crop. The portion retained rarely sufficed to meet the needs of the peon, and cumulating debt tied the worker to the plantation. The Spaniards found the *Rasama* or peonage system an effective source of extremely cheap native labor and a means for realizing the largest possible financial return. Phelan describes the sharecropping system as one only of, "dependent status"; but hastens to explain that the real freedom of choice afforded the Filipinos under the arrangement was probably negligible.

At the present time, most large Filipino-owned plantations or estates, customarily termed *haciendas*, are cultivated by sharecropping tenants who properly are described as peons since they go with the land; not legally but as a matter of economic necessity. The reverse of the sharecropping system was represented by the figure of the *cacique*, a descendant of Malay chiefs who under the Spaniards combined the functions of landlord, minor magistrate and guardian of the people's morals, and served as their political representative. Under United States rule, the Filipino *cacique* class, evolving from Spanish intermarriage, dominated the Philippine political scene. Since the Americans wanted to relinquish control to the Filipinos as soon as possible, the privileged position of this elite was confirmed to permit its dominance not only politically but also economically, where it has since perpetuated its authority at the expense of the Filipino masses.
The cacique class, historically significant in its own right, was in fact submerged in the more embracing Spanish encomienda system. This in practice was based on a land grant bestowing authority to control and collect tribute from the workers thereon, in return for protecting their lives and particularly for advancing their spiritual welfare. Theoretically the system was an administrative arrangement to facilitate good government and the Christianization of the Filipinos, and not solely a land grant. But unfortunately the Spaniards—and gradually the Filipinos who later became the heirs of property and power—lost sight of the concept of Christian morality and good government, and the profit motive soon outweighed all other considerations.

Institutional exploitation of Filipino workers and its consequential impairment of freedom has been a significant causative factor in Philippine underdevelopment. It also explains in part the predominance of an agriculture economy, the difficulties inherent in industrializing, the absence of independent and viable labor organizations, the low wage rates, the slow emergence of a middle class and the increasing political authority and economic entrenchment of the Filipino elite. The vestige of the historically decadent encomienda system remaining today has prompted some writers to characterize Filipino landlord-worker and other social relationships as quite archaic and reminiscent of seventeenth-century rural gentry-peasant relationships.

It is evident that governmental responsibility cannot be denied for the perpetuation of the encomienda system. Originally there were only about one hundred Spanish grants of encomiendas in the Philippines, but in 1898 the United States in its acquisition of the Islands bound itself
to recognize Church ownership of some 400,000 acres of the best land. And while this action covered only part of the total acreage of encomiendas previously granted, the Church lands were cultivated by some 60,000 tenant farmers, in some cases, under conditions of servitude far more onerous than those on individually owned plantations. Later, some ineffective efforts were instituted by the Philippine government to liquidate Church and other estates and to redistribute the land and resettle the people. The late Philippine President, Ramon Magsaysay, as recently as 1955 was able to attain partial realization of the persistent Filipino demand for such reforms, and to some extent his national popularity was predicated upon his energetic efforts. However, by this time the Filipino peasant population had become so large and impoverished that none of the existing government programs, or their implementation, offered an adequate or long-range solution.

In the multi-million peso sugar industry of the Philippines, perhaps more than in any other occupational area, worker exploitation has constituted a blight which so far has defied solution. Although the Philippine sugar industry has been the Island's mainstay for at least a century, the lot of Filipino worker in the industry today represents little improvement over that of the Chinese coolies who were extensively utilized at the very beginning.

Ironically, it was the Chinese laborers who contributed greatly to the full-scale development of the Philippine sugar industry which is predominantly centered in the island of Iloilo. In fact, although the Spaniards introduced the sugar cane plant in the Philippines, their aversion to work, especially in agriculture, would have precluded the
eventual development of the sugar industry had it not been for the early Chinese workers.

The Chinese taught the Ilongos, among many useful things, techniques for the extraction of juice from the sugar cane plant and the manufacture of sugar. Some of the first sugar mills with stone crushers were introduced by the Chinese to the Filipinos in Panay. Similar machines are yet in use today in some parts of Antique, Aklan and elsewhere in the archipelago.

However, without Chinese coolie competition, services from native Filipinos even during the last years of the Spanish regime in the Islands would have been unprocurable. The Filipino day-laborer would work in the sugar haciendas for two or three days and then would often disappear suddenly. In contrast, the Chinese laborer—excepting perhaps during the Chinese New Year in January or February—was usually dependable. Consequently, the Filipino worker found his economic position threatened by alien competition. Living conditions for many Filipinos have been such that fortitude and initiative have been unable to overcome the sense of despair and hopelessness which the masses fully understand and accept.

When the Philippine sugar industry was in its infancy and concerted Filipino opposition to the Chinese aliens—denoted by the "Filipino First" nationalistic trend—was perhaps 100 years in the future, four foreign commercial firms in Iloilo were obliged to incur the expense and risk of bringing additional Chinese coolies into the Philippines to assure the loading of export sugar on ships then anchored in the harbor. They claimed that the action was necessary because the native Filipinos lounged about and refused to work. In 1910, it is reported, General
John J. Pershing was commissioned by Governor General William C. Forbes to recruit Filipino laborers to work in the Iloilo and Negros sugar haciendas, but the General was unable to obtain a sufficient number of local recruits and was obliged to recruit workers in Mindanao instead.

Beginning in 1918, favorable legislation prompted the establishment of sugar centrals, cooperative-type refineries, which, in turn, gave rise to the requirement for even more plantation workers. Seasonal Filipino plantation workers, commonly known as sacadas, were recruited by the thousands to work in the plantations—sugar haciendas. The exploitative system of recruitment and employment, established approximately a century ago, is substantially in effect today.

For about six months, beginning in January of each year, Filipino labor contractors, known as contratistas, scour the Islands signing laborers to work in the sugar plantations. The prospective Filipino laborer is given about ₱50 advance pay. This is called an "anticipo." Sometimes a dishonest technique is adopted by the prospective recruit—sacada—whereby he accepts anticipos from several contratistas and then often disappears. After the hacendero—who advanced the money in the first place—pressurizes the contratista thoroughly, it is probable that the errant sacada, when he can be located, will be forced into peonage.

In Negros alone, there are some 2,500 haciendas employing perhaps a quarter million sacadas. The work day begins before sunrise and ends after sunset. The work consists of cutting, loading or unloading sugar cane, and the sacada works either under a "pakiaw"—piece work—or daily wage basis. In addition to the sacadas, there is another group of permanent plantation workers called the "duma-an."
During the Commonwealth period and just prior to 1940, a reform attempt was instituted by Alfredo Montelibano and other influential and wealthy Negros hacienberos. Not only was crop diversification introduced, but other benefits were provided such as increased wages, insurance and educational benefits to workers' children. Various factors, however, restricted the success of the program and few widespread improvements resulted. Substantially, however, the earlier system of exploitation—low wages, virtual peonage and seasonal employment—was maintained; with sacadas continuing to accept anticipos from contratistas. Impoverishment abounds, and even if there were no fiestas or celebrations, existing wage rates would provide less than a minimum subsistence level for the worker and his family.

The postwar rebellion of armed Filipino peasants against established authority and particularly against the feudal regimes of the hacienberos—the "Huk" movement—denotes a completely new trend and demonstrates that at long last the old edifice of exploitation is being seriously threatened. The pressure was so strong that—in spite of claims that the leadership of the rebelling masses were communist inspired, and even against the armed might of the national government controlled by the cacique class of the old order—the "young renegades" have forced a retreat of the encomienda system. This pressure has also led to the Filipino elites' reluctant entry into an era of improved agricultural relations, and to its support of some American-orientated policies. For only in this manner has it been possible to virtually maintain its former political and economic power and social influence.
A. The Political Transition

Just prior to the beginning of American rule in the Philippines, Filipino demands for land and other reforms by the Spanish administration reached a climax. The belated Filipino efforts inspired by the public execution of Jose Rizal by the Spaniards, culminated in the organization in 1896 of a secret revolutionary group, known as the Katipunan, by Andres Bonifacio. A small, ill-equipped military force was mustered and led by Emilio Aguinaldo, but it succeeded only in harassing and agitating the Spaniards. Dissensions within the group led to a courts-martial conviction and the execution of Bonifacio.

In 1897, after it became clear that neither Japan nor other nations would assist the Filipinos and after the Spaniards had fully realized their weak position, a treaty of peace was accepted. This was the later-repudiated Pact of Biak-na-Bato under which the Spaniards promised to institute some of the reforms previously urged by Rizal and others, such as restoration of Filipino representation in the Spanish Cortes, granting a significant measure of freedom of speech and press, and expulsion of a number of the friars who by now controlled an inordinate number of landholdings and the thousands of taos thereon. Also, under the agreement, 800,000 pesos was to be paid to the insurgent forces. The revolutionists agreed to abandon the uprising, surrendered their arms and ammunition, and consented to the exile abroad of 20 of their leaders, including Aguinaldo.

There the matter rested until 1898, when with American assistance,
Aguinaldo and his exiled compatriots returned to the Philippines. It is yet a matter or dispute as to whether Commodore Dewey and other American officials promised to aid the Filipino leaders in obtaining the nation's freedom and an independent government, in return for the deployment of a revived Filipino revolutionary force against remaining Spanish resistance. In any event, Aguinaldo recruited, equipped and placed in the field over 20 regiments of Filipino soldiers and successfully engaged the Spanish enemy. By 1899, the insurgents had assembled at Malolos a revolutionary congress of some one hundred of the Filipino intelligentsia to promulgate and adopt the historically renowned Malolos Constitution. This was a document which, according to Professor Joseph R. Hayden, later vice-governor of the Philippines, "showed the results of a wide knowledge of modern democratic political institutions and the thoughtful adaptation of them to meet the ideals of the dominant Filipinos of the time."

The United States decided to occupy and retain the Islands, replacing Spain as the sovereign power. In so doing it swept aside the unsuccessful efforts of the Filipinos to control their own destiny. Ratification of the Treaty of Paris by the United States in November 1898 was followed by the Philippine rebellion which began in February 1899. President McKinley proclaimed, "(the Filipinos) assailed our sovereignty, and there will be no...pause until the insurrection is suppressed and American authority acknowledged and established."

The Filipinos countered with the argument that Spain had already been superseded and could not convey sovereignty, but there was no discussion of theory; right was to be determined by might.
The Jacksonian principle that government should be maintained with the consent of the governed gave way to the brutal facts of military power. The outnumbered, inexperienced and poorly equipped Filipino revolutionary forces were no equal of the American military, although Filipino courage, perseverance and determination evoked the commendation of Americans and others. Filipino hopes for immediate freedom thus ended, and a new master—the United States—was substituted for the Spaniards.

Among the more prominent features of American rule in the Philippines were the relatively passive insistence of the Filipinos for independence, and the reassuring promises of the Americans that political freedom would be granted at the earliest possible date. The patriarchal, conciliatory American attitude may have reflected various uncertainties—perhaps an indecisiveness of the American moral conscience—in the Philippine colonial undertaking. But how can the relatively passive Filipino disposition toward independence which followed be explained?

The Filipino agitation for freedom, reaching the crescendo of revolution near the end of the period of Spanish rule and continuing into the early stages of American acquisition and control, somehow quieted as time passed and came to reflect in only an academic fashion the former heated demands for immediate freedom. From the beginning of American rule, as before, the Filipino masses were at a considerable disadvantage for they were hardly capable of discerning the intricacies of the important issues at stake, nor is it likely that they greatly cared. To them, it seemed probably that little more than a change of masters was at the time involved. Against this naivete far more subtle forces were destined to operate.
The authority of the United States was now established, backed by its dominant military strength and its governmental policies for the administration of the archipelago. At the same time there emerged an unofficial alliance between American representatives in the Philippines and certain of the remnants of the old cacique class, the new Filipino elite. Thus, an effective and unified source of actual power arose to fill the political vacuum created after the departure of Spanish forces and the defeat of the Filipino insurrections by the Americans. Quite obviously, peace and order had to be restored, and some kind of government instituted and maintained to provide necessary requirements.

Why this strange quieting of Filipino freedom demands, previously expressed by the patriot Rizal and by Aguinaldo and others? Why should the clamor for independence, reflected in the Malolos Constitution of 1899, and by the Provisional Philippine Government created thereunder, diminish so easily? What factors existed in this situation which, even at this relatively early date, circumscribed and denoted the predictable pattern of the future Philippine economy?

First, it is reasonable that Filipino efforts for national freedom (like similar historic efforts for freedom by other ethnic groups), represented the skill, fervor and leadership capability of an extremely small core. The course of early efforts for freedom reflected the personal motivations of this leadership, and there was no great heritage of freedom from which revolutionary aims could rally, or on which they could build. Neither Rizal or other Filipino patriots directly advocated Philippine independence; theirs was a basic indictment of the excesses and inconsiderateness of Spanish officialdom for its
injustice and inhumaneness. In short, it was a plea for tolerance and reform—not for absolute freedom.

Second, the earlier vociferous Filipino demands quietly abated after seemingly quick American appeasement. This circumstance resulted from the lack of a distinct Filipino heritage of political freedom, but more particularly, from a 

as from a fiat accompli engineered by the Americans and certain of the Filipinos. Before any shots were exchanged between Americans and Filipinos, the Filipino Provisional Government had suffered extensive defections which left it weak. Many of the wealthy and educated Filipinos had joined the insurrectionists only when the defeat of Spain was imminent and the American alliance unquestioned. When the course of events radically changed and friends became enemies, the Filipino defectionists immediately crossed the line and went over to the Americans.

Former Governor General W. Cameron Forbes describes the change in this manner:

As President of the revolutionary republic, General Aguinaldo named as cabinet officers and councillors many of the ablest Filipinos of the day. The brilliant and irreconcilable Apolinario Mabini exercised a predominant influence in determining the policy pursued by his chief leading up to and following the rupture of friendly relations with the Americans. Dr. Trinidad H. Pardo de Tavera, later a member of the Taft Commission, and Cayetano Arellano, became Chief Justice of the Philippine Supreme Court, were named by General Aguinaldo in the department of foreign affairs in his first cabinet. Don Gregorio Araneta, who was Secretary of Justice in the Malolos cabinet, was later appointed by General Otis Associate Justice of the Supreme Court. All of these, with the exception of Mabini, withdrew from the Malolos government prior to the outbreak of hostilities with the United States. They represented the conservative, well-educated class, and following them many others in minor posts also withdrew from the Malolos government and brought their families within the American lines at Manila, as they saw the unfortunate trend of insurgent organization toward armed resistance to American sovereignty.
Jacob Gould, Chairman of the Schurman Commission, formally reported:

While the people of the Philippine Islands ardently desire a full measure of rights and liberties, they do not, in the opinion of the Commission, generally desire independence. Further...it would be a misrepresentation of facts not to report that ultimate independence--independence after an undefined period of American training--is the aspiration and goal of the intelligent Filipinos who today so strenuously oppose the suggestion of independence at the present time.14

The wealthy and better educated Filipino elite who deserted the insurrectionists to support the Americans, together with certain of the leaders of the Bacolod counter-revolutionists, organized the Philippine Federal Party in 1900. This was probably the first post-insurrection political party in the Islands and the only one permitted by the United States until about 1906. From its ranks the American officials drew the first Filipinos appointed to high positions in the civil government. In 1901, three of them became the first Filipinos appointed to the Philippine Commission, which exercised both executive and legislative functions. The Federal Party monopolized patronage. In 1907, by authority of the Cooper Act of 1902, the first national election was held. The Federal Party was at the height of its power and enjoyed active American support. It had advocated complete Filipino cooperation with the United States and immediate annexation of the Philippines to the United States. While demands for independence had earlier become practically quiescent, the preference accorded this group and the seeming elimination of all prospects for eventual freedom, gave impetus to the creation of an opposition voice. Accordingly, a second political party--the Nacionalista--was organized. In the following election the latter party was victorious and until 1946, when independence was granted, the issue of independence continued to be hotly debated.
B. American Policy for Philippine Economic Development

The mixed reception in the United States to the acquisition of the Philippines ranged from a "large policy" expansionist view to completely opposite views. Mark Twain, commenting on the latter, wrote:

What we wanted in the interest of Progress and Civilization was the Archipelago, unencumbered by patriots struggling for independence; and War was what we needed.....

With our Treaty ratified, Manila subdued....we had no further use for Aguinaldo and the owners of the Archipelago. We forced a war and we have been hunting America's guest and ally through the woods and swamps ever since.

Dewey could have gone about his affairs elsewhere and left the competent Filipino army to starve out the little Spanish garrison and send it home, and the Filipino citizens to set up the form of government they might prefer and deal with the friars and their doubtful acquisitions according to Filipino ideas of fairness and justice--ideas which have since been tested and found to be of as high an order as any that prevail in Europe or America.19

But Philippine affairs were the object of American attention and a "Philippines for the Filipinos" policy, presaging the present-day "Filipino First" policy, was instituted. Some of the Filipinos who were selected for public office replaced incumbent Americans. Schools mushroomed and farms were rehabilitated and expanded. Roads and bridges were repaired and constructed, the currency was unified and hospitals and conditions of health were improved. Then began a course of strangely commingled altruism, business and chauvinism, by the United States in the Philippines, until about 1916.

Pending a firm policy determination, it appeared advantageous to halt the exploitation of Philippine natural resources. Accordingly, under the Spooner Amendment of 1901, it was directed that, "no sale or
lease or other disposition of the public lands or the timber thereon or the mining rights therein shall be made." Also, "no franchise shall be granted... (unless) necessary for the immediate government... and which cannot... be postponed until the establishment of permanent civil government."

The first order of business for the United States, as pertained to the economy of its new colonial possession, seemed to confirm the adage that "there are no real friends in politics". Utilizing his war powers, President McKinley inaugurated a completely new Philippine policy. The Taft Commission was dispatched to the Philippines with a document which defined American policies and intentions. Among the several directives included, was a requirement that the Commission investigate titles to the big landed estates which had bred Filipino discontent and demands for reform during Spanish rule. These estates now were largely in the hands of the religious orders, the Spaniards, and the wealthy Filipinos who had defected from the revolution to support the American cause and now were enjoying fully the favored esteem and special privileges accorded by the American officials.

Subsequently, the U.S. Congress authorized purchase of the bigger haciendas of the religious orders by issue of long-term bonds. The Philippine Government subsequently embarked upon a policy of purchasing the remaining big landed estates to subdivide and sell to tenants and other buyers. This policy is today one of the major facets in the Philippines' network of problems. The great amount of money needed to buy the private lands and the resulting enrichment of certain of the Filipino elite, as well as government graft, inefficiency and
anomalies, have made the process of land distribution slow, difficult, and of questionable value to the landless and to the overall economic development of the nation.

As early as 1901 Philippine-American trade began to gain impetus. The Treaty of Paris contained an additional gesture of generosity toward Spain, the first being the payment of 20 million dollars as a war settlement. Spain was also given equal trading terms with the United States in the Philippines for ten years. This tended to limit the Philippine trade preference to which the United States wished to avail herself, since Spain, under the treaty, could do likewise. But it did not hinder the grant of a 25 per cent preference to Philippine goods in the American market and monies collected as duties on Philippine exports were returned to the local treasury. The upsurge in Philippine-American trade stimulated by these arrangements soon put the Philippines on the road to prosperity.

Taft, as Secretary of War and as President, continued to work for additional privileges for Philippine exports to the American market, and in 1909, at the expiration of the ten-year agreement with Spain, the Payne Tariff Act came into effect. The act permitted virtually all Philippine products to enter the American market free of duty. Then in 1913, the Underwood Tariff Act provided for practically unlimited reciprocal free trade between both countries, and while, beginning in 1909, quotas were imposed only on certain Philippine exports to the American market, the limits specified were so generous they were never reached.
These early United States economic policies for the Philippines gave rise to perhaps the most significant feature of American rule in the Islands. There now emerged a practically complete and continuing dependence of the Philippine economy upon a free American market. The preferential treatment which was accorded permitted an extensive but artificial expansion of Philippine agriculture, particularly the production and export of sugar, tobacco, coconut oil and cordage. Furthermore, subsequent increases in American tariffs against foreign sugar, tobacco, vegetable oils and cordage afforded equal or even greater protection to the Philippines than to continental United States producers. This later circumstance prompted the continuing factionalism and pressure group activity in domestic United States politics for a long period and underlay administration tariff and independence policies for the Philippines.

During the many years of virtually unlimited free trade with the United States, the Philippine balance of trade with foreign countries has been, in general, increasingly unfavorable, while its trade with the United States has been much more favorable. During these years the Philippines' immense profits in the free trade with the United States have been sufficient to offset most of her substantial losses in foreign trade and, in some years, provide a surplus to spend for development of the national economy.

Philippine dependence upon a protected and artificial market in the United States for commodities competitive with continental products has increased yearly, until these competitive products
comprised, just prior to World War II, some 85 per cent of all Philippine exports. This pattern has essentially continued until the present.

In 1916, an important milestone in United States legislation for the Philippines occurred upon passage of the Jones Act. The act represented the first American step, even though tentative, toward future Philippine independence. The particular importance of the act, in the present context, lay in its authorization to the Philippines to enact its own tariffs. Notwithstanding this feature, a minority element in Philippine politics continued to oppose the American free-trade program and, as early as 1909, the National Assembly of the Philippines vigorously protested the policy. It was insisted that the free trade policy, "in the long run would be highly prejudicial to the economic interests of the Philippine people and would create a situation which might delay the obtaining of independence."

The late Manuel Quezon, former President of the Philippine Commonwealth, advanced a similar view of the national interest when he stated:

My first clash with the American Government while serving in the National Assembly was about a bill pending in the United States Congress to provide for the trade relations between the United States and the Philippines. The bill contemplated the establishment of free trade relations between the said two countries. Certain private interests in the United States were opposed to the bill for selfish reasons and Secretary of War Taft, under whose department the Philippines then were, instructed the Philippine Commission to indorse the proposed bill and to secure the concurrence of the Philippine Assembly to its action. I fought the measure upon the ground that free trade relations between our countries would result in making the Philip-
ines absolutely dependent upon the markets of the United States. This, I contended, would create a most serious situation in Philippine economic life, especially when the time came for the granting of our independence. The Assembly, by overwhelming vote, supported me, only the opponents of immediate independence taking the other side. My contention was proved sound when finally the question of Philippine independence was taken up by the Congress of the United States.32

By the time the United States was ready to act seriously on the question of Philippine political independence, some 25 years of free-trade had shaped the economy of the Islands to fit the American market. The fears of the early Filipino legislators had proved to be well-founded.

Between 1929 and 1934, in the Smoot-Hawley Tariff Act, the Hare-Hawes-Cutting Bill, and in the Tydings-McDuffie Act, various adjustments were effected in the U.S.-P.I. free-trade arrangement. The trend was toward lower quotas for Philippine exports to the American market and, under the Tydings-McDuffie Act, a gradually increasing tariff which would reach 25 per cent in 1946 when political independence was promised, and 100 per cent thereafter.

The Tydings-McDuffie Act included both political and economic provisions. Politically, it specified the manner in which Philippine independence would be acquired. The Philippine legislature was authorized to arrange for a constitutional convention to develop a constitution, "republican in form"; including a bill of rights. It was also directed that several provisions assuring American sovereignty in the Islands for a ten-year transitional period be included in the framework of an interim Commonwealth government. Foreign loans would not be made by the Philippines without the consent of the President.
of the United States; the United States would retain control over
Philippine foreign affairs; decisions of the Philippine courts would be
reviewed by the United States Supreme Court; and American citizens were
to be granted equal rights with Filipino citizens in the Islands. Most
of the restrictions were to apply only during the transitional period
and, on July 4 of the independence year, the President of the United
States was to surrender all sovereignty and recognize the independence
of the Philippines.

Essentially, however, the Tydings-McDuffie Act defined the eco-

nomic relationships which were to prevail between the two countries.
Free trade was to continue between 1935 and 1940, and only 950,000 long
tons of sugar, 200,000 tons of coconut oil, and 3 million pounds of
cordage was to enter the United States duty-free. Imports above the
established quotas were to pay full duty, but there were to be no re-
strictions on United States products entering the Philippines. Between
1941 and 1946 products receiving preferential treatment were to be
subject to a Philippine export tax of an initial five per cent,
increasing annually by five per cent to 25 per cent in 1946. Full
United States tariffs were to be paid after July 4, 1946, the inde­
pendence date. Tariff revenues before independence were to be applied
33
to liquidate the bonded indebtedness of the Commonwealth.

By 1940, under the Independence Act, President Roosevelt and
President Quezon agreed tentatively to extend the economic dependence
of the Philippines up to 1960. Under this Act, a stepladder process of
boosting the tariff on Philippine exports to the United States would
continue until the full 100 per cent was imposed. The Philippines, in
turn, would apply the same increments to U.S. exports to the Philippines, beginning with 25 per cent, so that both countries would simultaneously assess full tariff duties on each other's products by 1960.

The Independence Act was also an agricultural relief measure and the provisions of the law were most detailed. Effective on the inauguration of the Commonwealth Government, it placed the principal Philippine exports to America on a quota basis—50,000 long tons for refined sugar, 800,000 long tons for unrefined sugar, 200,000 long tons for coconut oil, 3,000,000 pounds for cordage, twine and yarn. Within these quotas, Philippine articles would enter the American market free of tariff duty; quantities in excess would pay the full duty. Upon the proclamation of independence, all Philippine exports to the United States would pay the full American duty.

At the same time, the law provided for the collection by the Philippines of an export tax whose proceeds would be set aside for the payment of the country's bonded indebtedness. Beginning on the sixth year of the Commonwealth, it would be five per cent of the corresponding American duty and would increase by five per cent yearly up to 25 per cent of the ninth year. The Philippines, "shall place all funds received from such export taxes in a sinking fund, and such funds shall, in addition to other moneys available for that purpose, be applied solely to the payment of the principal and interest on the bonded indebtedness of the Philippine Islands, its Provinces and Municipalities, and instrumentalities, until such indebtedness has been fully discharged".
The concern of the U.S. Congress over the public debt was understandable. The bonds were guaranteed by the American government and the holders were, in the main, Americans.

To advise on the economic preparations, a National Economic Council was organized with Manuel Roxas as chairman. It recommended crop diversification, electrification, easier credit, and increasing government participation in business, especially in the distributive and manufacturing phases. The main objectives of these activities were to obtain for Filipinos a greater portion of the retail and wholesale trade, which was principally controlled by foreigners, and to plan agricultural and industrial development.

There was, however, no compulsion created, outside of the quotas and scheduled export tax, for the sugar, coconut and other export industries to adjust themselves to the impending loss of the American market. They were not stimulated or encouraged to diversify into other industries or markets, or to reduce production costs so as to be able to hurdle the U.S. tariff wall.

C. World War II and Its Aftermath

In 1941, the Philippine economy was struggling for stability under the Commonwealth Government and could ill-afford the impending wartime setback. Furthermore, because of complex political and economic factors, it was not possible to take advantage of the opportunities which may have existed for crop diversification, greater industrialization and lowering of production costs. The widespread devastation, property
damage and economic disruption accompanying the Japanese invasion and the resulting three years of "co-prosperity" hardly helped matters in any sense.

The Japanese economic policy for the Philippines during World War II was not based on a long-term plan. On the contrary, the objective was to obtain the greatest amount of needed material possible, in the shortest time, and for as little expenditure as absolutely required since major battles were yet to be fought. Only a minimum standard of living was allowed the Filipinos, although it was hoped that revolts which would require large troop garrisons could be avoided. Emphasis was placed on metal ore extraction since ore was urgently needed for war production in the home islands. Sugar and most other agricultural products could be obtained more easily elsewhere, particularly since Japanese shipping facilities were in very short supply. Consequently, most of the Philippine sugar lands and sugar centrals were razed or demolished, and the taos and owners thereof conscripted for other more needed work projects.

Determined, but generally unsuccessful, efforts were exerted by the puppet Philippine Government and the Japanese occupation forces to control various portions of the economy. For example, in 1942, prevailing wage rates were established and were to be administered by public employment offices. The daily rate for Filipino unskilled laborers in Manila was five cents an hour, and less for women. Since hunger was widespread, a food production program was inaugurated to utilize all idle land for growing food. By 1944, all able bodied men and women between 16 and 60 were required to register for one day a week of
compulsory, unpaid agricultural labor. A 35 per cent luxury tax and other similar enactments did not prevent accelerating price increases.

Postwar Policies of the United States

Between 1941 and 1956 the United States directly contributed approximately $2,490,701,000 toward the relief and rehabilitation of the Philippines. In addition, these cash aids were supplemented by extending the free trade between the Philippines and the United States which otherwise would have terminated in 1946 upon the grant of independence.

In 1946, the Philippine Trade Act (sometimes referred to as the Bell Act after its Congressional sponsor) was enacted along with the Philippine Rehabilitation Act. The latter, authorizing U.S. expenditures of some 625 million dollars for Philippine war damage claims, restoration of property and services, and the value of surplus property, was anxiously awaited by the Commonwealth Government. However, the United States wished to compromise among, and satisfy, various American interests, including farm groups, industrialists, and old and prospective investors. As for Filipino business, the Act protected established agricultural producers in such fields as sugar, abaca and copra. The outcome was that the U.S. insisted upon making the two separate measures, in effect, conditional each upon the other. The time allowed the Philippines for discussion was short and finally, the Acts were approved by Congress only two months and four days before establishment of the new Republic. With the eagerly anticipated rehabilitation payments and perhaps even the timetable for independence
hanging in the balance, the Philippines found no alternative to acceptance of both legislative acts.

The substance of the Philippine Trade Act deals with duties, quotas, quota allocations, taxes, parity rights, financial ties and implementation procedures. Reciprocal free trade between the United States and the Philippines was provided for until 1954; thereafter an annual five per cent increment in duty until 1972; and beginning in 1973, full duty. Seven Philippine export products, including sugar, cordage, tobacco and coconut oil, were limited by specific quotas. On the other hand, no restrictions were placed on American goods entering the Philippine market. One effect of this was to restrict diversification of Philippine agricultural products, since Filipino producers hesitated to develop new export products whose status in the American market was uncertain.

The quota allocations were based on Filipino production in 1940 with the result that the few firms and producers prominent in that year were greatly benefited. For example, three cordage firms had accounted for almost 90 per cent of the prewar tobacco exports, and it was assured that the bulk of the sugar quota would go to previously entrenched producers.

The provision of the Trade Act that aroused the most controversy, however, was the section stating that Americans were to have equal rights with Filipinos in business and in the use of natural resources. The Philippines, like most underdeveloped countries, was deeply concerned about matters of national sovereignty and control of natural resources. Its representatives felt strongly that basic development
should remain in the hands of Filipino nationals and, as a result, they wrote into the Philippine constitution the following clause:

All agricultural, timber, and mineral lands of the public domain, waters, minerals, coal, petroleum, and other mineral oils, all forces of potential energy, and other natural resources of the Philippines belong to the State, and their disposition, exploitation, development or utilization shall be limited to citizens of the Philippines, or to corporations or associations at least 60 per centum of the capital of which is owned by such citizens, subject to any existing right, grant, lease, or concession at the time of the inauguration of the Government established under this Constitution.42

This provision, approved at the time by the United States, safeguarded existing American interests but limited future investment. In 1946, however, when the Trade Act was under consideration, various American business groups took the position that future investments must be open to United States nationals on the same basis as to Filipino citizens. As a result, the Trade Act of 1946 included the following paragraph:

The disposition, exploitation, development, and utilization of all agricultural, timber, and mineral lands of the public domain, waters, minerals, coal petroleum, and other mineral oils, all forces and sources of potential energy, and other public utilities, shall, if open to any person, be open to citizens of the United States and to all forms of business enterprise owned or controlled, directly or indirectly by United States citizens.43

This clause, the so-called "parity" or "equal rights" provision, made it necessary to amend the Philippine constitution. The amending process called for a nationwide referendum, and "parity" became a major issue in domestic Philippine politics.

One more provision in the Trade Act should be noted: the fixed relation of the peso and the dollar. The Philippine peso was worth US
$0.50, and the Trade Act provided that this ratio be maintained. Free convertibility of pesos into dollars was not to be suspended, and no restriction was to be imposed on the transfer of funds from the Philippines to the United States. These two provisions could be set aside only with the approval of the President of the United States.

United States direct economic assistance to the Philippines has been, since 1950, principally through the International Cooperation Administration. The commitment of the United States, under the Quirino-Foster Agreement of 1950, was to make 50 million dollars available for Philippine economic development each year for five years, a period which was later extended. However, the Philippines has lagged in the initiation of acceptable economic development projects, in the appropriation of peso counterpart funds as required, and in guaranteeing that ICA machinery and equipment do not rust at the wharves or rot in warehouses.

**Philippine Sugar**

Every careful analysis of Philippine politics and economic development inevitably includes Philippine sugar, for in the Islands this is one of the principal economic problems.

In 1932 sugar accounted for 63 per cent of the income derived from all Philippine exports. If sugar had been eliminated, a favorable trade balance of some 15 million dollars would have been converted into an unfavorable balance of approximately 44.5 million dollars. Of the total Philippine income from all sources in 1932, amounting to 200 million dollars, sugar comprised 30 per cent.

In 1957 sugar constituted only 20 per cent of the total income
derived from all Philippine exports, but value had increased to almost 82 million dollars, or almost three times the value of the 1932 crop. If sugar had been eliminated from Philippine exports, the actual 187 million dollar trade deficit of 1957 would have increased to approximately 270 million dollars. Today, the former leading position of sugar as the nation's principal export crop has given way to copra, but the change has been slight.

Prior to the establishment of free trade, high grade, refined sugar was not exported to the United States, production and export was almost exclusively limited to the low-grade muscovado type. Today, there are perhaps a hundred Philippine sugar centrals which manufacture high grade centrifugal sugar of 96 degrees or over. In addition, several sugar refineries produce high quality refined sugar.

A puzzling facet of Philippine sugar production and export is that although the nation has sold in the United States up to its quota limit for nearly half a century, it does not provide a sufficient amount of sugar for its own consumption at a price most Filipinos can pay. In fact, the deficiency has provoked deep political repercussions with the result that the national government has established subsidies for the procurement and distribution of sugar to the local population. If the matter merely reflected a higher price obtainable for sugar exported to the practically duty free American market, it would appear prudent to hold indigenous consumption to the lowest feasible level. However, governmental authorization permits NAMARCO, the nationalized food distribution agency, to purchase sugar in the open U.S. market, under subsidy, for local resale and consumption. The price by the U.S.
during recent years has been quoted at nine and one-half cents a pound which approximates the local unsubsidized price. Therefore, to obtain a sufficient quantity of sugar for local Filipino consumption, at a price well within the means of the population, it has become necessary for the government to subsidize purchases of sugar from the United States and to re-transport the purchases across the Pacific Ocean.

This circumstance clearly indicates that although sugar is now slowly giving ground as a chief export to copra and perhaps eventually to other Philippine agricultural products, it has been firmly established as the principal source of Philippine wealth, and has been completely dependent upon the previously duty free and now low-duty American market. Without the preferential American treatment received, Philippine sugar could not possibly compete with Javanese or Cuban sugar. During the preceding decade, production costs of Philippine sugar have been more than twice those of Cuba or Java.

D. Philippine Economic Development Since 1947

The economic picture in the Philippines in 1947 was far from encouraging. Eighty-five per cent of the nation's imports were coming from the United States and amounted to over 500 million dollars, which was nearly three and one-half times the prewar peak. Exports were only one-half as great as imports, and copra alone accounted for the greater portion of this. Sugar and other production, due to wartime destruction, had not recovered, but copra and abaca production quickly responded to the high market prices resulting from world shortages. There was a critically unfavorable balance of trade and an unnatural dependence upon two principal agricultural products. This was in
spite of the substantial Philippine fiscal and other assets held in the United States during the occupation and since repatriated, and the large American payments to the government for war damage and rehabilitation as well as sizeable United States expenditures in the Islands for military supplies and other purposes.

The availability of an exceptionally high level of fiscal resources and the speedy revival of the export trade provided the Philippines a unique opportunity to lay the foundation for a sound, developed economy. The problem however was not so much a lack of funds as the absence of appropriate import and exchange controls and, effective economic development planning. An indefensible portion of the Republic's funds were directed into "high-return," "quick profit" consumer fields of soft goods, building and entertainment, and very little in the basic items required for long range productive enterprise. Luxury imports such as expensive automobiles, cigarettes, cosmetics, food and textiles, absorbed far more of the foreign exchange than heavy machinery and similar items which were required for a productive base. The result was not only an unjustifiable delay in reviving the economy but, more important, a compounding of inherent economic difficulties which, at best, needlessly delayed overall economic development and, at worse, injected possibly insurmountable obstacles. The resulting unemployment, for example, has had its detrimental effects in the nation until the present time.

The problem, however, could not be resolved in a vacuum. Disturbed political conditions in the Philippines made effective economic action
difficult. President Roxas, touring the southern Islands at the time, was reported to have assessed actual conditions as follows:

At every place the party stopped they met reports of excessive unemployment and of the spreading influences of graft and corruption among government officials and influential moneyed people alike...At all the stopping places, Bacolod (in Occidental Negros); Iloilo on the Island of Panay; his hometown, Capiz, on the same island; Zamboanga and Davao and Cagayan (Misamis) all in Mindanao, Mr. Roxas found graft and corruption prevalent. Maldistribution of crop loans through branches of the Philippine National Bank is one of the worst irregularities.

Through the National Land Resettlement Administration, a prewar semi-government agency, millions of pesos were made available after the liberation for crop loans. Mr. Roxas was informed that rich planters and government officials had obtained the major portion of these loans.

It was found that loans had been made to fictitious tenants, supposedly secured by crops. Later it was found that there were no tenants and no crops and the money could not be recovered...53

In a notable effort to solve the difficulty a Joint Philippine-American Finance Commission was created in 1947 to make a detailed survey of the national economy. The Commission determined that the excessive flow of American dollars to the Philippines had made available enough foreign exchange to pay for about double the amount of goods and services that could be earned by Philippine exports alone. However, it stressed that very careful planning would be required to utilize these funds effectively for national economic development. The Commission maintained that the Philippine fiscal system was, "unsuitable...for an independent Philippines"; and that taxation rules and tax collection procedures should be strengthened.

The recommendations of the Committee were aimed toward assisting
the Filipino people achieve economic development and stability, and several of the proposals were adopted including the imposition of import controls in 1949 and the creation of the government Central Bank.

In 1950, in yet another effort to assist the Philippines attain economic stability, the United States sent to Manila an American economic survey mission headed by Mr. Daniel W. Bell, former Under-Secretary of the Treasury.

The findings of the Mission, which were published on October 9, 1950, fell into three main categories. In the first place they constituted a startling indictment of an economy that had failed to provide for the welfare of its citizens in spite of abundant resources. In the second place the Mission Report offered numerous excellent suggestions for Philippine development, particularly with regard to improvement of the tax structure, industry, finances, and agriculture. Finally there was a recommendation for supervised American aid, as a step to implement some of the proposed enterprises.

The Report was particularly pointed in analyzing the existing economic situation in the Philippines. Successive paragraphs in its "Summary and Recommendations" began as follows:

The basic economic problem in the Philippines is inefficient production and very low incomes....

The finances of the Government have become steadily worse and are now critical....

The international payments position of the country is seriously distorted and a balance has been maintained in recent months only by imposing strict import and exchange controls....
While production in general has been restored to almost the prewar level, little of fundamental importance was done to increase productive efficiency and to diversify the economy. 

The failure to expand production and to increase productive efficiency is particularly disappointing because investment was exceptionally large during most of the post-liberation period.

The inequalities in income in the Philippines, always large, have become even greater during the past few years. While the standard of living of the mass of people has not reached the prewar level, the profits of businessmen and the incomes of large landowners have risen very considerably.

The Mission made six main suggestions for Philippine action, and a seventh relating primarily to United States aid. Among the proposals was a recommendation that added taxes be raised at once, that the tax structure be revised to increase the proportion of taxes from high incomes, and that collection machinery be overhauled. With regard to agriculture several proposals were made to improve production, to further experimentation, and to provide tenants with an equitable share of their production. Steps were urged to diversify the economy through new industries, and to reorganize government enterprises under a new Philippine Development Corporation. To protect the international payments position a special emergency tax of 25 per cent was proposed on all except specified essential imports. One major policy recommendation was that a Treaty of Friendship, Commerce and Navigation be concluded between the Philippines and the United States, establishing basic reciprocal rights, and that the present Trade Act of 1946 be revised in several respects. Among the provisions of the Trade Act to which critical attention was drawn was the system of allocating quotas...
and the "parity" clause, which, the Report stated, "limits Philippine sovereign prerogatives". Other recommendations related to the improvement of public administration, to furthering of public health, education, and social legislation, and to the establishment of minimum wages for agricultural workers.

Although they did not take the form of government assistance, total United States disbursements in the Philippines between 1945 and 1949 amounted to some $856,000,000 for military agencies and $604,000,000 for rehabilitation payments under the Philippine War Damage Commission. The Philippine government, however, was unable to utilize these vast sums either to provide adequate tax revenues or to insure a substantial reserve of foreign exchange. To avoid further dissipation of resources and to insure returns for the proposed American investment, the Mission sought a formula that would offer conditional aid. It recommended that an American Technical Mission be sent to the Philippines, and that an allotment of $250,000,000 in United States loans and grants be offered to help carry out a five-year program of development. It was specified, however, "that this aid be strictly conditioned on steps being taken by the Philippine Government to carry out the recommendations made, including the immediate enactment of tax legislation and other urgent reforms; that expenditure of United States funds...including pesos derived from United States loans and grants, be subject to continued supervision and control of the (American) Technical Mission..."

In spite of many acute economic observations and proposals, the Bell Report failed to take account of a number of serious realities. One was the extent to which Filipino objections to supervised aid would
hamper the development program. A further question was the validity of the Mission's assumption that the proposed reform program could be implemented by the same administration that for several years had implemented nothing but economic crisis. The struggle of the Philippine Legislature to come to some agreement on a tax program, a necessary prerequisite for any foreign aid, was a case in a point. A further problem was the extent to which military activities and preparations might divert resources and manpower from constructive economic development.

In evaluating the report of a short-term survey, it is important to recall that the problems of the Philippines did not appear overnight, nor were they exclusively of their own making. As Mr. Salvador Araneta, Philippine economist, commented at the time, "Basically, we are called upon to solve at present the same age-old problems which were left unsolved during fifty years of American sovereignty in the Philippines".

F. A Persistent Problem

To a significant extent both the Philippines' foreign trade and national budget have so far failed to balance. Due to the acute need of the Philippines for capital and consumer goods, a natural consequence of World War II, population pressure and the national development program, the nation's annual imports continued to exceed annual exports. The gigantic reconstruction and rehabilitation programs of the Government, together with new long-range undertakings like the building of hydroelectric power plants, made deficit-spending inescapable. Even the Magsaysay administration, which paved its way to power with the promise to balance the budget, was not able to avoid deficit-spending.
Deficit-spending, unfavorable trade balances and the consequent depletion of the country's dollar reserves have been continuing sources of worry. These circumstances led to the Government's request for United States approval in 1950 to apply internal regulations calculated to improve the situation even if they subverted the 1946 Bell Act. Among the approved measures were those providing for import control to reduce foreign buying principally from the U.S., for dollar allocation control to supplement import control and give Filipino businessmen support in their competition with Chinese and other alien businessmen, and for a 17 per cent tax on dollar exchange to prevent the flight of capital abroad.

Although these regulations added new and lucrative opportunities for graft and corruption, they reduced the trade imbalance. Certain American export industries, particularly those producing toilet articles, medicines and motor vehicles, were induced to set up branch factories or assembly plants in the Philippines. At the same time, other manufacturing industries not in existence before the war were established. These new industries have been encouraged not only by the import and dollar controls, but mainly by a new law exempting "new and necessary" industries from all taxes for a number of years. By 1959, there were over 1,000 such industries on which sizeable taxes had been waived. Many of them, however, were bottling, packaging and assembling plants for semi-processed American and other imported goods, and many were dependent on imported raw materials like steel, rubber, and jute, providing reason for doubt as to their permanence.

Late in 1955, the basis of Philippine-American trade as defined in
the 1946 Bell Act was replaced by the so-called Laurel-Langley Agreement. The main feature of the new agreement was its new trade terms. While in 1956 Philippine exports were to pay only five per cent of the American duty, increasing by five per cent each year, American exports to the Philippines started to pay 25 per cent of the full duty, increasing every five years by 25 per cent more. At the end of 20 years, the free trade would be completely liquidated and the export of each country would pay the full duty.

In an overall sense, American postwar assistance to the Philippines has had many beneficial effects. In the Philippines, perhaps more than anywhere else, America has indicated a desire to help the impoverished masses who constitute the bulk of the Filipino population.

The scheduled liquidation of free trade has, however, become the Philippine Republic's No. 1 nightmare. At the root of the difficulty and underlying the basic problem are several factors of many types—some old, some new, some of Filipino origin and some not. There are various contributory causes, for which in great measures the Filipinos themselves are accountable, and which will be analyzed below. These include the dominance of Filipino political life by a favored few, the absence of a native middle class except in the most embryonic form, the absence of a strong, healthy political opposition, the irregularities associated with national elections, and the obvious existence of widespread graft and corruption.

The Philippine Republic failed to meet successfully the "Huk" uprising which contributed to internal unrest and reflected the long standing and unresolved problem of agrarian reform.
Arising during World War II as an anti-Japanese guerrilla force, this movement drew its chief strength in the Tarlac Plain north of Manila, an area that had given trouble under Spanish control. Agrarian discontent arising from the exploitation of peasants by landlords was constantly reported. The purchase of the friar lands and the establishment of improved credit facilities had been American contributions toward elimination of these conditions. Also, it had been hoped that through education the peasant would be informed of his rights and that through honest courts his rights would be protected against the local money-lender, the absentee landlord, and the venal politician. However, land monopoly and debt peonage inherited from Spain remained essentially unimproved after fifty years of control by the United States. Some Filipinos had favored independence because they thought that without the United States the problem could more readily be eliminated.

Although it is not certain that agrarian reform, as demanded by the Huks, could have been provided at the time by the Philippine Government, under existing constitutional provisions, or within its financial resources, considerably more might have been provided than was offered under the Magsaysay rehabilitation program, and certainly greater efforts should have been exerted to eliminate earlier the chronic causes. One result has been that while the national government plans the development of the economy, the tao, while fuming and fretting, plans—and plots—for the acquisition of land. Future internal unrest and discord is a distinct possibility under such circumstances, and this is not conducive to effective national economic planning and program implementation.
Even more fundamental than these disturbing political factors are a number of other contributory causes. These include the concentration of wealth in the hands of a few; unequal bargaining power of workers and tenants in relations to employers and landowners; inefficiency in agricultural production and land tenure along feudal lines; inadequate and retrogressive tax policies, producing insufficient funds and resting most heavily on those least able to pay; an imprudent utilization of funds for consumer rather than capital goods; the adverse effects of the war in terms of physical destruction and dislocation of production and trade; and finally, and most important, the existence of a colonial economy.

To a significant degree the unbalanced and underdeveloped nature of the Philippine economy stems from causes which were uncorrected during the long, historic subordination to and dependency upon the American market. In this sense, at least, a major portion of the blame for the present economic difficulties of the Philippines must be accepted by the United States.

At the assumption of responsibility for the Philippines, American leaders thought the Islands would prove economically valuable for trade, as an investment outlet and also as a base for the China trade. However, American capital never was greatly attracted, the Chinese trade failed to materialize as anticipated, and Manila as the entrepot for the Far East likewise never materialized. However, U.S.-P.I. trade did increase, particularly after the adoption of qualified free trade in 1909 and complete free trade four years later.

In the adoption of free trade lay one of the major contradictions
of American policy toward the Philippines. While asserting good
government and self-government with eventual independence as the
political goal, an economic policy was pursued which tied the Islands
ever more closely to the United States.

The failure of the Philippines to live up to advanced predictions
in the economic field, coupled with the belief, strongest during the
depression, that the Islands competed with United States industry and
labor, led to Philippine independence in the Tydings-McDuffie Act of
1934. Subsequent legislation, particularly the Philippine Trade Act
of 1946, indicated that competition was less real than had been feared.
In that Act, the parity clause, the partial regulation of currency, the
limited control of the transfer of foreign exchange, and the nature of
certain quota restrictions pointed to a resurgence of the desire which
had been manifest at the opening of the century to safeguard American
economic interests and opportunities.

American trade policy did accentuate the tendencies toward a
colonial-type economy. It encouraged the production of cash crops,
some of which were dependent almost exclusively upon the free American
market; it inhibited a diversified economy; and it forestalled the
local production of consumer goods. Consequently, consumer goods and
even food were imported, and due to trade preferences, largely from
the United States. Philippine price levels for such items followed
closely those of the United States, but Philippine wage levels were
far out of line. This disparity adversely affected the Filipinos,
especially those in the lower income brackets.

American trade policy unquestionably hastened some measure of
economic development in the country. Moreover, inauguration of an improvement and welfare program would surely have been delayed without American help and its implementation would have been severely curtailed. The accumulation of capital which took place in the Islands, though not creating a native middle class of significance and though concentrating much of the wealth in the hands of a few—not infrequently American, Spanish, or Chinese—nevertheless remained largely in the Islands and was not drained off to the usual extent by absentee capitalists.
PART II

CHAPTER 5

THE PHILIPPINE NATIONAL ECONOMIC COUNCIL

A. Establishment and Functions of the Council

Non-governmental economic planning in the Philippines was instituted prior to establishment of the NEC in 1935. In 1934, the Philippine Economic Association, a private organization founded a year or two before and still active today, of which Elpidio Quirino was president, prepared what could be called the first prewar national economic plan. This early development planning was prompted by the introduction in the United States Congress of the Hare-Hawes-Cutting Bill which provided for the independence of the Philippines under adverse economic conditions.

The particular circumstances existing in the Philippines just prior to 1934 which gave rise to national planning involved both politics and economics. Politically, the Hare-Hawes-Cutting Act, representing a United States move to grant Philippine independence while imposing certain restrictions on future free-trade, created a dispute in the Philippines and resulted in a factional fight within the leading political party. President Quezon opposed the Act and was finally able to secure the passage of a resolution against the measure in the Philippines legislature on October 17, 1933. The result was that in March 1934, under the prodding of President Franklin D. Roosevelt, the United States gave ground and a revised act—the Tydings-McDuffie Bill—was substituted.
although few, if any, substantial modifications were involved. Economically, the revised act was as objectionable as the earlier enactment due to the scheduled elimination of preferences for Philippine products in the American market. However, it was accepted by the Filipinos primarily because it promised political independence although practically forcing comprehensive government planning action to provide for the nation's economic security during the scheduled transition which would end existing free trade.

It was in this atmosphere of controversy and under these circumstances that the Philippine Economic Association directed its attention to the preparation of a Philippine economic development plan in 1934. The NEC, under the chairmanship of Manuel A. Roxas who apparently favored a policy of Philippine economic as well as political independence, began to function in early 1936.

The National Economic Council was created to undertake the planning required for developing the Philippine economy. The legislative act which established the Council provided that its functions were "to advise the government on economic and financial questions, including the improvement and promotion of industries, diversification of crops and production, tariffs, taxation and such other matters as may from time to time be submitted for its consideration by the President, ... and to formulate an economic program based on National independence."

The composition of the Council was not to exceed fifteen members, who were to be appointed by the President with the consent of the Commission on Appointments. Under the act the composition of the membership in the Council was not defined. It apparently was possible
that any number up to fifteen private persons—full or part-time—
could have been appointed. As it turned out, the successive Presi-
dents appointed mostly department secretaries and other government
officials, serving as ex-officio members with a few private members
tossed in. In 1955, the last year of operation of one stage of the
Council's development, it was composed of twelve government officials
and three private members.

The first (acting) chairman of the Council was Secretary of
Finance Antonio de las Alas. He was then also Chairman of the Board
of the National Development Company, a government corporation whose
direct operation of enterprises reflected its possible close relation-
ship with the NEC. Among the original members were the then Secretary
of Agriculture and Commerce, Eulogio Rodriguez, who is now the Presi-
dent of the Senate and acknowledge chief of the unofficial but important
Council of Leaders, the Nacionalista party caucus; the then President
and Chairman of the Board of the Philippine National Bank, Jose Yulo,
who is an extremely wealthy Pampanga cattle and sugar producer, Nacio-
nalista Senator, ranking member of the Council of Leaders, and presi-
dential aspirant as recently as 1958; and the President and Chairman
of the Board of the Manila Railroad Company, Jose Paez. Other members
were Joaquin M. Elizalde, Ramon J. Fernandez, Wenceslao Trinidad,
Vicente Madrigal, Francisco Varona, Ramon Soriano, J. H. Marsman
(a long-time and successful American businessman in the Islands),
Rafael Alunan, Vicente S. Encarnacion and Manuel A. Roxas. The
first permanent Chairman of the NEC was Manuel A. Roxas, who later
was elected third President of the Commonwealth of the Philippines
and subsequently became the first President of the Republic upon establishment of the nation's independence on July 4, 1946.

At first the functions of the Council were purely advisory and limited to questions referred by the President. In 1938 an attempt was made under the leadership of Chairman Manuel A. Roxas, concurrently Secretary of Finance, to prepare a national plan for economic development. An outline was drafted and several working groups organized, but after several sector reports were submitted the work was discontinued and consolidation of the reports into a national program was not undertaken. No further attempt at over-all country programming was made until after World War II.

Early in 1948, a reactivated NEC approved and recommended the implementation of the Philippine Power Program prepared under contract with Westinghouse Electric International. When a loan for financing the program was being negotiated with the International Bank for Reconstruction and Development, it became necessary for the Philippine Government to submit a broad national economic program which would show the relative importance and position of the power projects in relation to the other development needs of the country. It was then that the 1948 "Quaderno Plan" was evolved, almost wholly in Washington. Although the plan was not prepared by the Council it was subsequently approved by the Council upon presentation by Mr. Quaderno, who at the time was Chairman of the NEC and concurrently Secretary of Finance.

In 1950, the Quaderno Plan was revised by the Jose Yulo working group, resulting in the "Yulo Plan." Finally, toward the middle of 1953, in view of the desire of the United States Mutual Security Agency
for a better basis for the formulation of the United States aid program,
a special project was established which enabled the Council to organize
a small technical staff and create an Inter-Departmental Technical Com-
mittee. This enabled the NEC to prepare its first development plan and
to evaluate the previous economic programs.

Although establishment of the NEC constituted recognition of the
principle of national economic development planning, the second and
perhaps most important pre-war national economic plan emanated not from
the NEC but from the Joint Preparatory Committee on Philippine affairs,
constituted in 1937. The Committee was established by Presidents
Roosevelt and Quezon to study trade relations between the United States
and the Philippines and to recommend a program for adjustments in the
Philippine national economy. John Van A. MacMurray of the United
States was appointed chairman, and Jose Yulo of the Philippines vice
chairman. The Committee's terms of reference excluded such questions
as the postponement of independence, the retention of American military
reservations and other non-economic matters. The report of the Joint
Committee, publicly released in November 1938, incorporated the earlier
findings and conclusions of Drs. Frank A. Waring and Ben D. Dorfman,
Senior economic analysts of the U.S. Tariff Commission, who had previously
conducted a survey of the Philippine economy. The recommendations
of the Joint Committee resulted in the enactment of the Tydings-Kocial-
kowski Act of 1939 which amended the Tydings-McDuffie Act of 1934.
The over-all economic recommendations provided by the Committee led to
a tempering, to some extent, of the free trade provisions contained in
the earlier act.
Even though the NEC was accomplishing very little that had direct reference to formal economic development planning at the time, the President of the Philippines and the NEC Chairman continued to present the policy which should be followed by the Council. In 1937 President Quezon stated:

The National Economic Council has a role to play in the affairs of our country next in importance only, if not equal, to that of the Cabinet itself...

The creation of this National Economic Council answers an urgent national need and formally commits this Government to a definite economic policy. We don't believe in the economic philosophy of "laissez faire." We favor government leadership in production activities. We believe in planning and national economy. The world has learned at a cost of untold economic waste and human suffering, after submitting to a very severe test the very foundations of the social order our civilization has created and erected, that governments can not allow unlimited free rein to private enterprise without jeopardizing the public welfare in the interest of human greed.

Then, as today, the Philippines was unable to provide sufficient food for the nutritional requirements of an expanding population, although the disparity today is considerably less than formerly. Agricultural self-sufficiency in rice and corn had not been reached and, as is required even today, deficiencies had to be met through additional importations. Further, while the Philippines possessed most of the new materials needed to produce prime necessities, it still was necessary to import fabrics to clothe the population and construction materials—particularly cement, hardware and steel—to erect buildings and for roads. The importance of attaining at least relative self-sufficiency in necessities was stressed by Manuel Roxas as Chairman of the NEC:
The only workable economy possible under present conditions is a nationalist economy on a producer-consumer basis. Every nation has adopted it to a greater or lesser degree. It underlies the economic philosophy of every government. In theory and in practice this kind of economy is wasteful, but we cannot follow a different course in a world where practically every nation has accepted it and acts in accordance with it. We cannot allow our people to starve. We must give them work and a means of livelihood. Not being able to engage in a free interchange of production with other countries, we must endeavor to supply as much of our requirements as practicable with our own production. Self-sufficiency cannot be absolute, but it can be approximated, especially in prime essentials.

Between 1936 when the NEC was activated and 1942 when the Philippines was occupied by the Japanese it had been possible only to establish firmly the principle of governmental planning, and to create and staff a functional body for planning. During and immediately after the World War II occupation the NEC ceased to exist, like many other pre-war Philippine governmental operations. In any event, constructive economic planning during the wartime dislocation, chaos and resulting disorganization would not have been possible. Further, while some efforts at planning had been made, real economic development had not been instituted when the Japanese attack occurred. In fact, notwithstanding the earlier creation of the NEC, the 1938 report of the Joint Preparatory Committee on Philippine Affairs had emphasized the importance of formulating a "coordinated, whole economic program." It opposed any tendency to allow such a program to accumulate as a heterogenous mass of individual projects urged upon the administration in more or less random fashion by various minority or pressure groups.

The period of Japanese occupation was thus not the interruption of
a planned pattern of Philippine economic development. Moreover, the widespread economic dislocation during the occupation and the extensive economic disruption following the occupation delayed and made more difficult the task of Philippine economic development planning. Accordingly, while major postwar governmental emphasis was being directed toward short-term rehabilitation of immediate urgency, an opportunity was thus afforded for the reactivation of the NEC. Yet, although the organization resumed its operations again after the occupation, it was not until 1948 that a comprehensive economic plan was developed. Even this accomplishment represented only an expansion and up-dating of the earlier Guardemo Plan into the 1949-1953 five-year proposal. In due course successive plans for subsequent periods were promulgated: the 1950-1954 plan, entitled the Yulo Plan in recognition of its sponsor; the 1955-1959 plan; the 1957-1961 plan; and the present three-year 1960-1962 plan.

In 1950, the Quirino-Foster Agreement on Economic and Technical Cooperation was adopted, and in 1951, the Economic and Technical Cooperation Agreement between the U.S. and the Philippines was concluded. These agreements, in turn, led to the establishment and operation of the United States' Economic Cooperation Administration in the Philippines. The establishment of the organization in the Philippines stemmed from the earlier recommendations of the Bell Economic Survey Mission to the Philippines. Following the Quirino-Foster Agreement,

President Quirino created the Philippine Council for United States Aid (PHILUSA) from the nucleus of the Philippine Economic Survey Commission which, under Senator Jose Yulo, had revised the 1948 Cuaderno Plan into the 1950 Yulo economic development program. Senator Yulo was appointed Chairman of PHILUSA. Its membership included Congressional and Executive Branch personnel and, of particular significance in the present context, most of the members of the NEC as an "action staff". With its personnel absorbed by PHILUSA, the NEC was again inactive for some time but it was reactivated in 1952 in connection with a required study of the United States-Philippine Trade Revision Agreement.

During the final year of his administration, on May 30, 1953, President Quirino directed the NEC to review the progress made under the 1950 development program. The President acknowledged that some advancement had been realized but stated that, "the rate of industrial growth seems insufficient to absorb the increasing numbers of our population." He continued:

Late in 1948, I gave my approval to a development program recommended by the National Economic Council. The objectives of the program as stated in the report were:

"1. To adjust the Philippine economy to the decline in the U.S. Government payments and provide the necessary adjustments in the progressive application of American tariffs after 1954—by the realization of income-producing projects, such as food-production projects, light industries, and handicrafts.

"2. To initiate or effect the initial stages in the process of structural adjustments necessary in the change of the national economy from sole dependence on export crops to an economy better fortified against the severe fluctuation in the
demand and prices of export crops in foreign markets—by crops, by extension of productive activity from raw material production of industrial processing, and by increased investment in urban housing.

"3. To provide for the reconstruction, extension and augmentation of transportation and communication services so as to enlarge the scope and possibilities of the domestic market (internal distribution) and promote greater regional specialization."

In 1950, an Economic Survey Mission appointed by me made a review of the progress attained under this program and suggested certain changes in the light of conditions which had developed, particularly the limited financial resources available at the time. The terms of reference of the Mission contained the following objectives for the revised program:

"1. Make the country as self-sufficient as it can be in the prime and essential necessities of life, such as food, clothing, shelter, transportation and communication services, etc.

"2. Accelerate the production of dollar-producing exports, so as to achieve within the shortest possible time a stable balance of payments notwithstanding the imminent reduction of dollar receipts from the United States commencing this year.

"3. Establish an economy which can withstand the gradual cessation of preferential treatment given to us in the American market under the provision of the Trade Agreement with the United States.

"4. Expand the productive capacity of our people, thereby increasing their earning power and improving their standard of living."

Almost three years have passed since the revised program was instituted. On the whole, I am satisfied with the progress achieved by the nation, particularly in the fields of agricultural production, public health, and road building.

There is however, one sector in which progress does not appear to keep pace with the needs of the economy. While a number of industrial enterprises have sprung up since the institution of the revised program in 1950 and the imposition of trade and exchange controls, the rate of industrial growth
seems to be insufficient to absorb the increasing numbers of the new labor force arising from the rapid growth of our population. I am convinced that the expansion of agricultural output alone will not solve our problem of underemployment, and that equal emphasis must be placed on industrialization, which could give more opportunities for employment to many who are now either unemployed or are not employed in such manner to utilize their full productive potential.

For this reason, I am anxious that a review be made of the programs attained under the Revised 1950 Development Program taking into account specially the various projects being implemented under the PHILCUSA--MSA program.

The report of the Council should indicate recommendations on measures which will induce private investors to embark on enterprises that will contribute most to national welfare.

I would greatly appreciate it if the National Economic Council can render its report on or before July 31, 1953.26

Filemon C. Rodriguez, Acting Executive Director of the NEC, in compliance with the President's letter which had been endorsed to him by Council Chairman Montinola, submitted a report on December 24, 1953, embodying recommendations on the various activities encompassed by the 1948 and 1950 plans. However, it is probable that the report was not received or acted upon prior to the expiration of the President's term of office.

There are few criteria widely accepted as a basis for evaluating economic development planning. Several questions may therefore be asked concerning the basic guides which have been available to the NEC for devising and formulating economic development plans. What have these been and what has been their impact upon NEC planning?
First, and perhaps foremost, have been those purely economic considerations—theoretical and applied—which represent the large body of accepted economic doctrine and the experiences resulting from its practical application. By reason of education and experience, many of the Filipino public officials and particularly those of the NEC are likely to be as familiar with the recognized tenets of the economic discipline as perhaps any of their counterparts in the Western nations and elsewhere. Their education usually has been acquired at leading American universities, including graduate level training. NEC officials participate in United Nations, specialized agencies and other international economic deliberations as well as intergovernmental and regional activities. In addition, NEC personnel frequently travel abroad to observe, compare and evaluate foreign economic development, the potential value of which is hardly disputable. In consequence, there is an evident interaction of fundamental economic doctrine upon the development plans of the NEC, and also of such doctrine upon the planners themselves.

In addition, during recent years practical and beneficial recommendations and advice have been provided Filipino economic planners by various financial experts and economists of the United States, Germany and international organizations. Typical examples are the recent surveys and recommendations of the German financial expert Hjalmar Schacht and American development expert David E. Lillienthal.

The core of economic experience and knowledge gained, however, has been that resulting from the economic and financial policies, practices and advice of almost a half century of American rule and influence in the Islands. Still, it should not be assumed that the frame of reference
so derived constitutes the sole orientation of Filipino economic planning. Subsequent surveys, reports and recommendations on the Philippine economy, conducted at intervening periods when diverse forces had produced cumulatively adverse effects and therefore may have occasioned recommendations for the application of new economic doctrine, perhaps have been of greater significance and influence. Included have been the findings and advice of the Joint Philippine-American Commission on Rehabilitation, established in 1943 to provide recommendations on long-range rehabilitation and reconstruction in the Philippines; the Joint Philippine-American Finance Commission, established in 1947 to study and make recommendations on Philippine government finances; and the Hibben Memorandum which was an outgrowth of the Commissions' study. The Joint-Philippine-United States Agricultural Commission, established also in 1947, recommended steps for strengthening Philippine agricultural production as pertained to both consumption and export. Other studies are the following: the 1947 Beyster Plan, a private study prepared for the Philippine government by the H. E. Beyster Consultant Corporation; the 1950 Survey Mission report of the International Monetary Fund; and the 1950 Bell Economic Survey Mission, established by the United States to survey the Philippine economy and provide policy recommendations.

Finally, to be added to the vast knowledge arising from the extensive data provided is the exclusive position of the Filipino planners themselves for utilizing applicable economic theories in the solution of Philippine economic problems so as to allow for the peculiar cultural, political and other features of Filipino society. Without a full grasp of the psychological, spiritual, material and social values
of the Filipino people—as possessed by the Filipino planners themselves—it is improbable that others, even with superior economic expertise, could attain greater success in Philippine development planning.

B. Recent Developments in NEC Organization and Functions

Under Republic Act No. 997 as amended by Republic Act No. 1241, President Magsaysay in 1956 undertook an extensive reorganization and revitalization of the NEC. Previously, in his first State-of-the-Nation Address, delivered before the First Session of the Third Congress, January 25, 1954, he had recommended that, "the NEC be revitalized as a really effective agency to plan and put into effect a truly integrated program for economic development".

In acting on the President's recommendations, the Congress, under Republic Act No. 997, as subsequently amended, authorized the establishment of a Government Survey and Reorganization Commission empowered to, "consolidate, abolish and transfer governmental functions, to eliminate overlapping activities and to effect other necessary action to promote economy and efficiency in the service."

The Commission determined that inefficient governmental organization had hampered Philippine economic planning but that economic planning was basic to any effective scheme of coordinated national economic development. Therefore, it concluded that there was an urgent need to proceed with planning and consequent development at a more rapid rate and in a more balanced manner. As a result it was recommended that a new National Economic Council be created.

On July 1, 1955, President Magsaysay issued Executive Order No. 119
which provided implementing details for the reorganization of the National Economic Council. Organizationally, the Council as established in this new stage consisted of four major elements. First, the Council proper was composed of eleven members including a full-time Chairman with cabinet rank, the Chairman of the National Development Authority as Vice-Chairman of the Council, two ex-officio members from the Senate, the Governor of the Central Bank, the Chairman of the Rehabilitation Finance Corporation, and three other members each representing labor, industry and agriculture. Second, there is the Office of the Chairman with subordinate functions of Legal Counsel, Public Relations and Administrative Services. Third, there is the Office of National Planning with immediately subordinate Branches of Agricultural Resources, Industrial Resources, Services (Utilities), Finance, Trade and Commerce, and Social Development. Fourth, there is the Office of Statistical Coordination and Standards with two subordinate Branches, namely, Planning and Coordination and Standards and Review.

The organizational structure of the NEC is relatively simple and flexible. The span of control of the Chairman covers four separate, substantive functions and three staff service functions, which does not appear excessive. Further, subordinate operations are functionally grouped under each of the Offices in accordance with accepted administrative organization practices and this enhances central direction and effective communication.

The Chairman of the NEC is appointed by the President, serves at his pleasure and is a member of the Cabinet. The remaining Council members are either ex-officio or serve as appointees of the President.
The Directors, Assistant Directors and the Chiefs of the Branches are unclassified civil servants, i.e., political appointees. All other personnel comprising the staff of the Council are in the classified civil service. The present Chairman, Dr. Locsin, is a former Senator and medical practitioner by profession. His qualifications in economic development planning, particularly those acquired prior to his present appointment, apparently were not extensive. The staff members of the NEC, by reason of training and experience, are technically competent men and women, diligent and professionally qualified. With the exception of the ex-officio members, no person holding any public office, elective or appointive, may be a member of the Council.

In all appointments to the Council, the President is enjoined to select "citizens of honesty, responsibility, high integrity, and competence and shall give due regard to affording fair representation of the agricultural, industrial, labor, financial and commercial interest." The enjoiner seems to have been observed to some extent. However, some observers believe that loyalty to the Administration, size of political following and extent of political popularity of appointees possibly have been of greater import in this connection than solely technical qualifications. For example, Dr. Locsin is from the Province of Negros, and as a former Senator he demonstrated his ability to secure the vote of a great number of Negros Island and other Filipino constituents. Apparently he has had the support of certain special interest groups. Prominent among these are the medical, nursing, hospital and other professional groups. It was also reported that Dr. Locsin's appointment to the NEC was not objectionable
to the formidable sugar bloc and sugar interests predominately centered in the Island of Negros. The political affluence and authority of the sugar bloc constitute an effective force to be reckoned with in Philippine politics notwithstanding the relative decline in sugar as a principal source of Filipino wealth.

The presence of a majority of Council members is required to constitute a quorum for the conduct of business and all decisions require the concurrence of at least six members. The Council meets as frequently as it determines necessary; this being largely a function of the Chairman. It is required that when a member, or any of his private business associates or relatives, has an interest of any kind in matters before the Council, the member will not participate but will withdraw from the particular meeting.

In terms of his functions and responsibilities, the Chairman of the NEC is expected to do the following:

Preside over the meeting of the Council.

Prepare the agenda for the meetings of the Council and submit for the Council's consideration proposals setting forth policies and measures and economic and social programs, plans, and projects.

Coordinate the work assigned to permanent, special and temporary committees which may be formed by the Council.

Transmit to the President the policies and measures and economic and social programs, plans and projects approved by the Council.

Serve as the chief executive officer of the Council; direct and supervise the operations and internal administration of the Council, and delegate administrative responsibilities as necessary or desirable.
Follow up on the implementation and execution of such phases of the economic development program, plans and projects as are under the jurisdiction of the different entities of the government and prepare for the President such directives as may be necessary.

Prepare for consideration by the Council necessary directives requiring services and reports from other government agencies as may be needed in the formulation and implementation of the policies, plans, and programs of the Council.

Submit periodic reports to the Council for its approval and subsequent transmission to Congress and to the President indicating, among other things, the state of progress made by other entities in the implementation of approved economic plans, programs, and projects, and current needs for legislation and changes in administrative policies, objectives and practices.

Employ, with the approval of the Council, such counsel and such officers and employees as may be necessary to perform the work of the Council.

The Council's specific functions are to:

Advise the President on matters concerning the economy. The Council, acting through its Chairman, is an extension of the personality of the President.

Formulate definite and consistent national economic policies and prepare comprehensive economic and social development programs which, when approved by the President and, if necessary, by Congress, shall be implemented by government executive departments, government corporations, government financial institutions, chartered cities, and other local governments. Plans and programs shall be formulated in component parts, each part to contain those items which each respective government entity--department, bank, financial institution, corporation, etc.--shall have the responsibility for implementing. Likewise, items which require implementation by private enterprise shall be formulated as component parts of the integrated plans or programs.

Review all existing programs, public or private, which have a bearing on economic development, and make modifications thereof at least once a year.

Study available financial resources for financing
economic development, both public and private, in the light of current credit and monetary policies.

Inventory the country's needs and resources, and establish a program of priorities for development projects that would fit into both the immediate and long-run demands of the Philippine economy.

Establish goals for public and private investment in the fields of food and raw materials production, power, communications, manufacturing, and other essential services.

Study and define consistent policies and criteria that shall govern the granting of tax exemption privileges and other incentives to investment.

Formulate recommendations to coordinate fiscal and monetary policies.

Study the economic aspects of reparations and determine the magnitude, extent timing, and quality or reparations items, as well as the proper use and disposal thereof.

Formulate trade and tariff policies, considering that tariffs are instruments of national policy in the solution of balance of payments problems and in achieving a broader and more stable pattern of domestic production.

Coordinate statistical activities of all government agencies, formulate statistical standards and methodology, and prescribe their use by government agencies.

Prescribe priorities in the allocation of foreign exchange necessary to implement approved economic development plans and projects which, when approved by the President, shall be binding on the Central Bank.

Require the services of other government agencies as may be needed in the formulation and implementation of its policies, plans, and programs.

Require such reports from all government entities as the Council deems necessary on the implementation of approved plans, projects, and programs.

Submit periodic reports to Congress and to the President indicating, among other things, the state
of progress made by other entities in the implementation of approved economic plans, programs, and projects, and current needs for legislation and changes in administrative policy, objectives, and practices. 44

In addition, the Council is required to provide the President with information and advice with respect to entering foreign trade agreements and to recommend, whenever necessary, increases and reductions in the rates of import duties.

The Office of National Planning directly assists the Council by preparing and keeping current a national plan for economic and social development involving the governmental and private sectors and pertaining to industry, commerce and agriculture, and by reporting on implementation of the national plan. The Office also prepares continuing studies of the tariff structure and commercial relationships of the Philippines with other countries, recommends changes as required, andformulates policy recommendations on matters referred to the Council for advice.

The Office of Foreign Aid Coordination, as its name implies, is responsible for coordinating and integrating foreign aid, technical assistance, the reparations program and the activities of certain government and private entities. Primarily, work of the Office consists of processing and evaluating programmed projects receiving foreign aid or related peso financing in order to effect or recommend necessary action for eliminating program obstructions.

The Office of Statistical Coordination maintains a prescribed statistical system for the governmental planning requirements of the Council. The Office also develops statistical standards and methods
for the use of other agencies and coordinates decentralized statistical activities.

C. Major Operational Problems

NEC Implementation Authority

In 1956 when the NEC was reorganized and reconstituted by President Magsaysay, it was contemplated that implementation of NEC plans would be accomplished by a National Development Authority which would be established for this express purpose. Under Republic Act No. 997, as later amended, the Government Survey and Reorganization Commission recognized that several government corporations were engaged in economic development functions and that systematic and unified direction was needed. It therefore recommended, in Reorganization Plan No. 11, that a centralized implementation authority be created to "implement NEC plans so as to provide for a more rapid and balanced development of the national economy." Specifically, it was proposed that the Office of Economic Coordination, the National Development Company, the Board of Liquidators, the Investment Assistance Commission, and the Anti-Dumping Board be abolished, and a National Development Authority, instead, be created. It was recommended that the functions, appropriations, property, personnel, of these entities and all government owned or controlled corporations be transferred to the authority. A Board of Directors, consisting of a Chairman and four members all appointed by the President, would direct, manage and operate the Authority.

It was planned that the Chairman of the NDA would concurrently serve in an ex-officio capacity as Vice Chairman of the NEC. This
would provide the full complement of eleven NEC members and, more important, assure continuous coordination and liaison of NEC's development planning, and NDA's development implementation. In none of the records consulted is there mention of the underlying reasoning or of the model upon which this particular organizational arrangement was fashioned; but it is evident that an acute foresight was exhibited and, quite correctly, one of the future organizational problems which would impede development effectiveness was anticipated.

It was also provided that the assets of the NDA would not be utilized for the payment of general debts of the national government. This provision, quite obviously, was to ensure that existing resources and the gains realized through NDA operations would be exclusively utilized for extending economic development.

Although it was generally agreed that a National Development Authority was highly essential to implement the development plans of the National Economic Council, the Philippine Congress failed to approve the plan. In fact, of the several government reorganization plans submitted in 1955 for Congressional approval, only Reorganization Plan No. 10, for the reorganization of the NEC, was adopted. It had been suggested that the Congress feared an NDA might be too powerful, although later it approved a similar plan, No. 11A, containing the proviso that budgets of all government corporations under the NDA would be subject to Congressional approval. The prompt presidential veto which followed indicated that if political considerations, rather than purely economic dictates, were to govern the NDA, and possibly NEC operations, such considerations would be controlled by the Executive and not the Congress.
However, the view that the NEC should have any implementing powers has not been unanimous. For example, Dr. Salvador Araneta, President of Araneta University, Manila, and former Secretary of Agriculture under the Magsaysay Administration, has pointed out that the NEC is and was intended to be only an advisory body to the President and therefore the exercise of implementation authority by the NEC would be inconsistent with its basic purpose and functions. In his view, under the strong executive type government in the Philippines, only an economic "czar" possessing virtually dictatorial powers acting on behalf of the President could possibly have the necessary authority to implement effectively national economic development policies. Dr. Araneta stated that compelling political realities may well preclude such a future delegation of authority, but under any circumstances the implementation possibilities which might be provided would be grossly incompatible with the very nature of the NEC.

Dr. Araneta believes the granting of implementation powers to NEC would arouse adverse reactions by other Executive Departments. For example, it was stated that the Department of Commerce and Industry had opposed NEC's implementation of certain development proposals for private industry on the ground that such action prevented the Department from expanding its own activities in this direction. Still, Dr. Araneta insists, the President could delegate some implementation authority and discretion to the Chairman of the NEC—particularly in connection with important economic policies for which primary implementing responsibility has not been assigned—thereby creating a sort of Special Executive Secretary.
Currently, because of the close relationship and importance of foreign exchange policy to economic development planning, the NEC has reactivated its proposal for creation of the National Development Authority. In addition to the powers proposed under Reorganization Plan No. 11, it is desired that the NDA submit to the NEC for approval annual priority foreign exchange budgets for implementing the development program. It is also proposed that the NEC itself will supervise the allocation of foreign exchange for development purposes and direct other government entities to comply with the requirements.

Among several difficulties faced by the NEC proposal is the fact that certain of the foreign exchange allocation and budgetary functions contemplated for the National Development Corporation appear to overlap and conflict with similar responsibilities and objectives assigned by law to the Central Bank. Further, if the legal requirement proves an insufficient obstacle, in any show of force within the administration, between the membership of the politically powerful Monetary Board of the Central Bank--headed by Jaime Hernandez, concurrently Secretary of Finance, and Miguel Guaderno, Sr., Governor--and the NEC, it is possible that the latter would come out second best. The NEC, with even its current three year year plan yet unapproved by the President and its Chairmanship filled by now politically sterile Jose Locsin, is hardly in a position to force its NDA proposal through the formidable administration opposition now existing.

This suggests that for some time the NEC will probably be permitted only advisory planning functions. Implementation authority is not likely to be attained in the immediately foreseeable future.
The formulation of policies and programs in the National Economic Council is ordinarily the concern of one or more of the following groups: (1) the Council proper, consisting of the congressional members, the ex-officio members from the Executive Branch and the representatives of the private sector; (2) the technical staff of the Council composed of the members of its three main operating functions: National Planning, Foreign Aid Coordination and Statistical Coordination and Standards; (3) various departments, offices and agencies of the Executive Branch of the government, particularly the Budget Commission, Central Bank, and Department of Finance; and (4) the representatives of the private sector.

The occasion for the formulation of a particular economic policy may arise in several ways. It may come through a Presidential directive to the Council requiring it to deliberate on a given economic policy, such as the 1959 directive of President Garcia for the formulation of an NEC plan to disperse Philippine industry throughout the archipelago. It may arise through the initiative of any one of the four groups indicated, such as the proposal of the Philippine Foreign Office that NEC formulate a plan providing for the sale of government corporations to individual Filipino investors. Another example is the NEC staff proposal to decentralize to local levels certain government implementations of the current development program.

In most instances the initiative in policy-making comes from the members of the Council proper. Within the Council, the initiative seems about evenly divided between executive branch, legislative, and
private sector members. Policies are formed, depending upon the partic-
cular implications involved, in the process of Council deliberation on
a problem after study by the technical staff.

The detailed preparation of a specific economic program is a pri-
mary responsibility of the Office of National Planning and the process
involved is considerably more elaborate than the formulation of policy.
For a good part of a year the staff of the Office of National Planning
gathers data and program proposals from different departments and agen-
cies of the government, perhaps preponderantly from the Central Bank
and the Office of Statistical Coordination and Standards. From these
data, the broad economic aggregates of national income, consumption,
investment, employment and population growth are determined. The Coun-
cil Chairman then discusses with the technical staff the broad objec-
tives of the program. In the case of the present three-year Social and
Economic Development Program, major effort has been directed toward an
increase in the level of employment and toward an improvement in the
balance of payments position of the nation.

When the broad objectives have been defined, the technical staff
prepares a growth model of the economy which indicates in simplified
terms the rate of increase of national income per annum and the level of
investments required to generate such an increase. The model is then
discussed by the sectorial specialists and sector programs are prepared
and again checked for consistency. This preparatory work requires
approximately two to three months, following which the programs are
presented to the Council for discussion and determination of underlying
policies. This requires from three to four weeks. If the program and
corresponding policies are agreed upon, a final draft is presented to the Council in a formal meeting. If the Council adopts the program, the Chairman then presents it to the President of the Republic for approval.

Informal intra-office conferences of NEC staff members, and with other departmental committees and agencies, provide valuable sources of information and specific program suggestions. At least once a week, one or more inter-office committees confer in the Offices of the NEC. A recent example is the Committee on Cotton Production composed of representatives of the Bureau of Plant Industry, the Agricultural Extension Division, the National Development Company, the Philippine National Bank and the Development Bank of the Philippines, who together with the head of the Agricultural Branch of the Office National Planning discussed plans for encouraging cotton production and the impact of the program on the economy.

In general, the views of the Council members predominate and it is in the interplay of personalities and ideas in the Council that policies are finally determined. There is considerable freedom in discussing views and interests and participants apparently seldom hold antagonistic positions as far as the broad economic goals and policies are concerned. The characteristic Filipino effort to avoid inter-personal hostility and to give weight to another's "face" frequently is sufficient to provide the compromise necessary for solving problems.

In deciding particular cases, the matter is not always subject to conciliatory treatment, however. A case in point is the proposal of the Philippine Fiber Exporters' Association for the barter of abaca. In
the discussion the representative of the Central Bank opposed the move to barter. In a subsequent vote the majority decided to allow it.

It is required that a Council member having a direct or indirect interest in any project or policy under discussion by the Council voluntarily withdraw from the meeting. Chairman Locosin has stated that during his term of office this has always been done without exception.

The National Economic Council is the only Philippine government body authorized and equipped to perform comprehensive national economic development planning. It therefore constitutes the single central service upon which the Administration can rely for development recommendations and integrated economic data upon which to base its over-all actions. There is a recognized need for broad national economic development in the Philippines, and the Council, with an effective organizational framework, a well-qualified staff, and specialized functional responsibility, is in the best position to fulfill the nation's planning requirements. Essentially, the technical work of the Council and its staff has measured up to expectations and the Council has fulfilled most of the responsibilities delegated to it. Still, its plans and policies largely remain unimplemented and its current development program has not been approved by the President after one year. It is evident that there is considerable opposition to NEC's development plans within the government, or, at least, there seems to be no particular desire to place its programs into effect. What is the nature of these obstacles and why is it that they tend to defeat NEC's basic purpose?
CHAPTER 6

POLITICS AND THE NATIONAL ECONOMIC COUNCIL

The Philippine government has a soundly organized and effectively functioning body for economic development planning. This body, the National Economic Council, has provided the nation with a series of apparently well-suited and adaptable economic and social development blueprints. Yet, its plans for the over-all development of the Republic's economy have not been fulfilled, in spite of the fact that some limited and perhaps nominal progress in specific programs has been accomplished. The inability of the government, so far, to achieve a substantially developed national economy is acknowledged by Dr. Jose C. Locsin, Chairman of the National Economic Council, although he insists that some planning progress is being made.

Why is it that, with apparently sound and applicable economic development plans and policies and an ostensibly democratic although highly centralized government publicly committed to accomplish broad national development, practically nothing is being done? Why cannot more solid development progress be achieved and why is the path toward national stability and security so inordinately difficult? The answer lies in the pattern of political impediments and obstacles which hamstring and retard certain of the policies and programs of the National Economic Council and prevent the attainment of its established economic development objectives.
The President and the NEC

The NEC is an advisory body to the Philippine president who appoints its members and most of its technical staff. By its very nature, the policies, programs and operations of the NEC are not likely to be pursued outside the scope of Administration control and political expediency.

The President, as the elected Chief Executive, functions under certain constitutionally defined obligations, including the requirement to provide for the economic well-being of the people. The electorate is, therefore, the supreme political force to be reckoned with, and this assures that the NEC—and other Administration functions—can claim no justifiable basis for exemption from the incursions of private interests or the politically affluent. However, while the Filipino people consider national economic development to be one of the most important problems confronting the Republic, no Administration has ever been voted in or out of office solely because of economic failures or achievements. What explanation may be offered for this seeming inconsistency?

First, the Philippines as an underdeveloped nation in the initial stages of self-directed economic development can ill afford to dispense more than a small fraction of its available resources for social welfare and social security purposes notwithstanding the importance of the human element in democratic economic development planning. The bulk of resources must be devoted to increasing productive capacity and output for the long run. Under the current NEC economic development plan a yearly average of only five per cent of the total expenditures programmed are earmarked for purely social development purposes.
This amount may appear ultraconservative to some, but it conforms fully with recommended levels for sustained growth.

However, sound national economic planning and political expediency are entirely different matters. In the proposed Philippine National Budget of President Garcia's administration for 1959, approximately 42 per cent, or just under one-half, of all government expenditures were earmarked for social welfare purposes. A social welfare program which reaches out to the remote barrios is always an attractive offering to the people and exploits the long-term reliance of Filipinos on the government. It also perpetuates and expands a cumbersome centralized system of bureaucracy at the top and undermines qualities of self-reliance at the bottom.

Thus the Administration disregards the long-term consequences of economic development policy in favor of short-term political advantage. The patronage policy followed enables it to hand out economic aid where it is politically profitable and not necessarily where it is economically sound. The Filipino people—now accustomed to expect little and receive even less from politics and government—inevitably seize upon the meager offerings and opportunities provided by politicians as a kind of personal gain while perhaps recognizing the apparent futility of the entire political process. This despair is a traditional basis for exploitation, and constitutes the underlying reason why the Filipino electorate fails to hold the various government administrations under their respective Presidential leaders fully accountable for failures in national economic development.
Perhaps the most significant area of relationships between the President and the NEC pertains to the executive branch's policies for the long-standing Philippine problem of trade imbalances. Involved are policies for maintaining dollar reserve balances, exchange controls, export incentives and, of particularly vital concern to the NEC, import controls. Basic Philippine economic pressures force the nation to import a greater amount of goods—primarily consumer items and therefore non-productive—than the amount exported, and this indicates the underlying need for development planning and the nature of the task confronting the NEC.

The problem of trade imbalances dates back to Philippine independence—previously, American responsibility precluded significant trade deficits during the period of its colonial rule—but particularly from liberation in 1944. Following the Japanese occupation of World War II, Philippine agricultural and industrial production reached its lowest level because of wartime and subsequent economic disruption. The level of exports fully reflected the difficulties then existing. At the same time, imports reached a new height. This was due to several significant forces: the tremendous consumer demands; a business entrepreneurship which elected to concentrate on the fast turnover import business rather than productive, low-margin, long-range undertakings; and government policies which did not discourage the trend and imposed few restrictions upon imports. Public preferences and government laxity combined to lead the republic to its present stage of near insolvency. In the main, Philippine government policies have been unable to stem the steady drain and constant pressure on the nation's dollar reserves.
and the over-all financial position has reflected the deficiency. The greater difficulty, however, is that Administration policy appears to concern itself, more often that not, with the effects of the problem rather than its chronic causes.

The key objective of NEC policies and plans is to increase significantly national agricultural and industrial productivity so as to provide a sizeable export balance beyond the consumption requirements of the Filipino people and thereby end the almost perpetual trade imbalances. But to obtain the financial resources required to initiate the national economic development program, several things are required.

First, there must be a forced reduction of consumer type imports, since this is a form of spending beyond existing means, and it can delay and prevent inauguration of comprehensive development. The Administration has an austerity policy for forcing import reductions.

The austerity policy of the government is of particular importance to the NEC for two principal reasons: (1) the success of such a policy will very largely determine when and whether the government will be in a position to effectively finance a program of economic development; and (2) even if the NEC recommended development program were instituted, success would depend to a great extent upon the ability of the government to continue to accrue sufficient revenues for maintaining planned development, particularly until a self-sustaining point could be reached.

The NEC is aware of the underlying cause of the nation's trade imbalances and that the problem antedates, by far, the present Administration, but it is anxious that present and future austerity policies be predicated upon economic realities rather than mere political expediency.
The NEC has also concluded that austerity, at best, is only a palliative and, at worse, represents a somewhat negative although necessary approach. The NEC is confident that only a development program which can provide a greater production of goods and services, utilizing fully Philippine agricultural and natural resources will, in the end, permit imports to be outdistanced. But, at the beginning of the process, the austerity policy assumes a special importance to the NEC because only in this manner can the consumption spiral be arrested and financial resources provided for inaugurating an effective development program.

The Garcia Administration's austerity policy was developed and instituted in 1957. In this year Philippine foreign reserves fell to the second lowest level ever. Central Bank Governor Miguel Cuaderno at the time urged President Garcia to temporarily abandon all government expenditures for development to avoid an outright fiscal collapse. It was insisted that an immediate reduction in imports of at least ten million dollars monthly was an absolute essential. The luxury items and non-essentials to be excluded were not directly contributing to national development. Elimination of these imports would enable the Republic to strengthen its fiscal base, maintain its foreign loan payments and dignity and provide the necessary basis for future concentrated economic development.

President Garcia evidently believed that while the tasks of broad economic development had proved perplexing to each predecessor Administration and, while the public feels that the problem is still of foremost importance, the possibility of eventual political defeat
as a result of still another failure here is not great. However, if
the immediate fiscal position deteriorates to complete bankruptcy, the
political repercussions may be severe indeed. Near the end of 1957
he announced a drastic austerity program curbing the importation of a
long list of semi-essential goods by the national government, its
agencies, and by private enterprise. In addition, barter was banned,
non-essentials were absolutely prohibited, and requirements of heavy
cash margin payments ranging from fifty to two-hundred per cent were
imposed on all foreign import and currency transactions.

The President then followed through with a direct appeal to the
Filipino public:

We as a people have demonstrated...in the past
how we could undergo great sacrifices...in our
survival as a nation. I am sure that now, faced by
lesser trials, we should be able...to prove our
mettle as a people. I believe, therefore, that...
success of the austerity program lies with the people
themselves and their voluntary and wholehearted
cooperation in the interest of the commonweal.

Thus, we shall be able to consolidate and
solidify the economic gains already achieved and
resume our economic offensive without retrogressing
in our program of development and expansion.18

Although the President's speech exhibited some evidence of
political expediency, and it must be acknowledged that it certainly
would have been inadvisable at the time to have placed emphasis upon
any other economic problem than the then near bankrupt foreign
exchange, a perplexing dilemma still remained.

President Garcia assumed the presidency in 1957 following the
tragic death of Ramon Magsaysay. During his preceding public service
as Provincial Governor, Senator, Secretary of Foreign Affairs and
Vice President he could not have been unaware of the pseudo-prosperity resulting from the almost $2.5 billion American post World War II largesse in war damage payments, grants and expenditures. Nor could he have been unaware of the circumstances which permitted the extremely small number of Philippine entrepreneurs to capitalize upon those desires of the Filipino people for consumer items which had to be imported. Strict austerity was then required and its applicability is no less evident at the present time. And just as public opinion is sometimes manipulated in politics--find out what the people want and give it to them, or make them think you have--it apparently has been similarly utilized in the Philippine economic sphere*: Cadillacs, Maiden Form bras, Revlon cosmetics, General Electric appliances and similar American prestige and affluent type products were the items Filipinos had long dreamed of and could least afford. But these and similar goods—not the machinery and other basic, productive type items recommended and programmed by the NEC—were made available to the Filipino people in spite of the fact that the Administration had recognized the implicit dangers and, at the time, had imposed various inadequate controls under Central Bank supervision.

The process of correction required, quite simply, adherence to a well-suited and systematic over-all economic development program. The Philippines has this program and has had it for some time. A prerequisite for full utilization of the plan is the rigid control and reduction of imports and this action certainly will engender widespread

*But not necessarily in Philippine politics, as will be evident in the subsequent discussion.
price increases in consumer items. This result arises, primarily, because fledging local industries encouraged by the government to fill the gap, for some while will be inefficient, non-competitive and will require subsidies and incentives to continue.

The point, then, is that President Garcia in belatedly embarking upon the austerity program of import control neglected to follow through with a requisite companion action: price control. Without the latter, his appeal to the people to cooperate voluntarily in the program meant that the people themselves should not only bear the full brunt and pay the total cost, but should also continue to pay for the folly and ineptness of the various administrations in not pursuing an orderly, systematic, planned development of the national economy and for the previous administrations having permitted a small elite of entrepreneurs to reap high, whirlwind profits at the expense of the people since 1946. This view is corroborated by the fact that the President indicated, upon announcing the austerity program, that import controls would be necessary only until the level of foreign reserves reached $200 million.

Almost three years later, in 1960, Senate President Eulogio Rodriguez--perhaps the real focal point of power in the controlling Nacionalista party, as opposed to the party's titular head, President Garcia--revised upward the President's previous estimate. It now appeared that a foreign reserve level of $320 million would be required and that "the people and the government should be ready for at least one more year of real austerity and abstinence." However, there still was no indication that action would be forthcoming which
would deal with the basic cause of the problem or, if it was recognized that anything less than a broad development program such as recommended by the NEC could provide a solution.

Therefore, President Garcia's further statement, "thus, we shall be able to consolidate and solidify the economic gains already achieved..." was redundant in several ways from either a short-term or long-range point of view and was open to serious question. Foreign reserves were at next to the lowest point since independence, and this was compelling proof that imports not only were continuing in excess of exports, but that the rate of increase had reached a historic high and therefore the inverse of national economic development was in fact occurring.

The statement was misleading in yet another sense. The monetary, import and tax policies—and their implementation—have provided a dual type economy which preponderantly benefits a small elite class and leaves virtually untouched the problem of concerted national development. Further, the vigorous consumption proclivities of the elite and the small but growing sub-class of imitators and emulators—the "modern sector"—are typically western, utilize mainly American imports, and therefore are an evidence, more of overseas expansion of the U.S. economy than of any substantial development in the Philippine economy. These factual considerations support the notion that Administration policy has encourage an arrangement which permits the "affluent society" of America merely to overflow into a small segment of the Philippine population but in no significant manner promotes the expansion of Philippine productivity as envisioned by the NEC.
Finally, the President's statement that the austerity program would preclude "retrogression in our program of development and expansion," is subject to criticism on another point. The President is certainly aware that the mass of the Filipino people—lacking knowledge and therefore often indifferent—has not been informed of a major factor. The current economic development plan of the National Economic Council—or any of its earlier plans—has not been approved by the President and therefore cannot be implemented.

Consequently, the type of political leadership which the President has provided the Filipino people—and to which they have acquiesced—has not served as a proper substitute for needed economic leadership in the past. Present Executive-NEC relationships to not indicate that constructive, progressive presidential stimulus and incentive will be forthcoming in the foreseeable future.

The Filipino Party System

Historically, one of the fundamental features of the Filipino party system arose from specialties in the electoral system. The first elections in the Philippines occurred in the present century and were local elections. The communities involved, the issues, the interests promoted and defended, the candidates, the supporting organizations and the voters were all local. Therefore, in the local struggle for power the leading families were protagonists. When the political leadership of the country was being determined, there was no other alternative but that its foundations would be local and, under the circumstances, based on the leading families of the towns.

There really were no provincial elections inasmuch as the elective
provincial officials were chosen by the elected officers of the various towns in each province. And when the first national elections were held in 1907, the elections were essentially for the purpose of choosing provincial delegates to the Philippine Assembly. But there were no national slates of party candidates. Organizational effort was provincial, as was the campaign territories. National campaigns were impossible due to non-existent transportation and communication facilities.

And who were the voters? Only males who met prescribed conditions, including the following, could vote: (1) those who held municipal office, (2) those who owned real estate worth at least five hundred pesos or paid at least thirty pesos annual property tax, (3) those who read, wrote or spoke English or Spanish.

These qualifications and the local nature of the first elections gave Filipino politics an indelible stamp which it bears today: political leadership and office were in the main restricted to the socio-economic elite. This result, together with the dominant role of the leading families in politics, explain the rise of the great family dynasties in the Filipino political system. Political parties, then, reflect the organized efforts of the dominant Filipino families to espouse their particular views and promote or protect their private interests.

This family basis may be seen in the national parties of today which are, to a considerable extent, chance coalitions, loose alliances, or at best, combinations of regional or provincial organizations. The party apparatus of the provinces of Rizal, Batangas, Cebu,
Pangasinan, Negros, Panay, the Ilocos and Bicol are striking examples. Their origins and interests derive from locally dominant families, giving rise, for example, to the view that, "there are no Nacionalistas and Liberals in Cebu; only Osmenestas and Cuenquistas".

Moreover, the fact that Filipino political parties are based on local families of the socio-economic elite has still other implications.

Filipino political parties, like almost all Western political parties, are of the cadre type. They neither follow formal membership procedures nor impose regular membership dues. In fact, an adherent may consider himself a member even if totally unknown to party officers, even if he never attended a party meeting, or even if he were to vote for candidates of the opposition. However, Filipino parties inevitably have an inner leadership core, consisting of militants whose lives, reputations and careers are practically synonymous with the party itself. Examples of this are to be found in the cases of Senators "Amang" (father) Rodriguez of the Nacionalista party and "Manong" (brother) Perez of the Liberals. Both are wealthy members of socially prominent families with high prestige and they typify the personal nature of party leadership.

The rank-and-file of these parties is composed of supporters whose ties to a particular group are often weak, and who frequently shift from candidates of one party to those of the opposition. Most will quickly defect to the opposition when convenience dictates.

The special character of Filipino political parties is derived from the militants and officials who make up its policy-forming
committees and designate slates of candidates. These individuals invariably are from the Filipino elite.

To a considerable extent, there are rarely publicly displayed ideological controversies in Filipino politics. The leadership of most important parties is provided by only one class—the socio-economic elite of the Islands. Some observers have asserted that this is also true for the prewar Socialist Party and the emerging, small labor and peasant groups.

The active issues and disagreements in Filipino politics are intramural problems and represent differences which arise between men who fundamentally understand each other because they come from the same social class and, therefore, regard politics from the same vantage point in the social and economic structure. Filipino politicians will rarely contest ideological issues and they usually do not quarrel over matters of true political principle.

To a considerable extent then, the outlook of most political leaders is practically identical, being largely conservative with respect to socio-economic matters. The Filipino elite has traditionally based its social position on the plantation-type agricultural system and upon extensive land holdings. This helps to explain the difficulties confronting every popular desire for agrarian and land tenure reform. No matter which party is in power, the Congress is likely to view with little interest any far-reaching proposals to deal with agrarian issues. Even the popular Ramon Magsaysay failed to win approval for an effective land tenure reform program from a Congress controlled by his own Nacionalista Party.
The minor importance of ideological differences and controversies in Philippine politics is connected with another aspect of the political process of considerable importance. Because Filipino political parties have only a small number of temporary rank-and-file supporters whose sympathies are subject to momentary change, it is not possible to take their votes for granted. Party militants, stalwarts and the controlling elite families do not constitute a sufficiently large group of firm supporters to win present-day national elections. Victory can be attained only if, in addition to its own votes, it can win the uncommitted votes of the bulk of the electorate--the "floating" votes.

The contesting parties must court the floating vote during the long months of each campaign, using all the propaganda, persuasion, favors and monetary inducements it can command. Since the parties have the same uncommitted audience, the matter sometimes turns on who has the greater amount of funds as its disposal, and who makes the most alluring promises to the masses. The advantage clearly rests with the incumbent party whose titular head occupies the presidency. This helps to explain the reason why almost one-half of President Garcia's 1959 budget was earmarked for social welfare expenditures, and why special use in elections was made (until prohibited by the courts) of the President's several million peso Discretionary Fund.

In the campaign appeals to the floating vote, every group abstains from emphasizing special interests. All aspirants vow to eradicate graft and corruption, wherever and whenever it exists. All profess
patriotic devotion to the "Filipino First" cause, to national interests and to the common welfare.

In the end, all the parties adopt the same safe generalizations. From each comes a categorical assurance that a dynamic, progressive and effective national economic development program will be instituted, bringing social justice, land for the landless, peace, American cooperation, faith in God, honorable foreign policies, reduced Chinese domination, morality in government, efficiency in administration, care for impoverished flood victims, assimilation of the native tribes, less police brutality and more national holidays.*

The lack of ideological differences indicates that political mergers and coalitions have little real significance, for different political combinations merely denote new relationships between the few persons and families in power. The overall ideological orientation and socio economic interests remain the same. This factor, when coupled with the looseness of party organization, accounts for the fluid condition of the political parties. In the recent case of Nacionalista Senator Cuenco's forthright denunciation of some of the more rampant, scandalous corruption and financial irregularities in President Garcia's administration, the party found it difficult to discipline him since to have done so may have assured his defection to one of the adversary political parties.

*It was precisely for such a reason that the Filipino people have been variously described by some observers as having a surprising level of knowledge and relative degree of sophistication. It is said that the Filipino people may not be in a position to change their politics but it is quite likely that they are not at all misled or mistaken concerning its policy.
It is common for the elite families to ensure their political interests by dividing their affiliation among two or more parties. When party and family interests conflict, a family merely defects and leads its own following out of the party. This is sometimes encouraged by parties themselves, for they invite prospective defectors to become "guest candidates" on their slates.  

In addition to the utilization of government funds and dollar allocations for imports and patronage, the party in power possesses a virtual monopoly on levying or assessing "contributions" from business firms and the Chinese community. This manner of financing is usually unavailable to the opposition and accounts to some extent for the impotence of minority parties. Finances are particularly important since the costs in a hotly disputed gubernatorial or congressional contest—as in the case of Cebu, President Garcia's home province, where political rivalries between supporters of the leading families are unusually intense—can easily approach several million pesos and often go far above that figure in the presidential contest. 

A strong financial position is required to purchase votes, directly and indirectly. The practice, maintained probably under all administrations, has been to use public sources rather than private or party funds. Among the principal sources of public funds are said to have been the following: the President's Discretionary Fund; the President's Contingent Fund; department allocations; the legislative "pork barrel"; and, particularly, the "crop" and other type loans of the Philippine National Bank, a semi-public corporation. For example,
just prior to the 1959 election in Cebu the Philippine National Bank reportedly shipped $15 million in cash to the scene of political battle via the Philippine Air Lines—another semi-public corporation. It was reported that the funds were ostensibly intended for "crop" advances and other type agricultural loans but in reality for the indirect purchase of votes. A considerable amount, however, evidently was not utilized under subterfuge but was directly expended for the purchase of votes. Only a fraction of the loans were ever recovered.

Cebu has a population of 1,324,000 and the island itself constitutes a separate province. Although the amount of funds spent by the administration in Cebu during the 1959 election in support of Nacionalista candidates is not necessarily typical of its particular interests or the specific techniques that have been followed in other campaigns and areas, it does provide some insight into the vote-buying procedure.

From various public works funds the administration was able to pool some $5 million for the 1959 Cebu campaign. The amount proved insufficient and it was necessary to utilize $500,000 from the President's Contingent Fund. Approximately 115,000 laborers were then hired to repair 17 roads in Cebu during a period of 100 days just prior to the election. Even then, provincial and town Nacionalista party leaders advised that the increased funds were insufficient and $240,000 more were set aside from the President's Contingent Fund. As a result it was possible to "improve" a total of 47 roads. Many of those employed were older women. However, few people were employed for more than three days.
A total of 115,000 laborers was employed by the Cebu provincial government during 1959 political campaign and the Cebu city government employed 28,000, making a total of 143,000 additional workers.

During the height of this mass political employment, the Supreme Court rendered a decision on a previous contention of the opposition that the payment of workers from the President's Contingent Fund was prohibited by the laws. The court held that payments should be immediately suspended with the result that the irate political appointees were appeased only by the direct payment of their wages from the coffers of the Nacionalista Party.

The techniques of vote-buying by the administration in Cebu during the 1959 election were well illustrated in a confidential progress report, submitted November 7, 1959, by a political "task force" leader through Nacionalista party channels. A portion of the report revealed the following:

The giving of ten pesos has been very effective as observed by us. There are some who refuse to receive the ten pesos if they are required to sign, in spite of our explanation. This may be due to the 'scare' propaganda of the other (Osmeña-Cuenco) camp, or Serginistas (men of Sergio Osmeña, Jr., and therefore opposed to the candidates supported by Sergio Osmeña, Sr., and ex-Senator Cuenco as well as those supported by the Garcia administration). However if a way could be found without letting them sign, it would be much better.

A report dated November 6, signed by a lawyer who was attached to another "task force", referred to the "laborers" who were hired to meet President Garcia upon his arrival at Cebu on the presidential yacht, Lapu-Lapu, for political speeches:

It would seem that the people are now inclined
to vote for the candidates of the Loyalists (those supported by the Garcia Administration). Reason: Majority of the city residents have collected their wages for the services rendered before and during the visit of the President last September 9, 1959. The city residents are becoming more receptive to the issues brought before them.

It (vote buying) has gained a very favorable reaction in all parts of the city despite the speech of Attorney Remotigue last night over Station DYSS, warning the people that vote buying is punishable under the Section 149 of the Election Code. But Mr. Natalio Bacalso said there is no vote buying...but the money is a sort of donation to the people of the city of Cebu...

Can the people of Cebu be bought? The answer is in the affirmative. This is the general answer. This refers to the majority of the masses of our people...

Another leader reported:

Many voters are already signifying their intention to join us (Garcia Loyalists) because they could not get anything from the other party... One hundred four teachers... who are poll clerks and chairmen are in need of material aid...They have aired this already...The aid may be in any form.

Still another leader's report indicated:

...Rice is also a very effective weapon but its potency is not the same as money...The voters are more than willing to be bought...and sometimes it is more better (sic) that they agree not to vote at all... They are even agreeable to that. We are sure to win because opposition (to our candidates) is weakening, Let us then deliver the coup de grace.

The Loyalists are gaining because the inhabitants are opportunists. Although weeks ago they were for the opposition, the political color has not changed. Reason: Aggressive campaigning and the prospect of 'rich duggins' from our candidates. Recently two die-hard Fusionists defected to our side. Our candidate for councilor has started distributing 'happiness' in the form of ¥10 to each voter...Tomorrow vote-buying
will begin in Precinct 94. Already in all areas of Cebu City and province, the people are seeing the Loyalist candidates in a new favorable light.56

During this election the administration shifted its men, some out of public view and others into strategic government positions in Cebu. Various officials, both in the province and the city, whose political loyalties were under a cloud, were banished either to Manila or to places in the hinterlands of the province of Cebu. One was sent to the United States. A regional "conference" of doctors and nurses was held during the campaign; Education Secretary Jose Romero was in Cebu one day before the election; a Malacanang technical assistant was in Cebu too, reportedly offering choice positions in Malacanang for technical assistants.

The corruptability of many voters and the mass purchase of votes are well accepted in Filipino politics, although the practice is only about fifty years old. Filipino voting began in 1907 and in a historical sense the period covered has been short indeed. There are other factors, however, which may help to explain this situation.

In 1959, a government survey of barrio conditions and the income of barrio inhabitants indicated that three out of ten barrio people earned less than $100 a year. The average income of the rest ranged from $200 to $300 per year. However, 16 per cent of all those interviewed reported no cash income at all for the year.

According to the findings, only two out of every five households have one reliable breadwinner who can be called "a gainful worker". In other words, three out of every five families have no reliable
breadwinner at all. Therefore, each member of such families must live by his wits or scrounge as best he can to exist.

The survey report continued: "For all their toil on the farm, they find themselves starving a few weeks after harvest. They are thus forced to rush to the loan sharks for money to tide them over to the next harvest season". There are both types of loan sharks, Filipino and Chinese, but both equally exploit the already impoverished Filipinos who are virtually at their mercy. This follows from the fact that two-thirds of the people borrow money from the private lenders or loan sharks. This means that most of the borrowers have been paying interest rates ranging from 100 per cent to 200 per cent in spite of laws prohibiting the practice.

Nowwithstanding the government's various claims concerning the credit facilities it has provided for the rural areas, only seven per cent of the population, according to the survey, are able to get loans either from the Development Bank of the Philippines (formerly the Reconstruction Finance Corporation), the Philippine National Bank, or the rural banks. Only 11 per cent borrow from government sponsored cooperatives.

As explained by Andres Castillo, Deputy Governor, Central Bank of the Philippines, "the nation's wealth is concentrated in the hands of a privileged few and it does not seep down to the people...Even if there were no graft the government would not have sufficient finances
to fully initiate a broad economic development program unless some of
the wealth concentrated in the elite were also utilized".  

The President has revealed that 85 per cent of the nation's money
supply is concentrated in the Manila area, and the remaining 15 per
cent is found in the provinces, the principally productive areas.
Therefore, since wealth is increased and employment created through
investment, it follows that with only 15 per cent of the money supply
in the provinces very little productive investment of a local nature
is possible. The decreasing opportunities for employment and the
generally widespread conditions of poverty in the rural areas contrib­
ute to the migrations to Manila. In Manila—where 85 per cent of
the nation's wealth is concentrated in the hands of perhaps fewer than
one per cent of the several million inhabitants--much of the money is
hoarded, invested in unproductive real estate and in those industries
which serve largely as packaging plants for consumer items imported
from the United States.

The result is that employment opportunities are limited and
highly competitive, and the Filipino "country cousin" who finally
arrives in Manila can not be optimistic over the ₱8.00 per day
minimum wage law for industrial workers. It may be necessary to sign
the payroll sheet signifying that this amount was received, although
usually less than one-half the amount is actually paid, in order to
get the job in the first place. This type of exploitation frequent­
ly leads to "squatter" existence in the city's slums, crime,

*This accounts in part for the fact that NEC plans embody public
and private sectors which set forth investment and productivity
targets for each.
prostitution and more unemployment. The migrants can always go back to the provinces, and frequently do, but the situation remains the same.

These circumstances help to explain why corrupt and demagogic Filipino politicians are able to thrive. To be in a position to dispense jobs, favors or a few pesos—is the measure of a successful politician, and most of the people do not expect more. The people, of necessity, are interested in material benefits—here and now—and are too poor and have been exploited for too long to be interested in long-term programs, or the art of government. The underpinnings of Philippine democracy, under such circumstances, are not firmly embedded in popular support.

These are the conditions under which the overwhelming majority of the Filipino people live and have been living under all administrations. Democracy, therefore, may not be particularly important as such since the value of the right to vote boils down to an infrequent chance to receive a few extra pesos. In the past, whether he voted for one candidate or another made no appreciable difference in his condition and present indications are that it will not in the immediate future. Moreover, tenancy, according to official figures, has been increasing in spite of agrarian reform. Therefore, what is the importance of the right to vote to the poor and jobless Filipino except that it is something to sell—in order that he can buy food for himself and his family? Changes in administration have brought nothing to him—no dollar allocations, no barter licenses, no
concessions, no land and no money, whoever wins. These factors provide the basis for the cynical attitudes of the bulk of Filipino voters.

There are of course those who do not sell their votes. These are largely found in the middle class—among the extremely small group of professionals, small business men, tradesmen, who must pay influence peddlers to obtain services from the government and who are most affected by increased living costs—and, of course, the politically affluent who compose the wealthy elite. These men of the middle class profess to be outraged by political corruption and are opposed to selling their votes. They intend to use them—to hit back at the government, but the question remains, how?

The major segment of the electorate is primarily interested in questions of local and provincial leadership rather than in national political rivalries, and are loyal in the first instance to local and provincial-level political leaders, not to national candidates or national parties.

Furthermore, voters are mainly interested in obtaining concrete governmental benefits for their respective localities rather than in a coordinated national economic policy. This means that congressmen who are members of strong provincial political factions and who give due attention to their constituents' requests for public works projects and patronage, can usually manage to be renominated and reelected whether or not they support their party's economic measures. On most questions of public policy, economic or otherwise, they are
free to vote as their opinions and interests, or the opinions and interests of their supporters, dictate.

The administration has only limited influence over the nomination process in the various congressional districts and since a strong leader denied the party's nomination can usually run as an independent or as an unofficial candidate of his party, or as a candidate of the opposite party, the administration cannot appeal to the public to force members of Congress to support its measures. It is therefore obliged to obtain congressional support by compromising its proposals and by granting a variety of concessions. Consequently, legislation for economic development often is enacted in the Philippine Congress only at the price of numerous disabling amendments demanded by influential legislators or upon the release of funds for the construction of sometimes questionable public projects in the various provinces.

Effective centralized planning and programming by the government is extremely difficult to achieve despite the significant constitutional powers of the President, because the balance of political power lies not with the national leadership but with the local and provincial politicians who are closest to the people. This characteristic of Philippine politics has been detrimental to instituting and accomplishing national economic development programs based upon NEC policies. There are ostensibly "democratic" countries in other parts of Asia where national leaders can consistently insist upon favorable action by docile legislatures. The reasons for this, however, are usually identical: political power, and in particular the
power to select party candidates, is highly centralized. The national party leadership is in effect able to make binding decisions for the country at large. This circumstance definitely does not exist in the Philippines.

The population of the cities is perhaps less than five million while that of the barrios approximates 22 million. The rural vote is decisive and, as other scholars and researchers have found, political decisions and authority in the Philippines may be in theory highly centralized and vested in the government officials in Manila but ultimate control and effective power actually rests with the local politicians and machines. The despair, deprivation and lack of knowledge of the people are exploited by the politicians through the political parties, and the political machines show no great interest in conserving or in effectively utilizing the nation's resources in broad economic development programs such as those recommended by the NEC.

A Filipino political journalist has remarked, "someday a saint or a demagogue will make the cause of the poor, that is most of the Filipinos, his own, and they will vote for him for nothing. They will follow him wherever he leads them. If he is a saint, it will be well, but if he is a demagogue..."

In summary, it is quite clear that the family-orientated, essentially local, Filipino political parties are far more concerned with maintaining their privileged elite position than in broad reforms or broad national economic development. Effective development requires true promotion of the national interest, and the accomplishment of development objectives would probably result in a fuller
democratization by creating a cohesive and more effective electorate, utilizing the improved economic base. Such a Filipino electorate could present a real ideological challenge to the presently existing political elite, and this would not be conducive to the perpetuation of the latter's monopoly. Not only would administrations be held accountable, but it is likely that the elite groups would have more difficulty in their efforts to gain office in the first place. Accordingly, for possibly a long time, it is certain that the family interests controlling Philippine politics will continue to resist with their collective might any significant democratization or encroachment upon their entrenched positions.

**Congress and the NEC**

In view of the particular functioning of the Filipino party system—especially its sources of actual power, organization and oligarchical character—the actions of the Philippine Congress must obviously influence the possibilities of the realization of NEC development objectives.

The Congress has yet to formulate a specific national policy defining over-all economic development goals. Notwithstanding the provisions for a strong presidential-type government, it is within the framework of congressional policy (or lack of it) that the president must execute the nation's development programs including those devised by his own advisory body, the NEC. Quite specifically, there is a pressing need for a congressional policy defining national development objectives concerning the respective priorities for agricultural and industrial expansion. In order that the NEC have clearly defined
guidelines upon which to base its plans and policies—to avoid "good plans used for the wrong goals"—it is necessary that the legislature lay down the fundamental ground rules. The President in executing the congressional enactments could then act with the assurance that NEC only development recommendations not/would reflect particular objectives which the Congress intended but also would result in a concerted, unified and total national development effort.

An indication that the Philippine Congress is aware of its short-comings in this respect may be seen in Senator Pedro R. Sabido's recent economic development bill to end "government indecision, piecemeal policies and conflicting actions". The Senator stated that "government activities and the taxpayers' money will amount to naught unless Congress fixes a single economic objective. The need for such an objective is urgent". Consideration of Senator Sabido's bill, originally introduced by him one year previously, was possible only because opposition elements in the Senate had attacked the continued confusion in the Administration's economic development program.

The purpose of the Sabido bill was to provide a clear path through the existing morass of government economic schemes with an integrated national policy on economic development. The specific objective was to promote maximum employment, maximum productivity and a more equitable distribution of the national income. These proposals, although perhaps more general than sometimes is legislative custom, still provided a forward step in governmental clarification of national development objectives. Also, the Sabido bill would require all
governmental activities to focus on this policy and would fix specific responsibility for achieving national economic development on the Chief Executive. Further, the President would be required to submit an annual economic development report to the Congress detailing the particular plans and programs promulgated and implemented and indicating specific accomplishments or failures.

A basic feature of the bill was the establishment of a "Joint Committee on Economic Report," made up of seven members from the Senate and an equal number from the House of Representatives. This would have assured greater acquaintance of the Congress with the problems of and progress in national development and NEC's planning activities.

The legislative proposal constituted an overdue and needed beginning point and apparently had been urged upon Senator Sabido by the NEC, principally through Senator Puyat, a member of the NEC. Nevertheless, the measure was not adopted by the Congress although the committee report had been favorable.

In part, the rarely revealed interest of the Congress in integrated economic planning was momentarily aroused by the Sabido proposal because it followed closely a recommendation of the Office of National Planning, National Economic Council, that congressional members be eliminated from membership on the Council. The NEC recommendation sought to clearly establish the position of the policy-making body as an agency of the executive branch of government. NEC staff officials stated that a previously conducted technical staff study showed an urgent need for better coordination of fiscal programming
and over-all planning for both the government and private sectors of
the economy. Therefore, the NEC staff favored the ex-officio member-
ship of the Secretary of Finance, the Budget Commissioner and the
Director, Office of Economic Coordination, rather than the four
congressional members.

A preliminary draft of proposed amendatory legislation indicated
that either of two alternatives would be preferable: (1) drop the
legislative members and add the Secretary of Finance and the Budget
Commissioner, which would thereby reduce Council membership from
eleven to nine; (2) reduce congressional membership to one senator and
one representative and replace the two dropped members with the
Secretary of Finance and the Budget Commissioner. NEC staff members
argued that the Council could not perform properly as part of the
President's staff if four of its members represented the Congress.

Again, when the nature of the party system is considered--
particularly the cohesiveness and self interest of the controlling
elite--it is somewhat doubtful that the NEC proposal could go far in
correcting the basic problem involved. However, one immediate result
has been the unwavering attendance of the congressional members at
practically every NEC meeting since the proposal was made. Previous-
ly, attendance of the congressional members was spotty and rather
frequently resulted in an inability to muster the quorum required to
conduct business.

It has been suggested that one reason for the improved attendance
is that, since the dominant Nacionalista party has not yet * selected

*As of February 18, 1961.
a vice-presidential candidate for the coming 1961 election, preferential consideration may be given to a party stalwart with an impressive "economic development" background. The idea is that, because of the importance attached by the public to national economic development, a candidate with considerable experience in this field possesses greater voter appeal. At the present time, for example, both Senators Puyat and Gonzalez of the NEC are believed to have aspirations for the vice-presidency. They have, of course, other qualifications, and particularly, are aided by family lineage, wealth, industrial background, and extensive political and party experience.

Debates concerning the NEC and economic development usually reveal the greater concern of the Congress with other proposals of more immediate political importance. These proposals also portend further impediments for the policies and programs of the NEC.

In 1957, for example, a spirited contest developed in the Philippine House of Representatives for the speakership. The three principals seeking the position were: Acting Speaker Daniel Z. Romualdez, Congressman-elect Justiniano S. Montano, and Congressman Sergio Osmeña, Jr., son of ex-President Osmeña who still possesses effective political authority in his home province, Cebu.

It was significant that the Nacionalista rivals did not base their public appeals to the party caucus—which would decide the matter—on purely political grounds such as votes garnered, financial contributions to the party or possible future value to the "cause". They argued in terms of their interest and ability to pursue a
program of legislation which would solve the nation's economic
development problems.

It was the claim of Acting Speaker Romualdez that he alone was
most capable of giving top priority to legislation which would
"develop hand in hand, agriculture, industry and trade in order to
attain a balanced economic growth for the nation." Congressman-
elect Montano, for his part, insisted that he would provide legisla-
tive support for President Garcia's economic program without
necessarily sacrificing the constitutional independence of Congress.
He also explained, "the basic solution to the economic ills would have
to be geared to the needs of the common man...Once the standards of
living of the masses are raised, the economic ills would automatically
be solved". Congressman Osmeña, Jr., contended merely that he was
better prepared than his rivals to offer solutions to the country's
economic development problems.

Had the claims of the rivals been directed toward the general
public rather than to the internal segments of the party hierarchy,
the matter perhaps would have been more understandable. As it was,
there is reasonable doubt that any of the contestants were greatly
interested in NEC's national economic development plans. First, there
is no single, comprehensive government policy on economic development
of any sort, but the controlling Nacionalista party with the President
as its titular head could quite easily have such a governmental policy
if it chose. Second, the fact that the President has not approved
the current NEC national development plan or any of its previous plans
would appear to indicate that the promises of the three political
aspirants are not likely to be fulfilled.

Finally, the substantive deficiencies evident in the claims--especially the iterations that agriculture, industry and trade need be developed to attain a balanced growth and once the standard of living of the masses is raised, the problem of economic development would be solved--only begs the larger issue: How? It is precisely on this basis that the NEC has developed a comprehensive national economic plan, even in the absence of a government policy defining specific development goals. The end purpose being to increase the standard of living of the masses by developing agriculture, industry and trade. The plan systematically defines the methods which it recommends be employed in achieving the purposes stated.

What is needed is a broad government policy setting down the end objectives in national economic development and the amount of the nation's financial and other resources the Congress is willing to commit to development. If then the Congress will subsequently oversee and assure that the President fully implements an effective program such as that already proposed by the NEC, then tremendous progress will have been made.

Viewed in this context, the claims concerning plans for economic development made by the contestants for the speakership illustrate only the extent and nature of the formidable political obstacles which are likely to hamstring NEC development plans and policies in the future. The claims of the rivals also shed additional light upon internal facets of party operation and indicate the possible encumbering effects of party control over the NEC and other governmental activities.
The speakership contest was eventually resolved in favor of Acting Speaker Romualdez—perhaps because of demonstrated capabilities while filling the position on an acting basis; perhaps partly because of the personal preferences of caucus stalwarts; and more important, because of the inexperience of newly elected Congressman Montano.

The rejection of Congressman Osmena, Jr., however, was a forerunner of his eventual ouster from the dominant Nacionalista party.* His independence eventually led to a break with the party head, President Garcia. They also led to Congressman Osmena's proposal, before the members of the Philippine Chamber of Industries, for outright abolition of the National Economic Council. The proposal, which he stated would later be embodied in a bill, would remove economic planning from "the shackles of political pressure" and eliminate the conditions which allowed graft-money to cause the high cost of living. He felt that this could best be accomplished by the early abolition of the NEC and, in its place, the creation of a single economic body "which will synchronize all economic activities of the government." This super-economic body would be not only advisory but would be empowered to implement policies.

The proposed National Economic Board would take over some

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*Apparently the ouster by the party hierarchy was centered upon his refusal in 1959 to actively support in Cebu certain of the national Nacionalista candidates. Also, it was alleged that he refused to support then Speaker Jose Laurel, Jr., for the vice-presidency in 1955 although the latter was the party nominee. Congressman Osmena is reported to have acknowledged the charge and to have justified his action by stating that Laurel had openly supported Senator Claro M. Recto in the 1955 senatorial polls although the latter was not an official Nacionalista candidate: Philippine Herald, November 30, 1957.
functions of the Department of Commerce in granting barter licenses, of the Central Bank in granting import and export licenses, of certain other banks in granting short and long term loans, of the Office of the Economic Coordinator in supervising government corporations, and of the Departments of Agriculture and Finance in still other respects.

Members of the National Economic Board would exclusively come from private industry and would be appointed by the President of the Philippines although members would be directly responsible to Congress. Terms would be fixed but removal could only be accomplished by congressional impeachment requiring a two-thirds vote. This proposal—excepting the portion dealing with membership composition and the body's subordination to Congress rather than the Executive—represents little of economic significance not already incorporated in the Sabido Bill or that the NEC itself has not continuously advocated.

The proposal for appointment of only private industry representatives, aside from constituting a complete capitulation of an acknowledged governmental function to private interests, offers obvious dangers to the interests of the impoverished masses. Further, while the executive branch has accomplished little in implementing development, it has—in the NEC—formulated comprehensive development plans and policies, even if not yet finally approved by the President. Transfer of the implementing and planning function to Congress not only may conflict with applicable constitutional provisions but would appear inconsistent with the traditional separation of powers. It
provides no reason for expecting fewer political obstacles in national economic development.

The Congress failed to pass the Osmena bill. Indeed, the record does not indicate that it seriously considered the proposal, in committee or on the floor. The purpose of the original proposal by Congressman Osmena may have been merely to gain private industry support--principally, that of the apparently politically powerful Philippine Chamber of Industries--in his personal conflict with President Garcia and the Nacionalista party.

Finally, it has been asserted that the almost constant bickering and quarrelling in the Congress over budgetary and financial matters really does not affect the spending policies for the government's money, so long as the congressmen themselves share fully in the political and financial gain realized from the spending.

Another legislative objective providing insights for our analysis involves the plans for congressional pensions. This is the story of the unsuccessful proposal in the 1960 Congress providing for the payment of a life pension of ₱2,600 monthly and a lump sum of ₱156,000 to each congressman upon retirement. While the payments would not have fallen due in a given year, it has been estimated that initially a reserve fund of more than ₱25 million would be required. In addition, while the Constitution prescribes that the congressmen are to receive an annual salary of ₱7,200 annually, it has been established that they are in fact receiving ₱31,200 including "allowances". The total actual salaries received exceed that
prescribed by some ₱3,456,000 annually. This excess plus the initial amount involved in the unsuccessful pension proposal totals approximately ₱30 million.

It is indeed probable that the investment of ₱30 million in the NEC economic development program could provide a productivity profit return of approximately 60 per cent over and above the original investment in the first three years and could very likely create several thousand new job opportunities at the same time.

The "Pork Barrel"

The development program of the National Economic Council has been held to be a contributory cause of the inflationary pressures besetting the nation. It is argued that this occurs, primarily, because of the large sums programmed and substantially expended for development. However, the record indicates that except for a limited number of relatively unimportant programs, practically none of the nation's financial resources have been expended in the direct implementation of specific NEC plans. There are many NEC programs but very little implementation and even less governmental expenditure to accomplish these programs. This is essentially the crux of the development problem.

An exception appears to exist in the governmental allocations for public works. For the fiscal year beginning July 1, 1960, the Philippine Congress allocated for public works a total of 107 million pesos. This record allocation constituted slightly less than ten per cent of the all-time high, total annual budget of 1.2 billion pesos.
The current NEC economic blueprint programs a net annual, average outlay of $203.2 as the government share in all planned public works activities. Therefore, the current government allocation for public works, including "pork barrel" projects, constitutes more than 50 percent of the total amount programmed by the NEC as the government's share for all planned annual public works undertakings.* The specific projects of the government public works program differ substantially from those programmed by the NEC and all of the former are by no means included in planning by the latter. In fact, it is not certain that any are included in the NEC blueprint.

In consequence, a situation exists where the Philippine Congress has authorized the expenditure of more than one-half of the total amount NEC requires of the government for the over-all public works program, solely for "pork barrel" purposes which are essentially non-productive in nature. This has been done in the face of strong evidence that the NEC program could produce an average annual return of 22 per cent above the actual amount invested by the government, or approximately 67 per cent for the three years covered by the plan.

*It should be noted that to realize the objectives of the current over-all NEC development program a total net annual investment of approximately 10 per cent of the 1957 national income would be required. The determination of whether or not this level of expenditures would create significant inflationary pressures on the Philippine economy is beyond the scope of this study. However, the NEC has indicated the required 10 per cent annual expenditure for each of the three years covered by its plan will result in a direct increase in the gross national product by approximately 15 per cent the first year, 22 per cent the second year, and 30 per cent the third year. The mere existence of this possibility, assuming the NEC's plans were fully implemented, would appear to justify the chance. See NEC, Three-Year Program, op. cit., pp. 4, 5, 12-14.
The action by the Congress would perhaps be less objectionable if the remaining 50 per cent of expenditures required for the NEC program were forthcoming, but such is not the case. The very fact that the President has not approved the NEC program indicates that effective, coordinated implementation is not possible. It may thus be doubted that NEC plans and policies have contributed inflationary pressures upon the Philippine economy.

The explanation of the situation by some observers is worthy of careful consideration. The controlling Nacionalista party in the Congress is more patronage-hungry than usual. Heretofore each of 24 Senators and 120 Representatives (only 102 presently) has been allotted from 100 thousand to 150 thousand pesos of "pork" annually, depending upon the political climate as determined by the Nacionalista party caucus, for expenditure on small, pet, personal projects in the barrios of their respective districts. In the 1960 congressional session, certain of the younger caucus members were able to persuade the older, conservative party leaders that "more 'pork' was needed now." The demand was for 500 thousand pesos each and this was ultimately approved by the Congress. The minority was reported to have "suggested" certain objections and safeguards but these were quickly rejected or dismissed by the firm Nacionalista majority. However, it is doubtful that the minority--were it suddenly transformed into a controlling majority--either would or could successfully deter the traditional "pork barrel" system.

Although the ₱107 million public work bill represented an amount greater than the total of the "pork barrel" allocations for the
congressmen*, strenuous objections were made to the use of any part of
the balance remaining by the Department of Public Works for needed
highway construction—some seven million had been earmarked for Manila
diversion roads—and for other necessary purposes. Congressmen
Albordo (N-Palawan), Yancha (N-Samar), Millan (N-Pangasinan) and
others, insisted that Department projects—needed or not—should be
indefinitely postponed and, instead, the entire appropriation split up
and directly distributed to district projects of the respective con-
gressmen. It appeared probable that without adequate "pork barrel"
funds, many Nacionalistas would be unable to overcome public pressures
generated by charges of a "do-nothing" Congress, unusually excessive
graft and corruption, and a retrogressing economy. The latter
apparently arises from government confusion, overlapping responsibili-
ties, and failure to implement the NEC national economic development
plan.

"We have no control over the construction of the projects listed
by the Department of Public Works and the hiring of laborers to work
in these constructions" (sic); it was stated. Under-secretary
of Public Works Marcelino Bautista sought vainly to ward off the
congressional assaults on the department by pointing out that district
engineers would be directed to consult the congressmen in their areas
on the hiring of workers for the various public projects.

*Twenty-four Senators and 102 Congressmen, a total of 126,
multiplied by $500,000 each, totals $63 million. This figure, less
the $107 million total public works allocation, provides a balance of
$44 million which constituted the approximate amount allocated for
national public works (but even this lesser amount was not for the NEC
public works program): "Congress at Work", Philippines Free Press,
While the existence of "pork barrel" legislation in the Philippine Congress has tended to supplant appropriations required for the accomplishment of the public works programs of the NEC and indicate an almost complete disregard for the greater productive returns which could be realized by expenditures for NEC activities, an even larger problem is involved.

The "pork barrel" is a legislative patronage device, pure and simple. Considering the nature of the Filipino party system, the highly centralized presidential type of government and single party control, why is it that the "pork barrel" system appears to be typically utilized rather than the systematic economic development plans and policies of the NEC, which offer probable productive increases and other improvements?

The answer seems to lie in the pattern of circular causation which results in use of the nation's political and economic systems to maintain existing extremes of poverty and wealth. The wealth of the nation is not being significantly increased. Who gets what, when, and how is largely determined by the prevailing political and economic systems and, therefore, the plans and policies of the NEC are automatically suspect since they may disturb accepted methods of dividing the spoils which the vested interests--the elite--are self-committed to maintain. The significance of the nation's being able to realize a compounding of the productive gains which appear possible under the NEC development program--thereby increasing the total wealth of the nation and providing true economic development--is completely lost
because of the determination and success of the few to maintain the
status quo.

The people themselves appear to offer the best—and perhaps
only—hope of breaking the chain of circular causation which holds
them firmly in the exploitation system now prevailing. However, their
lot is indeed tragic in many ways and their prospects in the immediate
future are not especially bright. Full analysis of this problem will
be temporarily deferred to permit consideration of two additional
areas of congressional responsibility and action in the field of
finance which constitute possible impediments in the realization of
NEC objectives.

National Tax Policy

Of particular importance, obviously, is the practical problem of
securing sufficient government revenues to finance a coordinated
national development program—were such desired.*

Services rendered and such economic development as has been
provided by Philippine governments during the last two decades—
whether or not motivated by purely political considerations—have

*It should be noted that the argument is not that there is no
economic development in the Philippines or that there has been none.
Rather, it is contended only that piece-meal, uncoordinated,
"expediency type" development has been pursued, and this on a primari-
ly restricted, unsystematic and almost exclusively political basis.
In general, NEC policies and plans are ignored and whatever develop-
ment has been accomplished by the government does not substantially
represent adherence to, or implementation of NEC programs but has been
essentially coincidental. See particularly: Teodoro M. Locsin, "The
Real Issue: Why the Poor are Poor", Philippine Free Press, September
12, 1959; Rafael Benitez, "NEC Wants Direct Contact With President",
Manila Bulletin, May 31, 1960, p. 2; Alfio Locsin, "Faster N.E.C. Pace
Urged", Manila Times, May 12, 1959, p. 1; and Alfonso Calaling, "P.I.
Economic Planning" (Address delivered by the President, Philippine
Bankers Association, at the University of Manila, September 14,
1959), quoted in Manila Bulletin, September 18, 1959, p. A.
required expenditure increases from ₱257 million in 1940, to more than ₱1.2 billion in 1960. If, however, the depreciated value of the peso is considered, the 1960 total expenditure level would represent only about twice the 1940 expenditure level.

Today, Filipino politicians are demanding greater allocations to be dispensed by themselves for services to the people, and the people acquiesce in the practice and in turn clamor for greater dispensations along with extensive national economic development. The trend is thus toward even greater expenditures over those which already exceed the level of government income. The NEC, for its part, is vitally concerned that the Congress find a way out of the deepening national financial deficit, for the Council realizes that its policies and plans have already been criticized as contributing to national inflation. While it is evident that this is substantially incorrect—since few of its programs have been implemented—the NEC desires that an imaginary or real claim of this sort not be permitted to cloud the basic problem of gaining governmental recognition and adherence to its plans and policies.

The Congress, so far, has been able only to offer deficit spending as a solution to the problem of insufficient revenues. Presidents Magsaysay and Garcia, as well as the National Economic Councils under each, subscribed to and defended the deficit spending principle on the grounds that some spending beyond means was inevitable under any circumstance. They argued that the only real hope for eventual solvency lay in the use of the additional income, which could be realized from the increased productivity engendered by
national economic development, for reducing and eventually eliminating
the national debt. In addition, both presidents have separately
expressed the view that the alternative of not undertaking any
economic development at all, "would consign our economy to stagnation,
our people to poverty, and the nation to frustration"; and, to confine
national spending to income would defeat the purpose of "recognizing
the supreme worth of human values in a democracy." These presiden-
tial dispositions circumscribe the implicit optimism of the NEC that
eventually it will be able to break through the formidable political
impediments which so far have hamstrung its policy recommendations and
have prevented a coordinated national economic development program.

Still, is it not possible that the Congress could, within the
framework of a policy which permits limited deficit spending, devise
additional means of increasing government revenues, as opposed to
public borrowing through bond issues, loans and foreign aid? Yes, and
additional taxes would appear to be one distinct possibility. The
problem, of course, is to determine if an additional tax burden could
be absorbed. Again, the NEC has a far greater interest in the matter
than the casual spectator, since it fully realizes that sound,
applicable economic development policies and plans require adequate
financial support to assure their realization and to confine, in so
far as possible, NEC's principal problem to gaining governmental
recognition and adherence to its development programs. It realizes of
course that the latter is basically political, but it is confident
that the impediments involved are far from insoluble.

The Filipino people are among the least taxed in the world today
and this has perhaps contributed to a five-fold rise in the gross national product since 1949. However, in the same period government revenue increased less than four times. Moreover, in 1950, tax collections were only about three times as much as those of 1938.

An indication of the measure of the ability of the Filipinos to absorb additional taxes can be seen in the fact that in 1955 only 8.5 per cent of the total national income was paid to the government in taxes. By comparison, in 1955, almost 15 per cent of the total national income of Japan was paid to its government in taxes; in the United States, almost 25 per cent; Ceylon, 20 per cent; Australia, almost 33 per cent; and in relatively underdeveloped Ecuador, 12 per cent. In view of the pressing need for more governmental revenue, it would appear that the Philippine Congress would be fully justified in developing a tax program which would absorb a greater share of the national income in order to provide a sound base for extensive national economic development and for retiring, at least partially, its present indebtedness. This points, of course, toward an equitable tax system which centers upon those best able to pay.

The Philippine tax structure, since perhaps the beginning of the present century, has consisted primarily, as it still does, of customs duties and indirect taxes.* Direct taxes, as recent as 1957, yielded only 20 per cent of total Philippine government revenues. By contrast, in the same year, direct taxes constituted 85 per cent of all United States federal revenue.

*Namely, those passed on to the ultimate consumer, versus direct taxes which are borne by the same person upon which the levy is made. An example of the former is a sales tax and of the latter, income and inheritance taxes.
Even allowing for the many different features of the two economies, it is difficult to avoid a conclusion that the Philippine tax system is somewhat regressive. It seems particularly so because a greater portion of the tax burden evidently is imposed upon the lower-income group—constituting 81.6 per cent of the population, according to studies conducted by the NEC—rather than upon the well-to-do-elite.

Now, virtually every peso earned by the impoverished, low-income families in the Philippines is spent in barely eking out mere subsistence. On the other hand, well-to-do families, as has been observed by Filipino and perhaps other economists, tend to spend less and less as income moves higher; the propensity to save evidently increases proportionately at the same time.

The result is that while the tax load of the elite is quantitatively greater in actual assessments, it is proportionally less in terms of ability to pay. It follows that an equitable imposition of additional, direct taxes should be levied upon the elite—the Filipino group best able to pay.

For some while the Philippine Congress has realized that tax reform was needed. A decade ago, the Bell Economic Survey Mission, in its report of Philippine conditions, observed:

The tax structure of the national government has not been designed to reflect adequately in tax revenues the rapid rise in the national income, the great increase in profit and other large incomes and the increase in wealth of the business and land-owning class.

Because an impending United States grant in aid was dependent
upon compliance with the Mission's recommendations, the Philippine Congress obligingly adopted legislation providing for temporary increases in income and corporate tax levies. In fact, the income rate reached 59 per cent for the top brackets at the time. This extraordinary and unprecedented burden on the wealthy elite was short-lived however; the Congress, four year later, in 1955, allowed the higher rates to lapse. Again, the lower inadequate rates were restored.

Meanwhile, Budget Commissioner Aytona complained that the Congress would not support any of the tax proposals submitted to produce revenues needed for expanding the national economy. It appeared that politics solely governed congressional action, as it was reluctant to adopt measures which would increase the tax burden of the wealthy class. The congressmen, as a group, were ideologically opposed to a "soak-the-rich" tax program and were unwilling to vote for hiked income tax rates which might make them unpopular and possibly bring about their political eclipse.

Former Senator Jose P. Laurel, himself a member of the Filipino landed, wealthy and political elite, observed, "the serious obstacles to such much-needed tax reforms include, of course, the many sided pressures of partisan politics, and of powerful economic groups not only upon the Congress but also upon administrative officialdom entrusted with...tax collection."

Tax reform without corresponding correction of the widespread manner in which tax payments are evaded in the Philippines still would not provide the additional revenues sorely needed for economic
development. To illustrate the extent of such evasion, Representative Jose M. Alberto (N-Catanduanes), a former internal revenue agent, stated to the House in 1959 that only 89,000 of eight million taxables had paid their taxes. He pointed out that despite rampant tax evasions only two offenders had been jailed since liberation in 1944.

The Congressman also revealed the following: In 1957, out of 96,000 registered professionals, only 8,158 paid taxes. Only 2,500 sugar planters in sugar-rich Negros Occidental, out of possibly four times this number, paid any tax. No Chinese national had an income tax above $100,000; two had an assessment of $50,000; and only 51 over $10,000, in spite of the fact that apparently there are more Chinese millionaires in the Philippines that the total number of millionaires of all other nationalities combined, including Filipinos.

In 1959, based upon various NEC staff studies and surveys and the prodding and urging of the NEC, Council member and Senator Gil J. Puyat, also Chairman of the Senate Finance Committee, successfully engineered congressional and administration approval of a revised national tax structure which would increase the direct taxes of 76,000 of the 292,000 who pay taxes while leaving untouched the tax levels for 86.5 per cent of the public, the low-income group. The top tax bracket—afflicting only the small wealthy elite—was revised upward to 60 per cent and it was estimated that almost $20 million annually would accrue to the government in additional revenue.

The long overdue action by the Congress, in effect, extended the base of Philippine democracy and, at the same time, provided the
possibility of a sizeable sum in new revenue for economic development, if desired.*

While stressing the urgent need for additional government revenue, Budget Commissioner Aytona apparently sensed the need to placate the wealthy elite who would carry the increased tax assessments. In order to obtain some support from the affected groups, he stated:

It is also in the long run to the benefit of those who have to pay more taxes that this reform is done. These tax revenues will be used in a very real sense to protect such high income and wealth from political and social upheavals which threaten to destroy them.129

The Commissioner's statement appeared to confirm the proposition that the long-range objectives underlying NEC's development policies and plans can somehow be reconciled with those of the Filipino political elite.

*The NEC estimated that in addition to the approximately P20 million of new funds made available by the congressional increase in top-bracket income taxes, P80 million more could be provided if all the tax laws governing collections were fully enforced. This result would provide a net of almost P100 million in new funds each year and this would constitute almost 30 per cent of the average annual government outlay required for financing the entire NEC development program. National Economic Council, Three-Year Program, op. cit., p. 28.
CHAPTER 7
THE NEC AND THE ISSUES OF PUBLIC MORALITY
AND ECONOMIC NATIONALISM

A. Public Morality

The NEC views national economic and social development as a joint
task of the government and the people, not only in terms of implement-
ing and fully adhering to its basic policies and programs but also in
adequately financing these programs and plans. The Council emphasizes
the vital importance and continuing necessity for improving efficiency
in enterprises and assuring that national income be increased, conserved
and appropriately utilized for attaining the productive benefits envi-
sioned. Therefore, it is urgent that maximum use be made of the
financial resources available to the Philippine Government and that
these funds are efficiently and honestly administered in the accomplish-
ment of broad economic development on behalf of all the people.

The matter of morality in public service, especially as this
involves practices and conduct of government officials in administering
public funds entrusted to their care and the manner in which services
are provided, has constituted a problem in Philippine government for
some time. It has been a recurring issue in Filipino politics and
potentially, at least, adversely affects full realization of NEC's
development objectives.

A Filipino educator and economist, Francisco Dalupan (President
of the University of the East), has stated that the Philippine govern-
ment loses some \$200 million each year from the dishonesty of government
officials and dollar-leakage. This loss is approximately equal to one-half the total amount required annually from the Philippine government as its share in financing the over-all NEC development program.

Further, if the program were instituted many new jobs would be created and an average return on capital invested of approximately 12.5 per cent is quite probable. Therefore, the loss to the Filipino people from dishonest acts by its governmental officials is even greater than the value of the funds actually involved. Indeed, the estimates of still other responsible observers place the losses at an even higher level.

In 1959, it was publicly announced that the Philippines Homesite and Homestead Corporation (PHHC), a governmental function, had sustained cumulative losses from its operations totalling $18,792,458.80. Included in this assessment was $1,980,162.14 which had been paid in salaries to political appointees in a single eight-month period. It appeared that, aside from the losses arising from the unneeded political appointees, the bulk of losses stemmed principally from the improper and unauthorized sale of properties to private business firms, politicians and private persons at far below prevailing market valuations. In addition there have been charges of mismanagement, and the purchase for state use of property (often not actually needed) at exceptionally high rates.

The NEC program for the current period recommends a government outlay of approximately $15.5 million annually to permit the PHHC to construct 700 low-cost housing units each year in order to improve the living conditions of Filipinos in slum areas. The expenditure level projected by the NEC and the number of low-cost housing units programmed
seems grossly insufficient to create the acutely needed housing required by a large percentage of the population, but it must be assumed that NBC is in the best position to determine relative priorities, set objectives and integrate all aspects of the development program. Nevertheless, the losses sustained by the PHHC, totalling some 18 million, and stemming principally from alleged graft and other dishonest practices, exceed by several million pesos the amount required of the government annually to fulfill the NEC low-cost housing program.

In 1959, a prominent Manila drug firm, allegedly in connivance with an official of the Central Bank of the Philippines, improperly obtained allocation of $2,311,845.12 for the importation of medicine. The official reports of the government investigators, as released to the public, indicated that the firm was not a qualified importer. Moreover, upon arrival of the "medicine" consignment at the Manila piers from the United States, the crates contained only rocks, stones, newspapers and toilet paper. It was concluded that the firm had deposited in the United States most of the $2.3 million allocation of scarce Philippine dollar reserves.

The NEC program envisions an average annual expenditure of less than 60 million not only for medicine and drugs, but also for the creation of rural health units, hospital expansion and improvement, laboratory and training facilities and health education. Therefore, the loss of $2.3 million, reportedly through governmental dishonesty, constitutes almost 10 per cent (at the 2 to 1 exchange rate) of the total amount annually required of the government to fulfill the combined, over-all health program developed by the NEC.
In 1959, it was reported that the Philippine government had determined that copra smuggling between its southern islands and adjacent Borneo during the period 1945-1958 resulted in known losses of over P4 million in revenue. Since copra has been for some years the chief dollar producing commodity of the Philippines, the loss represented a direct, compounded drain on the nation's dollar reserves.

The known loss represented 6.6 per cent of the total amount required annually from the government as its share in the fulfillment of the NEC program for agricultural development. It was also equal to 2.1 per cent of the total amount of the Philippines' unfavorable balance of trade in 1958; to five per cent of the entire amount expended for residential construction in Manila, Manila suburbs and all chartered cities in 1957; and to four per cent of the total costs, estimated by NEC, required to establish an integrated steel industry in the Philippines to supply at least one-half of the nation's steel needs.

It has been estimated that possibly as much as one-half (P400 million) of the Japanese reparation payments in goods and services, will be lost by the Filipino people because of inefficiency and graft by Philippine government officials, private recipients and others. Unwise purchases and some possibly not in the public interest—such as the presidential yacht Lapu-Lapu, which reportedly cost some $2,630,000—are included in the estimated losses. "Kickbacks" and graft loom large among suspected immoral and dishonest acts. Among the diverse items obtained under the agreement, there has been considerable discussion concerning 152 crates of glazed tile allegedly brought in as "personal effects" for the swimming pool of the President's private
mansion in Quezon City. In addition, $2,151,622.22 worth of ships, maritime equipment, industrial items and fishing boats, were turned over to a questionable, newly organized cooperative with somewhat less than $5,000 capital. This materiel, according to the reported statement of the cooperative president, Juan O. Sinense, could not be utilized or operated after more than a year.

The actual losses sustained by the government from programmed reparation payments directly affect NEC objectives. The proceeds are an important source of financing a sizeable portion of the over-all program. Furthermore, particular items scheduled for annual delivery must be in accord with the specific projects and priorities contained in the basic development plan. Otherwise, serious problems can arise, such as policy conflicts with respect to overcrowding of "infant" industries, and the generation of political pressures to defer a particular program in order to accommodate the private activities of individuals possessing special administration favor.

Even if actual reparation losses during the 20-year reparation payment period totalled only one-half of the $400 million which has been estimated, or $200 million, the amount involved would still approximately equal the total annual projected government outlay required for accomplishment of the entire NEC development program. Under these circumstances the alleged graft and venalities by Philippine government officials represent far more than an issue or a minor problem.

A further illustration of the exceptional amount of foreign exchange lost by the Philippine government is contained in a private
study conducted by the NEC of the business activities of foreign firms and banks in the Islands.

The staff study revealed that some $50 million is lost annually by the Philippine government through illegal dollar remittances by business firms and alien banks. Various "dubious financial practices" were uncovered, but NEC officials indicated that the most common method used for the illegal remittance of profits and capital was the overvaluation of imports and undervaluation of exports. The balance in each case was then credited to the beneficiaries' bank accounts abroad. The $50 million lost by the Philippine government annually through such dishonest and illegal practices represent a value of almost $175 million at prevailing free-market exchange rates.

The NEC study indicated that foreign banks managed to circumvent the strict regulations of the Central Bank of the Philippines--the government's chief monetary control agency--and that, substantially, this has been the pattern since 1949 when stringent controls were first instituted.

Almost immediately following release of the findings contained in the NEC study, the Central Bank announced that results of independent inquiries which it had conducted coincided with the conclusions reached by the Council.

It is evident that government losses of large amounts of its already depleted and normally inadequate dollar reserves through

*It should be noted that the government loss, estimated by the NEC, from this particular form of dishonesty appears to exceed the estimated loss from "dollar leakage" provided by Professor Dalupan: See p.17?, supra.
dishonesty and illegal acts preclude possible use of these funds for accomplishment of NEC development programs. These programs are dependent to a considerable degree upon foreign exchange receipts and earnings for purchase of essential machinery and supplies of a productive nature. The issue of morality in the Philippines then is not only a matter of vital concern to the NEC; it directly affects the future of the nation and its economic and political independence. These cases illustrate the broad trends which have existed for some time and which denote a significant political impediment in the realization of NEC objectives.

The basic interest of the NEC in the problem of public morality and the courses of action available to it with respect to the problem are necessarily limited and conditioned by Administration policy. What has been the Administration policy on the moral conduct of public officials?

The principal features of the President's policy on official morality were outlined in his 1960 State-of-the-Nation address before a joint session of the Congress. The President recommended a broad course of legislative action for "total war" on the graft and corruption of public officials in order that government could "generate greater service to the people." The President stated, "decisive congressional action is eagerly awaited by our people." He recommended the creation of a "graft-busting" commission to investigate all cases of graft and corruption and to prosecute such cases directly in the courts. The commission, he requested, should have broad preventive powers,
sufficient to forestall acts of graft and adequate personnel to keep watch over the agencies of government where irregularities were likely to be committed. The President added, "I have full faith that Congress will rise equal to the task demanded by the situation."24

In 1959, the President submitted a similar proposal to the Congress but favorable action was not then obtained. In urging the 1960 Congress to take up the measure anew he stated, "it is imperative that this social cancer (graft and corruption) be reduced to a minimum."25

In only a few months the Congress passed the requested measure and submitted it to the President for his approval. The bill was promptly vetoed. The president indicated that certain sections of the act were objectionable:

SECTION 4: It shall be unlawful for any person to request or receive indirectly any gift or money from any person who has any dealings with the government by reason of any family or close personal relation the former may have with any public official.26

The President's objections were:

It does not define close personal relation to serve as the primary consideration in the offender's receiving any favor from another person with dealings with the government. It does not clearly require the offender to have capitalized or exploited his close personal relation, whether supposed or real. It is not definite, and therefore violates the due process guaranty of the constitution.27

The section pertaining to relatives was also objectionable. It was as follows:

SECTION 5: It shall be unlawful for the wife or relative within the third degree of blood relationship or affinity of the President, Vice President, Senate President and Speaker to intervene in any transaction with the government.28
This provision was slightly more objectionable than others. The President stated:

Under this bill, a relative of the four highest government officials cannot apply for any benefit under the government. He cannot even apply for admission in any government hospital. All of these things he cannot do for himself he cannot do for his relatives or friends. Considering that there are hundreds of relatives of these high officials and tens of thousands of close personal relations, life would be made impossible for these persons during the term of these high officials.30

Nor did the congressmen exempt themselves:

SECTION 6: It shall be unlawful for any member of Congress during his term to receive any personal emolument in any business enterprise which will be directly or indirectly favored by any law or resolution authored by him and adopted by Congress during his term.31

This prohibition was particularly objectionable to the President. He stated:

This section holds the President and the Cabinet criminally liable if any of them recommends the enactment or adoption of the measure or resolution. The President or members of his cabinet have no means of knowing whether a member of Congress has received or will receive personal emolument from any business enterprise covered by a law or resolution recommended by the President or members of his Cabinet which the member of Congress may introduce in his name.32

In addition to the specific objections indicated, the Chief Executive disagreed generally with the anti-graft provisions of Section 13. He stated:

Under Section 13, the President is held criminally liable during and after his term. The separation of the public officer from office is no bar to his prosecution for an offense committed during his incumbency. The head of the State, under the principle of political law, is immune from court processes during his term. He carries this immunity with him even after his term
expires unless he is convicted and found guilty during his incumbency after impeachment proceedings are instituted against him. It is doubtful if any action can be taken against him if no impeachment proceedings were instituted against him. To hold him liable would be destructive to the honor, dignity and authority that go with his office as head of State.33

Apparently, the most objectionable feature of the measure was the evident congressional intent to affix responsibility for the moral conduct of government officials upon the Chief Executive. It is significant that this unique approach goes beyond the concept of political responsibility which may be said to exist in the Philippines and proposes imposition of a specific legal obligation. The proposal is unique in that the affixation of responsibility is without a correspondingly broad grant of authority. Although the President of the Philippines has constitutional powers considerably greater than his counterparts in many other constitutional democracies, he does not have virtual dictatorial authority. The party, the elite, the Congress, the judiciary and to a fluctuating extent, the people, all serve to mitigate and limit presidential authority. Therefore, to place essentially exclusive legal responsibility upon him for the moral conduct of even the subordinate officials of the Administration may well constitute a unique example in modern democratic government. Of course, the extent of graft and corruption in Philippine government, according to the President's own statements, may constitute an exceptional situation which might justify extreme countermeasures. Sole responsibility for his own moral conduct is another matter entirely.

Effective centralized economic planning and broad national
development in the Philippines—the prime objective of the National Economic Council—is, of course, dependent upon honest and efficient governmental practice. This involves much more than merely ejecting "bad men" from office and replacing them with "good" men. Among many political factors involved here are those resulting from the distribution of political power in the Philippines and the cohesiveness and identical ideological orientation of the small, politico-socio economic elite class.

Historically, official dishonesty is an ancient part of the Filipino body politic. It goes back to the Spanish tactic of encouraging the principalia, the Filipino upper class (the hereditary cabezas) and minor elected officials, to take over as the political bosses under the new regime and to become skilled in the oligarchic practices of hereditary succession, representation, election and rotation in office. Political office was monopolized by a small group of Filipino "bosses" and venality, widespread but petty, flourished. The system came to be known as "caciquism", as it is referred to today.

Professor Phelan describes the effect of the earlier practices of official dishonesty upon present-day Philippine politics in this manner:

Its legacy has proved a major obstacle to the growth of sound democratic institutions in the modern Philippines. At times it looks as if the cacique tradition had been transferred from the village level, where it was confined in Spanish times, to the national level, where it now seems to be flourishing. Some
contemporary politicians have acted like governador-
cillos* indulging in graft and favoritism. In Spanish
times graft for the individual magistrate was petty,
for an office holder's authority seldom extended beyond
one small village. Now the sphere of peculation has
reached out to include the whole nation. It would be
unjust not to recognize the solid progress that the
Filipino people have made in recent years toward creat-
ing stable democratic institutions, an achievement
which has been buttressed by the spread of popular
education and economic growth. But candor requires
that the obstacles toward the consolidation and
expansion of democracy ought not to be glossed aside.
One of the major barriers is just this legacy of
caciquism.36

The Spanish tactic of emphasizing Filipino class distinctions
and the encouragement of dishonesty by the few Filipinos who were
public officials, was not consciously pursued as an American policy
during the period of its half-century of colonial rule in the
Philippines. Instead, insistence upon rigid observation of both public
and private morality by the Filipinos appears to have occupied a firm
priority under American tutelage. However, the tendency of the American
officials, initially, to induce defections of Filipinos from the then
insecure Filipino Provisional Government, in order to weaken the
position of its adversary and to strengthen its own, and the subsequent
selection of the well educated Filipinos—for the most part, remnants
of the old cacique class, the new Filipino elite—to fill minor
government offices, resulted in practices reminiscent of those existing
in the Spanish period.

The result was that with only a limited amount of such advantages
available to all Filipinos, those able to partake of the benefits accorded

*Loose Spanish translation: petty governor. As applied to the
Philippines, however, the term denoted the chief magistrate of a munici-
pality or township (pueblo).
clearly enjoyed a preferential position. This factor favored those fortunate enough to attain public office at the very beginning.

The new Filipino elite thus created, added to those who already possessed hereditary land holdings or were able to obtain large tracts almost immediately because of their practically exclusive economic status, composed the political, social and economic upper-class. This status has been perpetuated and only slightly expanded and its inherent characteristics reflect both the cause and result of Philippine public morality. The elite class, numbering less than one per cent of the population, controls almost all jobs, finance and businesses, and forms influence, prestige, affluence, and other things which the remaining 99 per cent of the population covets.

The period of World War II Japanese occupation hardly mitigated the existing Filipino trend toward public venality. The accompanying chaos, deprivation, governmental disruption and mass fright all contributed to a temporary diminution of values and integrity. This factor helps to explain some of the Filipino collaboration with the Japanese conquerors.

Beginning with the granting of independence in 1946 and continuing until the present, the traditional pattern of public venality has persisted. Indeed, government losses apparently have increased through the administrations of Presidents Quezon and Roxas, reaching a peak under President Quirino. They declined under President Magsaysay, and then went on to a new all-time high during the present regime.

In part, the prevalence and persistence of Filipino public immorality may possibly be explained in terms of the ancient concept
that all men are perhaps corruptible to a greater or lesser extent, and are notably prone to sin and commit errors. If this is true, it may be postulated that these tendencies very likely increase in a somewhat direct relationship to the scarcity of coveted things. Therefore, in a nation long economically underdeveloped as the Philippines, the proneness toward public immorality increases, and this is even more the case in countries which have greater underdevelopment. Does it then follow that some public immorality in the Philippines is inevitable and beyond the power of government to correct? No, and the reasons are primarily sociological in nature.

Filipino public immorality—venality, graft and corruption—represents a clear-cut conflict and inconsistency in so far as the nation's standard of law and standard of ethics are concerned. There is an insufficient number of specific laws which prohibit dishonest acts by public officials and this deficiency is particularly significant. The laws which do exist are not always rigidly enforced and, worse yet, the prosecution of public officers who commit dishonest acts is often characterized by laxity, looseness and an underlying disregard for those standards of the law which prescribe norms of public conduct which ought to be maintained and followed.

In perhaps every society there is, in effect, a sort of built-in backstop to the legal system. This is the system of ethics which relates to what ought to be done by men with consciences, as opposed to the system of legal rules which prescribe what may be done under law. In the Philippines, as elsewhere, ethical rules are enforced only by powerful
social attitudes and community opinion, not by governmental authority, as are laws. In this sense, the ethical system serves as a kind of backstop to law.

However, in the Philippines, and this is the crux of the problem, public immorality is illegal, is recognized as such, but at the same time is not regarded as truly improper. When legal rules of right and wrong behavior coincide with ethical rules of conduct, there is no conflict. This is well illustrated, for example, in Filipino legal and ethical rules regarding marriage. Divorce is prohibited, legally, and the ethical rule of behavior is identical. The result is that although sometimes both rules are violated, no serious social conflict arises. But were the rules in conflict, the Filipino moral conscience would be adversely affected, or the fabric of the law would be greatly strained by disrespect and nonobservance.

On the other hand, there is the matter of nepotism. The Philippine Constitution, public laws and the largely unimplemented and unenforced provisions of the Civil Service Act, prohibit the appointment of relatives. These legal rules directly conflict with the ethical rule which imposes an accepted obligation upon Filipino public officials to assist effectively family members and affilial relatives. Also, there is the fundamental ethical rule of "utang na loob" under which Filipinos must reciprocate favors previously extended.

In early 1960 when President Garcia vetoed the anti-graft bill, his action was in part based on the ground that the measure was unduly harsh upon the families and hundreds of relatives of the Chief Executive
and other high government officials. The President, here, was sensitive to ethical expectations and obligations.

Some of the widespread and persistent venalities committed by Philippine public officials are essentially due to the ethical requirements which exist in Filipino society and dominate many areas of public behavior. The problem presents particular difficulties because of the inherent legal and ethical conflicts, and this adversely affects economic and political progression. Further, Philippine laws and the legal system itself, both directly and indirectly, reflect the superior status and greater value attributed by the Filipino people to their system of ethical rules. The personal conduct of public officials and the operation of the legal system, then, depict not so much lowered Filipino moral standards as, possibly, particular Filipino values of moderation, humanization and fulfillment of filial obligations and devotion.

The crucial problem is what can be done about public morality. Its adverse social, political and economic effects are indisputable, and the apparently increasing tendency of considerable segments of the Filipino population to accept the practice of public venality—whether or not on the ground of ethical values, or on the basis of any other theory—provides reason for anxiety and deep concern. However, while custom and tradition are often most difficult to change, it can be done. Consequently, the detriments resulting in the Republic from traditional public immorality will be ended when and if the Filipino people so desire.

*The vetoed anti-graft measure has since been repassed by the Philippine Congress, but in greatly modified and weakened form.
Presently, there is little effective action by the Administration concerning the moral conduct of public officials, only general proclama-
tions indicating opposition in principle to graft and corruption. The
President's veto of the recently promulgated congressional enactment
left standing only the earlier estafa and similar laws which have proven
to be thoroughly ineffective restraints upon venality.

Nevertheless, the President has indicated that even with the
inadequate laws available the Administration has investigated 17,579
cases of graft in the government service since his assumption of office.
Some 12,202 of the cases have been adjudicated as of March 31, 1960,
and 8,669 convictions were obtained. There are no public reports as
to where, when or by whom the cases had been adjudicated, or if provin-
cial and local government offenses were included in the total. However,
the magnitude of official dishonesty disclosed by the report of the
Chief Executive is appalling by any standard.

Political observers have not been in full agreement that if the
congressional graft bill had been enacted as originally promulgated its
provisions would have been implemented. One view was that the Filipino
political system as it exists precludes any meaningful punishment of the
political elite for abuse of office or self-enrichment. The view was
partially based on the fate of the Civil Service Act of 1959, which
evidently was never implemented, presumably because to have done so
would have removed a considerable number of administration positions
from the reach of the patronage system.
Representative Angel B. Fernandez, in a House speech, stated that the campaign against dishonesty in government was unsuccessful because of the failure of the Administration to jail crooked officials:

People will keep on committing the same venal acts unless they are jailed instead of merely suspended or dismissed and thus allowed to enjoy their ill-gotten gains.\(^\text{44}\)

He further objected to "the tendency of present-day society to hold in high esteem people who have become rich even through dubious means."\(^\text{45}\)

Earlier, Postmaster General Enrico Palomar charged that certain officials of the Central Bank had connived with dollar smugglers and had been lax in implementing the anti-dollar smuggling laws. The result, according to the Postmaster General, was that a dollar black-market was flourishing; dollars were being bought and sold in the public streets and huge profits were being made, all to the detriment of the government.\(^\text{46}\)

Representative Joaquin R. Roces, Chairman of the House Committee on Good Government, related that the administration was determined to enforce the provisions of Republic Act No. 1379. This requires forfeiture to the government of property acquired by state personnel, the value of which is proportionately greater than their legitimate incomes while in office.\(^\text{47}\)

The over-all issue of morality in government, according to Manila Mayor Arsenio H. Lacson, himself a ranking Nacionalista leader, and Eulogio Rodriguez, Nacionalista Senate President, underlies the serious power struggle now existing within the controlling Nacionalista Party. It appears that the struggle within the party is no longer an internal
affair but has become somewhat of a national issue. The "anti-graft" wing of the party is headed by Senator Rodriguez and he has stated that the widespread and unprecedented graft and venality of the administration may do more than prevent the return of the party to office in 1961. Even more important, this situation may also weaken the party through internal dissensions and lead to gradual disintegration and growing impotency. The division within the party ranks led to Senate President Rodriguez's public pronouncement against administration graft in June 1960, and to a subsequent statement of opposition to President Garcia's re-election. This was followed by an announcement of his own candidacy for the presidential nomination. It is not yet clear that he will follow through with his opposition and it is not certain that the Mayor aspires to or would accept the vice-presidential nomination, if offered.

It does not appear probable that the NEC will be in a favorable position in the foreseeable future to affect materially the pattern of moral conduct by Philippine government officials in administering and conserving public funds. The present trend of events provides little hope that the chain which links the past and present can easily be broken or that the issue of public morality can be cast aside as an unimportant political problem in the Philippines.

B. Economic Nationalism

Nationalism, as an expression of Philippine vitality, pride and independent spirit, has been a significant force in being since the beginning of the present century and to a lesser extent even before. However, economic nationalism, as a means of mobilizing the Republic's resources so as to benefit Filipinos, has been a positive force in
 Philippine affairs only contemporarily. In a fundamental sense, both political nationalism and economic nationalism stimulate a sense of cohesion, common tradition, patriotic love of country and dignity, and mirror underlying currents of determinism and the desire for true independence. These forces, in and of themselves, are often basically constructive and are potentially beneficial. However, in view of widespread illiteracy and the long period of colonial status, it is quite apparent that abuse and exploitation are distinct possibilities, for reasons quite apart from original intentions.

The story begins some twenty-five years ago, when the Philippine Economic Association (PEA) was organized by a number of prominent Filipinos including Mr. Elpidio Quirino, the Association's first president and later President of the Republic of the Philippines, and Mr. Miguel Cuaderno, until just recently Governor of the Central Bank of the Philippines.

The objective of the group was to examine the economic problems of the Philippines. Its most significant conclusion was that the economy was at that time dominated by aliens. From this time on, although national economic development was to remain for some while only an embryonic possibility, the issue was destined to occupy an importance among many Filipinos, second only to that of political independence.

Following the early and seemingly well-publicized findings of the PEA, an off-shoot organization—the National Economic Protectionism Association (NEPA)—was founded. This organization, primarily a pressure group composed of prominent Filipinos who were representative of the politico-socio economic elite, is still very much in existence today.
and to its efforts over the years can be traced a host of economic nationalization moves, culminating recently in various manifestations of what is known as the "Filipino First" policy.

The period beginning about 1934 was a turning point for the Philippines in another area. The closing stages of the United States' regime were being charted. The PEA and others had pointed out that political independence had economic aspects too, that the Philippine economy was linked closely to that of the United States, and that political independence would be ineffective and meaningless without economic independence. The warning at the time fell on deaf ears—the Filipino people and particularly their leaders were first tasting the heady brew of political independence and did not have time for the difficult matter of economics. Eventually, however, it was realized that steps had to be taken to enable the Philippines to fend for itself economically. The continuance of preferential treatment for Philippine products in the American market clearly was not compatible with the existing Filipino demand for political independence. How then was the conflict arising from these two divergencies to be resolved?

Quite expectedly, the Filipino national leadership concentrated primarily upon the purely political aspects of the matter, but the PEA and NEPA, quite unexpectedly, failed to follow through with their advocacy of full economic independence. Although, realistically, little could have been gained by championing merely a theoretical cause, the fundamental position of the PEA had been that Philippine economic independence necessitated self-development, obtaining new markets for
an increased and competitive productivity, and that the results thus attained would benefit "Filipinos First."

However, the organization somehow drifted farther and farther away from this position on national economic independence and soon came to represent the Filipino First cause. The exact reasons for the ideological shift are not at all clear and cannot be explained by the elite nature of its membership, since the composition varied only slightly from the very beginning.

This change, perhaps more than any other single factor, produced a serious public confusion among many Filipinos, which has persisted until the present. Apparently reliable public opinion surveys confirm the Filipino notion that if control of the economy can be wrested from the aliens—particularly the Chinese minority—economic independence will somehow follow. The result is that public attention has been in the main diverted from the basic problem confronting the nation—economic development—and also, from the importance of pursuing the self-development alternative which the PEA itself originally expounded.

The point then is, while Filipinos ought to be first in their own country, and available evidence indicates that they are not, it is of equal or greater importance that the apparent injustice involved and the dissatisfaction and detriment resulting not be permitted to deter broad national economic development and adoption of an appropriate course of action by the government to accomplish development. These are the factors which can provide true economic independence.

A curious factor is that while the Filipino public is evidently convinced that alien domination is a principal detriment, it also
considers national economic development to be of equal or greater importance.

It can only be surmised that the PEA, for its part, somehow permitted its own thinking to become muddled. It perhaps drifted toward or decided that, with the coming of independence, the elite, of which it was an integral part, had a particular self-interest to protect and to further and that this might best be accomplished under the Filipino First banner, especially since the people were already very nearly confused by the entire matter.

Although the theme of the PEA was Filipino First, it may have been appropriate, as time passed, to ask which Filipinos were to be first. If the best interests of the Filipino people had been uppermost in the minds of the PEA membership, it would have been likely that the Association's position would have continued to point toward the long-range self-development course which it had staked out as the preferable alternative for the government. However, in effect, the PEA, after beneficially demonstrating the practical inseparability of economic and political independence, suddenly reversed its basic position. Economic independence as a requisite concomitant of political independence was no longer emphasized. It seemed now that the nation's very existence would be secure, only if the Filipino was first. The changed position of the PEA is a pivotal consideration in the Philippines. Here is the key to understanding how the term has become virtually synonymous with Filipino First, and how the Filipino people, after having had their aspiration for economic betterment aroused, have been led down this special road of nationalism. An
indication of how the PEA reversed its earlier basic position, is clearly evident in its willing acceptance of the recommendations of the Joint Preparatory Committee on Philippine Affairs. The Joint Committee was headed, on the Philippine side, by Jose Yulo, a prominent member of the Filipino elite.

The Committee had been established in 1937 to consider Philippine problems of economic adjustment prior and subsequent to then impending political independence. The scheduled reductions and eventual ending of Philippine trade preferences in the American market under the Tydings-McDuffie Act—although logical, appropriate under the circumstances and conducive to Philippine economic as well as political independence—were nonetheless counter to the short-term vested interests of the Filipino elite. Consequently, when the Joint Committee recommendations for more gradual reductions in preferences were subsequently embodied in the Tydings-Kocialkowski Act of 1939, the PEA is reported to have concurred. From then until the present, the Filipino people have been constantly aroused with the propaganda theme of Filipino First, while at the same time Philippine reliance on American market preferences has continued to be heavy and may be predicted to remain so.

For example, during the two decades between 1940 and 1959, Philippine exports to the United States was composed principally of the bulk of Philippine sugar, preferentially accommodated in the American market under the sugar act; copra, particularly favored by the United States excise tax; and plywood and pineapple, likewise preferentially favored. These commodities ranged from a high of almost 90 per cent
of all Philippine exports to perhaps 55 per cent at the end of the period. The average level of exports to the United States was just under 75 per cent of all exports.

Thus, significant and continuing economic ties with the United States have existed during a period when the Filipino leadership fully recognized the possible conflict between this factor and the nation's full political independence. Both the economic and political spheres are and have been controlled by a small, cohesive, identically orientated elite, but this group has never wavered in its adamant demand for Philippine political independence. At the same time it has resolutely avoided a course which might lead to true economic independence—probably available under alternatives recognized by the government itself—which would be consistent with and complementary to the self-chosen course of political independence.

The Filipino leadership (whether through the PEA, the NEPA or otherwise) has contended that true Philippine economic and political independence were practically inseparable and that only through long-range, self-development of resources could the Filipino really be first. But the question of who gets what and how much, while important initially, is of far less importance than full, effective development of the national economy so that there will be a reasonable amount of "economic pie" to go around. The issue, primarily political in nature, has become a major problem.

The problem is primarily political for two reasons. First, the Filipino people firmly believe that they are, in effect, second-class citizens in their own country due to alien domination of the economy.
Second, the Filipino leadership, through the PEA and the NEPA, has successfully manipulated public opinion so as to focus hostility principally upon the relatively large Chinese alien minority. At the same time the government has largely pursued an economic course hardly consistent with the long-range development objectives laid out by the private organizations or the NEC, or necessarily consistent with the "Filipino First" concept itself. What is the nature of the circumstances involved, and what have been the underlying causes?

As early as 1958, and again in February 1959, President Garcia endorsed the Filipino First movement, substantially as originally developed by the PEA, the NEPA, the Philippine Chamber of Commerce and as subsequently enunciated by the NEC (which had been directed by the President to prepare staff studies and recommendations in this area). At the time, the President stated, "there is no quarrel with the Filipino First movement"; and indicated that as a Filipino he supported it.

In October 1959, he revealed that the Nacionalista Administration was deeply committed to the important Filipino First policy. He answered charges of insincerity in the implementation of the policy in the following manner:

To the accusation that dollar allocations for Filipino businessmen are declining, I have this to say: The Central Bank which is the specific agency in charge of exchange allocation reports that Filipino quota-holders received 39 per cent of total regular allocations in 1953, 44 per cent in 1958 and 51 per cent during the first semester this year. Americans were the next most favored groups, getting 26 per cent of the allocations in 1953, 36 per cent in 1958, and 34 per cent during the first half of 1959.
On the other hand, the shares of the Chinese which came to 20 per cent in 1953, dropped to 10 per cent in 1958 and 7.5 per cent from January to June this year. The share of other nationalities which came to 7 per cent in 1953 also fell to 2 per cent in 1958 and to less than 1 per cent in 1959.

I also wish to cite the percentage share of Filipinos in the capital investments of newly registered business. While 72 per cent of the investments in newly registered firms during 1953 belonged to Filipinos, in 1958 the share of Filipinos was 76 per cent, and during the first semester this year climbed to 81 per cent. The Chinese who were responsible for 24 per cent of the investments in 1953 accounted for 21 per cent in 1958 and only 18 per cent in 1959. Investment shares of Americans and other nationalities have remained relatively the same.

Can the Filipino-first policy then be a farce? Is the Filipino-first policy anti-American or anybody? Has the administration raised the policy only for campaign purposes? The truth is that actually the administration has plunged into the task of placing our growing progressive economy into the hands of our citizens. The facts speak for themselves.

Subsequently, Assistant Executive Secretary Marino R. Logarta publicly defended the President's position on Administration policy. He said it was "no more than a legitimate attempt to gain control of our economy and in the larger sense to achieve economic independence... for it is a true saying that economic subjugation makes a mockery of political freedom."

The Secretary stated that alien businesses would not be taken over "lock stock and barrel" and that the beneficent influence of foreign business in the Philippines was recognized. What was being objected to was the controlling position of aliens which was detrimental to Filipinos; nonetheless, joint ventures in the form of 60-40
partnerships with Filipinos in control were considered equitable. He advised that the Filipino First policy was not exclusive since Filipinos were to be given only preference, not exclusive rights, in the allocation of foreign exchange. Moreover, since the policy specifically referred only to the allocation of foreign exchange, aliens were not prohibited from establishing industries from their own dollar resources.

The Secretary insisted that the policy was neither "sweeping nor radical." On the contrary, he stated, the policy was intended to be gradual and its objectives achieved in specific phases. He explained that this was necessary for several reasons: to give aliens time to adjust to new conditions, to prepare Filipinos for the assumption of new responsibilities arising from their expected control of the national economy, and to avoid extensive disruption of the economy. He promised that the policy would not discourage foreign capital since it would not deprive aliens of "acquired rights" such as the remittance of profits and it would not violate international commitments.

Subsequently, the President, in his State of the Nation address before a joint session of the 1960 Congress, asked for full support in the Administration's efforts to "regain" economic independence through the Filipino First policy. The President pledged that the policy would be carried out without malice and with the full understanding of international obligations toward Western friendly nations.

The Administration policy on economic nationalism, then, in unmistakable terms consisted of "a national effort... to obtain major and dominant Filipino participation in (their) own economy". The
objective purportedly arose from the "imperatives of economic survival which have brought the Filipinos to a point where they can no longer tolerate alien domination of the economy," but assurance was given that "remedial measures would be carried out within the framework of the democratic tradition."

The Filipino First policy, as initially adopted by the NEC with the specific approval of the President and as subsequently modified and continued in effect until the present, is relatively simple, yet concrete. In effect, it means that in view of the acute scarcity of government dollar reserves allocable for importations, Filipino businessmen qualified for dollar allocations under the laws shall be accommodated first, before aliens or foreigners similarly qualified.

The main feature of the NEC policy was the imposition of the 60–40 ratio in all business enterprises which would subsequently be approved. Under this ratio 60 per cent of all business ventures would be owned by Filipinos while the remaining 40 per cent would be open to alien entrepreneurs. The ratio was to be particularly imposed in those business enterprises engaging in the exploitation of Philippine natural resources, and Filipinos would be given preference in dollar allocations for the establishment of "new and necessary" industries envisioned by the current NEC development plan.

The broad outlines of Administration policy and objectives, and the specific policy enactments of the NEC led eventually to significant political opposition. The policy itself appeared to be somewhat radical in nature and mirrored an acute dilemma of the national economic leadership.
Two substantive factors were involved. First, according to the NEC, approximately 80 per cent of domestic commerce and 70 per cent of foreign trade was dominated by aliens and the Filipino leadership had successfully focused public opinion upon the alleged detrimental effects of this condition. Yet, since only limited, uncoordinated, over-all economic development had been accomplished and this hardly has kept up with the rapid population increments, very little new wealth had been created. Therefore, the Filipino First movement was largely a political result of the administration's failure to achieve substantial economic development and the Republic's critical financial status. Consequently, if these and various other unsolved problems could conveniently be incorporated into an alien "bogey" or "strawman"—principally the unassimilated Chinese minority—from whose grasp the Administration could "deliver" the people, its political strength would be maintained.

Second, the policy was radical on another ground. Even if it were true that there existed a detrimental alien control of the economy as the NEC insisted—and this was not as great, in any sense, as the Administration and the NEC would have it—nothing particularly new was thereby established. The elite largely benefited under whatever economic arrangement existed and this circumstance seemed destined to remain. Therefore, the issue of economic nationalism may well have represented only an intramural dispute within the elite class, an argument over a impending, radical change in the existing economic system. The people could only benefit if there were extensively planned economic development such as recommended by the NEC, but this
was not involved. In consequence, it appeared that full maintenance of basic factors in the status quo was the real issue.

In elevating the matter to the level of an issue and presenting it to the electorate in the 1959 congressional and provincial elections as something upon which the Administration would stake its "record", more than a "trial balloon" was being sent up.

The non-Filipino domination of the economy had existed for a long time. The Filipinos tolerated it, or at least, Philippine administrations from Quezon through Osmena, Roxas and Quirino to Magsaysay, accepted the inferior position of Filipinos in the national economy of their homeland. Why then did the Administration of President Garcia challenge the traditionally accepted alien dominance?

In part, the answer is that the Garcia Administration was driven to undertake the challenge by the acute difficulties of the economy as a whole and the near-bankrupt financial condition existing particularly in 1957 and to a lesser extent since. It had become apparent that the raw-material exporting character of the Philippine economy could no longer possibly earn sufficient dollars with which to maintain currency stability, to expand steadily to meet the basic needs of a growing population (which, based on current estimates, will increase by some 15 per cent to almost 30 million in the present decade), and to ensure a reasonably contented Filipino public, which has tolerated conditions of deprivation in the past but is now becoming impatient.

The Administration, in short, is confronted by a serious dilemma. It could continue to accommodate itself to the dominance of non-Filipinos in the national economy and risk facing the dangers of a
destroyed currency and an angry population, or it could challenge
the situation and face the predictable reprisals upon the Nacionalistas
political future. One solution might be an intensified program of
national economic development, striking with the nation's collective
might at the root causes of the problem and simultaneously eradicating
government graft, corruption, waste and inefficiency at every turn.
This course would be difficult indeed and would be counter to the
historic precedent. However, all would be quickly lost if national
bankruptcy still occurred. Therefore, this approach was dangerous to
the elites' cause.

No doubt, the only practical course was the frontal attack upon
the economically dominant aliens. However, squarely aligned against
this course of action was the admonishment of Eulogio Rodriguez, head
of the Nacionalista Council of Leaders and Senate President. He said
that nothing short of a thorough party house cleaning to rid the
controlling group of rampant graft and corruption was likely to save
the party and the Administration and only this could provide a basis

for re-election. Besides, weren't the Chinese a principal source of
party finance and graft "collections"? Still, in favor of the
"alien-domination" course of action was the fact that the elite pressure
groups had done an excellent job of "selling" the masses the idea that
the real "bogey" in their plight was the Chinese—and they were almost
everywhere and in everything—therefore, real, coordinated and intensi-
fied national economic development could not be the immediate politi-
cally preferable solution. It was not the preferable solution for the
reason that it could break the chain of political exploitation of the
electorate which existed, and besides, if the program were successful, how could it possibly improve the advantages long enjoyed by the elite? No, the only expedient course was a frontal attack upon alien domination, and who could be sure that a high and honored place in history might not result from the effort?

The Vice-President of the Philippines and head of the opposition Liberal Party objected strongly to the Administration policy on alien domination, and suggested instead a Filipino First policy designed primarily for the benefit of the people "in the rural areas and urban slums," who together constitute some 85 per cent of the population. What are the possibilities of this approach to the problem?

As the Vice-President has made clear in several speeches, his suggestion does not affect at all the alien position of dominance in the Philippine economy. Another name for his Filipino First program, he has stated, is the "Filipino Common Man First" - in other words, not a "Filipino Elite First" policy. Therefore the problem, as he sees it, is one of enacting policies which systematically preclude the excessive accumulation of wealth in the hands of a few—be they aliens or Filipinos—and which will assure a more equitable distribution of the nation's wealth. His reasoning leads to this question: why not go one step further to the most logical conclusion and concurrently propose that effective national economic development be adopted as the one Administration policy which can provide real improvement in the lot of the Filipino common man?

The Vice-President's position was attacked as socialistic and non-democratic. It was stated that because of the Filipinos' long
commitment of the cause of democracy, the counter-proposal itself was alien to Philippine traditions. It was further held to be "destructive" because of the adverse affect upon those Filipinos who possess some means—economic and political—to prevent a complete capitulation of the economy to the aliens and because it would weaken the capacity of these Filipinos to wrest control from the controlling aliens.

The arguments of those who opposed the Vice-President's counter-proposal for a Filipino Common-Man First Movement were opened to some question. In essence, their arguments boiled down to a contention that the Vice-President was merely proposing that one economic class of Filipinos be pitted against another and that this, wittingly or otherwise, would only foment a class struggle. The contention implied the existence of a rigid class structure in Filipino society, but it also suggested that a significant struggle has sometimes existed, and may be imminent between the large, increasingly impoverished mass of Filipino people, on the one hand, and the small, cohesive, wealthy and controlling elite, on the other. This may be open to strong doubt. Notwithstanding the modest size of what may properly be called a Filipino middle class, yet small and ineffectual though it may seem to some, it may still be more significant than elsewhere in Southeast Asia. As others read his statement, a possible class struggle is not directly suggested by the Vice-President. His objective is to achieve peaceful economic, social and political change without violent means. Not even the Huk violence was successful in accomplishing significant land reform, an indication of the strong position of the Filipino elite.
Another important difficulty stemming from the issue of Filipino economic nationalism was fully recognized by the Vice-President. For the Filipino to be first in his own country, in economic as well as in other areas, an extension of beneficial nationalism is needed, in his view. The Catholic hierarchy in the Philippines has proclaimed that if this is pursued equitably, without malice and fairly, the result can be constructive and valuable.

The actual position of the NEC—as opposed to its ostensible position—concerning the Administration policy on economic nationalism can perhaps more clearly be determined by analyzing an example of its specific application of the policy.

One of the potentially fertile but largely untapped sources of dollar earnings for increasing the rapidly dwindling dollar reserves of the Philippine government is the tourist industry. In the past, however, little has been done toward planning, programming, or improvement in general. The government, during recent years, has created a Commission on Tourism and the NEC, mostly on its own initiative, has closely coordinated its development planning with the efforts and objectives of the Commission for the purpose of greatly increasing the government's dollar income which would flow from an expansion of the industry.

Since 1952 the government has succeeded in increasing the number of foreign tourists visiting the Islands from 10,330 to more than 32,000 in 1958. The target for 1960 is 100,000, the first year of the "jet age." At the beginning of 1959, the Philippine government estimated that it derived about $12 million annually from tourism.
If the annual goal of 100,000 visitors can be met, it is estimated that some $40 million will be realized by the government. This amount would provide approximately 20 per cent of the total amount required annually from the government as its share in financing the over-all development plan of the NBC. Therefore, the NBC is vitally interested in the Commission's realization of its goal.

Surveys conducted by the Commission indicate that about one-third of the foreign tourists' expenditures in the Philippines are for hotel accommodations. The Commission has determined that existing hotel facilities are largely inadequate for the present number of visitors or for the increase anticipated. Therefore, the Philippine Commissioner of Tourism, Mr. Modesto Farolan, has recommended the construction of at least one additional modern, large-size hotel in Manila, the hub of Philippine tourism.

The recommendation has been made in connection with the proposed Three-Year Plan of the Philippine Board of Tourist and Travel Industry—a private industry advisory group—to expend some P7.5 million for the improvement and construction of tourist facilities. The plan has been coordinated with the NBC and is included in its private sector program.

The hotel construction recommendation of Commissioner Farolan would have capitalized upon the willingness of the Pan American International Airways Corporation to join with Filipino private interests in construction of an additional Manila hotel. Pan American offered to provide all dollars, equipment and raw materials required, notwithstanding the 50-50 ownership arrangement under which the project
was to be carried out. Evidently, Pan American's primary interest
was the possible increase in air-travel from which it would directly
benefit, rather than any possible direct gain arising from the hotel
venture.

Subjecting the proposal to NEC's policy provision requiring
"new industries" to follow a 60-40 ownership scheme—with the
controlling interest to Filipino First program—resulted in an out-
right rejection of the hotel construction plan by the NEC and the
Central Bank.

The defeat of the highly beneficial proposal was based upon a
finding by the NEC that the project was of "low industrial priority."
Eventually, the Council reassessed its prior decision and reversed
its rejection of the project, but this action followed only after
the Council was assured that the project would be undertaken with
all-Filipino capital.

From original application until final decision by the NEC
required almost two and one-half years. This was the estimated time
required to construct the 500 room hotel. The additional hotel rooms
which would have been provided number slightly less than those
presently available. The proposed hotel would have provided
continuous employment for some several hundred Filipinos following
completion, and it is conservatively estimated that the loss of the
additional tourist traffic which could have been accommodated denied
the Philippine government some $12 million in added revenues.

The Philippine government and the NEC are required—the former
under the Constitution and the latter under applicable laws—to improve
the economic well being of the people and both have publicly
committed themselves to do so. The people are already improperly fed
and housed, but their lot has hardly been improved as a result of
NEC's application of the Filipino First policy. It may be argued that
although this is true, the people themselves want the Filipino First
policy. However, the people consider national economic development
to be of equal or greater importance. Therefore, if the matter turns
on the basis of what the people want—and if all that they want
cannot be given—why not provide what has logically been determined to
be best? And if some doubt exists as to what the government considers
best, one need only refer to the repeated statements that national
economic development provides the only possibility of significantly
improving the standard of living of the people.

In consequence, several conclusions appear inescapable. First,
the desire of the Filipino people for elimination of alien domination
in the economy arises from an understandable love of country, pride,
and dislike of second-class citizenship in their own country. This
basic disposition has been exploited and manipulated by Filipino
politicians so as to provide an "action" issue in current politics
which may have been intended to divert public attention from the
recently near-bankrupt position of the national government and
possibly its failures in national economic development.

Second, the attachment of the Filipino First "bogey" to the
matter of true economic independence could only confuse the people
and the move itself seems to indicate that an ulterior motive was
involved. Economic independence and political independence are
practically inseparable, but the Filipino leadership apparently believes that economic independence would not be compatible with the self-interest objectives of the controlling Filipino politico-socio economic elite. Economic nationalism has no direct relation in fact to true economic independence and this is most probably understood by the Administration and the NEC. It is highly probable that, if the Filipino First objective were realized, the cause of economic independence would not necessarily be furthered.* Moreover, the Administration has pursued a course of economic action—in terms of the alternatives available to it—which appear to be inconsistent with its professed intention to achieve economic independence or, for that matter, effective economic development.

Third, as for the NEC, it can only be concluded that in it lies perhaps the best hope of the Filipino people for improvement of living conditions and fuller democratization. The NEC appears to be fully aware of the relatively subordinate relationship of the Filipino First movement to true economic independence. However, its actions, so far, tend to support the notion that the Filipino First policy may merely result in a substitution of the Filipino elite for an alien elite in the division of Philippine economic "spoils", but this situation probably cannot contribute to the creation of new wealth, materially assist in the development of the economy, or

*The Philippine government is not able to fully finance the NEC development program without substantial amounts of foreign capital and assistance. The Filipino First movement may therefore work counter to the national interest: See NEC, Three-Year Program, op. cit., pp. 5, 146 and 158; and Delfin Albano, Congressman, "Warn on P.I. 'Go it Alone' Policy", Manila Bulletin, April 29, 1959, p.A.
particularly benefit the people. The only rational solution appears to be the possibility that in due time the NEC will be able to move forward with its economic development program so as to provide an improved standard of living for the Filipino people—and with it all that is thereby implied.
PART III
CHAPTER 8
PROSPECTS FOR THE FUTURE

The economy of the Philippines remains underdeveloped, largely because of major conflicts in economic, social and political affairs which prevent realization of NEC’s economic development objectives. The nature of these conflicts have been explored and the historical and other reasons for their existence have been studied. What are the possible approaches to the long range resolution of the difficult problems involved? It appears necessary that some of the major possibilities be considered. It should be perfectly clear, however, that in all probability there is no single, obvious solution to the difficult economic and political problems confronting the Filipino people. Nevertheless, education, private enterprise and barrio independence have promising aspects, and each its pitfalls.

The problem of economic development in the Philippines—which in great measure stems from the failure to implement NEC plan—in the final analysis must be resolved by the Filipino people themselves. In order that they be able to understand, intelligently deal with, and act upon the difficulties inherent in national economic development, it has been proposed that the widespread illiteracy now existing be substantially overcome and a broad, effective educational base be established.

The substandard economic conditions of the bulk of the people,
especially in the barrios* where the overwhelming majority of the Filipinos reside, are obviously related to the low educational standards and the low education levels which exist. Low education levels are to a considerable extent the cause and result of the failure in national economic development. Studies jointly conducted by the NBC and the United States International Cooperation Administration indicate that an average of 300,000 Filipino children of school age have not been able to enroll in public school each year during the past decade. Ninety-four per cent of all children who have been enrolled subsequently discontinued their education before completing high school, while sixty-one per cent did so before reaching the sixth grade.

The surveys concluded that three-fifths of those who quit were attributable to the poor economic status of the families involved, while the remainder largely reflected technical educational factors. The income per family of children who left before completing elementary school was below ₱350 annually, or approximately ₱0.95 daily. Considering that the average Filipino family unit is composed of five persons, this means that the individual daily income was less than ₱0.20 (10 cents, U.S., at the official 2-1 exchange rate), or about one-half the daily allowance for the convicts in the Philippines' Muntinlupa prison. The Philippine government recognizes that far more than 20 centavos daily is required even to subsist.

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*The lowest level of organized government in the Philippines, roughly equivalent to a rural township in the United States.
Clearly, the fact is that most of the Filipino people outside of Manila live in dire poverty and therefore do not have a real opportunity to obtain the education they want and need beyond the lowest grades. Under the circumstances only those who are wealthy or relatively so are afforded the opportunity for an education. The situation eventuates in the development of an oligarchy of the wealthy to the detriment of real democracy. A lasting solution or even improvement necessitates broad development of the economy so as to provide the mass of Filipino people an increased level of income that will enable them to support properly the needs of their school age children and obviate the necessity for withdrawing children from school because of low family income. This is needed if the people are to support an adequate public school system based on high educational standards and a sound financing plan and not on partisan politics.

Because an educated, rather than a largely illiterate, Filipino public is essential in the economic development process, it may be advisable for the NEC to assign higher priority and emphasis to national education, even if the purely economic aspects of the program must thereby be somewhat reduced in scope or temporarily delayed. Ultimate success in national economic development depends not only upon a Filipino public sufficiently educated to understand the intricacies of the program and its fundamental, but also who are able to see the need to hold the governments which they elect fully responsible for the effective accomplishment of economic development.

In this connection it is noteworthy that the primary purpose of the NEC development program is to increase personal income and thereby
improve the Filipino standard of living. This means that concepts such as money supply, consumer index, industrial expansion, investment pattern, and import-export levels must be employed. Yet while they are important in the processes of economics and government, they are incomprehensible to the ordinary Filipino. The only meaningful progress that he can understand, and his sole concern with economic development, is the possibility of specific improvement in his daily existence. A favorable balance of trade, an increase in the number of "new and necessary" industries, or the rise in national income—as though these were economic ends in themselves—are likely to escape the ordinary Filipino's comprehension and interest.

When the Filipino leadership points to the increase in national income as evidence of the real headway being made in economic development, the claim is not only unimportant to the ordinary citizen but it may in fact indicate that no meaningful economic development has occurred. This arises when national income is considered as an abstraction rather than a estimate of individual benefits—per capita income. The per-capita income rate is a more realistic measurement of national progression and appropriately allows for Philippine population increases. It therefore serves as a more comprehensible measurement of possible improvement in the ordinary Filipino's lot.

A hypothetical example may be in order here. Suppose that the population of the Philippines in 1940 was 20 million, and in 1960, 30 million. Also, that in 1940 the national income was 100 million dollars, and in 1960, 150 million dollars. On this basis it would be evident that, although in two decades national income increased by
50 million dollars, or 50 per cent, per capita income during the same period remained at $5.00. Consequently, while it would be pointless to argue that no economic development was accomplished during the period, it would be evident that whatever development may have been accomplished was insufficient, was less than required, and provided no improvement in the standard of living or increase in the purchasing power of the ordinary Filipino. In the final analysis this is a vital measure of any economy and indicates whether or not meaningful development progress is in fact occurring.

The individual Filipino is particularly interested in economic development only to the extent that it directly improves his standard of living now. He seldom understands the national situation or how it affects him. This must be attributed to the fact that the Filipino people, including many of their leaders, are not yet conditioned to accept the necessity and urgency of national programming. As a result we find a provincial and individualistic type of thinking by Filipinos.

This premise is at the basis of the view advanced by Mr. Filemon Rodriguez, a former chairman of the NEC, in explaining the underlying reasons why the NEC has so far failed to institute a national economic development program. He stated:

Our own individual and group interests loom large in our view and we are prone to consider that what is good for us individually or as a group should also be good for the country.

This is the fundamental reason why even within the Council itself composed only of a few members, it is sometimes difficult to agree on a specific line of action. * This is also the reason why the Cabinet

*Cf. however the view of the present Chairman, Dr. Locsin, Ch. 5, supra.
very often cannot approve or concur with recommendations of the Council.

In fact, the nation still does not have a single explicit national plan recognized and accepted, much less implemented by the government and the people as a whole.

It can thus be truthfully said that the plans the Council has produced could not have influenced significantly the course and speed of our economic development.

The mere fact that certain individual goals were reached or individual projects undertaken that parallel some recommendations of the plan did not necessarily mean that the plan was being implemented. It might rather have been that those projects were part of a program of a bureau or office that the latter was pushing aggressively, and which were not included subsequently in the national plan.

It would appear that effective centralized planning—if such is desired—will have to await the growth of an electorate more interested than the present one in high-level national economic policy, or that it will have to await the abolition of democracy. Fortunately however, there is yet another means of stimulating economic progress, even while the slower processes of mass education are continuing and without using the alternative of dictatorship. That way is through development of private initiative operating in a free economy. In the Philippines this appears to be a promising possibility.

During the past half-decade there has been remarkable progress in the development of a variety of industries and financial institutions by private Filipino entrepreneurs. The success of these entrepreneurs has been accompanied by a growing belief, on the part of Filipino leaders, in the wisdom of minimizing governmental enterprise and governmental controls and of stimulating private initiative.
It is likely that as the country becomes more industrialized, as the new entrepreneurs grow in financial resources, and as they develop a greater awareness of their power to influence politics, they will apply increasing pressure upon the government to provide them with a climate conducive to their own—and the country's—development. If this situation can be fostered, it has been suggested, the Philippines could in the next few decades enter a period not dissimilar to the one which, in the United States, followed the Civil War. That was an era characterized by the amassing of great fortunes, aided by the policies of a national government increasingly helpful to the industrial leaders of that period, and it was also an era of unprecedented economic program in which the entire nation shared.

Still, there are compelling reasons for approaching carefully the alternative of strong encouragement to private enterprise leadership. In the fifteen years since Independence and to a considerable extent during the preceding Commonwealth period, the controlling Filipino elite has not earned the support of the Filipino people for its policies of stimulating free enterprise.

In a nation where 2.3 inhabitants die every hour from beri-beri and still more from other nutritional deficiencies, the existing private enterprise elite has substantially controlled and directed the Philippine economy and the government for several decades and its critics charge that it has produced crisis, chaos and confusion for much of the nation. They argue that the people deserve a better existence under better economic leadership.

There are also the serious failures of the centralized government
to accomplish national economic development. This suggests to some observers the advisability of the alternative of governmental decentralization. This would constitute an almost entirely new approach to economic development in the Philippines and would run in opposition to the historical precedent. Still, they argue, an extreme economic situation clearly calls for extreme experimentation, particularly since less extreme policies and procedures have been substantially unsuccessful.

The possibility of a large measure of self-rule in the Philippines means, in effect, democratization of the barrio. While the formidable and perhaps insuperable opposition of the entrenched elite can be predicted, some progress has been accomplished and further tentative moves are being considered.

The possibilities inherent in these unprecedented and non-traditional proposals, which could mean a shift of political power, require careful consideration.

Greater autonomy for the rural areas—principally, the barrios where some 85 per cent of the Filipino people live—has been a nebulous proposal since the early days of the American administration. President McKinley, in a letter of instructions to the Second Philippine Commission in April, 1900, stated that: "Filipinos both in the cities and the rural communities shall be afforded the opportunity to manage their own local affairs to the fullest extent of which they are capable, and subject to the least degree of supervision and control."

The instructions were followed except that the barrio was not considered, and this was and is the real grass roots level of Filipino life—the village, a basic governmental unit composed of a varying
number of families. In early days the teniente del barrio, a head of
the village, was appointed by the municipal head, but the municipality
was far removed from the barrio. Consequently, little or no experience
in real self-government has been given at the barrio level.

During very recent years there has been significant progress made,
and today the authority for self-government in the barrio bears little
resemblance to that which formerly existed. The barrio council is now
the fundamental unit of government. It is composed of the barrio lieu-
tenant, the barrio treasurer, four council members, and a number of
barrio vice-lieutenants (depending on the village). The barrio council
is elected by all the members of the barrio assembly, the supreme
political body in the barrio. The assembly, in turn, is composed of all
the qualified voters who are duly registered and have resided in the
village for at least six months. Ordinances passed by the council must
be approved by the municipal council, but various safeguards exist to
prevent capricious action by the higher body.

The new patterns of organization and authority for the barrio
council have been approved by the Philippine Congress only recently.
The barrio's self-government powers are relatively broad and are some-
what counter to the historical precedent of centralization. In theory,
at least, the grant of authority to the barrio council affects the tradi-
tional interests of the Filipino politico-socio economic elite. The
democratic possibilities inherent in the situation are great indeed, and
the barrio council, by exercising its new powers judiciously, at last
may be in a favored and pivotal position.

Perhaps the most significant power of the council is in its authority
and capacity to raise, levy and collect taxes, with two-thirds approval of the assembly, on a fairly broad range of barrio sources. Under the prescribed provisions, the barrio will be able to raise money for its own development and thereby wield a limited measure of control—albeit restricted, at present—over the absentee landlord, the elite, and to some extent balance government over-centralization.

It must not be assumed that the limited self-government authority now possessed by the barrio will enable it to break completely the tie with the past and, alone, set it on a course of mass improvement and progress. However, it may be that a trend is now developing which, if successfully pursued, may lead to grass roots political action, so necessary if democratic government is to end long-standing exploitation and economic regression.

Even the paternalistic and somewhat awkward laws that presently restrict greater self-government by the barrios may be altered in due course if the village populations are able to comprehend and utilize the powerful political weapon which is now being made available to them.

Decentralization may not bring immediately to the barrio the support and advantages which it needs, but the trend now apparent may well stimulate the spirit of independence and self-reliance and this touches upon the very essence of democracy itself. Through the discipline and pointed interest which only political maturity can develop, the people of the barrio may in time see the necessity for producing more agriculturally exportable goods, for insisting on the development of indigenous industries which can process a greater amount of these products into consumer items, and for a government that can successfully compete for new
international market outlets which can increase purchasing power and result in an improved standard of living for the Filipino tao who alone is able to set the whole procedure in motion.

However, in order to see the full picture, the arrangements against decentralization--i.e., those against greater autonomy--should be carefully considered and kept in mind.

A contemporary trend--concurrent with that of decentralization--in Filipino society presently is industrialization. As in perhaps all underdeveloped nations, this has been emphasized as a high-priority requisite which must be initiated and successfully accomplished if effective economic development is to be attained. It was this, for example, that was involved in Soviet Premier Khruschev's admonishment to President Sukarno against dependence upon craft industries during the former's state visit to Indonesia in 1959. Whether or not the advice was basically sound, a problem arises from encouraging the growth of a great number of uneconomical units of production, and there is the ever-present possibility that greater barrio independence in the Philippines may contribute to this result. Too, independence may make the barrio ignore the value of central planning--or country-wide planning as it is sometimes called--of a nation-wide marketing system, and all the prerequisites necessary for full industrialization.

The home industries--cottage industries--for instance, which the autonomous barrios will want to develop, cannot flourish unless they are standardized, unless they are assured of a wide market and are integrated fully into the over-all development of the nation's economy.

There is also a possibility that the greater autonomy of the barrio
may lead to disintegration and demolition of the party system in
 Philippine politics and to a diminishing importance of ideas—rather
 than personalities—as the focus behind political reform. Another de-
 velopment might well be that the barrio will not be able to appreciate
 the fact that its progress must necessarily be based on the over-all
 progress of the nation. The barrio must not plan in anger—although
 the reasons for doing so may be fully justified in justice and equity--
 for, given its literacy level, this can only lead to disaster.

In the isolation of the province, the barrio may be lulled into a
 sense of complacency. It may become satisfied with the simple tasks of
 putting up artesian wells, building a few feeder roads, weaving baskets,
 and subsistence farming. To rise from this elementary aspiration, to be
 a part of the throbbing, vital political and economic life of the nation--
 and its social milieu—is the more significant aim to which the barrio
 should aspire.

It is particularly significant that the National Economic Council
 has carefully noted the decentralization trend which points toward greater
 local autonomy. To an important extent, the Council appears to be cau-
 tiously appraising the possibilities inherent in the situation, and is
 preparing to meet some of the difficulties.

For example, in February 1959, Chairman Jose Locsin is reported to
 have stated that the NEC may soon "take to the field" to win popular
 support for the current economic program. It was evident that an urgent
 need existed to familiarize the rural population throughout the country
 with the vital role of economic development in their daily lives and the
 importance of their support—initially political—in instituting and
accomplishing the program as well as the direct benefits which eventually would accrue to them individually and collectively.

Although the information campaign was aimed primarily at the barrio, the goal was to create a high level of enthusiasm and widespread interest "from the top government level down to the grassroots." Dr. Locsin warned that the government's failure to fill "an administrative gap" between economic planning and actual development work in the agricultural and industrial sectors would again result in a useless compilation of NEC recommendations, policies, plans and programs as had been the previous experience.

National Planning Director Isidro Macaspac indicated, at the same time, that the primary purpose of the NEC campaign was to secure active community support beginning at the very lowest government levels. He stated:

The National Economic Council cannot be assured of productive end-results when the great mass of the Filipino population are unaware of their role under the program because of the existing disparity between planning and implementation, unless their unqualified support is somehow obtained.

Past experience has shown that the government cannot bring about economic development merely by imposing directives from the top without the understanding and cooperation from the mass of the people at the bottom.11

The nature of the indoctrination task is complex and formidable indeed, and this has been emphasized by Dr. Locsin. He asks, for example, how, considering the educational level of the barrio Filipinos, can it be explained to the people that the Philippines produces and exports iron and copper ore but must, in turn, import steel and copper
intermediate products in order to feed her own infant factories; that a
country producing large amounts of ramie has to export the fibre and have
it degummed, woven and finished into cloth abroad. Vice-President Macap-
gal carried the point forward when he asked how are the people to understand
the government support and the dollar allocations given to the car assembly
industry in the private enterprise sector as against the lack of government
fertilizer production adequate to meet even minimum agricultural require-
ments?

Alongside the difficulty of informing the population of its duties and
responsibilities in national economic development in particular and toward
government generally, lies a problem often encountered in decentralization
schemes. How is authority to be conferred commensurate with the responsi-
bilities imposed? The action of the highly centralized national government
in granting the barrios limited authority constitutes a beneficial trend,
but this has not been a final commitment without attached strings. The bar-
rio councils and even the intermediate government levels are yet effectively
tied hand and foot in a maze of national government limitations. Also, in
the crucial area of dollar allocations—which in the final analysis governs
the extent and type of industries which the local people can establish—
control has been retained in Manila by the elite which practically controls
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government and private enterprise.

A suggested approach to the matter of changing the present highly
centralized pattern of dollar allocations to spur the growth of local indus-
tries—thereby assuring fuller and more beneficial utilization and possibly
increased agricultural productivity—is a plan for allocating dollars to
the provinces, who, in turn, would be required to sub-allocate to lower
levels of government. At present, 30 out of the 51 provinces do not have quota holders; in fact, Manila with perhaps less than five per cent of the nation's population, monopolizes approximately 85 per cent of the dollars allocated.

Moreover, if a revised system were instituted, there would be no assurance that the dollars allocated would finally filter down to the people in any greater amounts than the present arrangement. An important holder of power in Philippine politics is located at the local level, in the person of the local politician. The proposed change in the allocation of dollars by the national government may enable local politicians to accomplish exploitation directly while now they must do so indirectly. The benefits which might be possible under the suggested scheme are yet nebulous and require careful scrutiny. Furthermore, the NEC would perhaps strenuously oppose dollar allocation decentralization, since it has not been fully successful in assuring that the Central Bank allocate dollars only for specifically programmed development projects even under the present system. A fragmentary plan as pertains to dollar allocation— which might result if the proposed decentralized allocation scheme were adopted—could provide an additional impediment in country-wide development planning.

Along with proposals for decentralization, a recommendation for election of Senators by districts, or provinces, has been considered. Presently, all Philippine senators are elected at large and this may very well constitute the only such practice among modern nations. According to former Secretary of Foreign Affairs Raul S. Manglapus, under the present system it is hardly possible for a national candidate to explain his views to more than a small fraction of the people. One result is that if
a candidate can get on the slate of the dominant political party his election is virtually assured. With the new, though limited, self-governing authority of the barrio it has been suggested that a concerted effort should be made to obtain senatorial election reform.

If the Filipino electorate—predominantly centered in the barrio—is becoming sufficiently mature to realize the potency of the political weapon it now partially possesses, it may well be able to obtain at least some of the reforms it desires. The changes then possible might eventually break the chain that for so long has confined the Filipino masses to an inferior and sterile political status, to an underdeveloped economy, and to the inadequate purchasing power and low standard of living thereby assured.

The policy of granting the barrios a larger measure of self-government is grounded on valid considerations. The barrios constitute the grass roots of the national governmental structure, and development progress—as envisioned and planned by the NEC—must proceed from this source if it is to be real and full. Therefore, to attain an improved development status the barrios must play a more active and important role in all aspects of the national endeavor, but it is not likely that needed support will be forthcoming as long as the people subsist in deprivation and are denied fundamental democratic prerogatives.

There are many reasons why the barrio people are apathetic to the national economic development plan of the NEC. In part, apathy stems from their feeling that they are being neglected. They do not understand the development program. They believe that they have been and will continue to be politically exploited. They feel certain that they will be denied by any meaningful degree of self-government under perhaps any
circumstance. The markedly centralized pattern of government administration has made them feel hopelessly and helplessly isolated, and impotent to do anything about it. There is no incentive for initiative; they have to depend upon the central government for their every need, or upon politicians--whether national or local--who can ill afford to extend assistance unless active support is given in return.

With the limited authority for self-government now extended by the national government, the barrio people can mature and eventually accept the tasks of establishing a firm democratic base and of supporting fully national plans for a broadly developed economy. If this happens, the pattern of circular causation which for so long has encompassed them could finally be ended.
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CHAPTER 9
CONCLUSIONS

At the outset of this study, it was indicated that the basic objective was to understand the political forces and related factors which determined the fate of a program of economic development in an Asian nation without a strong, centralized political organization, such as the Philippine Islands. We have seen that in actual fact there has been a form of political paralysis in this particular nation which has adversely affected the vital tasks of economic development, with tragic consequences for the people of this society. The Republic of the Philippines possesses a vast and potentially valuable supply of natural resources, an industrious and progressive people fully capable of assimilating the arts and sciences of the technology advanced West. On the basis of repeated pledges of support from the national leadership, a competent body of Filipino social scientists and statesmen in the National Economic Council have developed comprehensive plans and programs, designed to fully utilize the nation's potentials in the processes of broad, country-wide economic development. Yet the Council's plans and programs have never been implemented and the nation's vast potentials have not been significantly realized. In effect, there has been a frustrating process which had led eventually to political paralysis, itself reflecting circular causations, with tragic consequences for the masses.

The central task of this study has been to identify and analyze the basic causes of this paralysis and the interrelated forces and factors which have led to this tragic impasse. To this end, we have examined a
variety of elements concerning the demographic, economic and social environment of the archipelago, the historical heritage of its people, the nature and operations of its bureaucracy as exemplified by the National Economic Council, and the political processes and system under which the proposed program must operate if broad economic development is to be realized in the Philippines. It is appropriate now to summarize our findings, to select the most important factors and to analyze the relationship of these to the political impasse which has arisen with respect to the plans and programs of the National Economic Council.

The Spanish Heritage

The historical legacy of Spanish colonialism in the Philippines includes a number of relevant factors, particularly those which provided an economic and psychological impact. The Spaniards firmly established a plantation-type economy in the Islands and left behind them a set of public attitudes, especially concerning agriculture, which are highly significant today. Most important, the Spaniards created the social framework in which class relationships have developed during past centuries.

The Spaniards were primarily interested in quick, high-profit returns, and in their haste to capitalize on the wealth and resources of the Islands they turned to trade and exploitative undertakings to attain their objective. This was not conducive to the expansion and development of Philippine agriculture, which could, at least on a short-term basis, considering the vast natural resources, climate, population and historic lack of industrialization, provide an accepted standard of living for the masses and, on a long term basis, with proper planning and exploitation of resources, could very well have provided the requisites for desired industrialization.
There were nevertheless aspects of servitude and exploitation which persisted for several reasons. The landholding system which provided native Filipino chieftains with their principal source of wealth had important economic consequences. After a land owner entered into a partnership with a landless native, the latter-engaging possibly other sub-tenants—cultivated the land of the former, and all, on a disproportionate basis, shared the harvest. Usually the system involved a loan from the owner to the tenant, with further smaller loans by the tenant to the sub-tenants, and each at inversely usurious rates of interest.

Moreover, because of a significant innovation in land tenure introduced by the Spaniards—outright land ownership as opposed to perhaps the prevailing colonial concept of merely land use—land ownership became a chief source of actual and potential wealth. Consequently, Filipino chieftains, upon whom the Spaniards relied for basic implementation of their policies among the indigenous, were eventually able to lay claim to sometimes extensive tracts of land which their dependants—relatives as well as those in peonage status—cultivated or occupied. And while even under this land tenure system ecclesiastical estates were the largest single item of Spanish land ownership, the bulk of remaining cultivated lands remained in the possession of the Filipinos.*

This factor, perhaps more than any other, facilitated the eventual emergence of a landed, wealthy Filipino elite, with tremendous economic

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*In part, the long-disputed title claims of the Church with respect to Philippine land holdings—e.g., the so-called "friar lands" problem which was extremely perplexing to the Americans during their occupation of the Islands, and the legally contested purchase of the Quiapo lands, then a mere suburban village of Manila, by the Jesuits—illustrate the evolutionary stages of the land tenure concept.
and political authority. The establishment of this Filipino elite class was later hastened, and its authority and control solidified considerably, by American reliance upon the same group to serve U.S. purposes in the Islands following the American occupation at the turn of the present century. The domination and the eventually firm emplacement of this elite Filipino class in virtually every aspect of Philippine affairs—social, economic and political—has endured as a matter of course in the years that followed.

It has largely been through the evolution of the native chieftains (principales) that many Filipino political and economic problems—human servitude, onerous land tenure, various conflicts and difficulties in the central government which are associated with the underdeveloped economy, as well as frequent laxities in public morality—has arisen. The Filipino class structure especially the elite level which provides the Philippine social, economic and political leadership—although largely shaped by the authoritative preferences of Spanish colonialism, has nevertheless, independently and separately, exhibited a moral content and ultimate direction all its own. On this basis, the results achieved and the state of affairs now existing must be attributed far more to the Filipinos themselves than to historic circumstances, or to external incursions.

Socially, the relatively rigid class structure in contemporary Filipino society developed from the Spanish system which consisted of the ecclesiastics, nobility, government officials and the masses. Among the various vestiges of the Spanish influence which currently exist in Filipino society are the following: the respect and patriarchal status accorded the ecclesiastics; the very broad and compelling authority of the elite,
greatly reminiscent of the Spanish nobility; and the "special" status of Filipino politicians, perhaps akin to that accorded to Spanish officialdom. The role of the masses has not greatly improved; indeed their relative numbers and plight, in some ways, compare unfavorably to the situation existing under Spanish colonialism. These factors constitute impediments in the democracization process, and have influenced economic and political pressures which govern over-all development possibilities.

Perhaps nowhere are the social factors better illustrated than in the historic existence of a plantation type economy and the exploitation of Filipino laborers. Economic pressures degraded the life of the Filipino worker during the Spanish colonial period and this continue just as positively today, although to a much lesser extent. Adverse economic conditions have directly subjected Filipino workers to various forms of exploitation—illustrated in plantation-sharecropper and landlord-tenant type relationships which follow closely the earlier practices of the Spaniards, and even resemble a subtle form of peonage-enslavement.

These exploitative practices have been particularly detrimental for two very important reasons. First, the class system which such practices create has gained some acceptance by the Filipino masses. This perpetuates the arrangement and breeds the hopelessness and despair which will not be easily overcome. The beneficiaries of the system—the exploiting Filipino elite—can easily persuade themselves that the prevailing practices will be continued. Broad, effective economic development, which could provide the requisite basis for breaking the chain of circular causation becomes more difficult.

Second, the exploitative system, by its very nature, discourages
the acquisition of even small land-holdings by the tao. This was the practice of the Spaniards and their Filipino successors have learned well. Deep-seated resentments of some of the Filipinos—particularly, the Pampanguenos in Central Luzon, the principal island—during the post World War II period, erupted in the Huk violence, which involved among other things a determination by the landless Filipinos to obtain some land. It was not a communist conspiracy, although some Filipino communists were involved. The greater importance of the matter is that the mass pressures and dissatisfactions will continue until some acceptable land distribution formula is instituted.

The most logical and perhaps only feasible alternative available to the Filipino masses, already exploited and impoverished, is concerted political action. However, here too "avenues" to peaceful and beneficial change have not proven accessible because of political factors which chiefly stem from the earlier Spanish colonial experience.

The growth of the principalia class among the Filipinos has left a deep imprint on the subsequent political development of the Islands. Political practices introduced by the Spaniards, such as the principles of hereditary succession, representation, election of office, and rotation in office, constituted a framework of experience, which the Filipinos have since experimented with but have practically retained as a model.

The system of local administration was oligarchical. Political office was monopolize by a small group of "bosses" in each community and this practice, particularly, has continued into the present era. Venality, widespread but petty, flourished, and this came to be known as "caciquism".

Not even the lessons learned in the conduct of government,
of the democratic experience under a half-century of American rule, basically changed the situation. However, given the intellectual accomplishments of the people over the years, the absence of effective communications, particularly between the islands of the archipelago and between outlying areas within each island, and the evident need for a unifying force, it must be concluded that government centralization has been, in the main, beneficial. It is highly unlikely that future national economic development in the Philippines could be particularly successful without substantial centralization authority, even though with it the Spaniards accomplished little. However, their failures represented, essentially, a greater concern with trade and the possibility of quick profits.

The significance of centralized government in the Philippines lies not in its origin but in its political implications with respect to broad economic development. On the one hand, highly centralized government affords beneficial possibilities in the areas of country-wide development planning, and single, unified control of resources and productive effort. On the other hand, and from a political point of view, there is less reason for optimism. The concentration of authority has provided a convenient target for overt manipulation, influence and dominance by the elite—by the Spanish elite, during the period of their rule, and by the Filipino elite, presently. Dominance by the elite has constituted a serious impediment in democratic government, has substantially retarded effective economic development, has led to extensive graft and corruption by some public officials, and, most important, has given rise to repeated exploitative practices against the people themselves. The result is a broad pattern of circular causation—with various strange
elements, such as the masses contributing partially to their own demise by their virtual acceptance of frequently ineffective, dishonest government, and, on occasion, directly participating, where possible—which, in the final analysis, only the people themselves, through democratic government and "grass roots" participation, will be able to fully resolve.

Finally, while the abuses and defects of Spanish administration in the Philippines were evidently extensive and great, still some of its theoretically beneficial contributions should not be overlooked. Because the Spanish conquest of the Philippines was spiritual as well as bureaucratic, the impact may well have produced some enduring Christian concepts. Consequently, virtues such as compassion, respect, humility and filial and kinship devotion, among still others, almost everywhere evident among practically all Filipinos, may constitute a significant indebtedness to the Spaniards. Also, the virtual indifference of the Spaniards to agricultural pursuits and dislike of arduous work may well explain their determination that there was not an abundance of gold or other valuable metals in the Islands. This incorrect assessment proved to be a blessing in disguise, for Philippine resources were thereby preserved for posterity, and possibly a great number of Filipino workers were spared in the process. Of far greater significance, the Filipinos were accorded an early opportunity to familiarize themselves and participate—with important limitations—in the western concept of government. In addition, at the very lowest local levels, a small number of the Filipinos received practical—although quite limited—experience in the conduct of government. This experience was not fully democratic, but certainly it was not anti-democratic in principle. This familiarization, acquaintance and experience proved
that oriental custom and westernized government were indeed compatible, and resulted in the existence—some 400 years later—of the prime example of a potentially democratic government in Asia.

**The American Experience**

To a considerable extent, the fundamental economic difficulty confronting the Philippines, particularly since its independence in 1946 and until the present—economic imbalance and underdevelopment—stems from the earlier trade policies pursued by the United States in relation to the Islands. When the United States acquired the Philippines at the turn of the present century the thought was evidently uppermost in mind that the Islands would prove economically valuable both for their trade and investment potential, and as a base for the China trade. The idea was practically identical to that initially held by Spain almost three and one-half centuries earlier; an idea which proved as disappointing to the United States as it had to Spain. American capital was never greatly attracted, the China trade remained only a hope, and Manila never became the trading center of the Far East. However, United States-Philippine trade significantly increased on a presumably mutually beneficial basis, with the adoption of qualified free trade in 1959 under the Payne Tariff Act, and practically free trade in 1913 under the Underwood Tariff Act.

It may not be completely agreed that the trade benefits were actually mutual. Over a period of years, Philippine exports to the U.S. averaged 75 per cent of all its exports; U.S. exports to the Philippines constituted less than five per cent of all U.S. exports, but this constituted practically all Philippine imports. Although there were fluctuations and, particularly since 1946, various changes, this was the main pattern which
persisted. The principal Philippine exports to the U.S. were sugar, copra, cordage and similar agricultural and natural resource products. These were either in short supply or unavailable in the U.S., and were mostly non-competitive with U.S. products. Moreover, principal U.S. exports to the Philippine consisted of consumer items, manufactures and machinery. Therefore, Philippine exports were complementary to the American economy, and, quite significantly, were largely "price-controlled" by the United States. Conversely, the Philippines constituted a small but constant additional market for U.S. manufactures which was quite profitable to the U.S. in a relative sense, inasmuch as tariffs were not involved until a much later date. The comparatively small, additional market outlet thus afforded permitted a corresponding expansion of certain American manufactures, the "life-blood" of industry growth. The over-all result was a trade pattern directly profitable and beneficial to the U.S. from both a short and long-range view. This trade was perhaps just as profitable to the Philippines, but only from a short-term view. The trade was particularly beneficial to the Filipino elite who controlled the production of the few crops readily absorptive in the American market.

The trade pattern which existed reflected a major contradiction of American policy toward the Philippines. While asserting good government and self-government with eventual independence as the political goal, an economic policy was pursued by the U.S. which bound the Islands more closely than may have been realized.

Perhaps because the Islands proved far less economically valuable than originally anticipated, and also because of the illusion created by
American interest groups during the 1930's that the Philippines competed with U.S. industry and labor, provisions were promulgated in the Tydings-McDuffie Act of 1934 for Philippine Independence. In the Philippine Trade Act of 1946, the U.S. indicated that the fear was less real than imagined. This act—containing as it did the parity clause, the imposition of quota restrictions, partial regulation of currency, and the limited control of the transfer of foreign exchange—reflected America's concern for the safeguarding of its economic interests and opportunities.

Although American trade policy toward the Philippines contributed in large measure to the existence of an underdeveloped, colonial type economy in the Islands, it may not be fully clear how this resulted. American trade policy encouraged the production of Philippine cash crops which were almost completely dependent upon the free American market, it inhibited a diversified economy, and it precluded the establishment of local industries for the production of consumer goods. The result was that consumer goods and even food had to be imported. Because of preferential trade provisions, Philippine price levels for imported goods followed closely those of the U.S., but Philippine wage levels were only a small portion of prevailing U.S. rates. This adversely affected the purchasing power of the Filipino masses, and especially benefited the controlling Filipino elite and the American and alien entrepreneurs in the Islands.

By no means, however, can it be concluded that American trade policy constituted the only disadvantageous factor in the Philippines' economic development. Indeed, from purely a short-range point of view American trade policy contributed to various improvements in the welfare
of the Filipino people which, ironically, paralleled the significant end objectives of present-day national economic development planning by the National Economic Council. Included were outstanding and beneficial programs in the areas of health, transportation, agricultural production, education, industry, construction and communications. The value of these constructive undertakings and their implementation have been deeply appreciated by the Filipinos and represent the fundamentally altruistic purposes of the United States. Nevertheless, there remained the difficulty of sufficient means and a broad, requisite base from which the Filipino people could proceed to independently firm-up, maintain, and extend these and other progressive programs. Unquestionably, requisite, basic steps toward a fully developed economy were an absolute essential in the first place, and no lasting benefit was likely to be achieved by skipping-over the painful processes involved. The highly beneficial improvements provided by the United States could not substitute for the basic steps necessary to achieve broad-scale economic development, which should have been instituted on a planned, systematic basis. In significant respects, American policies—somewhat similar to the effect of earlier Spanish policy, but for entirely different reasons—tended to delay and defer the difficult processes and sacrifices required for effective Philippine economic development.

One benefit of American policy was that it, in effect, permitted and possibly encouraged the accumulation of capital in the Islands. However, this chiefly benefitted only a few—the Filipino elite, and not infrequently the Americans, Spaniards and Chinese—and may have actually retarded the creation of a Filipino middle class. Nevertheless,
certain incentives were provided for the retention of some wealth and
capital in the Islands, rather than the almost exclusive draining off
and repatriation process frequently associated with absentee capitalists
operating in a colonial area.

Irrespective of the exact relationship of American trade policy to
the existence of a colonial economy in the Philippines, or its under-
development, American rule provided institutional and governmental
stability, provided the Filipinos needed experience in organizing and
conducting government, and most important, provided a practical workshop in the processes of modern democracy. In any final assessment,
it may have been this latter contribution, above all others, which has
provided the Philippine nation a solid base upon which to develop, ex-
pand and progress; whether it be social, economic or political under-
takings involved.

It has been principally in the political area of Philippine affairs
that the Filipinos themselves have been unable to effect desired changes
and improvement so as to be able to move forward toward its economic
development objectives. Dominance of Filipino politics by a favored
few, only the embryonic existence of a middle class, one party political
control, various irregularities in elections, and widespread graft and
corruption have given rise to still other, even more disturbing difficul-
ties. There have been heavy deficits in the national budget, foreign
trade imbalances, widespread poverty and higher prices, all of which,
under the circumstances, are symptoms of a deteriorating national
economy. Underlying these are still other contributory factors: con-
centration of the bulk of the nation's wealth in the hands of a few,
unequal bargaining power of workers and tenants in relation to employers and landowners, inefficient agricultural production and a practically feudal land tenure system, an inadequate and retrogressive tax policy which produces insufficient revenue and bears most heavily upon those least able to pay, and an unwise utilization of funds for consumer rather than capital goods.

Nevertheless, it must be concluded that American trade policy has been a crucial factor in the existence of a colonial economy in the Philippines, a factor which in considerable measure explains its underdevelopment. Still, the Filipino people themselves—particularly their leadership—must accept an even greater measure of responsibility for their inability to establish a political milieu conducive to the attainment of economic development and stability.

The United States, for its part, foresaw as early as 1950 that the gradual loss of the free American market to the Philippines, which had been extended in the 1946 Philippine Trade Act to 20 years in place of the five years stated in the Tydings-McDuffie Act of almost a decade earlier, would have to be modified in order to assist the Filipino attain financial stability. Accordingly, based upon the survey recommendations of the Bell Mission in 1950, the U.S. enacted the so-called Laurel-Langley Agreement in 1955, which provided liberalized trade terms as replacements for those contained in the 1946 Bell Act. The new legislation was designed to further ease the adjustment of the Philippines to the loss of American trade preferences. While in 1956 Philippine exports were to pay only five per cent of the American duty, increasing by five per cent each year, American exports to the Philippines were to
pay 25 per cent of the full duty, increasing every five years by 25 per cent more. At the end of 20 years, the free trade would be completely liquidated, and the exports of both countries would be full duty.

The Philippines, for its part, has recognized but so far has been unable to fully implement either of two principal policy alternatives pertaining to its present economic crisis and future economic course, available to it since its Independence in 1946, or to devise some other more preferable course of action. These two alternatives are: (A) continued reliance upon United States trade preferences, possibly with the expectation that they can be extended beyond the presently scheduled date of liquidation; or (B) the attainment of truly "free trade" by the competitive development of new markets and the establishment and expansion of indigenous productivity, utilizing mostly local raw materials. In reality, only the latter constitutes a real choice of long range benefit, consistent with the political independence which the Philippines has achieved. The first alternative may constitute an expedient, but it is hardly more. Some other alternative may, in fact, be preferable and of greater advantage, but so far none has been advanced by the Philippine government, or national interest groups. It is evident that the first alternative is, and has been, especially beneficial to the vested interests, and this group, the controlling Filipino elite, will likely continue to oppose other courses of action. Since the elite is and has been the controlling force in Filipino politics, the first alternative has served to entrench and buttress its over-all position. It is evident that the second alternative, were it adopted, would require extreme and prolonged austerity measures, and these would have to be
continuously and earnestly implemented. In addition, various political
imperfections, difficulties and problems which have long plagued the
nation would have to be brought under control. Even then, the outcome
would not be predictably certain, for the road to full economic develop­
ment clearly is long, difficult and arduous. However, no other meaning­
ful choice may actually exist.

The Planning Agency and the Impasse

The agency of Philippine government which has been assigned the
task of comprehensive, country-wide economic development planning is the
National Economic Council. Established in 1936, it was not until 12
years later that a national economic development plan was prepared.
Following the promulgation of the first national plan, several suceed­
ing plans were developed in due course, culminating in the present
Three-Year Program of Economic and Social Development, FY 1959-60 to
FY 1961-'62. The program outlines the details of an orderly, uninter­
rupted, reasonably comprehensive and integrated development of the over­
all economy.

Various guiding principles have been utilized by the professional
staff and membership of the Council in formulating national development
plans. Perhaps foremost among these has been the large body of western
economic doctrine and the experiences resulting from its application.
In addition, the recommendations, advice and guidance of financial experts
and economists of the United States, Germany, France and international
organizations, have been available.

The core of knowledge and experience, however, has been that gained
by Filipinos through educational training in the United States and in
Europe, and from the economic and financial policies, practices and advice of almost a half-century of American rule and influence in the Islands.

With this varied and relatively extensive background, and with their grasp of the psychological, spiritual, material and social values of the Filipino people, the Filipino planners have come to occupy a particularly unique position which is highly conducive to effective national development. The Council members and the staff itself are fully professional, exceptionally well qualified and, individually and collectively, are dedicated and determined to effect meaningful contributions to the nation's economic uplift and well-being.

The principal problem pertaining to NEC's organization and functions, one which has been quite persistent, concerns its lack of implementation authority. When the NEC was reorganized and reconstituted in 1956, it was contemplated that implementation of NEC plans would be accomplished by a National Development Authority which would be established for this express purpose. It was planned that the Chairman of the NDA would concurrently serve as Vice Chairman of the NEC. Under this arrangement, it would have been assured that economic development and implementation would have been jointly pursued, subject, of course, to such limitations as may have been imposed by the Executive Branch.

However, the Congress failed to approve the arrangement. It has been suggested that this happened because of the fear of Congress that an NDA might be too powerful. Still, the view that the NEC should have any implementing powers has not been unanimous. It has been pointed out that the NEC is and was intended to be only an advisory body to the
President; therefore, the exercise of implementation authority by the NEC would be inconsistent with its basic purpose and functions.

Today, NEC plans and programs remain essentially unimplemented. Not only is the Council being denied the opportunity to further improve its planning—which presently can arise only from the pragmatic application of its recommendations—but in addition, the nation realizes no significant benefit from the existence of an effective planning body. The result is that substantial, solid economic development progress is unduly and unnecessarily deferred and the nation's economic crisis persists.

The conclusion that interim or temporary implementation authority should be given the NEC is inescapable. There appears to be no valid reason for not extending such authority to the Council in order at least to experiment with the possibilities inherent in the joint arrangement. Should the advocates of the proposal be mistaken concerning the possible benefits to be derived, the implementation authority could be withdrawn after the experiment, and the knowledge gained would be useful in its own way. Instead an impasse has been reached. The circumstances involved are political in nature.

The NEC, as a subordinate agency of the executive branch of Philippine government, is directly controlled by the President. The President, as the elected Chief Executive, functions under certain constitutionally prescribed obligations among which is the requirement to provide for the economic well-being of the people. The Filipino citizenry who elects the President is therefore the supreme force, politically. The fact that NEC's specific economic development plans, policies and programs have not been approved or fully implemented by the President implies that neither
the President nor the people are particularly perturbed with respect to national economic development. Yet, the Filipino people, the President and the majority of the Congress, all assert that national economic development is one of the most important problems confronting the Republic. Still, no Administration has ever been voted in or out of office solely because of economic failures or accomplishments. What is the principal reason for this obvious inconsistency and apparent conflict in economic and political forces?

First, it is well established that an underdeveloped nation in the initial stages of self-directed economic development can ill afford to dispense more than a small fraction of its available resources for social welfare and social security purposes. The bulk of resources must be devoted to increasing productive capacity and outputs for the long run.

In conformity with this established standard, the NEC has programmed a yearly average of only five per cent of all expenditures for purely social development purposes. However, in 1959 the Administration earmarked for social welfare purposes some 42 per cent of all government revenues, or approximately one-half of the national income; a pattern which prevailed even earlier.

The Administration's social welfare program, in effect, superimposes the present upon the future, and expands political advantage and exploitation at the expense of long-term economic development and beneficial self-reliance. The chief result is that the Filipino masses—impoverished and long exploited—seize upon the meager, politically inspired offerings as a sort of personal gain while, at the same time, perhaps realizing the futility of the entire political and economic process. This sense of
despair provides a basis for further exploitation and indicates the under-
lying reason why the Filipino electorate fails to hold the various govern-
ment administration under their respective Presidential leaders fully
accountable for the continual failure to develop the national economy.

Second, the matter of Philippine trade imbalances is highly relevant.
Through 1959, and since attaining independence in 1946, the Philippine
Republic's trade balance has always shown a deficit. The continuing need
to import a great amount of goods—primarily consumer items and there-
fore non-productive—has constituted a long standing national economic
problem. This indicates explicitly the requirement and priority for
effective economic development, and the nature of the task confronting
the NEC.

Although the problem of trade imbalances dates back to the period
of independence—when the quite liberal American largesse; loans, aid
surplus and rehabilitation payments, were used by the Philippines to
purchase consumer rather than capital goods—and antedates the present
Administration, very little has since been done to correct the maladjust-
ment. Essentially, greater concern has been devoted to the effects of
the problem than to its causes.

The NEC is well aware of this fundamental problem and fully
realizes that only rigid austerity measures coupled with broad, basic
development can possibly eradicate the persistent difficulty. Neverthe-
less, recent administrations have virtually ignored the problem, parti-
cularly the present Administration. Instead, on the one hand, the people
themselves have had to "take up the slack" and, in effect, bear the
brunt of ill-conceived economic policy. On the other hand, while
extensive austerity for all and not merely some is now and has been required, it is unsound to disregard a requisite companion measure: price control. Without the latter, not only will the people be expected to pay virtually the total costs for the ineptness of the various administrations, but it will be necessary for them to go on doing so until national economic policy is radically changed and broad, effective development is instituted. A large measure of responsibility for this state of affairs rests upon the Filipino people, for they do have the franchise, and in democratic government this is an effective instrument indeed. But, considering the education level of the masses, and the greater responsibility of the Filipino leadership, can the people be expected to resolve, or even fully understand, the complexities involved?

The fact is that the Philippine political system has not produced a political leadership or political organization with the vision and strength to institute and accomplish the NEC development program, or an enlightened populace that would support such a program.

**Philippine Political Processes and Their Impact**

One fundamental element in the Philippine political system stems from the dispersed nature of the body politic and its dependence upon small localized units. The core of the political organizations have been from the very beginning local families; broad issues, as such, have not been involved. Participation, with respect to political management and policy, has largely been restricted to the socio economic elite. Family dynasties have accordingly arisen in Filipino politics. Filipino political parties, then, reflect the organizational developments of the dominant Filipino families to expouse their particular views and promote or protect
their private interests. Present day national political parties for these reasons actually are largely chance coalitions, loose alliances or, at best, regional or provincial organizations. However, these factors merely point up still other implications.

Filipino political parties inevitably have an inner leadership core, representing local, socio economic elite families whose lives, reputations and careers are practically synonymous with the party itself. The rank and file consist of supporters whose sympathies are at best informal, often only temporary and, at worse, shift from one party to the opposition or even defect when convenience dictates.

These factors explain in large measure why seldom are there real ideological controversies in Filipino politics, usually only intramural problems which arise between men who fundamentally understand each other because they come from the same social class, and therefore regard politics from the same vantage point in the social and economic structure.

On this basis, the outlook of perhaps all Filipino political leaders is practically identical, is ultra-conservative, and has been basically predicated upon a plantation-type agricultural system and upon extensive land holdings. However, because Filipino political parties have only a small number of temporary rank and file supporters whose sympathies are subject to momentary change, it is not possible to take for granted their votes. Political victory requires—in addition to the controlling elite's own votes—the uncommitted votes of the bulk of the electorate, the "floating" vote. This is the reason that social welfare expenditures loom large in the budget of each administration. Additionally, other government funds, allocations for imports and patronage, assessments upon
business firms and "contributions" from the Chinese community, all mitigate against the success of minority parties, and provide the wherewithal to directly and indirectly purchase votes.

The mass purchase of votes is a traditional practice in Filipino politics and of widespread proportions. This corruption of the electorate is possibly only because of the poverty of the great mass of the Filipino people. In 1959, a government survey indicated that three out of ten rural Filipinos earned less than 100 a year, or $50 at the official 2 to 1 exchange rate. The average income of the rest ranged from 200 to 300 per year. However, 15 per cent of those interviewed reported no cash income at all for the year. Eighty-five per cent of the nation's wealth is concentrated in Manila where perhaps less than one per cent of the people live. The remaining fifteen per cent of the population live in the provinces, the principally productive areas. This results in practically no local productive investment, decreased employment opportunities and increased exploitation.

Filipino politicians are thus able to thrive on the unfortunate circumstances existing; for to be able to dispense a few pesos, jobs or favors is the measure of a successful politician. The people, of necessity, are vitally interested in personal, material benefits—here and now—and are far too poor and have been exploited for too long to be particularly interested in the art of government or the sacrifices inherent in, and complexities associated with, national economic development.

Under these circumstances it is not difficult to comprehend the failure of Philippine Presidents to approve and implement NEC's national
economic development plans, or why the NEC is unlikely in the foreseeable future to receive direct implementation authority. Indeed, it is difficult to understand why the facade of country-wide development planning and programming is even required, as matters now stand. Moreover, the causes and efforts of this retrogression adversely affect the main-springs of democracy in the Philippines and provide reason for deep anxiety.

In order that the NEC may have clearly defined guidelines upon which to base its plans and policies—to avoid "good plans but for the wrong goals"—it is necessary that the legislature lay down the fundamental ground rules. The President, then, in executing congressional enactments could act with the assurances that NEC development recommendations not only would reflect particular objectives which the Congress intended but also would result in concerted, unified and total national effort.

Various progressive elements in the Congress have repeatedly urged the establishment of a single economic objective and an end to indecisive, piecemeal policies, but effective action so far has been lacking. The principal reasons have been the "counter-magnetism" of the Filipino party system and, quite possibly, the greater importance of maintaining the status-quo of the identically orientated, politically controlling elite.

Interspersed in this virtually continuous congressional inaction is one issue upon which, invariably, Filipino congressman unite: the "pork barrel." An indication of the magnitude of national revenues directed into the primarily political, local, "pet" projects of congressional members may be seen in the 1960 public works allocations. Approximately ten per cent of the total national budget was allotted for this purpose.
The total amount involved—107 million pesos—constituted almost fifty per cent of the average net annual outlay of ₱203.2 programmed by the NEC as the government's share in over-all public works development.

Now, the "pork barrel" is a legislative patronage device, pure and simple, and its existence in the Philippine Congress is no more uncomplimentary or undemocratic, in principle, than is the case in any of the western democratic nations. Moreover, were one to ruminate only briefly it might be concluded, at least tentatively, that there are possibly some theoretical benefits attendant in the Filipino system. Both competitiveness, the virtually perpetual "war" for popular support and, balance, the proneness toward humanization and equalization of the benefits of government, are somewhat evident in the Philippine legislative practice. However, while one must consider fully the interrelationships between the system and Filipino political parties, single party control and the highly centralized presidential type of government in order to fully assess the matter, much more is actually involved. The crucial and priority requirement of the Philippine Republic for broad, effective national economic development is by its very nature inconsistent and incompatible with the "luxury" of a legislative pork barrel system. It may well be that the system, under any circumstance, is unjustifiable and degenerate—certainly it is wasteful and unproductive—but, particularly, it retards and to a substantial extent defeats the basic purpose of Philippine national economic development. Therefore, it will possibly be a long time before the Philippine Republic attains the political and economic maturity which can absorb an abandonment of sound development values and economic common sense. On this basis, the legis-
lative pork barrel system constitutes a kind of "luxury" which the nation can ill afford. This
A companion of deficiency is the increasing lack of government revenues for financing a coordinated national economic development program. The basic problem, of course, is the realistic determination of whether or not a substantial additional tax burden can be absorb by the population. Even here, a circular factor is involved. Because most of the people have very little or no income, they are unable to substantially contribute, through additional taxes, to the costly requirements of national economic development. Without sizeable amounts of internally generated revenues—which are added to, but, by the very nature of national development, must exceed the net amount of loans, aid, foreign investment and externally generated funds—effective development can not take place. Therefore, existing impoverishment remains fairly constant. Under conditions of sizeable population increases, such as the present trend in the Philippines, the lot of the people will possibly deteriorate even further. This well known problem of circular causation is perhaps evident in every underdeveloped area, and has been a prime motivating factor in the councils of those relatively well situated nations who acknowledge some responsibility for assisting and extending aid to the less fortunate members of the international community. Moreover, no known formula for effectively resolving the difficulty has yet been devised. Apparently, there is a point in such spiraling motion where the adverse causation can be checked if not stopped, but invariably dictatorial action of one sort or another is involved. The people and their leaders must, as the
concept goes, be required to accept firm measures of austerity, sacrifice, and directly contribute to the development plan.

The Special Pressures of Finance, Morality and Nationalism

There are a number of key problems which inevitably arise and must be solved by any government, but which are of special significance to an administration vitally concerned with urgent programs of economic development. These concern fiscal affairs, including problems and pressures in finance and taxation; ethical standards, including the pressures of graft, inefficiency and private interests; and pressures of nationalism, including the number and status of alien groups (such as the Chinese) and the possibility of their exercising undesirable control over segments of the economy, and the dependence upon foreign aid, assistance and capital.

After years of debate and political strife, a reluctant Philippine Congress—under the prodding of such men as Senator Gil Puyat, simultaneously a leading member of the National Economic Council and an influential legislator, and with some urging from the Council itself—recognized the principle that an equitable tax system is one which levies optimum assessments upon those of the population best able to afford the added burden. This principle largely assures that those who have disproportionately benefitted from existing Philippine economic relationships—and thereby have directly or indirectly contributed to prevailing underdevelopment—should, in accordance with their greater personal financial resources, bear a major share of the tax burden.

The fact remains that only 8.5 per cent of the total national income is paid to the Philippine government in taxes. In the United States the rate is 25 per cent, and in Australia, almost 33 per cent, or almost 50 per cent more than in the Philippines. Further, indirect taxes—
namely, those passed on the ultimate consumer—constitute almost 80 per cent of Philippine taxes. The result is that the low-income group—comprising 81.6 per cent of the population but controlling possibly less than 15 per cent of the nation's wealth—bears a greatly disproportionate share of Philippine taxes. Moreover, as indicated, total government revenues are inadequate to institute and carry through to completion the national economic development program.

The national tax policy reform which the NEC, under Senator Puyat's leadership, has obtained from the Philippine Congress represents encouraging progression. The personal income tax rate—the source of the greater portion of the direct taxes assessed—is now approximately 60 per cent. This, in a democratic fashion, provides a measure of balance and equitability in the national tax structure, and adds an estimated P20 million to annual government revenues. The NEC estimates that some P60 million more would be realized by the government if all tax laws governing collections were fully enforced. The total amount involved, P100 million, constitutes approximately 30 per cent of the average annual government outlay required for financing the entire NEC development program.

The Philippine Congress has not successfully met the continuing challenge to present-day government to move beyond the sometimes necessary expedient of deficit financing, to find new means of increasing government revenues, or to tap new and additional sources of funds so as to assure maximum use of national resources for productive development. It has not developed a broad policy framework for directing the course and relative priorities of national economic development, and it has not displayed a willingness to commit a significant portion of national financial
resources for implementation of NEC's broad economic development program.

Therefore, the President and the Congress have clearly failed to provide the imaginative, progressive and firm economic leadership, long needed and highly essential, for effective development of the Philippine economy, as carefully planned and programmed by the NEC. The political factors which give rise to this have been detailed and analyzed.

The matter of public morality—the conduct and practices of government officials in administering public funds entrusted to their care, and the manner in which services are provided and privileges granted—has constituted a formidable problem in Filipino politics for some time, and has adversely affected and prevented full realization of NEC's development objectives.

Various responsible analysts have determined that identifiable losses of the Philippine government, annually, from dishonesty of government officials, ranges upward from ₱200 million, which approximates 20 per cent of the annual budget. This known loss is about equal to one-half the total amount required annually from the Philippine government as its share in financing the over-all NEC development program. Further, if the national economic development program were instituted, it is reasonably assured that virtually thousands of new job opportunities would be created and, in addition, an average return of perhaps 12 to 15 per cent annually could be realized on invested capital. Therefore, the direct loss to the Filipino people from dishonest acts by its government officials is at least two-fold, and is greater than the value of the funds actually involved.

The legacy of Philippine official dishonesty is readily traceable to the earlier cacique tradition which flourished under Spanish rule and
has since been perpetuated by the Filipino ruling elite. This tradition was confined during earlier years to the local level but has since spread to the national level where, aided by the convenience of a highly centralized bureaucracy, it now constitutes a major obstacle to national economic growth and the consolidation and expansion of democratic institutions. A partial explanation of why the tradition of Filipino public dishonesty and venality has continued and increased is the westernization of the Filipino; the desire which he feels for the fixtures and artifacts of the good life. Combined with this is a concomitant desire on behalf of family members, which arises in terms of the family orientated social custom. This custom places a higher value upon family well-being and the perpetuation of family dynasties than upon personal integrity or ethical behavior. These considerations propel the Filipino to seek not only a meaningful measure of material gain for himself and family members, but also a new, respected status which will lift him and his relatives from an insecure existence. Because of these principally social and economic pressures, and because both the Filipino masses and the elite are impatient to go beyond their present respective stations and provide handsomely for their own and their families present and future existence, the nation's political system and its inherently democratic processes have been virtually perverted into a means of convenience for the attainment of ends greatly inconsistent with public interests. The evident Filipino tendency to ignore the importance of individual restraint and deference as requisites for the national well-being, as opposed to mere self-interest, illustrates convincingly the marked inadequacies and failures of the Filipino leadership to truly represent or respond to the actual needs of
the masses. This shortcoming, which is yet transitory and is far from being a firm in the final sense, characterizes some notable flaws in Philippine democracy and denotes all the more a pressing need for broad, effective national economic development, in order that all the people can share in the improved living standards possible thereunder.

These basically social and economic factors exert a pervading impact upon the entire political process, the operations and functions of government and upon perhaps every aspect of Filipino life. It is precisely for this reason that infinitely more is required to attain "good" government in the Philippines than the mere ejection of "bad" leaders, as hypothesized initially. By all means this too is a requisite, but of far greater importance to the governing elite and to the Filipino masses is the necessity for firm dedication to the proposition that only through broad, national economic development is, in the long run, individual security, well-being and improved living standards for all the people likely to be attained. Were this not the case, dishonest officials might be separated from the government service and, even if replaced by others of absolute integrity, there still would be no assurance—anymore than presently—that broad, effective economic development would be pursued as a basic objective for the attainment of national stability and security. Until the present, the self-interest of the controlling elite and its goal of preserving the status-quo has conflicted with national interests.

However, because a democratic framework does exist, the Filipino people are not precluded from exercising a preponderant control over the government or establishing objectives for national economic stability and security. Therefore, the problem of morality in government is of great
importance than the crucial problem of fully utilizing all the Republic's resources—both human, natural and entrepreneurial—so as to establish a firm, expanding base which can lead to a developed, stable and secure nation. The first and foremost task for the Filipino citizenry is to gain and maintain control of basic political processes and re-orientate their course toward national, rather than class or individual, objectives.

Finally, the force of nationalism—itself, primarily beneficial—has been subordinate, in the Philippines, to a special concept of economic nationalism. The former, in large measure, ceased to be a significant issue after it became perfectly clear, almost three decades ago that Philippine political independence was assured. However, the Filipino leadership determined that political independence would be ineffective and practically meaningless without full economic independence. It therefore successfully focused national attention upon the requirement for pursuing policy alternatives which would eventually provide true economic independence. Somewhere along the line—the exact time and the particular reasons are not fully clear—the Filipino leadership apparently changed objectives. This change probably represented the elite's firming political, social and economic control, and therefore greater interest in maintaining the status quo, which thrived at the masses' expense under the "cash crop" export, and consumer goods import trade with the United States.

The principal result was that as the Filipino elite became more entrenched it began to resent the arrangement whereby it shared its economic exclusiveness, control and monopoly with remnant alien groups still represented in the islands. Chief among these were the Chinese, who, numbering only perhaps half a million in the total Philippine
population of some 27 million, possibly control an estimated 50 per cent or more of the national economy. This potential threat to complete economic dominance by the Filipino elite was, in time, transformed by persistent and skillful propagandizing, into the principal, if not sole, cause of the Filipino people's impoverishment and exploitation. If only the strangulating, alien control by the Chinese of the Philippine economy could be broken, it was argued, then the good life would be available to the Filipino in his own country. The Filipino masses, largely uneducated, believed that at long last they had the key to prosperity and control of their own affairs. The "Filipino First" slogan was born or reincarnated, and domestic politics had a real action issue. Almost every politician insisted that he alone was most capable of "delivering" the people from the strangle hold of the Chinese minority, but none did and the pattern of exploitation continued. The Filipino elite became more exclusive and entrenched and the impoverished became more poverty stricken. The Chinese merely kept quiet and continued to work and, for the most part, lived frugally.

The NEC, for its part, wittingly or unwittingly, became enmeshed in the present Administration's Filipino First program, perhaps as a means of gaining presidential favor and obtaining, at long last, approval of its economic development plan. The plan, so far, has not been approved and may not be. Even if it should, there are some reservations concerning NEC's concept of expediency.

The Pressures for Mass Education, Entrepreneurship and Local Self-Government

As a means of resolving the impasse in which the Philippine nation finds itself, several alternative courses of action have been proposed,
and even partly instituted, but these apply more to the future than the present. Some observers have suggested that concentrated attention be directed to the need for intensive and sustained efforts in the area of public education. It has been urged that an improved system be established to provide adequate primary educational training for all citizens, with specialist educational opportunities for those demonstrating exceptional promise and for those whose interests and potential will foster the nation's development. Certainly in the area of political action, these proposals can significantly contribute toward greater understanding and support of programs for economic development. For this reason, as well as many others, it is essential that widespread illiteracy, inadequate educational standards and low proficiency be overcome and replaced by an improved, effective system of mass education.

Studies by the NEC and others provide objective findings that the low educational levels which exist are largely the cause and result of the failure in national economic development. The extremely low and inadequate incomes of Filipino families restrict educational opportunities to only those who are wealthy or relatively so. The situation contributes toward a perpetration of an oligarchy of the wealthy to the detriment of real democracy. Therefore, to lift the Republic's educational system above the level of purely partisan politics, inadequacy and class preference requires effective, concerted political action by the people in furtherance of national interests. This, if successful, will provide in due course an educated, more capable population which will be self-replenishing to a great extent and which can provide progressive
leadership for instituting reforms—political, economic and social.

Nevertheless, the benefits which extensive improvements in the educational system could provide—both long-term and short-range—will, in all probability, have to be deferred in the immediately foreseeable future because of the even higher priority and practical urgency attached by the impoverished Filipino masses to first improving their standard of living. The barrio Filipino likely would not dispute the argument that a full-scale, improved educational system provides possibly the best long-range approach to the attainment of national development and security, or that effective, concerted political action by the people is the key to this. Quite probably, the ordinary Filipino would merely offer the counter argument that, individually, the Filipino's greatest problem—transcending all others by far—is his present impoverishment; his pressing need for sufficient food and the basics of every-day living, and his long-standing inability to obtain these requirements.

The varied reasons for such prevailing dispositions—oligarchical dominance of the government, the economic system and the social milieu; the party system and the political process; and a host of other political, economic, historical and social causations—denote a provincial and individualistic type of thinking by a great number of Filipino citizens which, in turn, reflects a partisan approach toward things in general. One result is that individual and group interests loom large in the Filipino view—both the elite's and the masses'. This circumscribes the notion held by some Filipinos that what is good for the individual or group should also be good for the nation; or inversely, what is good for the country should benefit the individual or group—here and now.
such circumstances both progress and the cause of democracy in the Philippines becomes retrogressive in direct proportion to the extent which this notion prevails. The greater importance of the matter lies in the fact that the type of political, economic and social change which can be instituted for improvement in the well-being of the Filipino people, and which they may be expected to seriously and energetically support, is placed in a realistic framework and close perspective.

Because the government has been, on the whole, unsuccessful in ending the persistent economic crisis and in pursuing, a systematic national development program, private entrepreneurship in the Philippines has been a principal critic of governmental economic policies and development objectives. The alleged successes of the private entrepreneur group in contributing to the economic stability and development progress of the nation have been accompanied by recurring admonishments from their leaders that there is great wisdom in minimizing government enterprises and government controls. This group is practically unanimous in insisting that the chief task of government should be to stimulate private initiative.

For purposes of convenience only we may disregard the affinity, singleness of objectives and, on frequent occasions, the interchangeability of leadership roles by the Filipino governmental and private enterprise representatives, in considering the principal contention advanced by the latter group. It appears sufficient for our analysis to consider that the principal interest group in Philippine society today is the private enterprise elite. The political, economic and social pressures exerted almost constantly by this elite indicate that
it would substitute its profit motives, self-perpetuation and alleged but undemonstrated contributions to national development and the public welfare for the ineffectiveness and frequent failures of the national government. We can be assured that government in the Philippines has shown various weaknesses and some notable flaws. At the same time, some improvements and progress are evident. There is a firm base and democratic framework upon which to build. But according to those adversaries who oppose the contentions of the private enterprise elite, the group has promoted little but chaos, confusion, class-cleavages and self-enrichment.

There can be little reason to doubt that the private enterprise elite in the Philippines has substantially controlled and very largely directed the Philippine economy and the government for several decades, that the governmental failures in country-wide economic development are in part attributable to the successful demands and pressures of this group upon government for preferential treatment, or that this virtual conspiracy has adversely affected the standard of living of the people and increased the acuity of the economic crisis. Because of these factors, it must be concluded that not only is an extension of private entrepreneurship in Philippine affairs, for the purpose of furthering national economic development and stability, perhaps unwise and certainly unattractive, but it appears that the Filipino masses themselves find this possible alternative almost totally lacking in merit.

From a purely practical view and based partly upon logical necessity, the most reasonable approach available to the Filipino people for resolvement of the different economic problems confronting the nation
is political in nature. This is the extensive decentralization of government. The literacy level of the people, the long-standing tradition and experience in highly centralized government and the individualistic, parochial attitudes which prevail, all constitute formidable obstacles in extensive governmental decentralization. Moreover, the sometimes observable indifference, inability and unwillingness displayed by the ordinary people to assume an equitable measure of responsibility for government, suggests that there may be a very good reason for the existence of a highly centralized government. There might be little or no government were this not the case.

Whether or not the people are ready or particularly desirous of the impending change, there is a discernable trend in the Philippines toward governmental decentralization. This change will afford a greater measure of self-rule which, in effect, means a fuller democratization of the barrio. While the formidable and possibly insuperable opposition of the entrenched Filipino oligarchy can be predicted, some progress has been attained and further tentative moves are being considered.

The beneficial possibilities in this unprecedented, non-traditional shift of political power—which could affect some 85 per cent of the Filipino people who live in the barrios—are significant indeed. By exercising this potential power in a truly democratic and effective manner, the Filipino people may at last be in a favored and pivotal position to break the historic chain that has securely held them to an exploitation system which has precluded meaningful progress.

However, it must not be assumed that the limited self-government authority which has been granted is alone sufficient to completely
resolve all the problems at hand. It is merely contended that a benefi-
cial trend is now developing which, if successfully pursued, may
precipitate more democratic, grass roots political action, highly neces-
sary for resolving long standing economic and political problems.

In opposition to the trend toward government decentralization in
the Philippines is a concurrent emphasis upon industrialization. This
high-priority requisite, as perhaps in all underdeveloped nations, must
be initiated and successfully accomplished if effective development is
to be attained. Thus, while the advantages of a greater measure of self-
rule for the people are democratic and highly desirable, the necessity
for industrialization—centralized, country-wide planning; economical
units of production; and a unified marketing system—is of at least
equal importance. There is also the possibility that greater autonomy
may lead to a disintegration of the party system and to a diminishing
importance of ideas—rather than personalities—as the focus behind
political reform.

These and still other considerations indicate the nature of the
compelling arguments which support or oppose the trend in the Philippines
toward governmental decentralization on the one hand, and industrializa-
tion on the other. That both are needed, that both constitute polarizing
influences, that both are intricately related, are beyond dispute. The
underlying, difficult problem consists of determining the delicate balance
best suited to existing requirements and the appropriate procedures
required to push forward toward the objective of national economic
development, stability and security.

**Major Requisites for Economic Development**

To conclude then, we will return to the point from which we began:
there are some basic requirements which appear absolutely essential to
the success of a national program of intensive economic development.
Our efforts have been directed toward identifying the more important
of these and establishing their particular applicability to a nation
in an Asian setting that lacks a strong, centralized political organiza-
tion, which might assure the accomplishment of a broad development program.
We have suggested that these requisites certainly apply to the Republic
of the Philippines and, as indicated, at least the following factors are
involved: adequate natural and human resources; an energetic, poten-
tially intelligent, resourceful and progressively inclined people;
applicable, effective development planning by experts capable of
developing detailed, country-wide economic and political analyses; an
astute, capable and determined leadership in full control of a strong,
centralized political organization; and sufficient outside financial,
material and technical assistance to activate and maintain, during the
initial stages, the over-all development scheme.

In the case of the Philippines, none of the requisite factors are
entirely missing; neither do any of them exist in the full sense. Ob-
viously some exist to a greater extent than others and, without doubt,
some are of greater importance in the nation's economic development than
others. By far, the most important in perhaps all respects is the
partial lack of an astute, determined leadership in full control of a
strong, centralized political organization. The underlying reasons for
this stem principally from the existence of an oligarchical elite in
Philippine life, its objectives and interests and its dominance and
operations. The nature of this elite has been analyzed and here it need only be said that because of the Filipino preference for a democratic existence, the people alone should materially alter the sources of actual power in their society, if this be their desire. As we have pointed out, various important adjustments and changes in Filipino life are in motion and the political forces which have given rise to these indicate that the gradual, evolutionary process—in the democratic tradition—may provide an essential of still greater importance: a permanency and stability not easily obtainable otherwise.
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packaging supplies; $200 million for non-productive consumer goods; and $120 million for non-productive goods imported under the guise of "industrial raw materials", but in reality consumer type goods of an "affluent" nature for the wealthy elite. Consequently, almost as much ($320 million) was spent for direct consumption goods as for machinery, tools and productive items ($338 million). Mr. Felizardo states that 18 million Filipinos, those of limited economic means, spent only $60 million for imported goods while 5 million Filipinos and aliens, living principally in Manila and other large cities and of relatively unlimited means, expended $260 million for imported items. Thus, the barrio Filipino consumed $3.30 of foreign exchange and his wealthy urban cousin, $52. Carmen G. Nakpil carries the point further and estimates that of these 5 million urban Filipinos, only about one per cent or 50,000 are the "top drawer" elite who are responsible for the huge drain on the Republic dollar reserves, exclusively controlled by the Central bank of the Philippines.


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28. "Slowdown in Economic Growth of P.I. Reported by U.S. State Department", Manila Bulletin, January 20, 1958, an analysis of seventh annual Colombo Plan Report, for 1957-58; Vicente A. Araneta, "Austerity Program... Is a False Start", Manila Bulletin, December 26, 1957: Mr. Araneta states, "the imposition of exchange and import controls in 1949 raised the level from $260 million to $295 million in 1953. However politics, which has a strange way of bungling up things, eventually reached the Central Bank and began affecting directly the granting of dollar allocations. It is no secret that during this time the fair-haired boys of the Filipino political kingpins were able to obtain privileged allocations indiscriminately, even though the imports authorized thereby were not necessary to develop the nation's economy"; "P.I. Economic Problems Reported By Colombo Plan", Philippines Herald, December 17, 1957; also Ariel Bocobo, "Senators Investigate 'Puli' Used for Dollar Allocation - Recto, Cuaderno Clash At Quiz", Philippines Herald, December 18, 1957.


32. Jose C. Locsin, "The National Economic Council and Economic Planning", op. cit., pp. 5-6, 14. Dr. Locsin stated, "the law requires 'approval' by the President both of the policies and programs of the Council before the program can be implemented by all government departments, offices and agencies". And, "in our presidential type of government, where the President is not only the head of the administrative machinery but the leader of the nation as well, his attitude and his behavior toward offices and agencies largely determine the specific roles and capacities for decision which each of these must play. His not having endorsed the Program worked out comprehensively by the Council, deprived the body of its role as the central determining office of all economic policies and programs which the law intended it to perform". Also, "the clarification of the central authority to coordinate the formulation of economic policies and programs, is still an area which needs the exercise of presidential leadership". See also "Vice President Disputes Garcia's Claim of Economic Gains", Manila Chronicle, February 21, 1960, p. 1.


38. Paredes, *op. cit.*, pp. 11-12; Vicente S. Pulido, "The Scramble for the Vice Presidency", *This Week*, June 12, 1960, p. 11.


42. A. V. H. Hartendorp, *op. cit.*, p. 724, states, "Magsaysay, for all his noble qualities, had no understanding of economics and very little notion of the meaning of a billion--or even a million pesos". David Wurfel, previously of Cornell University and presently an instructor at International Christian University, Tokyo, has commented that Magsaysay did not understand the mechanics of the Philippines government's Land Reform Act of 1955 and that this led
to much more compromise than his advisors thought wise: Far Eastern Survey, XXVIII (February, 1959), 30. See also Corpuz, op. cit., p. 11.

43. Pulido, op. cit., p. 12; Corpuz, op. cit., p. 10; and "Senator Marcos Threatens Garcia With Impeachment Move", Manila Chronicle, May 16, 1960, p. 1 ff. Senate Minority Leader, Ferdinand E. Marcos, charged the President with the illegal transfer of ₱5.2 million to the President's Contingent Fund.


48. Leon O. Ty, "Plane Loads of Money", Philippine Free Press, October 31, 1959, p. 4. Mr. Ty, a Philippine political journalist with wide local experience, is particularly noted for his on-the-spot reporting. Various of his accounts have been cross-checked with other reports and data and it has been concluded that his reporting is substantially accurate and objective. Government graft and corruption are the specialized areas in which he has concentrated his interest and effort. See also "Philippine National Bank Will Not Be Missed If Sold To Private Sector" (editorial), Manila Times, June 2, 1960, p. 4A.


52. See "Excerpts from Minutes of Supreme Court of Philippines of November 5, 1959: In G. R. No. L-16123, Sergio Osmeña, Jr., vs Enrique Quema, etc., et al.", Official Gazette, Republic of the Philippines, 55 (October 12, 1959) 8639.
53. Quoted in Leon O. Ty, "The Cebuanos Couldn't Be Bought", op. cit., p. 43.

54. Ibid., p. 46.

55. Ibid.

56. Ibid., p. 48.

57. Ibid., p. 83.

58. Teodoro M. Locsin, "What Does Democracy Mean in the Philippines", Philippines Free Press, November 28, 1959, p. 2: Mr. Locsin is recognized by some Philippine government officials and various members of the Philippine journalism profession as an experience political reporter whose accounts are reliable and comprehensive. The moralist approach sometimes employed in his reports of Philippine political activities provides a depth frequently unavailable elsewhere. See also Vicente Encarnacion, Jr., "The Citizens Party - A Study in Contemporary Social Movement", Philippine Social Sciences and Humanities Review, XIX (September, 1954), 234.

59. Quoted in Teodoro M. Locsin, "The Real Issue - Why the Poor Are Poor", Philippines Free Press, September 12, 1959, p. 2; see also Ernie Singson, "Community Development Gains", Manila Bulletin (Section IV), April 13, 1959, p. 2; and Rita M. Gerona, "P.I. Shows the Way in Rural Improvement", Manila Bulletin (Section II), April 13, 1959, p. 4.


63. Locsin, "The Real Issue", op. cit., p. 3; see also Juan T. Catbonton, "P.I. Barrio as a Unit Still Unaffected by Change", Manila Chronicle, April 21, 1958, p. 16E.

64. Quoted in Locsin, "The Real Issue", op. cit., p. 3; see also Alfonso Calalang, "Banking System Grapples With Multiple Problems", (New York) Journal of Commerce (Section 3), June 10, 1958, p. 33A.

65. Francisco De Leon, "Garcia Calls Economic Ills Most Challenging Issue", Manila Chronicle (Section II), April 21, 1958, p. 1; and Central Bank of the Philippines, Statistical Bulletin, IX
(December, 1957), 22, Table 2, "Money Supply and its Composition, 1940-1941; 1945-1947".

66. Guillermo S. Santos, Executive Judge, Court of Agrarian Relations, "Weakness of P.I. Agrarian Setup Traced to Widespread Tenancy", Manila Chronicle, April 21, 1958, Section V, p. 2E.


68. "The Revolt of the Middle Class", op. cit., p. 23.


70. Locsin, "What Does Democracy Mean In The Philippines", op. cit., p. 82.


72. See "Philippine Chamber of Industries Calls for Clear-Cut, 2-Point Economic Plan", Manila Bulletin, March 16, 1960, p. A; Rudolfo G. Tupa, "Problems of Development", Manila Times (Magazine Section), February 8, 1959, pp. 35-37; and Felino Neri, "An End To Indecision" (Address by the former Philippine Ambassador to Japan at the
commencement exercise, Abad Santos Institute, Manila, March 25, 1959), Manila Bulletin, April 3, 1959, p. C.


75. Ibid.

76. Ibid.

77. Interview by author with Mr. Isidro S. Macaspac, Director, Office of National Planning, NEC, Padre Faura, Manila, May 7, 1960.


79. Ibid.; and interview by author with Mr. Isidro S. Macaspac, NEC, May 7, 1960.

80. Interview by author with Mr. Isidro S. Macaspac, NEC, May 7, 1960; Vicente S. Pulido, "The Scramble For The Vice-Presidency", This Week, June 12, 1960, p. 11 ff; and Amando Doronila, "Government To Prosecute Criminal Cases Without Fear Or Favor", Manila Bulletin, May 11, 1960, p. 5. Senator Pacita Madrigal-Gonzalez, concurrently Member, N.E.C., has succeeded in obtaining consolidation in the Philippine courts of some 20 previously separate malversion of public fund indictments, involving more than $100,000, stemming from alleged misappropriations during her tenure as Social Welfare Administrator during the Magsaysay Administration. It appears that the vice-presidential nomination in the next election assumes a special importance due to the fact that the eight-year constitutional limitation on presidential tenure will prevent President Garcia—if reelected for a second 4 year term—from serving the full period since he acceded to the presidency from the vice-presidency in 1957 upon the death of President Magsaysay: Constitution of the Republic of the Philippines, Amendment B, Article II, Section 5; and Osmundo O. Sta. Romana, "They Could Have Been President", Philippine Free Press, May 7, 1960, p. 10.


84. "Rivals For Speakership Bare Economic Plans", op. cit., p. 3.

85. Ibid.

86. Ibid.; see also Francisco A. Ilustre, "The Riddle of the Philippine Economy", This Week, February 8, 1959, pp. 10-14.


89. "Rivals For Speakership Bare Economic Plans", op. cit., p. 3.


91. Ibid.

92. Ibid.

93. Ibid., p. 11.


99. Constitution of the Republic of the Philippines, Article VI, Section 5, and Amendment B, Section 14. The annual compensation of seven thousand two hundred pesos includes per diems and other emoluments or allowances, and excludes only travel expenses to and from their respective districts or residences (Senators) when attending the Congress.

100. "House Resolution Would Raise Solon's Salaries to $25,000", Philippine Free Press, May 7, 1960, p. 14 (which describes an attempt to formalize something already in existence); Ernesto O. Granada, "Behind Page One" (editorial), Manila Times, May 16, 1960, p. 4, (Mr. Granada states that the annual pay of the congressmen exceeds $30,000 each); and "Mayor Lacson Hits Solons On Pension Bill", Manila Times, May 3, 1960, p. 24-A, (Mayor Lacson states that in the past three years, "supplies and furniture" for the congressmen have exceeded $3 million in cost).


102. Miguel Cuaderno, Sr., "The Central Bank and Economic Planning" (Lecture delivered by Governor M. Cuaderno before the Institute of Public Administration, University of the Philippines, Manila, February 1960), pp. 3-5. (Mimeographed.) Mr. Cuaderno states...

"The overall program...prepared by the NEC has still inflationary biases which stem from the inability of the planners to grasp the need to study the consistency of many of the projects with available resources...It may be stated, however, that the framework and the lines considered by the present economic plan adopted by the NEC last January, 1959, (the present Three-Year Plan), have shown tremendous improvement over those of the previous years in that the program for the first time is linked with crucial foreign exchange sectors through a projected foreign exchange budget and equally vital fiscal function through a projected fiscal budget... (but) a great many of our planners are still of the belief that inflationary or deficit financing could still be resorted to for economic development". Cf. however Bernardino Ronquillo, "Central Bank Plays Vital Role in Economy But Political Pressures Tend to Undermine Functions", Manila Bulletin (Section V), April 21, 1958, p. 10-12 ff.


106. Ibid., pp. 100-108. See also "ECAFE Shows Sharp Interest In P.I. Performance Budget", Manila Chronicle, December 9, 1959, p. 17.


113. Perfecto V. Fernandez, "Higher Taxes and our National Growth", This Week, January 3, 1960, p. 11.

115. Quoted in Fernandez, op. cit., pp. 11-12.

116. Gil J. Puyat, Senator and Member, NEC, "Taxation System Overhaul Planned To Increase Government Revenues", Manila Chronicle, December 29, 1959, p. 1; and interview by author with Mr. Isidro S. Macaspac, Director, Office of National Planning, National Economic Council, Manila, May 7, 1960. Senator Puyat, NEC Member and also Chairman of the Legislative-Executive Tax Commission established in 1959 under Republic Act 211, is an effective focal point through which NEC is able to express its support for revision of the national tax laws.

117. Fernandez, op. cit., p. 12; see also Central Bank of the Philippines, Statistical Bulletin, IX (December, 1957) 145: Table 86, "Consolidated Receipts of the Bureau of Internal Revenue and the Bureau of Customs, 1947-1957".

118. Fernandez, op. cit., p. 12, Table 3: "Comparative Percentage of National Income Absorbed By taxes".

119. Ibid., p. 13.


123. Fernandez, op. cit., p. 13

124. Ibid.

125. Ibid., (quoted verbatim.); see also Francisco De Leon, "Retrenchment Policy of Cabinet Eased: Cite Increase of $40 M in Revenue Collections", Manila Chronicle, May 12, 1960, p. 1.

126. Jose M. Alberto, Congressman, Republic of the Philippines (N-Catanduanes), "Wanton Evasion of Tax Payments in the Philippines", Manila Chronicle, April 16, 1959, p. 22; see also "Our Revenue
Collections" (editorial), Manila Chronicle, December 15, 1959, p. 4.

127. Ibid. See also "Tax Delinquency Rises to $128 M", Manila Chronicle, December 31, p. 16.


Chapter 7


3. NEC, Three-Year Program, op. cit., p. 25.

4. Ibid., p. 23.


8. N. G. Rama, "The $2-Million Ace Drug House Case", Philippine Free Press, January 2, 1960, p. 11, citing official reports of the Presidential Committee on Administration Performance Efficiency (PCAFE) and the Central Bank of the Philippines.


12. NEC, Three-Year Program, op. cit., pp. 47-64.

13. Buenafe, op. cit., p. 90


19. NEC, Three-Year Program op. cit., p. 25.


21. Ibid.


24. Ibid.

25. Ibid., p. 14


28. Guevara and Salak, op. cit., p. 22A.

29. Joint Senate Bill No. 293 and House Bill No 3265, Section No. 5, op. cit.

30. Guevara and Salak, op. cit., p. 22A.

31. Joint Senate Bill No. 293 and House Bill No. 3265, Section No. 6, op. cit.

32. Guevara and Salak, op. cit., p. 22A.

33. Ibid.


35. See particularly Carmen G. Nakpil, "Present-Day Attitudes Toward Venality (editorial), Manila Chronicle, September 1, 1959, p. 4.


45. Ibid.

47. Leon C. Ty, "Joaquin R. Roces - House Graft-Buster", 
Philippines Free Press, February 27, 1960, p. 4 ff. See 
also "Approve Bill Penalizing Influence Selling", Manila 
Chronicle, May 8, 1959, p. 1 ff; Leon O. Ty, "The 
Nacionalistas Face Reality", Philippines Free Press, 
January 16, 1960, pp. 4-5 ff; Napoleon G. Rama, "Off Limits 
To Congressmen", Philippines Free Press, December 12, 1959 
pp. 52-3 ff; and Leon O. Ty, "Congressman Roces And The 
Clear Case Of High Financing", Philippines Free Press, July 
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34-5 ff.

48. "Lacson Reveals Serious Nacionalista Rift", Manila Bulletin, 
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Folk At The Polls", Philippines Free Press, January 16, 1960, 
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Times, May 16, 1960, p. 1 ff; and Ambrosio Padilla, "Eco-

49. See Charles E. Bohlen, "The United States Attitude Toward 
Nationalism" (Address by the Ambassador of the United States 
before the District Assembly in Dagupan City, Philippines, 
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No. 9-8890, (Manila: 1959), pp. 9-10; and Amante Bigornia, 
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51. Jose P. Marcelo, "N.E.P.A. Ideals Gain Ground", Manila 
Bulletin, (Section III), April 11, 1960, p. 17; and Gil J. 
Puyat, Senator and Member, National Economic Council, "Nation-
al Economic Protectionism Association--Early Symbol of 
Nationalism" (Address delivered by the Honorable Gil J. 
Puyat before the 6th National Convention of Philippine 
Manufacturers and Producers, February 28, 1959, Manila), 
quoted in Manila Bulletin, (Section I), April 13, 1959, p. 22.

52. Lorenzo M. "anada, Senator, "Our Relations With America", 
Mirror, May 9, 1959, pp. 9-11; Pedro E. Abelarde, American 
Tariff Policy Toward The Philippines, (New York: King's 

53. Castro, op. cit., p. 10. See also Marcelo S. Balabat, "Alien Traders In Politics" (Address by the President, Chamber of Commerce of the Philippines, before the Rotary Club of Cebu City, November 5, 1959), quoted in *Manila Chronicle*, November 7, 1959, p. 17.

54. Puyat, op. cit., p. 22. See also Antonio de Las Alas, "The Beginning of the Filipino First Policy in P. I. Commerce" (Address by the prominent Philippine industrialist before the Philippine Lumber Producers Association, April 17, 1959, Manila), quoted in *Manila Chronicle*, April 21, 1959, p. 11C.


56. Letter, Hon. Pedro R. Sabido to author, October 28, 1958. LS. Senator Sabido, Chairman, Committee on Banks, Corporations and Franchises, and Member, Committee on Appointments, Philippine Senate, forwarded a copy of Senate Banking Committee Report No. 2, December 29, 1957, which contained testimony of an array of government and private officials on economic policies of the national government. See also BWAP Poll on Economic Nationalism, op. cit., p. 14.


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64. Ibid.


69. Constitution of the Republic of the Philippines, Article XII, Sections 1-5.

71. Ibid., p. 11; and Marcelo S. Balatbat, "The Nation's Economic Life Under the Filipino First Policy" (Address delivered by the President, Chamber of Commerce of the Philippines, before the 11th Annual Convention of the Conda Philippines, Inc., December 27, 1959, Baguio), Manila Chronicle, December 31, 1959, p. 13.


74. Lansang, op. cit., p. 16; and "Nacionalista Controlled House Passes Another Filipino First Measure - Limits Number of Alien Executives", Manila Chronicle, February 18, 1960, p. 1 ff.

75. Lansang, op. cit., p. 16; and Teodoro Purugganan, Executive Secretary, National Economic Protectionism Association, "Filipinism Aims Upheld by NEPA", Bulletin, March 6, 1959, p. A.


80. Diosdado Macapagal, "Filipino First and the Meaning of Economic Independence" (Address by the Vice President, Republic of the Philippines, before the Sixth National Convention of Filipino Businessmen, March 5, 1960, Baguio), quoted in Manila Bulletin, March 16, 1960, p. B.

81. Ibid.; see also "Economic Nationalism To Get Added Impetus In 1960", Manila Bulletin, January 1, 1960, p. A.


86. NEC, Three-Year Program, op. cit., p. 153; and "Filipino First Plan Defended", Manila Bulletin, March 5, 1959, p. A.

87. See Republic Act No. 1478, June 15, 1956; and Modesto Farolan, "The Status and Future of Tourism in the Philippines", Fookien Times Yearbook, September, 1957, pp. 85-88 ff. Mr. Farolan is President, Philippine Tourist and Travel Association and Commissioner of Tourism, Republic of the Philippines.


94. Sales, "P.I. In Need Of More Hotel Accommodations", op. cit., p. 7; and Manila Times, November 5, 1959, p. 18A.

May 7, 1959, p. 22; and Benedicto Padilla, "Philippine Economic Conditions are Getting Worse", Manila Bulletin, April 30, 1959, p. A. Representative Padilla is also president of the Free Enterprise Society of the Philippines.

Chapter 8

1. Alfredo Montelibano, "Economic Development and Education" (Address delivered by the former chairman of the National Economic Council; and, presently, President of the Chamber of Agriculture and Natural Resources of the Philippines; and Chairman, Philippine Commercial and Industrial Bank, before the national convention of Philippine Public School Teachers Association, April 3, 1960, Bacolod City, Philippines), quoted in Manila Bulletin, April 8, 1960, p. 6.


4. Letter, Carl H. Lande to author, January 6, 1960, LS. Dr. Lande is the author of several analytical articles and a study concerning political, economic and sociological aspects of Philippine government and Filipino relationships. He has received the guidance of and has collaborated with Professor Claude A. Buss, Stanford University, during the latter's recent visit in the Philippines for preparation of a fourth book on the Far East, What They Think Of Us. As the recipient of a foundation research grant, Dr. Lande expanded the subject of his doctoral dissertation during an extended stay in the Philippines and anticipates early publication of his recent research efforts.

5. Ibid. See also Carl H. Lande, "Democracy in the Philippines", Manila Mirror, October 24, 1959, p. 9.


AUTOBIOGRAPHY

I, Harold Edmund Brazil, was born in Bearden, Arkansas, August 24, 1920. I received my secondary school education in the public schools of Joplin, Missouri, and my undergraduate training at Tuskegee Institute which granted me the Bachelor of Science degree in 1942. During World War II, I served as a Commissioned Officer and Aircraft Pilot with the U.S. Army Air Force. In 1949 and 1950, I served as Director of Personnel, Voluntary Agencies, with the International Refugee Organization, a Specialized Agency of the United Nations, in Germany, Switzerland and Italy. From the Ohio State University, I received the Master of Arts degree in 1952. Between 1952 and 1955, I was in residence at the Ohio State University completing the requirements for the Doctor of Philosophy degree. During this period I was assistant to Professor Louis Nemzer and served also as a Graduate Assistant, while specializing in Political Science.

Since 1955, I have served as Command Historian in the Thirteenth Air Force, Philippine Islands.