

PART IV

PERSPECTIVES AND EXPERIENCES
FROM ASIA



9

Shoot Yourself in the Foot: Philippine State and Society in the 1997 and 2008 Financial Crises

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Introduction

In 1997, the Philippines had foreign borrowings of US\$44.81 billion from multilateral lending and corporate creditors (Intal and Llanto 1998: 64) and in 2008 some of its biggest banks lost less than US\$400 million to foreign entities. Both incidents plunged the country into crisis, the first time due to internal problems, the second time round by seeming recklessness. Nowadays, a Philippine tourism campaign slogan says ‘It’s more fun in the Philippines’; one may ask what country on earth then would be more exciting? Like a roller-coaster ride for about two decades, the ups and downs of the national output have coincided very well with domestic political challenges and externally-induced financial disasters. In the span of this period, political leaderships which have always been expected to address the impoverishment of huge sections of the working population have changed over time and their abilities to implement mitigating measures have never ceased to be tested.

What has caused the continuing failure of state efforts to stay away from the effects of the financial and economic crises? What should have been done by government in the light of the character of the said crises? Why does it seem – with the reported poverty incidence reaching an all-time high of nearly a quarter of all households (SWS 2012) – that the consequences for the poor people have been more serious than before? Rhetorically, one might ask: Would state interventions then not amount to shooting oneself in the foot?

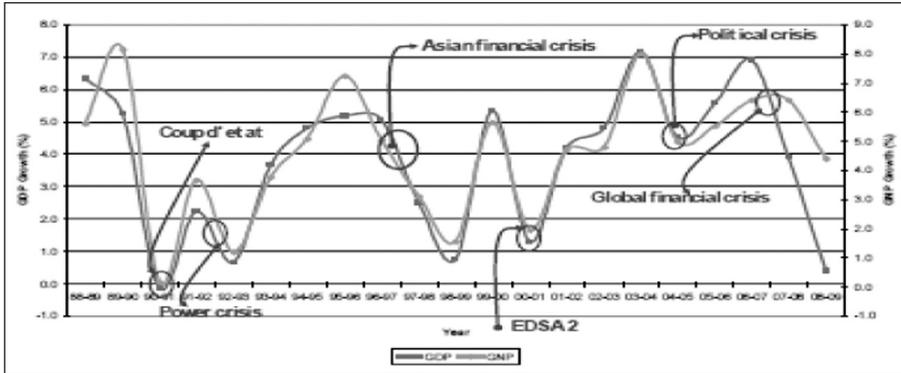
This chapter argues that the 1997 and 2008 financial and economic crises undermined the capacity of the Philippine state to intervene, that the lessons from these crises have remained unlearned, and that crises of similar nature and greater magnitude would consequently be more likely to occur. Continuously beset by leadership changes since 1986, the Philippines has addressed crisis after crisis ineffectively. The state apparatus has been captured by different profit-motivated rent-seekers that are compliant and subservient to the neo-liberal order. This political fact has also triggered events that have charted the roller-coaster ride of both country and people, such as shown in Figure 9.1 below.

What distinguishes the Philippines case is that other Southeast Asian countries such as Thailand and Indonesia that had also faced the same shocks have already bounced back to even greater heights. The Philippines, instead, has been consigned to the bottom despite worldwide-acclaimed 'people-powered' democratic restoration in 1986 and subsequent subscription to neo-liberal regime. While such authors as Bello et al (2004) or Abinales and Amoroso (2005) blame the 'anti-development state' for succeeding in frustrating genuine change, it is also important to find out what else contributed to this state of affairs.

As the country prides itself on a hospitable, young and English-literate population, together with a liberal economy that has been working to increase national output from the agricultural, industrial and service sectors, it has also been unable to reduce poverty incidence in regions and social groups that have heretofore been mired in daily survival struggles and frustrations. State efforts to help the poor seem dissipated in widespread, persistent, and deep-seated corruption. At best, politicians continue to ride on the old cliché of fighting both corruption and poverty with very few observable outcomes. Indeed, the country has shown spurts and spikes of aggregate growth, but the poor are seldom to be found among its beneficiaries.

To support the contentions herein, this chapter presents a brief narrative of post-1986 Philippine leaderships and the state of the economy. Then, it proceeds to describe and compare the two episodes of crises (1997 and 2008) and the lessons that should have been learned, and identifies factors that may determine the recurrence of the same in the future. In the first episode, I argue that the early post-Marcos years marked by the troubled return to elite democracy and subsequent gross subscription to neoliberal world order weakened the country's immunity to the crisis contagion that began with the collapse of the Thai currency and worsened with capital flight. In the second instance, the crisis struck at the heart of the financial system but this has been dismissed by key players as having little impact in the country's economic performance. It thus leads to the main argument that recurring crises will haunt the Philippine economy for its failure to give relief to the poor people who need more help than anybody else.

Figure 9.1: Annual Growth Rates of Real GDP and Real GNP, 1989-2009



Source: HGC 2009: 2

The Philippines after the 1986 EDSA ‘Revolution’

In 1986 Corazon ‘Cory’ Aquino, widow of assassinated exiled opposition leader ex-Senator Benigno ‘Ninoy’ Aquino, Jr., succeeded ousted President Ferdinand Marcos, who had ruled the country since 1965. In 1992 she anointed and was succeeded by Fidel Ramos (1992-98), then by Joseph Estrada (1998-2001). The longest post-Marcos term as president was held by Gloria Macapagal Arroyo (2001-10). Quite by surprise, when ‘Cory’ died, her nonpolitical son Simeon Benigno Aquino III (‘Noynoy’/‘PNoy’) became president in 2010.

‘Cory’ came to power in the heady days of February 1986, in the aftermath of the 1986 EDSA Revolution, named after the major thoroughfare in the national capital region.¹ She presided over a tumultuous transition with rightist coups and leftist and Muslim insurgencies and was able to finish her term of six years under a constitution that still bears her name (the 1987 ‘Cory Constitution’). Under pressure from big businessmen and their patrons, she committed to honouring foreign loans, allegedly largely pocketed by Ferdinand Marcos and his cronies. Anyhow she set into motion the unfinished health care (through a generic medicines law), agrarian reform, and local government reforms² that promised democratic and empowering changes. With her religious background, she appointed a health secretary with strong negative attitude towards artificial family planning methods that had been supported largely by foreign donors. Her family-owned Hacienda Luisita continued to hold an agricultural estate that was very much at the heart of agrarian revolt in the Central Luzon region.

The new local government code sought to decentralize decision-making but many low-income municipalities complained that their finances were unable to pay standard wages to devolved personnel such as medical doctors. To add to the presidential headaches, Cory years also oversaw the 1987 MV Doña Paz tragedy, the worst peacetime maritime tragedy that killed more than 4,000 people, and in 1991 the Ormoc (in Leyte province) flood/mudflow tragedy that left about the same number of people dead and thousands more missing. The latter has been blamed on wanton destruction of the forest environment. Despite all this, Cory was a popular figure, more so in the West. Time magazine made her 'Man of the Year' for 1987. When she died in 2010, her son Simeon Benigno (also known as 'Noynoy') was voted president.

In 1992, army general Fidel Ramos was elected as a minority president in an eight-party contest. He signed a peace agreement with the Moro National Liberation Front (MNLF), then a major Muslim separatist movement in southern Philippines, whose negotiations he headed during the Cory years. The MNLF guns were silenced as generous aid poured into southern Philippine projects as guerrillas were demobilized or integrated into the regular armed forces. Ramos sought to transform the Philippines into the latest Asian tiger cub under the banner 'Philippines 2000' with targets on job generation, employment, income, and per capita GDP growth, among others. He took bold steps to end the power outage problem. He immediately implemented a 'leapfrogging strategy' by large-scale state asset privatization (former army military camp Fort Bonifacio was sold to private developers), telecommunication, banking, transport liberalization, tax reforms and the like that endeared him to many leaders abroad. Reportedly seeking to continue his reform programme, he favoured – some sectors suspected he even promoted – charter change ('cha-cha') that would lift constitutional restrictions on property ownership. His health secretary Juan Flavio Velasco strongly promoted the use, among other things, of condoms to address the unabated population growth rate especially among the poor families. As Ramos was about to step down, the Asian financial crisis hit the Philippines in 1997. But that was not his problem anymore.

Popular actor-turned politician Joseph Ejercito (better known as 'Joseph Estrada,' his screen name, or 'Erap'), succeeded Ramos in 1998 with the most number of votes received by any presidential aspirant before and hence. His popularity drew from his movie roles as a crusading man of the underdog, the rough uneducated funnyman who speaks broken English that endeared him to most people who, despite the education that they have had, could understand but could hardly express themselves well in (American) English. He was a close ally of the deposed President Marcos. This plus his well-known weaknesses for women, wine, and gambling strengthened, rather than undermined, his

political support from across the social divides. 'Erap's political career began from being mayor of a town (with its sections of commercial establishments from poor communities to gated communities) to being elected senator. Elected later as vice president, he headed a presidential anti-crime task force that drew both admiration and flak from different quarters at a time that bank robberies and kidnapping of Chinese-Filipinos became daily news. As president, self-exiled first lady Imelda Marcos and Ferdinand Marcos' cronies returned to the country to recover their assets and status, not to mention privilege.

Estrada blamed Ramos for the growth of Muslim secessionist military capabilities and launched an all-out attack on many physical camps of the Moro Islamic Liberation Front (MILF) in the central Mindanao. MILF was able to set up many physical camps and tunnels Central Mindanao allegedly from government funds meant for irrigation projects. Estrada's fallout from friendship with a known gambling provincial lord triggered a Senate impeachment proceeding that investigated his alleged ownership of multi-million peso bank accounts (suspected to be hidden under the name of a fictitious 'Jose Velarde' which was later admitted by one of his own cronies) that contained his share from local illicit lottery operations. A walkout towards the end of the impeachment proceedings triggered an early evening version of the 1986 EDSA Revolution. The 'Resign-Impeach-Oust' (called RIO) design to unseat 'Erap' catapulted Vice President Gloria Macapagal Arroyo (daughter of 1960s president Diosdado Macapagal) to power, blessed by a Supreme Court decision on the legality of her assumption of power in January 2001.

On the basis of the unfinished impeachment process, 'Erap' was arrested, prosecuted and imprisoned in large measure in comfortable confinement. His well-known associates were also jailed and/or indicted for complicity in pseudo-foundations created to conceal other allegedly ill-gotten funds. Erap's supporters, reportedly drawn from urban poor communities and nearby rural areas, staged EDSA in the very early morning of 1 May to storm the presidential palace called Malacañang. Gloria Arroyo quelled this street disorder and other later similar planned uprisings of a group of junior military officials called the Magdalo. Seemingly politically isolated, she was nevertheless able to unite the sundry forces (legal opposition, church, business, Left) to oppose her as they sought to impeach and overthrow her via popular street marches.

Arroyo sought to endear herself to the poor by using excess extended value added tax (EVAT) collections to subsidize electricity bills, gasoline and rice prices. Like 'Erap' though, Arroyo would face charges of 'stealing the 2007 election' in her bid to be a duly elected president and not just one who simply finished the remainder of the six-year term of the ousted 'Erap'. It was on account of an audio recording of her telephone conversation with an

election official that became public. This infamous call now remembered as ‘Hello, Garci...’³ became viral as it became both joke and spite and cellphone ringtone. Reportedly that was evidence that she personally made sure that her strong rival, popular movie actor Fernando Poe Jr., old friend of Erap would lose, earlier survey results notwithstanding. Recently elected as representative of her hometown in Congress, Arroyo was arrested in November 2011 and criminally charged but has been under hospital/house arrest while still under medical care.

The 1997 Crisis: Did the Sick Man of Asia Really Escape from the Pneumonia?

After long years of service to then President Gloria Macapagal Arroyo (2001-04; 2007-10), two leading erstwhile palace insiders (Velasco and Saludo 2010: 251) look back to the 1990s and the 1997 crisis in these words:

In the early to mid-1990s, there was a dramatic reduction in tariffs across the board, which many believed was the right thing to do at that time. The government sent the signal to the international community that its economic policies were flexible. The tariff reductions were well intended and the government expected to harvest the fruits of what it planted. But nobody had anticipated the 1997 financial crisis.

Was anything really ‘planted’ at all, one might ask. Was it pure luck? Quite frankly, being least considered for growth seemed to be better, in hindsight of course. Noland (2000) credits the 1980s management of policy interventions in the crises that hit the Philippines, but also the stars for keeping threats and risks to the economy and financial system at bay.⁴

But that was long before the crisis. Former Marcos economic planning minister, Gerardo Sicat (1998: 290–91), paints the Philippine picture as a little rosier closer to 1997. He says that GNP was between 4–5 and 7 per cent in 1994/5-1996; exports grew to about 25 per cent and that US\$25 billion in export earnings may have announced the birth of a new ‘Asian tiger’. Sicat also said that the ‘large current account deficit of about 5 per cent of GNP during 1993 to 1997 was viewed as an indication of rising investment and therefore not a cause for alarm.’

Noland, citing the Goldstein estimate of country crisis probability due to external exposure, has indicated that the Philippines was least likely to suffer the fate of the more exposed Indonesia and Malaysia. These latter two countries and a few others had been directly affected by falling foreign direct investments and so-called ‘hot money’ from mutual funds. The Philippine crisis in 1997, smaller as it was relative to other countries, was ‘home grown’, concludes Noland. As will be seen below, 1997 was less critical than 1998 for

the Philippines. The crisis concealed its virulence behind early indications of affliction.

So who or what planted and secured its growth at home? Was it a Marcos behest problem? The term 'recession' was introduced by economists who debated whether it was a 'technical' one or not. It might seem to be hair-splitting the issue but it seems they were just looking at the numbers and the graph. As Albuero differentiates the relative tardiness of Philippine involvement with 'footloose/casino' capital, he is also quick to say that the Philippines likewise was hit by the contagion. He adds that what eventually happened was a 'technical recession' (1999: 454) as 'growth nosedived' and 'all the other social conditions deteriorated.' Looking back later, Albuero adds that 'although technically the country suffered a recession following the Asian crisis, its full year (1998) drop in GDP was only -0.6 percent.' (Albuero 2002: 10) As Philippines secured US\$ 4 billion assistance from the International Monetary Fund, banks were not asked to close shop due to bad loan losses estimated at 3 per cent. Grabe (n.d.) writes that 'banking distress began to emerge in mid-1998 as the peso's depreciation increased the cost of foreign loan obligations.'

What the country received was supposed to cushion the impact of the crisis; but it only made the economy more dependent on foreign sources. It postponed the more severe and more widespread repercussions; higher inflation rates set in and credit became less accessible. The import-dependent economy began exchanging more pesos for each US dollar needed to procure its many survival requirements.

When this writer recently sought clarification from the Bangko Sentral ng Pilipinas (BSP), the country's monetary agency, Racquel Claveria and Diwa Guinigundo, BSP Deputy-Governor, said that the BSP detailed how it intervened during the 1997 crisis, taking pride in what it had done within its authority. They rejected Albuero's claim of 'technical recession' by saying:

The Philippines did not slip into a technical recession because of the 1997 Asian financial crisis. While real GDP contracted by 1 percent in Q3 1997 and 13 percent in Q1 1998 on a quarter-on-quarter basis, the Philippine economy rebounded in between as real GDP expanded by 14 percent in Q4 1997.

The non-consecutive character of the said GDP contractions may be explained by heavy last quarter – Christmas – spending but BSP did not mention this. Albuero maintains his position though. Could there have been a recession – technical or otherwise – due to some reason or another? He says that there was so much foreign money coming in as bank loans, on top of what Sicat (1998) mentions as FDIs and portfolio investments on the eve of the 1997 crisis. Forex inflows rose from US\$156 million in 1990 to almost US\$7 billion, but it was only in 1995 that bank borrowings surged and continued to do so until 1997 (Albuero 2002: 6).

Sicat (1999:293) says that when the Bureau of Treasury held interest rates, it resulted in the depreciation of the peso. Even given that, forex-denominated loans that had to be paid certainly helped increasingly to wipe out the peso, including the few pieces in the hands of the poor. The poor paid severely for the indiscretions of the rich. For that matter, not only did the Philippines suffer severely in 1997 but in the following years; such that one can see that no matter what people did to earn a living, their incomes could not meet their daily needs. Poor people who were still recovering from the 16 July 1990 intensity 7.8 earthquake and the June 1991 Mt. Pinatubo eruption, especially those whose farms and homes went under tonnes of volcanic ash, were the hardest hit. These were years that poor people were being driven to desperation and despondency.

But 1998 seemed to be just the beginning. That year, the Philippine economy and society seemed to be more threatened by the elections. Montinola (1999), a close watcher of Philippine politics, writes that assuring the 1998 election to the presidency of Ramos' anointed, House Speaker Jose de Venecia, would be attended by fraud and violence. If Ramos could not have his second term to continue his programme, his anointed choice would secure his continuing role as advisor or statesman. Pitting De Venecia against the very popular 'Erap' was a huge gamble. Likewise, president 'wannabe' Gloria Arroyo had to be threatened with withdrawal of election finance support should she join the race. She became the eventual winning vice president.

Years later, Albuero (2002:2) was not just talking about technical recessions, but that a mixed blessing came along the way of the crisis. Economic decline, he says, prevented further environmental degradation. But economic decline certainly has other results. Albuero opines: 'Without a sufficient buffer in terms of natural resources, income, and social infrastructure not to mention economic fundamentals, the lower income deciles bore the brunt of the crisis, unemployment worsened, and poverty incidence deteriorated.'

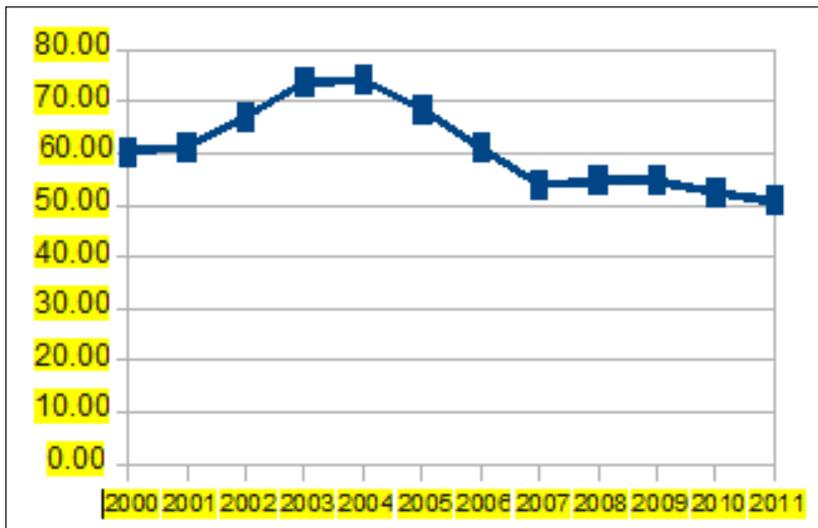
As for the banks, they have and still are protected by the concept of 'limited liability', as described by Sinn (2010: xiv) as being spared blame for 'gambling with their customers' money in the international financial markets'. Who then can people turn to? The state fails to regulate business practices, the banks' hands will always be clean, and lenders will always win. Therewith and thereby, only the poor will lose.

So, just as the 1997 crisis that wiped out in so short a time the value of the Philippine currency vis-à-vis the US dollar, the national debt continued to increase as a percentage of the GDP. As Figure 2 shows, GDP reportedly rose from 2002, and so did the national debt as percentage of the GDP. Some may argue indebtedness may be consequential but little to the performance of the economy in general, but it could perhaps be acceptable as long as trade and other receipts showed signs of improvements over time.

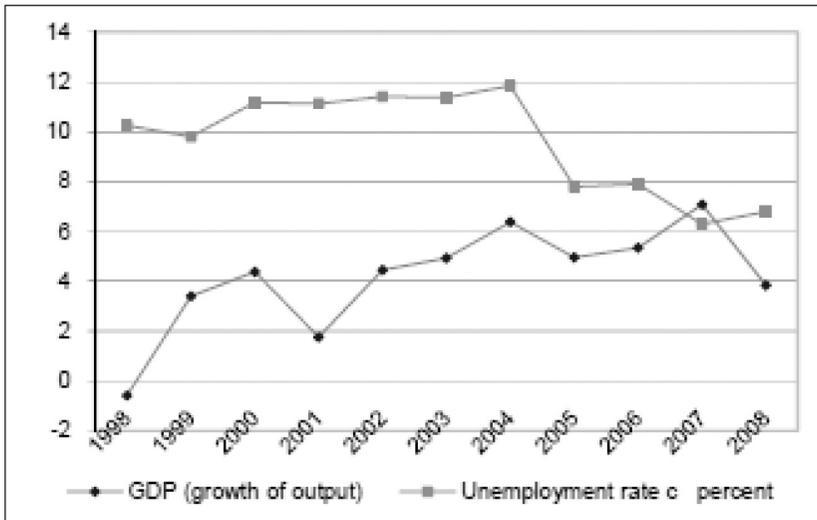
The other compelling evidence against the utility of GDP as an argument to say that people should not worry as long as the economy grows (as measured by GDP) has to do with employment. Figure 9,3 shows that even as the GDP grew modestly between 1998 and 2004 (except for 2001), many people were still left without jobs as unemployment made them scarce from the active labour force. In fact, if business was unable to provide jobs, government spending could still add up to positive GDP growth, no matter where public funds really went. Countries borrow to improve the people’s well-being usually by expanding employment and enhancing purchasing power. The question in the light of increasing indebtedness – to insignificant percentages of gross international receipts – is: where did all that money go? Certainly it was not spent so much in creating new jobs, as the unemployment rate simply went hand-in-hand with the limited GDP rise.

Table 9.1 below shows that in the period 1998-2009, the GDP growth rate tapered as unemployment rose, while the employment growth rate generally treaded a downward direction even as GDP supposedly improved. Those who could not find full-time jobs were, and still are, resorting to alternative (part-time) employment. This implies a shift of income source from regular jobs to occasional low-paying and generally service-oriented ones, or those relating to petty trades.

Figure 9.2: Debt as Per cent of GDP, 2000-11



Source: NSCB

Figure 9.3: GDP Growth and Unemployment Rate, 1998-2008

Source: ADB, cited in Balboa and Mantaring 2011: 9

If bank loans were not helping people via employment, who then typically benefited from the said loans? The Philippines was not alien to the unproductive use of capital underlined by Foster and Magdoff (2009:45) in the world economy. Filipinos can easily find resonance with these words in their conditions but financial institutions exert little effort at transparency:

Financial institutions of all types now accumulate huge quantities of debt as they attempt to make money with borrowed money. This debt undertaken by financial institutions for the purpose of speculation has little to no stimulatory effect on production. Relatively few people are employed in the process of speculation (say, per billion dollars borrowed and speculated with) compared to other more productive uses for that capital. Profits resulting from these debt-financed transactions rarely are turned into investment in factories of service sector firms that create jobs. Rather, such speculative profits are normally used to generate even more profits through various other speculation schemes, or for high living by the rich. As a result, stagnation in employment in recent years has gone hand in hand with a new opulence among the beneficiaries of the financial expansion.

The Philippine specific story is that banks had just been made to improve capitalization, reduce non-performing loans, and to limit exposure to the real estate sector:

No Philippine commercial bank has gotten into serious financial trouble. Banks have become timid in lending, partly owing to uncertainty about the movement of exchange rates and, consequently, interest rates. Domestic credit has tightened as

a consequence. Public sector credit remained stable, so that the squeeze was felt mainly by the private sector. The banking sector remained relatively strong despite the squeeze on its profits (Sicat 1998: 293).

Meanwhile, Albuero also definitely points an accusing finger at government, as no other entity would be in a position to address questions of natural resources, social infrastructure and economic fundamentals. Thus, the burden of the crisis fell neither on banks or state agencies but directly upon the working people who have relied simply on meagre daily earnings. Sabarwal, Sinha and Buvinic (2009, cited in UNIFEM 2009:10) argue:

In the Philippines, housewives responded to the 1997 Asian Financial Crisis by reducing consumption, eating only two meals a day in order to feed their children three meals. Poor households pulled out children from school and reduced their utilization of health care services, resorting instead to herbal remedies, indigenous health practitioners, or self-medication. Previous crises affecting low income countries have also shown that girls in poor countries with low preexisting female schooling are highly vulnerable to being withdrawn from school to cope with declining

A battle cry of the 1997-98 period was for a new financial architecture, whatever that may have really meant, or whether it is really achievable. What seems clear is that people most severely affected by financial crisis would not have any say in drawing any new architecture. Even in the initial discussions on the new architecture, it has not been clarified as to the role of the people. But in this kind of scenario, there are those who insist there remains such a need:

(T)his macro-vision of a new international financial architecture has not materialized, as economists today admit that there still exists a real need for an international financial architecture to design the rules of the financial system in ways that enhance global stability and promote economic growth (Muchhala 2007: 8).

Thailand, Indonesia, South Korea and Malaysia learned their lessons from this episode. However, the Philippine government was too preoccupied with other matters. In early 2001, a middle-class uprising shortened the term of actor-turned-politician Joseph Estrada. This led to the rise of the vice president, economist Gloria Arroyo, to complete the remaining term of the presidency. In about four years, Arroyo herself was confronted by allegations of 'electoral sabotage' and a united front of opposition members, some of whom were promptly sent to jail, courtesy of a declaration of a state of national emergency in early 2005.

Table 9.1: Labour Market Trends, 1998-2009

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP Growth Rate	-0.6	3.4	6	1.8	4.4	4.9	6.4	5	5.3	7.1	3.7	1.1
Unemployment Rate	10.3	9.8	11.2	11.1	11.4	11.4	11.8	Break in Data Series	8	7.3	7.4	7.5
Employment Growth Rate (Total)	1	4.2	-1	6.2	3.1	1.9	3.2	2.2	2	2.8	1.6	2.9
Full-time Employment Growth Rate	-2.1	3.8	1.9	-2.1	2.5	3.8	2.8	4.2	-0.6	0.7	3.9	-0.5
Part-time Employment Growth Rate	6.1	5.5	-5.8	21.2	3.4	0.2	2.7	0.8	6.3	2.3	-2.6	8.4

Note: A break in the data series occurred in 2005 due to the adoption of a new official definition of unemployment in conformity with the international standard definition.

Source: Bureau of Labour and Employment Statistics, cited in Alegado (2010)

While government may have indeed relied upon the revitalized and independent central bank (Bangko Sentral) to address problems with the financial system, chiefly by compelling banks to compete with foreign ones under a liberalized environment and to merge with and acquire smaller banks in order to achieve scale and cost-efficiency in interest rate terms, it was either not empowered to look into the bank labour cost of reforming the banking sector, which in itself poses another kind of problem faced by many small bank employees left at the mercy of their employers. Dacanay (2007: 3) writes:

In an efficiency study involving seven countries, Kwan found that the Philippines labor cost ratio to total operating cost is highly statistically significant and has a negative sign. Kwan interprets the negative coefficient of labor price as evidence that Philippine banks use relatively more labor because it is cheap. From the database used in the study, the unit price of labor, defined as the personnel and fringe benefit expenses of the banks divided by the number of employees, has been steadily declining from as high as US\$ 13,813 in 1995 to US\$7,000 in 2004 in real terms.

The 1997 crisis happened more in 1998 as it was occasioned by a period of continuing transition attended by more liberalization and privatization and the expansion of opportunities for those who had access to power and resources. Although the Philippine case was due to contagion, political conditions bordering on leadership crisis contributed to the unsettling economic scenario as when Erap was ousted and when Arroyo sought a new term as president in a manner that spiked popular protest.

The 2008 Crisis: Was the Philippines Ready for it?

Velasco and Saludo cite attempts by the Arroyo government to liberalize trade, consistent with her belief in the power of globalization to solve poverty, but foreign exchange rate appreciation, among other effects, dampened exports and threw many workers out of the workplace. Quite paradoxically, the devalued Philippine peso in the aftermath of the crisis increased exports. It could be one reason why, as Velasco and Saludo claim, 'the Philippines never went into recession as some of our neighboring countries did' (Velasco and Saludo 2010: 270).

In 2003, the Bangko Sentral corrected the 'overstated' figures in the first Arroyo years of the presidency. It said that the Philippines had a surplus of US\$660 million for 2002, compared to a US\$192 million deficit for 2001'. The correction was reportedly due to adjustments in trade data which were not released soon. The positive position was attributed to migrant worker dollar remittances and increased exports. However, by the middle of 2003, the picture began to sour as Fitch Ratings lowered both long-term foreign and local currency ratings of the Philippines.

The ensuing calls for Mrs. Arroyo's resignation easily transformed into a crisis as described in the brief narrative above. As Salazar (2006: 230) recounts:

The market reacted immediately to these developments. The peso neared its record low of 56.45 to the U.S. dollar while the stock market suffered. The top three rating agencies, Fitch, Standard and Poor, and Moody's, changed their outlook for the Philippines from stable to negative. In addition to the raging political crisis, the rating agencies pointed to the Supreme Court's suspension of the expanded value added tax (EVAT), a key component of the government's fiscal reform agenda (Salazar 2006:230).

Velasco and Saludo (2010: 264-69) opine that the years between 2005 and 2008 scored significant victory for Arroyo via taxation and service delivery. If it were not for the 2008 global crisis, they say, everything would have turned out right. Positive ratings for the Philippines as a consequence of the Arroyo victory in EVAT, did not insulate the Philippines from the crisis. Tax collection issues owing to corruption, the 'irrational tax system,' and general 'institutional capacity, claims Doraisami (2011), caused the tax-GDP ratio to drop from 17 per cent in 1997 to about 12 per cent in 2002,⁵ made the Arroyo government seek new tax measures including the EVAT that sought to fund efforts at cushioning the impact of the crisis on the poor.

In September 2008, seven Philippine banks told a Senate inquiry that they had a combined exposure of US\$ 386 million to Lehman Brothers. They included: Banco de Oro Unibank (US\$ 134 million); Development Bank of the Philippines (DBP) (US\$ 90 million); Metropolitan Bank and Trust Co. (US\$ 71 million); Rizal Commercial Banking Corp. (US\$ 40 million); Standard Chartered Bank (Manila branch) (US\$ 26 million); Bank of Commerce (US\$ 15 million); and United Coconut Planters Bank (US\$ 10 million). The question is whether the monetary leaders had prior knowledge of this or not, considering that a government bank (namely, the DBP) had a part in it.

As for the central bank, a shadow of doubt has been cast by such authors as Sek (2009: 27–28, my emphasis) and Armenter (2011):

With the exception of Thailand, the policy reaction functions in Korea and Philippines do not react significantly to the exchange rate movements in the two (post-crisis) sub-periods. *The results imply that central banks in these countries do not follow as what they have claimed.* Although these countries have implemented the inflation targeting after the financial crisis, only Thailand shows a significance reaction of monetary policy to the inflation variable. The policy maker in Philippines pays higher concerns on output gap stability after the crisis.

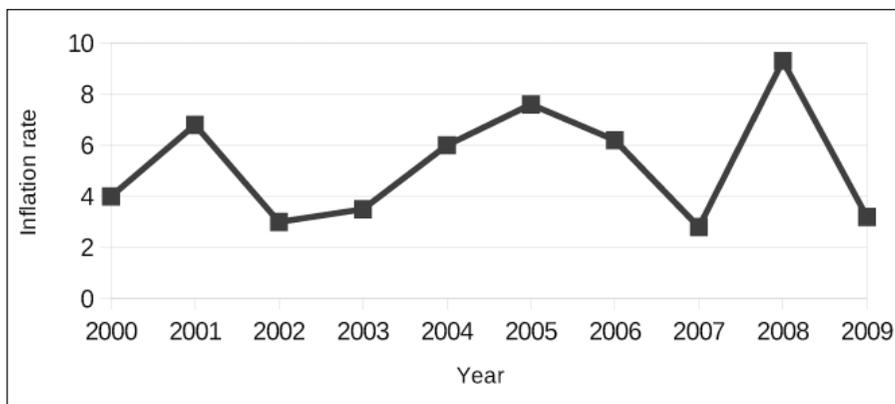
There seem to be more questions than answers in the light of this scenario. Did or do these banks have so much money to loan out to other financial institutions? Was the said total exposure of the seven banks really no 'cause

for concern' simply because other countries had much higher exposures? Did the said exposures expect more returns than if they were loaned out to local entrepreneurs? Which would have been riskier? Or which of these were more acceptable risks?

What is clear is that, as can be seen in Figure 9.3, the inflation rate spiked to record high in 2008 owing, reportedly, to 'continuing higher annual price increases in the heavily weighted food, beverages and tobacco index' (NSO 2008).

Writer Arroyo (2009) and economist Valdepeñas (2011), both of the state economic planning agency National Economic and Development Authority, seem positive about the economic situation and monetary policy after the crisis, respectively. It is important to note that migrant workers' remittances are key ingredients in their stated outlooks.

Figure 9.4: Inflation Rate, 1999-2009



Lessons Unlearned

Yap (2009: 10) summarizes the two crises in the Philippines in these terms:

What is common in both crises is the deterioration in the fiscal situation. A major cause for concern is that reforms were introduced in response to the 'fiscal crisis' that emerged in the latter part of 2000-2004. While these reforms bore fruit as gleaned from the improvement in the fiscal deficit in 2005-2008, it is clear from the projected 2009 deficit that the gains have not been sustained. Given political economy constraints, it is uncertain whether a new round of revenue-generating measures can be implemented in the near future. Perhaps emphasis can be shifted towards reforms in tax administration.

If the Philippines escaped the 1997 crisis but suffered in its aftermath, could it have maintained distance from the source of the external turmoil in 2008? Why did state leaders think that the adverse conditions from 1998 onwards would not impact more negatively on the people at large? Were these leaders in any way ready to do so, one might ask too. If the causes of the crisis in this episode were 'home grown', were they addressed well?

Writers and analysts have simply insisted on differentiating between the two main causes of the 1997 crisis, only to admit later on that the contagion did it, at least for the Southeast Asian countries, the Philippines included. The 1997 crisis was said to be regional, the 2008 global. Is a national crisis different from these two? Sheng (2009: 9–10) states: 'National crisis is about the failure of domestic markets, policies or institutions, but global crisis is about the breakdown transmitted through the interdependence of economies in a networked world.'

Jomo K.S. (in Muchhala 2007: 35) argues that financial globalization, not totally weak governance, was responsible for the Asian crisis. He has also opted for a new international financial architecture. Speaking of the crisis-hit countries, he says in sum:

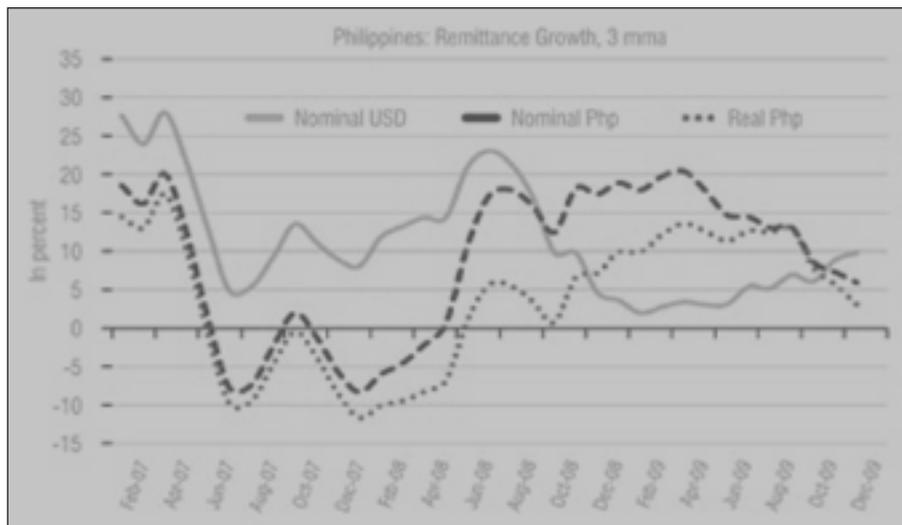
First, macroeconomic and financial policies should be counter-cyclical, rather than pro-cyclical. Second, developing countries should have policy space for expansionary macroeconomic policies. Existing policy conditionalities and other circumstances conspire against that. The last few years have undoubtedly been good for developing countries, but this has been exceptional due to low international interest rates and high commodity prices. Third, there is a need to re-develop development finance institutions at both national and regional levels, as many of these institutions have contracted and changed significantly, or become less useful for development finance purposes due to new constraints.

The World Bank considers the role of migrant workers and the concomitant policy as counter-cyclical. It notes the remarkable record of remittance flows from 2007 but it has warned that 'as the economy recovers, the strength of these remittances is projected to wane in 2010'. Large remittance flows in recent years, not to mention the continuing US crisis, strengthened the peso vis-à-vis the US dollar. But as more Filipinos become migrant workers and more families depend on remittances, it has become a delicate balancing game of the monetary authorities as to how to keep different interests satisfied: migrant workers and their families hate the strong peso, importers the strong dollar. So, the monetary authorities have kept watch on migrant family savings, investment and consumption patterns and promoted 'financial literacy' that sees more growth in terms of basically the same input.

Garten (1999) reserves a place for the IMF, despite its mistakes and mishandling, in the financial world that is bound to experience more crises ahead. But he stresses that cooperation should help smaller economies and that bigger stakeholders take more responsibility for their actions.

In the Philippines, government has not been remiss in handling the situation but it has placed a great deal of the burden upon incomes of the expatriate labour force, thus gearing the migration constituency to earn precious foreign exchange (Asis 2010).

Figure 9.5: Remittances have been Strongly Countercyclical in Real Peso Terms Index, constant prices (October 2008 = 100)



Source: World Bank 2010

Recurring Crisis?

While those with no fixed jobs and income sources weathered their new predicaments by a number of adjustments, the truly impoverished ones have grown in number (Reyes et al 1999), especially in areas where government and its service agencies have heretofore been inaccessible.

It is therefore hard to accept that both crises have not really slid into recession, contrary to consistent claims by the Department of Finance (DoF 2008, 2009, 2019 *Annual Reports*), the World Bank (2009) and the IMF (2010). Employment and incomes have not really increased, indebtedness has risen, credit has been restricted, prices continue to rise, stock market has been lacklustre, the impact of cash transfer to the poor has yet to be ascertained

as politicians have sought to take credit for making monthly pay-outs to bolster campaign bids for the May 2013 local elections and as truly indigent beneficiaries have sought alternative uses of received state subsidies to health and education. Business and observers have already indicated that the tell-tale signs of de facto recession have been around since 2008.

Blaming government for all the troubles that the poor face might be too easy but who else should take the fall? Short of accepting responsibility for the growing concerns over fiscal and other matters, finance managers have drawn not exactly rosy pictures of the financial situation that mask the true state of the nation as it joined the bandwagon of neoliberal globalization, and of financialized capitalism (Foster and Magdoff 2009).

What could be useful to understanding how the Philippines links its own predicament is not just by showing how it shares the same fate as other economies hit by the crises, but how the Filipino people themselves, the poor especially, understand and address the problems spawned by the vulnerabilities and risks of this feature of global crises. At this stage, says pollster Mahar Mangahas (2013) of the outfit Social Weather Station (SWS), 'one of every Filipino wants a real job.' He says the unpublished official underemployment rate as of October 2012 was 19 per cent, while the official unemployment rate is 6.8 per cent. SWS uses the term jobless to contrast with the official definition of unemployed. It estimates joblessness at almost 25 per cent. People left without jobs go hungry, get sick, and become very weak and vulnerable. When crisis hits, it will not miss them.

Conclusion and Recommendations

In sum, government borrowed money heavily to legitimize itself. It sold state assets to finance development projects even as some pocketed more than was actually spent for the people at large. Its strength relied on minority mandate, populist acclaim, or on the enduring belief in the reliance of the people, the poor especially, on the elites for their deliverance. Strength, in short, derives from weakness.

The banking sector risked other people's money. The central bank became party to the crisis in a manner that helped some and forgot about the others. It helped monitor and promote growth that has been confined to select sections of population that participate in the money economy. Growth in the macro sense must have taken into consideration the real impact on more people with less means, without jobs or with small incomes.

When the state is captured by vested interests and the society at large is vulnerable to continuing crisis, both are able to frustrate real development, assuring recurring crisis with even greater toll on the poor.

In 1997 and 2008, the Philippines suffered severe outcomes from exposure to foreign borrowing and foreign lending, respectively. It is important to understand how this came about and do the utmost to prevent its repeat.

Since 1986, political changes and reforms have seemed unable to deliver thorough changes that would secure the lot of the poor. The poor have seemed to be more and more reliant on state moves and subsidies that promoted populism entrenched patronage and dynastic rule. The financial crises have made their choices even weaker, more unpredictable and particularly disempowering.

No doubt, crisis after crisis will hit the Philippines despite its well-publicized growth performance among the Asian economies. The said crisis will impact on the poorest people in the poorest places in the country – those without jobs, unable to work abroad and to remit money back home, without access to basic social services, and those powerless to meaningfully participate in making decisions about how they would survive the onslaughts not only of natural calamities but also the impacts of financial and economic crises and government neglect.

People's organizations will have to continuously and vigorously take to task every state decision and action that compromises poor people's ability to live decently and to ensure that health, education, and livelihood opportunities lift them up from the squalid conditions they inhabit. Policy reform advocacy must go hand-in-hand with people's own initiatives in building their own infrastructures for self-help, though sympathetic local government actors can also be partnered with to maximize effect.

Relevant education and information programmes on the roots of the crisis and what can be done cutting across sectors and classes should broaden the constituencies for the fight for effective pro-people governance, political and electoral reforms, and justice and human rights. These are assurances of continuing counter-hegemonic battle against apathy, loss of identity, and gross injustice.

Migrant workers, being significant sources of the country's economic and financial stability, should leverage themselves by organizing and committing to broad and specific programmes that address poverty and the root socio-economic causes of their exodus. Their diasporic networks and foreign counterpart organizations and other development agencies can be built into the global campaigns for genuine migration and development programmes.

Scholars and the intelligentsia should join these movements and provide the needed knowledge and understanding that no one escapes the crisis and no one should believe that anyone really could without hurting themselves.

Notes

1. In early February 1986, a 'snap' election was held to choose between Marcos and Cory Aquino. Allegedly, Marcos cheated the very popular Aquino widow. Soon, street protests were mounted but Marcos did not budge. The Left that boycotted the election would be almost vindicated in its claim that Marcos would not step down without a bloody fight. A rebel faction of the Armed Forces of the Philippines (AFP) tried to stage a coup by the third week of February but was nipped in the bud. What followed was the 1986 EDSA Revolution that toppled the Marcos dictatorship. The military rebellion consisting of junior officers had the blessings of Defence Secretary Juan Ponce Enrile and Army Gen. Fidel Ramos. Enrile and Ramos held a press conference at Camp Crame as the very sick Marcos thumbed down a proposed military attack on the military rebels. Then Church leader Jaime Cardinal Sin called on the people to protect the Enrile-Ramos group by encircling the camp with civilian supporters. Millions turned out on the EDSA in what has been dubbed the 'People Power Revolution'. Some few people had misgivings about this type of regime change. It was also during this time that the long-struggling forces of the Communist Party of the Philippines-New People's Army-National Democratic Front (CPP-NPA-NDF) were marginalized in the transition period and became the object of Cory's 'total war' policy after the peace talk collapsed in early 1987. Nevertheless, Cory too became the target of ten unsuccessful coup attempts between 1986 and 1990.
2. D. Crone (1993) claims that social welfare worsened during the Cory Aquino years.
3. 'Garci' is short for (Virgilio) *Garvillano*, an official of the Commission on Elections, who assured Arroyo in the remainder of the audio recording that she getting the needed votes all right. Garci went into hiding and later resurfaced but only to run for public office – he lost, of course.
4. Historically, Philippine borrowing levels were within seemingly acceptable (legal) ceilings, relative to GNP. Falling foreign investment levels, deteriorating trade balance and two oil shocks occasioned the rise of Philippine public indebtedness despite efforts by the Central Bank to arrest the rise of current account deficit through the early 1980s. Dohner (1989: 174) completes the picture:

By 1982 the share of short-term debt, including monetary sector debt, in total debt rose to 47 percent, a much higher share than in other LDC debtors. The Philippines first considered declaring a moratorium in late 1982. When it finally did so in October 1983, its foreign exchange reserves were nearly exhausted.

Countries borrow to improve the people's well-being usually by expanding employment and enhancing purchasing power. The question in the light of increasing indebtedness is: where did all that money go? Certainly it was not spent so much in creating new jobs, as the unemployment rate simply went hand in hand with the limited GDP rise.
5. Yap (2009: 9) adds: 'The tax to GDP ratio has stalled in the range of 12-13 per cent of GDP compared to 14 per cent in 2008 and a peak of 17 per cent in 1997. As a result, the fiscal deficit already reached P111.8 billion (US\$1=PHP49) in the first four months of 2009 compared to P25.8 billion (US\$1=PHP44.6) in the same period last year.'

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