

CHRONIC FINANCIAL CRISIS AND THE WAY OUT

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

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

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

The Problem: Chronic Financial Crisis

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

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

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

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

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

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

What differentiates modern imperialism or monopoly capitalism from old style colonialism in the period of free competition capitalism is the growing importance of the export of capital over the export of goods. Basically, the export of capital from the imperialist country to the Philippines takes two forms: direct investments for internal control of the client economy and indirect investments or loans to the puppet state and to private entities. Ultimately, the superprofits drawn from direct investments and the servicing of loans far exceed any new capital export from the imperialist countries.

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

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

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

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

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

economy to foreign monopolies. The USD 200 million foreign debt at the end of the Garcia regime reached USD 600 million at the end of the Macapagal regime.

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

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

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

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

The Aquino regime tried to take new foreign loans but could not get much beyond the amount needed to service the accumulated foreign debt, cover the growing trade deficits and buttress government deficit spending. It harped on the slogans of free market and import liberalization. It did not undertake genuine land reform and national industrialization. It could not borrow much from abroad because global funds, attracted by high interest rates and investment returns, increasingly flowed to the US. It had to resort to local public borrowing, thus public debt rose to PhP 521 billion in 1992. Foreign debt at the end of Aquino regime stood slightly below USD 30 billion.

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

It used the local public debt to increase graft-ridden spending for the benefit of “independent power producers”, special projects of various sorts, infrastructure related to private real estate projects and state purchases of computers and vehicles. It used the foreign loans to cover the trade deficits that were due to high import costs of

components for the so-called export-oriented low value-added semi-manufacturing and to finance a boom in private construction, which went bust in the Southeast Asia-wide financial crisis of 1997. The foreign loans came mainly from foreign commercial banks.

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

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

Focus on the Arroyo Regime

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

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

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

The IMF prescription is for the Arroyo puppet regime to give priority to automatic appropriations for servicing the accumulated foreign debt, to raise the tax burden, to reduce deficit spending and adopt austerity measures at the expense of the people in an already devastated economy supposedly in order to counter inflation due to scarcity

¹ These figures and subsequent ones on GRP indebtedness are sourced or derived from Bureau of Treasury statistics <http://www.treasury.gov.ph/statdata/statdata.html>.

of goods and the printing of money. The regime is frenziedly trying to con the Filipino people into accepting more and higher taxes, more wage cuts and freezes, more cuts on the already deteriorated social services, the privatization of government-controlled corporations and the assumption of their debts by the state, especially the colossal debts of the National Power Corporation.

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

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

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

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

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

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

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

The Arroyo regime refuses to admit that the Philippine economy has further deteriorated and has been stricken with an unprecedented crisis after being brought into the WTO under the neoliberal policy of “free market” globalization. It must be recalled that it was through a legislation sponsored by then Senator Macapagal Arroyo that Philippine entry into the WTO was effected. “Free market” globalization enabled the foreign monopoly capitalists to plunder with utmost rapacity the third world economies and to degrade the so-called “tiger” and “emergent” economies and weaker capitalist countries. The result has been the rapid reconcentration of capital into the hands of a few giant monopoly capitalists in the US principally and in the two other centers of capitalism, Europe and Japan; and the consequent devastation of the third world and retrogressive countries, which continue to sink in the ocean of foreign debt and poverty.

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

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

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

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

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

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

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

The Solution: Reforms and Revolution

The broad masses of the people demand the strengthening and completion of the struggle for national liberation and democracy be strengthened and completed, the cancellation of all fraudulent and odious foreign loans benefiting the foreign and local exploiters, the confiscation of ill-gotten assets obtained through such loans and the termination of the puppet law providing automatic appropriations servicing foreign debt. They know that there can be no end to the chronic economic and financial crisis and to the monopoly capitalists' practice of international usury, the entire nation, especially the toiling masses of workers and peasants, are able to wield power.

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

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

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

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

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

2. Let us consider the GRP-NDFP peace negotiations. The NDFP can clarify and ventilate the reforms that need to be adopted and implemented. The objective is to work out comprehensive agreements in economic, social, political and constitutional reforms

and go for a truce and alliance against common problems or inimical forces. But these negotiations are easily subject to sabotage by the US and its worst puppets.

Right now, the NDFP wishes to negotiate social and economic reforms. With regard to economic and financial policy, the objective of the NDFP is to persuade the GRP to agree on the adoption of certain measures to protect the people from the devastating consequences of the policy dictates of the US and such US-dominated multilateral agencies as the IMF, World Bank and WTO. The Philippine government in the 1950s adopted some of these measures to some extent. In recent times, China and Malaysia have been able to hold their ground against the worst US and IMF dictates on financial policy. But so far, the Macapagal Arroyo regime is tightly bound to US dictates and the myth of "free market" globalization.

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

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

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

If such a government can arise, the question of economic and financial policy can be resolved along the anti-imperialist and anti-feudal line. It is possible for the working people and the middle social strata, represented in such a government, to agree on a firm policy of canceling all fraudulent and odious foreign debts, undertaking genuine land reform and national industrialization and strengthening diplomatic and economic relations with the ASEAN, China and Japan as well as Russia, France and Germany against the hegemony of the US.

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

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

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