ECONOMIC POLICY AND THE TRANSITION FROM AUTHORITARIAN RULE IN THE PHILIPPINES: AN EXAMINATION OF THE PRIVATIZATION OF GOVERNMENT CORPORATIONS

ROGER LEE MENDOZA
Department of Political Science
McGill University
Montreal, Canada

A Dissertation submitted to the Faculty of Graduate Studies
and Research in partial fulfillment of the requirements
for the degree of Doctor of Philosophy
September 1993

ISBN 0-315-94684-9

ECONOMIC POLICY AND THE PRIVATIZATION
OF GOVERNMENT CORPORATIONS

ABSTRACT

This is a study about the political economy of redemocratization in less developed countries (LDCs). It investigates the politics and economics of restructuring government corporations, as the Philippines returned to representative democracy in 1986. It does so by adopting an expanded version of theories of rent-seeking to explain choices and implementation of privatization policies. The study challenges most works on privatization which primarily attribute slow progress to economic constraints. Instead, it argues that reformist pressures and implementation barriers obtain from explicit calculations of material and political gain by rent-seeking groups. Private and state-based rentiers significantly determine the substantive content as well as the timing and direction of policy reforms, when they are politically valued by fledgling and beleaguered democratic regimes. But rentierism also multiplies under a democratic regime that seeks to end the economic excesses of one-man rule by re-establishing the primacy of business enterprise. The study suggests that the greater challenge to LDCs is to widen public access to state resources and enhance competitive prowess.

EXTRAIT

Ceci est une étude de l'économie politique de rédémocratisation dans les pays sous-développés (PSD). Il recherche des politiques et économies de restructurer des corporations étatisées comme dans les Philippines qui ont retournés à la démocratie représentative en 1986. Celà se fait par adopter une version extensive de théories de recherche-emprunteur pour expliquer les choix et exécution des règlements privatisation. L' étude défi la plupart des travaux sur la privatisation qui attribut primairement un progrès lentement à l'économie constrainte. Au lieu, il argumente que les reformeurs se forcent pour un changement structurales et exécution de barrières obtenues par des calculs explicite de matériel et de politiques acquis par des groupes de recherche emprunteurs. Des emprunteurs privés et position d'état déterminent significativement le contenu substantiel ainsi que l'ajustement et la direction de réforme politique quand ils sont politiquement estimés pour, par l'inexpérimentation et l'assiéger des régimes démocratiques. Mais l'action d'emprunter multiplie sous un régime démocratique qui cherche à mettre fin les excès de l'économie de règle autonome par ré-établisant la primauté de l'entreprise d'affaires. L'étude suggère que le plus grand défi à la PSD est d'élargir l'accès publique aux resources d'état et de rehausser les prouesses compétitives.

ACKNOWLEDGMENTS

This dissertation is the product of the intellectual and financial support generously extended to me by many people over the course of more than three years.

First of all, I am heavily indebted to my adviser, Professor Filippo Sabetti, for supervising and guiding this study through its various phases, and for making sure that we adhere to predetermined dates of submission of the drafts, the first copy of the dissertation, and the final deposition. The choice of the topic for this study was inspired by an ACIR Monograph on Local Public Economies, which was among the required reading materials in a course I took under Professor Sabetti in the Winter Term of 1990. I am, therefore, also grateful to him for arousing my academic interest in structural adjustment policies.

It is also with deep appreciation that I acknowledge the valuable guidance and encouragement provided by the two other members of my dissertation committee, Professors Baldev R. Nayar and Philip Oxhorn. They were so kind enough to read and comment upon the various drafts of the dissertation in the summer of 1993, when most members of the faculty usually go on vacation. For this reason, I was able to finish on time the necessary revisions.

Secondly, I wish to thank a number of friends in the Philippines, especially key officials under the Aquino administration, for providing me with all the data I needed in conducting this study. Most of these materials were confidential in nature, and I was fortunate enough to have gained access to them through personal contacts.

Finally, this study could not have been undertaken without financial support from the Faculty of Graduate Studies and Research of McGill University, which awarded me a Social Sciences Dissertation Research Grant in 1992 and a dissertation publication grant in 1993. Special thanks are due Professors Jerome H. Black, then the chair of our department, Elisabeth L. Gidengil, then director of graduate studies, and Hudson Meadwell for supporting my application for these fine awards. I am likewise thankful for the administrative support graciously extended to me by Ms. Robynn Wiltshire, former administrative officer of our department, and Ms. Kim Bartlett of the Office of Fellowships and Exchanges, during my entire four years at McGill University.

While all of these people, individually and collectively, deserve a large share of credit for this work, I alone am responsible for all of its contents and shortcomings.

ROGER L. MENDOZA
September 1993

TABLE OF CONTENTS

LIST OF TABLES AND FIGURES

CHAPTER I

INTRODUCTION

> If you can sell it, sell it; if you can't sell all of it, sell a part; if you can't sell any of it, give it away; if you can't give it away, contract it out.
>
> John A. Barnes[1]

This is a study about the political economy of redemocratization in less developed countries (LDCs). We have chosen to investigate the politics and economics of restructuring policies of the kind represented by the privatization of state-owned enterprises. To elaborate on these concerns, it may be best to proceed from the actual experience of the Philippines to the more general theme of public reform in countries undergoing systemic changes.

Privatization is a fashionable policy prescription enjoying a "boom" not only in the Western industrialized world where it originally gained currency, but in LDCs as well. Its force derives from the supposed liberalizing, decentralizing, and democratizing effects. Over time, privatization has also evolved into a summary or "catch-all" term which refers to a wide range of issues concerning public enterprises. With respect to practical policies, it assumes any of the following modes of transferring responsibility and resources for supplying goods and services to the private sector:

1) *divestiture* or "load-shedding" transfers both public provision (i.e., government seeing to it that a good or service is provided or not) and public production (producing or delivering the service to recipients) to private firms. Ownership transfer is undertaken through whole or partial sales of state-owned assets and corporations as well as the abandonment of public, non-market functions;

2) *privatization of public production*, without privatizing financing. The objective is to retain in a government unit the choice of offering a service and the responsibility of arranging for its delivery, while asset management and operations are taken over by the business sector. Contracting out to private firms the delivery of certain public goods, and encouraging private options along with public ones for service, are typical examples;

3) *privatization of public provision or financing*, without privatizing the production function of government. This refers to the substitution of market systems of allocation for non-market systems. The collection of user charges, to replace taxation as a source of financing for a good or service, is often the means adopted in this case; and, more broadly,

4) *liberalization, or alternatively, deregulation*. In its broadest sense, this means reducing or altogether removing the distortions (e.g., price and import controls) which inhibit the full development of a market-oriented economy.[2]

By streamlining the size and scope of government in various forms, privatization is expected to correspondingly reduce the power of public monopolies and to restore competitive market forces to their primary role in economic growth. The market is then said to ensure the dispersion and limitation of power once these monopolies are broken.[3] In terms of its democratizing effect, proponents of privatization further claim that a diversity of "provision" and production units fosters access to several collectivities that can respond to different communities of interest.[4] On the other hand, privatization can relieve government of its fiscal burdens, rationalize its role in development, and improve the administration of programs more appropriate to the public sector.[5] Clearly, the impetus for privatization stems from the growing opposition to the continued expansion of government and the corollary efforts to maximize efficiency through private production of goods and services.[6]

In the Philippines, these concerns gained momentum in the context of political change. Privatization there became part of a broader agenda of "rationalizing" the public sector following the collapse of the Marcos dictatorship in 1986. The newly installed government of President Corazon C. Aquino was committed to disperse power and to provide for popular participation. This engendered the return of formal democratic processes and institutions. A new constitution was ratified by the Filipino people, successive elections at the national and local levels were held, and individual rights were restored. Against the backdrop of rethinking and reestablishing a representative democracy reminiscent of the pre-martial law era, privatization (along with deregulation and trade liberalization) followed, to form the core of the transitional government's strategy for economic recovery and sustained growth.

On 8 December 1986, President Aquino issued Proclamation No. 50. It laid the groundwork of a five-year program (1986-1991) for disposing "non-performing assets of the government financial institutions and certain government-owned or controlled corporations which have been found unnecessary or inappropriate for the government sector to maintain."[7] The divestiture of predominantly commercial enterprises either as physical assets or equity became the operational definition of privatization under this act.[8] Divestiture was meant to ensure "that the private sector is given primacy and the Government assumes a supplemental role in entrepreneurial endeavors under a climate of fair competition."[9]

Among the largest government-owned or -controlled corporations (subsequently referred to as GOCCs) whose assets were slated for sale under Proclamation No. 50 was the Government Service Insurance System (GSIS). The GSIS was transformed from a state trust fund into a giant business conglomerate after Marcos declared martial law in 1972. Within a short period of time, the Marcos-appointed GSIS Board gained ownership of some of the biggest and most profitable GOCCs under its revised corporate charter.[10] These included, among others, the Philippine Air Lines, the Manila Hotel, the Philippine Plaza, and the Stockton real estate in San Francisco, California.

The mid-1980s witnessed increasingly intense criticism directed at the GOCC sector. This came in the wake of the worst economic crisis in the Philippines and public indignation against the excesses of the Marcos regime.[11] Equally important were charges that these assets were but the business enclaves of relatives and close friends of the Marcos family.[12] The economic condition of the GOCC sector in general was most alarming to foreign creditors which had extended loans to many crony-controlled parastatals.

Before Marcos could embark on his own privatization program, however, the

People Power revolution deposed him from the presidency. It therefore fell upon the Aquino administration to implement the divestiture of GOCCs.[11] Unfortunately, privatization under Aquino encountered unforeseen problems, criticisms or resistance from various sectors, and procedural delays. Aside from conflicting assessments of the international environment, the debate in the Philippines pitted opposing views on the propriety and efficacy of government corporations as state agencies and market participants, as well as on the economic and social consequences of their sale to foreign investors and local business elites.

The obstacles to privatization contributed to internal factionalism within the loose coalition of parties and groups that initially united behind a common desire to overthrow the dictatorship. Aquino's administration engaged in partisan squabbles and endless bickerings over the substantive content and implementation of reform policies. As political disunity developed, a crisis of legitimacy seemed to surface on the basis of Aquino's failed promise to end corruption and to provide people their basic material necessities.

Statement of the Problem

The privatization of state-owned enterprises in the Philippines raises a host of interrelated issues and interesting practical and theoretical questions for public policy and redemocratization: What is the meaning of privatization in terms of its ideological, economic, and political underpinnings in the Philippines? What factors account for the choice of this and similar policies of structural adjustment? Is the GOCC sector a truly public sector, considering that income and wealth are highly skewed in favor of the upper classes who control government, and foreign capital has traditionally been a key actor in the Philippine economy? How committed is a fledgling democratic government in regulating the market and addressing the multifarious problems related to divestiture? Finally, what does the Philippine case of "privatization" tell us about the policy choices available to LDCs as they attempt to grapple with such problematic issues?

The objective of this study is to provide answers to these questions by critically examining attempts to reorganize public and economic life in the Philippines after authoritarian rule and the challenges faced by the new leaders. More precisely, the study seeks to explain both the rationale and motives behind the choice of privatization policy by the Aquino government and the major barriers to, or trade-offs in, its implementation. Part of the overall objective is to advance understanding of whether or not, and how, restructuring efforts of this kind can contribute to the process of democratic renewal in LDCs.

Many policy prescriptions are themselves no more than metaphors. An assertion that market solutions -- or state intervention, for that matter -- are imperative tells us little or nothing about how property rights are to be defined, how the various attributes of the goods involved will be produced and measured, who will pay for the costs of, and profit from, such solutions, or how conflicts over rights may be adjudicated.[14] Relying on a metaphor like privatization as the foundation for policy can lead to results substantially different from those presumed to be likely. Hence, this dissertation aims to: 1) provide a historical overview of how most Philippine public enterprises approved for divestiture were acquired by the state and fostered the rapid expansion of the GOCC sector under one-man rule; 2) inquire into the substantive content of privatization policy formulated amidst competing interests within a regime that seeks to restore political democracy and remould economic policy along free-market lines; and 3) determine the structural and political impediments to the pace and extent of privatization in a resurgent democracy. Posing the theoretical and empirical concerns in this manner should permit us to explore the implications of public policy for democratizing economic opportunities in LDCs like the Philippines.

Hypotheses of the Study

Taking into consideration the questions that guide this inquiry, we hypothesize that political lobbying for and against privatization will be substantially driven by explicit calculations of political and economic gain, rather than by a concern for abstract concepts of efficiency. This is because the lines of struggle usually reflect the distinct interests of organized groups in LDCs. We can, perhaps, expect bureaucratic interests and labour to be the major source of resistance to privatization, since they presumably benefitted from an overextended public sector under authoritarian rule. Conversely, those disadvantaged by the growth of this sector would likely advocate market solutions that seek to restore private entrepreneurship. If the pressure from the potential losers outweighs the support from those who will subsequently gain from privatization, we predict that the program is likely to be modified or aborted.

The central issue in devising privatization policy, then, should not be how to foster competition and take assets out of state control, but whether or not, and how, governments can subject those who control them (public or private) to effective sanctions. We see this as especially crucial in developing countries. Privatization could inevitably result in a significant degree of monopoly or monopsony power on the part of organized domestic and transnational business interests. Alternatively, privatization can have adverse effects on labour when transfer of asset ownership is pursued. It may be difficult, or in some instances inappropriate, to divest state-owned assets without a corresponding change in the structure of ownership and markets in LDCs.

We thus posit the view that any project concerned with "adjustment," broadly defined, has to start and finish with the political element in the process of social reconstruction. More specifically, we hypothesize that the extent to which governments can design and enforce appropriate rules on how competition within the marketplace should be organized largely determines the viability of market solutions. Privatization should not necessarily be construed to mean an abrogation of political authority or the abandonment of public goals. What such a policy instead calls for is a different governmental role in organizing and maintaining decentralized markets that can still align the publicly desirable with the privately profitable, rather than dictating the "right" market results.

A corollary assumption of this study, however, is that state effectiveness depends not only on sufficient resources, but on the balance of social and political forces supportive of the state itself.[15] This critical balance emerges out of perceptions of costs and benefits as well as the relative strength of the forces involved. In this respect, "the examination of policy outcomes requires focus on the dynamics of state-society interaction rather than state-society separation that goes with the blunt category of state capacity [based on a weak state-strong state dichotomy]."[16] Such a conception of government intervention in the marketplace allows us to assess the extent to which a fledgling and beleaguered democratic regime carried out structural reform in the Philippines.

Significance of the Study

The significance of this study is two-fold. Empirically, this study may be the first of its kind on the privatization (or divestiture) program of the Aquino administration which legally ended on 16 August 1992. To date, there seems to be no scholarly inquiry into this crucial policy area, despite the current academic and political clamor for more discriminating application of privatization in the Philippines.[17] This research thus has the potential of shedding light on the peculiarities of the Philippine political economy and the policy constraints it shares with other LDCs. It can also enlighten ongoing debates surrounding alternative market rules and modes of structuring public organizations by delving into the role and adequacy of government interventions in competitive markets. Such research should help LDC policy-makers avoid seemingly facile, Western-based market solutions or arrangements which can lead to recriminations later.

Theoretically, this kind of study delineates the complexities of political and economic relationships interwoven in policy choices and implementation in Third World countries. More specifically, the objectives of this dissertation project permit us to examine how certain forces and interests, particularly in a (re)nascent, elite-ascendant democracy, restrict or expand structural adjustment and, conversely, whether such policies have the potential of strengthening democracy in the sense of broader popular participation in the development process and greater equity in rules of ownership and exchange.

Methodology of the Study

To address the challenges to the Aquino government's efforts at rebuilding democracy and restoring public confidence in government, this study examines the privatization of all seven (7) subsidiaries of the GSIS. The criteria employed in selecting the GSIS -- among several other parent corporations -- were case manageability and representativeness of the hundreds of non-performing assets and GOCCs covered by Proclamation No. 50. Seven public enterprises should suffice in examining the magnitude and complexity of the problems and issues which attended their divestiture as well as intermeshing political and economic interests represented therein. On the other hand, diversity in character, functions, and methods of corporate privatization enrich the analysis of the role of government interventions in the marketplace.

The GSIS subsidiaries under review include the following:

Table I.1
GSIS Subsidiary Corporations by Activity and Equity

Subsidiary	Area of Activity	% GSIS Equity
Arconal NV	Real Estate (U.S.)	100
Commercial Bank of Manila	Commercial Banking	99.9
Hotel Enterprises of the Philippines, Inc.	Hotel Management	99.5
Manila Hotel Corporation	Hotel Management	100
Meat Packing Corporation of the Philippines	Meat Processing and Packing	100
Philippine Airlines, Inc.	Commercial Aviation	15-96*
Philippine Plaza Holdings, Inc.	Hotel and Convention Center Management	100

*Total state equity was gradually reduced between 1977 and partial divestiture in 1992.

Fieldwork conducted in the Philippines yielded sufficient data on these subsidiaries. Primary data, often classified as highly confidential, consisted of the following: 1) documentary information from the GSIS corporations (in the form of corporate profiles, audit certificates and financial statements, privatization prospectus, progress reports, and official correspondence) and from other local sources (e.g., transcripts of closed-door Cabinet sessions, deliberations and reports of congressional investigating committees, court decisions, and reports of the Committee on Privatization); 2) briefing papers and studies prepared by multilateral lending institutions for the GSIS and other national government offices; 3) vital legal documents (pertinent legislations, stock purchase and sale agreements, etc.); and 4) personal and phoned-in interviews with heads of the GSIS subsidiaries and government officials responsible for implementing Proclamation No. 50, where certain information required clarification or sharing of their own views. Privileged information was mostly obtained through personal contacts with top officials of the Aquino administration.

Secondary data have come mostly in the form of library materials, particularly journals and newspapers. A complete list of all sources of data is appended to this dissertation.

Data-analysis relied on content analysis and cross-case comparisons of the seven GOCCs under review. Document analysis entailed the examination of various executive and administrative orders and regulations as well as pertinent legislative enactments to define the substantive content and intent of Philippine privatization policy. Comparative studies on the GSIS corporate holdings were undertaken in terms of the following: 1) the evolution, changing role, and scope of the GOCC sector in the Philippines (i.e., its legal and policy framework, development impetus, the rationale and motives behind its establishment and streamlining in a time of political change, and the structure of ownership and markets); 2) corporate performance (financial and distributional) vis-a-vis the divestiture modes set by the GSIS, the Committtee on Privatization, and other concerned government agencies; and 3) the incentives and constraints to divestiture as a policy instrument in LDCs undergoing political redemocratization. Empirical data appear in the form of frequency (univariate and bivariate) tabulations and illustrative figures.

Organization of the Dissertation

The rest of the dissertation consists of seven chapters, each, in turn, divided into several sections. A synopsis is provided for each chapter.

Chapter 2 reviews the literature on privatization. It seeks to highlight issues that may offer direction to the study and to overcome any theoretical or empirical obstacles in examining divestiture both as a political and economic reform process. Building on this literature, we suggest the need for an approach that integrates economic, political, and administrative analyses of policy reform. Such a holistic approach should also consider policy changes that may be realistically prescribed, adopted, and carried through in a period of political change.

Chapter 3 provides an overview of the rapid expansion of the public enterprise sector under authoritarian rule. By looking into the development model that was implanted in the Philippines between 1972 and 1986, the discussion challenges the prevailing conception of cronyism simply as the mode for survival of the Marcos regime. This is followed by Chapter 4 which presents the case profiles of the seven subsidiaries of the GSIS based on policy justifications for state ownership or control, the ends they served for a dictatorship that thrived on cronyism, and their developmental performance.

We seek to explain reform policy choices and patterns of policy development in Chapter 5. This is divided into three parts: 1) the overt and covert motives of national politicians and technocrats, big business groups, multilateral lending agencies, and labour behind divestiture policy; 2) the concentration of power in a highly fractious coalition, which facilitated control of the levers of economic decision-making by the pro-business faction in the Aquino Cabinet; and 3) the substantive content of privatization policy, as it was envisioned within the broader framework of economic recovery. Cross-case comparisons are done in this chapter.

Chapter 6 once more deals individually with the GSIS subsidiaries, by way of following up the progress or impediments in their denationalization. It portrays the interplay of private domestic and international rent-seekers in the sale of these entities, which was tackled in general terms under the fifth chapter. This way, we highlight privatization's financial costs and losses, issues of accountability and preferential treatment, and the complexities of economic and political relationships in implementing restructuring decisions in LDCs.

The cases we present in Chapter 7 contrast sharply with those in the previous chapter, since they represent instances of failed divestiture. This chapter examines the chronic problem of rent-seeking among state-based groups, and the policy responses of the Aquino government. In so doing, we can further explore the limits imposed by the social context on public access to state resources and the competitiveness of the marketplace. The evaluation of privatization's democratic potential thus links the empirical findings in Chapters 5 and 6.

The final chapter summarizes the prospects of privatization and redemocratization in the Philippines, and elsewhere in the developing world. It finds that reform policies often have reverse redistributive effects, when cronyism is replaced with the private economic power of a new set of elites who control the policy-making process as well. We then underscore the inadequacies of government intervention in highly skewed markets, before providing recommendations for further investigation based on the theoretical insights gained therefrom.

NOTES

[1]John A. Barnes, "The Failure of Privatization," **National Review**, July 18, 1986, p. 40. Barnes made this remark by way of summarizing the approach incorporated in Madsen Pirie's famous work on privatization, entitled **Dismantling the State**.

[2]See Yair Aharoni, **The Evolution and Management of State-Owned Enterprises** (Cambridge, MA: Ballinger, 1986), p. 316; David Heald, "Privatization: Policies, Methods and Procedures," in D. Heald, ed., **Privatization: Policies, Methods and Procedures** (Manila: Asian Development Bank, 1985), p. 57; and Ted Kolderie, "Two Different Concepts of Privatization," **Public Administration Review** 46 (July-August 1986): 285.

This dissertation also reviews the literature on forms of privatization in the first section of Chapter II.

[3]See the following works of James M. Buchanan on public-choice theory for an excellent outline of the theoretical underpinnings of privatization: "Rights, Efficiency and Exchange: The Irrelevance of Transaction Costs," in J.M. Buchanan, ed., **Liberty, Market and State** (Brighton, Sussex: Wheatsheaf Books, Ltd., 1986), p. 92; "Liberty, Market and State," **Economic Impact** 58 (February 1987): 39; and "Justification of the Compound Republic: The **Calculus** in Retrospect," in J.D. Swaltzey and R.E. Wagner, eds., **Public Choice and Constitutional Economics** (Greenwich, Conn.: Jai Press, Inc., 1988), p. 131.

The basic premises of public-choice theory, insofar as they bear on the choices and substantive content of economic adjustment policies like privatization, are explored in the latter part of Chapter II of this study.

[4]See Samuel Paul, "Privatization and the Public Sector," **Finance and Development** 22 (December 1985): 4.

[5]This argument in favor of the supposed benefits of privatization to government is well developed by E.S. Savas, **Privatizing the Public Sector: How to Shrink Government** (Chatham, NJ.: Chatham House, 1982); and **Privatization: The Key to Better Government** (Chatham, NJ.: Chatham House, 1987). Both editions discuss why and how a catch-all policy like privatization has been adopted in different forms by the federal/national and local governments in the United States and elsewhere in the industrialized world.

[6]Janet Rothenberg Pack, "Privatization of Public Sector Services in Theory and Practice," **Journal of Policy Analysis and Management** 6 (Summer 1987): 539.

[7]Proclamation No. 50 (8 December 1986), Article I, section 1. Proclamation No. 50-A (15 December 1986) amends some provisions of Proclamation No. 50 relating to the meetings of the Asset Privatization Trust.

[8]*Ibid.*, Article II, section 4.

[9]*Ibid.*, Preamble.

[10]See testimony of GSIS President Feliciano R. Belmonte, Jr., Transcript of Stenographic Notes, Committee on Government Corporations and Public Enterprises, Senate, 7 October 1987, p. 4. Belmonte revealed that its trustees under the Marcos regime "heavily committed" the GSIS to "showcase projects" in wanton disregard of its investment priorities.

[11]A comprehensive scholarly account of the Philippine economic crisis which was aggravated by political turmoil after the assassination of Sen. Benigno S. Aquino, Jr., top opposition leader and Marcos' archnemesis, is provided by the U.P. School of Economics, **An Analysis of the Philippine Economic Crisis** (Quezon City: University of the Philippines Press, 1984). This so-called "White Paper" on the Philippine economy was influential in convincing the Marcos government to reform the GOCC sector.

[12]"Public-sector workers' trust fund moves into a surplus: Management benefits," **Far Eastern Economic Review**, 12 January 1989.

[13]Multilateral pressure to reform the GOCC sector in the Philippines led Marcos to promulgate Presidential Decree No. 2029 (4 February 1986) entitled, "Defining Government-Owned or Controlled Corporations and Identifying their Role in National Development," and Presidential Decree No. 2030 (6 February 1986), "Providing for the Orderly Disposition of Certain Assets of Government Institutions." These were two of the last decrees signed by Marcos before his ouster on 25 February 1986.

For a wider account of external influences on public enterprise policy in the Philippines, see Leonor M. Briones and Aileen R. Zosa, "Privatization of Public Enterprises in the Philippines: Policy and Implementation," country paper presented at the Project Planning Meeting, Asia-Pacific Development Center, Kuala Lumpur, Malaysia, 2-4 April 1988.

[14]Elinor Ostrom, **Governing the Commons: The Evolution of Institutions for Collective Action** (Cambridge, England: Cambridge University Press, 1990).

[15]This is well-argued by Baldev Raj Nayar, "The Politics of Economic Restructuring in India: The Paradox of State Strength and Policy Weakness,"

Journal of Commonwealth and Comparative Politics 30 (July 1992): 145. The author examines variant outcomes in the restructuring initiatives of the Rajiv Gandhi administration, by adopting a four-fold typology to determine whether policy costs and benefits are widely distributed or narrowly concentrated. He finds that support for (or resistance to) economic reforms depend on the distribution of costs and benefits to politically important groups. Political support, in turn, is an important source of political legitimacy and is, therefore, critical to policy success.

[16]*Ibid.*, p. 146.

For a more exhaustive treatment of this weak state-strong state dichotomy, see Theda Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research," in P.B. Evans, D. Rueschmeyer, and T. Skocpol, eds., **Bringing the State Back In** (New York: Cambridge University Press, 1985); M.M. Atkinson and William D. Coleman, "Strong States and Weak States: Sectoral Policy Networks in Advanced Capitalist Economies," **British Journal of Political Science** 19 (September 1989): 47; and William D. Coleman and Grace Skogstad, "Policy Communities and Policy Networks: A Structural Approach," p. 14, and "Conclusion," p. 312, in W.D. Coleman and G. Skogstad, eds., **Policy Communities and Public Policy in Canada: A Structural Approach** (Cooksville, Ontario: Copp Clark Pitman Ltd., 1990).

In contrast, Nayar points to the inadequacy of this predominant concept of state capacity, as it "tends to overdraw the separation between state and society whereas what may be important for explanation is the nature of the institutional structure lying, as an ordering mechanism, at the intersection of state and society." (pp. 145-146) Moreover, he suggests that a cost-benefit distribution model has the added potential of capturing the interaction between political legitimacy and other determinants of state capacity like political culture, ideology, and leadership.

[17]See, for example, the initial studies done on the Philippine privatization experience by Stephan Haggard, "The Philippines: Picking Up After Marcos," in R. Vernon, ed., **The Promise of Privatization** (New York: Council on Foreign Relations Inc., 1988), p. 91; and Leonor M. Briones, "Issues on the Privatization Policy in the Philippines," **Philippine Journal of Public Administration** 33 (January 1989): 31. Both authors provide preliminary assessments of the political and economic issues encountered by the Aquino administration during the first year of divestiture.

CHAPTER II

POLITICAL AND ECONOMIC EXPLANATIONS OF PRIVATIZATION

> Political realities may prevent the "right" policy from being adopted, even when it has been clearly identified.
>
> Richard G. Lipsey *et al.*[1]

> .... the LDCs contain within them as much variance in economic characteristics as that existing between them and the advanced industrial countries.
>
> Henry S. Bienen and John Waterbury[2]

This chapter is divided into two parts. The first section reviews what has so far been written about privatization in less developed countries (LDCs). Then, we incorporate the "structural-institutional" and "political" approaches of the literature into a rent-seeking perspective in the next section. The type of analysis we propose for Philippine privatization policy offers a coherent and inclusive theoretical and research base on which to build a more effective practice in LDCs.

An Overview of the Literature on Privatization

In recent years, the literature on privatization has extended the academic debate to whether certain economic and social activities are most effectively performed within public or private institutions. The primary issue here focuses on what existing governmental activities should or should not be privatized and, relatedly, what costs are involved or what criteria should be considered in making the decision. A corollary issue seems to be what configuration of organizations, public and private, is needed and what arrangements between them provide the most effective relationships to perform needed services. These issues are a departure from initial concerns with eliminating or reducing the "natural monopoly" enjoyed by national governments in the delivery of a variety of goods.[3]

The current intellectual focus on organizational capacity for service delivery is represented by some of the best-known works on privatization in Western industrialized countries. They include those of John Kay, Colin Mayer, and David Thompson,[4] Robert Fraser,[5] and more recently, Dexter Whitfield[6] on Great Britain; E.S. Savas[7] and John Donahue[8] on the United States; John Vickers and Vincent Wright[9] on Western Europe; and Paul McAvoy,[10] J.J. Richardson,[11] and Ezra N. Suleiman and John Waterbury[12] on comparative privatization experiences in the U.S., U.K., Canada, West Germany, and France. Case studies or cross-case comparisons of country and sectoral experiences in privatization have been done in these works.

These authors agree that -- as a result of growing recognition that the market may work well for certain social purposes but not so well for others -- privatization has assumed several meanings even in developed countries. Donahue, for example, forcefully argues that concentration of ownership has long plagued American capitalism and diminished the presumed efficiency advantages of ownership transfer from the public to the private sector. Kay *et al.*, McAvoy, and Suleiman and Waterbury further raise interesting questions of allocation and distribution. Among others, these include extreme income inequalities that do not lend themselves well to market solutions. Then, there is also the growing body of scholarship on the privatization of local public services (especially urban social services). Most authors under this theoretical subset claim that democratic values of citizen participation and volunteerism are eroded, as acquisitiveness and competition become uppermost in the personal quest for economic advancement. Consequently, poor and disadvantaged members of society become increasingly segregated, and thus more politically vulnerable.[13] These authors find that purely market-oriented solutions frequently come into conflict with social goals. For this reason, governments have innovated and introduced other forms of privatization, apart from the divestitures (or asset sales and liquidations) pioneered by the Thatcher government in the United Kingdom.

The works surveyed, however, indicate a trend toward less privatizations of the **provision** or financing function (i.e., government seeing to it that a service is provided or not), than of **production** or actual service delivery. Such a trend is held reflective of the greater demand for improved efficiency and cost savings, by introducing some alternative to the traditional government monopoly.[14] A few scholars like Ted Kolderie even conclude that privatization in the U.S. has largely become "simply a new name for contracting."[15] Still, Robert W. Bailey[16] insists that the goal of maximizing productive efficiency is a clear unifying thread in the literature on developed countries, despite the different, emergent modes of privatizing service delivery.

The aforementioned scholarship helps us gain a more sophisticated understanding of the scope and rationale of privatization. In adopting both a country and sectoral approach to the Philippine experience, we may examine the relevance of market solutions on the basis of prevailing structural and economic realities in LDCs. Such methodology helps eliminate certain conceptual obstacles in defining the characteristics as well as the limits of divestiture or "load-shedding" in these countries.

Lately, a group of scholars have, in fact, drawn attention to the need to further place privatization policies in their proper social or developmental context. In underscoring a different set of market-based incentives and constraints to privatization decisions and outcomes in LDCs, they qualify contemporary Western discussions about the performance of public functions or the shared relationships between the public and private sectors. The more notable works on LDCs are those edited by Steve H. Hanke[17]; Paul Cook and Colin Kirkpatrick[18]; Raymond Vernon[19]; Jacques Pelkmans and Norbert Wagner[20]; William P. Glade[21]; and Christopher Adam, William Cavendish, and Percy S. Mistry.[22] Individual country studies include those by T.L. Sankar and Y. Venugopal Reddy[23] on India; Clare E. Humphrey[24] on Bangladesh; Hacene Boukaraoun[25] on Algeria; and Barbara Grosh[26] on Kenya.

Reforms of state-owned enterprises have come at a time when not only is there a concern for their poor performance, but a perceived change in approach towards development policy and process. Many of the country and sectoral cases contained in Cook and Kirkpatrick, Vernon, Pelkmans and Wagner, and Glade's two volumes indicate disillusionment with state planning and large-scale government intervention. This situation, coupled with massive foreign indebtedness, has supported a general shift in the dominant paradigm towards a neo-classical, market-oriented view of development. "Neo-orthodoxy" has called for a reduction in the size of the public sector, the removal of government regulations and controls, and greater reliance on the price mechanism for allocating resources. In turn, the authors find that this renewed conservatism has had a profound effect on specific policy proposals made for the public enterprise sector.[27]

Though the policy affinities are suggestive, Glade and his co-authors point to some rather critical differences among LDCs, particularly in respect of the policy environment. These are best exemplified by the Southern Cone countries. In both Chile and Peru, for example, divestiture surfaced in the aftermath of periods in which a huge, and ultimately indigestible, share of the country's economic enterprise had been dumped rather abruptly on weak public-sector management systems. The public sector in these countries proved incapable of absorbing economic enterprise smoothly and effectively. Felipe Ortiz de Zevallos[28] suggests that Peruvian divestiture began under the military regime and continued somewhat desultorily under the successor-civilian administration of Belaunde because it did not threaten military interests. Military ambivalence is largely attributed to the failed statist reforms which Velasco introduced with the support of a center-left reformist bloc of generals. In contrast, Jorge R. Marshall[29] argues that the Chilean public sector, prior to the frenzy of Allendista appropriations, had already grown to a moderately substantial size. When the impulse to privatization came, it was in the wake of the widespread political disorder and administrative breakdown of the last months of Allende's rule, not to mention the severe political repression that followed. Removing traditional democratic hurdles allowed Chile to move fastest and farthest in privatization among all LDCs, as well as to take the lead in experimenting with various modes and procedures.

Conversely, nowhere are the pitfalls posed by the complex web of interests that built up around the statist tradition more plainly illustrated than in Argentina. While "private-sector privatization" schemes contributed over time to gradual "de-ideologization" of the process in Chile (as it was increasingly seen to be linked to capital formation and, eventually, employment growth),[30] Argentine (re)privatizations have stalled. Javier A. Gonzalez Fraga[31] describes the case for preeminence of politics as especially strong, when so much of the private sector appears historically wedded to an intricate scheme of rent-seeking behavior in the state-owned sector.[32] More so in the context of a fragmented electorate and stalemated politics, the public bureaucracy is able to strongly influence the outcome of events. This is particularly the case when (re)privatization has been structured as cumbersomely and opaquely as it has in Argentina.[33]

Therefore, a common finding which emerges from the literature on LDCs is that actual divestiture has been modest in terms of both pace and scope. Even within the wider definition of privatization used by many LDCs and newly-industrialized countries (NICs) to encompass joint ventures, private-sector management in parastatals, and better regulatory alternatives, change has been slow. Little implementation of privatization in practice appears to be the trend in these countries. This reaffirms initial findings that public enterprise reform, rather than privatization, is likely to be the major focus of attention in public policy.[34] Some like Vernon, Pelkmans and Wagner, Grosh, and their respective co-authors see little evidence of a shift in political sentiment so fundamental as to restrain the creation of a new crop of LDC or NIC parastatals in the near future.

Slow pace and lack of implementation are attributed by these authors to a variety of predominantly economic factors that we shall also look for in the Philippines. These include: the constraints on changing ownership, given the problem of determining appropriate valuation of state assets and the unsettled debts of these assets; the difficulty of disposing public enterprises owing to insufficiently developed capital markets; the associated difficulty of finding large buyers; and uncertainty as to the economic benefits to be derived from privatization, where these concern attempts to increase economic gains from enhanced levels of competition. In addition, the looseness of the regulatory framework in most LDCs is viewed by Adam *et al.*, as disruptive, rather than supportive, of privatization efforts; others find poor timing and phasing of privatization or complementary adjustment efforts essentially a function of inadequate political intervention in the marketplace.[35]

The foregoing considerations cast doubt on the claim that privatization will result in a more efficient use of resources.[36] They cast even more serious doubts on the transferability of the advanced industrial democracies' experience to many Third World countries. One important implication we can draw from the literature on LDCs/NICs is that, if the principal objective of privatization is to achieve gains in public enterprise performance, the policy priority should then be to increase market competitiveness, not necessarily to transfer productive activities to the private sector. While the case for market solutions is usually a very powerful one, the conditions necessary for them to be both appropriate and successful are shown to be rather restrictive in the context of underdevelopment.

A second implication is that the effectiveness with which resources are utilised to meet broader objectives of public enterprise reform will also depend on careful consideration of a country's or region's political economy. The unique politico-legal framework of much of Latin America and the immensity of the debt problem there, for example, help explain why the pressures of multilateral institutions are far more pressing and experimentation with debt-equity swaps far more common.[37] External pressures are also obvious in all countries of sub-Saharan Africa. But the works on Africa point to more cases of "distressed privatization" resulting in closures and liquidation on a large scale. This is especially true when repressive regimes preoccupied with the short-term consideration of holding on to power "go to the brink of economic collapse ... before remedial measures are taken."[38] Structural-institutional analysis[39] is thus instructive for the purposes of our study, as it shows how careful one should be with generalizations based on a country or a regional group of countries. Such perspective illuminates the richness of the menu of regulatory regimes and the outcomes of very different national and regional market experiments.

The literature on LDCs/NICs, we have so far reviewed, concentrates on detailed assessment of the economic costs and benefits of restructuring policies. While structural and institutional variables in parastatal reform have been predominant, a few scholars argue that economic analysis is not sufficient either to explain why the practical implementation of adjustment policies has made limited progress, or to provide an appropriate set of recommendations for future state action. For them, inadequate attention paid to political and administrative realities by LDC policy-makers better explains low levels of policy feasibility, low levels of policy effectiveness, or neglect of viable alternative policies like parastatal rehabilitation.

Humphrey's book on Bangladesh is the first in-depth analysis of one country's overall experience with privatization. He concludes that adjustment policies are "often more influenced by political issues than by strictly economic considerations."[40] The pervasive influence of major commodity producers -- and their alliances with factions of the military and a weak bureaucracy -- is found to have brought about self-contradictory and haphazardly implemented economic programs since independence. Indecisive regimes thus "shifted course, vacillated, plunged forward, and pulled back in the face of opposition."[41] The government's failure to come to terms with political reality and exert the influence it should over powerful, warring elites, according to Humphrey, explains the marginalization of divestiture in Bangladesh.

Richard Sandbrook[42] supports Humphrey's findings. He posits the view that resistance is likely to be stronger (and either more costly, or more effective in preventing privatization) in LDCs such as those of Africa, where parastatals often constitute patron-client networks. These networks lead back directly into political and bureaucratic elite groups responsible for policy reforms. In cases like these, Sandbrook argues that political commitment will be weak and bureaucratic responses reluctant.[43]

Two other works by Joan M. Nelson *et al.* also deserve to be reviewed, even if they do not specifically deal with privatization. Yet, they also restore to the centre-stage discussion of political and administrative influences that appear to be crucial determinants of reform implementation in LDCs/NICs.

Nelson's 1990 collection[44] reveals that cases of half-hearted reform, narrow stabilization efforts, or even failed attempts at structural adjustment among LDCs vary along three dimensions: timing, scope, and content. The role of external agencies -- while important to the details of particular cases -- is less important than two sets of domestic actors in determining adjustment choices and actions: 1) business elites (and their ties with foreign capital); and 2) the state machinery itself (i.e., political leadership and its support bases, together with the technical capacity of states in policy execution). Except in a few countries like Argentina, the authors find that repression and wage compression have significantly reduced the oppositional strength of organized labour and agricultural interests to restructuring initiatives.[45]

The contributors to Nelson's 1989 volume,[46] on the other hand, assess market-oriented efforts vis-a-vis alternative adjustment strategies in LDCs. The editor concludes with a paradox: Neo-classical advocates argue that economic liberalization requires a diminished, less interventionist state. Yet, it has become increasingly evident that resumed and sustainable growth also requires increased state capability -- not so much a less powerful state as one that plays different roles and does so more effectively.[47]

The paradox is explored by all six authors. John Waterbury[48] finds most LDCs sharing a "reform syndrome" that arose from a legacy of economic decline and political decay or acute challenge. Even where there is public consensus behind economic reform, tactics and strategy can spell the difference between effective and failed reform efforts. Laurence Whitehead[49] and Thomas M. Callaghy[50] join Waterbury in conceding that compensatory payments to the most politically potent losers are often essential, even where such payments conflict with equity considerations and economic efficiency in a narrow sense. Stephan Haggard and Robert R. Kaufman[51] further argue that long-haul economic liberalization must be pursued jointly with other goals, but it entails compromises to accommodate those goals. In short, the authors see skillful bargaining to be typical of simultaneous processes of political change and structural adjustment.

The implication we can derive from this set of studies is that responses to pressures for privatization will be determined not so much by economic criteria, as by the political and bureaucratic resources available to decision-makers. A corollary implication seems to be that for effective policy changes to take place, economic rationality must be supported by political will. That political will, in turn, must be able to command organizational obedience. It is the neglect of these critical insights which seems to be the greatest weakness in the structural-institutional analysis of privatization in LDCs/NICs.

This study thus proposes to employ both "structuralist" and "political" perspectives in order to come up with a holistic understanding of privatization policy in the Philippines. Our concern here is to produce a more balanced explanation than is usually offered of the economic reasons for the halting progress towards divestiture. Neither policy nor explanation can be adequate without due recognition of the political and administrative constraints that condition the effectiveness of structural adjustment. A broader framework should be one which does not only overcome the limits of a predominantly economistic model, but does full justice to the complexity of economic reform in the real political environment. Moreover, such a framework should lend itself to being sensitively applied to differing political systems, by indicating how policy decisions are closely related to the political and institutional development in each country.

Rentierism: A Framework for Analysis

It is necessary to construct an integrated framework if we are to capture the complexity of economic and political interactions at different stages of policy development. Such a framework ought to incorporate the economic postulates of privatization based on efficiency and competition. But it should then proceed to consider the significance of non-economic factors, particularly those identified with "politics."

Politics, however, must be treated much less crudely or sceptically than is customary in the structuralist literature previously cited. To gain a better appreciation of the weight this study attaches to political variables, we trace the privatization experience of the Aquino government as it unfolded in three arenas: 1) the policy-making process, from policy formulation to policy evaluation; 2) the political system or type of regime which affects the choice of decisions and actions that emerge from the process; and 3) the legal-administrative system which is responsible for the implementation and evaluation of such decisions and actions. What should happen (in terms of formal plans, rational solutions, external donor preferences) is invariably subordinated to, and conditioned by, these political and bureaucratic processes. They determine what, in practice, actually does (or does not) happen.

Our case studies of the Government Service Insurance System (GSIS) and its subsidiary corporations weave back and forth between these arenas, each with its own internal dynamics, and each interacting with the others. A concept we find useful for case analysis is **rentierism**. It is a form of predatory rule. It traces its conceptual origins to public-choice theory.[52] In Anne O. Krueger's seminal work, **rent** is a return to capital that exceeds normal profits, as defined by the market equilibrium.[53] We expand this definition to include payments to individuals that exceed the minimal or equilibrium level required to elicit their participation. Rents are frequently seen only in material terms. But they may also be related to power or prestige,[54] as we highlight in this study. In any case, rents can be distinguished from profits or interest in three major respects. First, rents are additional or higher income and returns that are **unrelated to the contribution of the concerned individuals and firms.** Secondly, rents **derive from artificial barriers to an industry or situation that does not approximate the ideal of pure competition.** Finally, these rents are legitimately or illegitimately extracted **at the expense of the state and/or society in general.**[55]

Such a generalized version of rentierism provides a helpful means to understand the debate and decisions about privatization and to analyze the behavior of participants in the reform process. This is particularly evident in the Philippine case, where the sharpest political disputes over divestiture surrounded commercial assets with the greatest potential for rents.[56] These are the ones that private entrepreneurs and public officials alike were most anxious to appropriate for themselves, after traditional channels of competition and exchange were reopened by the Aquino government.

A significant issue in considering the democratic potential of privatization is how rents are distributed. Authoritarian rule encouraged **non-competitive or monopoly rent-seeking** through an overextended public sector. This effort resulted in protection of position or incumbency advantages (e.g., higher salaries and the "shirking" that overstaffing permits), restriction of competition, patronage, corruption, and organizational slack (in the form of perquisites, fringe benefits, and other comforts). The downfall of the dictatorship and divestiture of most state-owned assets failed to eliminate rentierism altogether. Rents from privatized assets still arise when potential buyers are averse to risk, in which case risk premia must be paid by government to compensate them; when competition among capital investors is minimal and the winning bidder realizes greater returns than normal; or when government has pertinent information that is not shared with potential buyers, which enables it to extract as much rent from these buyers as possible.[57] **"Competitive" rent-seeking** under Aquino should then be examined in terms of accessibility to public resources and market competitiveness.

Deliberations about structural reforms will be more productive if models of individual and institutional behavior focus on the creation, preservation, and dissipation of rents.[58] In the workings or dynamics of these forces lies the heart of the political economy analysis required to assess efforts in broadening popular participation in the processes of development and governance. We seek explanations for privatization decisions and actions relating to the GSIS subsidiaries in four sets of causal factors: 1) the crisis of the public enterprise sector, as it was interpreted in the light of pre-Marcos trends and the crisis of authoritarian rule; 2) internal and external sources of reform pressure on the new, democratic leaders; 3) the circumstantial patterns of leadership and support bases, including general regime type; and 4) the government's capacity to regulate the marketplace.

Apparently, these factors interact and overlap. But they refine a framework for establishing why policy response and effectiveness -- particularly where change in the boundaries of the government, and therefore, in the authority and resources of political leaders is involved -- will be primarily driven by efforts to capture and control the distribution of rents. We briefly turn to each of these parameters.

The Crisis of the Public Enterprise Sector

The interlocking political and economic crises in the 1980s set the stage for the downfall of Marcos and the transition to political democracy under Aquino. The public enterprise sector clearly reflected the magnitude and complexity of that crisis, since it bred crony-rentierism and contributed immensely to the country's staggering foreign debt.

This study is concerned, in particular, with the general connection between mounting economic pressure and governmental reactions. In providing a historical overview of state entrepreneurship, we examine how the characteristics of non-competitive rentierism shaped adjustment responses. What objectives and assumptions were incorporated into privatization and other rehabilitation strategies by Aquino's government? Are these objectives and assumptions also reflective of certain rentier interests in the Philippines? And to what extent can divestiture promote the democratic goals of people empowerment and greater economic and political opportunities for the masses, as promised by Aquino?

The nature of the crisis of authoritarianism can not be taken in isolation, however. The scale and level of development of the Philippines also affect the outcomes of policy reforms, more than the choices of such policies. Considerations of the existence, stability, and suitability of market environments are necessary to understand how they confer incentives or create constraints on public and private rentiers in the divestiture process. In so doing, we may also determine the limits of Western-style, market-oriented solutions in LDCs.

Sources of Reformist Pressures

A second, and related, issue in altering the boundaries of government concerns the forces that condition policy choice and enforcement. Political change, according to Bienen and Waterbury,[59] gives rise to new sources of reformist pressures, apart from existing ones. These pressures are more likely to result in sharp changes in development strategies.

We explore in this study how certain constellations of interest produce political response to pressure for change represented by privatization. Some pressures may be internal, flowing from perceptions of economic crisis, financial deficit, corruption, bloated bureaucracies, and inefficient parastatals. Others may be external: privatization and other liberalization programs may be common responses to these economic and administrative problems because they are so strongly promoted by external donors, both bilateral and multilateral.

Nelson argues that generous donor assistance facilitates economic reforms.[60] This, in turn, may reasonably be expected to stimulate domestic confidence and political support, as the crisis of one-man rule slowly finds resolution. But we need to further look into how external assistance reflects creditors' or donors' political or strategic motivations behind neo-orthodox policy prescriptions. We shall also determine how such prescriptions intermesh with elite interests in a democratizing polity. These issues arise because the pursuit of rents through competition, or the desire to limit non-competitive ones, may figure prominently in pressures for reform. In finding answers to such questions, we hope to see in what ways have privatization decisions and actions been shaped and altered over time, from what would probably have occurred without intervention from vested interests.

Political Leadership and Political Support

Political leaders are far from free agents. Robert L. Rothstein, in fact, draws attention to the "difficulty of breaking out of a set of powerful constraints upon the political process: ... constraints such as elite corruption and conflict, segmented and mistrustful groups, the centrality of the political struggle in the absence of alternative structures of power... These are powerful constraints, and they clearly limit the results that can reasonably be expected from the policymaking systems of developing countries."[61] These problems also lead inexorably to the question of how power relationships should be treated in the post-Marcos era. Both the factional character of coalition politics and the seemingly endless threats to Aquino's fledgling democratic government turn any substantive area of economic policy into a political arena where elite conflicts are played out.

The balance of interests among the government's supporters and political circumstances strongly influence privatization in the Philippines and many other LDCs. If groups, whether of labour or capital, are well-entrenched and politically valued, we can perhaps expect the effective implementation of privatization to run into difficulties. These difficulties will be all the greater, and the pace of innovation so much slower, if recalcitrant, rentier interests are located within the state and parastatal bureaucracies themselves.

How leaders and policy-makers, in turn, respond -- the ways in which they exercise "political will" -- are thus determined by the bureaucratic and political resources available to them. We take a cue from Robert Wade[62] and examine these resources in terms of: the competence and coherence of the executive branch of government; the degree to which political authority is institutionalized; and the connection between the public enterprise sector and economic interests, especially the owners and managers of capital. These elements enable us to see whether the Aquino government had sufficient political muscle and authority to bear (and contain) the political costs of innovations in relations between state and market. Alternatively, we can perhaps ask what combination of regime-type and support base constrains the reform options open to democratic leaders? Our findings eventually help us define the nature of political democracy that Aquino restored in the Philippines.

Government Interventions in the Marketplace

The foregoing conceptualization finally compels attention to what Tony Killick and Simon Commander describe as "the suppressed question of the privatisation debate."[63] What is the distributional impact of privatization? They point out that redistribution is not necessarily restricted to the welfare of the least well off in society, but rather pertains to the distribution of the social pie across all groups.

To see that the size of rents might be related to their distribution, we consider two instances in our GSIS corporate cases. If privatization of relatively profitable assets results in market competition, then the profit incentive would tend to minimize costs and non-competitive rents. Alternately, if the switch to private production of goods does not bring about the desired competitive market, the fact that the switch did occur might persuade competitive producers to limit the rents they enjoy (e.g., by forming a consortium of private buyers or by supporting limits on acquisition of corporate equity), so that production does not return to the state purview.[64] Distributional effects of this kind, however, need not necessarily promote social equity and people empowerment, if the actual consumers are restricted to (or influenced by) the politically advantaged groups in society.

Attention to the ways in which governments set the ground rules that define and delimit how other institutions are to operate underscores the greater challenge of adjustment projects in LDCs. This is because the rules of the game significantly affect values, preferences, and responses of political actors.[65] As we look into the (regulatory) role of government, we thus explore how interest mobilization and political conflict develop and affect privatization policies based on perceptions of costs and benefits among important groups. These perceptions could, in turn, be related to economic ideology, political leadership, or the state of regime legitimacy. Important in any assessment of state capacity or state effectiveness, as Baldev Raj Nayar reminds us, "is not merely the number and range of policy instruments, but the flexibility the state has in using them."[66] Obviously, we need to come up with a useful way to reflect upon the role of the public sector in the face of diffusion and diversity.[67]

NOTES

[1]Richard G. Lipsey, Douglas D. Purvis, Gordon R. Sparks, and Peter O. Steiner, **Economics**, 4th ed. (New York: Harper & Row, Publishers, Inc., 1982), p. 467.

[2]Henry S. Bienen and John Waterbury, "The Political Economy of Privatisation in Developing Countries," **World Development** 15 (1989 Special Issue): 617.

[3]See, for example, the works of Robert L. Bish and Vincent Ostrom, **Understanding Urban Government** (Washington D.C.: American Enterprise Institute, 1973); Michael Murray, "Comparing Public and Private Management," **Public Administration Review** 35 (July-August 1975): 364; Patrick Dunleavy, "Explaining the Privatization Boom: Public Choice Versus Radical Approaches," **Public Administration Review** 46 (March-April 1986): 19; and James Carroll, "Public Administration in the Third Century of the Constitution: Supply-Side Management, Privatization, or Public Investment?", **Public Administration Review** 47 (January-February 1987): 110.

[4]John Kay, Colin Mayer, and David Thompson, eds., **Privatization and Regulation: the UK Experience** (Oxford, England: Oxford University Press, 1986).

[5]Robert Fraser, ed., **Privatization: the UK Experience and International Trends** (Harlow, England: Longman, 1988).

[6]Dexter Whitfield, **The Welfare State: Privatization, Deregulation, and Commercialisation of Public Services** (London: Pluto Press, 1992).

[7]E.S. Savas, **Privatizing the Public Sector: How to Shrink Government** (Chatham, NJ: Chatham House, 1982), and **Privatization: The Key to Better Government** (Chatham, NJ: Chatham House, 1987).

[8]John Donahue, **The Privatization Decision: Public Ends, Private Means** (New York: Basic Books, 1989).

[9]John Vickers and Vincent Wright, eds., **The Politics of Privatization in Western Europe** (London: F. Cass, 1989).

[10]Paul McAvoy, ed., **Privatization and State-Owned Enterprises: Lessons from the U.S., Great Britain, and Canada** (Boston: Kluwer

Academic Publishers, 1989).

[11]J.J. Richardson, ed., **Privatization and Deregulation in Canada and Britain** (Aldershot, Hants, England: Dartmouth Publishing Co., 1990).

[12]Ezra N. Suleiman and John Waterbury, **The Political Economy of Public Sector Reform and Privatization** (Boulder, CO: Westview Press, 1990).

[13]Outstanding examples of this literature include Gary A. Tobin, "The Public/Private Sector Partnership in the Redevelopment Process," **Policy Studies Journal** 11 (March 1983): 473; Clarence N. Stone, "Whither the Welfare State? Professionalization, Bureaucracy, and the Market Alternative," **Ethics** 93 (April 1983): 595; Mimi Abramovitz, "The Privatization of the Welfare State: A Review," **Social Work** 31 (July-August 1986): 257; Barry J. Carroll, Ralph W. Conant, and Thomas A. Easton, eds., **Private Means--Public Ends: Private Business in Social Service Delivery** (New York: Praeger, 1987); Ronald C. Moe, "Exploring the Limits of Privatization," **Public Administration Review** 47 (November-December 1987): 458; Harold J. Sullivan, "Privatization of Public Services: A Growing Threat to Constitutional Rights," **Public Administration Review** 47 (November-December 1987): 466; and David R. Morgan and Robert E. England, "The Two Faces of Privatization," **Public Administration Review** 48 (November-December 1988): 979.

[14]See Savas, **Privatizing the Public Sector** and **Privatization: The Key**; and McAvoy, **Privatization and State-Owned Enterprises**.

[15]Ted Kolderie, "The Two Different Concepts of Privatization," **Public Administration Review** 46 (July-August 1986): 287.

[16]Robert W. Bailey, "Uses and Misuses of Privatization," in S. Hanke, ed., **Prospects for Privatization** (New York: The Academy of Political Science, 1987), p. 141.

[17]Steve H. Hanke, ed., **Privatization and Development** (San Francisco, CA: International Center for Economic Growth, 1987).

[18]Paul Cook and Colin Kirkpatrick, eds., **Privatisation in Less Developed Countries** (Brighton, Sussex: Wheatsheaf Books, 1988).

[19]Raymond Vernon, ed., **The Promise of Privatization** (New York: Council on Foreign Relations, Inc., 1988).

[20]Jacques Pelkmans and Norbert Wagner, eds., **Privatization and**

Deregulation in ASEAN and the EC: Making Markets More Effective (Singapore: Institute of Southeast Asian Studies, 1990).

[21]William P. Glade, ed., **State Shrinking: A Comparative Inquiry into Privatization** (Austin, TX: The University of Texas at Austin, 1986), and **Privatization of Public Enterprises in Latin America** (San Francisco, CA: ICS Press, 1991).

[22]Christopher Adam, William Cavendish, and Percy S. Mistry, eds., **Adjusting Privatisation** (London: James Currey, 1992).

[23]T.L. Sankar and Y. Venugopal Reddy, eds., **Privatisation: Diversification of Ownership of Public Enterprises** (Hyderabad: Institute of Public Enterprise, 1989).

[24]Clare E. Humphrey, **Privatization in Bangladesh: Economic Transition in a Poor Country** (Boulder, CO: Westview Press, Inc., 1990). More state-owned assets have been privatized in Bangladesh than in any other LDC or NIC. The Bangladesh case, according to Humphrey, is also somewhat atypical in that the majority of its many privatizations have been divestitures or sales of physical assets or equity shares. This preferred mode very closely resembles the Philippine case, although Humphrey finds that it is one of the least used because of the financial and political complexities and pitfalls involved in enforcing it.

[25]Hacene Boukaraoun, "The Privatization Process in Algeria," **The Developing Economies** 29 (June 1991): 89.

[26]Barbara Grosh, **Public Enterprises in Kenya** (Boulder, CO: Lynne Rienner, 1992).

[27]See, for example, the following articles in Vernon, **The Promise of Privatization**: Janet Kelly de Escobar, "Venezuela: Letting the Market," p. 57; Stephan Haggard, "The Philippines: Picking Up After Marcos," p. 91; Ethan B. Kapstein, "Brazil: Continued State Dominance," p. 122; and Thomas M. Callaghy and Ernest James Wilson III, "Africa: Policy, Reality, or Ritual?", p. 179. The article of Boukaraoun, "The Privatization Process, as well as many of the articles on Indian privatizations in Sankar and Reddy, **Privatisation: Diversification of Ownership**, also lend empirical support.

Jacques Pelkmans and Norbert Wagner, "Towards More Effective Markets in ASEAN and the EC," in Pelkmans and Wagner, **Privatization and Deregulation**, p. 3, pursue an important point concerning privatization's rationale, to wit:

> Interventionist policies, restrictive regulation and state involvement in economic activities failed to accomplish low unemployment, low inflation and high economic growth when external shocks were felt in the 1970s and 1980s. **On the contrary, it can be argued that interventionism and state involvement hampered structural adjustment and, thus, made the unavoidable changes even more painful in the long run.** (p. 3, emphasis added)

[28]Felipe Ortiz de Zevallos, "Peru: An Insider's View," in Glade, **State Shrinking**, p. 129.

[29]Jorge R. Marshall, "Economic Privatization: Lessons from the Chilean Experience," in Glade, **State Shrinking**, p. 101. See also Marshall's other article on Chile in Cook and Kirkpatrick, **Privatisation**.

[30]Jose Pinera and William P. Glade, "Privatization in Chile," in Glade, **Privatization of Public Enterprises**, p. 19.

The extensive review we devote to the Chilean case is due to the fact that it has the longest and "most comprehensive commitment" to privatization. While implementing and reformulating its three-phased privatization program between 1974 and 1990, albeit at the cost of repression and exclusion, it made substantial headway in "putting its economic house in order, thereby preparing the way to regain full access to the international capital market and restoring its capacity to grow." Consequently, the authors conclude that it alone of the countries surveyed in the 1991 edition is now in the position to mount a large, multi-year public investment program on behalf of its public enterprises (see pp. 26-32).

[31]Javier A. Gonzalez Fraga, "Argentine Privatization in Retrospect," in Glade, **Privatization of Public Enterprises**, p. 75.

[32]*Ibid.*, pp. 77-81. Rent-seeking in the Argentine case, according to Fraga, is one in which business profits derive not from innovation and production efficiency, but from manipulation of returns on capital by government regulation, favoritism in government spending, alliances with parastatal suppliers, and preferential tax treatment.

[33]*Ibid.*, pp. 90-92. Spirited opposition which eventually halted the series of (re)privatizations in the late 1970s has all along come from both public sector and other trade unions affiliated with the powerful CGT, Latin America's most substantial labor movement and the mainstay of the Justicialist rank and file. In this guise, a threat from the Peronist camp has hovered over the political scene since the restoration of competitive civilian politics in Argentina.

The country's notoriously unresponsive bureacracy, on the other hand, has parlayed divisions in the body politic and the weakness of civil society into an organizational inertia that favors maintaining the **status quo ante**. For Fraga, then, the difficulty of transforming the consuming public into an organized constituency for the general interest has allowed preemption of policy choices and processes by organized special interest groups and thus preserved access, rather than competitive prowess, as the most treasured asset.

[34]The earlier works include, among others, those of Joan Nelson, "The Political Economy of Stabilisation: Commitment, Capacity and Public Response," **World Development** 12 (October 1984): 983; John Nellis, "Public Enterprises in Sub-Saharan Africa," The World Bank, Washington D.C., 1986, mimeographed; and Tony Killick and Simon Commander, "State Divestiture as a Policy Instrument in Developing Countries," **World Development** 16 (December 1988): 1465.

[35]See Michael Bruno, "Introduction to 'liberalisation with stabilisation in the Southern Cone of Latin America,'" **World Development** 13 (August 1985): 867; Armeane M. Choksi and Demetris Papageorgiou, "Introduction," in A.M. Choksi and D. Papageorgiou, eds., **Economic Liberalization in Developing Countries** (Oxford: Basil Blackwell, 1986), p. 3; Michael Michaely, "The Timing and Sequencing of a Trade Liberalization Policy," in Choksi and Papageorgiou, **Economic Liberalization**, p. 49; and Sebastian Edwards, "Sequencing Economic Liberalization in Developing Countries," **Finance and Development** 24 (January 1987): 26.

These authors find that understanding of optimal transition paths from a distorted system to one that is fully liberalized is still wanting.

Choksi and Papageorgiou, and Michaely, for example, attribute the "failure" of privatization and liberalization strategies like those of Chile (1974-1981) and Mexico (1982-1988) to the simultaneous deregulation of all markets, without considering that the speed of adjustment in various markets differ. The opening of financial, trade, and capital accounts at the same time caused an inflow of foreign capital (attracted by high domestic interest rates) and led to an appreciation of the real exchange rate. This lowered profitability in the tradeable goods sector and discouraged an improvement in the trade account balance. Others like Bruno see the problem in the Southern Cone and elsewhere as being that the structural reforms associated with privatization were executed when the economy was in serious macroeconomic disequilibrium, with high inflation and severe foreign exchange shortages, resulting in their subsequent collapse.

[36]See, for example, Steve H. Hanke, "The Privatisation Option: An Analysis," **Economic Impact** 3 (1986): 16. **Efficiency** in this sense is determined based on a Pareto-optimal allocation of resources where some consumers can be made better off and none worse off.

[37]On Latin America, see Glade, **State Shrinking and Privatization of Public Enterprises**; and Adam et al., **Adjusting Privatisation.** For one, the article of Pinera and Glade, "Privatization in Chile," claims that Chile reveals with particular clarity the complementarity of privatization with an array of other policy goals and innovative parastatal reform strategies, especially after 1981, because it was not debt-driven unlike in the other countries surveyed in **Privatization of Public Enterprises.**

[38]Bienen and Waterbury, "The Political Economy." Likewise, Grosh, **Public Enterprises**, points to some of the disincentive effects on investment arising out of an anti-competitive policy environment in Kenya.

For more on how attempts at restructuring or rehabilitating sub-Saharan parastatals have failed because of their vulnerability to corruption and plunder under military regimes, see also Tony Killick, "Twenty-Five Years in Development: The Rise and Impending Decline of Market Solutions," **Development Policy Review** 4 (February 1986): 49; Callaghy and Wilson, "Africa: Policy," in Vernon, **The Promise**; and V.V. Ramanadham, "Privatization in the African Context," in Glade, **State Shrinking**, p. 232.

[39]The preceding literature on LDCs/NICs may appropriately be called "structuralist," because it consistently emphasizes structural or institutional impediments to the working of markets. These are held by the works we have reviewed to be more critical than conjunctural political dynamics, administrative constraints, or even multilateral pressures in explaining the privatization "boom" in these countries.

[40]Humphrey, **Privatization in Bangladesh**, p. 8.

[41]*Ibid.*, p. 139.

Humphrey observes that the divestment strategies of the Zia (1975-1981) and Ershad (1982-1990) military regimes contained more rhetoric than foresight, and consistency has neither been the hallmark of privatization policy as it became periodically subjected to the interplay of powerful economic interests. Little attention paid to specific targets to be met in sequenced stages of divestiture, the obstacles it would certainly face, the new problems it would inevitably create, the complementary role the private sector could play, or the countermeasures that would be required, all furthered interest group resistance amidst endless political and economic turmoil.

[42]Richard Sandbrook, "Patrimonialism and the Failing of Parastatals: Africa in Comparative Perspective," in Cook and Kirkpatrick, **Privatisation**, p. 162, and "The State and Economic Stagnation in Tropical Africa," **World Development** 14 (March 1986): 319.

[43]Sandbrook postulates the existence of a "legitimacy crisis" in Africa to better portray the political ramifications of privatization there. This he sees as resulting from neo-patrimonial politics in which the political requirements of regime and personal survival take precedence over and can contradict policies like privatizaton.

Privatization gained currency as post-colonial repressive regimes dissolved bureaucratic norms, introduced waste and indiscipline into the public sector, and distorted social and economic development imperatives. Yet, patronage and clientelism also serve as the glue that holds together unintegrated peasant societies and allows a strongman or military-backed regime to govern. Should privatization severely reduce patrimonial flows, Sandbrook warns, governance will necessarily rest more heavily on repression.

[44]Joan M. Nelson, ed., **Economic Crisis and Policy Choice: The Politics of Adjustment in Developing Countries** (Princeton, NJ: Princeton University Press, 1990).

[45]Stephan Haggard's article, "The Political Economy of the Philippine Debt Crisis," p. 215, examines countries like the Philippines where broader structural reforms have been carried out. The Philippines confronted both economic crisis and democratic transition in the 1980s. The major theme under Marcos was the mounting, and ultimately, crippling, effects of the crony network on which he increasingly depended for political support. To the extent that structural change entailed dismantling that network, Aquino's revolutionary government launched vigorous action. But other aspects of the economic liberalization agenda, Haggard claims, were constrained by Aquino's own dependence on business and military groups.

The Philippine experience in late 1986-1987, taken jointly with the case studies on Argentina and Brazil, and Chile and Peru, point towards both opportunities and problems in adjustment choices which are inherent in the transition to a political democracy. See Robert R. Kaufman, "Stabilization and Adjustment in Argentina, Brazil, and Mexico," p. 63, and Barbara Stallings, "Politics and Economic Crisis: A Comparative Study of Chile, Peru, and Colombia," p. 113.

However, Zambia, Ghana, and Nigeria pose dramatic contrasts in Thomas M. Callaghy's essay, "Lost Between Market and State: The Politics of Economic Adjustment in Ghana, Zambia, and Nigeria," p. 257. By 1983, all three had been in severe economic decline for at least a decade. In Ghana, the most recent of a series of electoral and non-electoral changes in government, plus the widespread perception that the country was in desperate straits, paved the way for a far-reaching neo-orthodox adjustment effort closely shepherded by the World Bank and the IMF. Zambia and Nigeria launched a program of massive stabilization and structural change with similar external supervision. But structural change threatened the very interests at the core of the long-established yet eroding support for the government. Such a program sputtered, then foundered.

[46]Joan M. Nelson *et al.*, eds., **Fragile Coalitions: The Politics of Economic Adjustment** (Washington D.C.: Overseas Development Council, 1989).

[47]The older monetarism is traced by some of the authors to stabilization dominant in international financial and development circles, which gave way during the 1970s to a considerably broader "neorthodoxy." The newer outlook assumed that trade and fiscal imbalances often reflect causes deeper than excess demand. It called not only for corrective macroeconomic policies like stabilization, but for medium-term structural reforms including shifts toward outward-oriented trade policies and reductions in the role of the state.

As it became clear that adjustment was not a short-term proposition, social costs could no longer be viewed as unfortunate but transitory. Among economists, more recent assessments of the East Asian experience suggest a much more active state role and much more gradual and phased reform than current neorthodoxy was prescribing. Heterodoxy is based on fuller recognition of the economic costs of subsidies, overvalued exchange rates, and other price distortions, yet no clear-cut "heterodox" alternative has yet emerged among LDCs. For an extended account, see Miles Kahler, "International Financial Institutions and the Politics of Adjustment," in Nelson, **Fragile Coalitions**, p. 139; and Robert Wade, **Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization** (Frinceton, NJ: Princeton University Press, 1990).

[48]John Waterbury, "The Political Management of Economic Adjustment and Reform," in Nelson, **Fragile Coalitions**, p. 39.

[49]Laurence Whitehead, "Democratization and Disinflation: A Comparative Approach," in Nelson, **Fragile Coalitions**, p. 79.

[50]Thomas M. Callaghy, "Toward State Capability and Embedded Liberalism in the Third World: Lessons for Adjustment," in Nelson, **Fragile Coalitions**, p. 115.

[51]Stephan Haggard and Robert R. Kaufman, "Economic Adjustment in New Democracies," in Nelson, **Fragile Coalitions**, p. 57. Haggard and Kaufman offer fresh evidence that established democratic governments do not generally have greater difficulties controlling fiscal and monetary policy than do authoritarian regimes. But new or renewed democracies do have special problems: 1) on the one hand, the economic legacies inherited from authoritarian predecessors create numerous structural and institutional barriers to liberalization; 2) on the other hand, the transition process itself generates multiple, even conflicting, pressures ranging from high levels of political participation and expectations, to discontinuities in policy-making authority and institutions, to the more visible roles played by creditor agencies and governments.

[52]Privatization measures owe much to **public-choice** for a theoretical underpinning; these measures shares its limitations as well.

Public-choice theory focuses on the properties of public arrangements that directly influence individual preferences, including property rights. Developed over the last three decades by scholars like James M. Buchanan, Gordon Tullock, and William A. Niskanen, it applies the economist's model of individual, utility-maximizing behavior to political decision-making, which it broadly conceives of as "exchange." One of its central arguments is that competitive market forces are generally a more efficient allocator of goods than government institutions.

While allowing that the market does have its share of deficiencies, the major theoretical contribution of public-choice theory is to show that market failure is not a sufficient condition to turn a problem over to the government. Political institutions are generally held to perform inadequately in translating economic demands into public policies for two reasons. First, these agencies do not bear directly the cost of poor decisions. Second, they frequently operate under monopoly or near-monopoly conditions. These conditions are said to increase **rent-seeking activities** and incentives to promote policy objectives in excess of what would be demanded by individuals if they could let their real preferences be known, and if they were informed of the actual costs. Hence, public-choice theory sees little incentive for political institutions to innovate or reduce costs.

For a more extensive account of public-choice theory relative to privatization, see James D. Gwartney and Richard Stroup, **Economics: Private and Public Choice** (New York: Academic Press, 1983), Chapter 30; James Carroll, "Public Administration in the Third Century of the Constitution: Supply-Side Management, Privatization, or Public Investment," **Public Administration Review** 47 (January-February 1987): 110; Janet Shaw, "James Buchanan and Public-Choice Economics," **Dialogue** 77 (March 1987): 22; and Charles R. Wise, "Public Service Configurations and Public Organizations: Public Organization Design in the Post-Privatization Era," **Public Administration Review** 50 (March-April 1990): 141.

[53]Anne O. Krueger, "The Political Economy of the Rent-Seeking Society," **American Economic Review** (June 1974): 291.

[54]See, for example, James M. Buchanan, Robert D. Tollison, and Gordon Tullock, **Toward a Theory of the Rent-Seeking Society** (College Station, TX: Texas A & M University Press, 1980). See also the separate articles of the same authors in Dennis C. Mueller, ed., **Public Choice II** (Cambridge, England: Cambridge University Press, 1989).

Buchanan, Tollision, and Tullock explore this "political" analysis of rents in the public and private sectors, although they focus on the rents arising from government's ability to avoid competition and to use the power of taxation as a means to expand in size and scope.

[55]The distinction between rents and profits is also made by Amiya Kumar

Bagchi, "'Rent-Seeking', New Political Economy and Negation of Politics," **Economic and Political Weekly**, 21 August 1993, pp. 1729-1730; 1733-1735.

[56]Such is the case with most of the candidates for divestiture in the Philippines, since the goods and services they produce are usually of a **private** nature. This means that the benefits that may be derived from private production are divisible among its consumers and the value of the best alternative uses of the resources available to the producer can be measured. In this respect, the rent-seeking model suggests that there may even be a strong case for privatization because of these activities' greater potential for economic efficiency and innovation.

In contrast, state intervention in the marketplace (e.g., through the operation of parastatals) is theoretically defensible in instances where market failure and externalities obtain. **Market failure** exists when markets would function sub-optimally if let entirely free, or in order to satisfy certain preferences of the society expressed via the political system. **Externalities** are the costs or benefits of a transaction or exchange that are incurred or received by members of society, but are not taken into account by the parties to the transaction. These externalities are third-party or spillover effects because parties other than the two primary participants in the transaction (the buyer and the seller) are affected. However, this study finds that the growth of the public enterprise sector under Marcos was generally indefensible on market failure or externality grounds, thus further supporting the case for privatization.

[57]See David E.M. Sappington and Joseph E. Stiglitz, "Privatization, Information and Incentives," **Journal of Policy Analysis and Management** 6 (Summer 1987): 572-576.

[58]For a more exhaustive discussion, see Geoffrey Brennan and James Buchanan, **The Reason of Rules** (New York: Cambridge University Press, 1985).

[59]Bienen and Waterbury, "The Political Economy of Privatisation," p. 618.

[60]Joan M. Nelson, "Introduction," in Nelson, **Economic Crisis and Policy Choice**, pp. 27-29. To quote the author, "[s]izable support increases a government's incentive to comply with creditors' advice and permits compensating 'losers'" (p. 28).

[61]Robert L. Rothstein, "Politics and Policymaking in the Third World: Does a Reform Strategy Make Sense?", **World Development** 4 (April 1976): 695-696.

[62]Wade, **Governing the Market**, pp. 371; 375. Wade advances the concept of state effectiveness in his book to encompass both adequacy of resources at the state's disposal as well as the degree of insulation (or "autonomy") from powerful, well-entrenched interests in society. He also sees state effectiveness in broader terms, as a function of the range of options, given by the number and force

of policy instruments and the flexibility with which those policy instruments are used.

[63]Killick and Commander, "State Divestiture," p. 1472.

[64]The distributional consequences of rent-seeking also seem implicit in Krueger, "The Political Economy," p. 301. She concludes that:

> If the market mechanism is suspect [or "incompatible with socially approved goals because of competitive rent-seeking"], the inevitable temptation is to resort to greater and greater intervention, thereby increasing the amount of economic activity devoted to rent-seeking. As such, a political "vicious circle" may operate.

[65]**Public-choice theory**, however, recognizes that values and preferences of political actors are exogenously (or externally) determined, based on economic position, social class, or technology. This is also implicit in rent-seeking behavior, as we have discussed it in this chapter.

[66]Baldev Raj Nayar, "The Politics of Economic Restructuring in India: The Paradox of State Strength and Policy Weakness," **Journal of Commonwealth and Comparative Politics** 30 (July 1992): 147.

[67]Paraphrased from Louise G. White, "Public Management in a Pluralistic Arena," **Public Administration Review** 49 (November-December 1989): 526.

See also the excellent article of Richard R. Nelson, "Roles of Government in a Mixed Economy," **Journal of Policy Analysis and Management** 6 (Summer 1987): 541. Nelson argues here that most policy decisions concerning bureaucratic streamlining do not turn on whether the government should "intervene" in the market, but on how competition within the market should be organized.

CHAPTER III

STATE ENTREPRENEURSHIP UNDER MARCOS: THE LOGIC OF PREDATORY RULE

> ... at this stage of development, it doesn't concern Filipinos who controls the resources and economy of our country.
>
> Marcos-technocrat and Economic Planning Minister Gerardo P. Sicat[1]

Rapid expansion of state intervention in economic life is closely connected to the authoritarian episode in the Philippines. The impetus for privatization following the collapse of the Marcos dictatorship needs, then, to be placed in proper perspective. We shall divide this chapter into three parts: 1) the crisis of Philippine democracy which ushered in one-man rule under President Marcos; 2) the unprecedented growth of the government corporate sector from then on; and 3) how the technocratic model of development helped concentrate economic power in the hands of a few supporters of the Marcos regime.

"Constitutional Authoritarianism": Laying the Groundwork for State Expansion into the Economy

The Philippine political system from independence in 1946 until the declaration of martial law in 1972 was what might be called a formal, if elite-dominated representative democracy. Within the framework of a written constitution, factions of the landlord elite alternated in power through periodic elections. The masses were often mobilized through traditional patron-client relationships. Political organization along horizontal or class lines was embryonic.

Strong American presence in the Philippine economy continued even after independence. The U.S. secured the right to maintain military bases and facilities, and U.S. citizens acquired equal constitutional rights as Filipinos to exploit the country's natural resources for business purposes. Most landed elites also had ties with American firms, as the Philippines specialized in the production of agricultural commodities for the U.S. and served as a market for American manufactured goods.[2]

By the 1960s, however, the *status quo* was increasingly challenged by the middle and lower classes. Like many Latin American countries, the Philippines had earlier embarked upon an industrial strategy based on economic controls. This was an attempt to stem a serious foreign exchange drain in the post-independence period. Complemented by the erection of discriminatory tariffs on imports in the 1950s, such control mechanisms sparked the creation of an industrial sector which filled the domestic demand for light consumer goods like processed food, shoes, and garments that could not be filled by increasingly expensive imports. The strategy of import-substitution and foreign exchange controls soon ran up against the limits of a market which could not expand any further without a fundamental redistribution of income. The national industrial class which it had spawned thus became a major destabilizing force in politics.[3] So did peasant marches, workers' strikes, and student demonstrations, as the agricultural sector stagnated and failed to accomodate a rapidly growing labor force.[4]

After Marcos' presidential reelection in 1969 -- the most expensive in Philippine political history -- the economy became debt-driven for the first time. In the process of getting himself reelected, Marcos used up the government's foreign exchange reserves and left it with few resources to cover a huge trade deficit and to service the external debt. Desperate, Marcos turned for assistance to the International Monetary Fund (IMF) and the World Bank.[5] A "stand-by agreement" was negotiated, but only after the peso was devalued by over 60 per cent relative to the American dollar. The devaluation provoked greater opposition from Filipino entrepreneurs who now had to pay for more expensive imported inputs for their products. Devaluation also created windfall profits for the sugar barons who formed the most important segment of the local elite. The ensuing economic crisis inevitably led to mounting pressure from foreign (especially U.S.) capital to "open up" the Philippine economy more completely. But most alarming to the local elite and the U.S. was the rebirth of the Communist Party in 1968 and the founding of its military arm, the New People's Army, in 1969. With class and nationalist consciousness taking hold, the capacity of the elite-led, representative system to co-opt, manage, and defuse mass demands broke down. Marcos responded by imposing martial law in 1972.[6]

Authoritarian rule in the Philippines endured until 1986 because of the hegemony of the pro-Marcos faction of the elite. Marcos referred to his regime as a "constitutional authoritarianism," as he invoked national security doctrine in the face of rebellion and imminent danger. To justify his extraordinary powers under martial law, he relied mainly on his powers as commander-in-chief of the armed forces.[7] Aside from stabilizing the deteriorating political situation, Marcos further sought to restructure the Philippine economy by opening it up more completely to the flow of foreign capital and commodities. His claim was that "only an authoritarian system will be able to carry forth the mass consent and to exercise the authority necessary to implement new values, measures, and sacrifices."[8] This was an argument that had been profoundly influenced by such experiences as the "Brazilian miracle," where an 11 per cent annual rate of GNP growth went hand in hand with mass depoliticization and the rise of a military-technocratic alliance. It also drew inspiration from the spectacular economic performance of East Asian countries after their respective authoritarian regimes adopted deregulatory and export-oriented industrialization schemes.

But the ambitious plan of stabilization and integration could not be achieved without an appropriate politico-legal framework, i.e., without a state apparatus dedicated to repressing those sectors which stood to lose the most from the drastic external reorientation of the economy. In breaking the quasi-feudal autonomy of traditional political dynasties, one-man rule eliminated many of the "irrationalities" and "uncertainties" associated with mass participation and the give-and-take of the democratic process. This enabled the technocrats in Marcos' Cabinet to push through with "a strategy of liberalization, export-oriented industrialization, and a positive climate for foreign investment"[9] geared toward satisfying the demand of international markets, rather than domestic needs. Implicit in the new development strategy was the need to dismantle protectionism and sacrifice nationalist, entrepreneurial groups in the process. It also meant the repression of the working class to keep labour cheap and docile and attract foreign investors to the country. In this way, authoritarianism joined the interest of American business and international lending agencies in "rationalizing" the Philippine economy, with the drive of the Marcos clique to monopolize power within the Filipino elite.

Key to this kind of repressive modernization was a coalition whose survival depended on monopolistic control of major industrial and financial institutions and the support of foreign capital. Its exclusive membership was drawn from three sources: the military, the civilian technocracy, and Marcos' own circle of relatives and business associates. As the IMF-World Bank-favored technocrats in the Cabinet and other policy-making agencies took the lead in refashioning the economy, the military became the linchpin of the power structure, replacing the pre-1972 network of semi-feudal mechanisms. While repression was its primary role, the military also gained vast economic influence as many of their officers were placed at the helm of important state agencies. Marcos' civilian administrators were ostensibly "united to many among their military brethren by the ideology of authoritarian technocracy," which helped move the Philippine policy environment closer to that prevailing in Indonesia and Thailand.[10]

While the military was tied to U.S. military assistance, and the technocrats were close to multilateral lending agencies in the absence of independent political bases, the cronies relied only on Marcos and were utterly loyal to him. This emergent clique of monopoly rentiers consisted of presidential relatives, friends, and business allies. The cronies were also dubbed "bureaucrat capitalists" by the left, because of the way they exploited their ties with the Marcos family and the public enterprise sector to construct business empires. The result, ironically, was that, having freed his technocrats from interference by landholding elites, Marcos permitted his kinsmen and cronies to interfere instead. Crony relations with the technocrats had always been uneasy. In the IMF's and World Bank's view they were the irrational element in the ruling coalition for their moves always seem to make a mockery of technocratic attempts to project economic policy as neutral and scientific. Cronyism thus assumed an unprecedented and unique role in the economy under the Marcos dictatorship. Around this phenomenon soon evolved an enlarged entrepreneurial role for government. And the phenomenon was to have an indelible impact on the politicization of economic policy-making in the Philippines.

The Public Enterprise Sector: Unbridled Growth in Size and Scope

Traditionally, the Philippine public enterprise sector was small by developing-country standards. The primacy of the private sector had always been upheld since the time the country was an American colony (1898-1946). Fairly consistent policy pronouncements of all the succeeding presidential administrations since 1946, including those of Marcos, clearly indicate the passive role entrusted to national government-owned and controlled corporations (GOCCs) in a mixed economy that closely resembles the U.S. Under Marcos, these GOCCs came to be operationally defined as

> [any] stock or non-stock corporation, whether performing governmental or proprietary functions, which is directly chartered by special law or, if organized under the general corporation law, is owned or controlled by the government directly, or indirectly through a parent corporation or subsidiary corporation, to the extent of at least a majority of its outstanding capital stock or of its outstanding voting capital stock.[11]

In terms of form and rationale, state intervention before martial law mainly "sought to direct and influence the pace and pattern of accumulation and industrialization through ... subsidized credit to industry, and various other incentives which favored domestic capital."[12] A number of denationalization efforts are also evident within this time frame. Sectorally, this meant the concentration of GOCCs in finance and agricultural development and trading prior to World War II. Thereafter, they expanded to still traditional areas like infrastructure, public utility, and government regulation, though with some overlapping activities.[13] Numerically, GOCCs established in these areas steadily increased toward the end of American colonial rule. Between 1935 - when the transitional Commonwealth government was set up - and 1970, their number rose from 14 to only 65. This is shown in Table

III.1. Until the worldwide inflation of the 1970s, state entrepreneurship remained hesitant in capturing the "commanding heights"[14] of the economy because of continued adherence to free market doctrines. This even prompted the World Bank as late as 1976 to suggest that "in the future the Philippine economy will require even more participation by public corporations than in the past, not only [by] public utilities ... but also by public enterprises in such areas as fertilizer production, steel making and shipbuilding."[15]

Table III.1
The Growth of the GOCC Sector
(1935-1986)

Year	Parent	Subsidiary	Acquired Asset	Total
1935	12	2	n.a.	14
1945	18	3	n.a.	21
1955	27	8	n.a.	35
1965	44	18	n.a.	62
1970	47	18	n.a.	65
1975	71	49	n.a.	120
1981	92	120	n.a.	212
1986	105	162	60	327

SOURCE: Presidential Commission on Reorganization (for 1935-1981), and Commission on Audit (for 1986).

One-man rule reversed these aforecited trends and gave birth to a new era of state interventionism in the Philippines. This time, the state became the major force in pushing industrialization forward, in the rationalization and monopolization of every vital economic sector, and in "deepening" capitalist development.

Economically, this form of *dirigisme*[16] sought to end the desperate rearguard action waged by the nationalist, entrepreneurial groups against the pro-foreign capital faction of the elite which was by then ensconced in the Marcos presidency. The covert motive may be better understood in terms of what is euphemistically called the "crisis of maturity" of the advanced industrialized economies: a marked slowing down of growth in the 1960s and 1970s due to, among others, limits to domestic consumption, declining rates of profit, and rising labour costs.[17] To offset the profit squeeze in their home economies, these countries as well as foreign commercial banks and MNCs controlling large quantities of surplus capital stepped up their drive to more fully penetrate Third World markets and gain access to cheap labor therein. The intensified drive expectedly came up against the interests of the national bourgeoisie who benefitted from protectionist barriers and who were entrenched in the existing state apparatus, particularly the bicameral Congress and the Constitutional Convention of 1971. As a leading technocrat in the Marcos Cabinet candidly admitted in 1973, "[t]he logic of foreign investment to participate in the generation of labour-manufactured exports is clear and incontrovertible, but the country needed martial law to attract such investment."[18]

Politically, *dirigisme* represented part of the Marcos faction's attempt to break the "democratic stalemate" in the conflict over the direction of public policy. Such stalemate had emerged between the same entrepreneurial groups drawn from the middle classes and the landed elites. Terminating the post-war political regime that thrived on patronage and periodic elite alternation in power had, by then, become a political necessity, for Marcos to remain President beyond the two-term constitutional limit and cultivate his own base of regime support.[19]

The manner in which most GOCCs were formed or acquired under authoritarian rule cast serious doubts on their alleged developmental objectives. Legal instruments such as presidential decrees and letters of instructions were craftily devised by the Marcoses and their cronies. Many of these legal instruments (see Table III.2) gave them blanket control over the GOCC sector. One of the most widely-criticized was the Public Safety Act. It was signed by the President on 12 September 1980, but released only on 13 January 1981, or just four days before martial law was lifted *pro forma*. It granted immunity to Marcos, his technocrat-dominated Cabinet, "and all officers and employees who followed and executed his lawful order." Presidential orders of this kind enabled members of the Marcos faction to elbow out the domestic bourgeoisie (especially in the choice of firms bailed out by the government during the recession of the 1980s), to tap into the national treasury, and to organize their respective conglomerates. In effect, these orders legally sanctioned (non-competitive) rentierism. When Marcos himself was sharply criticized for his overseas properties usually acquired through layers and sub-layers of holding corporations in order to conceal their ownership,[20] his spokesmen speciously argued that "so long as the acquisitions are legal, nobody can question the owner's right to these properties."[21]

Table III.2
Legal Bases for the Creation of GOCCs
(through 1985)

Legal Basis	Number of GOCCs
Legislative Enactment Before 1972 After 1981	 31 1
Presidential Decree	69
Securities and Exchange Commission Registration	149
Total*	250

SOURCE: "Report of the ad hoc Working Group to Prepare a Definition and List of Government-Owned or -Controlled Corporations," Manila, 9 March 1985.

*Total does not exactly agree with other figures cited in the text due to disagreement among four government lists.

Martial law was lifted in 1981, but only after Marcos had issued enough laws and regulations to assure him of dictatorial powers. By this time, corporate listing with the Securities and Exchange Commission had become the preferred mode of parastatal creation. This is also evident from the preceding Table III.2. Assuming it could secure an initial budgetary appropriation, any ministry or agency could establish an enterprise simply through corporate registration. New GOCCs could then set up their own subsidiaries, and these subsidiaries, in turn, could come up with others. Parent, but especially subsidiary, GOCCs usually operated without clear terms of reference to which their activities and personnel could be held accountable.[22]

Furthermore, the concentration of GOCCs in profitable sectors (to the virtual exclusion of other activities where market failure and externalities obtain) "can to a large extent be attributed to the propensity for selective government intervention based on political patronage."[23] As Table III.3 shows, financing and housing had the highest proportion of GOCCs on an aggregate basis when the broad category of services is excluded. Financial GOCCs including the GSIS, Philippine National Bank, Development Bank of the Philippines, Social Security System, and Land Bank of the Philippines diversified their interests and bought or heavily invested in some of the most expensive subsidiaries during the Marcos years.

The potential for abuse was clear. The Ministry of Human Settlements headed by Mrs. Marcos (who held two other national positions) spinned off a total of 73 subsidiaries and was among the most notorious for its role in dispensing political patronage.[24] When the services sector in Table III.3 is taken into account, it becomes all the more obvious how attractive the GOCC sector was to private (crony) capital. The bulk of GOCC activity was in such private goods as business, hotel and restaurant management, and recreational services. In almost all these profitable sectors, several GOCCs "perform[ed] the same tasks, leading to both duplication and overlapping of functions, and giving rise to anomalous practices within the government."[25]

Conversely, the GOCC sector seldom got involved in producing merit goods like education and medical and health facilities.[26] The public utilities sector -- which was the usual target of consumer criticism due to inefficient, but highly priced,

Table III.3
Sectoral Distribution of GOCCs*
(as of 1985)

Sector	Parent	Subsidiary	Total	Percent**
Agriculture, Forestry, & Fishery	5	15	20	8.1
Mining & Quarrying	0	8	8	3.3
Manufacturing	6	41	47	19.2
Construction	0	4	4	1.6
Electricity, Gas, & Water	4	2	6	2.4
Transportation, Communications, & Storage	10	15	25	10.2
Trade	6	12	18	7.3
Financing/Housing	25	29	54	22.0
Services	40	23	63	25.7
Education	1	1	2	0.8
Medical & Health	5	0	5	2.0
Recreational	5	0	5	2.0
Hotel/Restaurant	0	6	6	2.4
Business	4	10	14	5.8
Other Services	25	6	31	12.7
Total	96	149	245	100.0

SOURCE: Rosario G. Manasan and Corazon R. Buenaventura, "Macro-Economic Overview of Public Enterprises in the Philippines, 1975-1984," **Philippine Journal of Public Administration** (October 1985): 337-338.

*Excluding acquired assets.
**Percentage distribution may not add up to 100.0 due to rounding error.

services -- had the least number of GOCCs under one-man rule. The same trend is apparent in other sectors. As Stephan Haggard aptly observed, "in contrast to the situation in a number of other developing countries, direct government intervention in manufacturing has been relatively small" in the Philippines.[27]

Authoritarian-style *dirigisme* thus set the stage for the enormous growth of the GOCC sector in the Philippines after martial law. The collective share of GOCCs in gross national product or GNP rapidly rose from 2.5 per cent in 1972 to as much as 10.5 per cent in 1983, prior to disinvestments and capital flight triggered by the assassination of opposition leader Benigno Aquino, Jr.[28] Such unparalled expansion is further evidenced by the more than five-fold increase in the number of GOCCs. Total GOCCs in the preceding Table III.1 jumped from 65 in 1970 to 327 by the time authoritarian rule collapsed in 1986. GOCC share of investments in gross capital formation also grew to 13.7 per cent in 1975, but by 1984 it already amounted to 34.1 per cent.

Accelerated growth under the Marcos regime did not, however, necessarily bring about technical, financial, or distributional efficiency on the part of the GOCC sector. Except in some areas like mining and quarrying, and transportation and communications where the more viable GOCCs usually operated, the technical or financial performance of the sector was generally lackluster.

An extensive study conducted by Leonor M. Briones,[29] for example, reveals that: 1) most GOCCs suffered from chronically low rates of return, excluding, or even including, national government contributions in the computations; 2) a similar trend could be discerned in terms of net loss, since (with or without national government subsidy which counts as income) the GOCC sector faced heavy financial losses amounting to at least hundreds of millions of pesos annually; and 3) massive liquidity problems and projects of doubtful viability mainly accounted for the financial condition of the GOCC sector as a whole. Loan portfolios of poor quality and high-frequency loan defaults plagued financial institutions which dominated that sector based on gross value added or GVA.

When indicators of redistributive potential are considered, the development impetus behind the proliferation of GOCCs further comes into question. Another survey done by Briones[30] concludes that public utility and infrastructure parastatals (which ranked only second to finance in terms of GVA) incurred uncalled-for losses, without actually providing efficient and/or reasonably-priced services to the public. Rosario M. Manasan and Corazon R. Buenaventura,[31] on the other hand, discovered that GOCC sectoral contribution to national employment was minimal, standing annually at less than 0.8 per cent between 1975 and 1984. A less extensive study authored by Katsumi Nozawa[32] tended to support these findings about the limited redistributive effects of GOCCs.

Notwithstanding its predominantly dismal performance, Philippine parastatals continued to make substantial claims on dwindling public resources throughout the period of authoritarian rule, even after the 1983 economic crisis that led to technocratic efforts at budget reductions. From 1975 to 1984, the national government extended a total of P50.4 billion in direct budgetary contributions alone (i.e., current and capital transfers) to GOCCs. The amount represented as much as 13 per cent of total public expenditures, and 16 per cent of total national government collections for the period. Yet, by the end of 1984, total GOCC liabilities and outstanding public debt (foreign and domestic) had ballooned to 3.7 times and 3.1 times, respectively, in comparison to those of the national government.

The 1983 crisis did not dampen these dole-outs. It even had the paradoxical effect of increasing the rate of equity infusion and subsidies -- both indirect payments -- to GOCCs, as Juanita Amatong[33] pointed out. Interestingly, she found that the national government did not allocate those transfers on the basis of profitability or investment requirements of state firms. All these measures widened the Philippine budgetary deficit. From about 3 per cent of GNP in 1978, the total budgetary deficit grew to almost 6 per cent by 1982. A major factor for this increase was the low level of self-financing undertaken by the GOCCs. They contributed only around 14 per cent of the resources required to finance their investment programs.[34] It is obvious from Table III.4 that the balance-of-payments crisis in 1983-1984 would have been substantially reversed, if budgetary support to parastatals had not been high. As Manasan and Buenaventura observed,

> If the budgetary burden of the government corporations is netted out of total government expenditures, budget surpluses would have been posted in 1978, 1979, 1980, 1983, and 1984. Also, for the ten-year period [1975-1984], there would have been a budget surplus equal to more than half a percent of GNP, instead of the budget deficit equal to 2.3 percent of GNP.[35]

Table III.4
Budgetary Deficit and Budgetary Support to GOCCs
(1981-1987, in million pesos)

Item	1981	1982	1983	1984	1985	1986
Budget Deficit	-12,146	-14,405	-7,431	-9,828	-11,187	-27,851
Add: Budgetary Support to GOCCs	12,280	11,276	7,630	19,922	16,092	31,202
Total	134	-3,129	199	10,094	4,905	3,351

SOURCE: Department of Budget and Management, Manila.

External credit and loans contracted by the national government -- especially for and in behalf of the Marcos cronies -- henceforth introduced another potent source of U.S. and multilateral influence on economic policy. These borrowings were guaranteed either by the national government or by the Central Bank under the plausible justification that by doing so the authorities could grant the private sector better terms than if the latter were to secure loans on its own. Under a guarantee scheme, the multilateral creditors and foreign banks had no compelling reason to screen specific borrowing proposals carefully since the national government or the Central Bank would be committed to repay them, regardless of whether the particular project was successful or not. Hence, the burden of both monitoring and risk was shifted to the Marcos regime (in which crony capital was a key pillar) and away from creditors and end-users. On the part of end-users -- whether crony private or state corporations -- the incentive to misuse and to overborrow funds was clearly present. On the one hand, the cronies were relieved of some of the foreign exchange risk; on the other hand, the loan criteria of the local authorities were less stringent and more malleable than those of foreign banking institutions.[36]

Foreign borrowings financed 60 per cent of the consolidated budget deficit. A huge portion of the external debt arose from budgetary outlays for equity and net lending to GOCCs alone. These outlays more than doubled from 13.6 per cent of the national budget in 1980 to 29.7 per cent by the time Marcos was deposed in 1986.[37] Between the 1979 oil crisis and the 1982-1983 global recession, the government had to pay more to service not only new loans, but also previously contracted ones. This occured as the proportion of medium- and long-term debt that came under high "floating interest rates" climbed from 26.9 per cent to 44 per cent. The remainder consisted of previously contracted, low-interest loans. In the same period, debt service increased from $786 million to a staggering $2,159 million annually as implicit interest rates more than doubled.

Ironically, in defending the use of loan proceeds in its last years in power, the Marcos technocrats would publicly insist on the soundness of its borrowing policy by citing the continuing acquiescence, albeit hand-in-hand with the increasingly interventionist policy stance, of foreign lenders.[38] The technocrats perversely, perhaps even deliberately, neglected the fact that donor decisions were no longer fully based on the feasibility of projects, but rather on state guarantees and crafty compromises.

The empirical evidence we have presented so far attest to the phenomenal and unbridled -- yet seemingly unjustified -- expansion of the GOCC sector. The national government under Marcos, however, did not fully takeover the primary burden of capital accumulation from the private sector. Neither did state accumulation become a substitute for, and at the expense of, private capital accumulation. Instead, as the scattered evidence in the following section tends to suggest, the deepening economic involvement of the authoritarian state was, in fact, a necessary condition to foster a specific type of private capital activity. For this phenomenon to be understood, there is need to also criticaly look into the development rationale behind *dirigisme*, and the relationship that it forged between the state and private domestic and foreign capital. In doing so, we may further shed light on the generally poor performance of the GOCC sector, the magnitude and complexity of the fiscal drain it imposed on the government, and the external dependency of the Marcos regime all throughout the authoritarian episode in the Philippines.

Technocratic Development and Its Implications for the Public Enterprise Sector

What accounts for the complexity of the development process under the Marcos regime was that crude realities of poverty, inequality, and social discontent were filtered through the lens of technocratic ideology - a set of deeply held assumptions and propositions that reorganize economic reality, as it were, in order to make it "manageable." This ideology should be analyzed, in the first place, in the context of the all-pervasive neo-Keynesianism held as sacrosanct economic doctrine in the top American universities where all the Marcos technocrats trained. Similar educational and generational experiences gave technocrats led by Finance Minister Cesar E.A. Virata and Economic Planning Minister Gerardo P. Sicat a strong sense of fraternity with their IMF and World Bank counterparts. Most of them were strongly influenced by the Keynesian "revolution" in the 1950s and the ideology of "technocracy" that spun off from it. The participation of these internationally known and respected managers in the martial law government gave Marcos' regime considerable credibility with the domestic and international business communities, foreign governments, and multilateral banks. As David G. Timberman noted, the technocrats "spoke the same language as foreign officials, their plans and presentations were impressive."[39]

Neo-Keynesian economics assumes that trade and fiscal imbalances often reflect causes deeper than excess demand. It calls not only for corrective macro-economic policies, but also medium-term structural reforms like shifts toward outward-oriented trade policies. It is apparently premised on the idea that productive efficiency, not political conflict or exploitation, is the *problematique* of underdevelopment. To be sure, the U.S.-IMF-World Bank conglomerate, and their favored civilian and military technocrats in the Philippines, envisioned *dirigisme* as a road to economic growth and global competitiveness. But the power and control that accompany state intervention and foreign investment hardly figured as a problem for the technocrats. In their rarefied view, the economic interest of Filipinos and foreign investors coincide in the commodities which the latter can presumably produce more efficiently and economically than can the national producers. In this sense, the work of the Marcos technocrats can not be seen merely as a series of negotiated attempts to iron out unstable compromises between opposing interests to the advantage of the industrialized Western economies.

Against this backdrop, we may consider the ramifications of technocratic ideology for Philippine development as summarized by Walden Bello and others:

> Economic development becomes, first and foremost, a technical problem that involves raising the rate of savings in an economy, channeling a substantial portion of savings into productive investments, and filling the gap between domestic and planned investment with external capital. Translated into public policy, this theory involves removing obstacles to entrepreneurial activity, increasing the rate of taxation to provide the government with funds to finance new infrastructure projects that spark economic activity, and facilitating the inflow of foreign investment and loans....
>
> .... The problem of poverty is transformed principally into a problem of scarcity. The solution to scarcity is economic growth. And the key to economic growth is efficient production. Redistribution of wealth is a secondary issue in the neo-Keynesian paradigm -- and one in which establishment economists expect will become less important with growth since the resulting larger income pie, though still distributed unequally, will provide larger absolute slices for all.[40]

Abstracted from the context of unequal relationships of economic and political power that create and perpetuate underdevelopment, it is thus hardly surprising that the technocrats found no difficulty supporting Marcosian *dirigisme*, as long as it did not supplant private capital. A huge GOCC sector, instead, was even seen by technocrats as a policy instrument for the state to stimulate private economic initiative. This was especially the case in areas where the private sector was either unable or unwilling to invest because of high technical or financial risks and excessive capital requirements. The proliferation of GOCCs could theoretically be defended by the technocrats, given the need to increasingly press the state into the service of private capital and achieve the outward-looking type of development and modernization demanded by the international capitalist order. That development model, of course, viewed redistribution essentially as a trickle-down effect of externally-oriented markets. It is doubtful, however, if the technocratic development model previously outlined could simultaneously advance welfare-maximizing goals. These goals include improved income distribution, greater worker participation in the control of parastatals, and upliftment of the social and economic status of disadvantaged groups in society.[41]

On the one hand, state entrepreneurship under the Marcos dictatorship evolved without an overall blueprint to capture the "commanding heights of the economy." The commanding heights could well have been the core of the GOCC sector. But the initial years of martial law was devoted by the technocrats primarily to dismantling the so-called Magna Carta of Social Justice and Economic Freedom which an increasingly nationalist Congress had passed into law in 1969. The "Magna Carta" decreed the establishment of basic and heavy industries, the reinstitution of economic protectionism, and the "Filipinization" of the economy as paramount objectives of national policy.[42]

The closest that the government came in terms of controlling vital areas of economic activity was a much-publicized $6 billion industrial reform package which Marcos unveiled in 1979 as a desperate effort to gain some legitimacy as an economic nationalist.[43] The package consisted of eleven major capital-intensive projects, including a copper smelter, an aluminum smelter, a phosphate fertilizer plant, an integrated steel mill, a petrochemical complex, and a heavy engineering industry. It was regarded by some technocrats as the base for moving into the intermediate and capital-goods stages of industrialization similar to the East Asian NICs. Then, it clashed with the World Bank's efforts to push industrial investment into export-oriented, labor-intensive manufacturing. The project was faced with financing shortfalls the moment the prospective financiers learned of the Bank's veto and backed out.[44] After the Bank issued the stern warning that most of the eleven projects "do not harmonize well with [its] policy reforms,"[45] the government retreated and abandoned their implementation.

On the other hand, where there was deepening state involvement in the economy it was generally complementary to, rather than a substitute for, private capital. The case of the National Development Company (NDC) -- which grew to become the second largest GOCC under the Marcos regime -- bears this out. After being dormant for two decades, the NDC was strengthened by two substantial infusions of capital, first from P50 million to P200 million, and then to as high as P10 billion in the 1970s. This enabled the NDC not only to take over existing firms, but also to broaden its areas of operations. It even funded an association of the country's major construction firms to enable them to compete more aggressively for lucrative foreign contracts.[46]

The NDC figured prominently in joint ventures with foreign capital and crony domestic capital. For instance, in promoting corporate-type agriculture in palm oil production, rubber- and rattan-growing, and reforestation, the NDC entered into joint ventures with MNCs and foreign firms like Dunlop Plantations, NDC-Guthrie Plantations, NDC-Sime Darby, and NDC-Guthrie Estates, Inc. Other GOCCs followed the NDC lead in teaming up with foreign and crony capital. Not surprisingly, the NDC alone had holdings in no less than 82 state and private corporations by the end of 1982. It was also a frequent recipient of medium- and long-term loans (extended through the national government) from both foreign commercial banks and multilateral institutions.[47]

The equally meteoric rise of financial GOCCs like the Philippine National Bank and the Development Bank of the Philippines is illustrative of how the Marcos regime not only assisted -- but even went to the extent of bailing out -- private enterprises in trouble. Both banks got heavily involved in financing (i.e., extending loans to, or acquiring equity in) a wide range of industries such as textile mills, hotel construction, mining, and management. Their involvement was primarily due to crony interests which built up through access to preferential loans, procurement, service contracts, and franchises.[48]

By 1982, the Development Bank of the Philippines found itself managing an assortment of as many as 87 corporations taken over from the private sector as a result of poor but highly leveraged management, bankruptcy, closures, and loan defaults. This took place in the face of a recession and waning investor interest in the Philippines following the notorious Dewey Dee incident. Dee, a prominent Filipino-Chinese businessman, skipped the Philippines in January 1981. He left behind about $100 million worth of bad debts owed to large domestic and foreign banks, and several ailing garment and textile firms. In the process, he provoked a financial panic in Manila. Frantic private bankers suspended their short-term loan operations or demanded immediate payment on current loans. Marcos turned to his technocrats and their World Bank allies for fear that the issue of favoritism, arising from Dee's loans, would severely damage the Philippines' credit rating. Cabinet and World Bank technocrats agreed that a "rescue-of-troubled companies fund" had to be set up. But, as Finance Minister Virata bluntly put it, access to these funds was "premised on [the cronies'] subsidiaries to be sold."[49]

Crony bail-outs encouraged the Marcos regime to acquire an extensive stake in sectors where direct state investment appeared small. Favored businesses rescued by the Philippine National Bank, the Development Bank of the Philippines, and other state financing agencies after the Dewey Dee fiasco were forced to divest themselves of unprofitable subsidiaries. Their loan exposures were converted into equity holdings of state banks which gained control over them. A new Development Bank subsidiary -- one more GOCC added to the government list -- was even set up to supervise acquired accounts.[50] Of those troubled firms transferred to the Philippine National Bank and the Development Bank of the Philippines by default, the largest were in mining and sugar trading which suggests the importance of trends in international commodity markets for the country's economic health.[51]

Unrestrained parastatal growth, therefore, also derived support from the ideology of "technocratic modernization." The industrial development envisioned by the technocrats and multilateral and private commercial creditors could be promoted in a way that did not disturb but, in fact, reinforced the prevailing international power structure. The cronies played a very important part in this process. Links between crony private firms and certain public enterprises facilitated commodity production in otherwise heavily "regulated" industries. This is evident from the number of agricultural and mining corporations that came under state control in the 1970s, as presented earlier in Table III.3. The bulk of the financing and technology requirements for these public enterprises were obtained from the cronies through their business ties with foreign firms and MNCs.

In the process of turning private enterprises "away from the relatively small markets associated with import substitution toward the much larger opportunities flowing from export promotion,"[52] the authoritarian state ran into overt opposition from a sizeable national capitalist class. Under martial law (1972-1981), domestic manufacturers and investors were perpetually threatened of being squeezed between highly capitalized GOCCs and powerful MNCs. The elimination of protective tariffs and special subsidies vis-a-vis the creation of investment and export incentives to erect the "export platform," led these entrepreneurs to undermine the policy directives of the Marcos regime. Some resorted to clever political tactics and maneuvers to avoid incurring the wrath of the dictatorship; others managed an uneasy alliance with center-left forces. With the collapse of rural and urban development programs and export-led industrialization in the face of contracting markets and high interest rates in the 1980s, the IMF-World Bank and the Marcos technocrats were left with a purely repressive program of liberalization. Its main tenets were debauching the currency, battering down tariff walls, transforming the financinal structure, and salvaging crony firms which only provoked intense opposition from the national capitalist class.[53]

By then, however, Filipino industrialists had found common ground with the more ideologically-oriented opposition centered in the universities and the disgruntled working classes, and after the 1983 Aquino assassination, with cause-oriented groups calling for the ouster of Marcos. Equally disturbing to foreign creditors and MNCs was the possible resort to violence -- a fear underlined by the alleged participation of businessmen in a wave of bombings that hit Marcos-linked crony establishments in 1980-1981. As the World Bank reported:

> In addition to trying to influence policymaking, the business sector can join in the political activities designed to remove Marcos along with his economic approach. Business sector support for the opposition press (albeit subdued), opposition movements in exile, and ... even the recent bombings have been attributed to elements of the local business sector.[54]

The need to placate the domestic entrepreneurial classes in order to implant the technocratic model of development in the Philippines thus neatly coincided with the Marcos clique's drive to preserve its own economic basis. Marcos saw quite accurately that political power was intimately linked to wealth. He sought to amass fortune and, equally important, to make sure that potential rivals were deprived by his own cronies of opportunities to amass wealth that might be used against him.

The political clout that crony firms enjoyed within the GOCC sector and their sheer size made them a favorite local partner of foreign corporations that had to contend with constitutional limits on foreign ownership. Increasingly, decisions concerning the economy were made by the cronies, only a very small number of whom proved to be competent businessmen. Apart from the control of high-profile GOCCs like the Philippine Sugar Commission by Marcos' law school classmate, fraternity brother, and close friend Roberto S. Benedicto, the cronies engaged in partnerships, joint ventures, and dummy arrangements with foreigners. The team-up between Toyota of Japan and the Delta Motors Corporation owned by Marcos-business associate Ricardo Silverio blatantly illustrates the crony link with foreign capital. The profligacy and ostentatious display of wealth by the Marcoses owed much to the "commissions" and "kickbacks" they received directly from their cronies and foreign cohorts.[55]

That cronyism was further "subsidized" by international creditor agencies points to the extent to which the country was placed in the hands of foreign capital. As the economy "was sliced into different spheres of influence ... handled by a relative, a close friend, or a trusted crony [of the Marcoses],"[56] many of their profit-making ventures received valuable assistance from the IMF and the World Bank. This was aside from the state-guaranteed loans owed to foreign private banks.

The building of Metro Manila's North Expressway by Rodolfo Cuenca's Construction and Development Corporation of the Philippines, for instance, was partly financed by the World Bank. This firm was awarded numerous government contracts (amounting to 80 per cent of its construction work) because of Cuenca's connections with Marcos as presidential campaign fund-raiser and golf partner. This made it easy for Cuenca's firm to team up with big private firms like Atlantic Richfield Co. of Los Angeles or with MNCs like Kawasaki Steel. It also allowed Cuenca to borrow heavily from state and foreign banks in order to branch out to real estate, mining, and resort hotels. By 1980, the Construction and Development Corporation of the Philippines had emerged as one of the Philippines top 10 companies in terms of assets and one of the top 15 in net sales.[57] In this manner, the civilian and military technocracy initially had no qualms in teaming up with Marcos' cronies -- the most politically reliable representation of private capital -- to impose a program of "development from above."

Several cronies later boldly designed and availed of incentives and exemptions granted by Marcos at the expense of U.S. firms and MNCs.[58] But foreign banks and multilateral institutions took advantage of the Dewey Dee incident in 1981 to exercise tighter control of the GOCC sector and eliminate the competition they began to face from some cronies. The first key point was the creation of a "World

Bank Cabinet," with Finance Minister Virata named to the new post of Prime Minister. This was followed by a P1 billion "rescue of troubled-companies fund" set up by the government with the help of both IMF and World Bank, as mentioned earlier. The conditions laid were for the defaulting firms and their subsidiaries to be foreclosed, their controlling shares transferred to the state, and their management placed under the technocrats.[59]

Such moves were obviously meant to put the cronies back in their place as junior partners of foreign capital. They certainly could not be eliminated because of the spectre of economic collapse that would result from liquidating their huge collective liabilities totalling several billions of pesos. Equally important, World Bank and IMF officials realized that crony capital was a vital pillar of authoritarian rule. After all, Marcos was still considered an ally by these multilateral agencies whose interest in integrating Philippine markets to the global capitalist economy depended on cheap labour, the marginalization of the national bourgeoisie, and technocratic predominance.

Summary

The preceding analysis has sought to place "crony capitalism" in its proper political context. This hopefully goes beyond ordinary notions of corruption in explaining cronyism as a defining characteristic of Philippine authoritarian rule.[60]

Instead, this chapter has looked into both the demands of regime survival and the economic development model it entailed between 1972 and 1986.

We suggest that the phenomenon of cronyism under Marcos be viewed as the use of state power for private, rentier interests. This in a way complemented, if not supported, the logic of technocrat-sponsored development before the economic crisis of 1983. We need to further explore these emergent themes in state entrepreneurship in terms of how the public corporate form became a convenient vehicle for transferring public wealth to a private few and for entrenching vested interests in the government corporate sector. In this fashion, we can fully capture the economic legacy of the Marcos regime which redemocratization under the Aquino government struggled to end. Chapter IV addresses these concerns.

NOTES

[1]Quoted by William Pomeroy, **An American-Made Tragedy** (New York: International Publishers, 1974), p. 143.

[2]For an outstanding analysis of the pre-martial law political order in the Philippines, see Renato Constantino, **The Philippines: A Past Revisited** (Quezon City: Taal Publishing, 1975); Amado Guerrero, **Philippine Society and Revolution** (Oakland, CA: International Association of Filipino Patriots, 1979); and Steve Shalom, "U.S.-Philippine Relations: A Study of Neocolonialism," unpublished Ph.D. dissertation, Boston University, Boston, MA, undated.

[3]The national bourgeoisie received political support from many members of the bicameral Congress, and later on, from a nationalist Constitutional Convention which was tasked to rewrite the erstwhile 1935 Constitution.

[4]See Renato Constantino, **The Nationalist Alternative** (Quezon City: Foundation for Nationalist Studies, 1979). The more significant causes for the crisis of Philippine agriculture in the 1960s were the expansion of the cultivated area devoted to cash crops for export (like sugar and coconut meat) at the expense of food corps, and the retrograde system of land tenure in which millions of Filipino peasants were trapped. In this manner, Constantino argues, the landlord system stifled the full productive power of Philippine agriculture.

[5]Cheryl Payer, **The Debt Trap** (New York: Monthly Review Press, 1974).

[6]See Ferdinand E. Marcos, **The Democratic Revolution in the Philippines** (Englewood Cliffs, NJ: Prentice-Hall International, 1974), **Notes on the New Society in the Philippines** (Manila, 1974), and **The Third World Alternative** (Manila: Ministry of Public Information, 1980). In all three books, Marcos claims that authoritarian rule was a historically determined process which was meant to end the monopoly of power by the landed oligarchy and their allies as well as to address the problem of widespread violence and insurrection perpetrated against the state by the rising tide of communism. Therefore, martial law, according to this thesis, was a "revolution of the center," combining a "pacification" campaign based on urban and rural development with an agenda for economic liberalization to make the Philippines more competitive in international markets.

[7]Marcos issued Proclamation No. 1081 on 21 September 1972 to declare martial law throughout the Philippines. The proclamation cited the President's powers as commander-in-chief of the armed forces under the 1935 Constitution -- otherwise known as the "national security doctrine" -- for its constitutional basis.

[8]Marcos, **The Third World Alternative**, p. 25.

Scholars who take either a dependency or class approach to Philippine authoritarianism debunk Marcos' version of **political institutionalization** in his earlier cited works. This was also popularized by technocrats like Onofre D. Corpuz, **Liberty and Government in the New Society** (Manila, 1973), as "constitutional authoritarianism," based on Samuel Huntington's theory that the building of order and authority had to precede the granting of political representation to the masses in many LDCs. On the contrary, these scholars forcefully argue that multilateral lending agencies emerged as alternative conduits of American influence to allied, albeit debt-dependent, authoritarian regimes like the Philippines as a result of the crisis of U.S. foreign policy. Such crisis emerged after the U.S. debacle in Vietnam and the parallel crisis of U.S.-supported oligarchical democracies in Latin America which translated into the growing unpopularity of bilateral aid. Authoritarianism is thus seen by these scholars as a powerful and novel mechanism for economic domination by external, particularly American, interests.

For a more extensive account, see Walden Bello and Elaine Elinson, **Elite Democracy and Authoritarian Rule: The Crisis of the Political Regime of U.S. Domination in the Philippines and the Third World from the Kennedy Years to the Reagan Era** (San Francisco, CA: Philippine Solidarity Network, 1981); Walden Bello, David Kinley, and Elaine Elinson, **Development Debacle: The World Bank in the Philippines** (San Francisco, CA: Insitute for Food and Development Policy, 1982); Robin Broad, **Unequal Alliance: The World Bank, the International Monetary Fund, and the Philippines** (Berkeley, CA: University of California Berkeley Press, 1988); Alejandro Lichauco, **Nationalist Economics** (Quezon City: Institute for Rural Industrialization, Inc., 1988); Payer, **The Debt Trap**; and Robert B. Stauffer, "The Political Economy of Refeudalization," in D. Rosenberg, ed., **Marcos and Martial Law in the Philippines** (Ithaca, NY: Cornell University Press, 1979), p.196.

[9]World Bank Memorandum from William Ascher to Larry Hinkle, "Political and Administrative Bases for Economic Policy in the Philippines," Washington, D.C., 6 November 1980, p. 6. This is the "Ascher Memorandum" on economic restructuring under martial law.

[10]Bello, Kinley, and Elinson, **Development Debacle**, p. 31.

[11]This definition was officially adopted by an **ad hoc** committee created by the Marcos Cabinet in 1984. This is also the term we shall use for the study.

For a thorough discussion of the working concepts of GOCCs, see Leonor M. Briones, "The Role of Government-Owned and Controlled Corporations in Development," **Philippine Journal of Public Administration** 29 (October 1985): 365.

[12]Jose P. Tabbada, "Explorations on the History of State Intervention in the

Philippine Economy: The Role of Public Enterprises," **Philippine Journal of Public Administration** 29 (October 1985): 438. Tabbada suggests that cycles of state intervention in the Philippines are reflective of the strength of its domestic capitalist class. Hence, the (pre-martial law) economic liberalization Marcos and his predecessor intitated could have so weakened the local bourgeoisie relative to performing its capital accumulation function that the martial law state had to assume an importance in the economy that was greater in scope and intensity than during the preceding periods.

[13]*Ibid.*, pp. 423-432. See also Leonor M. Briones and Aileen R. Zosa, "Privatization of Public Enterprises in the Philippines: Policy and Implementation," country paper presented at the Project Planning Meeting, Asia-Pacific Development Center, Kuala Lumpur, Malaysia, 2-4 April 1988, p. 2.

[14]The **commanding heights** refer to those basic industries like steel, iron, shipbuilding, and aluminum which are necessary in order for a developing country to industrialize.

[15]World Bank, **The Philippines: Priorities and Prospects for Development** (Washington D.C.: The World Bank, 1976), p. 31.

[16]*Dirigisme* in the French sense contains the idea of directional thrust, or orienting power, in the hands of the state or government. The term is used more precisely in the Philippine context to refer to a market tightly controlled by the pro-Marcos faction of the elite.

[17]See, among others, Manuel Castells, **The Economic Crisis and American Society** (Princeton, NJ: Princeton University Press, 1980). This intensified drive to "export" capital to LDCs is also termed by Marxist scholars as the "crisis of overproduction."

[18]Vicente Paterno, "The BOI: Its Role in the Philippine Industrial Development," **Philippine Quarterly**, June 1973, p. 29.

[19]There is scholarly consensus on this point, insofar as the various approaches (other than the Marcos' "theory" of **political institutionalization**) on Philippine authoritarianism are concerned.
See note 8.

[20]This practice of covering for the "hidden wealth" of the Marcoses outside of the Philippines is usually called **parastatal or corporate layering.** Many of these corporate layers existed in name only and had for their officers only one or two nominees or "dummies" who acted for and in behalf of the Marcoses or their cronies.

[21]Quoted by Ricardo Manapat, **Some Are Smarter Than Others: The History of Marcos' Crony Capitalism** (New York: Aletheia Publications, 1991), p. 92.

[22]Commission on Audit, **1984 Annual Financial Report**, vol. II: Government-Owned and Controlled Corporations (Quezon City: Commission on Audit, 1985); and Zinnia F. Godinez, "Privatization and Deregulation in the Philippines: An Option Package Worth Pursuing," **ASEAN Economic Bulletin** (March 1989): 261-263.

[23]Jacques Pelkmans and Norbert Wagner, "Towards More Effective Markets in ASEAN and the EC," in J. Pelkmans and N. Wagner, eds., **Privatization and Deregulation in ASEAN and the EC: Making Markets More Effective** (Singapore: Institute of Southeast Asian Studies, 1990), p. 19.

[24]On Imelda Marcos' own set of crony GOCCs, see **IBON Facts and Figures**, 31 December 1985.

[25]Godinez, "Privatization and Deregulation," p. 263.

[26]**Merit goods or wants** are specific services which yield benefits that are considered more desirable by a community than may be individually perceived. For instance, the education of all the citizenry is desirable because it raises a society's standard of judgment and therefore the total national well-being.

[27]Stephan Haggard, "The Philippines: Picking Up After Marcos," in R. Vernon, ed., **The Promise of Privatization** (Washington D.C.: Council for Foreign Relations, 1990), p. 93.

[28]Juanita D. Amatong, "Explicit Budgetary Contributions to Public Enterprises," paper presented at the International Seminar on the Role and Performance Evaluation of Public Enterprises, Commission on Audit, Quezon City, 17-27 June 1985, p. 3.

[29]Briones, "The Role," pp. 377-380.

[30]Leonor M. Briones, "Financial Management in Five Selected Public Utility/Infrastructure Corporations," paper prepared for the Philippine Institute for Development Studies, Makati, 1985.

[31]Rosario M. Manasan and Corazon R. Buenaventura, "Macro-Economic Overview of Public Enterprises in the Philippines, 1975-1984," **Philippine Journal of Public Administration** 29 (October 1985): 342-343.

[32]Katsumi Nozawa, "Privatization Policy in the Philippines," paper presented before the School of Economics, University of the Philippines, September 1991, pp. 9-10.

[33]Amatong, "Explicit Budgetary Contributions," pp. 9-10.

[34]Jose P. Leviste, "The Management of Public Enterprises and the Monitoring of Government Corporations," **Philippine Budget Management** 9 (June 1985): 51.

[35]Manasan and Buenaventura, "Macro-Economic Overview," p. 347.

[36]Briones, "The Role," p. 378.

[37]World Bank, **Philippines Economic Report: A Framework for Economic Recovery** (Washington D.C.: World Bank Country Programs Department for the East Asia-Pacific Region, 1986).

[38]Bello, Kinley, and Elinson, **Development Debacle**, pp. 166-181. The authors describe in this chapter how new credit programs such as the Structural Adjustment Loan of the World Bank -- coupled with the IMF standard tonic of devaluation -- were unveiled in response to the economic crisis in the Philippines and other LDCs. The crisis was precipitated by mounting levels of external debt and the worldwide recession. The fiscal reforms, they argue, afforded multilateral agencies the opportunity to complete the opening up of the Philippine economy "to the winds of international competition." See also Broad, **Unequal Alliance**.

[39]David G. Timberman, A **Changeless Land: Continuity and Change in Philippine Politics** (Manila and Singapore: The Bookmark, Inc., and Institute of Southeast Asian Studies, 1991), p. 86.

Marcos recruited most of his technocrats from the private sector and academe, specifically the University of the Philippines, after he became President in 1965. This team of economists and managers were largely responsible for setting up the institutional framework of export-oriented industrialization after import-substitution and foreign exchange controls failed to generate economic growth in the 1950s and 1960s.

[40]Bello, Kinley, and Elinson, **Development Debacle**, pp. 203-204.

[41]For an excellent analysis of why the parastatal sector in LDCs under military or authoritarian control generally performs poorly in achieving welfare goals, see Abdullah bin Abdul Rahman, **Government and Public Enterprises in Developing Countries** (Malaysia: Percetakan Adabi SDn., 1982).

[42]The Magna Carta (originally House Joint Resolution No. 2) was signed into law by Marcos on 4 August 1969. But martial law caused the Department of Finance, the National Economic and Development Authority, and the Board of Investments to repudiate the Magna Carta by de-listing heavy industries from the government's Investment Priorities Plan and by completely restructuring the existing tariff system. These moves were defended by the technocrats on the ground that the state's emphasis had shifted to labor-intensive, export-oriented industries supported by foreign investments. See Lichauco, **Nationalist Economics**, pp. 181-188; 204-214.

[43]"FM launches 11 major projects," **Philippines Daily Express**, 29 September 1979; "A giant stride," **Times Journal**, 2 October 1979; and "Industry: all eyes on eleven giants," **Asiaweek**, 6 June 1980, p. 26.

The 11 industrial projects were launched at a time when martial law was faced with a "crisis of legitimacy." The crisis owed to the fact that leftist forces no longer posed a serious threat to national security and so the constitutionality of Marcos' continued exercise of extraordinary powers came into question. The opposition in the Philippines were also vocal in claiming that one-man rule had so far failed to propel the Philippines to socio-economic development.

[44]"WB wants 2 projects deferred," **Bulletin Today**, 19 December 1979; "Prudence proposed," **Times Journal**, 22 March 1980; and "Criteria set for 11 major projects," **Times Journal**, 20 November 1981.

The *coup de grace* to the 11 projects was delivered in 1981 by Prime Minister and Finance Secretary Cesar E.A. Virata, the IMF-WB's most trusted technocrat, with a new, rigid set of criteria for project implementation.

[45]World Bank Memorandum from Bruce Jones, "Working Level Draft CPP [Country Program Paper]," Washington D.C., 29 August 1980, p.7.

[46]**IBON Facts and Figures**, 30 September 1983, p. 9.

[47]*Ibid.* The partnership between crony and foreign capital is also the subject of Mamoru Tsuda's, **A Study of Japanese-Filipino Joint Ventures in the Philippines** (Quezon City: Foundation for Nationalist Studies, 1978), pp. 120-121.

[48]Haggard, "The Philippines," pp. 93; 98-101. See also Tabbada, "Explorations on the History," p. 435.

[49]Quoted by Bello, Kinley, and Elinson, **Development Debacle**, p. 191. The Dewey Dee affair only unmasked the magnitude of the problems that were soon to confront state banks like PNB and DBP in the face of numerous defaults on crony loan repayments.

[50]For an extensive account of major (crony) corporations bailed out by the Marcos regime in the 1980s, see John E. Lind, **Philippine Debt to Foreign Banks** (California: Interfaith Committee on Corporate Responsibility, 1984), pp. 10-14.

[51]Haggard, "The Philippines," pp. 98-99.

[52]Robert McNamara, "1975 Address to the Board of Governors," The World Bank, Washington D.C., 1975, pp. 28-29.

[53]The disastrous effects on the domestic bourgeiosie of these post-1979 development strategies are discussed by Bello, Kinley, and Elinson, **Development Debacle**, pp. 133-139; 170-173; Lind, **Philippine Debt**, pp. 2-15; and Lichauco, **Nationalist Economics**, pp. 220-230.

Some authors like Bello **et al.**, and Lichauco contend that "technocratic modernization" is also testament to the failure of a key model for Third World economic development. Unable to resolve both an existing and a new set of contradictions -- specifically the lack of efforts to alter relations of political and economic equality as well as the gradual disappearance of docile cheap labor and an expanding international market -- any program of rural and urban development, trade liberalization, and export-oriented industrialization was bound to fail, just like the elite democratic model it had replaced in the early 1970s.

[54]Ascher Memorandum, p. 9.

[55]Manapat, **Some Are Smarter**, pp. 99-136; 267-272. The author argues that the manner in which these and other cronies systematically plundered the economy exemplify how wealth and power interacted to produce a new elite during the Marcos years.

[56]*Ibid.*, p. 85.

[57]See "Business empires that thrive under martial law," **Philippine Times**, 5 November 1979; and **IBON Facts and Figures**, 15 February 1981, p. 7.

Like most other cronies, Cuenca had little success in his early business career until he forged close ties with the Marcoses.

[58]Louis Kraar, "The Philippines Veers Toward Crisis," **Fortune Magazine**, 27 July 1981, pp. 36-37. For instance, a British-American owned filter company was put out of business by crony Herminio Disini when he secured state imposition of a 100 per cent tariff on the former's imported materials. Likewise, car industry magnate Ricardo Silverio angered General Motors and Ford when he obtained an exemption from a presidential decree that imposed restrictions on the exportation of locally-made auto spare parts.

CHAPTER IV

A MODERN PRACTICE OF EMPIRE: PLUNDERING THE PUBLIC ENTERPRISE SECTOR

> Entrepreneurs were successful in securing continued government protection so as to maintain and expand profits without having to become innovative and cost-effective...
>
> USAID Report[1]

> I never figured crony to be a bad word.
>
> Marcos-crony Rodolfo Cuenca[2]

This chapter examines specifically the impact of cronyism on state-owned enterprises in the Philippines. Our case profiles of the Government Service Insurance System (GSIS) and its corporate subsidiaries help us establish the link between the systematic plunder of the economy by a favored few and the politicization and corruption of economic policy-making. The legal and political framework of authoritarian rule facilitated the control of these corporations by the crony private sector. These problems are not new. But the extent of damage that cronyism left behind make authoritarian rule a singular experience in Philippine history. It thus provides the necessary backdrop for the challenge faced by the post-Marcos regime.

As the insurance agency for some 1.5 million government employees at present, the GSIS is an institutional investor. Created by legislative fiat as a non-bank government financial institution in 1936, the GSIS replaced the erstwhile pension system. It originally set up two trust funds to achieve the objective of promoting "the efficiency and welfare of government employees."[3] These funds were generated from the insurance premiums paid by permanent employees of the national government on the basis of compulsory membership in the system, and from counterpart contributions made by employer-agencies. Premium collections were, in turn, invested to build the necessary actuarial reserves of the GSIS. A Board of Trustees administered the funds for its members for purposes of extending loans, providing certain social services like housing, and financing retirement and other benefits intended to cushion against the adverse economic effects of death, disability, and old age.

When martial law was imposed in 1972, the usual institutional checks on executive power were either abolished or neutralized by Marcos' assumption of both emergency and extraordinary powers as commander-in-chief of the armed forces.[4] In a series of landmark decisions, the Supreme Court further upheld these powers on the ground that they were political in nature and, therefore, beyond the ambit of judicial inquiry. Political enemies and media critics of the Marcoses were thus easily arrested, detained, and tortured, while some managed to leave the Philippines and seek political asylum in the U.S. The national government was reorganized afterwards in an effort to replace incumbent public officials with Marcos' supporters. It was then that the newly constituted GSIS management under Marcos-crony Roman Cruz, Jr. began to take an active and unprecedented role in stock-and-bond investments in the Philippines and elsewhere.

To overcome the restrictions on investments strictly imposed by the 1936 law,[5] Marcos -- in his capacity as the only law-making power -- revised the GSIS charter and issued Presidential Decree No. 1146 in 1977.[6] The amended charter expanded GSIS membership benefits under five trust funds.[7] But it also contained Section 33 which provides that funds not needed to meet current obligations "may be invested under such terms and conditions as may be determined by the Board [of Trustees]." When read in conjunction with the Board's power "to form, organize, invest in, establish and maintain subsidiary or subsidiaries" under Section 38 (l), it provides the legal and policy justification for the creation. takeover, or control by the GSIS of every conceivable type of corporate asset. The extensive powers that the 1977 charter conferred upon the GSIS trustees would not have escaped harsh criticism from the print and broadcast media, which was considered the most independent in Asia before 1972. But martial law allowed the military to confiscate, takeover, or operate any and all media facilities throughout the country, even without judicial consent.

In time, one-man rule brought forth sharp changes in many of the long-standing insurance and investment policies of the GSIS. These changes both facilitated, and resulted from, the use of funds held in trust by the GSIS for the private accumulation of the Marcos family and their supporters. Accordingly, the crony raid of the GSIS bureaucracy was two-pronged:

One path that cronyism took was the diversion of GSIS funds from membership insurance benefits to either crony private enterprises or the partisan political activities of the Marcoses. The majority of GSIS investments until 1971 came from policy, salary, and housing loans to its members. These loans represented 82 per cent of all its investments. By 1980, however, the GSIS executive (composed of its president, senior vice-presidents, and corporate secretariat) had allowed these loans to decline dramatically. As we shall see, new policies and schemes devised by a Marcos-appointed board of trustees, with vast powers under a new GSIS charter, led to this decline. But they had the inevitable effect of placing the GSIS in a position where it could "no longer meet the pension and other claims of government employees by 1980. Despite record revenues from its members, the GSIS began to suffer liquidity problems..."[8]

In the first place, housing loans for government employees were gradually reduced and phased out.[9] Instead, pro-Marcos politicians as well as opposition leaders who had been co-opted by the regime became recipients of so-called "clean loans" for housing at the behest and on the guaranty of the First Lady, Mrs. Imelda Romualdez-Marcos.[10] Most of these loans were free of interest.

Secondly, the GSIS board suddenly veered away from its practice of investing only in "blue chip" stocks and viable commercial and industrial enterprises beginning in the late 1970s. Practically any crony-owned private firm received substantial loan infusions from the GSIS, as long as the formal application came with the endorsement of the Marcoses. A few of these applications even contained margin notes of the President directing the GSIS on how to proceed with the processing of the required documents.[11] Perhaps, the most glaring examples were Rodolfo Cuenca's Construction and Development Corporation of the Philippines and Herminio Disini's Herdis Group of Companies. Default in loan repayments and subsequent state bail-outs led Marcos to convert their debts into equity -- an implicit admission on the part of the government that these cronies could not or would not pay the debts at all. The GSIS is presently still trying to recover its 10 per cent bond exposure in CDCP which has since gone bankrupt and been renamed.[12] Loans and investments like these totalled P5.3 million by 1986. As a national daily put it, these dubious outlays "should not have been made in the first place but the GSIS had been the main source of funds of the previous administration in financing [crony] projects."[13]

Thirdly, GSIS trust funds were not only siphoned off to crony businesses; the Marcoses themselves were also directly involved. There were clear indications, for instance, that some of these funds went to finance Mrs. Marcos' "pet projects" as well as her trips around the world that often included the GSIS president in her travel party.[14] Between 1972 and 1980, GSIS loans and investments in Marcos-connected corporations and Imelda-inspired projects rose to $843 million or as much as 65 per cent of the $1.3 billion the GSIS earned as income by the end of 1980. This was a

220 per cent increase over the corresponding figure in 1971 for GSIS investments in stocks and bonds of both public and private corporations.[15]

The other -- and perhaps more blatant -- means by which cronyism permeated the GSIS bureaucracy was through the growth of enclaves or monopolies virtually in every area of its operations. By the late 1970s, it became evident that the GSIS board was determined to use its *carte blanche* in investment to move beyond its traditional mandate and become a key economic actor as well. Investible funds for servicing social insurance went down to only around 39 per cent to 42 per cent after 1980. The bulk was shifted to stocks and bonds, especially of "showcase corporations" in the travel and tourism field.[16] Thereafter, the GSIS became "the only state insurance agency in the world which manages a variety of enterprises such as hotels, banks and airlines."[17]

As the GSIS came to be "perceived as a cornucopia of goodies,"[18] the cronies created, and partitioned among themselves, different forms of non-competitive or monopoly rents. Marcos blatantly used the GSIS and its corporate subsidiaries to dispense patronage and preserve the economic basis of his authoritarian regime.

First of all, the GSIS trustees and top executives were drawn from among the most loyal allies and business associates of the Marcoses. They were further allowed to hold interlocking directorships and collect handsome director fees in numerous government-owned and controlled corporations (GOCCs). Roman Cruz, Jr., who served as GSIS president and general manager in the entire duration of one-man rule (1972-1986), held a total of no less than 18 GOCC directorships in 1984 alone.

GSIS board members during the same period also sat in many other parastatals. These included, among others, Gen. Fabian C. Ver, Armed Forces chief and Marcos' cousin and most loyal general; Aber P. Canlas, an Imelda protege and public works deputy minister; Marcos presidential assistant Juan C. Tuvera; Civil Service chief and former Marcos aide Jacobo Clave; and cronies or crony-associates like Leonilo M. Ocampo, Lino Illera, Benjamin C. Morales, and Benjamin del Rosario.[19] The numerous directorships held simultaneously by these GSIS trustees were in addition to their directorships in private firms. Cruz, for instance, became chair or director in another 16 crony-owned corporations which obtained generous loans or low-interest loans from the GSIS.[20]

That economic giants in the private sector also became the leading lights in the GOCC sector is further evidenced by the way the cronies exploited their ties with the Marcoses to gain control of profitable GSIS-related activities. The Enriquez and Panlilio families were among the closest of Mrs. Marcos' friends and provincemates. In addition to expanding their catering, hotel, and resort interests under Imelda's patronage, many of their 16 firms became recipients of huge GSIS loans. Their friendship with Roman Cruz (himself an Imelda crony) further gave them the exclusive contract as supplier-caterer of the GSIS subsidiaries, which Cruz himself headed. The contract was, of course, approved *pro forma* by the GSIS board, of which Cruz was vice-chairman.[21]

But nowhere is the magnitude of corruption associated with crony empire-building more clearly illustrated than in GSIS reinsurance. This was especially the case since the courts adopted a "hands-off" policy in determining the legitimacy of executive acts on the ground that they were non-justiciable. Prior to martial law, the GSIS insured its physical assets with various private firms. The procedure involved called for competitive bidding and prescribed a fixed period for insurance renewal. A few years after the Marcos-appointed trustees took over, the Integral Factors Corporation of Roberto S. Benedicto -- one of Marcos' best friends and fraternity brother whom we had cited in the last chapter -- received the exclusive and extremely profitable contract to act as sole agent of the GSIS with respect to the insurance cover of these assets and its new subsidiaries.[22] This move signalled Benedicto's expansion into the government sector. The initial step in Benedicto's "crony diplomacy" actually lay in currying the favor of Japanese politicians and big corporations, such as Marubeni, when he was Marcos' Ambassador to Japan. Benedicto soon developed an extensive overseas trading network in sugar and established himself as a shipping magnate through links with other presidential cronies and multinational corporations (MNCs). At the height of his power, Benedicto held no less than 85 corporations, 106 sugar farms, 14 *haciendas*, other agricultural lands, 17 radio stations, 16 television stations, 2 telecommunications networks, 7 high-rise buildings, 10 vessels, and 5 aircrafts.[23]

Marcos reinforced Benedicto's GSIS monopoly with a presidential decree ordering all government offices to insure with the Integral Factors Corporation, instead of the GSIS. Benedicto, in turn, reinsured all policies with the GSIS, earning a fat profit in the process without undertaking any risk. For 1985 alone, Benedicto received a premium of $25 million from his reinsurance business. Still,

> ...IFC in blatant breach of its fiduciary duty as agent, did not make any formal accounting nor did it make any regular remittance of the millions of pesos in premiums it received in trust for the GSIS and was able to obtain a very profitable 'float' or temporary use of government funds ...[24]

For their part, the GSIS subsidiaries refused to submit to state audit all throughout the Marcos regime. Until 1985, they even claimed that they were not regular government agencies because they were either created under the Corporation Code[25] rather than by special charter, or through foreclosure proceedings. Special charter (also known as original charter) refers to the incorporation of GOCCs by presidential or legislative fiat, in contrast to the registration of private firms with the Securities and Exchange Commission. Neither did anybody question the position adopted by the GSIS firms, for fear of being harassed by the cronies and the military. When the GSIS was audited after Marcos' downfall, it was discovered that $285,000 in cash advances to some 20 GSIS and subsidiary officials remained unliquidated.[26] This was a clear violation of state regulations that require liquidation of accounts within 10 days of project completion. The Supreme Court has since ruled out any distinction between GOCCs based on the manner in which they were formed. In a major ruling issued amidst strong public clamor for Marcos to resign, the Court finally declared that all GOCCs are within the embrace of the civil service.[27] But it reserved judgment on the status of private corporations taken over by the government in foreclosure and similar proceedings.

The foregoing illustrates how a parent GOCC like the GSIS was "easily milked, raided, looted and plundered"[28] in two different -- albeit complementary -- directions. Monopoly rentierism was enhanced by the absence of traditional checks and balances and the curtailment of basic individual rights under martial law. But one-man rule also unnecessarily exposed GSIS equity investments in corporate subsidiaries to high risks. We now turn to these subsidiaries by thematically analyzing the policy distortions that arose from cronyism as well as the directions that state entrepreneurship assumed.

Arconal NV: A Case in Corporate Layering

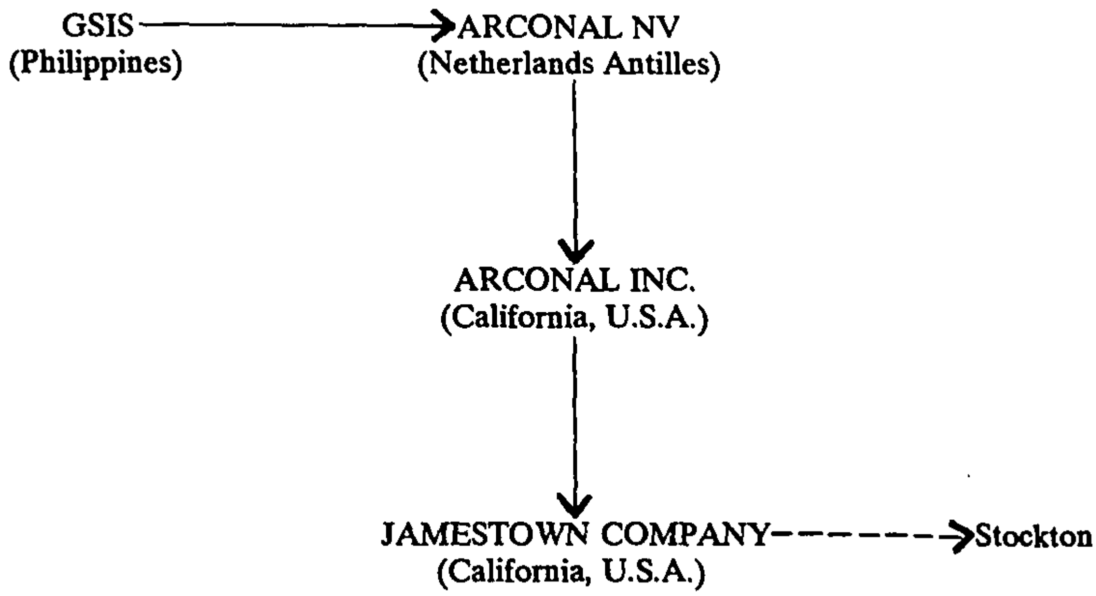
One of the most controversial assets acquired (and privatized) by the GSIS was its so-called "Stockton property." This consisted of a 506 square meter-lot and four-storey building located at 212 Stockton Street in San Francisco, California's famed Union Square. The Philippine Air Lines (PAL) -- another GSIS subsidiary -- held a forty-year (1946-1986) master lease over the property. Then, as now, it was considered as one of the most expensive piece of real estate in the entire U.S.[29]

Precisely because of its value, the Stockton purchase sparked charges of ill-gotten and hidden wealth of Marcos' son, Ferdinand, Jr. and son-in-law, Greggy Araneta.[30] Before its purchase in 1982, the GSIS had no permanent real estate investment outside of the Philippines. That year, the Jamestown Company, owned by spouses Kevin Hsu and Hsu Yu Hwa of Hongkong, put up the Stockton property (Jamestown's only asset) for sale. The GSIS bidded for and (after winning) bought the property, demolished the existing building, and began plans for construction of a new, ten-storey building.

Roman Cruz, Jr., concurrently PAL president, admitted the GSIS investment initiative was precedent-setting.[31] But he justified the purchase by claiming that "a dollar-based investment would, as we saw it then [in view of the impending recession], provide at least some hedge to the trust funds that the GSIS was managing." On the one hand, it would "preserve the superb marketing advantage enjoyed by [PAL] by virtue of its occupancy of this unique corner."[32] On the other hand, the deal would help the GSIS earn a capital gain since "the peso was weakening and ... devaluation was inevitable in due course."[33]

Ironically, despite these alleged concerns, GSIS ownership of Stockton could not be readily established because of a corporate layering set up between the property and the GSIS. This is graphically presented in Figure IV.1. GSIS books merely recorded an investment in shares in a subsidiary known as "Arconal NV." Chartered in the Netherlands Antilles, its total equity was supposedly owned by the GSIS. Arconal NV, in turn, owned Arconal, Inc., based in San Francisco, California. It was this third-layer parastatal which bought, and retained, all outstanding shares of stock of Jamestown Company, the title holder to Stockton.[34]

Figure IV.1
Corporate Layering for the Stockton Property



↓Foreign dummy-subsidiary of the GSIS.
-->Corporate title holder.

Cruz claimed the multi-layered approach was a political strategy they adopted so that the GSIS could more or less clinch the deal for not more than $10 million.[35] According to him, if Jamestown discovered that the bidder was one of the largest GOCCs and the parent corporation of PAL, they would have automatically increased their asking price. Moreover, if California officials found out that the winner was the GSIS, "it would have prejudiced future plans for the property for which we needed to obtain numerous city permits" since "at that time, the then incumbent regime was already unpopular in the United States."[36] The GSIS management that took over after the downfall of the dictatorship, however, debunked Cruz's assertions. It questioned the Stockton set-up since "[p]urchases and sales in the U.S. can and are usually closed using a lawyer as nominee or trustee. Maintaining the layering long after the purchase [and up to 1986] doubles the suspicion" and is "reminiscent of the Netherlands Antilles Corporations of the Marcoses."[37] Cruz testified during the long series of hearings conducted by the Senate in 1989 that Arconal NV and Arconal, Inc. were up for dissolution after Stockton's purchase. But he failed to explain why they continued to exist until the property was finally sold by the Aquino government in 1986. The Jamestown Co. could well have been retained as the only GSIS subsidiary and holding corporation for Stockton.[38]

The use of offshore, front, or dummy corporations to enable the Marcoses to transfer and conceal ownership of stashed currency and assets worth billions of dollars is well documented elsewhere.[39] Suffice it to state here that Marcos and his cronies branched out and used other money laundering centers like Hongkong, Panama, and, of course, the Netherlands Antilles, after mastering the techniques of international money-laundering from Swiss bankers. These places proved to be convenient alternatives for the Marcos regime since these places, equally hungry for dirty money, have tried to copy, then outdo, the Swiss in providing banking anonymity for their clients. More specifically, the Marcoses found in these investment havens not only a physical location for stolen assets, but also a base which served as a legal cloak, first to hide the ownership of the dirty money, then to reinvest it in other ventures.[40] A Netherlands Antilles corporation, like Arconal NV, thus allowed the Marcoses either to employ "safely" their extra cash in precious real estate or to derive "kickbacks" from the hidden interests of crony-owned assets.[41]

> Marcos and his cronies also utilized the Netherlands Antilles, the home of more than 35,000 front or "shell" corporations, to organize many such "shells" and invest anonymously in US real estate and the overseas financial markets. The Netherlands Antilles became a favorite of Marcos and his cronies because investing in the lucrative multi-billion euro-bond and euro-dollar markets was relatively easy to accomplish from this archipelago of five small Caribbean islands....
>
> .... Incorporation in the Netherlands Antilles, where the Marcos gang organized many shells, can be accomplished by mail, paying a relatively small fee of $1,500 to a local notary who will then handle the whole process. There have been occasions where the procedure took only a few days to accomplish. Only one director need be listed, ... who functions as a nominee ...[42]

Corporate layering thus opened up a diversity of exclusive, rent-seeking opportunities for the Marcoses and their allies. When Arconal, Inc., --the California-licensed bidder -- put up its $10 million winning bid, it chose to ignore several professional appraisals pegging the market value of the Stockton property not higher than $8 million.[43] Instead, lawyer-realtor Sylvia Lichauco and John C. Lyon (the only officers of Arconal, Inc.) relied solely on the Hailey-Leslie company valuation of $12 million. It was on the basis of this report that they made a $10 million offer in an open bid.[44] But it turned out the GSIS board was not at all informed of the Hailey-Leslie report. The report was also based on contingencies projected to happen by 1985. Worse, it was submitted to Lichauco, and then to Cruz, only on 19 August 1982, or weeks after Cruz closed the overpriced deal.[45]

The split payment scheme devised by the legal counsels of GSIS/Arconal, Inc. seems to fully account for the motive behind overpricing. Cruz insisted that the payment was divided into two escrows -- a U.S. escrow amounting to $6.5 million and a Hongkong escrow for the balance of $3.5 million -- as the condition set by the sellers for the Stockton purchase. He said the sellers were advised that the Hongkong escrow would be free of U.S. income tax.[46] Such a highly complicated scheme again did not come to the attention of the GSIS board, for, as we now know, Cruz failed to produce any documentation to that effect.[47] But more importantly, the dual payment "suggests that the real acquisition price in 1982 was only $6.5-million," the balance going into the pockets of other parties. Otherwise, San Francisco city authorities would not have officially registered a $6.5 million deal if they believed that Stockton was, in fact, worth around $10 million.[48]

The manner in which the Hongkong escrow was structured as an Arconal NV loan to the Hsu family arouses even greater suspicion. Cruz maintained during the Senate investigations that Arconal, Inc. counsels arranged for the Hsus to deliver *pro forma* a promissory note to Arconal NV for $3.5 million. Arconal NV, in turn, cancelled the note to liquidate the balance of its payment to the Hsus. This was recorded not on GSIS, but on Arconal NV's books.[49] Resort to legal technicality was apparently the only thing Cruz could do upon being interpellated:

> MR. CRUZ: .... We were advised by counsel that the risk was entirely in the hands of the Hsus and that the risk amounted only to the payment of whatever deficiency taxes might be charged against them.

SENATOR HERRERA: That is the opinion of their counsel, but you, as general manager of GSIS of which one of your important functions is to protect the honor, the dignity of that institution, were you not concerned that ..., this will inflict institutional damage on the GSIS? ....

MR. CRUZ: We did not, we had no reason to believe, Your Honor, that there was going to be any institutional damage to the GSIS at all because we were advised by counsel that nothing that we were doing was illegal or even improper.[50]

It is doubtful whether the Monetary Board of the Central Bank ever scrutinized the Stockton deal when it was submitted by the GSIS for approval. After all, the moment Cruz obtained Marcos' "verbal nod" on a plane trip from Manila to Honolulu in June 1982, everything seemed *fait accompli*. Cruz even managed to get the Development Bank of the Philippines to guarantee its $10.65 million Bank of America loan to buy Stockton, in spite of the lack of Marcos' signed approval of the deal.[51] Stockton's acquisition through a dollar-denominated debt further adds controversy to the case, considering that the original policy intent was to provide the GSIS with an investment hedge against peso devaluation. These instances illustrate how state financial institutions were likewise employed in behalf of crony shell corporations. The implications on the country's burgeoning external debt is explained by R.T. Naylor:

... [foreign] banks aided and abetted the flight of capital from countries whose social and political fabric was subject to increasing strain, and then lent it back again to increasingly desperate governments to top up temporarily the level of foreign-exchange reserves out of which the borrowing country was to pay the interest due on its debt next time round....

> The US economy, too, developed a voracious appetite for flight capital, which puffed real estate values in major urban centers, helped balanced trade deficits, and,..., assisted the [US] government in financing its budget deficit.[52]

Once the Stockton deal was finalized, the scope of rentierism broadened to encompass outright corruption and bribery.[53] Lichauco, who also became principal officer of Jamestown Co., bribed San Francisco building board supervisors in the amount of $42,500 by way of political contributions. The purpose ostensibly was to secure "variances" to allow Jamestown to construct a ten-storey edifice, instead of the usual six-floor limit. These variances covered, among others, exemptions from a "shadow ordinance" which prohibits construction of new buildings that shade historic Union Square, and a "loading dock" or ban on double-parking of trucks making deliveries in the busy intersection of Geary and Stockton streets. The "loading dock" variance was a first in San Francisco history and made possible the use of prime retail space on the street worth about $18,000 a year. The variances, granted under a "grandfather exclusion," meant an additional annual income of $600,000 arising from 60 per cent more office space under lease. It also meant a $1.05 million-savings in environmental impact studies and finance charges due to the special permits. Nonetheless, the exemptions and permits spawned two lawsuits.[54]

Certain disbursements made by Lichauco or other Jamestown officials from an initial outlay of $4 million to finance the demolition of the old building and the construction of a new one were also, at best, questionable. Lack of executed tenant leases and equity funding from other sources were further pointed out by the California First Bank which loaned said amount out of a $16 million building loan.[55] Lichauco merely claimed that $4 million had to be expended for architectural planning and excavation, apart from the required permits, between 1982 and 1986. Surprisingly, not a single steel bar was yet in place for the new Stockton building when the Marcoses were ousted in 1986.[56]

The GSIS management -- perhaps owing to Cruz's highly centralized leadership under the Marcos regime -- failed to exercise control over the operations of Arconal NV and its subsidiaries until 1986. By that time, the project cost had ballooned from an original investment of $26.5 million to $30 million.[57] At that point, the GSIS could no longer finance the ongoing project.

The organization of shell corporations like Arconal NV and its subsidiaries assured that Marcos or his cronies would be able to effectively address their money-laundering concerns with regard to the triangle of uncertainty, secrecy, and profits.[58] Moving their money out of the Philippines to safe investment havens like the Netherlands Antilles, allowed them to escape the country's political uncertainty and forecasted economic crisis in the mid-1980s. Secrecy was bought by employing the services of unscrupulous lawyers, accountants, realtors, and money-launderers who functioned as nominees or dummies. The yield of assets like Stockton were maximized by reinvesting them in different areas overseas.

In the case of Arconal NV, this triangle came about largely as a result of the Marcoses' exclusive power over (crony) appointments to the GSIS as well as GSIS investment decisions. The circumstances that attended the Stockton transaction were not only kept from public knowledge; worse, certain laws and long-standing policies of the GSIS and central monetary authorities were easily circumvented without need for any kind of justification. Lack of public accountability obtained essentially from the concentration of powers on Marcos and the legal immunities that he decreed for himself and his subordinates. Such a triangle seems proven to work effectively so that, to date, not a single Marcos asset worth at least a million dollars has been legally recovered. But the Stockton deal seems suggestive enough of this "dirty money" triangle used to prop up authoritarian rule in the Philippines.

State Bail-Out of the Commercial Bank of Manila

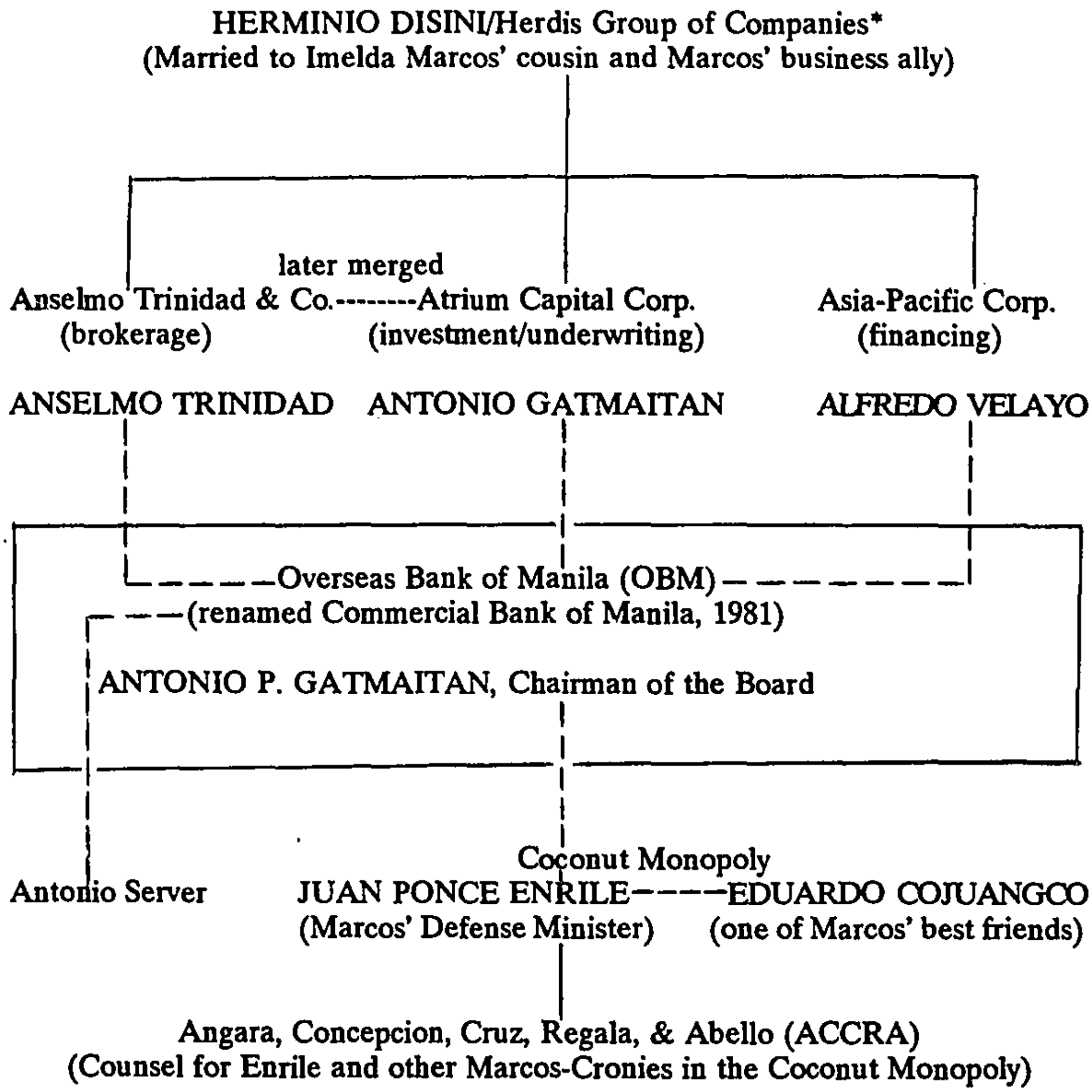
Unlike its real estate holdings, the GSIS did not operate a single banking corporation prior to its bail-out of what became the Commercial Bank of Manila (COMBANK). Neither did the GSIS have any investment interest in COMBANK -- the smallest and least financially viable of all private commercial banks in the Philippines. Commercial banks constitute the largest group among the country's financial institutions. By 1982, all 32 commercial banks were in the billion peso asset size range, except for COMBANK.[59]

Formerly the Overseas Bank of Manila (OBM), it suffered a devastating bank run in 1968. It was the first bank ever ordered closed by the Central Bank, for its failure to repay advances it obtained from the Central Bank in 1969. The Supreme Court later ruled in favor of Central Bank voting trusteeship for OBM.[60]

Between 1968 and 1979, at least nine consortia expressed interest in rehabilitating OBM. Of these groups, the Central Bank selected the Atrium Capital Corporation owned by prominent Marcos-crony Herminio Disini. Participating with Atrium Corporation in the rehabilitation project were two other Disini firms, Asia-Pacific Finance Corporation (Apcor) and Anselmo Trinidad & Co. brokers, as well as the ACCRA law offices associated with another Marcos-crony, Defense Minister Juan Ponce Enrile who was a partner in the coconut monopoly (see Figure IV.2). The Central Bank even infused P100 million in advance in 1979 to help Disini put OBM back into business. Then, it extended the 120-day deadline it had earlier imposed for reopening the bank. These concessions helped the new owners raise OBM's authorized capital from only P30 million to as high as P600 million.[61] OBM was renamed COMBANK and reopened in January 1981.

The choice of Disini's consortium and the privileges it enjoyed from the Central Bank came through the intercession of the Marcoses. Before Marcos' rise to power in the late 1960s, Disini led a rather ordinary career as an investment consultant in Manila. But his marriage to Imelda's first cousin and personal physician, Inday Escolin, enabled him to exploit his ties with Marcos who also became his regular golfing partner. Disini first organized the Philippine Tobacco Filters Corporation in 1970 with his meager capital. He got his "big break" when Marcos -- as the only law-making power under martial law -- exempted his firm from

Figure IV.2
Crony Ties in OBM/COMBANK Rehabilitation Scheme
(1979-1981)



*Disini's business conglomerate.

| Corporate Ownership or Controlling Interest.

| Equity Participation in OBM/COMBANK.

NOTE: Capitalized names are those of the Marcoses' cronies.

a newly decreed, 100 per cent duty on imported acetate tow and other raw materials for manufacturing cigarette filters.[62] This forced Filtrona Philippines Inc., a U.S. transnational firm and Disini's main competitor, out of business by 1975. When U.S. Ambassador William Sullivan protested, Marcos closed in on Filtrona by suggesting it go into a $40 million joint venture with Disini to manufacture cellulose for filters, since Disini was in control anyway of over 75 per cent of the tobacco market.[63] Then, Marcos again intervened by lowering duties on the acetate tow Disini imported, from 20 per cent down to 10 per cent.[64] Again, this kind of tariff had the effect of lowering the wall of non-competitive rent-seeking in Disini's favor.

With more than sufficient capital, Disini ventured into timber and pulpwood operations and formed the Cellophil Resources Corporation. Plentiful decrees were issued by Marcos to legalize his logging activities. In certain cases, the army was even used to evict hundreds of families from their ancestral lands or grab hundreds of hectares of agricultural land for logging.[65] Disini soon came to head a vast conglomerate of over 70 corporations, covering diverse areas as tobacco filters, logging and pulp processing, petroleum and petrochemicals, cellophane, fabrics and yarn, nuclear power, aircraft manufacturing, real estate, computer services, insurance, and finally, banking with the buy-out of COMBANK in 1979.[66] He enjoyed the help of many businessmen, who were also close to Marcos, in managing the Herdis firms.

Crucial in Disini's business of funding his corporations was the acquisition of a battery of Central Bank-favored financial institutions. COMBANK, in particular, served to funnel in the bulk of state-guaranteed loans which made possible the rapid pace of Disini's acquisitions and investments. Some Manila bankers were quoted as saying that Disini often "put little or no security of [his] own" and needed only "political approval to win government guarantees."[67] In this manner, foreign bank loans "were made available to selected entrepreneurs, permitting them to gain control of specific sectors of the economy."[68] By 1978, the external debt of his Herdis Group of Companies had already accumulated to $200 million.

After its purchase of COMBANK, Atrium Corporation rose to become the foremost investment house with total assets of $210 million.[69] But Atrium Corporation could no longer hold on to COMBANK after it figured as the hardest hit investment house during massive preterminations of money market placements in the wake of the Dewey Dee scandal in 1981. This was because Disini's own International Corporate Bank was the major creditor of Dewey Dee who absconded with millions of dollars in a major loan scam.[70]

As discussed in the preceeding chapter, the Dewey Dee fiasco gave MNCs and multilateral lending institutions their long-awaited chance to whip back into line the cronies as junior partners of foreign capital. In the case of Disini, his most spectacular coup that angered foreign investors was the estimated $35 million "commission" as well as the engineering sub-contracts he received from Westinghouse for securing the government contract to build the $1.1 billion Bataan Nuclear Plant. Competitors like General Electric lost because they did not have strong connections to Marcos.[71] With foreign bankers halting short-term lending and recalling their loans, Disini's corporations were caught in the crunch and faced with serious cash-flow problems by late 1981.

The Marcos regime turned to the World Bank which responded with a double-edged bail-out operation. A P1 billion rescue fund was set up through the Central Bank. But access thereto was "premised on [the cronies'] subsidiaries to be sold." The conditions of the rescue effort further revealed the stern visage of foreign creditors as they came down on the cronies: "the fund is aimed to be used to provide basic structural changes in the financial make-up of a qualified company **accompanied by required changes in the management, ownership and organizational structures of the enterprise.**"[72] (emphasis added)

For the Herdis Group, this meant merging Atrium Corporation, Apcor, and the International Corporate Bank with the state-owned Development Bank of the Philippines, the latter gaining 70 per cent equity in the new superbank. All of Disini's holdings in COMBANK, on the other hand, were ordered sold by the Central Bank under a COMBANK bail-out plan that conformed strictly to World Bank guidelines. To protect its exposure as COMBANK's major creditor, the Central Bank asked the GSIS to purchase 99.02 per cent of its shares.[73] COMBANK resumed operations in late 1982 under a crony leadership drawn from GSIS' ranks.[74]

The significance of the crony defaults of the 1980s lies not so much on the ensuing debt crisis as it does on the perverse consequences of government intervention in the name of "divestment" or bail-out. Because Disini's loans were all completely guaranteed, the government was forced to assume them when the Herdis Group went bankcrupt. Yet, since the assets of these firms were getting dissipated, the only alternative policy for the Marcos regime was to convert the Disini debts into equity in the failing firms. While such move balances the accounting sheet, "it really meant a complete doleout to Disini because the government guaranteed debts became equity in totally worthless companies. It was a convenient way for Disini to liquidate his conglomerate and move the cash out of the country."[75]

Like other state financial institutions, the GSIS was assigned by the Central Bank to takeover COMBANK, even if banking was not on the GSIS' list of investment areas and notwithstanding the high financial risks involved. This was because the GSIS was one of COMBANK's chief creditors. For one, the GSIS was forced to assume Atrium Corporation's unmet obligations to the former owners of COMBANK (then OBM). These included a P20 million loan, the restructuring of the former owners' loan of P45 million on the books of COMBANK, and an option to purchase 10 per cent of COMBANK shares within three years from the 1981 reopening.[76] The former owners subsequently sought to restrain COMBANK's divestiture by the GSIS, on the ground that these conditions had not been complied with by either Disini's Atrium or the GSIS by 1987.

The COMBANK case demonstrates that state bail-out of crony-owned firms was simply meant to defuse multilateral pressure and restore investor confidence, rather than expel Marcos' loyal cronies from the ruling faction. Marcos himself poured an estimated $280 million of state funds into Disini's conglomerate, after creating an Industrial Fund for defaulting crony firms in 1981.[77] Government investment in Disini's firms already totalled $400 million by this time.

All banking requirements of GSIS subsidiaries were further brought into COMBANK's purview by Roman Cruz, the new bank chairman, in an unsuccessful effort to reduce the deficits annually incurred by COMBANK for the GSIS.[78] And while it was Marcos' political strategy to make it appear that bail-outs were a wholesale transfer of equity and management, cronies like Disini (who fled the Philippines and acquired Austrian citizenship in 1983 with Marcos' help) retained managerial control of their "divested" firms.[79] Unabated crony rent-seeking thus left open the possibility of a further dissipation of assets under "state control."

State-Induced Takeover of Five-Star Hotels

GSIS acquisition of the Philippines' finest hotels provides still another contrast to that of Stockton and COMBANK. In the case of these last two assets, adverse financial conditions prompted Marcos and his cronies to create or conserve every conceivable rent that arose in the process of acquiring and operating these assets. However, as we shall see in this section, the Marcos regime virtually set up the conditions necessary to gain state ownership of the Hyatt Regency Hotel, Manila Hotel, Philippine Plaza, and most other luxury hotels. The case of these hotels represent still another authoritarian mode of consolidating the crony capital base of the Marcos regime.

The Marcoses initially induced a "tourism boom" in the 1970s, as they were anxious to clothe martial law with a facade of domestic legitimacy and to gain the support of the international community. One way this was achieved was by making the Philippines host to a number of well-publicized socio-cultural events. Imelda-inspired projects like the Miss Universe contest in 1974, the Chinese Fair following the opening of diplomatic ties with the communist world in 1975, and the Manila International Film Festival of 1981 succeeded in drawing thousands and thousands of tourists from around the world. Another important source of the tourist influx were the export and investment incentives devised by Marcos' technocrats to attract foreign capital and "boost" export-oriented industrialization. The military further assured a cheap and docile labour force, as workers' rights were suspended or curtailed, and union ranks were purged of radical elements. The early years of martial law ostensibly produced a climate conducive to foreign investments so much so that the IMF and the World Bank decided to hold their 1975 summit conference in Manila.[80]

Expectedly, these "demonstration exercises" had the spillover effect of stimulating the growth of the travel and tourism sector which suffered from the civil unrests and violence prior to martial law. As Naylor notes, "[c]onvention centers and luxury hotels sprang up around Manila, funded by borrowing abroad under government guarantee or by diverting the rent paid by the US government for its military bases [in the Philippines]. This aspect of the development strategy was so successful that by 1985 Manila was estimated to provide employment for 20,000 underage prostitutes."[81] The tourism industry was even identified by the World Bank as one of the most profitable "growth industries" in the Philippines.[82]

State investments thus poured into tourism-related activities during the "boom" period. But, as our cases reveal, this was owed primarily to monopoly rent-seeking on the part of Marcos' cronies which was encouraged by the delimited number of competitors, especially within the hotel industry. Once more, the GSIS figured prominently as an effective conduit for transferring resources from the public sector to the private crony sector in the guise of "maximising surplus earnings" from membership insurance and "blue chip" investments.[83]

GSIS takeover of the Hyatt Regency Hotel should illustrate how Marcos' emergent clique sought to destroy the traditional landed oligarchy in its drive to monopolize power after 1972. Hyatt was established by Eugenio Lopez, Sr. and other prime investors in 1962 after obtaining a P22.5 million mortgage loan from the GSIS.[84] At that time, the Lopez clan was considered the wealthiest in the Philippines and the acknowledged leader of the landholding elite. Originally sugar barons, the Lopezes diversified their business interests to include the national electric utility, television and radio stations, newspaper publishing, and real estate investments after the second world war.

Eugenio's brother, Fernando, served as vice-president to two presidents, the second one being Marcos. But Fernando Lopez had always maintained his distance from Marcos whose chief benefactor was Eugenio, Sr., the Philippine "king-maker." Marcos and Fernando Lopez belonged to rival political parties until a political "marriage of convenience" was worked out by Lopez' Nacionalista Party in order to defeat the Liberal Party in the 1965 presidential elections. Failing to get the presidential nomination, Marcos bolted his Liberal Party and became the Nacionalista presidential standard-bearer in the 1965 and 1969 elections. But Lopez never trusted Marcos who clinched the 1965 Nacionalista presidential nomination from him, and who gradually eased him out of power after their reelection in 1969. By the late 1960s, the vice-president had become Marcos' archnemesis, and was accused by Marcos of plotting to assassinate him. Lopez's resignation from his concurrent post as agriculture secretary in 1971 is regarded as the turning point in the increasingly hostile relationship between semi-feudal interests represented by the Lopezes, and the pro-U.S. capital faction of the elite which was by then ensconced in the Marcos presidency.[85]

Martial law armed Marcos with both the legal and political device to destroy the Lopezes. The military and the police confiscated and operated most of their companies in the name of national security. Others like Hyatt -- which could not be linked in any way to charges of conspiracy and sabotage -- were taken over through subtle means, after the Lopez assets became non-earning and prominent family members were driven out of the country together with many landed elites. The GSIS bought out the stockholders of the Hotel Enterprises of the Philippines (HEPI) -- the holding corporation for Hyatt -- after the Lopezes "defaulted" on its obligations to the GSIS. The GSIS then exercised its preemptive rights, increased HEPI's capitalization, and became owners of 99.5 per cent of HEPI's capital stock by 1975.[86]

While political enemies like the Lopezes had to be destroyed, those loyal to the Marcoses and those who could team up with foreign capital to overcome rigid ownership laws were built up. Thus, the Enriquez and Panlilio families obtained 100 per cent financing and other loan concessions from the GSIS for their Philippine Village Hotel and Puerto Azul Resort Complex. Management contracts for the hotel and resort complex were awarded to prominent U.S. hotel management corporations.[87] Although both also became non-performing assets for failure to keep up with mortgage payments or amortizations, they were never taken over by the GSIS or any other government agency, in contrast to Hyatt Hotel. Upon their sequestration by the Aquino government in 1986, they were discovered to be partly owned by President Marcos.[88]

GSIS ownership of the Manila Hotel and the Philippine Plaza, on the other hand, took place as Mrs. Marcos went into a spate of luxury hotel-building using GSIS trust funds reserved for stock investments.[89] Marcos either decreed the takeover of existing hotels under dubious policy justifications or required financial institutions, through executive orders, to grant his cronies incentives and concessions for constructing those dozen or so five-star hotels that sprung up between 1973 and 1976.

With the aid of his technocrat-dominated Cabinet, Marcos guaranteed preferential treatment for these hotels by way of tax and non-tax exemptions and higher remunerations for management and rank-and-file. It was also meant to attract top international hotel companies to the country. Capital equipment imported free of custom duties and compensating taxes under Presidential Decree

No. 535, doubtless, encouraged firms like Western International Hotels Company to sign long-term contracts with the Philippine Plaza or other crony-owned hotels.

To complete the monopoly of these valuable hotel investments, Marcos exploited his regulatory powers under martial law. He imposed new and very high standards for all types of hotels under the Hotel Code of 1974.[90] This left many smaller hotel owners with no other choice but to default on their obligations to state financing institutions like the GSIS, rather than borrow more to comply with Code standards and face negative returns in a market that catered only to local needs.

Smaller hotels that continued in operation remained vulnerable to the manipulative practices of crony-owned five-star hotels which occasionally slashed their rates in competition with one another. The "domino effect" forced the smaller ones to either drop their rates, too, and report net income losses, or close shop. The Marcos regime never bothered to prescribe or regulate occupancy rates under the Hotel Code, in spite of the GSIS-owned hotels' dual role as state agencies and market participants.

To acquire the Manila Hotel -- one of the world's finest and the Philippines' most historic -- Marcos declared it a national cultural heritage effective 1974.[91] Interestingly, ownership of this hotel was given up by the government in the 1950s due to mismanagement and financial instability. That government interest in the hotel (as a "historical treasure") was revived only at the height of the tourism "boom" of the 1970s is more suggestive of the true motive behind the GSIS takeover. Marcos' decree compelled its ertswhile management to undertake the hotel's immediate "reconstruction and restoration," the funds of which naturally came from the GSIS. The GSIS then "sank in a whopping $33 million for the [hotel's] renovation" which was finished in 1976 in time to billet World Bank President Robert McNamara.[92] The GSIS board formed the Manila Hotel Corporation (MHC) as its holding corporation -- a clever method of circumventing the prohibition of the GSIS charter against the state insurance agency also functioning as holding entity. The MHC served as the organizational model for other GSIS subsidiaries that were eventually set up.

The Philippine Plaza was constructed to billet Marcos' other guests to the IMF-World Bank summit. Imelda's pet project, the nearby Cultural Center of the Philippines, funded its construction with a P450 million real estate loan from the GSIS in 1975.[93] The loan was obtained through another presidential decree which ordered the GSIS to allow for a Cultural Center mortgage on the hotel landsite, building, and facilities.[94]

In a further display of uncontrolled extravagance, the President asked the Bureau of Customs to import more than 10 dozen Mercedes Benz limousines to transport IMF and World Bank delegates from their hotels to the newly built international convention center and tourist spots of the country. Yet, hardly known to the dignitaries were the human sacrifices exacted to rush construction of the Philippine Plaza. Dozens of workers died when the newly cemented ceiling of the gigantic ballroom fell before it was totally dry. This was followed by another incident in which many of them fell several stories to the concrete pavement below as their gangplank gave way.[95]

Monopoly rent-seeking is thus implicit in the proprietary interests that the Marcoses and their cronies took in the hotel industry. Most of the funds spent for hotel construction were diverted from GSIS membership dues or obtained from public taxes in the absence of a law-making branch which traditionally scrutinized expenditure receipts of national government agencies. As one national daily reported:

> The GSIS poured a total of $202 million into four hotels connected with the Marcos cronies: Kanlaon Towers, Philippine Village Hotel (Sulo sa Nayon), Phil. Plaza, and the Manila Hotel. Most of these construction projects were totally unnecessary and exceedingly extravagant, a strong indication of the possibility of kickbacks. In one project for example, government auditors found out of the $133 million the GSIS spent on an unfinished [Plaza] building on reclaimed land, $83.4 million or 63% was superflous. Contractors and consultants for the project were overpaid by at least $3 million. While similar office buildings were constructed at $390 per square meter, the GSIS had spent $1,050, representing a price difference of 167%.[96]

This is not to say, however, that non-competitive rents were confined solely to the Marcoses and their cronies outside of the GSIS. Since most of five-star hotels were built or acquired with GSIS funding, Roman Cruz, Jr. and the cronies who sat in the board of trustees and in the executive became directors and derived huge fees from the holding corporations.

But there more direct raids of GSIS funds through these luxurious investments. Perhaps, the best known is the P350,000 Manila Hotel check "issued in favor of, and personally appropriated by," Cruz himself.[97] The amount was part of an expenditure item approved by the GSIS board for a fictitious, five-day coordination meeting at the Manila Hotel. It was supposed to fund a GSIS information dissemination program.[98] Since there was no such meeting, Cruz ordered the MHC to accept the check from the GSIS and credit it to his concurrent account as MHC president. Cruz later deposited the check in his private bank account.[99]

Other top officials of the GSIS were no exception. There were board members, for example, who

> chalked up to $46,000 with the Manila Hotel and Hyatt Regency for food and services in 1985. Some of the expenses were incurred by relatives of GSIS directors. The bills were all shouldered by the GSIS. Unspecified expenses worth $97,000 were charged to the GSIS discretionary fund in 1985. Documents detailing the expenses were allegedly sent to Francisco Tantuico, Marcos' Commission on Audit Chairman and a close Imelda associate, but no formal audit or accounting was ever made. Another $403,000 was claimed as "representation and miscellaneous expenses" for 1985, but only $14,000 was actually spent on "public relations."[100]

While these incidents portray the magnitude of economic plunder that went on in the GSIS-owned hotels, they seem to pale in comparison to those that GSIS trustees and managers did for and in behalf of the Marcoses and other cronies. For example, after the change of government in 1986, it was discovered that Cruz failed to write off two accounts due the Manila Hotel from Malacanang Palace (the presidential residence). The first amounted to P3.5 million and covered unpaid hotel bills of Mrs. Marcos and her foreign guests. The second one was a P5 million political campaign contribution to Mrs. Marcos and the ruling party. Cruz's elder brother and a closer Marcos crony, Ambassador J.V. Cruz, also owed the Manila Hotel P1.5 million for entertaining American businessmen who were interested in joint ventures with some Filipinos.[101]

Since hotel-related activities were state-induced and served to advance the material and partisan ends of cronyism, distortions in public policy even at the micro or GOCC level were inevitable. So politicized was decision-making at the GSIS that some of its funds became tools in international diplomacy. Imelda's younger brother, Benjamin, who was named ambassador to China, urged the GSIS board to form the Philippine-China Friendship Hotels, Inc. (PCFHI). The purpose was to construct and manage two 500-room de luxe hotels in Canton and Peking,[102] after the Marcoses' well-publicized state visits to the communist world. But it required the GSIS to raise $26 million from its funds as capitalization for PCFHI. Cruz became both its chairman and president. Other crony private firms, like Rodolfo Cuenca's Construction and Development Corporation of the Philippines, held equity.[103] However, negotiations between the Philippine and Chinese parties involved only ended up in a deadlock. As PCFHI turned into another losing proposition, the GSIS converted it into a holding corporation for the Philippine Plaza preparatory to its privatization.[104] The Philippine Plaza was actually conveyed to the GSIS by the Cultural Center by way of *dacion en pago* (deed of cession) in 1983. In turn, the GSIS executed in favor of the Cultural Center a long-term Lease-Back Agreement on the property with the option to purchase. The GSIS turned the PCFHI into the Philippine Plaza Holdings, Inc. in 1989 after it finally assumed full ownership and control of the hotel following the pre-termination for a valuable consideration of the GSIS-Cultural Center Lease-Back Agreement.

Investment-wise, the negative or low yields derived from these hotels could not be properly addressed, as management contracts were still in force and effect. Policy proposals to sell them as physical assets, rather than as "going-concerns," during the crisis years of 1982-1985 posed more serious problems given their huge capitalizations which the GSIS could not recoup. And even "[a]ssuming there are capital gains, it means these [hotel] earnings cannot be touched."[105]

Hence, payment of benefits due its members and expansion of their insurance coverage suffered because the GSIS failed to obtain dividends from its five-star hotels.[106] This was due both to the long gestation period involved in investments of this kind and the non-competitive rents that arose therefrom. As the case of Philippine Plaza indicates, priority assigned to major policy concerns like timely payment of membership benefits and expanded insurance coverage could not be realized:

> THE CHAIRMAN (Senator Laurel): Now, ..., you said the main problem of the GSIS (until 1986) is what you call financial, since it involves corporate liquidity. The other is insolvency...
>
> MR. BELMONTE: .... I would like to use the Philippine Plaza as a concrete example. The GSIS infused, in cash, P500 million into the construction of the Philippine Plaza Hotel. They (Cultural Center) never managed to pay us back so that in 1984, there was a

restructuring in which all the interests up to that time, all the expenses for the insurance, and so forth, were all capitalized at P998 million. That is now the total investment of the GSIS in the Philippine Plaza Hotel. The hotel itself was *dacion en pago** to the GSIS, so that the naked title of the hotel is with the GSIS. However, side by side with that *dacion*, was a Deed of Conditional Sale with lease in favor of the Cultural Center of the Philippines. So, for all practical purposes, the Cultural Center of the Philippines is in control of the hotel, not us....

THE CHAIRMAN: Does the hotel make any profit?

MR. BELMONTE: Yes, Mr. Chairman. It is one of the most profitable hotels in the country. But, on the other hand, from the point of view of the GSIS, our return, at least for the past two years (1984-1986) was in the neighborhood of P16 million per annum [since much of the income goes to WESTIN for operating the hotel].

THE CHAIRMAN: Sixteen?

MR. BELMONTE: Yes, consisting of P12 million in rentals and 4 million consisting of our share of the net profit. So, you can see, Mr. Chairman, that on an investment of about P1 billion, GSIS is only getting a return of 1.6 per cent.[107]

*Mortgage loan which ended in foreclosure through a deed of cession.

Still, the Philippine Plaza appears to be an exceptional case when compared to the dismal performance of most state-owned or -funded luxury hotels. In the case of Hyatt, the GSIS not only failed to realize commensurate returns, but even had to contend with income losses.[108] These losses were aggravated by worsening economic conditions after 1981, and the ensuing political turmoil, so that even the Philippine Plaza had to be turned over by the Cultural Center to the GSIS for failure to service its mortgage.loan.[109]

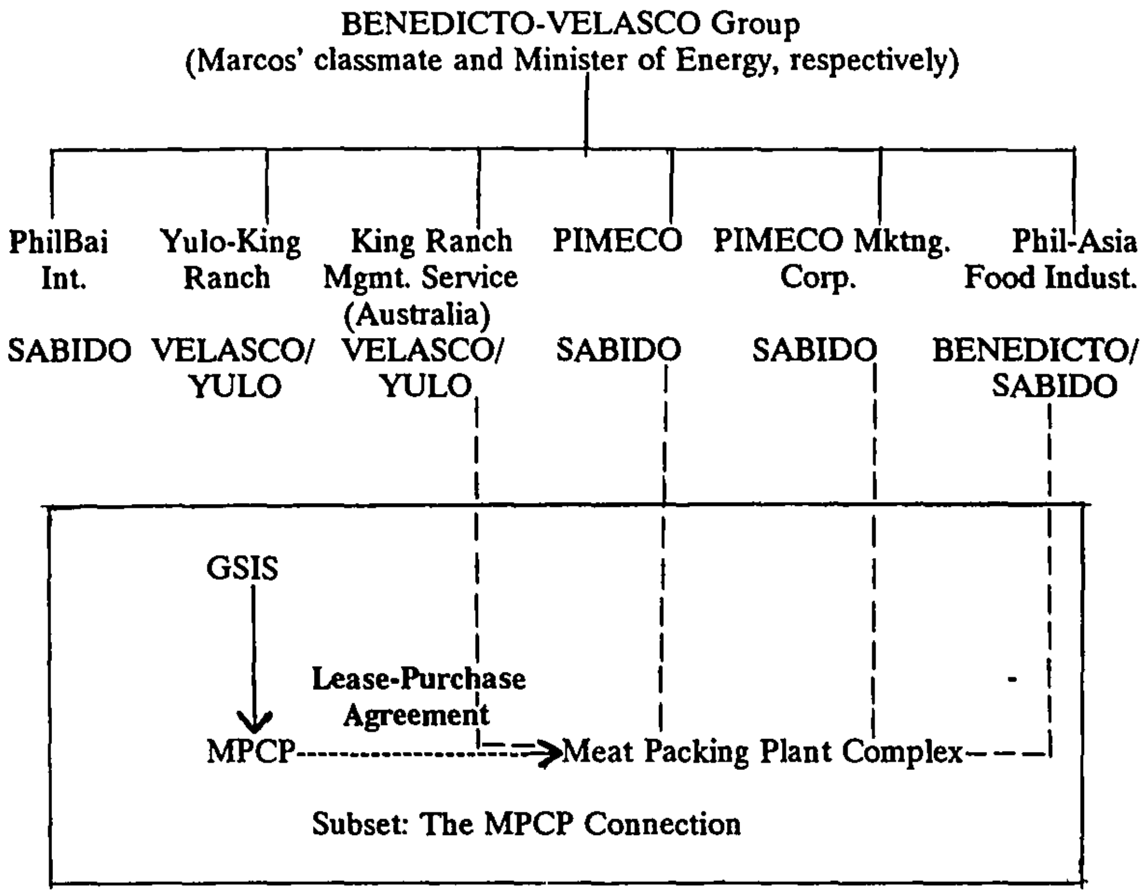
The interlocking crises that plagued the Marcos regime until its downfall only proved how vulnerable luxury hotels were to abrupt changes in political climate. Such politically motivated investments benefited mainly showcase projects and favored private firms. But they left the GSIS in 1986 with a deficit of nearly P4 billion and a tainted reputation as source and dispenser of patronage. As the tourism "boom" entirely petered out and oversupply in the hotel industry surfaced, the reform options open to the GSIS and other public enterprises in the aftermath of authoritarian rule were clearly limited.

Cartels and the Meat Packing Corporation of the Philippines

The rise of powerful cartels is also associated with authoritarian rule. While cartels have been formed in most other countries through combination of independent commercial enterprises, the Philippine experience differs in that the "state-owned" sector was the instrument for limiting -- and distorting -- market competition in favor of a chosen few. More importantly, the conspiracy among Marcos' cronies to carve cartels out of parastatals producing private goods resulted in a merger of identities and interests between whatever was known of the public and private sectors before 1972.

The Meat Packing Corporation of the Philippines (MPCP) functioned as an integral part of the "meat cartel" which is depicted in Figure IV.3. This cartel was organized by four of Marcos' closest friends: law school classmate and industrial

Figure IV.3
The Meat Cartel and the MPCP Connection



| Subsidiary or associated corporation.
| Direct links with MPCP Plant Complex.

NOTE: Capitalized names are those of Marcos' cronies.

tycoon Ambassador Roberto S. Benedicto, whom we have cited in the last chapter; Benedicto-partner Peter Sabido; sugar magnate Luis Yulo; and Energy Minister Geronimo O. Velasco, who was also Marcos' richest Cabinet member. The MPCP was incorporated in 1973 to acquire the Pasig lot, meat processing plant, and equipment for the GSIS.[110] This Plant complex originally belonged to the Ortigas family. Like other members of the national entrepreneurial class, the Ortigas firms either defaulted in their long-term loans or declared bankruptcy as martial law abolished import and exchange controls, and opened major industries to unbridled foreign competition. The Plant complex was foreclosed by the GSIS as its principal creditor-guarantor.[111]

Upon completion of the transfer in 1975, Marcos asked the GSIS board to enter into a Lease-Purchase Agreement with the Benedicto group. No public bidding was ever conducted and neither were any conditions attached to that Agreement.[112] The choice of Philippine Integrated Meat Corporation (PIMECO) -- wholly-owned by Benedicto's group -- was even justified by the GSIS board in terms of its "managerial and technical personnel and financial resources necessary to operate and manage the plant complex."[113] In reality, PIMECO had no prior experience in meat processing and packing, having been created only in 1975 to lease the Plant Complex which became its only asset. Yet, the terms of the Agreement gave PIMECO the right to corner all profits from Plant operations without assuming any risks which were left to the MPCP. Title to the leased property remained with the MPCP during the life of the Agreement. It was to be officially transferred to PIMECO only upon full payment of the total consideration and rentals for the lease term and upon execution of the deed of absolute sale.[114] In short, since the entire capital stock of MPCP continued to be subscribed for by the GSIS as its parent (and later, managing) corporation, the GSIS/MPCP retained responsibility for maintaining the

Plant complex.

There were additional returns beyond normal profits. Countless behest arrangements in favor of PIMECO were ordered by Marcos or Cruz. Less than a year after PIMECO took over, the GSIS increased the authorized capital stock of MPCP by as much as 90 per cent from P20 million to P37 million. It was raised again in 1978 to P67 million.[115] In 1977, the GSIS board passed a resolution appropriating as much as P15.3 million to renovate and refurbish the Plant complex in clear violation of the Agreement.[116] The following year, Benedicto's group went directly to Marcos to obtain a P25 million loan for an undisclosed purpose. Marcos then inserted marginal notes into PIMECO's loan application, and a reluctant GSIS executive released the loan on a staggered basis beginning 1978.[117] Not yet satisfied with this combination of capital infusions and loan concessions, Benedicto's group asked the GSIS to also restructure its account under a Supplementary Loan Agreement in 1981. What is most revealing in the 1981 loan is that Marcos himself had already approved it the year before.[118]

The GSIS supposedly created the MPCP "in keeping with the food programmed policies of the National Government, among others, to bring quality meat products within the reach of the masses."[119] Its extensive links with the meat conglomerate of Benedicto's group, however, belie its official policy intent. Instead, what emerges from content analyses of presidential legislation and GSIS resolutions is a giant cartel that dictated the importation, distribution, and feed-supply of the country's cattle. As the preceding Figure IV.3 illustrates, the "Benedicto cartel" consisted of several crony-owned firms which intersected MPCP operations in "processing, packing, canning, preserving, distributing, selling, buying, or otherwise dealing in meat, animal, dairy and poultry products."[120]

Backing for PIMECO, as MPCP's lessee-vendee, was also provided through Philbai Int. Pty. Limited., a parastatal subsidiary of the Philippine Bureau of Animal Industry (hence, the acronym). Philbai was created in 1979 to import livestock and meat under Marcos' Executive Order No. 572. It was registered in Australia -- reminiscent of those dummy or "shell" corporations -- with a capitalization of A$25,000, the budget drawn from the Bureau of Animal Industry headed by Marcos-politician Salvador Escudero III. The Australian cattle it imported into the Philippines was, in turn, distributed by PIMECO through its subsidiary, the PIMECO Marketing Corporation.[121]

Philbai, PIMECO, and PIMECO Marketing were all headed by Sabido whom Benedicto had groomed as his own crony -- or, more appropriately, a Marcos sub-crony -- in the meat cartel. Sabido, in turn, found a business associate in Linden Prowse, an Australian, to help him run Philbai which also funded pasture lands of the Sabido family near Sydney, Australia. The Sabidos were among Marcos' and the ruling party's political backers and fund-raisers during elections.[122] Such intricate -- yet coherent -- network of crony and sub-crony ties did eliminate competition within the meat industry a few years after the imposition of martial law. It also encouraged crony business conglomerates to expand outside of the Philippines, clothe with legality and assured of profitability. "Multinational" cartels like

Benedicto's thus worked neatly to create and preserve non-competitive rents for cronies and foreign capital alike:

> Philbai was also charged of contracting freight for imported cattle at a considerable overprice and of paying an annual "service fee" of A$120,000 dollars (sic) to an unnamed consultant in Manila. Around A$1 million dollars (sic) were missing when auditors checked the company in 1986. Phibai was also getting letters of credit opened under its name from the Bureau of Animal Industry even when it was not actually importing cattle or beef. The actual importer was the Yulo King Ranch owned by Marcos associates Velasco and Yulo.[123]

The 4,047-hectare Yulo-King Ranch in Palawan supplied meat to a captive government market. State-owned enterprises, including the Armed Forces and those five-star hotels taken over by the GSIS, purchased their meat products from this ranch. Military resources, such as security from the Philippine Constabulary and the transportation of cattle and other materials by Air Force planes, were also used while the cattle ranch was under construction in 1975.[124]

As state intervention helped transform the meat industry into a fiefdom of the Benedicto-Velasco tandem, the Yulo-King Ranch became one more glaring example of political patronage. When PIMECO rehabilitated the Plant Complex at GSIS/MPCP expense in 1979, it asked the MPCP to contract the services of the Ranch's newest subsidiary, instead of some other local firm which would have charged less. King Ranch Management Service Pty. Limited, the new Velasco-Yulo firm chartered under Australian laws, easily obtained the contract. It introduced additional machineries and equipment.[125] These were purchased both in foreign currency and at an overprice from Prowse's Australian business contacts.

This pattern of crony-business diversification gained financial support from a string of precedent-setting decrees issued by Marcos. One decree, for example, expanded the Ranch to 40,000 hectares by taking over certain idle public lands. The same decree converted it into a state "experimental ranch." Hence, an annual government budget of $2.7 million had to be set aside.[126] Another one made the ranch the sole unloading and discharging point for all imported cattle, irrespective of whether they were for breeding or slaughter.[127] With Yulo's clout now firmly established, Marcos designated him as the ruling party's (*Kilusang Bagong Lipunan*) political leader in Laguna.

Completing the meat cartel was the Phil-Asia Food Industries Corporation whose "mandate" was to process soya beans into cheap, high-protein food and meet all feed requirements of the country's livestock and poultry industry. Like PIMECO, it was formed by Benedicto in 1975 and run by Sabido. Yulo held a directorship. At Marcos' intercession, the Phil-Asia plant received heavy funding from state financial agencies. These included the Development Bank of the Philippines and the National Food Authority, which sunk in a total of $40 million. Commodity loans from the World Bank amounted to $43 million; this was in addition to $52.7 million in foreign currency loans with the US Export-Import Bank which carried a Development Bank guarantee.[128]

There was one problem, however. Nobody ever bothered to plant the soya beans. Foreclosure of the plant was authorized by the Aquino government in 1986.

But Phil-Asia's assets had by then degenerated to only $13.4 million. Some P2 million in physical assets were also discovered to have been transferred to the GSIS/MPCP Plant complex and made to appear that depreciation in market value arose from their sale and/or use for Plant operations.[129]

The covert motives of the Benedicto-Velasco cartel may be finally discerned from its stewardship of the Meat Packing Plant. The food programmed policies of government were virtually disregarded by PIMECO through what the GSIS identified as its failure: 1) to supply processed and canned meat to government rolling stores and KADIWA stationery centers and rolling food centers; 2) to provide for field and combat rations to the Armed Forces of the Philippines; and 3) to acquire and operate pasture areas, factories, packing houses, refrigeration plants, and related facilities for its manufacturing operations.[130]

Surprisingly, PIMECO's arrearages in rentals added up to P12.6 million, in excess of the three-year cumulative rental limit under the 1975 Lease-Purchase Agreement.[131] This should have been sufficient to terminate PIMECO's contract. But the joint GSIS/MPCP board (itself composed of people close to Benedicto) did nothing. Instead, it even allowed PIMECO to obtain advances for real estate taxes, fire insurance premiums, and other expenses in the guise of a deposit for future GSIS subscription on PIMECO's increase in capital stock.[132]

It took a change of government for the GSIS board to rescind the 1975 Agreement with PIMECO.[133] The GSIS action in 1986 followed the sequestration of the Plant Complex on charges that "the funds invested in this company were [in fact] illegally obtained."[134]

The Marcos regime used to defend many favored private firms in terms of the need for quality consumer goods at lower costs. In fact, as noted earlier, the policy justification for state chartering of MPCP was to make the prices of meat products affordable to the masses, by way of centralizing in one parastatal key processing and canning operations. But our case analysis shows just how the exact opposite occured. Gains from operating the Plant complex were essentially confined to Marcos' cronies who controlled the Philippine meat industry via a well-entrenched cartel. Hence, the protectionism that martial law and the technocrats sought to dismantle in order to promote market competition was replaced with patronage and selective intervention. This only bred a new oligarchy allied with foreign capital.

Public Policy Toward Monopoly: The Case of Philippine Air Lines

The Philippine Air Lines (PAL) markedly differs from the rest of our cases. This is because PAL can easily be defended as a natural monopoly[135] better handled directly through a state-owned enterprise.

In fact, it was the limited size of the Philippine airline market that technocrats like Economic Planning Minister Gerardo P. Sicat cited in supporting GSIS investments leading to PAL's acquisition in 1977. State ownership was deemed necessary to achieve the advantages of large-scale production, but prevent the (private) monopolist from restricting output and raising price.[136] The airline was also held to be strategic in nature since its domestic routes provide a vital link to the country's 7,100 islands. Over 60 per cent of these service points are unprofitable and are, in effect, subsidized by PAL's international flights.[137]

However, as the PAL case reveals, the implementation of such straightforward economic principles encounters difficulties when these principles induce patterns of rent-seeking responses from the public monopolist itself. PAL, for one, had a long history of state investments and price regulation by the Civil Aeronautics Board prior to becoming a GSIS subsidiary. But the personal and partisan ends PAL mainly served under the dictatorship distorted the very monopoly-cum-strategic character for which it assumed a public corporate form.

Rubicon Inc., owned by Benigno Toda's family, was PAL's major equity holder before martial law. Toda was a political protege of President Diosdado Macapagal, Marcos' predecessor. But Toda successfully cultivated political ties with Marcos by supporting his presidential reelection in 1969. This was around the time Rubicon bought out Pan American Airlines and increased its equity in PAL from 52 per cent to 75 per cent. The GSIS held 24 per cent. When martial law was declared in 1972, PAL and its erstwhile domestic competitors, Filipinas Orient Airways and Air Manila, were all placed under Philippine Air Force control presumably to prevent possible communist infiltration of the airline industry. The following year, Marcos ordered Filipinas and Air Manila to merge with PAL. This order was rescinded later on, but by 1974 Marcos had chosen PAL to be the only scheduled domestic carrier. Toda profitted much from a one-airline (domestic) aviation policy which Marcos asked the Civil Aeronautics Board to implement in 1974, allegedly in response to the worldwide oil crisis.[138]

But PAL began to suffer sharp decline in profits owing to successive increases in fuel prices and the continuing fall of the peso to the U.S. dollar after 1974. Toda's relationship with the Marcoses soured when a steadily rising PAL debt forced Toda to bill Mrs. Marcos twice for the flight expenses she and her "blue ladies" (i.e., the wives of pro-Marcos politicians) had been accumulating. The bill reflected Imelda's frequent and lavish trips abroad in the guise of diplomacy.[139] PAL was likewise used to fly the Marcoses' personal friends and business dummies into the Philippines after martial law. This was done under the pretext of promoting export-oriented industrialization and initiating foreign investments.

At that time Toda presented his bill, Imelda and her cronies had already accumulated a reported total of $6 million in expenses. But Toda mustered enough courage to charge $3 million, giving Imelda a 50 per cent discount.[140] Toda's bold move was also in anticipation of another series of unpaid bills in view of the upcoming 1978 elections. Imelda and her teammates under the *Kilusang Bagong Lipunan*, the regime's umbrella organization, were expected to campaign across the country and distribute cash and goodies using PAL facilities.

This move made Toda one of the "overnight enemies" of the Marcos regime. In 1977, Marcos began to engineer PAL's takeover by the GSIS. He initially directed the PAL board headed by Toda to enforce its 1966 resolution increasing capitalization ten-fold. This was made to appear as an effort at building up PAL's capital base to match the rapid growth of its indebtedness in the face of inflation -- a requirement that Toda's Rubicon obviously could not meet.

Marcos then took advantage of Rubicon's financial situation by asking the GSIS board to buy all new PAL shares and require Toda to repay his GSIS loans. Toda once again defaulted and was sacked.[141] Under duress, Toda agreed to convert Rubicon's loans into GSIS majority (96.4 per cent) equity in PAL.[142] In 1978, with state takeover finally effected, Marcos decreed a new franchise for PAL, accompanied by tax exemptions and unconditional state guarantees for all types of loan repayments.[143]

To complete the "Marcos coup" at PAL, Imelda personally handpicked Roman Cruz, Jr. as president and chief executive officer. This was "to ensure that misunderstandings regarding the billing of Imelda's flights would no longer occur."[144] The seats in the PAL board were similarly distributed as political largesse to Marcos' loyal political followers, all of whom, like Cruz, proved to be inexperienced in commercial airline management. Between 1977 and 1986, the board had cronies Geronimo Velasco, who was also energy minister; Hans Menzi; and Ricardo Cu Unjieng. Technocrats in the board included Finance Minister Cesar E.A. Virata; Trade Minister Roberto V. Ongpin; Budget Minister Manuel Alba; Central Bank Governor Jaime C. Laya; and PNB President Panfilo Domingo. Again, these appointments were issued under the so-called "Marcos Constitution" of 1973. It vested in the President the exclusive power of appointing all top officials of the national government, in the absence of a legislature and even after a rubber-stamp parliament or *Batasang Pambansa* was set up in 1978.

Under GSIS ownership, PAL gained notoriety as Imelda's private airline. Many of its domestic and international flights were chartered solely for the use of Imelda and her party during their shopping sprees abroad and for ostentatious parties given by the Marcoses for their friends across the country.[145] These blatant instances of misuse and abuse of government resources were known to many, especially among PAL employees. But nobody ever dared to criticize or complain against these practices for fear of being harassed or forced to resign by PAL's management which was undoubtedly loyal to the Marcoses. As some of PAL's jets were "leased" to the Marcoses and their cronies, its management also had to rely on a number of defective airbuses to fly foreign routes like Hongkong. These so-called "flying coffins" provoked intense public criticism because of the hazards they posed for passengers and airline crew alike on several occasions.[146]

PAL funds were further funnelled into lucrative ventures abroad. Cruz himself used these funds to purchase precious real estate properties in California like Stockton -- expenses which had absolutely no relation to the operations of a government-run airline.[147]

Equally important, PAL figured prominently in the "overkill strategy" of the Marcos regime to insure its overwhelming victory in every rigged election. The use of PAL resources became even more pronounced in the 1984 Batasang Pambansa and the 1986 presidential elections because of the growing strength of opposition groups and waning American support for Marcos. PAL planes were chartered, free of charge, to store and/or transport fake election ballots and election returns, padded ballot boxes, and cash dole-outs to ward leaders of the *Kilusang Bagong Lipunan*.[148] These were, of course, in addition to the special aircrafts which flew the Marcoses and their KBL candidates (some of whom were also PAL board members) during their campaign sorties. The partisan use of state corporations like PAL was especially rampant in acknowledged opposition bailiwicks like Region III (Central Luzon), Region IV (Southern Tagalog), Region V (Bicol), and Region VII (Western Visayas).[149] Hence,

> [w]ith the decision of the larger segment of the legitimate opposition to participate despite the obvious built-in unfairness in election laws and institutional safeguards, the participating opposition had to virtually contend with other inequalities typical of a demonstration type of electoral contest. The resurging remnants of the old political parties that were put together to form a nucleus of the opposition's organizational machinery ... were pitted pitifully against no less than the entire governmental machinery from the top to the lowest *barangay* (local community organization). This enabled Marcos and the KBL to have complete control over the mass media, public programs, services and resources utilized for organizational and campaign purposes as well as in buying political leaders and voters....[150]

Expectedly, throughout Cruz's leadership (1977-1986), PAL was a poorly managed organization and a steadily losing investment for the GSIS. In fact, PAL alone, of all its subsidiary corporations, had a consistent record of annual losses as shown in Table IV.1. Losses for certain years like 1979 and 1980 would have been

Table IV.1
PAL's Financial Condition
(1977-1985, in million pesos)

Item	'77	'78	'79	'80	'81	'82	'83	'84	'85
Net Income	.01	.01	.01	-.39	-.59	-.23	-2.34	-.29	-2.13
Return on Equity	0.0	0.0	0.0	-0.6	-0.9	-0.6	1.64	0.2	0.4

SOURCE: Raul L. Locsin, ed., **Business Day Corporate Profiles 1982** (Quezon City: Business Day Corporations, 1982), p. 178; and Commission on Audit, **Philippine Airlines, Inc.: Annual Report for the Fiscal Years Ended March 31, 1990 and 1989** (Quezon City: Commission on Audit, 1990).

greater were they not offset by the sale of equipment.

The manner in which PAL was operated, and its funds appropriated by the GSIS, obviously departed from its strategic character as sole flag-carrier. With an increasing volume of revenues used to defray Imelda's international junkets and the *Kilusang Bagong Lipunan's* political activities, PAL international flights failed to subsidize many unprofitable provincial routes. This led the PAL board to often resort to either one of two available policy options: 1) to cut down on unprofitable service points; or 2) to raise domestic fares, sometimes even to overpriced levels. Either one had the "detrimental effect of decreasing traffic" for PAL,[151] in contradistinction to the alleged "national service" imperatives of state takeover of the airline.[152]

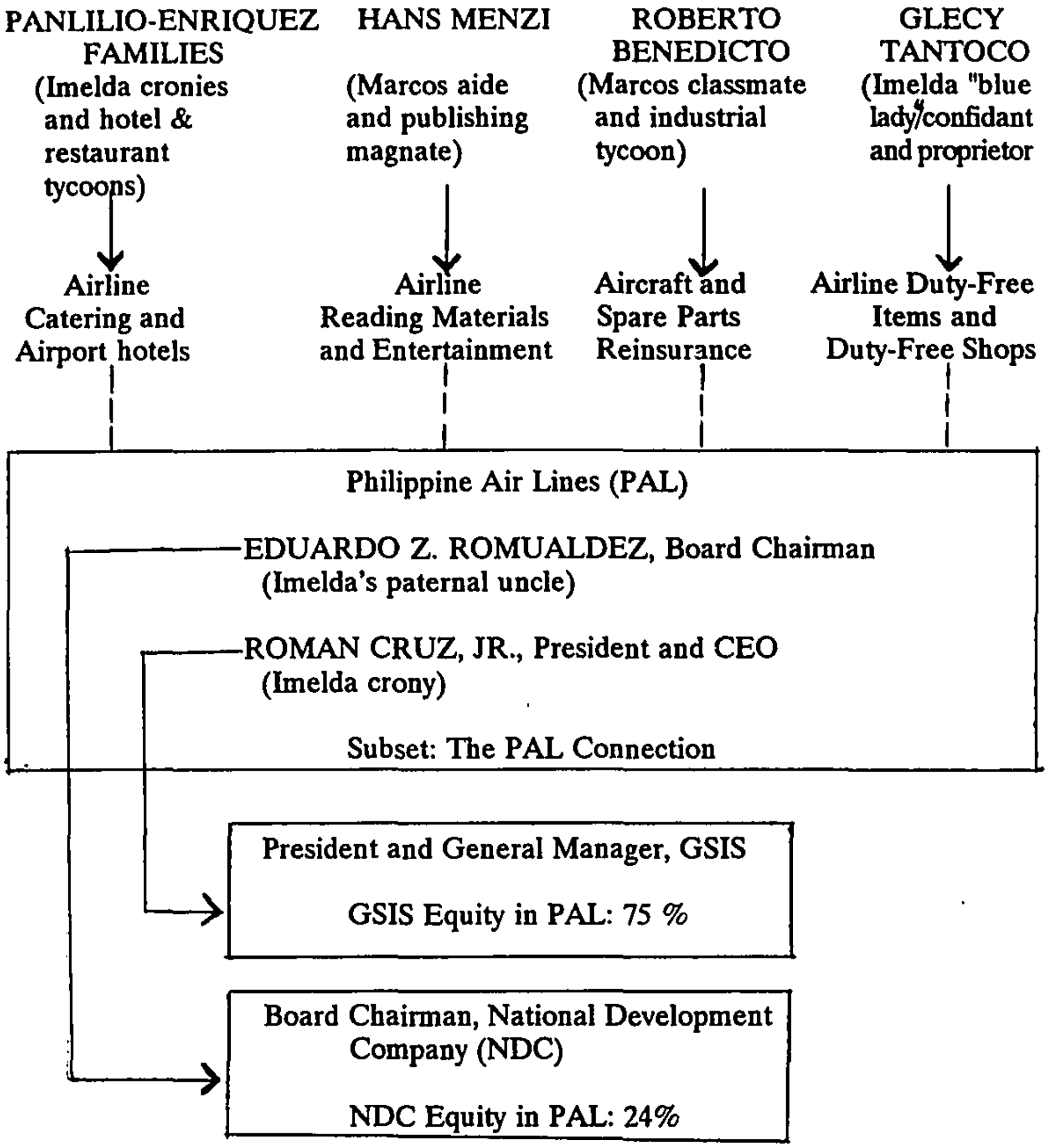
The natural monopoly argument in favor of state ownership of PAL, other hand, only gave rise to other forms of crony monopolies, without the benefits of large-scale production. In an effort to minimize the red ink, Cruz sought the direct intervention of the Marcoses. Local competitors were first swallowed up by way of retaining the combination of GSIS equity ownership in PAL and the Civil Aeronautic Board's one-airline policy even after the paper-lifting of martial law in 1981. When this proved inadequate, the PAL board requested government financial assistance. This strategy was also meant to allay fears of government employees "that a big sum has been unnecessarily invested [in PAL by the GSIS using their membership contributions]."[153] GSIS interests in PAL were thus supplemented in 1981 with funding from another parastatal, the National Development Corporation (NDC), where Ongpin was chairman. PAL capitalization was hiked from P1 billion to P3 billion. Of this amount, as much as P500 million were diverted from the NDC into PAL. This secured Ongpin a nice-paying directorship in PAL. It also paved the way for Imelda's uncle, Eduardo Romualdez, to become PAL chairman in 1983 because of his interests in NDC and its joint ventures with MNCs.[154] After Romualdez was named Ambassador to the U.S., Imelda decided to assume direct control of PAL as board chair.

Notwithstanding the equity infusion by NDC, losses still mounted as previously cited in Table IV.1. By 1983, PAL's state-guaranteed loans from foreign banks already totalled $439.4 million. After the very high interest rates of the 1983 economic crisis were added, PAL became one of the biggest debtor-corporations in the developing world.[155] Desperation then led Cruz to ask Marcos to let PAL monopolize the flights of all Filipino contract workers leaving for overseas assignments.[156] A more desperate move came a month later when the PAL board went as far as proposing a system of "standard ticketing" that would give PAL control of the cash and markets of other airlines. Under this controversial policy proposal, PAL alone would issue tickets for all contract workers:

> ... by centralizing the ticketing, PAL can get hold of and utilize the cash flow of other carriers flying the contract workers out of the Philippines.... Furthermore, through detailed documentations handed in for ticketing, PAL will soon get at the sources of the labor market and can easily monopolize the labor traffic at the expense of other international carriers who will stand to lose such business.[157]

Apart from desperate attempts to corner markets, the airline monopoly opened up a variety of non-competitive rents, even for cronies who had no vested interests in PAL's corporate viability. Figure IV.4 is a configuration of the ties between the rentier corporations that benefitted from a one-airline policy of the Marcos regime. The Panlilio and Enriquez families, well-known Imelda-cronies, became PAL's sole caterers. The newspaper publishing corporation of Hans Menzi, also a member of the PAL board, handled the reading subscriptions for all PAL flights. PAL's insurance cover, on the other hand, was monopolized by Roberto Benedicto's Integral Factors Corporation, similar to the other GSIS subsidiaries. Finally, all airport duty-free shops which PAL carried through its advertisements were placed by presidential fiat under the ownership of Gliceria Tantoco, Imelda's

Figure IV.4
Crony Interests in Philippine Air Lines



| | Service provider.
|Commercial interest in airline operations.
→Major corporate stockholder in PAL.

NOTE: Capitalized names are those of Marcos' cronies.

personal confidant.[158]

To the extent that a public monopoly like PAL succeeded in warding off domestic challengers and increasing foreign competition, it became a convenient policy instrument for concealing its indiscriminate use by the Marcos regime. Marcos claimed that "the concentration of economic power increased economic efficiency."[159] But the PAL case suggest otherwise. As the World Bank pushed for PAL's privatization in the wake of creditor-led bail-outs after 1981, Cruz defended PAL's ballooning deficit in terms of other, non-commercial considerations: "The country needs the airline as a marketing arm .... [because] linking the Philippines to the world is not only our mandate but our lifeblood."[160] Yet, in spite of what appeared to be its paramount public objectives, there were so many instances of PAL flights being chartered for personal use, overpriced domestic fares, terminated service routes, defective aircrafts, illegal diversion of funds, and incompetent, crony-dictated airline management. It is also doubtful if the claim to economic efficiency could be sustained by government-decreed preferences and cheap, government-guaranteed loans.

As the public-private distinction in the Philippine economy blurred completely, so did the treatment of strategic public monopolies vis-a-vis other, proprietary enterprises. PAL's conversion into a tool for the preservation and enhancement of the pro-Marcos elite's political power did not differ much from the way the other GSIS subsidiaries functioned. Consequently, PAL, too, faltered under the weight of cronyism and mismanagement. The intimate intermeshing of interests between public enterprises and the crony private sector only reveals the covert motives[161] behind deepening state involvement in the economy.

Summary

As the array of cases indicate, the legacy that cronyism left in the Philippines was both economic and political. Access to public resources and unbridled capital accumulation were reserved to favored individuals and firms on which Marcos increasingly depended for political support. This was achieved through a conscious, interventionist state policy of forming or taking over essentially commercial enterprises, despite the obvious lack of developmental purposes. In time, these firms came under crony-control or "ownership." Within the legal and political framework of one-man rule, the Marcos cronies easily gained extremely liberal government incentives; selective tax exemptions; presidential-decreed monopolies and captive markets; easy and privileged access to credit from local and international financial institutions; and monopolized access to valuable market information available only to the government. Where these methods did not suffice, military force was used as a factor in economic competition. These findings explain why actual or aspiring business groups, like the cronies, may actually support the expansion of the state in their long-term interest. Non-competitive or monopoly rentierism in the government corporate sector underscores the crucial link between state intervention, economic plunder, and repression in aid of business empire-building.

We therefore close this chapter with a paradox: If entrenching a chosen subset of the elite in the government corporate sector was indeed central to authoritarian rule, then "state entrepreneurship" became a form of "privatization" in the most perverse manner. This brings to fore the issue of the "public-ness" of state enterprises in the Philippines. Equally important, it suggests why President Aquino's privatization -- despite its reformist intent -- would not exactly be a smooth process.

NOTES

[1]U.S. Agency for International Development, **Country Development Strategy Statement for the Philippines, FY 1986-90** (Manila: USAID Mission, 1985), p. 3.

[2]Rodolfo Cuenca as quoted by **Wall Street Journal**, 4 November 1983.

[3]Commonwealth Act No. 186 (14 November 1936), as amended by 14 other legislative acts. The GSIS commenced operations on 31 May 1937 with two types of insurance funds: life and retirement insurance.

[4]Proclamation No. 1081 (21 September 1972).

[5]Commonwealth Act No. 186, section 22 (a-h).

[6]Presidential Decree No. 1146 (31 May 1977). The purpose of said decree was to increase and integrate the social security and insurance benefits of government employees and facilitate the payment thereof.

[7]The trust funds of the GSIS under Presidential Decree No. 1146 consists of social insurance, medical care, employee compensation, life assurance, and a general insurance scheme for government corporations. The 1977 act remains in force up to the present.

[8]Ricardo Manapat, **Some Are Smarter Than Others: The History of Marcos' Crony Capitalism** (New York: Aletheia Publications, 1991), pp. 373-374.

[9]*Ibid.*, p. 372; and interview with Zacarias Beltran, Vice-President, Acquired Assets Group, GSIS, 10 August 1992.

[10]These "clean loans" became the subject of a post-Marcos case in which the Supreme Court rejected the GSIS contention that its funds were not public. The Court held that the GSIS is a trustee of contributions from the government and its employees and the administrator of various insurance programs for the benefit of the latter. The public nature of the loanable funds of the GSIS and the public office held by the borrowers made any information sought about them clearly a matter of public interest and concern. See Valmonte v. Belmonte, G.R. No. 74930 (13 February 1989).

[11]"Friends in Need," **Time**, 24 August 1981; and "Marcos Cronies owe GSIS

P5.3 M," **Philippine Daily Inquirer**, 3 May 1986.

[12]For the complete story of the GSIS equity investment in CDCP, see "Cuenca tries anew to get back CDCP," **Philippine Star**, 22 July 1992; "GSIS set to convert PNCC loan to equity," **Manila Bulletin**, 3 August 1992; and "Cuenca group holds CDCP stockholders meet," **Philippine Star**, 3 August 1992.

[13]"GSIS asset sales encounters hurdles," **Manila Bulletin**, 26 August 1991.

[14]See statements of Senator Neptali Gonzales and GSIS President Feliciano R. Belmonte, Jr., Transcript of Stenographic Notes, Committee on Government Corporations and Public Enterprises, Senate, 7 October 1987, pp. 26-29.

[15]**The Philippine Financial System: A Primer** (Manila: IBON Databank, 1983), pp. 28-29.

[16]See testimony of GSIS Actuary Romulo Verola, Transcript of Stenographic Notes, Committee on Government Corporations and Public Enterprises, Senate, 18 October 1988, p. 26.

[17]Feliciano Belmonte, Jr., "Privatization and the GSIS Experience," paper presented at the Conference/Workshop on Privatization and Its Impact on Labor Relations in the Philippines, U.P. School of Industrial and Labor Relations, Quezon City, 19-21 August 1988, p. 56.

[18]*Ibid*.

[19]See roster of membership of GSIS officials in GOCC governing boards in Commission on Audit, **1984 Annual Financial Report**, vol. II: Government-Owned and Controlled Corporations (Quezon City: Commission on Audit, 1985), pp. 13-20.

[20]Manapat, **Some Are Smarter**, pp. 372; 374-375.

[21]*Ibid*., pp. 377-378.

[22]Commission on Audit, **Annual Audit Report on the Government Service Insurance System, Calendar Year 1987** (Quezon City: Commission on Audit, 1988), pp. 103-104; 179; and COA Auditor's memorandum.

[23]For more on the Benedicto business empire, see "Cracks in the Sugarbowl," **Far Eastern Economic Review**, 1 May 1981; and "Marcos, Benedicto in mill kickbacks," **Philippine Daily Inquirer**, 14 April 1986.

[24]**Philippines Free Press**, 8 December 1990.

[25]Batas Pambansa Blg. 80 (The Corporation Code of the Philippines).

[26]Commission on Audit, **Annual Audit Report on the Government Service Insurance System, see Calendar Years 1988-1990** (Quezon City: Commission on Audit, 1988-1990). These audit reports noted lack of compliance with the COA directive issued to the former GSIS officials for the settlement of their accounts.

[27]National Housing Corporation v. Juco *et al.* (G.R. No. 64313, 17 January 1985).

[28]Belmonte, "Privatization," p. 56.

[29]See testimony of former GSIS President Roman Cruz, Jr., Transcript of Stenographic Notes, Committee on the Accountability of Public Officers and Investigations, Senate, 7 March 1989, p. 49, and 13 March 1989, pp. 7-10.

[30]Ownership of the Stockton property by the Marcoses was first reported in "S.F. Gave Unusual Lucrative Breaks to Project," **San Francisco Examiner**, 2 March 1986. Marcos, Jr. and Araneta, with Cruz's help, planned to convert a new, ten-storey Stockton building into "their personal property as a source of income."

[31]Board Resolution No. 655 (3 August 1982); and the Agreement of Purchase and Sale of Stock of the Jamestown Company (5 August 1982).

[32]See Cruz, Transcript, 7 March 1989, pp. 50-51. Most of the floor space of the Stockton building was occupied by PAL. According to Cruz, if the bid was lost to another buyer, PAL would either have to vacate the building by 1986 and forfeit the marketing and tourism advantages of its outstanding location, or pay higher rentals if it could renew its lease after a new building is constructed.

[33]*Ibid.*, p. 51.

[34]See Certificate of Ownership by GSIS of Arconal NV, 2 March 1983; and Arconal NV Certificate of Ownership of All Common Stock of Arconal, Inc., 2 March 1983.

[35]Before the GSIS (winning) bid of $10 million, PAL on its own offered to buy Stockton at $5 million, followed by an $8 million bid from a British group. Both were rejected by the Jamestown Co., owners.

[36]Cruz, Transcript, 7 March 1989, pp. 55-56.

[37]See closing statement of GSIS President Feliciano R. Belmonte, Jr.,

Transcript of Stenographic Notes, Committee on the Accountability of Public Officers and Investigations, Senate, 20 April 1989, p. 45.

[38]Cruz, Transcript, 7 March 1989, pp. 55-56.

[39]Manapat, **Some Are Smarter**, pp. 454-462.

[40]"HK used to launder Philippine capital," **South China Morning Post**, 22 August 1985; and "In search of the Marcos millions," **Daily Express**, 1 October 1986.

Money-laundering, therefore, refers to the transfer of illegally acquired income and wealth to these investment havens before they are recycled as "clean" money and reintroduced to the international financial system.

[41]"Wealthy Filipinos find California lucrative territory for investment," **San Jose Mercury News**, 24 June 1985.

[42]Manapat, **Some Are Smarter**, pp. 455-456. The author also discusses the Stockton property, at pp. 518-520, as specific example of Marcos or crony real estate investments acquired from laundered funds.

[43]See list of appraisals in opening statement of GSIS President Feliciano R. Belmonte, Jr., Transcript of Stenographic Notes, Committee on the Accountability of Public Officers and Investigations, Senate, 7 February 1989, p. 21. Even the David Rhodes appraisal for the GSIS, submitted as late as 1985, indicated that Stockton's maximum worth was about $8.5 million after the demolition of the old edifice.

[44]Cruz, Transcript, 7 March 1989, p. 52.

[45]See interpellations of Senator Ernesto Maceda, Transcript, 13 March 1989, pp. 12-16; and Belmonte, Transcript, 20 April 1989, pp. 46-47.

[46]Cruz, Transcript, 7 March 1989, pp. 53-55; 74-75; and Transcript, 13 March 1989, pp. 21-28.

[47]Belmonte, Transcript, 20 April 1989, p. 45.

[48]*Ibid.*

[49]Cruz, Transcript, 13 March 1989, pp. 33-35. According to Cruz, the cancellation of the promissory note did not involve the GSIS at all, since only the $10 million release was recorded in its account.

[50]*Ibid.*, pp. 58-59.

[51]*Ibid.*, pp. 60-62; and Belmonte, Transcript, 7 February 1989, p. 13. The remaining $0.65 million in the Bank of America loan went to the payment of agent commissions and related expenses.

[52]R.T. Naylor, **Hot Money and the Politics of Debt** (Toronto: McClelland and Stewart Limited, 1987), p. 15.

[53]These are also forms of rent-seeking for Anne O. Krueger, "The Political Economy of the Rent-Seeking Society," **American Economic Review** (June 1974): 291.

[54]For specific details, see "S.F. Gave Unusual Lucrative Breaks" and Belmonte, Transcript, 7 February 1989, pp. 15-16. The lawsuits against Jamestown Co. were filed by an environmentalist group and Leslie Tang who eventually bought the Stockton property in 1986.

[55]Letter of California First Bank to Jamestown Co., 30 March 1986.

[56]Belmonte, Transcript, 20 April 1989, pp. 39-41.

[57]Minutes of the special GSIS board meeting, Manila, 4 March 1985.

[58]Naylor, **Hot Money**, pp. 332-336.

[59]Cesar G. Saldana, **Financial Management in the Philippine Setting** (Quezon City: AFA Publicatons, 1985), pp. 66-68.

[60]Raul L. Locsin, ed., **Corporate Profiles**, see **1982** and **1984** (Quezon City: Business Day Corporation, 1982 and 1984), pp. 64-65 and 96, respectively.

[61]*Ibid.*; and Manapat, **Some Are Smarter**, pp. 336-338.

[62]Presidential Decree No. 750 (21 July 1975).

[63]"Tales from Disiniland," **Time**, 23 January 1978, pp. 56-61.

[64]Presidential Decree No. 1858 (14 January 1983).

[65]The most detailed study of how Disini's logging firms trampled upon the rights of the poor and the cultural minorities is the report of The Anthropological Association of the Philippines, "The Tinggians of Abra and Cellophil," Baguio City, April 1979, mimeographed; and "The Cellophil Story: Is a giant stomping out the hill-tribes?", **WHO**, 15 September 1979.

[66]"Tales," pp. 56-61.

[67]Quoted by **New York Times**, 14 January 1978.

[68]Naylor, **Hot Money**, p. 334.

[69]Manapat, **Some Are Smarter**, pp. 337-338.

[70]Locsin, **Corporate Profiles 1984**, p. 96.
Dee was a Filipino-Chinese businessman who had also fronted for some of Marcos' flight-capital operations. In January 1981, he totally defaulted on his $100 million debt, mostly state-guaranteed, by leaving the Philippines for Vancouver, Canada. His "disappearance" caused financial panic among the country's foreign creditors and eventually wrecked Manila's money market.

[71]Walden Bello, David Kinley, and Elaine Elinson, **Development Debacle: The World Bank in the Philippines** (San Francisco, CA: Insitute for Food and Development Policy, 1982), pp. 186-189.

[72]Central Bank, "Re Industrial Finance Fund," memorandum from E.M. Villanueva, CB Apex Development Finance Unit, to CB Governor Jaime C. Laya, Manila, 14 April 1981, Exhibit A (APEX Proposal), p. 3. For an account of the World Bank's bail-out strategy, see also "A Blue Chip Goes Begging," **Far Eastern Economic Review**, 12 June 1981, p. 80.

[73]"The Government Steps In -- Again," **Far Eastern Economic Review**, 31 July 1981, pp. 78-80; and "Combank to go back to private hands," **Philippine Star**, 24 June 1989. See also "How They Broke the Bank in Manila," **Asiaweek**, 10 July 1981, p. 40.

[74]The COMBANK board consisted of Roman Cruz, Jr., as chairman, Labor Minister Blas F. Ople and pro-Marcos journalist Teodoro F. Valencia as vice-chairmen, and Marcos relatives Gen. Fabian C. Ver and Manuel M. Lazaro, Marcos executive assistant Juan C. Tuvera, and GSIS chairman Leonilo M. Ocampo, as among its members.

[75]Manapat, **Some Are Smarter**, p. 339.

[76]Memorandum of Agreement between Emerito Ramos, Sr. et al. and the Investment and Underwriting Corporation of the Philippines [renamed the Atrium Capital Corporation] (9 May 1980).

[77]**Evening Post**, 30 July 1981.

[78]Combank, **1983 Annual Report**, p. 13; and Leonor M. Briones, "The Role of Government-Owned and Controlled Corporations in Development," **Philippine Journal of Public Administration** 29 (October 1985): 382-383.

[79]Disini's men claimed that holding over the Herdis management was necessary to help the new owners acquire expertise in the operations before the turn-over is made. But no time limit was ever prescribed for the actual transfer of Disini's corporations.

[80]Alejandro Lichauco, **Nationalist Economics** (Quezon City: Institute for Rural Industrialization, Inc., 1988), pp. 220-237. In these pages, the author discusses how the labor-intensive, export-oriented strategy of martial law required liberal treatment of foreign investors, particularly MNCs.

[81]Naylor, **Hot Money**, p. 334.

[82]See International Finance Corporation, **Philippines Privatization Diagnostic Report: Philippines Plaza Hotel** (Washington D.C.: International Finance Corporation, 1989).

[83]"Public-sector workers' trust fund moves into a surplus: Management benefits," **Far Eastern Economic Review**, 12 January 1989.

[84]Michael G. Say, ed., **Philippine Company Profiles** (Manila: Mahal Kong Filipinas Foundation, 1987), p. 116.

[85]As pointed out in Chapter III, the conflict between these two elite factions was mainly over the direction of economic policy. The labor-intensive, export-oriented platform that the technocrats sought to erect met stiff resistance from an increasingly "nationalist" Congress because it posed serious threats to the political hegemony of the feudal elites and threatened the protectionism on which the national bourgeoisie depended for its survival.

[86]Government Service Insurance System, "Information on the Sale by Public Bidding of the Hotel Enterprises of the Philippines, Inc.," Manila, 1988, p. 1; and interview with Carmen C. Mendoza, Comptroller, Hotel Enterprises of the Philippines, Inc., 3 August 1992.

[87]Belmonte, Transcript, 7 October 1987, pp. 29-30. See also GSIS v. Sandiganbayan *et al.*, G.R. No. 83385 (26 November 1990).

[88]*Ibid.*, p. 29.

[89]Transcript, 18 October 1988, pp. 26; 28; 30-31.

[90]Presidential Decree No. 259. See also Presidential Decree No. 1463.

[91]Presidential Decree No. 645 (28 January 1974).

[92]Locsin, **Corporate Profiles 1982**, p. 139. See also Miguel Cerqueda, "The Legend Lives On," **Fookien Times 1986-1987 Philippines Yearbook**, pp. 197; 199.

[93]GSIS Board Resolution No. 2 (series of 1975).

[94]Presidential Decree No. 1444 (10 June 1978), as implemented by GSIS Board Resolution No. 767 (9 October 1981).

[95]Manapat, **Some Are Smarter**, p. 51.

[96]**Manila Chronicle**, 24 September 1986.

[97]This is quoted from the Memorandum of Andres R. Amante, Jr., "Justification for the filing of Complaint under the Anti-Graft Law," n.d., which summarizes the grounds for filing criminal charges of estafa through falsification of public documents against Cruz.

[98]GSIS Board Resolution No. 283 (15 March 1984).

[99]For more details, see GSIS v. Cruz, OSP Case No. 88-02028 (23 October 1989), and the accompanying Manila Hotel Official Receipt No. 72995 and PNB Check No. 007272 (11 May 1984). I also interviewed the person most knowledgeable about the case, Eduardo M. Garde, Comptroller, Manila Hotel Corporation, 3 August 1992. Garde held the same position during the Marcos regime.

[100]"Marcos Cronies," p. 1.

[101]Belmonte, Transcript, 7 October 1987, pp. 26-29.

[102]SEC Registration No. 93475 (17 June 1980).

[103]Manapat, **Some Are Smarter**, p. 373.

[104]Commission on Audit, **Philippine Plaza Holdings, Inc.: Financial Statements for the Year Ended December 31, 1989 and Auditors' Report** (Quezon City: Commission on Audit, 1990), see notes to financial statements.

[105]"Public-sector workers' trust fund."

[106]Feliciano R. Belmonte, Jr., "Towards a Responsive and Responsible GSIS," **Fookien Times 1986-1987 Philippines Yearbook**, pp. 126; 233-235.

For actual figures on returns on equity, see **Financial Statements** audited by Sycip, Gorres, Velayo (SGV) & Co. (for HEPI and MHC before 1986) and Carlos J. Valdez & Co. (for Philippine Plaza before 1985); and Commission on Audit, **Audit Reports** for the three aforecited hotels/holding corporations (beginning 1985 or 1986).

[107]Belmonte, Transcript, 7 October 1987, pp. 11-12.

[108]See SGV & Co. and Valdez & Co., **Financial Statements**.

[109]Government Service Insurance System, "Information on the Sale by Public Bidding of the 100% Interest of the GSIS in the Philippine Plaza Holdings, Inc.," Manila, 1990, p. 1.

[110]Memorandum of Agreement between the GSIS and Delta Manufacturing Corporation, 14 April 1973, as approved by the President of the Philippines in his 1st Indorsement (23 July 1973).

[111]Meat Packing Corporation of the Philippines, "Detailed History of the MPCP," briefing paper submitted to the President and General Manager of the GSIS, July 1992, p. 1.

[112]Interview with Andres S. Bautista, President, Meat Packing Corporation of the Philippines, and Board Member, GSIS and Manila Hotel Corporation, 27 July 1992. Bautista was Board Member of MPCP before 1986.

[113]Meat Packing, "Detailed History," p. 2.

[114]Lease-Purchase Agreement between the GSIS and Philippine Integrated Meat Corporation (3 November 1975).

[115]See GSIS Board Resolutions (13 May 1976 and 9 June 1978). The 1978 increase in capital stock was still pending approval before the SEC when the MPCP was sequestered by the Aquino government in 1986.

[116]PCGG v. Cruz *et al.*, OMB-0-91-0695, 0696, 0697, and 0698. See also Office of the Ombudsman, "Order," Manila, 30 September 1991.

[117]Commission on Audit, **MPCP Audit Report for the Years Ended December 31, 1990 and 1989** (Quezon City: Commission on Audit, 1991); and Interview with Bautista.

[118]Supplementary Loan Agreement between Meat Packing Corporation of the Philippines and Philippine Integrated Meat Corporation (9 July 1981), as approved by the President of the Philippines in his 1st Indorsement (29 November 1980).

[119]Meat Packing, "Detailed History," p. 2.

[120]SEC Registration No. 51051 (27 April 1973).

[121]For a complete account of Philbai's crony links, see **Business Day**, 29 April 1986; and **Malaya**, 29 April 1986.

[122]*Ibid*. According to these well-documented newspaper reports, around A$400,000, disguised as a "loan," were used to finance two Sabido-pasture leases. Typical of many crony undertakings, these pasture lands were registered in the names of Sabido's father and A. Nicolas, an Australian "dummy."

[123]Manapat, **Some Are Smarter**, p. 132.

[124]*Ibid*., p. 296.

[125]Meat Packing, "Detailed History," p. 2.

[126]Presidential Decree 1297 (30 January 1978).

[127]Presidential Decree 1593 (November 1978). See also "Velasco's Net Worth: P1 billion, say probers," **Philippine Daily Inquirer**, 5 July 1986.

[128]**Philippines Free Press**, 8 December 1990.

[129]Concealment of ownership of these Phil-Asia assets is cited by the Commission on Audit, **Phil-Asia Food Industries Corporation Annual Report for the Years Ended December 31, 1989 and 1988** (Quezon City: Commission on Audit, 1990).

[130]GSIS/MPCP Board Resolution No. 4-86 (15 August 1986); GSIS Letter to the Philipppine Integrated Meat Corporation, 17 November 1986; and Antonio F. Navarrete, "Reply to the PCGG's Comment," re MPCP v. Sandiganbayan, G.R. No. 103068, 4 May 1992, p. 2.

[131]"PIMECO to be reopened to pay P12.6 M GSIS debt," **Business World**, 31 January 1991.

[132]Commission on Audit, **MPCP Audit Report**.

[133]GSIS Board Resolution No. 4-86; and interview with Bautista.

[134]Presidential Commission on Government Reorganization, **Report on the Government Corporate Reform Program** (Manila, 1987), see MPCP fact sheet, p. 3. See also Complaint, RP v. Sabido *et al.*, PCGG Case No. 25 and SB Civil Case No. 0024.

[135]Natural monopoly exists where the size of the market allows only one firm of efficient size. In such a situation, it would be inefficient to have a large number of firms each producing a small output at a high cost per unit. Otherwise, any firm that grew bigger than its rivals would soon find itself in a position to cut price below its rivals' costs and monopolize the industry.

Economic theory also holds that if natural monopoly lowers costs sufficiently, it may lead to greater output and lower price than competition. The circumstances in which large firms in less competitive market structures achieve lower levels of cost (than an industry composed of large numbers of small firms) primarily depends on how market structure affects the rate of innovation or invention.

[136]Gerardo P. Sicat, **Economics** (Metro Manila: National Book Store, 1983), pp. 138; 616.

[137]Testimony of PAL President Dante Santos, Transcript of Stenographic Notes, Committee on Corporations and Franchises, House of Representatives, 8 September 1988, pp. 18-19.

[138]Letters of Instructions Nos. 151 and 151-A (1974).

[139]"How will the public like relying on one airline?," **Far Eastern Economic Review**, 17 November 1978.

[140]*Ibid.*

[141]Feliciano R. Belmonte, Jr., "A Financial Turnaround," **Fookien Times 1991 Philippines Yearbook**, p. 341.

[142]Testimony of PAL Secretary and General Counsel Ricardo V. Puno, Jr., Transcript, 8 September 1988, pp. 26-27; and "Public-sector workers' trust fund."

[143]Sections 19-20, Presidential Decree No. 1590 (11 June 1978). PAL's original franchise under Act No. 4271, as amended, was still valid when Marcos issued this decree.

[144]Manapat, **Some Are Smarter**, p. 369. True to Imelda's expectations, one of Cruz's first moves as PAL head was to threaten **Newsweek** publishers with court

action for writing about Toda's ouster.

[145]Asian Development Bank, **Daily Digest**, 25 May 1988, p. 2.

[146]"PAL Planes Defective?," **We Forum**, 30 June 1982.

[147]Manapat, **Some Are Smarter**, p. 371.

[148]Luzviminda G. Tancangco and Roger L. Mendoza, "Elections and the Crisis of Legitimacy in the Philippines," **Philippine Journal of Public Administration** 32 (July-October 1988): 276-279.

[149]*Ibid.*, pp. 276; 280.

[150]*Ibid.*, p. 276.

[151]Locsin, **Corporate Profiles 1982**, p. 178.

[152]See statement of Prime Minister and Finance Minister Cesar E.A. Virata on PAL's non-commercial, service-oriented purposes, **Far Eastern Economic Review**, 1 May 1981.

[153]Locsin, **Corporate Profiles 1982**, p. 178.

[154]Joint ventures between NDC and transnational firms are discussed in Chapter IV.

[155]John E. Lind, **Philippine Debt to Foreign Banks** (California: Interfaith Committee on Corporate Responsibility, 1984), p. 2.

[156]**Far Eastern Economic Review**, 29 January 1982.

[157]Quoted by Manapat, **Some Are Smarter**, p. 370. The "standard ticketing" project was blocked by the World Bank which took command of bail-out operations for defaulting crony-owned or -controlled firms after the Dewey Dee incident in 1981.

[158]*Ibid.*, pp. 133; 377; 382-383.

[159]See David G. Timberman, **A Changeless Land: Continuity and Change in Philippine Politics** (Manila and Singapore: The Bookmark, Inc., and Institute of Southeast Asian Studies, 1991), p. 107.

[160]Roman Cruz, Jr., Speech delivered before the Philippine Marketing Association, Hyatt Regency Hotel, Pasay City, 1985.

[161]See Leroy P. Jones et al., "Role of Economic Factors in Determining the Size and Structure of the Public Enterprise Sector in Less Developed Countries with Mixed Economies," in L.P. Jones, ed., **Public Enterprise in Less Developed Countries** (Cambridge: Cambridge University Press, 1982), pp. 30-31.

It is customary for scholars like Jones to classify the basis of state entrepreneurship into either **ideological** (e.g., ideological predilection or consolidation of economic and political power) or **pragmatic** (historical heritage and inertia, developmental objectives, institutional responses to economic problems) **considerations**. As we suggest in this chapter, pragmatic considerations -- which seem to apply more to the Philippine case -- ought to be further viewed in terms of unstated objectives and activities of public enterprises as well as the interplay of dominant interests therein.

CHAPTER V

CORPORATE REFORM AMIDST DEMOCRATIC RENEWAL

> Institution of reforms in the process of restoring the free market mechanism has thus constituted the primary foundation for the recovery of the economy.
>
> Philippine-American Chamber of Commerce President Bernardino Ronquillo[1]

The People Power revolution of February 1986 ushered in the process of transition from authoritarian rule to redemocratization in the Philippines. The overt intransigence of the Marcos regime in ensuring free and honest presidential elections on 7 February 1986 finally drove thousands of Filipinos to stage a successful uprising, following a *coup* attempt against the Marcoses by the reformist faction of the military. The phenomenon of people power thus defied the simplistic notion that demonstration elections only prop up dictatorships, as Filipinos refused to bring the argument to its logical conclusion.

President Aquino believed that the first and foremost task of her newly installed government was democratic restoration. As she repeatedly stressed, hers was merely a transition government mandated by the people "to reestablish democracy and secure our freedoms by the separation of the powers that had come into my hands."[2] Aquino proceeded to convene a Constitutional Commission to draft a new Constitution. The 1987 Constitution clearly reflected Aquino's vision of the transition process to democracy. It guaranteed basic individual rights and liberties, scheduled national and local elections, and called for the reconstitution of democratic institutions either abolished or neutralized by martial law.[3] For their part, Aquino's Cabinet members and political advisers worked hard to immediately transfer to these institutions the vast and extraordinary powers of a revolutionary government which were reposed in the President under Proclamation No. 1.[4] The disdain Aquino and her supporters felt for one-man rule made them reluctant to use their extensive legal authority for partisan purposes.

The collapse of the Marcos dictatorship and the return to representative democracy under Aquino, however, did not necessarily put an end to the rapid and serious decline of the Philippine economy. By 1986, around 60 per cent of Filipino families were living below the poverty line. Real per capita income had fallen more than 16 per cent from its 1982 high. Over a quarter of the workforce was unemployed or underemployed. The country was also saddled with the burden of repaying external debt exceeding $27 billion. On top of all this, Aquino inherited from Marcos a national government that was virtually bankrupt, with the losses and debts of some 300 state-owned enterprises.

Economic reform was crucial to the survival of the new democratic regime, especially since Aquino needed to retain the political support of the non-crony business and middle classes in the face of endless threats from pro-Marcos elements, the rightist faction of the military, and the communists. Reversing the economic decline therefore became a key objective of the Aquino government. It is in this context that Aquino moved to correct the long-standing distortions and inequities in the economy through "neo-orthodox" or market-oriented solutions which called for a significantly reduced role for the state and the creation of competition. One vital solution was privatization. Although Aquino's commitment to privatization appeared genuine, it was unclear how far government corporate reform would go. Would corporate reform and complementary economic liberalization policies merely undo the worst aspects of Marcos' crony-controlled economy and restore an updated version of the pre-martial law economic order? Or would these reforms also address fundamental problems that predated cronyism, particularly the unequal distribution of income, the skewed structure and ownership of markets, and the collusion of the economic and political elite? In the present chapter, we assess the new government's approach to economic recovery by examining the debates and influences surrounding divestiture policy as well as the critical issues that arose therefrom.

Intermeshing Interests Behind Divestiture Policy

The policy formulation process we chart in this chapter was not without its influences and interplay of powerful interests, despite the absence of genuine opposition to a policy of divestiture. Such policy was the result of exogenous and domestic political pressures to reverse the kind of *dirigisme* associated with one-man rule. External pressures, however, were much more impelling since privatization was initiated by Marcos in the wake of the worst economic debacle triggered by the debt crisis. Badly needed loans were at stake when Aquino took over an ailing economy and fully adopted Marcos' unenforced privatization decrees to assure international creditors of continuity in public sector reform policy.

International Creditor Pressures for Corporate Reform

The dominant role played specifically by multilateral and bilateral aid institutions in defining the scope and direction as well as the timing of public enterprise reform serves to link economic policy under the Marcos and Aquino governments. To some extent, it also reinforced the prevailing pattern of economic domination of the Philippines by American business interests in a time of democratic resurgence. This is because the U.S. is the biggest fund contributor and, as a corollary, the major voting power, in those creditor-agencies directly involved in (U.S.-backed) privatization policy in the Philippines and elsewhere in the developing world.[5] Multilateral agencies (i.e., their membership is drawn from several donor countries led by the U.S.) generally complement American bilateral (or country-to-country) channels of lending like the U.S. Agency for International Development (USAID). The World Bank has an international focus and performs a fair amount of structural adjustment lending based on conditionalities like privatization. The International Monetary Fund (IMF), a sister agency of the World Bank, has more of a balance-of-payments focus and is primarily concerned with shortages in foreign exchange reserves in the Philippines. The Asian Development Bank (ADB), on the other hand, has a regional (Asia-Pacific) focus. ADB does not deal with broader structural adjustment, although it is involved in policy lending to specific sectors and capital investment types of projects. American support for market-oriented adjustment policies, it should be noted, increased over the last decade or so, as debtor-nations suffered from acute balance-of-payments problems and the impact of the recession.

Foreign creditor interest in the privatization of Philippine public enterprises, in particular, had its origins in the early 1980s. Extensive studies on the public sector were produced by government and academic institutions alike,[6] as the legitimacy of the Marcos regime waned amidst an unfolding economic and political crises. These new studies generally challenged the claim that the country's major problems could be traced primarily, if not solely, to international shocks. Government-owned and -controlled corporations (GOCCs) were definitively pinpointed as accounting for the bulk of the public sector's external debt (please refer back to Table III.4), given the unprecedented expansion of the government role in financial and product markets.

Adverse public reaction generated by such assessments of the GOCC sector in the Philippines coincided with multilateral initiatives in pushing for a greater role for the price mechanism in allocating resources in less developed countries (LDCs). The "neo-orthodoxy" that permeated multinational banks was largely a reaction to the failure of (over-extended) public sectors to respond to the challenges posed by successive oil crises in the 1970s, the worldwide recession of 1981-1982, the changing demands of global capitalist markets, and increasing levels of poverty in LDCs.[7] The

World Bank's famous Berg report[8] provided the first comprehensive critique of the economic, financial, and distributional performance of LDC parastatals, especially those in Sub-Saharan Africa. That state-induced growth and central planning have generally fostered the rapid expansion of the public sector without accomplishing much of the original imperatives of development was the theme of this report that Marcos' technocrats and their World Bank counterparts often cited in proposing the privatization solution. As Berg sternly warned, unless "there is a change in the operating effectiveness of parastatals, particularly in industry, they will not take their proper place as growth points."[9] Since then, many African and Latin American governments have embarked on a variety of privatization strategies with World Bank funding and technical assistance. The Marcos regime was no exception, which indicates that multilateral interest in Philippine divestiture policy was partly ideologically motivated.[10]

Assessments of this nature had a great impact in mobilizing U.S. government and foreign creditor opposition to Marcos, especially as favoritism and crony loan defaults proved harmful to their economic interests. By 1984, negotiations were started in earnest by Marcos' technocrats for "salvaging" the GOCC sector. The World Bank was tapped to finance the project after it offered a $300 million policy-based loan in April 1983, known as Structural Adjustment Loan II. This loan was meant to complement the crony bail-out fund of 1981. One of its conditionalities was the so-called "rationalization" of the policy framework for the GOCC sector. This was operationalized in terms of three components: 1) financial reform of the six state-owned banks (including the GSIS' Commercial Bank of Manila) through corporate restructuring and the disposition of their non-performing assets; 2) reduction in the number of public enterprises through abolition, merger, regularization, conversion, or privatization; and 3) development of a strict system for monitoring and coordinating government corporate performance.[11]

Although the then Presidential Commission on Reorganization -- the predecessor of Aquino's Presidential Commission on Government Reorganization -- was the lead agency from the Philippine end, the World Bank was heavily involved in all the details of the year-long policy-making exercise which lasted until January 1986. Following World Bank guidelines, the GOCC sector was thoroughly inventoried. For the first time, the Marcos regime finally got an idea of the enormity of the sector and the seriousness of its problems. Each government-sector module in the Commission's report was covered by detailed terms of reference drafted by a Bank advisory group. All these comprehensive studies were cleared not only with the appropriate Philippine government agencies; they were minutely reviewed by Bank technocrats from Washington D.C. Endless drafts of two proposed presidential decrees on government corporate reform had to be revised again and again to comply with the terms of reference defined under Structural Adjustment Loan II.[12]

Serious disagreements between the Commission on Audit and World Bank officials in Manila arose on the matter of differential treatment for GOCCs. In two annual reports, the Commission on Audit insisted that public enterprises should not be exempted from state audit during the budgeting phase (i.e., pre-audit) and after the disbursement of funds (post-audit).[13] World Bank officials opposed the proposal for fear of political (or crony) circumvention of accounting procedures. Instead, they proposed the inclusion of private auditors in the Commission on Audit's post-audit team.[14]

The stalemate was broken in favor of the World Bank when an IMF Stand-by Agreement imposed the requirement of private audit.[15] This was, in fact, instituted as one of several central financial controls for the fourteen largest non-financial GOCCs in order to meet IMF ceilings on public sector borrowing and transfers to the GOCC sector.[16] The "tactical alliance" between the Philippines' two biggest creditors prevented an imminent political showdown between state auditors' and World Bank officials. The Commission on Audit, however, managed to extract a concession in the form of a ban against exempting any GOCCs from mandatory audit.

As the Presidential Commission on Reorganization-World Bank negotiations progressed, it also became evident that the World Bank was bent on making privatization a "postulate" of public sector reform. This was strongly endorsed by IMF officials as part of a package of conditionalities under a 1984 stabilization loan. Under this loan's "enhanced monitoring scheme" (i.e., an annual review of fiscal and monetary performance), it was agreed upon by the IMF and the technocrats that the extent of implementation of privatization would be among the criteria to be reviewed.[17] This scheme provided some of the first consolidated data on the size and operations of the largest GOCCs. The IMF, backed publicly by the Reagan administration, later went a step further. It pushed vigorously for the abolition of the sugar, coconut, and grain monopolies of Marcos' cronies. This was made a precondition for a 1985 trade agreement concluded by the Marcos government with the U.S.[18]

For its part, the Manila-based ADB made sectoral lending to public enterprises like the Philippine National Oil Company conditional on outright divestiture of its subsidiaries. In 1985, as the Presidential Commission on Reorganization and the World Bank prepared to launch a massive divestiture program under Marcos, the ADB and the U.S. government co-sponsored the first international conference on privatization in Manila.[19] As a top ADB official admitted, the privatization thrust of ADB clearly reflects the U.S. government's lead in "pushing for private enterprise and market determination of prices and an open economy in which competition could take place."[20]

The most significant output of the year-long policy exercise was the adoption of a policy on privatization by means of two decrees, among the last Marcos promulgated before his downfall. Presidential Decree No. 2029[21] laid down the basic policy framework for the creation and regulation of public enterprises. Presidential Decree No. 2030[22] prescribed "the orderly disposition of certain assets of government institutions" by creating an Asset Privatization Trust. Both decrees had "World Bank consultants and advisers ... 'consulted' on every line, phrase and word."[23] The role of the World Bank in pushing for the enactment of these two decrees was a definitive one in that the final version required the stamp of its approval for the release of the last tranche of Structural Adjustment Loan II.

The U.S. government and U.S.-controlled lending institutions gained even greater political influence under the Aquino government. The Reagan administration made the clever move of being the first to recognize the legitimacy of the People Power revolution, even before it ended; the Soviet Union openly backed Marcos. American political emissaries were later instrumental in convincing Marcos not to resort to bloodshed during the revolution and in finally offering him asylum in Hawaii as his regime collapsed in 1986.

IMF approval for over $500 million in new credit facilities was initially obtained by Aquino's technocrats in July 1986 to finance the country's already crippling balance-of-payments shortfall. This was an essential prerequisite to short-term stabilization and medium-term recovery. More precisely, it served as a "seal of approval" for prospective negotiations on commercial debt restructuring and for securing new loans and grants from foreign creditors led by the World Bank.[24] In return, the Aquino government had to agree to a package of structural adjustment policies and performance targets, some of which were politically difficult. These included import and foreign exchange liberalization, tax reform, and the restructuring of state financial institutions which held most of the crony firms bailed out under Marcos.[25]

To these IMF conditionalities, the World Bank imposed another one when it released its $300 million Economic Recovery Loan package in March 1987. It came in the form of a comprehensive "rationalization" program for the Philippine public enterpise sector. An additional $10 million for technical assistance was infused by the World Bank for this purpose.[26] When the privatization program under Proclamation No. 50 finally got under way, another $200-million Government Corporate Reform Loan was approved by the World Bank and co-financed by five other international creditors. Disbursals were made in three separate tranches between 1989 and 1992, on the basis of certain targets which the Philippine government was expected to meet.[27]

Under Aquino, the World Bank and the IMF were further joined by non-bank foreign donors like USAID and the United Nations Development Programme (UNDP) in ensuring that the new administration would pursue Marcos' public corporate reform program. Both USAID and UNDP had been persistent critics of the crony monopolies under one-man rule.

USAID drastically shifted its main focus in the Philippines from community-based projects related to U.S. military facilities, to outright bilateral support for a "private sector strategy" after Aquino came to power. The shift followed an exhaustive report in which USAID severely indicted Marcos for giving his rentier-cronies more than ample "monopoly and monopsony power," so that these cronies could "maintain and expand profits without having to become innovative and cost-effective as should be the case with 'infant' industries."[28] USAID's post-1985 policy-specific thrust was thus premised on the belief that "sustainable economic growth depends on a dominant role for the private sector and the assurance that market forces, not government fiat, establish signals which drive investment."[29] This bilateral agency also sponsored the International Conference on Philippine Opportunities for Entrepreneurs and Investors, or PHOENIX, in December 1986. It was in this conference of top foreign investors that Aquino formally unveiled her privatization policy as linchpin of government corporate reform.[30]

UNDP tied its aid to a similar market approach to development, when it co-funded with USAID the individual corporate studies prepared by the Presidential Commission on Government Reorganization in 1986. Two years later, UNDP devised a Technical Assistance Project for restructuring the Philippine GOCC sector. Its completion was among the conditionalities the World Bank imposed for the release of the Government Corporate Reform Loan.[31] In both projects, however, UNDP made clear that it was treating foreign aid like capital investment which moves in a very competitive market: "[c]ountries which offer good opportunities for foreign aid and for efficient use of it, will attract more compared to those that do not."[32] By "good opportunities" is actually meant a political and economic climate conducive to capital investment.

For its part, ADB complemented UNDP's policy plank by channelling support for privatization through the development of rudimentary Philippine capital markets under a $200 million loan.[33] This was in response to the lack of foreign buyers which had been a major cause of delay in the divestiture of high-profile government corporations. Nonetheless, the ADB loan was also premised on the presumed superiority of the private sector which supposedly "leads to a more efficient use of resources"; ADB believed that privatized firms are "forced to respond rapidly and efficiently to changes in market demand and economic conditions."[34]

The foregoing illustrates the pervasive role assumed by foreign interests, especially the U.S.-World Bank conglomerate, as the Philippines underwent systemic change. Wheareas multilateral agencies initially pressed for privatization to discipline the cronies who exploited their ties with Marcos to gain political leverage over foreign capital, the post-1986 period reflected their renewed interest in assigning to the private sector a primary role in the economy. As we have indicated here, foreign loan and aid packages to Aquino's government were premised on streamlining the public corporate sector and accelerated divestiture, similar to many other debt-driven economies in Africa and South America. In turn, the sale of essentially proprietary or commercial firms was expected to boost private entrepreneurial activity and eventually expand capital markets in the Philippines.

Again, the aforecited situation exemplified a combination of political and ideological motives behind multilateral prescription of privatization as an economic reform strategy. At the same time, the "debt connection" which became the political leverage of international creditors and donors virtually closed out possible policy alternatives to privatization. These alternatives include the reorganization of parastatal management and the restructuring of parastatal operations, instead of their outright dissolution or sale.

Domestic and Foreign Business Interests

Creditor interest in Philippine privatization reinforced the vital role that Aquino assigned to the broader, non-crony private sector. Aquino sustained her administration's generally harmonious relationship with the domestic private sector all throughout her six-year term of office (1986-1992). Survey data on the private sector's views are clearly indicative of business' rapprochement with the new government. From March to August 1986, a poll was conducted on 243 of the largest 1,200 corporations in the Philippines. Its results are presented in part under Table V.1. Generally, business appeared cautious about the economic prospects of the Philippines. Half of the respondents believed that economic uncertainty remained, and over 90 per cent felt that the task of economic rehabilitation would be a slow and painful one. On the other hand, questions addressing business-government relations in Table V.1 suggested a very high degree of optimism about the political climate. This is especially evident in regard to the prospects for privatization and other pro-business policies.

Leading Filipino businessmen subsequently helped ease the tensions in business-government relations that had emerged from Marcos' selective state intervention and cronyism. Privatization was hailed by the Filipino and foreign business communities when it was finally implemented in 1987. Powerful interest groups like the Philippine-American Chamber of Commerce, Philippine Chamber of Commerce and Industry, and the Makati Business Club lauded Aquino for exhorting national government executives responsible for privatization to look at the business

Table V.1
Business Sector Views of Aquino's Economic Policies
(March-August 1986)

Question	Yes	No	Abstain	Total
1) Under the new gov't, do you think confidence in the gov't has been restored?	84.8	12.8	2.4	100
2) Do you believe in the new govt's ability to put the economy back on its feet?	82.3	13.2	4.5	100
3) Do you think the gov't and the private sector can still mend their severely tarnished relationship?	85.6	10.7	3.7	100
4) Do you think the gov't will lessen its presence in certain industries and, in effect, create a business environment where private enterprise will flourish?	81.9	11.5	6.6	100

SOURCE: Ma. Carolina B. Ibanez, "Big Business Talks on How It Looks Now," **Business Day: 1,000 Top Corporations in the Philippines** (Manila: Business Day Corporation, 1986), p. 274.

sector as model, analyze what accounts for its vaunted efficiency, and bring such methods and practices to government.[35] Apart from a host of complementary liberalization policies to privatization that included lifting price and foreign exchange controls under Marcos, deregulating key sectors of the economy, and fiscal and investment incentives to private entrepreneurs and multinational corporations (MNCs), so many prominent businessmen also gained key positions in government as we shall see later on. In this manner, foreign support for privatization had the effect of encouraging businessmen and market-oriented economists acquire an influential voice within the Aquino government.

Bernardino Ronquillo, President of the Philippine-American Chamber of Commerce, later echoed the sentiments of Manila's big businessmen when he noted a bullish securities market, as shares of several divested assets were then proposed for public listing. According to Ronquillo, this reflected "the high level of confidence with which business views the short term as well as the long-run prospects of the economy."[36] More than a vibrant and politically supportive business sector, the competitiveness of domestic markets is perhaps the more crucial determinant of any successful privatization policy. This is particularly the case among LDCs like the Philippines in view of the chronic shortage of long-term capital. Such a situation could leave many divested assets in the hands of the pre-martial law landed and industrial elites, as they regain their political and economic power under a democratic regime. Where such power is consolidated in a small segment of the population, excessive purchasing and bargaining power can be wielded by these elites to gain ownership of state assets. In the process, rents (or better still, competitive rents) can be captured by these groups owing to lack of serious buyers, frequent resort of privatizers to negotiated deals, and the ensuing private monopolies.

Moreover, the prevailing concentration of Philippine industries has serious implications on the presumed efficiency of what is known as the private sector. In many instances, industry practices could evolve out of an implied or negotiated *modus vivendi* or "rules of competition" among the leading firms or buyers of privatized assets. That is, they may, over time, evolve among themselves a common range of financial policies like pricing, credit terms, product lines, and even target markets.[37] Rents accrue to big businesses out of such practices. Privatized firms, then, can not be expected to perform more efficiently. In other words, unless competitive market environments exist, the simple shift from state ownership or control to the private sector will not necessarily result in net benefits to an (ailing) economy[38] like the Philippines.

Under Aquino, the rudimentary character of capital markets posed even greater problems to privatization. This was because Proclamation No. 50 called specifically for outright divestiture or sale of high-priced commercial enterprises for which capital markets -- or more appropriately, equity or stock markets -- were unable to raise funds for their purchase. Of the top 1,000 corporations listed under the Securities and Exchange Commission, only 48 appeared on the Philippines' two stock exchanges as of 1987, with the proportion of shares traded accounting for a mere 10 per cent to 30 per cent of outstanding shares.[39] A significant number of these firms have been described as "glorified family corporations"[40] that are most likely engaged in the above-cited rent-seeking activities, a characteristic shared by even medium-sized firms. Also, the volume of trading in these exchanges was quite small compared to the actual level of capital in business firms. The highly speculative oil and mining transactions acounted for a large volume of stock market trading, when together these sectors constituted less than 8 per cent to 10 per cent of the total net worth of the top 1,000 firms at any given year.[41] What all these indicate is that the market for equities still did not fulfill the essential function of a developed secondary market, which is to provide liquidity to stockholders rather than cater to stock market speculators.

While Aquino responded to subsequent delays in divestiture through a host of deregulatory legislations, she failed to come up with a policy to encourage long-term finance through equity markets prior to privatization. Aquino was under pressure from business groups to immediately unload many GOCCs which remained under crony control. But the public listing of government commercial and industrial corporations, small investors argued back in 1986, "may just be the needed ingredient to provide substance to privatization."[42] Not only are these firms sufficiently well-established and profitable; these are also, on the whole, able to demonstrate strong dividend-paying capabilities.

An additional benefit of a (missing) policy of publicly listing divested assets is the dispersal, and consequent widening, of the property ownership base in the Philippines. This was expected to result from a greater number of buyers of smaller shares which require less capitalization. This way, public listing would not only accelerate (re)privatization, but also boost the shallow stock market by vastly increasing both capital and investor base with which trading is conducted. A related consequence would be more financial investment alternatives from which a wider or broader private sector could draw in the long term.[43] These were critical concerns for small investors who were very enthusiastic about privatization in 1986:

> Initially, it may be necessary for the [Aquino] government to sacrifice the maximum recovery objective to democratize

shareholdings, and this is a trade-off that must be thoroughly weighed. On the other hand, in order to promote public listing, incentives should be granted to reflect a favourable differential between publicly-owned and closed corporations. Improvements in listing procedures and the accompanying taxation reforms to remove the bias against equity financing is also called for....

> From another view, the [Privatization] Programme may serve as the impetus to develop the capital market to fund business growth and survival, even for firms already privatized. **The control of assets by any one group or a few individuals be they foreign or local may be tempered by management structures, not necessarily through physical shareholdings. If so required, however, some form of regulation may be adopted**[44] (emphasis added).

The more sensitive issue of foreign ownership inevitably surfaced in 1986, as small investor groups batted for public listing of many divested shares during the consultative meetings conducted by the Presidential Commission on Government Reorganization.[45] They were joined by economic nationalists and some economists from the University of the Philippines who charged that divestiture endangered Filipino control over national resources and patrimony, as provided for under the new Constitution. According to them, big foreign firms and MNCs were strongly supportive of divestiture because they are in the best position to bid for coveted state assets, especially with their ties to top local investors and the Philippines' commercial and multilateral creditors.[46]

The politically contentious issue of foreign equity owed to the historically dominant role played by foreign, especially American, private business in the Philippines. Foreign firms presently proliferate in almost every sector of the economy, including so-called "strategic" or "targetted" areas. The banking and finance sector is under the effective control of MNCs and their affiliates and subsidiaries, making up 11 out of the top 150 corporations in 1986. Several multinational banks like the First National Bank of Boston are also the country's major creditors, allowing them to propose and avail of schemes like the debt-to-equity swap for COMBANK in obtaining state assets at substantial discounts. The list does not include the sizeable chunk of shares of stocks held by multinational banks in predominantly Filipino-owned banks like the Far East Bank and Trust Company of Aquino's Central Bank Governor, Jose Fernandez, and the Equitable Banking Corporation of the Go family, the buyers of Philippine Air Lines' (PAL). Similarly, the manufacturing and consumer sector has a preponderance of partnerships between local private monopolies and MNCs, including Nestle Philippines, Inc., Coca-Cola Bottlers Philippines, Inc., Colgate-Palmolive Philippines, Inc., and Philippine Packing Corporation. Even the energy sector (particularly oil, gas, and petro-chemicals) concedes a large share of the market to MNCs, 6 of which are listed in the top 150 corporations.[47]

The extent of foreign economic control was pervasive before and during the Marcos regime. But it became even more pronounced under Aquino, since economic recovery was "premised on increased inflow of foreign investment."[48] Listings of the Philippines' top 1,000 corporations between 1986 and 1991, in terms of sales, showed that foreign private firms account for the first 150 corporations, excluding already joint ventures. They registered a sales volume of around 5 per cent to over 8 per cent of total sales of the first 150 corporations during these years, although their net profit was equivalent to over 70 per cent of the total for the same corporations in the same period.[49] It should be noted that net sales and profits of these foreign entities were understated due to the effect of repatriation of investments in terms of foreign exchange.[50]

The enactment of the Foreign Investments Act in 1991 and the decontrol of foreign exchange in 1992 by the Aquino government were ostensibly meant to hasten privatization and other World Bank-funded deregulatory initiatives by attracting MNC investments. But these measures also encouraged rentierism among its beneficiaries -- the foreign investors -- who are now exempt from the usual government limits or restrictions on the use of profits derived from business operations. The guarantee of 100 per cent remittance of earnings and profits (from most privatized assets) to their home countries by the Foreign Investment Act, for example, put pressure on scarce hard currency which was needed to cope with the country's $42 billion external debt. Aquino's "open-door" investment policy could thus end up defeating the role originally assigned to privatization in easing the debt burden.

With very few exceptions, therefore, the Philippine private sector is undoubtedly dominated by foreigners. If foreign capitalists or partnerships with them can spell the success of privatization given the inherent weaknesses of domestic markets and traditional wealth concentrations, then even greater (but better) regulation may be called for. PAL's own management had occasion to touch on the critical regulatory function of government, when the Senate inquired into the causes of delays in submitting PAL's divestiture scheme:

THE CHAIRMAN (Senator Laurel): Now, for a broader distribution of corporate shares, has this been considered, in the first place, as one of the factors in the privatization plans of the GSIS?

MR. BELMONTE (PAL President): ...I think that we, in GSIS, as well as in PAL, recognize that Philippine Air Lines should remain under Filipino ownership and control. By ownership, I mean to say that it should own the controlling shares of Philippine Air Lines and, of course, since we are talking about a lot of money there, several billion pesos, obviously this is not the sort of thing that can be sold to just anybody....

We do recognize that we have a very thin market in the stock exchange. So, probably the stock exchange can account for a certain portion of that 60 per cent [controlling equity], while other Filipinos who may be interested to acquire shares shall account for another portion of the same 60 per cent....

MR. PUNO (PAL Vice-President): It also depends on how dispersed ownership is. Because in some corporations, 10 to 15 per cent already constitutes control if everyone else has only one or 2 per cent...

SENATOR HERRERA: That is quite complicated, because then you will have to consider how dispersed is foreign equity.

MR. PUNO: That is why we were suggesting ... that if there be evidence that a smaller shareholding, less than 50 per cent, constitutes effective control, then that should be enough indication that Filipinos do not actually control a strategic enterprise. Multinational corporations, for example, can be solid in their ownership whereas Filipino ownership can be dispersed through several companies, each of which might have conflicting goals and objectives as a corporation or even as individuals. So, we were suggesting that perhaps, if the objective [of privatization] is really to maintain certain companies in authentically Filipino hands, then there should be an opportunity to investigate into whether it is, in fact, under Filipino control.

SENATOR HERRERA: And with these conditions, I am afraid that the privatization of PAL might not be possible in the next century.[51]

What these testimonies suggest is that redistribution of ownership, especially in "strategic concerns" like the airline industry, can not depend solely on prohibitions against block sales. (Re-)regulation, as endorsed by GSIS and PAL officials, need not be incompatible or mutually exclusive with the objective of attracting foreign investments to the the Philippines. If the government remained reluctant to combine an agressive "open door" investment policy with legislative measures against rent-seeking opportunities on the part of foreign business interests and their local counterparts, then privatization could be achieved at the cost of national sovereignty. This way, the profit and/or rentier motive could still be the goad, but competition is not the regulator in the privatization process.

Addressing Labour Concerns

Much of the enthusiasm displayed by local and foreign businessmen in 1986 was also due to the lack of opposition on the part of labour, particularly the rank-and-file in public enterprises slated for divestiture. As we indicated in Chapter III, the number of people employed in the GOCC sector was an insignificant portion of the total number of those employed in the national government. This was because parastatal growth under Marcos depended more on crony ties and influence, rather than on its developmental imperative and the size of the public clientele. Hence, one of the chief criticisms against the public corporate sector in the Marcos years was its limited redistributive potential in terms of increasing employment levels in the Philippines.

Moreover, the Aquino administration took into serious account the experience of many LDCs with respect to worker dislocations arising from ownership transfer and the ensuing termination of employer-employee relations between the government and the personnel of privatized firms.[52] The pro-active stance adopted by the national government was largely influenced by Aquino's choice of a left-of-center political activist and human rights lawyer to serve as her first minister of labor. Augusto Sanchez was highly disliked by his colleagues in the Cabinet who were allied with the right, especially with the reformist faction of the military that had helped topple Marcos and later staged endless coup attempts against Aquino. Political pressure from the military following the foiled November 1986 *coup* later caused Aquino to remove Sanchez and "purge" her administration of so-called leftist or radical elements. But Sanchez' one-year stint in the Department of Labor and Employment earned Aquino's government the confidence of national labour unions led by the Trade Union Congress of the Philippines. Sanchez shaped the role that the government assumed in protecting workers' rights to security of tenure, equitable compensation, and collective bargaining. Doubtless, Sanchez' political clout within the Aquino government in its first year in office (1986-1987) owed to the presence of a number of left-of-center Cabinet members who were backed even by militant worker groups in and out of the public sector. Among others, they included Joker Arroyo, Aquino's right hand man and powerful executive secretary, Local Governments Secretary Aquilino Pimentel, and Rene Saguisag, the presidential spokesman.[53]

Under Sanchez' leadership, the Department of Labor and Employment "adopted the policy that the purchaser should absorb the workers in the privatized firms and that retrenchment or termination ... should be limited to the ground of redundancy."[54] To put this into effect, department officials entered "into a memorandum of [agreement or] understanding with Government Corporations providing that in case such corporation is privatized the security of tenure and the status of unions and collective agreements will be respected."[55]

The GSIS was one such corporation. The new GSIS board constituted by Aquino in March 1986 adopted *in toto* the guidelines issued by Sanchez. As GSIS President and General Manager Feliciano Belmonte, Jr. pointed out in a labour conference on privatization, "[f]rom the point of view of labor-management relations, the GSIS privatization scheme hardly create any ripple."[56] The GSIS board and the management of each of its subsidiaries inserted adequate provisions on workers' reemployment and collective rights in the bidding rules and the memorandum of agreement the GSIS concluded with the successful buyer/s prior to actual transfer of stock ownership:

> ... the GSIS has always tried to make clear that, except for the very top management which must have to go, the rights of labor should be respected.
>
> In Combank, one advantage that the method of negotiation brought with it was the fact that GSIS was able to wangle some concessions in the retention of middle management and its employees. The [erstwhile] collective bargaining agreement (CBA) was respected.
>
> In Hyatt [Regency Hotel], the terms of the bid-out expressly stated that there was a CBA in place.
>
> For the Philippine Plaza, the GSIS has assured its employees

> and the Department of Labor and Employment that the employees and their CBA will not be ignored when the hotel is sold.[57]

The uniqueness of the Philippine experience in dealing with labour concerns also obtained from the fact that privatization was seen by many GOCC employee associations as a potentially viable instrument for job creation and corporate expansion. No doubt, the political support that Aquino's initial coalition derived from labour unions and confederations that had suffered repression under one-man rule largely explained its pro-labour stance. Labour groups were well represented in the Cabinet prior to the November 1986 *coup* attempt -- the same period when Proclamation No. 50 was under Cabinet consideration. With the incorporation of the aforecited legal and institutional safeguards on workers' rights, some divested firms actually created new jobs. As Labor Assistant Secretary Leonora Vasquez-de Jesus reported two years after the privatization program came into effect:

> Equally, if not more significant, is the positive effect that privatization has on employment and the income levels of a community. An idle [government] textile plant which has been closed for the past four years was able to re-employ and create new jobs for 340 people after it was purchased by its new owners from the APT (Asset Privatization Trust, one of the disposition or privatizing entities). The same is true with the Island Cement Corporation which, after being mothballed for five years, is now back in operation and is now employing no less than 500 people. The town where the plant is located is now bustling with activity.[58]

Just like local businessmen and MNCs, therefore, the rank-and-file in the

GOCC sector either expressed support or failed to mount considerable opposition to privatization because the costs associated with such a policy was at best ambiguous. More precisely, it could not be demonstrated that the transfer of parastatals as shares of equity or "going concerns" would be detrimental to labour interests. Aquino's administration was sensitive enough to politically affected groups or sectors of the economy, so much so that it acted to ensure that potential benefits were not concentrated in any single group like private business. Thus, despite the very politicized labour groups in the Philippines, "its leaders have looked at privatization with apprehension but not with complete resistance."[59]

Rationalizing the Government Corporate Sector: The Politics of Economic Pluralism

There is no gainsaying that the policy of privatization was a sincere and concrete effort in the direction of reorganizing Philippine public life. It was Aquino's response not only to the dismal performance of the state-owned sector and to strong reformist -- particularly foreign -- pressures, but to a power structure that had evolved under authoritarian rule. This way, economic policy-making was shaped as much by political considerations as by purely economic ones.

In the post-Marcos period, however, many economic issues became even more politicized than in the past. This was because the crony legacy, coupled with the exceedingly unequal distribution of assets and income in the Philippines, led a new set of policy-makers to view economic policy in terms of its impact on competitive prowess rather than its contribution to public access and control over state resources. As evidence provided in this section suggests, privatization was conceived also as a means to delimit the borders of the state, in addition to putting an end to the systematic plunder of the economy under Marcos. In this manner, big business groups and foreign creditors sought to restore the primacy of the private sector in economic development. Aquino's privatization policy was obviously not entirely devoid of its own set of ideological underpinnings.

The "load-shedding" conception of Philippine privatization was influenced, first and foremost, by the predominance of centrist forces in Aquino's so-called "rainbow coalition" government. From its inception, this was a loose and unstable coalition of interests united only by the objective of toppling Marcos and returning back to political democracy. The extreme right remained loyal to Marcos after his downfall.[60] But there had also evolved a reformist segment within the military led by Defense Minister and former crony, Juan Ponce Enrile, and Marcos' cousin and armed forces vice-chief of staff, Gen. Fidel V. Ramos. For these reformist, right-of-center officers, the 1986 People Power revolution was primarily a bold military strike against the Marcoses, and only secondarily a civilian uprising.[61]

The decision of the radical left to boycott the 1986 presidential elections meant that it was closed out of a potential role after the peaceful revolt. But the communists, the New People's Army, and the National Democratic Front as well as left-leaning, cause-oriented groups did claim responsibility for spearheading the anti-

Marcos struggle in the difficult years prior to 1986.[62] Overt American support for the Aquino forces later convinced the left that these forces "were not only trying to oust Marcos but also trying hard to outmaneuver the Left and prevent a real revolutionary solution to the Philippine crisis."[63]

Consequently, the political opposition that emerged in the last years of one-man rule reflected predominantly centrist tendencies. The landed elites, whom martial law had placed in a "state of suspended animation," provided the organizational machinery to unify opposition leaders and to participate in the 1984 Batasang Pambansa (legislative) elections and the 1986 presidential elections.[64] Aquino herself is linked by consanguinity and affinity to the two most prominent landlord families in Central Luzon. Her vice-presidential teammate, former Sen. Salvador H. Laurel, is also the chieftain of the most powerful political dynasty in Southern Luzon.

The core of the pre-1986 political opposition was likewise drawn from diverse, anti-Marcos groups. The erstwhile non-crony business sector was well represented by big industrialists like Jaime Ongpin and Jose Concepcion, Jr. They were joined by economists Solita Monsod and Bernardo Villegas, both vocal critics of cronyism. This lobby group had primarily advocated bureacratic streamlining and an end to favoritism in government. There were also human rights, professional, student, and left-of-center groups that had sprung forth after the 1983 assassination of Benigno Aquino and which originally launched Corazon Aquino's presidential bid.

By its very composition, therefore, the People Power revolution was urban-based, middle- and upper-class, and moderate. It was an uprising against the failed Marcos regime than a fundamental social or political upheaval in the Philipppines. Equally significant, it greatly shaped the character of the incoming Aquino administration, especially in respect to the extent in which it could possibly promote the economic equality necessary to institutionalize people empowerment and make democracy work. As James Rush succintly put it:

> The timing of the long-hoped-for change of government, in short, pre-empted extreme alternatives and gave new life to the political center, the undeniably elite-led center with its complex democratic vision of itself and its fervent belief that elections can bring things aright.[65]

The combination of a centrist, civilian-backed military revolt and the pervasive role of foreign aid in economic rehabilitation inevitably produced a firm commitment on the part of Aquino's government to pursue market-oriented policies. Expectedly, the fiscal and monetary posts in the Cabinet were awarded by Aquino to the same people who devised her economic platform in the 1986 campaign. All shared the view that reducing state intervention was the best way to free the economy from the blatant abuses under Marcos and resuscitate private business as engine of economic growth.[66]

The pro-business orientation of the new government thus also derived from the very composition of the Cabinet, which was the highest and the only policy-making body under the provisional revolutionary government. This set up lasted until Congress and elective local governments were restored in 1987 and 1988, respectively. The Cabinet members responsible for economic policy happened to be drawn from the *creme de la creme* of business and industry. They included Benguet Mining Corporation President Jaime Ongpin who was named to the powerful post of finance minister; Concepcion Industries President Jose Concepcion, Jr., as trade and industry minister; economist Solita Monsod as economic planning minister; and investment banker-corporate lawyer Luis C. Villafuerte as government reorganization chairman. Shell-Philippines President Cesar Buenaventura served as special economic adviser. On Ongpin's insistence, Aquino agreed to retain Marcos' Central Bank Governor and a World Bank-favorite, Jose B. Fernandez, despite public criticism. As Time magazine reported, the far left "decried [the appointments] as 'bourgeois,' but the ministers' middle-of-the-road credentials should appeal to the business community and the international lending institutions on which the Philippine economy depends for recovery."[67]

The political influence of big business under Aquino doubtless helped assure the country's foreign creditors that Aquino would pursue many of the reform policies they had pushed for in the closing years of the Marcos dictatorship. As Joker Arroyo, then Aquino's closest adviser and executive secretary, candidly admitted,

> It was precisely in her choice of people to head the sensitive fiscal and monetary departments that [President Aquino] fumbled. She relied too much on big business and technocrats for help and guidance. When I was still in the Guest House (the Office of the President),I asked for the logs which listed those who had visited President Marcos. I compared them with those visiting President Aquino. They were the same people -- they came from the same companies, shared the same business views, the same mindset and

> they went to the same parties.
>
> These people have reversible jackets. Good men, but unfortunately they have vested interests.
>
> The result is that President Aquino's fiscal and monetary policies and later, economic policy, were a continuation of the failed Marcos directions.[68] (emphasis added)

Aquino's heavy reliance on big businessmen and the landed elites that constituted the political center resulted secondarily from the bitter factionalism that wracked her rainbow coalition after only three months in office. The disparate mixture of personalities and political views made disunity in the Cabinet unavoidable. The political parties under the ruling coalition first locked themselves in struggles over the distribution of Cabinet seats. Vice-President Laurel, representing the right-of-center bloc, charged that his UNIDO party did not get its fair share of Cabinet posts, as promised by Aquino during the 1986 campaign. Most of these posts, in fact, went to the PDP-Laban, the left-of-center political party in the coalition. This was followed by the replacement of some 14,000 local officials with "Officers-in-Charge," or OICs, in April and May 1986 to fully dismantle the grassroots machinery of the dictatorship. Confusion and physical stand-offs between incumbents and incoming OICs arose, as Marcos' local officials refused to vacate their posts before their terms legally expired. UNIDO condemned the OICs as patronage appointments of the PDP-Laban and the Liberal Party. Political tension between leftist and rightist party leaders intensified when civil service purges appeared to consolidate PDP-Laban's power under Aquino in late 1986.[69]

Most importantly, the fragmentation of the ruling coalition owed to the sharp conflicts between reformist military officers and liberal Cabinet ministers led by Executive Secretary Arroyo and Labor Minister Sanchez. Against Defense Minister Juan Ponce Enrile's and the reformist military's advice, Aquino released top communist leaders after taking office. Further heeding the counsel of Arroyo and the increasingly dominant left-of-center bloc in the Cabinet, Aquino proceeded to unveil a counter-insurgency program based on reconciliation and reformist cooptation which the Enrile group took as a personal rebuke.[70] But this measure completely failed to win the far left to Aquino's side. As Aquino faced endless military *coup* attempts and communist attacks, a virtual race for the control of government between the right and the left unfolded.

In short, the strains and stresses of political accomodation from 1986 to 1988 left Aquino's economic ministers and business supporters with even greater political influence. The preeminence of the center was very much evident in the direction that economic policy took after Marcos' ouster. The five-point economic agenda Aquino unveiled for 1986 and 1987 was essentially reformist, private sector-driven, and internationalist, reflecting the views of her technocrats in the Cabinet. It consisted of: 1) dismantling the crony monopolies; 2) stimulating domestic consumption by increasing government spending on employment-generating projects; 3) encouraging new domestic and foreign investment; 4) renegotiating, rather than selectively repudiating, the $28 billion external debt; and 5) securing much-needed new foreign aid.[71] Doubtless, such agenda was more in response to the most immediate economic challenge that Aquino's government faced in the aftermath of one-man rule, i.e., how to pay for itself, rather than what it perceived to be the root causes of the country's social and economic malaise. A corollary challenge was having this program accepted by commercial and international creditors on which Aquino's government knew it would have to depend heavily in the next few years.

Against the backdrop of intermeshing interests of groups that supported Aquino in 1986, privatization was instituted as a major pillar of economic reform. The *interim* Freedom Constitution[72] provided the logical and convenient starting point for installing the legal-administrative apparatus for Proclamation No. 50. It conferred on President Aquino extraordinary powers of government during the period of transition to "full democracy." Among others, it empowered the President to reorganize the entire government in order "to promote economy, efficiency, and the eradication of graft and corruption."[73]

The implementing legislation for government reorganization, however, came through Executive Order No. 5 in March 1986, by which Aquino created the Presidential Commission on Government Reorganization.[74] Its chairmanship was given to Villafuerte. But the Commission was really Finance Minister Ongpin's brainchild. Ongpin was the chief architect of bureaucratic streamlining in the "rainbow coalition," since he had the closest ties with the World Bank and had strongly opposed the bail-out of bankrupt crony firms after the Dewey Dee incident in 1981.[75]

This time, Ongpin saw to it that Commission's mandate was broad enough to encompass what he and his technocrats at the Ministry of Finance referred to as the "de-Marcosification" of the public enterprise sector.[76] This was, in turn, operationalized by the Commission after extensive discussions with Finance officials in terms of five guiding principles: 1) to reduce the government's role in the economy; 2) to encourage private initiative and entrepreneurship; 3) to insure cost effectiveness in government operations; 4) to increase public accountability; and 5) to promote administrative decentralization.[77]

Like Ongpin, Villafuerte viewed the Commission's major task as one of repealing Marcosian policy which had also "put the government in direct competition with the private sector ... and committed it to a wide range and incongruous assortment of activities."[78] Economic reform meant assigning only a "supplemental role" for government in entrepreneurial endeavors. As Villafuerte stressed, "[m]ore than determining what government should be doing, we will attempt to define very clearly what government should not be doing."[79] Columnists were quick to point out the conservative slant of the new technocratic ideology which "**sounds Reaganesque, but in today's Philippines, less government means greater civil liberties as well as unfettered markets.**"[80] (emphasis added)

The same approach for "rationalizing" the government corporate sector found support from economists in the newly-reconstituted National Economic Development Authority headed by Solita Monsod as minister of economic planning. In its Medium-Term Philippine Development Plan (1987-1992) drafted with World Bank assistance, it underscored "[t]he primacy of private enterprises in undertaking economic activities, particularly those involving the direct production and distribution of goods and services and those which create broad economic and social returns."[81] This likewise followed the Authority's indictment of many parastatals under Marcos which "were initiated to serve or consolidate the economic and political interests of a few."[82]

The Plan specifically laid out the following theoretical guidelines that informed the reorganization commission's work on government corporate rationalization:

> The use of the government corporate form shall be limited to those activities that are usually considered to be natural monopolies, those that require large and physically indivisible capital investments, and/or those that are characterized by long and uncertain gestation periods; those that are essential from the point of view of national welfare, security and defense and those that are non-commercial in nature. **The aim is to dispose of existing government corporations that do not meet the requirements as outlined above; to establish an integrated system of performance evaluation for remaining government corporations; and to improve the system of supervision and control of government corporations.**[83] (emphasis added)

However, Monsod and her own technocrats were not totally at ease in conferring certain monopoly functions on the national government, again because of the stigma that "unfair competition" had created under one-man rule. Thus, the Plan made clear that state provision of merit goods and natural monopolies should never run in competition with private entrepreneurship:

> It is emphasized, however, that government intervention in these activities is by no means intended to be permanent. The

government shall withdraw from directly engaging in these activities once the private sector has demonstrated the initiative and the capacity to take over such functions.[84] (emphasis added)

Privatization was thus officially proposed by the Presidential Commission on Government Reorganization as one of the key "postulates" of reorganization to encourage the fullest economic participation of the private sector. Attention focused earlier on the disposition of so-called non-performing assets or the crony firms acquired by state-owned banks through bail-outs and debt-to-equity conversions. This was because they were causing immediate problems for the financial sector as a whole. They had also been a particular concern for both the IMF and the World Bank after Marcos' ouster.[85]

For these reasons, the Commission formed a Task Force on the Government Corporate Sector. The task force resolved to transfer the non-performing assets out of the banks at book value and on to the account of the national government, which would assume the responsibility for their disposition. So as not to saddle these banks with such responsibility, only accounts valued at P10 million or less would remain with them, as would some of those accounts that did not represent "going concerns" or shares of stock. The bulk of non-performing assets were arranged to be transferred to a newly-established Asset Privatization Trust which would oversee their sale. This procedure for selling non-performing assets had the advantage of quickly restoring the state-owned banks to financial health and international confidence.

While the Presidential Commission on Government Reorganization was preparing the mechanics for selling non-performing assets, work was also begun on the more contentious (re)privatization of GOCCs. It will be recalled that most GOCCs were established or taken over by the Marcos regime, and placed under existing public enterprises, because of their profitability. But most parent corporations, the GSIS included, expressed their desire to divest of their equity holdings in subsidiaries. This was due to the heavy fiscal burden that subsidiaries continued to impose as well as their generally dismal performance.[86] The initiative taken by parastatals like the GSIS was further in line with Aquino's previous creation of a Government Corporate Monitoring and Coordinating Committee.[87] This Committee was meant to set financial and operating targets for public enterprises not otherwise proposed for divestiture, and to monitor their performance on a regular basis.

Aquino had repeatedly condemned the grant of special privileges to government corporations and select individuals which "enriched the few at the cost of impoverishing the many," "distorted markets and factors of production," and "bore the aspect of legitimacy that made challenge and change impossible."[88] Hence, much of the Presidential Commission on Government Reorganization's privatization work had to be devoted to establishing legal and institutional constraints to state expansion. For the task force, non-competitive or monopoly rent-seeking generally had to be dissipated through a three-step process.

First, the Task Force formulated the necessary criteria for determining when national government involvement in the economy should be in corporate form based on Marcos' privatization decree.[89] Any activity that fell beyond the scope of any of the stipulated criteria may not be performed by the government, by chartering a GOCC and conferring it with special powers and privileges. In defining conditions for retention or creation of new public enterprises in such a restrictive way, the Presidential Commission on Government Reorganization hoped to reverse the unfortunate experience under one-man rule. These criteria were again set in consultation with technocrats at the World Bank and the National Economic Development Authority:

> a) *Flexibility and autonomy in operations.* The nature of the goods to be produced or services rendered requires prompt action on transactions which cannot be effectively undertaken by a regular line agency.
>
> b) *Financial viability.* The operations of the government corporation must be financially viable such that its continuance does not depend on regular budgetary appropriations or special financial assistance from government.
>
> c) *Limited liability of the national government.* In order to insulate the national government from unnecessarily exposing itself to additional debt burdens, its guarantee backing for the operations and borrowings of a government corporation shall be limited to the equivalent of its equity contribution to such entity.
>
> d) *Private sector participation.* The operations of a government corporation **must be amenable to a partnership, either initially or at some predetermined future time, with the private sector.**[90] (emphasis added)

Next, the task force conducted an inventory of all 301 GOCCs, after consolidating no less than four different government lists.[91] Fact sheets were prepared on the structure, size, and scope of operations of GOCCs. The four-fold criteria above then served as the basis for recommending appropriate "dispositive action" for each GOCC, in consultation with their respective managers.[92]

The dispositive actions had the effect of strictly delimiting not only the use of the public corporate form, but the scope of economic and social activities performed by the national government as well. Only if the function or activity in question was strictly pioneering, catalytic, long-gestating, or developmental, could a GOCC be retained, even with changes to its charter. GOCCs that performed such functions were referred to as "strategic" or "targetted" industries. For GOCCs that conformed only to the three criterion other than flexibility, they were recommended by the task force for consolidation with other parastatals, conversion into regular agencies, or outright abolition. If the GOCC essentially performed a business or commercial function, the dispositive action recommended was privatization. Privatization in this sense could be undertaken through divestiture as a "going concern" or via corporate dissolution upon the sale of a losing asset in physical form.[93]

Of 301 existing GOCCs, the Presidential Commission on Government Reorganization proposed to the Cabinet and President Aquino the privatization of 131 or 44 per cent under Proclamation No. 50. Divestiture covered the biggest proportion of GOCCs among the various dispositive actions, since the rest of the GOCCs were found either to be duplicating each other's activities or performing functions which could have otherwise been assigned to (or merged with those of) other regular agencies. Accordingly, 56 GOCCs were recommended for abolition, 25 for consolidation, 11 for conversion, 40 for regularization, and 38 for retention. "Conversion" here should not be confused with "regularization" or the transformation of a GOCC into a regular or non-corporate agency of government. The former implied private registration without any financial consideration involved. An example is the Boy Scouts of the Philippines which was considered a GOCC because it was created by special charter, even if the government had very little interest or involvement in its activities.

The last stage in the task force's year-long work was to establish the legal-administrative framework for divestiture. This is graphically illustrated in Figure V.1. To ensure prompt disposition of state assets, it was agreed upon to institute a five-year program from December 1986 to December 1991. The life span of the Asset Privatization Trust would also be five years. In order not to concentrate disposition powers on the Trust, Villafuerte subsequently opted for parent corporations like the GSIS to be designated as disposition entities for most GOCCs (Table V.2), rather than the Trust which was assigned to handle basically the non-performing assets.[94]

An inter-Cabinet Committee on Privatization was formed as the highest policy-making body under Proclamation No. 50. It was headed by Ongpin as minister of finance and composed of the ministers of trade and industry, economic planning, and the budget. The Committee was to supervise and coordinate the privatization efforts of disposition entities as to buyer, price, and conditions of sale. The entire privatization transaction was to be submitted to the Commission on Audit

Figure V.1
Legal-Administrative Framework of Proclamation No. 50
(1986-1992)

THE PRESIDENT OF THE PHILIPPINES - - - - → SECURITIES AND COMMISSION
(final approval)
(Registration of Private Stock Ownership)

↑

COMMISSION ON AUDIT
(post-audit of entire privatization transaction)

↑

COMMITTEE ON PRIVATIZATION OF THE CABINET
(approval of corporate privatization based on buyer, price, and conditions of sale)

↑

Privatization Committee ——→ DISPOSITION ENTITY
(responsible for corporate privatization plan, bidding rules and conferences, actual bidding or negotiated sale, due diligence audit, and stock ownership transfer)

Table V.2
Designated Disposition Entities for GOCCs

Disposition Entity	Assigned GOCCs
Asset Privatization Trust*	28
Development Bank of the Philippines	1
Department of Agriculture	6
Department of Transportation & Comm.	3
Government Service Insurance System	6
Home Insurance & Guarantee Corp.	1
National Development Company	36
Presidential Management Staff	13
Philippine National Bank	12
Philippine National Oil Company	8
Social Security System	3
National Irrigation Authority	1
Technology & Livelihood Resource Ctr.	1
TOTAL**	119

SOURCE: Committee on Privatization, Manila, 1992.

*The GOCCs for disposal by the Asset Privatization Trust are not subsidiaries of any other public enterprise. The Trust was created by Proclamation No. 50 as marketing entity for 399 non-performing assets.

**Total excludes 12 GOCCs which were sold prior to the issuance of Proclamation No. 50 on 8 December 1986.

for post-auditing after the Committee's approval had been obtained. Transfer of stock ownership to private hands was registered with the Securities and Exchange Commission. Final presidential approval was, of course, mandatory under

Proclamation No. 50.

A number of general principles emerged from the Task Force workshops and were incorporated into Proclamation No. 50. To guard against monopoly rent-seekers, all (re)privatized assets were to be publicly auctioned by a privatization committee created by the concerned disposition entity. Negotiated sales were not allowed, unless there be only one buyer. Payments were to be in cash; the government would not provide any financing as it was inclined to do under Marcos' unimplemented privatization program. Also, any schemes for deferred payment had to be financed by private commercial and investment banks, which naturally developed a strong interest in the privatization program.[95] All these were obviously meant to minimize government risks.

Side-by-side with such remedial measures came concerns for objectivity, equal opportunity, and transparency primarily to sustain local and foreign business interest in privatization. In a 1987 investment conference, Aquino was quoted as saying, "I laid down the procedure for disposal: open bidding, total transparency and award to the bidder with the highest bid and the most cash up-front."[96] Then, ignoring fears of foreign economic control in the wake of growing military threats to her government, the President assured foreign investors that they are "critical to our plans ... given the size of the foreign debt and the present general reluctance of foreign banks to engage in new lending [owing to political instability]."[97]

Divestiture as a course of action yielded minimal opposition from GOCCs during the consultation meetings and workshops held between April and December

1986. However, some of their managers suggested that GOCCs saddled with debts and losses must first be "rehabilitated" before denationalized. This was intended to attract higher bids from interested buyers, especially from foreigners bringing in hard currency to the country.[98] It was also consistent with the "corporate restructuring" conditionality prescribed by the IMF in July 1986.

On the other hand, officials of high-profile GOCCs like PAL, the Manila Hotel, and the Philippine National Oil Company interposed strong objections to total divestiture owing to their supposedly strategic or historical value. They argued that the proposed privatizations should be deferred or, at best, implemented only on a partial basis.[99] Other than these relatively profitable public enterprises, there was general acceptance of the wisdom of divesting in predominantly commercial firms.

While privatization was a major test of Aquino's commitment to a reduced role in the economy, it was also clear that the government would still have to play an active role in the foreseeable future by "priming the pump" and overseeing the disposition of hundreds of state- and crony-owned firms. The more critical issues that arose in privatization, therefore, dealt essentially with the role of the national government in setting appropriate rules for business competition. How should government prepare its assets for (re)privatization without repeating the same policy mistakes that the previous dispensation committed? How could privatization possibly safeguard against the conversion of public monopolies into private monopolies and wealth concentration? What is the permissible extent of foreign ownership given the inability of domestic capital markets to raise funds for purchasing state assets? How should public institutions affect the incentives which operate in the marketplace and the regulations which constrain those incentives?

In view of the highly politicized nature of privatization, it was not surprising that many of these issues had to be set aside, if not entirely left out, during the stage of policy-formulation. Amidst the euphoria of victory in 1986, Aquino's economic architects seem to subscribe to the idea of a free market separate from law. Some of the inadequacies of the overall framework of divestiture policy surfaced during a 1987 Senate committee inquiry on the slow pace of divestitures. The committee heard the testimony of the reorganization commission's Task Force head, Victor Taylor:

> MR. TAYLOR: .... I mean, well, Proclamation 50 really focuses more on the privatization exercise *per se*.
>
> THE CHAIRMAN (Senator Laurel): And the stated purpose is just transferring to private ownership all these government corporations or most of them?
>
> MR. TAYLOR: Yes and reducing the burden of government....
>
> THE CHAIRMAN: Did you arrive at a definite listing of strategic industries [for divestiture]? In other words, did you determine which corporations may be considered vital or strategic, and why?
>
> MR. TAYLOR: Well, in terms of identifying strategic industries, no, we did not do that....
>
> THE CHAIRMAN: So you would say that there is no set criteria, or shall we say even unanimity of opinion [within the reorganization commission] as to what particular corporations should be privatized on the basis of their being strategic or vital?

MR. TAYLOR: What we have, sir, are just basic guidelines....

THE CHAIRMAN: My personal feeling about [the issue of foreign ownership of privatized GOCCs] is that foreigners may be allowed to participate under the Constitution and in whatever area of activity they choose, as long as Filipinos are given preference in particular areas which may be defined or described as vital and strategic....

MR. SANTIANO (Committee on Privatization): .... People may agree or disagree with any kind of formula (for the amount of foreign equity infusion), but the point I'd like to bring across is that it is not so much an issue of whether to privatize in this particular case, but how to do it. And in the guidelines that the Committee (on Privatization) has sent out to the different entitites that will be disposing of corporations approved by the President, they have been asked to present their plans on how to privatize, whether they have formulas of this nature that they would like to present...[100]

Aquino's policy-makers were obviously not keen on resolving any of these politically divisive and economically explosive issues. They were content on laying down broad principles and procedures by which a sweeping privatization policy could be enacted. After all, Proclamation No. 50 and a host of supporting presidential orders[101] were only intended to provide enabling legislation. The nitty-gritty of implementation was left to the disposition entities, the government agencies concerned, and other interested parties, where many of these crucial issues would later be reopened.

But simply banking on the promise of market pluralism to attract and preserve regime support may not suffice in sustaining the gains of 1986. As this section suggests, the Aquino government's commitment to far-reaching economic reform (i.e., beyond the imperatives of short-term economic stabilization and recovery) was limited, particularly when it held the potential for a significant redistribution of economic and political power. Economic reform also required a committed political leadership to ensure that the dominant sources of reformist pressures do not use public policies as a way to increase their control over government for their own benefit. With this as point of departure, we shall finally examine how political consensus was gained in favor of privatization policy.

Political Consensus Behind Privatization Policy

Structural adjustment policies seem to encounter less resistance on the part of the political leaders themselves when they can find some common ground behind the need for their adoption. The ensuing political consensus, in turn, stimulates public confidence and enhances the level of political support, especially for fledgling democratic regimes.

Aquino's economic advisers led by Finance Minister Ongpin and Reorganization Chairman Villafuerte were sophisticated and skillful enough to devise reform proposals that could be incorporated within the broader framework of political redemocratization in 1986. Bitter personal and ideological rivalries among Aquino's top officials could have delayed, if not blocked, final approval of the (re)privatization program by the President whose dependence on Cabinet is explained by her lack of political experience. But Ongpin and his technocrats in the

Ministry of Finance succeeded in defusing potential opposition from left-of-center Cabinet ministers arising from the latter's generally anti-U.S. posture.

The single most important source of disagreement within the "rainbow coalition" stemmed from the pro-left faction's association of divestiture with the old Marcos-World Bank alliance. Big business groups represented by Ongpin originally offered a more ideological defense of divestiture based on the presumed advantages of private ownership and its complementarity with other economic liberalization measures. This was when Villafuerte submitted his Commission's privatization report for Cabinet consideration.[102] But nowhere was direct political pressure applied in behalf of private investment better exemplified than in World Bank's endorsement of the Villafuerte report with some amendments. Through its giant investment subsidiary, the International Finance Corporation (IFC),[103] World Bank officials strongly lobbied for the creation of two asset disposition arms. One agency sought to make the IFC an institutional member, acting primarily as investment partner of foreign buyers and MNCs, while the second agency handled actual divestitures. A World Bank-IFC technical panel thus became part of the Commission's Task Force that held workshops for GOCC officials in 1986.

When the privatization report came up for Cabinet deliberation, Ongpin -- the World Bank's most trusted technocrat in the "rainbow coalition" -- strongly batted for the IFC proposal. Ongpin initially did not want the matter taken up by the Cabinet, because of the skepticism of some left-of-center ministers. Opposition was earlier voiced out by Executive Secretary Arroyo over the possible covert motives of foreign creditors, especially the World Bank which had basically drafted the unenforced Marcos decree. Instead, Ongpin suggested, and secured Aquino's approval, that his own ministry be allowed to further discuss the IFC proposal with the World Bank, "considering its [World Bank's] desire to see a strong role for IFC in the Asset Management Company as a way of insulating the program from political interference and of providing credibility to attract foreign investors."[104]

In view of continued opposition from the left-of-center bloc, notably from Arroyo, it was agreed upon in a closed-door meeting to just work out informal ties between the IFC and the Asset Management Trust (which became the Asset Privatization Trust under Proclamation No. 50). The ensuing compromise may be gleaned from this discussion:

> MINISTER VILLAFUERTE: .... So, accordingly, Madame President, I recommend that acquired assets or the non-performing assets be transferred to an Asset Management Trust, with a three-man Board of Trustees to be appointed by the President.
>
> THE PRESIDENT OF THE PHILIPPINES: Jimmy (Ongpin)...
>
> MINISTER ONGPIN: The last time Minister Villafuerte presented this proposal, I did comment for the record that previous discussions with World Bank representatives, who have indicated their willingness to extend financial assistance to this (privatization) program, yielded plans to form an Asset Disposition Trust separate from an Asset Management Company.
> In the Finance Ministry, that is still the structure we favor. In fact, IFC officials are coming to town this week to discuss this with us in some detail. And at the appropriate time, we would like to sit down with the Presidential Commission on [Government] Reorganization so we can work out the details. In principle, Louie, I don't think we should have any difficulty at all.

MINISTER VILLAFUERTE: Jimmy, my only objection in creating another corporation as originally envisioned by your department, where IFC will participate as co-venturer, is that we would be running a new balance sheet for profit and loss everytime a transaction is consummated by this other disposition entity.

So, what we, at PCGR, are instead proposing [as a compromise] is that the Board of Trustees of the Asset Management Trust be empowered to contract out, say to IFC, to ADB, to the World Bank, to other foreign creditors, or some of the local investment banks so they may have institutional flexibility ...., rather than tie up management itself to a profit and loss objective.

That is why I said that the Board of Trustees appointed by the President, be given flexibility to assign certain asset dispositions to selected parties. This way, the Trust would be able to bring the level of investor- or buyer-information to a sophisticated one where you can have what is equivalent of a prospectus. Thereafter, it may call for bids from various domestic and international parties who may wish to participate in the disposition.[105]

After IFC participation in the bidding process was resolved, the grant of differential treatment to public enterprises resurfaced as a thorny issue in the third and last Cabinet session devoted to the draft Proclamation No. 50. The left-of-center bloc once more raised concerns over the World Bank's motive in reviving its interest in private audit of public enterprises under the new, yet almost carbon-copied, Marcos legislation.[106] Commission on Audit Chairman Teofisto Guingona, a PDP-Laban leader, "maintained that to allow a private auditor to audit the books of these government corporations would be tantamount to an abdication of COA's [constitutional] right and responsibility to audit government entities."[107] He also pointed out the problem of which audit report would prevail in case of conflict between the Commission on Audit and private audits. Executive Secretary Arroyo, on the other hand, raised the constitutional prohibition against disbursement of public funds to private entities like auditing firms.[108]

To allay fears of Marcos-like differential treatment, Villafuerte proposed that the Commission on Audit allow a private auditing firm to conduct an additional, independent post-audit of the books of divested GOCCs when a prospective buyer requires it. This way, private auditing would not amount to an abdication of the Commission on Audit's constitutional mandate. This second compromise was reached only after Aquino called for cooperation on the part of Guingona's Commission in order "to attract prospective buyers of these assets, especially foreigners" in view of the massive amount of equity involved in most asset sales.[109] Apparently, the significance of external pressure can not be untangled from the extent of external finance and involvement in adjustment policy, because these frequently reflect the political or strategic motivations of creditors or donors. This is all the more evident where agencies like the World Bank provide high levels of finance relative to the recipient's economy during a period of economic rehabilitation.

Left-of-center groups eventually supported divestiture as a reform of government that increased public accountability and reduced opportunities for corruption. The rest of the Cabinet discussions, in fact, revolved around the need to address crony-related problems like the foreign debt, inefficient delivery of public goods and services, and shortage of funds for priority programs like land reform. The concerns of left-of-center ministers may not have been identical to the way in which Aquino's technocrats viewed privatization, i.e., both as an end in itself and as a means of restoring the principal role of the private sector in economic recovery.[110] Nonetheless, the technocrats avoided many potential stumbling blocks to the draft proclamation.

This strategy worked well to ensure smooth passage of Proclamation No. 50 by the Cabinet. While Aquino and her revolutionary government were at the peak of their popularity, Ongpin and his colleagues further underlined the need to take advantage of renewed investor confidence to solidify Cabinet support for the privatization program. As the draft proclamation preambled, it was imperative that divestiture be implemented "in the soonest possible time."[111] Procedural issues like timing and mechanics of divestiture this time preoccupied the Cabinet:

> THE PRESIDENT OF THE PHILIPPINES: I think a specific group should be assigned to handle this proposal (that the boards of the GSIS and state-owned banks be allowed to proceed with sales of assets not exceeding a certain value, prior to enactment of Proclamation No. 50) in collaboration with the heads of the financial institutions, because if we will wait for the entire Cabinet to be meeting on this, it will take a lot of time. So Jimmy (Ongpin), what would you suggest, since the Ministry of Finance would also be very much involved in this?
>
> MINISTER ONGPIN: .... In the meantime, what I would recommend in view of the urgent need for these institutions to liquify their assets and the presence of prospective buyers, is for the President or the Cabinet, in the interim, to authorize these institutions to proceed with these sales, as long as their market value does not go over a prescribed amount. I recommend fifty million pesos as the ceiling, and anything beyond that should be submitted for Cabinet approval. I believe that there are already buyers for some of these assets, and if we keep on waiting until we organize something permanent, we will certainly lose many of these precious opportunities. And these institutions need to liquify themselves right away because if they don't, they will only keep on asking the Treasury for money....[112]

The pro-market orientation that came to characterize the People Power coalition was all the more evident from the way Aquino and her policy-makers "marketed" privatization as a prerequisite not only for economic recovery, but for democratic renewal as well. In keynoting the December 1986 PHOENIX conference of foreign investors, Aquino launched her privatization program which, she stressed, was "firmly anchored on the principle of promoting private initiative" in a democratic society.[113] Her economic ministers exploited this "democratic potential" during the well-publicized international gathering:

> Asia's newest economic revolution is about to happen. It will take place in the same country where the world's most peaceful political revolution was fought and won: the Philippines.
>
> Today, the Philippines recognizes the necessity of safeguarding liberal economic and political institutions, having learned from experience that the country's progress lies in them.
>
> The new [Aquino] government has committed itself to the pursuit of a **growth-oriented strategy based on the democratic principles of free enterprise and private initiative.** It believes that the competitive interplay of market forces, with a minimum of state involvement, will best energize Philippine trade and industry.
>
> As one of the first steps toward a strong, independent economic system, **the Philippines has adopted the policy of privatization which restores to the private sector its rightful role as prime movers of business enterprises, free from undue government intervention and competition.**[114] (emphasis added)

The democratic underpinnings built into Proclamation No. 50 were pursued by Aquino in her first State-of-the-Nation Address to the newly elected, landlord-dominated Congress in 1987:

We have reaffirmed our faith in private initiative to propel and sustain our economy. Our premise is that, for as long as free market forces dictate the dynamics of the business environment, the private sector will respond aggressively. As a corollary, the [privatization] program defines and limits government's participation in the economy.[115]

In seeking increased congressional funding for her privatization program, Aquino underscored the gains made by her democratic regime in terms of abolishing monopolies and political favoritism, and ensuring the fairness and openness of economic reforms like privatization:

> The [Privatization] Programme has proceeded less swiftly than interested parties may desire, but due care must be exercised in the disposition of assets that belong to the people. We must get the most we can for the people, in as fair and transparent a manner as possible, leaving no room for the smallest possible doubt about the integrity of the [privatization] procedure and the people involved...[116]

Years later, in a speech before the Philippine Chamber of Commerce and Industry, she recalled why she and her Cabinet saw privatization as inextricably linked to democratic renewal and economic growth:

> We had to get out of cronyism, as practised by the Marcoses and those closest to them. For clearly, this led to the abuse of government power for private gain. The structures cronyism built propped up the pursuit of personal wealth through misuse and abuse of public authority. We had to replace these with those that ensured market discipline. We had to put an end to their divine right of plunder....
>
> We had to pursue privatization so that productive assets could

> be more efficiently used under private sector ownership, management and control....
>
> ... [E]conomic development in this country, thank God and people power, is as robust as can be. For you may not have always agreed with this Government's economic and development architects. But you will certainly agree with me that you were left to do what you wanted to do, what you needed to do, with least interference and maximum consultation from Government.[117]

From all indications, Aquino and her technocrats succeeded in rallying political and financial support behind neo-orthodox measures like (re)privatization, at least in their early stages. After all, the main objective remained the democratic government's consolidation with the help of landed politicians, big business, and foreign creditors, not its exposure to further dangers by creating new enemies. But these policies also reinforced the conservative and risk-averse nature of Aquino's government.

Hence, at the same time that pre-martial law democratic processes and institutions were being restored in the process of moving to full democracy, less traditional concepts of "people power" and "new politics" were being jettisoned by the government. The euphoria of democratic change generated so much interest in the *status quo ante*, but without giving much thought to whether it was really worth restoring at all. Was the Philippines really ready for a truly pluralistic economy? What is the appropriate balance between private initiative and state intervention in a resurgent democracy? What role could the people possibly play in making decisions concerning assets that they supposedly own? Even after 1986, there were few, if any, widely accepted answers to these questions.

Summary

The collapse of any authoritarian regime often leads to utopian ideas and proposals. In the process, they generate expectations that can hardly be met, especially in view of certain confining structural and economic realities. Democratic resurgence in the Philippines is a particularly insightful case. The (re)privatization program that Marcos initiated under IMF-World Bank auspices was revived by Aquino with the objective of putting an end to the ills associated with monopoly rentierism in the public sector. Such a well-meaning and well-thought out objective gave rise to a dual -- but interrelated -- conception of privatization. On the one hand, privatization was a policy response to demands by the international financial and business communities to address the debt crisis which largely stemmed from state plunder by Marcos and his cronies. On the other hand, "corporate rationalization" was also an instrument for restoring the primacy of the (broader) business sector, which consisted mainly of the traditional landed and industrial elites and their alliances with foreign capital. The political center that these groups represented was the most important source of democratic regime support for Aquino who had to face periodic violent threats from extreme rightist and leftist elements. It is in this context that the new government saw the divestiture of public enterprises as a vital component of democratic transition and eventual consolidation.

Doubtless, reformist pressures from external sources and their local allies intermeshed -- rather than clashed -- with the interests of other politically important groups, such as labour and the political center. The distribution, not concentration, of benefits to several groups fostered wide acceptance of divestiture policy. However, the resulting consensus was more a function of shared opposition to excessive state intervention and the high hopes that followed, rather than a deep appreciation of how the prevailing structure of ownership and markets and the concentration of power in traditional elites could be addressed. In short, an overly reactive stance on the part of the Aquino administration did bring about the much awaited democratic change, but it also narrowed divestiture's substantive content to one of load-shedding. The next chapter will discuss how critical issues of public access to resources and competitive prowess affected reforms like privatization at the level of policy implementation.

NOTES

[1]Bernardino Ronquillo, "Business Responds to Reforms," **Fookien Times 1986-1987 Philippines Yearbook**, p. 80.

[2]Quoted from a press interview with President Corazon C. Aquino, 26 March 1987.

[3]The new Constitution was overwhelmingly ratified by the Filipinos in a referendum held on 2 February 1987. Among the most important pre-martial law democratic institutions that were restored by this charter were the bicameral Congress composed of the Senate and the House of Representatives, and provincial, city, and municipal governments. All these institutions resembled the political set-up under the 1935 Constitution.

[4]Proclamation No. 1 (25 February 1986). Prior to the ratification of the 1987 Constitution, all powers of government were vested in President Aquino by this proclamation which also established a transitory, revolutionary form of government to pave the way for the transition to full democracy.

[5]As discussed in Chapter III, multilateral creditors do not usually stand as autonomous institutions far above the material interests of specific nation-states. The U.S., in particular, has played the major role in their decision-making processes by tradition, law, and practice as founding member and/or major stakeholder. For a more comprehensive account, see Walden Bello, David Kinley, and Elaine Elinson, **Development Debacle: The World Bank in the Philippines** (San Francisco, CA: Insitute for Food and Development Policy, 1982), pp. 32-34; and Robin Broad, **Unequal Alliance: The World Bank, the International Monetary Fund, and the Philippines** (Berkeley, CA: University of California Berkeley Press, 1988).

[6]The most prominent of these studies include those by Dante Canlas et al., "The Philippine Economic Crisis: A Workshop Report," University of the Philippines School of Economics, Diliman, Quezon City, 1984 (this is better known as the U.P. White Paper); Leonor Briones, "The Relationship of Public Enterprises with the National Government in the Philippines," paper presented at the Seminar on the Role and Performance of Public Enterprises, Commission on Audit, Diliman, Quezon City, 17-28 June 1985; Juanita Amatong, Gil S. Beltran, and Emy Boncodin, "Explicit Budgetary Contributions of the National Government to Government Corporations," working paper, Philippine Institute for Development Studies, Manila, 1986; and Rosario G. Manasan and Corazon R. Buenaventura, "A Macroeconomic Overview of Public Enterprises in the Philippines, 1975-1984," staff paper no. 86-03, Philippine Institute for Development Studies, Manila, 1986.

[7]For a more extensive discussion, see Paul Cook and Martin Minogue, "Waiting for Privatization in Developing Countries: Towards the Integration of Economic and Non-Economic Explanations," **Public Administration and Development** 10 (1990): 389-391.

[8]Elliot Berg et al., **Accelerated Development in Sub-Saharan Africa: An Agenda for Action** (Washington D.C.: the World Bank, 1981).

[9]*Ibid.*, p. 38.

[10]Interview with Crisanta S. Legazpi, Director, Privatization Office of the Committee on Privatization, 8 May 1992.

[11]Leonor M. Briones and Aileen R. Zosa, "Privatization of Public Enterprises in the Philippines: Policy and Implementation," country paper presented at the Project Planning Meeting, Asia-Pacific Development Center, Kuala Lumpur, Malaysia, 2-4 April 1988, p. 6; and Stephan Haggard, "The Philippines: Picking Up After Marcos," in R. Vernon, ed., **The Promise of Privatization** (New York: Council on Foreign Relations Inc., 1988), p. 103.

[12]Briones and Zosa, "Privatization," p. 6; 8-10.

[13]See Commission on Audit, **1984 Annual Financial Report**, vol. II: Government-Owned and Controlled Corporations (Quezon City: Commission on Audit, 1985), pp. 2-3; 22, and **1986 Annual Financial Report**, vol. II: Government-Owned and Controlled Corporations (Quezon City: Commission on Audit, 1987), p. 3.

[14]Briones and Zosa, "Privatization," p. 10.

[15]The Stand-by Agreement, dated December 1984, was structured as an IMF stabilization loan.

[16]Haggard, "The Philippines," pp. 102-103.

[17]Leonor M. Briones, "Issues on the Privatization Policy in the Philippines," **Philippine Journal of Public Administration** 33 (January 1989): 34.

[18]Gary Hawes, **The Philippine State and the Marcos Regime: The Politics of Export** (Ithaca, NY: Cornell University Press, 1987).

[19]See David Heald, ed., **Privatization: Policies, Methods and Procedures** (Manila: Asian Development Bank, 1985). This is a collection of initial cross-country experiences in privatization, most of which took the form of divestiture following the

British model.

[20]"ADB: Working to help developing countries," **Phil-Am Focus**, April 1992, p. 8. The U.S. is the second biggest fund contributor to the ADB.

[21]Presidential Decree No. 2029 (4 February 1986) entitled, "Defining Government-Owned or Controlled Corporations and Identifying their Role in National Development."

[22]Presidential Decree No. 2030 (6 February 1986).

[23]Briones and Zosa, "Privatization," p. 8.

[24]David G. Timberman, **A Changeless Land: Continuity and Change in Philippine Politics** (Manila and Singapore: The Bookmark, Inc., and Institute of Southeast Asian Studies, 1991), pp. 328-329.

[25]Robert Dohner, "Aquino and the Economy: An Assessment of the First Three Years," **Pilipinas** 11 (Fall 1988): 17-18.

[26]For details, see "Financial package 1987-92," **Manila Chronicle**, 30 April 1987.

[27]"$200 M ok'd for reform of GOCCs," **Business World**, 30 June 1988; and "WB satisfied with privatization program; to release $50-M GCRL," **Business World**, 30 January 1992. The Government Corporate Reform Loan was co-financed by the Overseas Economic Cooperation Fund, United States Agency for International Development (USAID), United Nations Development Program (UNDP), Asian Development Bank (ADB), and a World Bank-Japanese Grant facility.

[28]U.S. Agency for International Development, **Country Development Strategy Statement for the Philippines, FY 1986-1990** (Manila: USAID Mission, 1985), p. 3.

[29]"USAID shifts to policy reform," **Manila Bulletin**, 4 July 1992.

[30]Interview with Lino Cardenas, Consultant, PCGR Task Force on the Government Corporate Sector, 23 June and 4 July 1992.

[31]*Ibid*. See also Leonor M. Briones and Dalisay C. Sevilla, "Towards a Reexamination of the Policy Framework for Government-Owned and Controlled Corporations," in Lino Cardenas et al., eds., **Policy Studies, 1989-1990** (Manila: United Nations Development Programme and Department of Budget and Management, 1990), pp. 589-590.

[32]"USAID shifts."

[33]"RP privatization too slow: ADB," **Philippine Times Journal**, 18 July 1991.

[34]*Ibid.*

[35]See, for example, President Corazon C. Aquino's closing speech during the executive seminar entitled, "Managing the Bureaucracy for Results Program," Development Academy of the Philippines, Tagaytay City, 9 June 1988.

[36]Ronquillo, "Business Responds," p. 80.

[37]For an extensive treatment of limited competition in Philippine markets, see Cesar G. Saldana, **Financial Management in the Philippine Setting** (Quezon City: AFA Publications, 1985), pp. 19-28.

[38]This is a common finding reached by the contributing authors to William H. Glade, ed., **State Shrinkage: A Comparative Inquiry Into Privatisation** (Austin: University of Texas Press, 1986); Paul Cook and Colin Kirkpatrick, eds., **Privatisation in Less Developed Countries** (Brigthon: Wheatsheaf Books, 1988); and Raymond Vernon, ed., **The Promise of Privatization** (New York: Council on Foreign Relations, Inc., 1988). These three volumes constitute the most important literature to date on privatization in developing countries, and are reviewed in Chapter II of this dissertation.

[39]See Edwin V. Fernandez, "Some Issues on Increased Listings," paper presented at the Conference on Capital Markets Development, Manila, May 1988, p. 3.

[40]*Ibid.*

[41]Central Bank, **Forty-Third Annual Report (1991) of the Central Bank of the Philippines and First Quarter Report 1992** (Manila, 1992), pp. 46-47. See also "Prospects for a broadly based capital market," **Business World**, 9 June 1988.

[42]Zinnia F. Godinez, "Privatization and Deregulation in the Philippines: An Option Package Worth Pursuing?", **ASEAN Economic Bulletin** (March 1989), p. 283.

[43]"The emerging Philippine capital market," **Philippine Star**, 6 December 1989.

[44]Godinez, "Privatization and Deregulation," pp. 284; 286.

[45]Interview with Cardenas.

[46]Leonor M. Briones, "The Role of Government-Owned or Controlled Corporations in Development," **Philippine Journal of Public Administration** 32 (October 1985): 389.

[47]**The Top 1,000 Corporations of the Philippines** (Quezon City: Business Day Corporation, Inc., 1986).

[48]Briones and Zosa, "Privatization," p. 28.

[49]For the period 1986-1991, see the corresponding volumes of **The Top 1,000 Corporations.**

[50]Briones and Zosa, "Privatization," pp. 26; 28.

[51]Transcript of Stenographic Notes, Committee on Government Corporations and Public Enterprises, Senate, 1 March 1988, pp. 36-37; 52-53. The Senate inquiry on PAL's suspended privatization followed the filing by Senator Ernesto Maceda of Senate Bill No. 146, "Rationalizing the Government Corporate Sector and Promoting Privatization."

[52]See section 27, Proclamation No. 50 (8 December 1986).

[53]Timberman, **A Changeless Land**, pp. 179-181.

[54]Pura Ferrer-Calleja, "The Proper Role of DOLE in Privatization," paper presented at the Conference/Workshop on Privatization and Its Impact on Labor Relations in the Philippines, University of the Philippines School of Industrial and Labor Relations, Quezon City, 19-21 August 1988, p. 76.

[55]Ma. Leonora Vasquez-de Jesus, "Changes (?) in Labor Related Privatization Policies of the Government," paper presented at the Conference/Workshop on Privatization and Its Impact on Labor Relations in the Philippines, University of the Philippines School of Industrial and Labor Relations, Quezon City, 19-21 August 1988, p. 95.

[56]Feliciano Belmonte, Jr., "Privatization and the GSIS Experience," paper presented at the Conference/Workshop on Privatization and Its Impact on Labor Relations in the Philippines, University of the Philippines School of Industrial and Labor Relations, Quezon City, 19-21 August 1988, p. 56.

[57]*Ibid.*, pp. 56-57.

[58]Vasquez-de Jesus, "Changes (?)," p. 94.

[59]Godinez, "Privatization and Deregulation," p. 282.

[60]See Sandra Burton, **Impossible Dream: The Marcoses, the Aquinos, and the Unfinished Revolution** (New York: Warner Books, 1989), pp. 390-420. The extreme right consisted mostly of military officers who were not associated with the Reform the Armed Forces Movement (RAM) led by the Enrile-Ramos faction, the political leaders of the Kilusang Bagong Lipunan, the party of the dictatorship, and most of the Marcos cronies. For several months after the 1986 People Power revolution, Marcos still claimed he would return to the Philippines. Thus, these so-called "Marcos loyalists" supported many of the coup attempts staged by disgruntled RAM officers against the Aquino government.

[61]Timberman, **A Changeless Land**, p. 153.

[62]Luzviminda G. Tancangco and Roger L. Mendoza, "Elections and the Crisis of Legitimacy in the Philippines," **Philippine Journal of Public Administration** 32 (July-October 1988): 285.

[63]Walden Bello, "Aquino's Elite Populism: Initial Reflections," **Third World Quarterly** (July 1986): 5.

[64]Temario C. Rivera, "Political Opposition in the Philippines: Contestation and Cooperation," Wisconsin Papers on Southeast Asia no. 9, University of Wisonsin-Madison, Madison, Wisconsin, 1985, pp. 5-11. The resurrection of traditional opposition leaders who were not coopted by the Marcos regime was slow and, until the 1983 assassination of Sen. Benigno Aquino, Jr., largely in response to Marcos' political maneuverings. But significant political openings like the 1984 and the 1986 elections also brought back many of the divisive personal and political rivalries that had long been dormant among many opposition or "pro-democracy" elites.

[65]James Rush, "Bringing Down Marcos, Part IV: Conclusion," report no. 2, University Field Staff International, 1986, p. 9.

[66]"Now the Hard Part," **Time**, 10 March 1986, pp. 13-16.

[67]*Ibid.*, p. 13.

[68]"The Cory Years: An Early Assessment," **Sunday Inquirer Magazine**, 28 June 1992, pp. 14-15.

[69]Timberman, **A Changeless Land**, pp. 205-220.

[70]Bello, "Aquino's Elite Populism," p. 5; and Tancangco and Mendoza,

"Elections," pp. 283-285. The bias against the military was also obvious within the Cabinet and "inner circle" of the President, since most of its members were victims of military harassment under Marcos and were accused by the military of leaning towards the left.

[71]Timberman, **A Changeless Land**, p. 328.

[72]Proclamation No. 3 (25 March 1986).

[73]*Ibid.*, Article III, section 1.

[74]Executive Order No. 5 (12 March 1986). The Presidential Commission on Government Reorganization was formed out of the erstwhile Presidential Commission on Reorganization which had drafted Presidential Decrees Nos. 2029 and 2030 on privatization in the last days of the Marcos regime.

[75]Ongpin's Benguet Mining Corporation had an Engineering Equipment subsidiary which was the main competitor for government contracts of the Construction and Development Corporation of the Philippines owned by Marcos-crony Rodolfo Cuenca. In 1981, Ongpin argued that the solutions to Philippine economic problems lay in the extent to which the Marcos regime could attract and retain foreign capital. This was only possible, according to him, if government totally abandoned its failed policy of favoritism and selective intervention. However, Ongpin's brother and Marcos' Industry Minister, Roberto Ongpin, favored and helped devise the World Bank's crony bail-out plan that same year.
See also Jaime Ongpin, "Letter to the Editor," **Fortune**, 24 August 1981, p. 24.

[76]See "PCGR's problem: De-Marcosification," **Manila Bulletin**, 16 August 1986.

[77]Presidential Commission on Government Reorganization, **Principles and Policy Proposals: Provisional Report**, Manila, 11 June 1986, p. 3. See also "Revamp anchored on 5 principles," **Manila Bulletin**, 17 August 1986; and "Gov't firms set for privatization," **Manila Bulletin**, 18 August 1986.

[78]*Ibid.*

[79]"Now the Hard Part," p. 16.

[80]*Ibid.*

[81]National Economic Development Authority, **Medium-Term Philippine Development Plan, 1987-1992** (Manila, 1986), p. 399. The Medium-Term Plan was implemented under Proclamation No. 51 (12 December 1986).

[82] *Ibid.*, p. 391.

[83] *Ibid.*, p. 396.

[84] *Ibid.*, p. 399.

[85] The following discussion is based on an internal document of the Presidential Commission on Government Reorganization, Task Force on the Government Corporate Sector, entitled, "The Disposition of Non-Performing Assets and Liabilities: Its Underlying Concepts and Proposed Mechanisms," Manila, 4 September 1986.

[86] See testimony of Commission Task Force leader Victor Taylor, Transcript of Stenographic Notes, Committee on Government Corporations and Public Enterprises, Senate, 16 September 1987, pp. 4-6.

[87] Memorandum Circular No. 10 (19 May 1986), and Executive Order No. 236 (2 July 1987).

[88] President Corazon C. Aquino, State-of-the-Nation Address before the Joint Session of the First Congress of the Philippines, Batasang Pambansa, Quezon City, 23 July 1987.

[89] Presidential Decree No. 2029.

[90] Taylor, Transcript, 16 September 1987, pp. 7-8.
This four-fold criteria was incorporated into the Medium-Term Plan. See National Economic Development Authority, **Medium-Term**, p. 400.

[91] The lists were prepared by the Department of Finance, Department of Budget and Management, Commission on Audit, and the Presidential Commission on Reorganization under the Marcos regime. They varied in their totals, depending on how a GOCC was defined and on whether micro-subsidiary corporations were listed separately.

[92] Interview with Cardenas.

[93] *Ibid.*

[94] Transcript of Stenographic Notes, 12th Cabinet Meeting, 4 June 1986; and "Privatization framework laid down: gov't vows will to pursue policy," **Manila Bulletin**, 10 December 1986.

[95] Stephan Haggard, "The Philippines: Picking Up After Marcos," in R.

Vernon, ed., **The Promise of Privatization** (New York: Council on Foreign Relations Inc., 1988), p. 106.

[96]President Corazon C. Aquino, Keynote Address to the Philippine Investment Conference: Privatization and Debt-to-Equity Conversion, Manila, 12 November 1987.

[97]*Ibid.*

[98]David Sycip, "The Philippines' Privatization Programme: An APT Perspective," paper presented at the Philippine Investment Conference: Privatization and Debt-to-Equity Conversion, Manila, 12-13 November 1987.

[99]Interview with Cardenas.

[100]Transcript, 16 September 1987, pp. 11; 18; 25.

[101]Aside from the creation of the Government Corporate Monitoring and Coordinating Committee, President Aquino issued the following measures to underpin the government corporate rationalization program: Executive Orders No. 127-A (22 July 1987) creating a Corporate Affairs Group within the Department of Finance; Administrative Order No. 59 (16 February 1988) setting guidelines for government corporate reform; Proclamation No. 82 (3 March 1987) directing that all proceeds of the sale of non-performing assets by the Asset Privatization Trust be used exclusively for the land reform program; and Memorandum Order No. 177 (31 May 1988) prescribing the policies and guidelines in rationalizing the compensation structures of GOCCs.

[102]See Transcripts of Stenographic Notes, Cabinet Meetings, 14 May 1986 (10th meeting); 4 June 1986 (12th m^eting); and 6 August 1986 (20th meeting).

[103]The IFC provides equity as well as loan capital to selected public and private corporations in LDCs. Under the Marcos regime, it forged formal ties with a number of crony firms. These included the Philippine Polyamide Industrial Corporation of the Tan-Lee family group and a copper smelter project (financed by Marubeni Iida of Japan) which had significant links to Roberto Benedicto's sugar and shipping empires. The IFC's two-entity proposal presented to the Presidential Commission on Government Reorganization should be seen, therefore, in light of its traditional investment interests in the Philippines.

[104]Minutes of the 10th Cabinet Meeting, 14 May 1986, p. 9.

[105]Transcript, 12th Cabinet Meeting, 4 June 1986.

[106]The Commission on Audit's initial acquiescence to World Bank pressure to include private auditors in its parastatal audit teams was superseded by the change of government. After Aquino became President, the Commission reasserted its constitutional mandate. Commission Chairman Teofisto Guingona subsequently issued COA Circular No. 86-254 (24 March 1986), declaring all audits of government corporations by private auditors as terminated effective April 15, 1986, and their audit to be exclusively undertaken by COA.

[107]Minutes of the 20th Cabinet Meeting, 6 August 1986, p. 6.

[108]*Ibid.*

[109]*Ibid.*, pp. 6-7.

[110]Magdaleno B. Albarracin, Jr., "Approaches to Privatization" (three-part series), **Business Day**, 29-31 September 1986; and Romeo B. Ocampo, "Privatization, Public Choice and Public Administration," **Philippine Journal of Public Administration** 32 (January-April 1988): 163-184.

[111]This clause was eventually incorporated into Article II, section 4, of Proclamation No. 50 (8 December 1986).

[112]Transcript, 12th Cabinet Meeting, 4 June 1986.

[113]President Corazon C. Aquino, Keynote Address to the International Conference on Philippine Opportunities for Entrepreneurs and Investors (PHOENIX)'86, Philippine International Convention Center, Manila, 9 December 1986.

[114]Official Programme of the PHOENIX '86 Conference, Philippine International Convention Center, Manila, 9-11 December 1986, p. 1.

[115]President Aquino, State-of-the-Nation Address, 23 July 1987.

[116]President Corazon C. Aquino, State-of-the-Nation Address before the Joint Session of the First Congress of the Philippines, Batasang Pambansa, Quezon City, 25 July 1988.

[117]President Corazon C. Aquino, "Reflections on Our Development," speech delivered before the Philippine Chamber of Commerce and Industry, Makati, 23 June 1992.

CHAPTER VI

PROBLEMS AND ISSUES IN SUCCESSFUL OWNERSHIP TRANSFER

Now for the hard part.

Time magazine[1]

The task of (re)privatization was as essential as it was daunting. Unforeseen legal, technical, and administrative barriers to actual divestment in most government-owned and -controlled corporations (GOCCs) soon emerged and caused its implementation to lag behind stated intentions. The largest problem, however, was political. There was stalemate within government over its pace and desirability.

Over time, the initial coalition that favored privatization withered. New centers of opposition arose, as the broad principles and guidelines of public policy were translated into concrete actions by the individual GOCCs. The major bottlenecks included the following: 1) the objections interposed by concerned government agencies in view of the preponderance of competitive rent-seeking opportunities open to well-heeled private buyers; 2) the pervasive suspicion that public officials and former owners or cronies would illegally benefit from the disposition of state assets; 3) the fear of further concentration of economic (and therefore, political) power in the hands of the traditional elites, including dominant ethnic communities; 4) the concern among some parastatal managers and politicians that they would be accused of "giving away the store" when assets were sold at a discount or prior to financial rehabilitation; and 5) the influence of economic nationalism which created strong resistance to foreign ownership in the post-Marcos period.

At a deeper level, however, the debate reflected ideological differences between a market-oriented model of development -- in contradistinction to crony capitalism -- and a more statist approach. The former approach was championed by the ruling coalition, multilateral and bilateral donors, and the domestic business sector, as we have indicated in the last chapter; the latter, by some factions within the political branches of government and the management of public enterprises themselves, as we shall see later. Unfortunately, posing the Philippine debate in mythic terms as a political choice between the social imperatives of state intervention and the vitality of private enterprise obscures the more prosaic -- but central -- choice of how a government organizes competition in the marketplace. Such a crucial choice is all the more obscured when the impetus behind adjustment decisions originates from the stigma of a failed political episode like authoritarianism.

This chapter examines relatively successful instances of divestiture under Aquino's five-year (re)privatization program (1986-1992). But it does so by looking further into the implications of divestiture for social equity and redistribution which Aquino promised her democratic government would immediately address. In this manner, we hope to assess the quality of economic reforms that were introduced as the Philippines underwent democratic reconstruction.

(Re)privatization under Aquino underscores the lesson that it is not a mere technical exercise. As the process of divesting the Government Service Insurance System (GSIS) of its subsidiary corporations indicates, privatization became controversial because of its potential impact on the (re)distribution of political and economic power. Privatization, then, should be understood as a political process affecting the balance of power between the state and the private sector.

Marcos' downfall in 1986 paved the way for the reorganization of the GSIS. President Aquino named prominent lawyer-businessman Feliciano R. Belmonte, Jr. as its new president and general manager. Belmonte came to head as well those subsidiary corporations which were wholly- or majority-owned by the GSIS. The crony-dominated board of trustees was replaced with supporters of Aquino and the leaders of the four political parties that made up the "rainbow coalition." This time, the trustees were predominantly drawn from the business sector which was a key pillar of democratic regime support. Among others, they included Philippine Appliance Corporation President Dante Santos as board chairman; businessman Benigno Zialcita III; Manila socialite Carmen Diokno; and two of the most loyal Aquino generals who engineered the anti-Marcos coup that metamorphosed into the People Power revolution, Armed Forces Chief-of-Staff Fidel V. Ramos (whom Aquino groomed as her presidential successor) and Mindanao regional commander Jose Magno (who became GSIS board chairman under the Ramos administration).

With these appointments once again dispensed as political patronage, the GSIS board remained unrepresentative of its membership, majority of whom came from the ranks of public school teachers.[2] Be that as it may, the revamping of parent parastatals like the GSIS was not politically difficult, considering it was undertaken by a revolutionary government that relied heavily on Aquino's personal charisma and popularity.

Unfavorable fiscal conditions faced the new GSIS leadership when it took over in April 1986. In his first annual report, Belmonte traced these major problems to the legacy of the Marcos regime, to wit: 1) substantial deficits in actuarial reserves; 2) huge amounts of non-performing or non-earning assets; 3) low investment yields; 4) huge and unnecessary expenses on reinsurance commission; and 5) high administrative and operating costs vis-a-vis inadequate social security coverage for GSIS members.[3]

Divestment in subsidiary stockholdings was expectedly welcomed by both the GSIS board and executive management as a means of monetizing corporate assets, when it was proposed by the Presidential Commission on Government Reorganization in May 1986. Proceeds generated from asset sales were to be channeled into the financial restructuring or rehabilitation of GSIS trust funds. World Bank technocrats had also expressed similar interest in "rationalizing" the GSIS during the Commission's consultative meetings. This was because of the vast investment prospects divestiture opened to foreign businessmen and multinational corporations (MNCs), apart from the repayment of these subsidiaries' staggering, dollar-denominated loans.[4] The emergent, pro-business outlook of the new GSIS was outlined by Belmonte himself:

> Privatization of the various businesses in GSIS hands benefits the country in general and the GSIS in particular.
>
> Firstly, government will not be in business.
>
> It is already an accepted assumption at this time that GSIS investments should not involve participation in management. That is not only diverting the attention of GSIS officials and employees from their real work; it is also government competing with private business.
>
> From the point of view of the labor force, a sharp line divides the government sector from the private sector. In attitude and outlook, officials and employees in government are substantially different from those in private enterprise. Civil servants have a public service orientation operating wihtin a budgetary system. Government workers enjoy security of tenure, guaranteed leaves, and a relatively good retirement system. But all these can precisely make the employees complacent. The profit motive is absent, unless one is engaged in unlawful self-enrichment; still in such case profit is not for the benefit of the enterprise but in the interest of a private pocket....
>
> Secondly, divestment of GSIS acquired assets, particularly those that are non-performing, will mean improved liquidity of the GSIS. This results in greater flexibility of the GSIS in meeting its short-term and long-term concerns: (a) immediate and prompt payments of GSIS social insurance benefits, and (b) sound and high yielding investments to insure growth of its [non-stock] assets and resources....
>
> But beyond what has just been said, the pursuit of privatization policies will change the image of the GSIS as a business conglomerate [under crony control] ....
>
> By the divestments, the GSIS reduces its overhead, trims the fat and increases efficiency. Rather than the GSIS officials being regarded as managers of business subsidiaries, they can become true social insurance professionals with the interest of the GSIS and members in mind.[5]

After Aquino signed Proclamation No. 50 into law in December 1986, the

GSIS was designated by the Committee on Privatization as disposition entity for all its seven subsidiaries. A newly formed Finance and Investments Group or department was placed under a GSIS senior vice-president. It was specifically assigned to handle divestments in these corporations under the 1986 GSIS Reorganization Plan. Public bidding and/or negotiation, based on asset valuations and privatization plans submitted by the Group in collaboration with the management of the GSIS subsidiaries, were preferred as modes of divestiture.[6]

But the GSIS board was also opposed to total divestment of assets, as its president indicated when the Senate inquired into the causes of delays in their privatizations. The investigation was in response to World Bank pressure following approval of the Government Corporate Reform Loan in Washington D.C. in late 1987:

> THE CHAIRMAN (Senator Laurel): In light of the excesses of the past regime, the GSIS went into so many activities which is why it is now faced with problems not only of solvency, but even liquidity. What particular guidelines would you recommend yourself, knowing what transpired previously?
>
> MR. BELMONTE: Well, maybe we can say, for instance, that GSIS should not have any subsidiary....
>
> As an investment strategy, perhaps GSIS should not own more than a certain percentage of any enterprise. And I think that would be a good guideline, Mr. Chairman.
>
> THE CHAIRMAN: Since the GSIS right now has more than controlling equity ...
>
> MR. BELMONTE: Even up to 100 per cent of equity in most cases, Mr. Chairman.

THE CHAIRMAN: Would you favor divesting all of GSIS' equity or retaining some in certain cases?

MR. BELMONTE: You see, Mr. Chairman, in theory, for instance, we should divest up to, let us say, 65 per cent of these properties and retain 35 per cent. The objective is for GSIS to retain some kind of control on the corporation in the sense that while the private sector firms may acquire majority of its shares, still they would not be able to change its public or corporate purposes and so on. That would require a two-thirds vote. If you have 35 per cent in equity, they can not revise a corporate charter over and above your objection. In fact, that is the sort of policy that is evolving within the GSIS and, if I may say so, even in the government corporate sector in general.[7]

However, the GSIS board was prevailed upon by the Senate and the Committee on Privatization to fully divest in the majority of its stock corporations after meetings with World Bank officials. As we shall see later on, Belmonte's proposal for the GSIS and other parent GOCCs to retain some equity in their subsidiaries was approved only for "strategic" industries like the Philippine Air Lines, or the Manila Hotel which could be considered a "targetted" firm owing to its national historical value. External impact on privatization decisions and actions is well demonstrated in this particular instance. While the notion of foreign creditor influence is admittedly slippery, it must be defined in contrast with a counterfactual.[8] More specifically, policy choices like retention of a certain amount of shareholding in divested subsidiaries would probably have been sustained by the Committee on Privatization, if not for World Bank concern and pressure to speed up asset sales by eliminating restrictions that discourage private buyers.

This is not to discount the relative bargaining power of policy-making institutions like the GSIS board or the Committee on Privatization, for that matter. But sizeable support increases a debtor-government's incentive to seriously consider, if not comply with, creditors' advice. Where financing of adjustment policies like (re)privatization is particularly generous, it often reflects creditors' or donors' political or strategic motivations. A second instance in which the World Bank successfully intervened in determining government actions, apart from policy decisions, was through specification of performance targets under Proclamation No. 50. These targets were also among the conditions set forth in the 1986 IMF credit agreement and the World Bank's 1987 Economic Recovery Loan package. The World Bank's $200 million Government Corporate Reform Loan was signed in mid-1988. This adjustment loan was specifically intended to promote privatization, unlike the 1983 Structural Adjustment Loan II which covered government corporate reform in general. However, the Government Corporate Reform Loan was released in three loan tranches. The World Bank pegged each one to the disposition of specified proportions of the total value of GOCCs approved by Aquino for privatization, as well as definitive measures for disposition and financial restructuring.[9] The first and second tranches were released in January 1989 and July 1990, as originally scheduled. But the final tranche of $50 million was delayed by more than one year, because the number of assets privatized considerably fell short of targets for FY 1989-1990.[10]

The lackluster record of the GSIS in denationalizing most of its subsidiaries was noted by World Bank officials in an evaluation report submitted to the Secretary of Finance, as chairman of the Committee on Privatization. Copies thereof were also furnished the two houses of Congress.[11] Political leaders from the pro-Aquino parties viewed the report with alarm because of its possible adverse effects on foreign confidence in the Aquino government. The suspension of the last tranche came at a time when Aquino had barely survived being toppled in the bloodiest *coup* attempt of the reformist faction of the military. This faction was identified with Aquino's first Defense Minister-turned-archnemesis, Senator Juan Ponce Enrile and some of Marcos' loyal politicians.

Aquino, therefore, needed to show international donors, creditors, and investors that the economic and political situation had gradually stabilized and improvement was on the way. For this reason, the House of Representatives responded through a bill that proposed to centralize all divestitures in the Asset Privatization Trust.[12] Parent corporations led by the GSIS vigorously resisted this move, in spite of the fact that the GSIS had divested in only three (out of eight) subsidiaries on the fourth year of Aquino's privatization program:

> MR. BELTRAN (GSIS Vice-President): I have here the position paper of our President and General Manager which in a nutshell presents our objection to the proposed privatization of some GSIS assets by the Asset Privatization Trust because the assets or investments in question are held in trust by the GSIS for its 1.5 million members.... And therefore, the proceeds from their dispositions should go back to the state trust fund and be plowed back to membership benefits ....
>
> THE CHAIRMAN (Congressman Nograles): We understand. I think what you mean is that if you transfer these assets to the APT, that will be the last time you will ever hear about them, because the proceeds will go to CARP (the Comprehensive Agrarian Reform Program under Aquino).

MR. BELTRAN: Yes, sir.

THE CHAIRMAN: And it will not go back to GSIS even if the capital originally came from you.

MR. BELTRAN: Yes, sir, from the 1.5 million members.

THE CHAIRMAN: The distinguished Gentleman is recognized.

CONGRESSMAN AMATONG: Mr. Chairman, may I react to that point [as one of the authors of the House bill]. It's well settled that all the benefits of these corporate investments will eventually go to the members of the GSIS. But, in reality, I don't think the GSIS is extending all the benefits its members are entitled to .... [because] these corporations are, in fact, losing money. In the case of the Philippine Air Lines, the incumbent administration is even having a difficult time just servicing the interest of the airlines' outstanding foreign debts.... In other words, the GSIS is not even in a good position to provide such insurance-related benefits. So, there is no more reason for the GSIS to continue running, administering these corporations and their respective privatizations.

THE CHAIRMAN: Maybe what we should do, as a matter of compromise, is for the assets to be turned over to the APT, provided that the proceeds of privatization shall entirely revert back to the GSIS, but only to compensate your original exposure. The rest of the profits will be transmitted by the APT either to the CARP or the General Fund of the National Treasury. That could be a viable compromise ... in view of the ongoing, snail-paced divestitures.[13]

Opposition to the aforecited House bill solidified. Heads of several disposition entities joined forces with the GSIS in questioning the legal right of the Asset Privatization Trust under Proclamation No. 50 to assume jurisdiction over both earning assets and assets owned by parent GOCCs.[14] The legal technicality raised by other marketing arms later prevailed amidst World Bank endorsement of the House bill. The foregoing nonetheless exemplifies how policy proposals were politically-motivated, especially by the need to preserve the support of the foreign finance community for Aquino's beleaguered presidency. After all, the privatization policy that Aquino picked up from Marcos was primarily a response to a legitimacy crisis which she herself faced at the height of military discontent over unfulfilled expectations.

As we discuss in the next chapter, the GSIS itself was suggested by the World Bank as a potential candidate for consolidation with other pension funds, particularly the Social Security System and the Home Development Mutual Fund, although this pre-privatization move failed. Yet, what needs to be stressed at this point is that reformist pressures also sidetracked many pressing issues arising from the inherent weaknesses of the Philippine political economy and their collective impact on privatization policy. These included skewed income distributions, underdeveloped capital markets, and the pervasive role of foreign ownership in the economy which Aquino could not properly address prior to privatization, given such pressures.

The succeeding sections on the GSIS subsidiaries point out how inadequate attention to these problems restricted the critical regulatory function that Aquino's government could have played in ensuring that (re)privatization does not foster wealth concentration, private monopolies, and the political dominance of traditional elites. Otherwise, rents could still be captured by private interests even if divestiture results in reducing or eliminating rentierism by public officials. Private buyers can do so by deflating prices and obtaining better terms of sale in the absence of serious competition for divested assets, or disposition entities may need to compensate private buyers if high risks are involved in the process of ownership transfer. Such rent-seeking practices, particularly on the part of private interests, serves as prelude to the more politically charged issues that the GSIS grappled with in successfully privatizing several of its subsidiaries.

Corporate Dissolution: The Case of Arconal NV

The sale of the Stockton property -- the GSIS' most precious real estate investment -- was the Aquino government's first ever privatization effort. But the circumstances that attended its sale were entirely different from the rest of the hundreds of public enterprises slated for divestiture, for it was undertaken when the privatization program had not yet been launched. Nonetheless, the Stockton case provides insights into the problems that directly stem from an inadequate conception of the role of government in mediating between competing interests behind structural reform policy.

What triggered divestiture in the Stockton property was an extensive California newspaper account of its ownership by the Marcoses, shortly after the People Power revolution installed Aquino into power.[15] The report sparked passionate charges in Manila about the stolen and hidden wealth of the Marcoses. It also triggered moves to overhaul or privatize public enterprises like the GSIS to minimize abuse and misuse of their corporate autonomy.

Owing to the revolutionary character of the new government prior to the ratification of the 1987 Constitution, Aquino was literally vested with all powers of government. Since there were as yet no established rules or guidelines in making or implementing policy decisions, Aquino often resorted to the practice of delegating critical issues of public policy to her Cabinet members. Thus, in reaction to headline reports on Stockton, Aquino asked Finance Minister Jaime Ongpin to form an ad hoc committee to look into the case. Ongpin chose Aquino's business supporters to make up the group's membership. It included Mondragon Industries President and Tourism Minister J. Antonio Gonzalez; Shell Philippines President Cesar Buenaventura; and GSIS officer-in-charge Benigno Zialcita III.[16] Again, these appointments indicated the political clout of big businessmen under Aquino, especially since all the then incumbent government officials were considered resigned following the People Power revolution.

The committee met only once on 12 March 1986. The informal meeting was held at the presidential palace. There it was decided that Stockton be sold in physical form, followed by the dissolution of three layers of foreign corporations that held title to the property. Buenaventura convinced the group that the most prudent course of action was to sell. This was in view of the 7 June 1986 deadline imposed by San Francisco city authorities back in 1982, for GSIS to retain the "variances" or exemptions it obtained from city construction ordinances.[17] It was also deemed impossible to proceed with the construction of a proposed ten-storey building despite the deadline, both because the project was still at the excavation stage and because a loan infusion of $2 million, over and above the $16.8 California First Bank construction loan, was required.[18]

A San Francisco law firm was hired by the GSIS to handle the sale. The firm and its counsel, Harvey Gould, were personally chosen by Tourism Minister Gonzalez. Gould devised a "blind bidding" method and received the various offers of purchase.[19] This form of bidding entailed submission of bids to Gould, with each interested party not knowing the amount offered by the rest. Of 27 "blind offers" made, the highest bidder was The Limited Stores, a prospective lessor in the new Stockton building.

GSIS President Feliciano Belmonte, however, rejected the supposedly winning bidder, after receiving a Hongkong telex from Douglas Stitzel and other investors who put up a $9.5 million bid, $0.5 million higher than Gould's nominee. Belmonte flew to San Francisco in April 1986. He succeeded in raising Stitzel's offer to $10 million net to the GSIS. Belmonte claimed this was the best price "obtainable under the circumstances," so the deal was concluded with Stitzel et al.'s holding corporation on 23 April 1986.[20] The new GSIS board of trustees ratified the agreement *pro forma* in August 1986.[21] The following month, presidential approval of the GSIS-Stitzel deal was obtained from Aquino's executive secretary.[22] In short, by the time the Presidential Commission on Government Reorganization recommended Arconal NV's (Stockton's holding corporation) privatization through corporate liquidation, everything had become a *fait accompli*.[23]

After the deal was consummated, however, Filipino associations in the West

Coast began raising questions about alleged "suspicious and scandalous" motives behind the Stockton sale. Manila dailies, in turn, played up the issues with their own accounts of the legality and propriety of the sale as well as the culpability of concerned individuals associated with the new dispensation.

In what proved to be the second round of controversy over Stockton in the post-Marcos period, the newly restored Senate placed it on top of its agenda for investigation. A resolution for this purpose was authored by Senator Juan Ponce Enrile, the minority leader and Aquino's chief rival, in 1988.[24] The Senate Committee on the Accountability of Public Officers, better known as the Blue Ribbon Committee, held no less than 14 separate hearings, and heard testimony from 11 individuals, over a period of six months of intense public and media scrutiny. The 1989 Senate inquiry coincided with growing congressional and multilateral pressures to speed up divestiture of state-owned assets under Proclamation No. 50. These pressures mounted in view of the seemingly endless bottlenecks that disposition entities faced. Most seem to arise from calculations of gains and losses in redistributing rents and access to public resources, as private interests struggling to capture the rewards of privatization sought to cancel each other out.[25] Whether such redistribution was perceived as restricting the power and privileges of public officials or encouraging private monopolies, it made many privatization projects all the more politically explosive.

In similar vein, testimony presented against the Stockton sale explicitly or implicitly alleged some form of conspiracy between government officials and the new private owners. The insinuation was that these public officials were willing to give up their "protected turf" and instead allow rents to accrue to private buyers, because these officials would (illegally) benefit more from the sale. Specifically, the political opposition suspected that Stitzel's lower bid was accepted in exchange for commissions and kickbacks for the principal behind the deal, a wealthy businessman "who enjoyed close ties with the Aquino administration."[26] The $10 million winning bid of Stitzel and company was lower than the $10.8 million put up by Jaymont Co., which Belmonte claimed he received only after the Stitzel deal was closed.

While the charge could neither be easily substantiated, nor could it be satisfactorily debunked by GSIS officials. In fact, the ancillary charges that were raised related to competitive rent-seeking opportunities that divestiture presumably opened to privatizers and buyers alike. These included the selection of a law firm to handle the transaction for the GSIS, instead of professional brokers; the absence of public bidding; failure to charge any premium for the permits and variances that had acquired rarity value, after the San Francisco government banned future applications therefor; and the lack of standard review by the government corporate counsel.

In a decision-making process that otherwise appeared veiled in secrecy and undue haste, insinuations of influence-peddling, bribery, and massive fraud cropped up. As testimony before the Blue Ribbon Committee made clear:

> SENATOR ENRILE: In fact, the only time that Mr. Cesar Buenaventura attended a meeting in connection with this property was

the Palace meeting on March 12, 1986, where he lightly said: "Well, do not throw good money after bad." And all along, this was the idea that was followed by you, by everybody else, in making such an extremely important decision to sell a valuable property owned by the members of the GSIS?

MR. BELMONTE: .... Speaking for myself, Your Honor, I concurred in the decision to sell after making my own evaluation of the situation, as well as of the documents that were on hand at that time, shortly before I wrote the President of the Philippines on April 16....

SENATOR ENRILE: Did you ever attempt to get in touch with this offeror, Jaymont (the last "blind bidder"), to see, tc personally assess whether that offer was a legitimate one or whether something better could be worked out?

MR. BELMONTE: But I called up Mr. Harvey Gould and told him to examine that ... (interrupted)

SENATOR ENRILE: I am asking you, sir, because I am rather surprised that in the case of Douglas Stitzel, you did not only use the telephone, you even flew to San Francisco to attend to this particular offer, and yet it was much lower than the offer of Jaymont ...

MR. BELMONTE: .... In the case of Jaymont, Your Honor, the offer was made before Mr. Gould in San Francisco, and I did not actually see that offer until much later. But I did discuss it with Mr. Gould, having been informed about it by Ms. Sylvia Lichauco....

SENATOR ENRILE: Anyway, so you simply went to San Francisco, and this is what you want to convey to us, to deal with Mr. Doug Stitzel. Then, he agreed to pay you 10.15 million dollars right away? ....

MR. BELMONTE: As far as I was concerned, it was 10 million dollars net to the GSIS, Your Honor .... because the 0.15 million dollars represents the commission of some people who helped close the transaction and this is shown in the contract....

SENATOR ENRILE: Now, did you tell Gould to ask The Limited to increase its offer, considering the fact that you were dealing with this particular buyer in good faith and I understand this was even the one that was selected by Minister Gonzalez as the buyer of the property. Why did you not ask this buyer to increase its offer?

MR. BELMONTE: I was made to understand during a conversation with Mr. Gould that it took him three days to try to get it to that level, and he believed that was the highest bid they could put up, Your Honor.

SENATOR ENRILE: You did not negotiate it yourself?

MR. BELMONTE: I did not do it myself, Your Honor.[27]

For its part, the GSIS management defended the timing, method, and terms of divestiture on efficiency grounds. Belmonte insisted that "an immediate decision had to be made on what to do with it considering that the project had run out of money, faced court challenges, and was confronted with a deadline."[28] Sale of property, GSIS Vice-President Zialcita pointed out, allowed the GSIS to recover about $4.5 million out of a total investment of $14.65 million, $10.65 as purchase price in 1982 and a $4 million advance loan for pre-construction work.[29]

The highly criticized report of the Blue Ribbon Committee upheld the legality of the Stockton deal. The report stated categorically that there was haste in the disposition of the Stockton property. Still, the consensus among the pro-Aquino senators who controlled the committee was while Stockton "might have commanded a higher price had it been sold at a later date, ... there were, indeed circumstances that, taken together, gave good reason enough for the government officials involved in the sale to act as quickly as they did."[30] They also found no evidence "that anyone of them ever profited from the transaction."[31] But Senator Enrile penned a long dissenting opinion in behalf of the opposition and complainants. As he concluded, "the secrecy that attended the sale and the lack of public bidding reinforces the culpability of those involved in the deal."[32]

What is of greater significance in the outcome of the public inquiry was a clear recognition that the government should have delineated lines of authority and set rules for monitoring asset sales well ahead of any rent dissipation exercise. In spite of the finding that the sale was legal, the Blue Ribbon Committee did not pass upon its propriety. In fact, it acknowledged the possibility of what the majority senators termed a "wrong business judgment" on the part of Aquino's advisers who favored the privatization deal.[33]

The majority opinion even found some merit in the testimony of the former GSIS head, Roman Cruz, Jr., despite his tainted reputation as a Marcos crony. Cruz believed that the Aquino government could have benefitted from Stockton, if it only used its extraordinary powers given the international respect and confidence it commanded after the People Power revolution:

> With the worldwide favor and fervor it then enjoyed, ..., all that the new Aquino government needed to do was to inform the San Francisco authorities of what the records then showed: that 212 Stockton Street was ... owned ... by the Government Service Insurance System, an agency that was then already under the supervision and control of President Aquino's government. With the immense goodwill it enjoyed in San Francisco, reflecting the goodwill it enjoyed all over the world, it could have saved the variances, the financing and the lease, or negotiated new favorable ones, and proceeded with the project as planned (and suggested by those who had been involved in the project). If it did, it would now either own a valuable piece of income-earning and rapidly appreciating real estate in one of the very best locations in the U.S., or it could have sold it by now for a much higher price and profit than even the lucky buyers earned.

> **Unfortunately, the government, through its officials and agents, at the time sent the strongest signals to the market that it was anxious and in a hurry to sell: in other words, that the government was engaged in a distress sale. These signals were most effective in inviting low bids for the property.**[34] (emphasis added)

As it happened, after the divestiture the new owners constructed a six-storey building which they sold for $50 million or double the amount invested by the GSIS from 1982 up to 1986. The difference obviously represented another form of economic rent that the private owners easily captured as a result of the "distress sale" by the GSIS in 1986.

The Blue Ribbon Committee thus finally zeroed in on what it perceived to be the very limited participation of the national government in the overall privatization exercise, even under Proclamation No. 50. It called for immediate legislation on three key aspects of policy implementation: full public disclosure of any transaction entered into by all public enterprises and their subsidiaries; disposition of government properties, including those in foreign countries, only with public notice and only through public bidding; and restrictions on investment of trust funds, including proceeds from privatization, by boards of public enterprises, especially government financial institutions like the GSIS.[35]

These remedial measures were ostensibly meant to address the critical problem of rentierism which many today still believe caused the "panic sale" at "bargain price" of Stockton.[36] They also inevitably centered on the political issue of who would gain access to the privatized asset, similar to the succeeding cases of divestitures. Equally important, the Stockton investigation paved the way for more serious consideration of the part that the national government would have to play, if it was to ensure both the adequacy and propriety of reform policy amidst a diversity of frequently conflicting interests.

Legal Complexities in Divesting the Commercial Bank of Manila

The Commercial Bank of Manila (COMBANK) was the first major disposition under Proclamation No. 50. It was also one where the thorniest legal questions involving proprietary claims, private monopoly, and foreign ownership unduly delayed its privatization. But the political stalemate that arose, as rentierism was reopened to the private sector in the form of competitive rents, underlines the limited redistributive potential of Philippine privatization policy. It also indicates how government can affect the constraints and incentives that operate in the marketplace and, ultimately, the impact of economic reform.

The decision to divest in COMBANK came in the midst of the Stockton scandal. GSIS ownership of COMBANK was next criticized in Manila's newspapers as a source of patronage for Aquino's supporters and "street parliamentarians." One report, for example, claimed the new GSIS did not differ much from that of the Marcos years. It found that Belmonte "was also elected bank chairman, a position which entitled his predecessor, Roman A. Cruz Jr., yearly fees and bonuses amounting to P2.4 million," and that the new COMBANK board members were "rewarded with P300,000-a-year directorships."[37] Divestiture, then, was also a calculated political move intended to demonstrate that the new GSIS leadership was, indeed, serious and willing to cooperate with the Aquino government in its efforts at "de-Marcosifying" the public sector. As another major daily observed, COMBANK's sale had to be immediately taken up because "Belmonte was in a hurry to show privatization was alive."[38]

Inasmuch as a privatization policy had not yet been declared in June 1986, the GSIS board resolved to hold separate negotiations with interested buyers of COMBANK.[39] All seven parties which submitted offers of purchase were foreigners. These were the First National Bank of Boston, Bank of Hawaii, Deutsch Bank Asia, Banque Indosuez, Pratt Group of Australia, a Malaysian party, and a Taiwanese business consortium. But the First National Bank of Boston (FNBB), through its offshore branch, the Boston Bank of the Philippines (BBOP), remained the only "serious offeror" after the first stage of negotiations to reduce the number of qualified buyers.

By December 1986, FNBB had formed a partnership with former Marcos' deputy trade minister, Edgardo Tordesillas, to meet legal restrictions on foreign investments. Tordesillas, in turn, headed a so-called Filipino Investors Group. This Group was composed of Sony-Philippines President Elena Lim, Ace Foods Inc. partner Hermenegildo Cabilao, and automotive businessman Domingo Uy. BBOP and Tordesillas' Group jointly offered P500 million. This was to buy all shares of common stock: 40 per cent for the FNBB and the controlling equity of 60 per cent divided equally among the Filipino partners.[40] The combined common equity of BBOP and the Filipino Investors Group accounted for 30 per cent of the outstanding capital stock of COMBANK upon its privatization in 1987. The remaining 70 per cent were in preferred shares later purchased by BBOP under the debt-to-equity conversion program of the Central Bank. Philippine banking and investment laws prescribe a 60 per cent minimum common equity for Filipinos in any financial enterprise.

It was not long before opposers to the GSIS-BBOP deal began resorting to a variety of legal and political maneuvers. Since the BBOP/Filipino Investors Group was granted 120 days (until 31 March 1987) within which to conduct the standard due diligence audit of COMBANK, the opposers mustered enough time to consolidate their forces and prepare for a protracted struggle.

The core opposition group came from the COMBANK board of directors itself. This was led by bank president Dominador Aganon and GSIS Executive Vice-President Zialcita. It was reported that their opposition owed primarily to Belmonte's rejection of prominent insurance broker Lawrence Gotuaco to head the Filipino Investors Group and eventually succeed Aganon to the bank's presidency. Tordesillas was apparently disliked by many of the bank directors not only because of his ties with Marcos, but also because they found in Gotuaco a person who could better represent the interests of big-time bankers and investors like themselves.[41] COMBANK's directors exploited the print media to depict the sale as another hasty decision of the GSIS board. Similar to the Stockton case, the insinuation of rentierism on the part of private buyers resurfaced. The bank directors "were insistent Combank could fetch a better price if they waited," since another state bank, the Union Bank, had recently sold for a much higher price despite its smaller authorized capitalization.[42]

The former owners of COMBANK, the family of Emerito Ramos, Sr., constituted the second group of opposers. The Ramoses this time availed themselves of all possible judicial remedies in order to restrain the GSIS from enforcing the bank's sale to the BBOP/Filipino Investors Group under the Memorandum of Agreement signed by the parties on 22 June 1987. The BBOP/Filipino Investors Group agreed to purchase all COMBANK shares for P510 million. They also agreed to pay a premium of 40 per cent of that amount, after several delays in determining both the final price and its premium.

The Ramos family first commenced action "for specific performance, rescission of contract, and damages" against the GSIS at a regional trial court.[43] They claimed that the GSIS had no right to sell COMBANK because it had not fully complied with its legal and financial obligations to them when the GSIS acquired COMBANK as part of the crony bail-outs of the Marcos regime.[44] The trial court granted the Ramoses' petition. But its decision was reversed by the Court of Appeals in December 1987.[45] The appellate court ruled that the Memorandum of Agreement amply protects the Ramoses' proprietary interests "without unnecessarily hampering the privatization program of the government," because it stipulates that the GSIS shall assume its obligations as long as the Ramoses comply with their end of the agreement.[46] As the GSIS and the BBOP/Filipino Investors Group were about to execute the Stock Purchase and Sale Agreement,[47] the Ramoses rushed on appeal to the Supreme Court. The Supreme Court finally dismissed their appeal for lack of merit in May 1989 -- almost three years after FNBB initially negotiated for COMBANK -- so that there was no more judicial obstacle to COMBANK's privatization.[48] The Ramoses sought a reconsideration of this decision, but this was turned down by the Supreme Court a year later.

The Ramoses' case only politicized COMBANK's divestiture process as it gave rise to a third -- and probably more legitimate -- opposition to the GSIS-BBOP deal. This pitted so-called economic nationalists and their political allies in the bicameral legislature against what they portrayed as a (rentier) conspiracy between government officials and foreign interests behind privatization.

As COMBANK's sale passed through all three tiers of the judicial system, the lawyers of the Ramoses argued that it was "manifestly and grossly disadvantageous to the government and the Filipino people." They cited FNBB's conviction by a U.S. federal court for refusal to disclose cash transactions believed to have been done by organized crime, the Mafia, and international drug traffickers in the U.S.[49] When the courts refused to consider FNBB's questionable reputation on the ground that it was a political issue, the Ramoses found a more hospitable forum in Congress. With so much public and media attention now focused on FNBB, the House of Representatives decided to hold a formal investigation to inquire into the propriety of the GSIS deal.

The congressional probe became the toughest stumbling block for COMBANK's privatizers and buyers. Originally, the issue revolved around institutional integrity. Rep. Antonio Cerilles, the assistant minority leader and proponent of the investigation, alleged that the GSIS was "in the thick of negotiations with the Bank of Hawaii and other bidders" when Belmonte assumed its presidency and single-handedly picked FNBB.[50] Belmonte countered that the prices offered by the rest were not acceptable, and FNBB (as the last offeror) was chosen to comply with the Presidential Commission on Government Reorganization's guideline that banking is essentially a private-sector activity. Economic nationalists, composed mostly of small entrepreneurs, academics from the University of the Philippines, and a few journalists, retorted that the government was better off retaining its assets, rather than selling them to unqualified buyers at a "shockingly low price." They believed that COMBANK could have fetched a better price than P510 million, since it had total assets of P1.64 billion and total deposits of over P1 billion at the time of the sale.[51] Questions about FNBB's integrity later forced Tordesillas to back out from the Filipino Investors Group, as nationalists rightly branded him a Marcos crony.

The minority congressmen forged alliances with several of these business lobby and cause-oriented groups in an apparent effort to cast doubts on the sincerity of the Aquino government at implementing corporate reform. The legislative investigations, however, took a twist after the House committees on government enterprises, and banks and currencies, found enough evidence of FNBB's violations of U.S. federal banking laws. The lobby groups took advantage of this political momentum. They further alleged that the World Bank was covertly supporting FNBB and other American banks in acquiring major stakes in privatized Philippine banks.

At the time of the 1987 congressional hearings, the World Bank's $300 million Economic Recovery Loan had just been approved. The loan called for complete divestiture of all seven state-owned banks in the Philippines.[52] The other government-acquired banks were the Associated Bank, International Corporate Bank, Pilipinas Bank, Union Bank, Republic Planters Bank, and Traders Royal Bank. When legal and administrative bottlenecks to the sale of COMBANK and two other banks arose, the World Bank "set October 1988 as the absolute deadline for the sale of these banks back to the private sector."[53]

Because of what the same economic nationalists decried as outright political intervention by the World Bank, even the debt-to-equity scheme for privatizing major state assets[54] was linked to foreign economic control. The World Bank earlier devised the program with Central Bank cooperation to reduce the Philippines' heavy external debt. Under this program, a foreign bank like FNBB could sell its debt papers at a discount to another party. That party, in turn, would be paid not in foreign currency but in pesos earmarked for Philippine investments approved by the Central Bank.[55]

Since most of the country's major creditor banks were American, it was easy for these banks to convert their respective Philippine debt exposure into equity and acquire assets like COMBANK at much less than the stipulated purchase price. And this is what actually happened. From the FNBB buy-out stemmed the charge that the debt-to-equity swap program aims to ensure that big American or multinational banks would have added advantage over their local counterparts.[56] However, the three Filipino investors decided to buy FNBB's debt papers, instead of buying papers in the secondary market at a discounted rate of 40 per cent, since the transaction did not involve payments in foreign exchange. The debt-to-equity swap thus left FNBB holding on to about P306 million in peso proceeds which is the amount the three investors paid for purchasing the former's debt papers. FNBB subsequently used the amount to acquire COMBANK's preferred shares.

The politically sensitive issue of foreign ownership had thus overtaken questions concerning FNBB's integrity by the time the World Bank and other external creditors began pressuring the Aquino government to hasten its divestiture program. Referring to FNBB as the "new bastion of American international banking," nationalist and left-leaning, cause-oriented groups insinuated that it relied on the World Bank's political clout as well as local business contacts to get government approval for 40 per cent common equity in COMBANK.[57] Philippine laws allow foreigners to own only up to 30 per cent and, in special cases, up to 40 per cent, with presidential approval.[58]

The House of Representatives responded to mounting political pressure "to check the entry of foreign investors in Combank" and other privatized banks by proposing a bill to drastically cut all foreign equity to 10 per cent.[59] At the conclusion of the committee hearings, opposition congressmen also called upon the Central Bank to impose and monitor restrictions on the banking activities of foreign banks relative to Proclamation No. 50 and pertinent privatization measures.[60]

The political controversy generated by FNBB virtually altered implementing actions for the divestiture of state-acquired banks. The Monetary Board of the Central Bank, in effect, recognized the inadequacy of existing banking regulations. It proceeded to devise a *modus vivendi* for parties to the COMBANK deal. It authorized FNBB (and other foreign banks, for that matter) to buy and own up to 30 per cent or 40 per cent of common stock of denationalized banks, but on condition that they later voluntarily divest themselves of their preferred shares thereto.[61] The new policy was reiterated by President Aquino when she finally approved the GSIS-BBOP deal. In her letter of approval, the President said "[i]t is however clear that FNBB shall take steps to dispose a portion or all of its preferred shareholdings in COMBANK as soon as it has achieved a record of sustained viability as monitored by the Central Bank."[62] This political "compromise" between nationalist interests and the privatizers and foreign buyers nonetheless made divestiture of state banks all the more complicated as it gave way to a two-step process. The first involved divestment by the parent parastatal, followed by resale of preferred equity by foreign buyers.

All these political dynamics threatened to strain relations between the Aquino administration and foreign investors, who repeatedly complained of what they called "pure harassment" to derail asset sales. In the case of COMBANK, the FNBB main offices in Boston became reluctant to approve the deal and allowed the 120-day allowance for due diligence audit to lapse without making any firm commitment of purchase. The GSIS board rejected the FNBB's request for more time to negotiate the price and decided to open (public) bidding to other interested parties in April 1987.[63] But lack of attractive offers left FNBB with more room to maneuver and create rents, when it renegotiated for COMBANK in late 1987. The negotiated sale nonetheless bred charges that the GSIS "gave away the store."[64]

Ironically, efforts of the bicameral Congress and the Central Bank to dissipate monopoly rent-seeking by public managers and politicians seemed to have given rise to more rentierism, albeit in competitive form and, in many instances, by private interests. As the COMBANK case illustrates, this problem often sprung from undue concentration of wealth and economic opportunities on well-heeled families. The ensuing lack of Filipino buyers for the controlling equity of privatized assets encouraged foreign buyers to find ways and means of circumventing legal and other constraints to foreign ownership. Foreign conglomerates ended up acquiring all the stakes, since only they are in a position to sufficiently capitalize or invest in "going concerns."

Dummy ownership in COMBANK (renamed the Boston Bank after GSIS divestiture) would not have been discovered at all if not for an intra-corporate power struggle among its stockholders. The new bank chairman, Elena Lim of the original Filipino Investors Group, soon clashed with her American partners in BBOP. This was because the latter "overly interfered in management and caused unusually hasty declaration of cash dividends and remittances (or profit repatriation) to FNBB."[65] In a preemptive move to protect its holdings from Lim's and some Japanese investors' prospective takeover, BBOP officials talked the two other Filipino stockholders into ousting Lim by divesting her of all her shares. By September 1989, Lim had been sacked.[66]

The series of suits and counter-suits filed by Lim and the BBOP faction against each other between 1989 and 1991 led to the disclosure that the entire capital raised to purchase the then COMBANK in 1987 came from FNBB. Because of the 40 per cent ceiling on foreign ownership coupled with the Central Bank's directive on the divestiture of preferred foreign equity, "FNBB shopped around for local investors 'of probity and with whom [it] could get along with.'"[67] But FNBB claimed that it could not have possibly violated the Anti-Dummy Law because it simply foreclosed on Lim's shares when she failed to pay her FNBB loan. That loan was used to form Lim's holding corporation and buy her 20 per cent common stock in the Bank of Boston. The circumstances of the 1987 purchase, however, reveal that FNBB's advances to all three Filipino investors were more than "loan advances." Not only was the foreign source kept from the government by the Filipino Investors Group, in gross violation of existing laws; the combined capitalization of that Group was even well below the equivalent of its 60 per cent common equity.[68]

The ownership row in the Bank of Boston stalled its second phase of divestiture. The Securities and Exchange Commission granted Lim's petition to disallow the BBOP faction from disposing any and all of its shareholdings. The ban was later restricted to Lim's alleged 20 per cent shares.[69] Lim filed this suit, even as the issue concerning her right of ownership to 20 per cent of the common stock was pending in the Securities and Exchange Commission and the lower courts.

The new round of legal battles further encouraged the Ramoses to revive their old suit, by citing Lim's ouster as ground for voiding the COMBANK sale in 1987. A second Ramos petition reached the Court of Appeals in 1990, where it was denied in view of the Securities and Exchange Commission's ban on the disposition of Lim's alleged shares pending settlement.[70] To date, neither Lim's equity nor the dummy charges have yet been resolved.

The nationalists and their political allies nonetheless saw enough cause in Lim's ouster to decry it as "imperialism in action" and, alternatively, as American takeover "in the Wall Street manner."[71] Big business groups like the Philippine-American Chamber of Commerce and the Federation of Filipino-Chinese Chambers of Commerce and Industry, on the other hand, viewed the problem in terms of the need for more incentives to foreign competition by repealing restrictive laws on foreign investments which "are often secretly violated than adhered to."[72] The debate, in turn, invited greater legislative and media scrutiny of many privatized assets with foreign equity participation.

More delays in asset sales occurred, as the foreign ownership issue became highly politicized and intimidated several prospective investors. It also made rudimentary capital markets even more restraining for disposition entities like the

GSIS. This was evident when the BBOP and the two Filipino stockholders decided to pursue the second phase of privatization, after the Bank of Boston turned into an earning asset.[73] A consortium put up by two of the Philippines' wealthiest industrialists easily won its bid for 75 per cent of all equity of the Bank of Boston in the absence of interested buyers.[74] The two multi-billionaire-businessmen were "telephone magnate" Antonio O. Cojuangco, President Aquino's favorite nephew, and Equitable Bank President George Go. Two other prospective bidders "backed out when informed about Ms. Lim's intention to pursue her case against the FNBB interests" in the erstwhile Bank of Boston.[75]

The second and last round of divestiture sought to reduce, if not eliminate, the prospect of foreign control of (re)privatized assets. That was the policy intent of the Monetary Board of the Central Bank. Yet, it is doubtful whether this measure was effective at all in curbing rentierism, especially by private, non-crony interests in the post-Marcos period. Soon after the buy-out in January 1991, it became evident that the Cojuangco-Go tandem was actually a monopolist-conglomerate disguised as a business consortium in order to overcome local ownership restrictions.[76] Of the four business elite groups that jointly bought 75 per cent of the Bank of Boston's total shares outstanding, three were, in fact, controlled by Cojuangco. Their combined equity amounted to 55 per cent. It gave Cojuangco controlling ownership.[77] Joselin Fragada, former head of the Cojuangco-owned Philippine Bank of Commerce, was installed chairman of the Bank of Boston, renamed the Bank of Commerce. The two remaining members of the original Filipino Investors Group, Hermenegildo Cabilao and Domingo Uy, opted to divest all their (common) shares in the Bank of Boston in May 1990 because of the prolonged media controversy generated by Lim's equity claim. In short, the sale to the Cojuangco-Go consortium only excluded 25 per cent of all outstanding shares. This percentage was inclusive of the 20 per cent in common stock (or 6 per cent of total shares) being contested by Elena Lim and the BBOP. Cojuangco's control over the Bank of Commerce reinforced the Cojuangco monopoly over the telecommunications, airline, and finance industries in the Philippines which, although not a form of rentierism, delimits serious competition for divested assets.[78]

The three-fold division of Cojuangco's interests in the new bank seemed effective in circumventing banking laws limiting individual or corporate ownership to no more than 20 per cent. This frequently resorted method of concealing ownership can be subsumed under the expanded version of rent-seeking we adopt for this study. In this specific instance, rent-seeking was activity designed to persuade the goverment by imposing deadweight costs onto society. On the one hand, the costs involved amounted to the depreciation of bank assets if Cojuangco's group was refused ownership thereof, both because of the lack of competitive tenders and pending legal challenges. On the other hand, the same conditions enhanced Cojuangco's bargaining power in purchasing the bank's common stock. These rents doubtless came at the expense of society at large.

The two-step privatization of the former COMBANK, therefore, shows that a well-developed capital market is essential to promote competition for, and "democratic" disposition of, state-owned assets. But it also indicates why opportunities to purchase such assets are not available to many Filipino investors who constitute the "private sector" in the Philippines.

When one speaks of Philippine capital markets where private firms can raise long-term funds, what is really referred to is the equity or stock market. The market for bonds is dominated by government issues. But we indicated in the last chapter that even the stock market is not really looked upon by local business as a major source of finance. As one can glean from Table VI.1, the market remains so thin and so concentrated in speculative issues (i.e., oil and mining) that it has not been a real option for most businesses in search of capital, especially for (re)privatized assets. Notwithstanding the relatively small portion of equity financing, Filipino private firms like those of Elena Lim routed their funding needs through (mostly short-term) debts from financial institutions like FNBB. Inadequate channels for share distribution help explain why private sales to major investors are likely to become the predominant method of sale in the Philippines.

The litigations that attended COMBANK's divestiture raise deeper questions about equity and redistribution. For one, these questions underline the absence of government policy to encourage long-term finance through the equity markets and to restore investor confidence in such markets. Issues concerning access to public resources clearly demand immediate attention on the part of the government, before it can embark on any attempt to reverse rent-seeking practices within the public enterprise sector and foster market competition.

Table VI.1
Philippine Stock Market Transactions
(1990-1992, volume in million shares/value in million pesos)

Component	1990 Volume	1990 Value	1991 Volume	1991 Value	1992* Volume	1992* Value
Oil	172,483	3,875	231,172	5,981	72,091	1,800
Mining	83,767	3,963	42,802	1,293	6,177	352
Commercial & Industrial	3,208	18,821	5,608	32,131	1,367	13,825
Total	259,458	26,659	279,582	39,405	79,635	15,977

SOURCE: Central Bank, **Forty-Third Annual Report (1991) of the Central Bank of the Philippines and First Quarter Report 1992** (Manila, 1992).

*Available data for 1st Quarter only.

Administrative and Technical Barriers to Hotel Divestitures

In the case of five-star hotels, serious disagreements over the mechanics of divestiture arose owing to their relative commercial viability or profitability. Dubbed the "crown jewels" of the GSIS, their divestiture witnessed sustained individual or collective efforts by big local firms and MNCs, and their respective political supporters, to exact the lowest prices and most favorable terms possible at their own convenience. These efforts were further encouraged by congressional and multilateral pressures on the Aquino government to divest.

To be sure, many parastatal managers and other public officials involved in the sales were not without their own rentier interests. However, their resistance have generally been minimal because of wide public acceptance of the need to divest in the so-called "Imelda Marcos hotels." Thus, public rent-seekers did not pose major political obstacles to the Aquino government, just like in most other instances of successful divestiture. Instead, what figured more prominently in our hotel cases were conflicts over asset valuation, timing, method of sale, the designation of the proper disposition entity, and (post-) auditing. These were exploited to their own advantage by private investors. The mechanics of divestiture became even more manipulable in the absence of a well-developed infrastructure of accounting, legal and consultancy firms, and investment banks that manage the complexities associated with divestiture in the advanced industrial countries. When these structural constraints combine with the inability of the domestic capital markets to raise funds for the purchase of highly priced assets, one can better appreciate why the financing requirements of Philippine (re)privatization have hardly been met during its first five years of implementation (1986-1992).

As individual cases for divestiture were considered in terms of specific targets and operational details, the debates between prospective winners and prospective losers grew even more focused and acute. Economic and technical barriers to divestiture have virtually opened the Philippine public enterprise sector to more rent-seeking groups. Following Aquino's abolition of monopolies and selective state intervention, rentierism seems to have become more competitive in nature and inclusive of several public and private groups alike.

Divestitures in the Hyatt Regency Hotel and the Philippine Plaza did not encounter as much internal opposition as did the Manila Hotel case, which we take up in the succeeding chapter on failed privatizations. But Hyatt and the Philippine Plaza nonetheless provoked criticism from various policy communities. Similar to COMBANK's privatization, public bidding for Hyatt Regency proved anti-climactic. Only well-known sugar magnate Antonio Chan's P325 million bid was submitted in June 1988. Chan's bid was, in fact, P45 million higher than the predetermined floor price of the GSIS privatization committee for Hyatt.[79] The Chans bought out Hyatt through their Binalbagan-Isabela Sugar Company. Five other prospective buyers, mostly foreign hoteliers, "backed out, after they were unable to package the necessary financing to purchase Hyatt."[80] These included Hyatt International Hotels, Hyatt Regency's managing company, which withdrew because of the 1987 Constitution's prohibition against foreign majority ownership of commercial establishments that cover the landsite.

The automatic cancellation of a second-stage bidding among Hyatt's preferred buyers received a lot of flak from local businessmen. They believed a failed bidding should instead have been declared by the GSIS committee in the presence of only one interested party. A minimum of two qualified bids thus became a precondition set by the Commission on Audit for the Philippine Plaza's divestiture, which was originally scheduled in 1989.[81] Also, in order not to saddle foreign investors with problems involving minority shareholders as what occurred in the Hyatt case, the GSIS board resolved to exclude the six-hectare landsite from the sale. This allowed for total equity ownership of Philippine Plaza Holdings Inc. (PPHI) -- the GSIS holding subsidiary -- for which majority of the interested bidders were foreign-based groups.[82]

The target date for Philippine Plaza was postponed to mid-1990, after the inter-Cabinet Committee on Privatization disapproved the GSIS' original plan to combine a competitive tender with a public stock offering. The GSIS board's proposal for publicly listing shares came amidst charges by small Filipino entrepreneurs that (re)privatization policy tended to concentrate, rather than disperse, ownership of assets which the Marcos regime acquired using public taxes. The Committee on Privatization, on the other hand, expressed fear that "bidders for the GSIS' 70% share in the hotel may depress their offering price, knowing that the 30% shares would eventually be sold in a public offering."[83] In short, Aquino's Cabinet did not want windfalls to be captured by prospective bidders for the 70 per cent auctioned shares.

What is interesting to point out, however, is that fear of investor rentierism was not voiced out by the Committee on Privatization until the International Finance Corporation (IFC), the World Bank's giant investment arm, held that only "a competitive tender is advisable."[84] The "advice" came as IFC officials informed GSIS President Belmonte that the IFC "may have an interest at a later date to participate in the financing of the PPH privatization transaction."[85] IFC officials in Washington D.C. argued that public listing of shares was "likely to be a more complex and time consuming undertaking" that could defeat the paramount objectives of "simplicity, speed and revenue maximization."[86] In this manner, certain privatization actions of the GSIS, like public listing, were altered from what would have occured without multilateral intervention.

The GSIS also initially faced resistance from the management of the Cultural Center of the Philippines to which the Philippine Plaza had been leased-back in 1983, at Mrs. Marcos' behest. Interest from money market placements by the hotel mainly serviced the Cultural Center's loans incurred under Imelda's stewardship.[87] When the Presidential Commission on Government Reorganization proposed the hotel's sale to Aquino, the Cultural Center's management foresaw "[t]he imminent loss of the income stream from Philippine Plaza Hotel which contributes over 40 per cent of the Center's gross revenues."[88] But the hotel's board of trustees prevailed upon the hotel workers' union to accept divestiture even without any employee buy-out scheme, in exchange for job security and fringe benefits.[89] The Cultural Center eventually agreed to transfer the entire hotel property to the GSIS. The GSIS, in turn, converted a moribund, formerly crony-controlled subsidiary into the PPHI precedent to Philippine Plaza's privatization.[90]

When bidding was finally conducted in July 1990, only three (of 39 business conglomerates that attended the pre-bidding conference) showed up. But none offered a bid. Instead, they collectively accused the GSIS privatization committee of not disclosing complete audited income statements and tax liabilities of the Philippine Plaza. The more important reason seemed to be the P1.5 billion minimum bid set by the GSIS committee. The parties found the preset price to be "very steep," in contrast to open bids. The price also appeared very unreasonable to the bidders at a time of great political instability, resulting from endless military challenges to the Aquino government.[91] In fact, the eighth and most recent, and bloodiest, *coup d'etat* took place barely six months earlier and almost succeeded in ousting Aquino from the presidency. In the months that followed, rumours spread throughout Manila's business circles that Aquino's replacement by Senator Juan Ponce Enrile as head of another revolutionary government was just a matter of time.

The GSIS board was, therefore, afraid that a second failed bidding would lead to a negotiated sale under Proclamation No. 50. It asked the Committee on Privatization to defer the sale to 1991. Belmonte and the GSIS trustees hoped that the political situation would have stabilized by then. But their request was denied by Committee chairman and Secretary of Finance Jesus Estanislao on account of mounting congressional and multilateral pressure to auction state assets "in order to raise government revenues" quickly.[92] The Committee on Privatization's decision led the GSIS to revise its bidding rules for the Philippine Plaza "[i]n an effort to sweeten the pot"; this occured even as the GSIS refused to lower the base price or adopt open bidding that may enable private rent-seekers "to wrangle a much-lower price."[93] The concessions to prospective buyers included reduction in cash downpayment, extension of the period for its full payment, and elimination of a bank guarantee for balance repayments.[94]

The second bidding of October 1990 proved to be another failure. No bids were received from any of the four firms in attendance (out of 10 qualified ones).

These included Westin International Hotels, the Philippine Plaza's managing company. In fact, there were indications that the more serious buyers were conspiring with one another to force the GSIS to call for a negotiated sale. Under GSIS privatization rules, a maximum of two failed auctions would automatically require a negotiated sale, in which case there will no longer be a predetermined price and the conditions of purchase shall be established on a case-to-case bargaining process. A negotiated sale was ostensibly sought by the four buyers to gain lower terms of payment. Equally important, they hoped to take advantage of the forecast peso depreciations by 1991, which was but two months away.[95]

As expected, the GSIS buckled under as a result of lack of takers, coupled with constant pressure from the Department of Finance to divest. In November 1990, the guidelines for a negotiated sale were spelled out. A threshold bid of P500 million in downpayment and a P1 billion balance payable in five equal installments at 18 per cent annual interest were set.[96] Of the three business consortia that met with the GSIS negotiation committee to propose their respective terms of sale, Allied Kajima Ltd. won in January 1991.[97] The customary 30-day mutual due diligence audit of the GSIS and Allied Kajima followed.

The GSIS soon came under heavy fire from various groups as the mutual review was in progress. Cause-oriented groups of economic nationalists, backed by a sympathetic Manila daily, petitioned President Aquino to cancel the deal and order the GSIS to revise its divestiture plan to guarantee Filipino participation. They proposed the sale of both hotel landsite and building in order to minimize risk on the part of Filipino investors with limited capital. It was also meant to "encourage joint ventures between Filipino and foreign groups so that government can get a better price."[98] But the GSIS management was obviously wary of the litigations that wracked COMBANK's privatization for many years. GSIS Vice-President and spokesman Raul Gonzalez argued that including the land will not only require a huge cash outlay of P2.8 billion, but "may prompt the contrivance of complicated joint ventures or dummy arrangements."[99] Gonzalez also insisted that maintaining the land lease was financially rewarding for the GSIS. The GSIS board viewed the landsite of the Philippine Plaza as a continuously appreciating investment.

Before the landsite issue could be settled, a nuisance Filipino bidder became the rallying point for nationalist entrepreneurs, who claimed the deal violated "the spirit and letter of both the Constitution and the laws [which] require that other things being equal, priority should be given to qualified Filipinos."[100] The charge was spawned by a domestic Filipino corporation, the House of Investments, Inc., which proposed terms matching Allied Kajima's in January 1991. The offer was acknowledged, but never entertained, by the GSIS. This was because the House of Investments failed to prove its "ability to pay" without debt-to-equity swaps, even as it wanted a longer period of amortization.[101]

Local business quarters found sufficient ammunition in many of these rejected Filipino bids to denounce "multinational control" of the Philippine economy. The controversy created by the House of Investments coincided well with allegations of dummy ownership against the Bank of Boston that bought out COMBANK in 1987.

Nationalist businessmen claimed that Philippine Plaza's sale was likewise "tailor-made to favor the bid of foreign interests over Filipinos," even though "most of the five-star hotels in the country were already owned by foreigners."[102] More specifically, they contended that some GSIS officials received commissions or bribes from the transaction when Allied Kajima's offer was accepted *in toto*, despite equally attractive offers from rival Filipino and Taiwanese firms. For the nationalists, Philippine Plaza management's lack of resistance to the sale, despite lucrative rents arising from GSIS ownership, could be explained by the greater gains that accrued to both government and private parties.

The preference by disposition entities for full cash payments over installment terms had, time and again, constrained the ability of local investors to purchase assets, and of the capital market to fund the requirement. When this is linked to the issue of nationalism, there is the obvious problem of getting an indigenous company to purchase and operate parastatals like Philippine Plaza which are giants even by international standards. In several instances, therefore, government agencies like the Commission on Audit were reluctant to approve asset sales, without interposing conditionalities or repealing certain provisions of a successfully concluded privatization transaction. Some state resident auditors even favored restructuring the management and operations of parastatals to make them more efficient, instead of selling them off to the private sector under adverse market conditions. But the generally reactive stance taken by government auditors in conducting post-audit under Proclamation No. 50 was widely criticized by disposition entities and the

Congress who saw them collectively as a major stumbling block to successful policy implementation.[103]

In the case of the Philippine Plaza, the final opposition came from the Commission on Audit itself, as the GSIS and Allied Kajima were about to sign the Stock Purchase and Sale Agreement in June 1991.[104] Belmonte and Audit Chairman Eufemio Domingo engaged in a prolonged "word war" in the newspapers over what the latter alleged were provisions "inimical/prejudicial to the interest of the government."[105] Domingo was, first and foremost, opposed to the method of amortizing the P1 billion balance based on dividends earned by Allied Kajima. He honestly believed that this method "defeats the goals of privatization which is to generate fresh money into the [bankrupt] Philippine economy."[106] In claiming that the Commission on Audit had not yet approved the technical amendments it proposed to the deal, Domingo next pointed out that the hotel "will continue to gain" even under state ownership because it is "profitable, liquid and debt-free."[107]

But the worsening politico-economic situation in the Philippines, and the absence of better offers, led Domingo to finally approve the Philippine Plaza deal in August 1991 -- two years behind schedule. After all, there was no other way by which Allied Kajima could purchase the hotel without pledging its shares and using dividends for balance repayments. No reputable Japanese bank was willing to guarantee a transaction that fell short of a genuine real estate investment and committed its buyers to certain obligations to workers and managers alike.[108] Among the chief concessions the GSIS derived from the negotiated sale were exclusion of the land and the renewal of workers' appointments as well as the management contract with Westin International Hotels until its expiration in 1996.

The subsequent freeze on Central Bank's debt-to-equity conversion program further blocked foreign investors' entry to (re)privatization processes like those for the GSIS hotels. Many interested Filipino buyers counted on foreign partners to come in through this facility. As of June 1988, the Committee on Privatization already reported pending applications for the swap program worth as much as P2 billion. But the program for the purchase of public sector debt was later cancelled because of apprehensions over its "inflationary effect." A related concern was pressure on the foreign exchange rate, since conversion was occuring without the entry of fresh funds, and most of the debt being redeemed was public debt issued by the Central Bank.[109] In a way, these economic problems illustrate why the social imperatives of privatization (i.e., the use of proceeds to fund urgent programs like land reform, as provided under Proclamation No. 50) are so difficult to achieve when government is overburdened with a gargantuan external debt. The adverse impact of the conversion facility on the economy, despite its very good intentions, was acknowledged by Pura Ferrer-Calleja:

> ..., the privatization program also aims to lessen the country's foreign debt burden through the debt to equity conversion.
>
> Under this scheme, a prospective investor may buy out the country's foreign debt at a discounted rate. The Central Bank pays him the full equivalent of the indebtedness in pesos. Aside from some nominal fees, the only condition is that he must invest his pesos in any of the [privatized] enterprises in the Central Bank's list of preferred or less-preferred investments....

> While it appears to offer some relief from the country's debt burden, the debt to equity conversion scheme has inflationary effects on the economy. Since investors will be paid in pesos, there will be so much money in circulation without the corresponding increase in production. The Central Bank itself admits this danger.[110]

Equally significant, GSIS divestitures in luxury hotels indirectly put into question Aquino's ability to disperse property ownership and narrow income differentials, especially from the point of view of undercapitalized local investors and the general public. The complexity and magnitude of the payments and obligations involved in relinquishing state ownership usually left out small- and medium-scale entrepreneurs. Moreover, as previously noted, auctions and negotiated sales helped concentrate wealth and power in the hands of a few when other feasible options like partial divestiture, public listing, employee buy-outs, or even parastatal reform could not be considered by the privatizers.

Many divestitures thus only bred "preferential access" and "familization," as public assets went mainly to large family-held corporations. Hyatt Regency was acquired by a wealthy Filipino-Chinese family long associated with former Philippine "king-maker" Eugenio Lopez, Sr., the hotel's founder in 1962. The Chans themselves are sugar barons and strong financial backers of Iloilo province's landlord-politicians. The Hyatt purchase expanded the Chans' reach from sugar trading, banking, paper manufacturing, warehousing and inter-island barging to hotel management.[111] Allied Kajima, on the other hand, is a subsidiary of one of the biggest Japanese construction and engineering MNCs. Billionaire Oscar Salvacion, one of the country's top 1,000 earners, was named by Allied Kajima as hotel president when it took over the Philippine Plaza in 1991. Profit repatriation is allowed under the 1991 Foreign Investments Act. This means that some surplus generated from competitive rentierism could be drawn off by Allied Kajima from domestic sources and shifted to foreign countries like Japan. In this case, the economic rent in the post-privatization period obtains from the difference between cash downpayments normally issued by private buyers upon transfer of stock ownership, and the interest-free balance repayments to be drawn from hotel dividends over a prolonged period of time by Allied Kajima.

The urgency and desperation to dispose of five-star hotel enterprises and raise funds as quickly as possible, however, should also be seen in the context of the pressures exerted by politically important groups on the Aquino government. Hotel divestiture under Aquino was doubtless a move in the right direction. This has had the beneficial effect not only of reducing rent-seeking by public officials, but also ending state entrepreneurship in the travel and tourism industry which has since been entirely left to the private sector. Yet, part of the broader agenda seemed to require governmental regulation of the privatization process even at the level of ownership transfers.

Unfortunately, the experience of the GSIS in unloading its luxury hotels indicates that the interests of big businessmen, foreign investors, and technocratic policy-makers coincide with those of multilateral creditors, insofar as these groups seek to expand their investment incentives and opportunities. The Aquino government, on the other hand, was left with little room to maneuver in the face of periodic threats to its own survival and legitimacy. Of course, these threats had adverse impact on economic recovery and political stability. Such a dilemma was resolved by Aquino in terms of assigning greater value to the benefits of political support than the the more ambiguous, redistributive benefits of corporate reform for the Filipino majority.

Financial Restructuring: The Case of Philippine Air Lines

The excessive debt liabilities of some of the biggest and most profitable public enterprises in the Philippines triggered major policy debates concerning their privatization. The asset in question could be sold as is, in which case it would command only a minimal price if it is saleable at all; or the national government could absorb all or part of the liabilities to provide it with positive net worth prior to divestiture. There may be instances, however, where there is no choice at all as the magnitude of the debts bore no relationship to the market and earning value of the asset.

The experience of the Aquino government was generally one of financial rehabilitation of large-ticket items as a condition precedent to their sale. Transaction costs[112] on the part of the government were immense. The settlement or assumption of loan and other liabilities, conversion of government-held loans into equity, and/or recapitalization of state-owned enterprises were normally required. These corporations also had tax arrears that the government had to forego as part of the privatization transaction.

The costs of restructuring the finances of these "crown jewels" has led many underdeveloped countries like the Philippines to seek assistance from their multilateral creditors. These institutions also happened to be among the strongest proponents of structural adjustment policies like privatization which were seen as effective in cutting budgetary deficits and fostering efficiency in the public sector. The pervasive influence of the World Bank, the IMF, and the Asian Development Bank (ADB) could be gleaned from the rehabilitation of the Philippine National Bank, the Philippine Associated Smelter and Refining Corporation, the Philippine Phosphate Fertilizer Corporation, and, of course, the Philippine Air Lines (PAL) which turned out to be the largest privatization effort under Proclamation No. 50. But the need to recoup funds after a restructuring exercise usually left the government with the problem of how to check any ensuing concentration of wealth or private monopoly.

It may be recalled from Chapter IV that PAL became a losing proposition under state ownership on account of the heavy losses it incurred from Mrs. Marcos' junket trips and the huge foreign indebtedness it accumulated after the peso devaluations and high interest rates of the 1980s. A new GSIS board endorsed in 1986 the Presidential Commission on Government Reorganization's decision to unload since "air transport services is an activity that can be adequately handled by the private sector."[113] At the same time, the "strategic industry" argument of GSIS officials convinced the Presidential Commission on Government Reorganization that the government should "continue to retain priority shares in the company, but of a size large enough to influence major policy and operating decisions."[114]

Although there was political consensus behind partial divestiture, selling off the country's sole flag carrier fought turbulence for six years. PAL's external debt by 1987 had climbed to as high as $650 million. Of this amount, $250 million was owed to foreign commercial banks and another $200 million to the Paris Club of 14 creditor-nations. The Central Bank was prevailed upon by the Aquino government to assume the equivalent of P3.2 billion in foreign loans in 1988, so that external debts subject to restructuring could be reduced to P12.3 billion.[115]

However, the GSIS opted to delay any restructuring in order to take advantage of the tourism "boom" after the change of government, and generate unprecedented profits. The Committee on Privatization's approval to suspend divestiture for the next three years "until [PAL] has become financially stable" was met with criticism by major Filipino and foreign investors. These investors were interested in acquiring majority stakes therein.[116] They included the business conglomerate of former Marcos-crony and multi-billionaire Jaime Zobel de Ayala; the resurrected political dynasty of the Lopezes which had regained monopoly of the national electric utility; and James Capel Co. which offered to invest fresh capital equivalent to 75 per cent of PAL's equity. Of particular interest to them were PAL's solid monopoly of the domestic aviation market despite its deregulation under

Aquino as well as intangible assets like landing rights, rather than its commercial viability.[117]

The business sector was subsequently backed by multilateral agencies in pressing for privatization, especially after PAL's board uncovered a (rentier) "conspiracy" to commit massive fraud among 22 top executives. The administrative proceedings in 1990 stemmed from charges that PAL lost more than P2 billion between 1984 and 1987. Senior managers were found to have resorted to profiteering activities through sale of aircraft spare parts, overpayments to travel agents and concessionaires, and unauthorized credit transactions involving airline operations in Asia, the Middle East, and the U.S. The year-long investigation by the Department of Justice closed with a report that recommended dismissal of many of the defendants, mostly holdovers from the Marcos regime.[118] Their well-publicized dismissal pointed to additional problems in cleaning the books of "high-profile" assets with institutionalized government rent-seeking practices, for these translated into greater net losses.

The undue delay in PAL's divestiture was now viewed with both alarm and criticism by many politicians. They feared that the best investors would lose interest in the airline as high interest on its loans continued to mount, while it remained under state ownership. PAL's worsening condition was aggravated by the unstable political climate after 1987 which drastically slashed tourist arrivals.

In late 1988, a series of inquiries were begun by the Senate and the House of Representatives to pressure PAL and other big parastatals to divest. The House passed a resolution directing PAL to sell at least 40 per cent of its total capital stock to a Filipino and/or foreign group.[119] A Senate committee went a step further and explored various methods in gradually denationalizing the airline. These included selective privatization along functional lines, whereby auxilliary services like ground-handling or engineering were subcontracted or leased out.[120] President Aquino also succumbed to demands by some senators and congressmen to deregulate domestic air services by way of reviving foreign competition as a prospective source of PAL buyers.[121]

Belmonte and PAL officials led by board chairman Dante Santos testified during the legislative hearings that PAL could no longer afford to rely on its profitable international routes, considering its vulnerability to the political situation. Instead, they argued that the best way the airline could attract serious buyers was for the national government to step in and bail it out:

> MR. BELMONTE: .... The original exposure of GSIS in Philippine Airlines is about two billion pesos. As of this date, PAL has negative equity, meaning to say, its accumulated losses exceed its equity or operating profits .... However, it does not mean that when GSIS sells it, GSIS will end up with a negative equity, because PAL is worth considerably more than what appears in the balance sheet.
>
> SENATOR ALVAREZ: Including the landing rights?
>
> MR. BELMONTE: Yes, including non-visible assets like landing rights, the marketing network it has built up all over the world. These things do not appear on the balance sheet, but they are worth a lot of money. We realize that ever since we invested GSIS funds in PAL back in 1977, we have lost many opportunities to make money, particularly in '83, '84, '85, '86 when interest rates went up the ceiling....

But now we do feel there are capital gains building up within PAL. And there is the opportunity to recapture part of the money that we lost when PAL is rehabilitated and eventually privatized....

THE CHAIRMAN (Senator Laurel): Do you know what other countries have done with respect to the privatization of their national flag carriers?

MR. SANTOS: Oh yes, the U.K. did it. A number of other countries have done it as well. Just quite recently, Japan privatized Japan Air Lines. Malaysian Air Lines, a part of it. Singapore also. These have been relatively successful privatizations because most of these airlines, unlike PAL, were released from their financial obligations. Everytime, they encountered severe losses, their respective governments would pour money into them and keep them flying. But PAL itself does not get any funding or any form of subsidy from the government. That has long been a chief source of problem or headache for the GSIS as parent corporation.[122]

In response to political pressure for restructuring, the Aquino government negotiated, in behalf of the GSIS, a $350,000 grant from ADB to fund a privatization study. The 1989 report of Rothschild and Sons Ltd. valued the national carrier between P6.2 billion and P9.9 billion ($280 million to $450 million), depending on the amount of external debt to be retired. The ADB-funded project also recommended that a one-airline policy be kept for international air services, "as competition already exists in the market to exert pressure on PAL to improve its efficiency."[123]

The World Bank, through the IFC, backed ADB's concept of debt reduction to facilitate divestiture in PAL and other "crown jewels" that carried a high price tag. In October 1989, IFC sent a technical team to Manila. The team met with the Secretary of Finance and PAL officials to discuss its offer of "bridge financing" to allow PAL to buy back its debt papers from the secondary market, at a discount ranging from 48 per cent to 52 per cent. With endorsement from Aquino's Cabinet, the GSIS board accepted IFC's proposal to devise the divestiture plan for PAL.[124] Interestingly, IFC obtained the PAL contract even as it made clear that it was "definitely interested" in acquiring equity once the airline was privatized.[125]

The $300,000 IFC study was released in October 1990. It proposed a three-phase strategy: 1) a debt buy-back program covering PAL's multi-million dollar foreign debt "to make the carrier viable and more attractive to investors"; 2) the "preferential sale" of minority (35 per cent) equity to foreign investors; and 3) a public stock offering equivalent to 51 per cent of new shares to raise the airline's capital base. The remaining stakes were to be retained by the incumbent owners -- the GSIS and the National Development Company -- "to maintain PAL as the official flag carrier."[126]

The debt buy-back program created the toughest bottleneck in PAL's privatization, delaying it by two more years. Buy-back of a substantial portion of the carrier's foreign debt at prevailing discount rates was intended not only to improve its balance sheet, but also to lighten the burden of financing charges in profit and loss statements.

Still, the first debt buy-back scheme flopped due to adverse market conditions. It called for the sale and eventual lease-back of one DC-10 and at least 5 airbus 300s to raise substantial funds for this purpose. In April 1990, Morgan Guaranty Trust Co., PAL's underwriter, invited top aircraft financing and leasing companies to bid for the airplanes in the secondary market. But the Persian Gulf war in January 1991 undermined the profitability of most international airlines and caused a glut of aircraft in the market. This was apart from the difficulty in securing creditor consent for aircraft sales. Consequently, only one small aircraft was sold and leased back.[127]

A second privatization plan had to be drafted after the aircraft lease-back strategy was scrapped. IFC proposed that "[t]he fastest way to privatize [PAL and other big-ticket firms] is for the government to assume their obligations" and for these firms to subsequently "repay the government using proceeds of their sale to private investors."[128] When Aquino's economic secretaries showed reluctance to approve the new scheme because of the financial burden it would entail, a World Bank mission arrived in Manila to set up a Philippine Privatization Fund. The Fund sought to provide funding for the buy back of certain foreign currency obligations at a discount rate of about 40 per cent to 50 per cent.

World Bank's "insistence" on a government bail-out "prodded [Aquino's debt-laden] government to push through with the buyback."[129] The national government agreed to assume a total of $520.7 million in PAL foreign loans, in exchange for the transfer thereto of the equivalent 80 per cent of PAL's authorized capital stock effective October 1991.[130] The revised debt buy-back program also set aside the second and third phases of the IFC study. The national government opted to redeem its debt burden by deciding to sell its majority stakes in PAL by December of that year.[131]

It was inevitable that the government had to give up control of strategic monopolies like PAL, even if it was against the Villafuerte Commission's and the GSIS' original recommendations. Otherwise, public enterprises with negative net book value would be relieved of their non-performing assets, while the national government would be made to service a much heavier external debt. The resulting trade-off caused the Aquino government to directly undertake corporate restructuring, but conditional on the privatization of whatever controlling equity it assumed. Such a policy did not distinguish at all between essentially commercial activities and those that were developmental or catalytic in their social or economic objectives.

Stark choices in privatization policy also created ripple effects on the accessibility of denationalized assets. In the case of PAL, the settlement of the remaining monetary claims of its former owner paved the way for its sale as a "going concern." The settlement was part of the recommendations of the 1990 IFC study.[132] But the national government wanted as much as 70 or 75 per cent of its stakes to be auctioned, with a meager 5 per cent reserved for future employee stock purchases. Neither did Secretary of Finance Jesus Estanislao and Central Bank Governor Jose Cuisia -- who represented the national government in the three-man PAL privatization committee -- find public stock offering either financially rewarding or technically convenient. The Aquino government was concerned that its assumed obligations would bloat the country's staggering $42 billion external debt.[133]

To diffuse criticism from small investors that so much equity had been slated for outright divestiture through public bidding, the PAL committee decided to auction off only 67 per cent of all its (common) shares. The government's remaining 32.1 per cent was retained for the time being by the national government (13 per cent); GSIS (15 per cent); and the National Development Company (4.1 per cent).[134] Unsold shares were left for disposal by the succeeding presidential administration after June 1992.

The three prequalified bidders were consortia of some of the most prominent local and foreign investors. After all, very few qualified to bid for such a huge investment. The decision of the privatization committee to set a "hurdle price" only hours before the January 1992 bidding also virtually delimited the prospective buyers to the wealthiest. This is because "any bidding consortium has a strong incentive to submit the highest bid it can justify, without regard to an announced minimum price."[135] The consortium-type of bidder was particularly encouraged by the PAL committee through qualification rules like partnership with a foreign airline and a minimum P4 billion cash component. The balance in debt papers or their cash equivalent decided the winner. The use of debt papers as part of the total PAL bid served as a model for the privatization of a few other highly-priced assets of government. The amount of debt papers which was accepted during the bidding, or its cash equivalent, was set based on the agreements made by the Aquino government with its foreign creditor banks during the second debt buy-back transaction. Thus, the agreed price of 57 cents for every dollar of debt was also the price at which the government agreed to purchase debt papers from the foreign banks.[136]

While a consortium could provide some semblance of dispersed ownership, in reality it may be controlled by only one or two powerful investors or conglomerates. In the case of PAL, it was even questionable whether bidding actually "encouraged the utmost competition," as the Committee on Privatization claimed it did.[137] The winning consortium was led by AB Capital & Investment Corporation and the Bank of Commerce Group of Antonio Cojuangco. Cojuangco is President Aquino's nephew. He was the same industrial tycoon who acquired the Bank of Commerce that was formerly the GSIS-owned COMBANK. He also bought from the Aquino's father the Philippine Long Distance Telephone Co., an example of a highly inefficient private monopoly. PAL' conversion from a public monopoly into a (possibly inefficient) private monopoly expectedly raised serious concern over the "creeping dominance of big business not only in the economic sphere but in the political life of the country as well."[138] In a landmark ruling, the Supreme Court passed upon the dangers of post-privatization rentierism. The Court lamented the absence of an agressive anti-trust law or policy to curtail combinations in restraint of trade, private monopolies, and oligopolies:

> A 'monopoly' embraces any combination the tendency of which is to prevent competition in the broad and general sense, or to control prices to the detriment of the public. **In short, it is the concentration of business in the hands of the few. The material consideration in determining its existence is not that prices are raised and competition actually excluded, but that power exists to raise prices or exclude competition when desired.**[139] (emphasis added)

Among the other members of the winning consortium were Cojuangco's business associates, George Go of Equitable Banking Corporation and Asian Bank chairman Andres Soriano III, whose family founded PAL in 1937 and has a virtual monopoly over the beer industry in the Philippines. The Cojuangco-led consortium tendered P9.78 billion ($369 million). Part of the total amount represented the eligible debt component which was paid only at the closing of the deal in March 1992. The Cojuangco bid was 16 per cent higher than the undisclosed "reserve price" of P8.4 billion ($319 million).[140]

The losing bidders likewise represented the *creme de la creme* of business and industry. The PCIBank consortium was headed by "poultry king" John Gokongwei and the Lopez business empire which originally owned GSIS' Hyatt Regency Hotel. These two most well-heeled clans were joined by Oriental Petroleum and Minerals Corporation, American Airlines, and the Salomon Brothers, among others. The membership of the third consortium, the British Airways-backed Union Bank Capital, also reads like a "who's who" in local and international finance circles. Along with IFC, some of these conglomerates went on to purchase shares in PAL "in an effort to ride on the success of the Cojuangco and the Soriano families."[141]

Ironically, Cojuangco's acquisition of PAL's controlling equity would not have been possible without direct financial aid from the Marcoses or their former cronies. Even before the January 1992 bidding was held, it was well known that either Marcos or Imelda retained ownership of Prime Holdings Inc., the lead corporation in the winning consortium. Prime Holdings Inc., which was in Cojuangco's name, held 70 per cent of the common shares in the Philippine Telecommunications Investment Corporation which, in turn, was the majority stockholder in Cojuangco's telephone monopoly.[142] Cojuangco, therefore, was not spared from additional charges of being a Marcos nominee.

Over and above this complex dummy layering, much of the P9.78 billion Cojuangco's consortium invested in PAL came from famous Marcos-crony and "tobacco lord" Lucio Tan who still owns Allied Banking Corporation.[143] The source of funding for the PAL deal was discovered only when Tan and Cojuangco locked themselves in a well-publicized intra-corporate battle in late 1992. The fight stemmed from Cojuangco's corporate expansion project which entailed the purchase of new aircraft. Tan did not find the investment wise. Instead, he wanted PAL to be more profit-oriented by slashing loss-making domestic routes and imposing higher fares for flights that remained, given the absence of competition in the deregulated domestic airline market. Tan thus moved to protect his "holdings" which turned out to be the equivalent of Cojuangco's 51 per cent controlling equity in PAL.[144] Cojuangco was ousted by Tan who then got himself elected chairman of PAL's board. In the process, evidence cropped up "that the funds [Tan] infused into PAL came from certain of his [crony] corporations which were previously sequestered by the government."[145]

But, in the tangled web of Philippine politics, it is not uncommon to find business partnerships or alliances even among warring political clans or elite factions. There is no gainsaying that in a country where great income and wealth are narrowly distributed, incumbent power-holders often discover they have shared economic interests with their political adversaries. Diverse forms of cooperation or adjustment are usually struck in furtherance of such congruent interests, as the Cojuangco-Tan deal so clearly illustrates.

Such a tie-up further indicates that the possibility of (re)opening the public sector to the (indirect) control of certain unwanted elements of the former dispensation is not at all remote. This appears to be conceded when the desperation for funds to rehabilitate an ailing economy glosses over the more critical issues of ownership and redistribution in the Philippines.

Summary

The six corporate divestitures thematically examined in this chapter represent varying degrees of success. Political controversy, lawsuits involving ownership rights, lack of buyer interest, technical questions, and in-fighting among privatizers nonetheless derailed asset sales, as originally scheduled. However, in sharp contrast to failed divestitures in the succeeding chapter, a common denominator of the cases surveyed is the absence of sustained resistance on the part of the stakeholders, in comparison with other LDCs. The "Marcos connection" and the financial unattractiveness of most parastatals explain why stakeholders did not often succeed in protecting the *status quo*. Instead, they commonly gave ground to the forces of change. An equally strong push came from the commercial and multilateral creditors in view of the heavy debt obligations of these corporations, which was a powerful source of leverage over the content and direction of economic reform. Aquino thus succeeded in correcting many of the long-standing distortions in the economy that monopoly rentierism by public officials and cronies alike bred, besides recouping much-needed funds from (re)privatization. This was undoubtedly a significant step towards achieving the kind of democracy Aquino envisioned and promised in 1986.

Yet, terminating the exclusivity of rent-seeking under authoritarian rule does not eliminate rentierism altogether. Access to divested public resources was truly broadened by Aquino to encompass a diversity of private sector groups, but without addressing those socio-economic conditions that constrained competitive prowess. In fact, another common feature of our case studies was the capture of rents by private interests, whether acting independently or in collusion with public rentiers, particularly the parastatal management and top officials of the national government. Depressed market values of divested assets, windfall, beyond-normal profits reaped from certain modes of divestiture, as well as kickbacks and commissions paid to public rentiers through shady deals created rents at the expense of the state. These rents were in addition to rents that arose from captive markets in the post-privatization stage. Rent-seeking processes appeared to have been encouraged by the high cost of (predominantly commercial) assets vis-a-vis the bargaining strength of private monopolies, giant conglomerates, MNCs, foreign banks, and traditional landed elites. Together, these findings shed light on what Amiya Kumar Bagchi has described as the conceptual blindness of most theorists of rentierism, who tend to "denigrate all government intervention" and ignore "private rent-seeking by dominant firms in a world of supposedly free competition."[146]

The shift in the concentration of wealth and power from one politically supportive segment of the elite to another thus leaves the structure of the Philippine political economy virtually intact. If such is the case, privatization could only bring about a perverse redistributive impact on society.

NOTES

[1]Time (cover title on the Philippines), 10 March 1986.

[2]Even under the Aquino government, the members of the GSIS board of trustees came mostly from the private sector. This prompted some members of the newly restored Congress to author bills designed to make the board representative of its public sector membership and to redirect GSIS investments to the public sector. One example is Senate Bill No. 98 which mandates the appointment of two officers of teachers associations to the GSIS board, and requires the GSIS to make priority investments in educational projects.

[3]Feliciano R. Belmonte, Jr., "Towards a Responsive and Responsible GSIS," **Fookien Times 1986-1987 Philippines Yearbook**, pp. 126; 233.

[4]Interview with Feliciano R. Belmonte, Jr., President and General Manager, Government Service Insurance System, 30 August 1992.

[5]Feliciano R. Belmonte, Jr., "Privatization and the GSIS Experience," paper presented at the Conference/Workshop on Privatization and Its Impact on Labor Relations in the Philippines, U.P. School of Industrial and Labor Relations, Quezon City, 19-21 August 1988, pp. 54; 56.

[6]*Ibid.*; and interview with Amante Rimando, Senior Vice-President, Finance and Investments Group, Government Service Insurance System, 7 May 1992.

[7]Transcript of Stenographic Notes, Committee on Government Corporations and Public Enterprises, Senate, 7 October 1987, pp. 22-23.

[8]See Joan R. Nelson, "Introduction," in J. M. Nelson, ed., **Economic Crisis and Policy Choice: The Politics of Adjustment in Developing Countries** (Princeton, NJ: Princeton University Press, 1990), p. 27. For Nelson, the appropriate counterfactual should ask "in what ways have governments' choices and actions been altered from what would probably have occurred without external intervention?"

[9]For details on the World Bank conditionalities, see "$200 M ok'd for reform of GOCCs," **Business World**, 30 June 1988. See also Leonor M. Briones and Dalisay C. Sevilla, "Towards a Reexamination of the Policy Framework for Government-Owned and Controlled Corporations," in Lino Cardenas *et al.*, eds., **Policy Studies, 1989-1990** (Manila: United Nations Development Programme and Department of Budget and Management, 1990), pp. 589-590.

[10]"WB satisfied with privatization program; to release $50-M GCRL,"

Business World, 30 January 1992.

[11]*Ibid.*

[12]House Bill No. 22268 (April 1989). For general deliberations on this bill, see Transcript of Stenographic Notes, Sub-Committee on Privatization, House of Representatives, 7 March 1990, pp. 8-21.

[13]Transcript of Stenographic Notes, Sub-Committee on Privatization, House of Representatives, 28 March 1990, pp. 84-86.

[14]Interview with Zacarias Beltran, Vice-President, Acquired Assets Group, Government Service Insurance System, 10 August 1992.

[15]See "S.F. Gave Unusual Lucrative Breaks to Project," **San Francisco Examiner**, 2 March 1986.

[16]See opening statement and testimony of GSIS President Feliciano R. Belmonte, Jr., Transcript of Stenographic Notes, Committee on the Accountability of Public Officers and Investigations, Senate, 7 February 1989, pp. 14; 16-17; 32-37.

[17]Minutes of the Meeting called by President Aquino to resolve the issue of GSIS Property in San Francisco, Malacanang Palace, Manila, 12 March 1986. The ad hoc committee was concerned that if the deadline lapsed, millions of dollars in tenant leases would be lost by the GSIS, since it could no longer build beyond six floors after the permits and variances are cancelled by the San Francisco city government.

[18]See testimony of GSIS President Feliciano R. Belmonte, Jr., Transcript of Stenographic Notes, Committee on the Accountability of Public Officers and Investigations, Senate, 20 April 1989, pp. 39-41; and Memorandum of GSIS President Feliciano R. Belmonte, Jr., for Her Excellency, President Corazon C. Aquino, re GSIS Property on Stockton Street, 16 April 1986.

[19]The GSIS in the Stockton case ignored the legal requirement of public bidding under Presidential Decree No. 1445, section 79, on the ground that it only pertained to movable property situated within the territorial jurisdiction of the Philippines.

[20]Belmonte, Transcript, 7 February 1989, pp. 17-22.

[21]GSIS Board Resolution No. 154 (7 August 1986).

[22]Letter of GSIS President Feliciano R. Belmonte, Jr., to Her Excellency,

President Corazon C. Aquino, re sale of GSIS Property on Stockton Street, 12 September 1986, as approved by President Aquino of even date.

[23]Interview with Lino Cardenas, Consultant, PCGR Task Force on the Government Corporate Sector, 23 June 1992. See also Presidential Commission on Government Reorganization, **Report on the Government Corporate Reform Program** (Manila, 1987), see Arconal NV fact sheet, p. 2.

[24]Senate Resolution No. 259 (19 September 1988).

[25]The following provide extensive accounts of concerns raised by members of Congress and officials of foreign lending agencies behind the resistance of stakeholders in public enterprises slated for divestiture: Briones and Sevilla, "Towards a Reexamination of the Policy Framework"; World Bank, "The Philippines Country Economic Memorandum: Issues in Adjustment and Competitiveness," confidential Report No. 8933-PH, Washington D.C., 31 October 1990; and House of Representatives, Congressional Planning and Budget Office, "Why Privatization is Proceeding Slowly," Oversight Report on Privatization, Quezon City, November 1990.

[26]Ricardo Manapat, **Some Are Smarter Than Others: The History of Marcos' Crony Capitalism** (New York: Aletheia Publications, 1991), p. 601.

[27]Transcript of Stenographic Notes, Committee on the Accountability of Public Officers and Investigations, Senate, 20 February 1989, pp. 19; 22; 24-25.

[28]Belmonte, Transcript, 7 February 1989, p. 14. The lawsuits, in particular, challenged the special permits and exemptions obtained by the GSIS for the construction of a the new ten-storey building.

[29]This indicates that over half of the $10 million winning bid only went to the interest payments for a $10 million loan to purchase Stockton in 1982, and the principal and interest repayments on a $4 million pre-construction loan.

[30]Committee Report No. 628, re: P.S. Res. No. 259 (23 May 1989), p. 5.

[31]*Ibid.*, p. 6.

[32]Senator Juan Ponce Enrile, Dissent on Committee Report No. 628, pp. 10-13.

[33]Committee Report No. 628, p. 6.

[34]Opening statement of former GSIS President Roman Cruz, Jr., Transcript of Stenographic Notes, Committee on the Accountability of Public Officers and

Investigations, Senate, 7 March 1989, p. 62.

[35]Committee Report No. 628, p. 10.

[36]"What! Roppongi again? Ramos must not be stampeded into a frantic selling binge," **Philippine Star**, 24 July 1992.

[37]"Aquino rewards 'street' backers," **Philippine Daily Express**, 29 July 1986.

[38]"Boston connection - 2," **Philippines Daily Inquirer**, 18 October 1988.

[39]Excluded from the negotiated sale of COMBANK was its lone subsidiary, ComSavings Bank, with an estimated value of about P40 million.

[40]"Bank of Boston agrees to buy Combank," **Business Day**, 23 December 1986; and "GSIS bids out Combank," **Manila Bulletin**, 28 December 1986; and "GSIS sale of shares in Combank set," **Manila Chronicle**, 24 June 1987.

[41]"Boston connection."

[42]*Ibid*.

[43]Ramos v. GSIS, Civil Case No. 17027, Branch LVII, Regional Trial Court of Makati (15 June 1987).

[44]As discussed in Chapter IV, these obligations included a P20 million GSIS loan, the restructuring of the Ramoses' P45 million loan on the books of the then Overseas Bank of Manila (OBM), and the Ramoses' option to purchase 10 per cent of COMBANK shares within three years from its reopening in 1981. The Ramoses held that the earlier sales of OBM to Marcos-crony Herminio Disini and by Disini to the GSIS should, therefore, be rescinded because of the GSIS' failure to meet all these obligations. This was sought to automatically void the GSIS-BBOP deal.

[45]GSIS v. Velez, C.A.-G.R. SP Nos. 12859 and 12903 (7 December 1987).

[46]*Ibid*. The Court of Appeals also took into consideration P5 million posted by the GSIS to guarantee its obligations to the Ramoses as well as to protect the BBOP/Filipino Investors Group from any and all present or future claims of the Ramoses.

[47]Stock Purchase and Sale Agreement between the Government Service Insurance System and the Boston Bank of the Philippines (11 December 1987).

[48]Ramos, Sr. v. Court of Appeals, G.R. Nos. 80908 and 80909 (24 May 1989).

[49]"Combank's buyer violated US laws?", **Philippines Daily Inquirer**, 29 September 1987.

[50]"House continues Combank probe," **Philippines Daily Inquirer**, 20 November 1987.

[51]See "Belmonte probed; mayor suspended," **Philippines Daily Inquirer**, 1 May 1992.

[52]"Bank of Boston agrees."

[53]*Ibid.*

[54]Central Bank Circular No. 1111 (4 August 1986).

[55]"Combank sale a debt swap," **Manila Chronicle**, 29 June 1987; and "Boston bank swaps $25M for Combank," **Filipino Press**, 21 October 1987.

[56]In the case of COMBANK, the sale by the GSIS of its shares involved $24.9 million worth of Philippine foreign debt retired by FNBB. The amount represents almost one-third of FNBB's $78 million loan exposure in the Philippines on top of its trade credit facility amounting to about $50 million as of 1987.

[57]"Boston connection."

[58]Republic Act No. 337 (14 July 1948), otherwise known as the General Banking Act.

[59]"Combank sale defended anew," **Manila Bulletin**, 22 October 1987.

[60]The three-month joint hearings of the lower house closed in December 1987 with a report finding no government official culpable of any violation of law. But the committee report also underscored the need for legislation and tighter Central Bank regulations on the banking activities of foreigners in the Philippines.

[61]Monetary Board Resolution No. 861 (7 October 1987).

[62]Letter of President Corazon C. Aquino to Central Bank Governor and Monetary Board Chairman Jose B. Fernandez, Jr., re COMBANK sale, 20 October 1987.

[63]"Boston bank seeks more time," **Manila Bulletin**, 2 April 1987; "Buyers

asking GSIS for time in Combank deal," **Philippine Star**, 2 April 1987; and "GSIS ready to entertain other buyers," **Business Day**, 20 April 1987.

[64]"Questions on Combank sale aired," **Philippine Daily Inquirer**, 12 October 1987. See also "Boston connection" and "Belmonte probed."

[65]"A Sell-Out?: Antonio Cojuangco Is Poised to Take Over Boston Bank," **Business Star**, 3 May 1990. See also "Will CB give nod to non-banker calling shots at Boston Bank?", **Business World**, 28 September 1989.

[66]"Boston Bank has new chairman," **Philippine Star**, 13 October 1989; "Boston Bank Ousts Elena Lim," **Philippines Times Journal**, 13 October 1989; and "Boston Bank takeover: in the Wall Street manner," **Business World**, 27 October 1989.

[67]"Boston Bank takeover."

[68]For a comprehensive treatment of these findings, see "Did Boston circumvent banking law?", **Philippine Daily Inquirer**, 26 October 1989; and "Anti-dummy Law violated by BB?", **Philippine Daily Inquirer**, 30 October 1989. The Anti-Dummy Law referred to in these articles is Commonwealth Act No. 108 (1936), as amended.

[69]SEC E.B. No. 251 (14 September 1990). This modified the SEC Order re Lim v. FNBB, SEC Case No. 3657 (16 July 1990).

[70]FNBB v. Velez, CA-G.R. SP No. 22013 (14 December 1990).

[71]See "Imperialism in action," **Daily Globe**, 26 October 1989; and "Boston Bank takeover."

[72]"Anti-dummy Law."

[73]See Letter of Central Bank Director Andres I. Rustia to BBOP Vice-President and General Manager Benjamin Sevilla, 14 August 1989; and Letter of Central Bank Managing Director Feliciano L. Miranda to BBOP Vice-President and General Manager Benjamin Sevilla, 26 April 1990.

[74]Interview with Joselin G. Fragada, Chairman of the Board, Bank of Commerce, 17 August 1992.

[75]"A Sell-Out?".

[76]*Ibid.* See also "CAP joins takeover of Boston Bank," **Daily Globe**, 16 January 1991; and "Boston Bank Sells Shares To CAP in Privatization Bid," **Business**

Star, 29 January 1991.

[77]Cojuangco has substantial interests in the Antonio Cojuangco Group, the Professional Bankers Group headed by Joselin Fragada, a Cojuangco banking associate, and the College Assurance Plan.

The ownership structure of the Bank of Commerce, as of 1991, is as follows: Antonio Cojuangco Group, 13 per cent; Professional Bankers Group, 22.5 per cent; College Assurance Plan, 19.5 per cent; Equitable Banking Corporation, 19.5 per cent; retained BBOP equity, 19.5 per cent; and the shares claimed by Elena Lim against BBOP, 6 per cent. This equity division is based on common shares, after all preferred shares were converted thereto by board resolution. See Bank of Commerce, **Annual Report 1991**.

[78]Cojuangco controls the Philippine Long Distance Telephone Co. and the privatized Philippine Airlines, both of which are private monopolies. In addition, he and his family own PR Holdings, Hilongos Development Corporation, and Landmark-Philippines, among others.

[79]"Sugar magnate to pay P325M for Regency," **Philippine Star**, 16 June 1988; and "Chan group completes payment for Hyatt Regency," **Business World**, 4 October 1988. The GSIS had set a floor price of P280 million. Its total exposure in Hyatt in 1988 was around P250 million, thus bringing in a net profit of about P75 million from its divestiture.

[80]"BISCOM wins bid for Hyatt," **Business World**, 16 June 1988. See also "Hyatt goes to Chans for P325m," **Manila Chronicle**, 16 June 1988.

[81]Government Service Insurance System, "Guidelines and Procedures in the Bidding and Awarding of Sale of Shares of Stock of the Philippine Plaza Holdings, Inc., Owner of the Philippine Plaza Hotel," Manila, 1990, p. 4.

[82]"Along Hotel Row: Foreigners may fully own the Plaza," **Business World**, 28 September 1989.

[83]*Ibid.*

[84]International Finance Corporation, "Philippines Privatization Diagnostic Report: Philippines Plaza Hotel," Washington D.C., March 1989.

[85]Cover letter of IFC Corporate Finance Services Group Manager Roger S. Leeds to GSIS President and General Manager Feliciano R. Belmonte, Jr., re Philippine Plaza diagnostic report, 24 March 1989.

[86]International Finance Corporation, "Philippines Privatization."

[87]Cultural Center of the Philippines, **The President's Report 1985** (Manila, 1985), p. 40.

[88]Cultural Center of the Philippines, **1987 Annual Report** (Manila, 1988), p. 26.

[89]Proceedings of Workshop I, Group II, Conference/Workshop on Privatization and Its Impact on Labor Relations in the Philippines, U.P. School of Industrial and Labor Relations, Quezon City, 19-21 August 1988, p. 60.

[90]Memorandum of Agreement between the Government Service Insurance System and the Cultural Center of the Philippines (9 December 1988), as approved by President Corazon C. Aquino on 25 January 1989. The Cultural Center agreed to preterminate the Lease-Back Agreement with the GSIS (19 December 1983), as a condition for the Philippine Plaza's privatization.

[91]"Privatization of Phil. Plaza hits a snag," **Business World**, 3 July 1990; and "Interest in Plaza hotel sale wanes," **Manila Chronicle**, 11 September 1990.

[92]"Philippine Plaza sale fails again," **Manila Chronicle**, 4 October 1990.

[93]"Three major changes seen in Plaza bidding," **Business World**, 6 September 1990.

[94]*Ibid.*

[95]"Philippine Plaza sale."

[96]Government Service Insurance System, "General Guidelines and Procedures in the GSIS Negotiation of the Sale of PPHI Shares of Stock," Manila, 1990.

[97]Government Service Insurance System, "1990 Annual Report to the Committee on Privatization," Manila, 1990.

[98]"President Aquino can order sale of Philippine Plaza Hotel with land by Public Bidding," **Manila Bulletin**, 31 January 1991.

[99]Letter of GSIS Acting Senior Vice-President Raul S. Gonzalez to the Editor of the **Manila Bulletin**, 7 February 1991.

[100]"COA denies it approved sale of Phil. Plaza Hotel," **Manila Bulletin**, 14 July 1991. See also "Filipinos should have first option on Philippine Plaza as the Constitution requires," **Manila Bulletin**, 21 April 1991.

[101]"Allied Kajima gave best offer for Plaza," **Manila Chronicle**, 26 February 1991.

[102]"COA denies it approved sale."

[103]House of Representatives, "Why Privatization."

[104]Stock Purchase and Sale Agreement between the Government Service Insurance System and Allied Kajima Ltd. (29 April 1991, as amended on 25 June 1991). See also Memorandum of Agreement between the Government Service Insurance System and the Allied Kajima Ltd. (16 February 1991).

[105]5th Indorsement by the Commission on Audit to the President and General Manager of the Government Service Insurance System (20 June 1991).

[106]"COA denies approval of Plaza Hotel sale," **Philippine Times Journal**, 14 July 1991.

[107]*Ibid.*

[108]"For P1.5B: Allied Kajima clinches Philippine Plaza deal," **Manila Times**, 26 April 1991; and "Plaza sale accord signed," **Newsday**, 26 April 1991.

[109]Zinnia F. Godinez, "Privatization and Deregulation in the Philippines: An Option Package Worth Pursuing?," **ASEAN Economic Bulletin** (March 1989): 282.

[110]Pura Ferrer-Calleja, "The Proper Role of DOLE in Privatization," paper presented at the Conference/Workshop on Privatization and Its Impact on Labor Relations in the Philippines, University of the Philippines School of Industrial and Labor Relations, Quezon City, 19-21 August 1988, p. 73.

[111]For a list of the Chans' other corporate holdings, see Michael G. Say, ed., **The VIP's of Philippine Business 1988** (Manila: Mahal Kong Filipinas Foundation, Inc., 1988), pp. 331-332.

[112]Transaction costs are those incurred in preparing the state-owned enterprise in physical form before putting them up for sale.

[113]Presidential Commission on Government Reorganization, **Report on the Government Corporate Reform Program** (Manila, 1987), see PAL fact sheet, p. 2.

[114]*Ibid.*

[115]"Philippines Plans To Divest 80% of PAL at Once," **Asian Wall Street**

Journal, 7 June 1991.

[116]"PAL defers privatization," **Manila Bulletin**, 23 August 1987.

[117]Interview with Belmonte, 1992.

[118]For details, see "Philippine Airlines Is Subject of Probe," **Asian Wall Street Journal**, 20 June 1990; and "Twenty-eight charged in P2-B PAL anomaly," **Business World**, 6 July 1990.

[119]House Resolution No. 470 (1988), as extensively discussed in Transcript of Stenographic Notes, Committee on Corporations and Franchises, House of Representatives, 8 September 1988.

[120]Transcript of Stenographic Notes, Committee on Government Corporations and Public Enterprises, Senate, 1 March 1988.

[121]"One-airline policy to be revoked soon," **Manila Bulletin**, 6 September 1988.

[122]Transcript, 1 March 1988, pp. 46-48.

[123]"PAL Price Should Be P6.2B-P9.9 B: Study," **Business Star**, 16 January 1989.

President Aquino had earlier revoked the one-airline policy of the Marcos regime as it applies to domestic air services, by promulgating Executive Order No. 333 (12 August 1988). The ADB study, however, suggested that the government practice selective deregulation on local routes and that competition be licensed as fit, capable, and safe to operate.

[124]"IFC likely to bridge fund PAL debt cut," **Business World**, 28 September 1989.

[125]"World Bank, BPI, DBP, PNB set to join PAL group," **Philippines Daily Inquirer**, 3 February 1992.

[126]"Manila to Privatize Flag Carrier In 1991, Retaining Only 20% Stake," **Asian Wall Street Journal**, 22 October 1990. See also "PAL monopoly endorsed even after privatization," **Manila Bulletin**, 11 April 1990.

It will be recalled from Chapter IV that the National Development Company sank in a P500 million bond in PAL, apart from the P1.6 billion loans contributed by the GSIS under the Marcos regime. This gave the National Development Company some 24.1 per cent of the stakes in PAL although the funds it used to buy the bonds were also loaned from the GSIS. The Marcoses divided ownership between the GSIS and NDC to conceal their vested interests in the airline.

[127]Philippine Airlines, **Annual Report 1991** (Manila, 1991), pp. 3; 27; and interview with Pastor C. Pangilinan, Senior Vice-President for Maintenance and Engineering, Philippine Air Lines, 19 August 1992.

[128]"WB Prodding: Gov't Has Agreed To Buy Back PAL Debts: Estanislao," **Business Star**, 7 June 1991.

[129]*Ibid.*

[130]Memorandum of Agreement between the Department of Finance, the Central Bank, the Government Service Insurance System, the National Development Company, and the Philippine Airlines (19 August 1991), as approved by President Corazon C. Aquino under Administrative Order No. 242 (21 October 1991).

On 30 September 1991, the Securities and Exchange Commission also approved the increase in PAL's capitalization from P3 billion to P10 billion to allow for the transfer of 80 per cent equity to the national government.

[131]*Ibid.*

[132]"GSIS to pay Toda P170 M for PAL," **Manila Bulletin**, 11 November 1990. By paying Toda the balance of P170 million, in addition to earlier payments amounting to P129.8 million, the GSIS acknowledged its "coercive takeover" of PAL in 1977. The full payment represented Toda's 75 per cent shares in 1977.

[133]Interview with Crisanta S. Legaspi, Director, Privatization Office of the Committee on Privatization, 8 May 1992.

[134]*Ibid.* See also "Bidding rules for PAL sale out in 2 weeks," **Philippine Star**, November 1991.

[135]"PAL sale to ease budget deficit problem," **Philippines Daily Inquirer**, 2 February 1992.

[136]"PAL sale to affect 2nd round of debt buyback," **Business World**, 28 January 1992. However, multilateral agencies like the World Bank and the Overseas Economic Cooperation Fund indicated they were willing to commit only about $600 million to $700 million. Since these funds were insufficient to carry out the buy-back, the government had to dip into the international reserves of the Central Bank.

[137]"PAL sale to ease budget."

[138]"Philippine Antitrust Experience: Policy still in search of direction," **Manila Bulletin**, 6 January 1990.

[139]Gokongwei v. Securities and Exchange Commission (1990).

[140]Stock Purchase and Sale Agreement for the Philippine Airlines (17 February 1992). See also "Aquino approves PAL sale for P9.8 B to winning bidder," **Manila Bulletin**, 1 February 1992; "SEC rules on sale of PAL shares," **Philippines Daily Inquirer**, 24 March 1992; and "PAL turned over to new owners," **Philippines Daily Inquirer**, 26 March 1992.

The eligible debt component of the winning consortium was $419 million, the face value of which reached $218 million because the debts were bought at a discounted rate of 57 cents to the dollar.

[141]"World Bank, BPI, DBP, PNB set."

[142]Detailed *expose* on the Marcoses' continued control of vital economic sectors in the Philippines, particularly the national telephone monopoly, may be found in "Marcos controls PLDT?", **Philippines Daily Inquirer**, 7 April 1989; and "Looking Beyond PLDT," **IBON Facts & Figures**, 31 August 1990, pp. 1-14.

[143]For a full account on Tan's business empire in the Philippines, see Ricardo Manapat, **Some Are Smarter Than Others: The History of Marcos' Crony Capitalism** (New York: Aletheia Publications, 1991), pp. 344-352.

[144]"Battle looming over PAL shares," **The Filipino Forum** (Montreal, Canada), May-June 1993.

[145]*Ibid.*

[146]Amiya Kumar Bagchi, "'Rent-Seeking', New Political Economy and Negation of Politics," **Economic and Political Weekly**, 21 August 1993, pp. 1729;

CHAPTER VII

BUREAUCRATIC RECALCITRANCE IN ASSET DIVESTITURE

> It was also unrealistic...to expect a widespread receptivity to major change in the months and years following the February 1986 revolution.
>
> David G. Timberman[1]

Besides affecting the balance of power between the state and the private sector in the Philippines, the highly politicized character of (re)privatization was due to the prospect of diminished political influence and prestige on the part of corporate management. Unlike the rank-and-file of many "star" corporations who were assured of job security, equitable compensation, and in some instances, even bargaining rights, incumbent managers had to be terminated once ownership shifted to private hands. Outright divestiture appeared to assign greater costs than benefits to managers since they could not be easily "compensated" by the state.

Of particular interest, therefore, is the opposition vigorously waged by those stakeholders with more immediate reasons to resist divestiture, despite the ambivalence of labour groups. The anti-Marcos feeling and the euphoria of democratic renewal that pervaded the Aquino government in its early years did not seem strong enough to ward off bureaucratic resistance to economic reforms. Venality may have played a role in some instances. But the unwillingness to sell profitable corporations, and the belief that failing ones could be turned around through proper management, stemmed from several factors: 1) the reluctance of government agencies to part with assets under their control, for to do so signified loss of rents including fringe benefits and patronage; 2) the concern that, to the extent that the divestiture of some state-owned assets brought forth a reduction in their size, it would contribute to unemployment; and 3) the depreciation of assets caused by their earlier haphazard confiscation and mismanagement in the name of national security. Collectively, these predominantly political impediments meant the triumph of the adherents of statism (in which the national government maintains sizeable, if inefficient, corporate assets) over the supporters of a restricted government role in the Philippine economy.

The present chapter examines unsuccessful divestitures, and the policy responses they generated from the Aquino government. In so doing, it seeks to determine why and how rentierism by public managers significantly affected the implementation of policy reforms. Then, we proceed to ascertain the extent to which Aquino changed the public sector and liberalized the economy to broaden political and economic opportunities in the Philippines.

Political Stalemate Over GSIS Merger

Of the thirteen parent public enterprises designated by the inter-Cabinet Committee on Privatization to act as its disposition or marketing arms, six -- or almost half -- were also slated for divestiture or some related dispositive action pursuant to Proclamation No. 50. The Government Service Insurance System (GSIS) was among these corporations. The GSIS, in particular, was proposed for consolidation with other pension funds, namely the Social Security System (SSS) for private sector employees, and the Home Development Mutual Fund or provident fund. However, as we shall see, the impetus for the merger scheme, if not outright divestiture, came in reaction to World Bank support for the private insurance sector in the post-Marcos period. This once more indicates how foreign aid in many developing countries undergoing systemic change also reflected certain political or strategic motivations behind structural reform.

The GSIS began to build up its net income by generating savings in operational costs and redirecting its investments after the People Power revolution and its reorganization in 1986. The general insurance business of the GSIS for government-owned and -controlled corporations (GOCCs), for one, achieved significant growth in the two years following 1985. This can be gleaned from Table VII.1. But the GSIS also faced fierce criticism from the Association of Insurance Brokers of the Philippines. This interest group became all the more politically influential after landlord-businessman Salvador Lacson became its president. Like the Chans of Hyatt Regency Hotel and the Cojuangcos of the Bank of Commerce and the Philippine Air Lines, Lacson's clan represented the fusion of agrarian and industrial power in the resurrected pre-martial law, semi-feudal elite. This class is composed mostly of absentee-landlords whose vast landed estates are administered

Table VII.1
GSIS General Insurance Fund*
(1983-1988, in million pesos)

Year	Assets	Reserves	Surplus**
1983	685.4	464.3	178.6
1984	865.8	535.9	177.6
1985	1,014.0	676.8	142.0
1986	2,183.3	711.6	534.6
1987	3,061.0	886.0	519.0
1988	1,990.8	830.1	729.2

SOURCE: National Statistical Coordination Board, **1991 Philippine Statistical Yearbook** (Makati, 1991), pp. 16-30 - 16-31.

*Formerly known as the Property Fund. The four other GSIS trust funds are the Social Insurance Fund, Optional Life Insurance Fund, Medicare Insurance Fund, and the Employees Compensation Insurance Fund.

**Net of interfund borrowing and lending.

for them by a number of overlords, and worked by landless tenants who look up to their landlords as patrons. The semi-feudal elites usually reside in Manila and other urban areas. They hold political office or engage in private business.[2] The brokers' association headed by Lacson counted among its ranks many of the Philippines' wealthiest landlord-industrialists.

Lacson and his group thus repeatedly decried before the print media what they branded as "GSIS encroachment into the [elite-led] private sector."[3] In reality, however, the Association of Insurance Brokers of the Philippines as well as top individual brokers were more afraid that (re)privatizations would inevitably create a captive market for the GSIS, rather than what they saw as the increasing volume of business handled by the GSIS under Aquino. This became evident when the newly formed Asset Privatization Trust assumed control over non-performing assets. It opted to insure these assets with the GSIS. The choice of the GSIS was intended to prevent their former owners, mostly Marcos cronies, from regaining control over them and to reinsure the assets at fairly reasonable costs. The Trust's move was followed by a decision of the National Development Corporation -- the second biggest parastatal and a minority stockholder in the Philippine Air Lines -- to shift the insurance coverage of its various subsidiaries from private firms to the GSIS.[4] Such developments ignited charges from the brokers' association that the GSIS had grown beyond its own legal and institutional limits. It claimed that the GSIS was engaged in "unfair competition" by currying political favors for the heads of its new client-enterprises.[5]

The World Bank proved particularly receptive to these charges. The Association of Insurance Brokers of the Philippines' institutional membership was also drawn from big U.S. and multinational insurance firms, including the Philippine-American Life Insurance Co. and Sun Life Assurance Co. The Bank first came up with an occasional paper proposing the merger of all state-run pension funds "to make them more efficient."[6] A detailed feasibility study for the GSIS-SSS consolidation was subsequently imposed as a condition for the release of the $100 million balance of World Bank's $300 million Economic Recovery Loan in March 1987. The disbursement of the balance was additionally meant to trigger the release of an equivalent amount from Japan's Export-Import (Exim) Bank as loan co-financier.[7]

Thus, by the time the Presidential Commission on Government Reorganization held its consultation meetings or workshops after May 1986, the merger proposal was all too well-known to GSIS and SSS officials. The reorganization commission also advanced the concept of a single social insurance system to provide for uniform benefit policies, regardless of whether the beneficiaries were public or private sector employees.[8] But World Bank advisers in the Commission's Task Force on the Government Corporate Sector appeared more inclined to support the privatization of the two pension funds. This was not only because of the dubious activities of the funds under the Marcos regime, but more so because they felt that the insurance business could be better handled by the private sector.[9]

Transferring the insurance coverage of government employees to winning private bidders gained political ground among the leading opposition politicians who had criticized continued favoritism or rentierism by GSIS officials in granting housing and other policy loans. In this manner, the business concerns of brokers' groups like that of Lacson intermeshed well with the interest in GSIS' privatization of both the World Bank and the landlord-dominated bicameral Congress. The Senate even summoned Finance Undersecretary Edgardo del Ponso, as head of the policy-making Technical Group of the Committee on Privatization, to shed light on the much-talked about merger scheme:

SENATOR ENRILE: Don't you think that it would be better for this corporation (GSIS) to be privatized so that Filipino government employees, who are supposed to be the beneficiaries of the financial soundness of this corporation, will at least be protected, instead of the government dissipating the resources of the Government Service Insurance System by using it to support such losing entities like the Philippine Air Lines?

MR. DEL PONSO: The Committee [on Privatization] agrees with you, Mr. Senator, on this particular point....

SENATOR ENRILE: Not to talk about the GSIS itself, maybe you should now consider the possibility of transferring the insurance coverage of all government employees to private enterprises, to private insurance companies, in order that the government will not include insurance in its scope of activity. **As we all know, the experience of most government employees in dealing with the GSIS is somewhat not too happy. It has remained an unhappy arrangement up to now. Of course, some individuals can go to the GSIS and borrow money in order to put up houses or businesses, but how many individuals have the political clout or the influence to do that? The ordinary members can not just easily borrow from the GSIS to serve their personal benefit requirements....**

MR. DEL PONSO: I am just going to point out to Senator Enrile that, in fact, the recommendation to retain the GSIS on the part of the reorganization commission was a tentative recommendation, in the sense that it was felt that we still need to look into a number of aspects in respect to the GSIS, SSS, the Employees Compensation Commission, and even the Home Development Mutual Fund. One of the things we feel should be studied further is whether we, in fact, need to retain, four separate entities or whether we should actually consolidate all four in order that basic employee benefits may be equal for all members of the system and claims adjudication may be standardized. That is one key concern of our Committee.[10] (emphasis added)

World Bank and congressional pressures for divestiture were later reinforced by the Janus-faced or dual stance that the GSIS took when it was pressed to define its institutional character. After Aquino was installed into power, a group of journalists requested information from the GSIS board about the so-called "clean loans" granted by the GSIS to opposition members of the defunct Marcos legislature or *Batasang Pambansa* in 1985 and 1986. These interest-free loans were personally obtained at the behest and on the guaranty of Mrs. Imelda Marcos and approved without the standard evaluation. They were ostensibly meant to coopt some of the then pro-Aquino politicians before Marcos called for special presidential elections in February 1986. The GSIS, which had heretofore resisted merger with SSS -- on the ground that it was a state trust fund and on suspicion that merger was really a pre-privatization move -- suddenly made a turn-about. Newly appointed GSIS President and General Manager Feliciano Belmonte refused the request of the media practitioners. He alleged that GSIS funds were not public and, hence, the doctrine on confidentiality of records obtained.[11] But rumours also circulated among opposition leaders of the Congress that Belmonte's refusal was really meant to avoid any adverse publicity of the illegal acts committed by GSIS executives under Marcos. Many of these executives had shifted loyalties to Aquino and held key posts in the new government. As we noted in the last chapter, twenty-one executives of the Philippine Air Lines were dismissed in 1990 on account of massive fraud and corruption under both the Marcos and Aquino administrations.

Of course, media groups never dared to raise questions about the "publicness" of the state trust fund under one-man rule. But after Aquino restored basic democratic rights and processes, it became the issue in the suit filed by the aforementioned journalists before the Supreme Court in 1987.[12] The Court finally laid to rest the controversy by ordering Belmonte to release the requested documents on Imelda's rentier loans, and went on to repudiate Belmonte's position. Speaking through Madam Justice Irene Cortez, the Court held that the GSIS is a trustee of contributions from the government and its employees, and the administrator of various insurance programs for the benefit of the latter. Undeniably, its funds assume a public character:

> The postulate of public office as a public trust institutionalized in the [new 1987] Constitution to protect the people from abuse of governmental power, would certainly be mere empty words if access to such information of public concern is denied, except under limitations prescribed by implementing legislation adopted pursuant to the Constitution. The right of information is not merely an adjunct of and, therefore, restricted in application by the exercise of the freedoms of speech and of the press. [It] goes hand-in-hand with the constitutional policies of **full public disclosure** and honesty in public service.[13] (emphasis in the original)

The publicity generated by this decision helped the merger proposal gain momentum. The privatizers argued that there was not much of a distinction between two huge bureaucracies like the GSIS and SSS, since the former also used to provide (behest) loans to private individuals. But GSIS and SSS officials were also prepared to oppose the Presidential Commission on Government Reorganization-World Bank team. SSS deputy administrator Mauricio Rivera claimed in a newspaper interview that it would be impractical to combine the GSIS and SSS. Rivera believed that each had different procedures for accepting members as well as extending benefits, "such that a change of structure might result in a lot of confusion."[14] Instead, GSIS and SSS officials pushed for the "temporary retention" of the two pension funds as separate public enterprises, pending completion of "an in-depth [merger] study to determine both its desirability and the mechanics for implementation."[15]

SSS motives in opposing the merger surfaced when a newspaper reported that it had turned into the richest parastatal in the Philippines after 1986.[16] When Aquino came to power, the SSS had a cash balance of some P40 billion, compared to the GSIS' P600 million, because the former had taken a more cautious approach in its investment and lending. According to the newspaper report, SSS investments totalled as much as P47 billion, of which 67 per cent were in high-yielding Treasury bills and notes. Another P4.5 billion were in shares in blue chip companies. The SSS had further gone into industrial lending, in which the GSIS continued to lag. In short, the SSS rightly saw that its highly priced rents (in the form of management and personnel privileges and benefits) would be greatly diminished if it assumed all or part of the GSIS obligations as a result of any merger scheme. This was because most, if not all, of the interest generated by erstwhile investments and loans extended by the SSS would have to go into servicing the huge debts of the GSIS subsidiaries led by the Philippine Air Lines.

Despite impressive growth in 1987, the GSIS still had an actuarial deficit of over P4 billion. Many of its assets were non-productive, too, including the Philippine Air Lines and a chain of real estate properties and hotels.[17] In addition, the bulk of GSIS debts and interest on the principal were in hard currency, which could totally eat up the value of SSS investments. The financial and administrative costs of merger ostensibly far outweighed its benefits, from the point of view of Rivera and the SSS executive management. For its part, the GSIS kept silent over the merger issue after the Supreme Court ruling was issued in February 1989.

However, in order to satisfy the World Bank and Japan's Exim Bank, the Department of Finance as lead agency in the Committee on Privatization, and the Government Corporate Monitoring and Coordinating Committee in behalf of retained state enterprises, concluded a Memorandum of Agreement with Sycip, Gorres & Velayo for the consolidation project. This was endorsed by the World Bank. The Bank reminded the Aquino government that such a study was necessary for it to assess the actual financial conditions of the two parent corporations and how they plan to perform in the future, before successive tranches of the Economic Recovery Loan could be released from Washington D.C.[18]

But, late in 1987, the Commission on Audit rejected the contract with Sycip, Gorres & Velayo. It held that feasibility studies or management audits of government firms should be done by the Commission on Audit in order to save funds, especially since the Commission had its own Management Operations Division. Negotiations between the Department of Budget and Management (which took over the Presidential Commission on Government Reorganization after its abolition in 1987) and the Commission on Audit resulted in an agreement to allow the head of Marcos' Presidential Commission on Reorganization and former Task Force consultant, World Bank-technocrat Armand Fabella, to handle the study "in consultation with the World Bank."[19] This finally convinced World Bank officials to release the loan balance.

The GSIS-SSS merger study was begun in 1990. But this again stalled because of disagreements over the terms of reference stipulated by World Bank economists from Washington D.C. and Fabella's technical staff. State auditors in Fabella's team, in particular, strongly suspected that World Bank officials were actually working out a phased scheme for the eventual privatization of the consolidated pension funds. This was because Bank officials constantly harped on the "privatized" character of the GSIS' general insurance business under Marcos as well as the detrimental effects of bureaucratic processes on GSIS investment decisions.

The highly politicized issues that emerged were complicated by the slow pace of GSIS and SSS divestments in their respective corporate holdings. The *status quo* in terms of retaining both parent corporations under state ownership prevailed for the time being, since the Committee on Privatization gave priority to hastening the disposition of their expensive assets. According to the Committee, (re)privatization of subsidiaries had to be given priority so that the GSIS and SSS may "take passive roles in investment activities."[20] Fabella's ongoing study was therefore set aside, in order for the GSIS and SSS to concentrate their efforts at restructuring and/or divesting their various subsidiaries. World Bank officials nonetheless suspected that the snail-paced, "one-at-a-time" divestiture of GSIS subsidiaries favored by Belmonte was a dilatory tactic to avoid any merger.[21]

Until President Aquino's term expired in June 1992, the proposed consolidation of the two pension funds -- perhaps as a step precedent to privatization -- remained stalled. This illustrates just how difficult it was for corporate reform policies to be implemented the way they were originally conceived. The GSIS was reluctant to support the merger because it was concerned that such initiative would lead to media or public discovery of past (or perhaps, some incumbent) rentier practices on the part of government officials, as GSIS assets and liabilities underwent extensive audit. From the SSS standpoint, on the other hand, whatever perks and privileges were currently enjoyed by its management and employees, owing to its corporate profitability, could be diminished or lost if the SSS assumed the combined debt obligations of the GSIS and the other pension funds. In any case, both the GSIS and SSS obviously found the costs of merger (and perhaps, privatization) far too concentrated in their respective ranks. In contrast, the benefits thereof remained ambiguous or unclear.

Thus, while the GSIS and SSS did not formally block the proposals of equally strong proponents of the merger strategy, the plans were delayed. And neither were any of the proposals eventually pushed through. The ensuing political stalemate between those supporting and opposing parastatal mergers or divestitures provides a backdrop to the more difficult situations encountered by privatizers when public, albeit non-crony, rent-seekers are well-entrenched in the parastatal institutions themselves.

Stakeholder Resistance: The Case of the Manila Hotel

The Manila Hotel provides some contrast to the GSIS story. Stakeholders, i.e., the hotel trustees, still saw enough benefits from operating a financially rewarding, five-star hotel that they did not give up their prize without a protracted struggle. In the end, they even emerged victorious. The nature of that political resistance has been repeatedly illuminated in many other (re)privatizations of high-profile government corporations in the Philippines. It explains in part why the divestiture declarations of the Aquino administration had been so much stronger than divestiture implementation or compliance. But as the case of the Manila Hotel demonstrates, the stakeholders have commonly given some ground to the forces for change, so long as the costs of political compromise did not outweigh its potential benefits from the stakeholders' perspective.

Proposals for either full or partial divestiture were met with stiff resistance by corporate management from the very beginning. This is because the Manila Hotel "provides them with salaries and perquisites otherwise unavailable in the public sector."[22] With these privileges further came a great deal of managerial autonomy which Marcos had institutionalized. Also, at a time of renewed investor confidence amidst the euphoria of the "People Power" revolution, the Philippines again experienced an influx of foreigners. The Manila Hotel won the management contracts of most of the country's finest beach resorts which became popular tourist destinations in Asia after 1986.[23] Internationally, the hotel improved its rank to become the ninth best in the Asia-Pacific region and the nineteenth finest worldwide. It also opened and initially ran a five-star hotel in Beijing, China.[24] The hotel reaped huge profits and became the GSIS' most profitable subsidiary by 1988.

Corporate viability thus increased the interest of the Aquino administration in the Manila Hotel. This was the case especially since its management often exacted rents unrelated to its contribution, through better-paying directorships or by drawing wages and benefits far greater than those for comparable jobs in the GOCC sector. But the Manila Hotel was also one of the very few public enterprises, and the only GSIS subsidiary, that strongly opposed the report of the Presidential Commission on Government Reorganization. GSIS President Belmonte, also the hotel's president, and hotel general manager Miguel Cerqueda, joined forces with Tourism Minister Jose Antonio Gonzalez in contesting (re)privatization. Their position before the Committee on Privatization was made on two grounds: 1) "the historical value of the hotel may be lost" if privatized; and 2) privatization "may prove to be embarassing since the managers will no longer have a hotel operation they can point to as an example of the type of service they can provide" as a managing corporation.[25]

However, the Presidential Commission on Government Reorganization was upheld by the Committee on Privatization's technical committee headed by Finance Undersecretary Edgardo del Ponso. The latter ruled that the Manila Hotel could still remain a national historical landmark "by stipulating in any purchase agreement that certain distinctive features ... should be retained by the new owners."[26] With regards to its local and international management contracts, the technical committee believed that privatization would not at all be disadvantageous "since the track record of the hotel will still be intact"; the required expertise could also be "retained by the GSIS, if necessary to ensure proper discharge of any contractual commitments."[27]

Belmonte and the Manila Hotel's trustees sought a reversal of del Ponso's decision. They raised the matter before the Cabinet-level Committee on Privatization. But the Committee sustained del Ponso's technical committee. When notified of the Committee's decision, del Ponso issued a press statement chiding GSIS and Manila Hotel officials. He stressed that "the indifference and sometimes downright public defiance of some GOCCs have eroded the authority of the COP [Committee on Privatization]."[28] He went on to suggest that Proclamation No. 50 be amended in order to give the Committee blanket authority to replace the board or management of any GOCC identified for privatization, without the need for clearance of, and review by, any other government body or officials.[29]

The subsequent stand-off between the Committee on Privatization and the GSIS led the Senate to step in and opt for a compromise. But the Senate move came immediately after the World Bank expressed dissatisfaction over the pace and scope of divestitures during the first year of Proclamation No. 50's implementation. The World Bank was particularly worried that foreign investors might soon lose interest in the privatization program if the hurdles came from within the national government itself. As del Ponso pointed out in criticizing GSIS resistance to Manila Hotel's divestiture, "[r]ightly or wrongly, the business sector in general views government action on some GOCCs [like the Manila Hotel] as the bellweather of the administration's sincerity in carrying out a meaningful privatization program."[30] Del Ponso was thereafter asked to testify before the Senate committee on public enterprises regarding the hotel's stalled divestiture in late 1987:

> THE CHAIRMAN (Senator Laurel): Is there any difference between the Manila Hotel and other hotels like the Philippine Plaza with respect to conditions imposed by your Committee for their privatization?
>
> MR. DEL PONSO: In the view of the Committee on Privatization, sir, there is no difference at all. They are all hotels, anyway. They are geared for the same market, performing the same basic commercial functions.
>
> But there is obviously a strong feeling within certain government quarters that the Manila Hotel has a historic value which needs to be protected. The Committee itself, however, is of the view that you don't necessarily lose that historical character just by selling a majority of the shares to the private sector. You know, it is still a hotel. You can provide certain safeguards to ensure, for example, that the physical appearance of the hotel should not be changed, if you feel that the historical value is related to the facade or appearance of the hotel. So, at the moment, there is some discussion going on within the government as to how much of Manila Hotel should be sold. **But the Committee has advised the management of GSIS and of the Manila Hotel, that it may be prudent to consider selling more than 40 per cent of the hotel in order to really give substance to our privatization program, especially from the point of view of prospective investors. This is because the hotel is really one of the more visible assets of the government and our decision to divest a majority of it, or all of it even, would really lend substance to the [privatization] program.**
>
> THE CHAIRMAN: So, in other words, you feel that hotels *per se* are not strategic or vital industries?
>
> MR. DEL PONSO: Yes, sir, that is correct.[31] (emphasis added)

The Senate prevailed upon both the GSIS and del Ponso's technical committee to agree to a partial divestiture in state equity. Just like in the case of the Philippine Air Lines, partial divestiture of the Manila Hotel in a way acknowledged the special status of a "historically valued" public enterprise without impeding any further its (re)privatization under Proclamation No. 50. The "compromise" plan submitted by the GSIS and the Manila Hotel Corporation called for public auction of only 40 per cent of all shares of stock *en bloc*. Minimum cash bid for these so-called "B" shares was set at P400 million. The majority equity of 60 per cent, however, was reserved for Filipino ownership. These latter "A" shares were, in turn, divided three-fold: 40 per cent to be retained by the GSIS; 15 per cent to be publicly listed in the stock exchange; and 5 per cent to be sold to Manila Hotel employees under a buy-out scheme to be devised with rank-and-file participation.[32]

For its part, the "de-Marcosification" thrust of divestiture policy was stressed by the Committee on Privatization when it called upon the GSIS to assume a "passive role" in essentially private investments like Manila Hotel.[33] But the Committee on Privatization was persuaded to approve partial divestiture only after a series of natural calamities, communist attacks, and foiled, but violent, anti-Aquino *coups* created a glut in tourism. The number of tourist and investor arrivals in the Philippines suddenly dropped after 1987. The Committee was convinced by the GSIS that, in the absence of enough Filipino buyers, Manila Hotel "will fall into the hands of foreign interests," unless its high selling price is drastically reduced to make it affordable to local business.[34] The Committee nonetheless objected to GSIS' 40 per cent retained equity for this meant the national government held veto power over key decisions requiring two-thirds vote. Belmonte later agreed to reduce GSIS equity to 30 per cent (half of it to be further sold to the SSS) by increasing publicly listed shares to 25 per cent.[35]

A pre-audit of the revised (re)privatization plan for Manila Hotel proved to be another major source of administrative bottleneck. Very similar to what other public enterprises experienced, the Commission on Audit disapproved the hotel's P1.1 billion private valuation on the ground that it should have been based on the appraised value as floor price.[36] Appraised values are generally higher than commonly used market or sales values due to the latter's obsolescence or over-valuation, hence giving rise to the problem of how to treat losses. If subsidiaries were sold on a massive scale and losses were assiduously recorded, state auditors feared the impact of these losses on national accounts could be staggering. Under the accounting system of most parastatals, only revenue from sales was recorded; losses were not reflected at all.

But state-owned assets likely to attract the most interest were also the ones least likely to be unloaded, especially by their management. This had been the experience not only of the Aquino government, but also of several other countries that had undertaken their own privatization programs. While the revised (re)privatization plan for the Manila Hotel Corporation (MHC) was finally passed by the GSIS board in July 1991,[37] it was not at all inclined to implement any part thereof until President Aquino bowed out of office. Reports indicated that the GSIS and the MHC were prepared to resort to dilatory tactics until a more sympathetic Committee on Privatization was formed by the four economic secretaries of the next President of the Philippines.

The GSIS board first claimed it would privatize its subsidiaries "one at a time" by divesting in Hyatt Regency and the Philippine Plaza, prior to the Manila Hotel.[38] In April 1989, the MHC obtained a Committee on Privatization extension supposedly to allow for a private valuation and performance audit by Sycip, Gorres & Velayo.[39] The pre-audit took so long to complete that the GSIS board called for a new appraisal in 1991. This time it cited the Commission on Audit's established policy of preterminating appraisals beyond six months. GSIS and Manila Hotel officials led by Belmonte also repeatedly worried about the possibility of the hotel falling into foreign control or foreign-dummy ownership, which made them all the more reluctant to sell. In February 1992, the GSIS board finally resolved to defer privatization until after the May 1992 elections because "bidding may not attract the best investors and the best offers if it is held while the elections are going on."[40]

Meanwhile, the Committee on Privatization, headed by multi-millionaire banker and Finance Secretary Jesus Estanislao, was overeager to pursue the hotel's partial divestiture. Estanislao underlined the need "to generate additional revenues for Government and at the same time pass on a business that, from the start, should have been in private hands."[41] He announced that several foreign and local business consortia had, in fact, expressed interest in acquiring the prestigious hotel since late 1989, the original privatization date.[42] Technocrats in the Department of Finance constantly proded the GSIS to divest in the Manila Hotel before the 1992 presidential polls.

In view of GSIS' reluctance to part with any of its stakes in the Manila Hotel, Estanislao called a Committee meeting in February 1991. It was during this meeting that the Asset Privatization Trust -- the agency responsible for non-performing assets of Marcos' cronies -- was designated as disposition entity in lieu of the GSIS.[43] The Asset Privatization Trust moved to takeover the Manila Hotel a month later.

Upon learning of the Committee on Privatization's resolution, the GSIS board rushed to the Department of Justice to question the power of the Committee to reassign a corporate subsidiary to another disposition entity under Proclamation No. 50. Secretary of Justice Franklin Drillon rendered his opinion in favor of Estanislao and the Committee on Privatization. The GSIS board filed a motion for reconsideration with the Committee on Privatization. In his petition, Belmonte held that the GSIS board had sole responsibility "for the sale of the hotel, including the timing and the manner of its disposition" because the hotel is "a high profile property and not a non-performing asset."[44] The Committee, however, refused to reconsider its decision and reiterated its power to name any agency which can best market a state-owned asset, even if it was bought with trust funds.[45] Apparently, the Committee on Privatization wanted to unload the Manila Hotel without any further delays in order to demonstrate, before the politically valued business and financial communities, that the Aquino government intended to meet the goals of divestiture before its term of office expired in June 1992.

The philosophy of "less government in business" consistently guided Aquino's (re)privatization program. Unfortunately, domestic capital markets are very limited and exclusive, as we have shown in the two previous chapters; worse, considering the size and scale of luxury hotels like the Manila Hotel and most other public enterprises under divestiture, only business conglomerates and consortia of foreign investors could participate in the process of public sector reform. Many divestitures thus inevitably encouraged wealth concentration and foreign ownership. The prevailing structure and ownership of markets in the Philippines served to strengthen the arguments of incumbent stakeholders in these firms who exploited these problems to gain public or political support against divestiture.

The objections interposed by the GSIS and the Manila Hotel management illustrate how these economic issues became highly politicized. The GSIS, it should be noted, initially opposed any form of divestiture for the Manila Hotel by relying on the "historical value" argument. As the privatization of its other five-star hotels like Hyatt Regency and the Philippine Plaza failed to attract serious buyers or resulted in failed biddings, the GSIS board capitalized on the dangers posed by public auctions, possible ownership transfer to local private monopolists, and foreign majority equity. It was only then that the GSIS appeared willing to consider alternative options like partial divestiture or employee stock option plans. The World Bank was once again critical of these alternative or "compromise" plans of action, especially since even the GSIS did not seem serious in pushing for their implementation. The GSIS was among those disposition entities criticized by the

World Bank in its confidential report on the five-year privatization under Aquino's Proclamation No. 50:

> The slow disposition of GOCCs lies in the seeming reluctance of DEs [disposition entities] to give up their power base. Certain implementing agencies have had second thoughts about disposing GOCCs under their wings as these subsidiaries, which are mostly profitable, bring in substantial earnings annually for the holding company....
>
> Because of this, it is necessary that managers responsible for maintaining the disposition entities be divorced from the sale process. Despite the President's previous announcement that should delays occur in an agency, the GOCCs will be assigned to the APT [Asset Privatization Trust], the COP [Committee on Privatization] has yet to follow this directive, which brings into question the ability of the COP to act effectively.[46]

The long-haul process of privatizing several "star" parastatals like thre Manila Hotel ended in a stalemate after the 1992 presidential elections. President Fidel Ramos' batch of economic advisers who made up the new Committee on Privatization appeared very supportive of GSIS officials, who also backed Ramos' political campaign as the Aquino administration's candidate. Ramos appointed his former Cabinet colleague, outgoing Interior Secretary Cesar Sarino, to replace Belmonte who had run as congressman and won. Ramos' military adviser, retired Gen. Jose Magno, became GSIS board chairman.

In August 1992, Sarino and Magno jointly announced they were deferring any plans to divest in the Manila Hotel until the completion of a three-year renovation project that would cost P90 million -- a project that had never been previously considered. Sarino claimed the multi-million peso project would ensure that prospective buyers of the hotel "will come begging for us to sell and not for us to be going after them."[47] The possibility of retaining GSIS ownership surfaced when Sarino boldly said that "if ever they would dispose" of the hotel, the GSIS would be the sole marketing entity. The Asset Privatization Trust could only act as its adviser, along with the Committee on Privatization.[48] Sarino's statement seemed indicative enough of the covert motives of Manila Hotel officials in stalling its privatization, i.e., preserving the perks and prestige associated with hotel management.

The relatively successful resistance mounted by the GSIS and the Manila Hotel against the privatizers suggests why so many countries like the Philippines have been able to announce a privatization program in general terms, but slow to follow up with actual measures. As long as the program was devoid of specific targets and operational details, the concept could be accepted by various affected or concerned groups. When the time came to consider individual cases for divestiture, however, the debates between prospective winners and prospective losers grew more focused and more acute. This was especially the case when political considerations entered the picture. The lack of opposition by the newly constituted Committee on Privatization to the Manila Hotel's renovation and delayed sale was apparently a means of compensating the present GSIS leadership for the political support it extended to Aquino's presidential successor. Because more pragmatic considerations were so dominant, policy-makers were also willing to consider such measures short of divestiture. Often, these considerations brought about major changes to, if not reversals of, the original policy proposals.

Divestiture and the Sequestration of Ill-Gotten Wealth

Another chief barrier to privatization was the sequestration of assets believed to have been illegally acquired by the Marcoses, their relatives, and cronies. Sequestration is grounded upon the so-called "police power" of the state or the power to prescribe regulations to promote the safety and general welfare of the people, including protection of any and all properties within the state. After the People Power revolution, it was estimated that the dictator's fortune amounted anywhere from $5 billion to $20 billion worth of stolen properties, laundered funds, and hidden bank accounts. Of the items left behind by the Marcoses in the Philippines, Perpetuo Lotilla, Jr. and others provide a vivid account:

> Those who first entered Malacanang Palace shortly after Marcos fled on February 25, 1986 witnessed a "show of conspicuous consumption beyond their imaginings." In Imelda's room, they found two queen-size [canopied] beds, a grand piano and a washbasin made of gold. In the Palace's basement, they stumbled into some 2,700 pairs of size eight shoes, five shelves of Gucci handbags and 38 of Imelda's 105 clothes racks, designed to carry 80 outfits each. Millions of dollars worth of antiques, rare books, religious articles and paintings adorned the Palace's rooms. Unearthed videotapes showed lavish parties hosted by a bejewelled Imelda. No fewer than fifteen limousines, five standard Mercedes Benzes, a [custom-built] BMW, a Datsun, a Nissan as well as Imelda's personal bus (containing fourteen armchairs, two beds, a kitchen and bath) were parked in Malacanang's garage.
>
> The Marcoses left most of their belongings in Malacanang in

> their hurry, yet what they were able to cart away to Hawaii took more than a week for U.S. Customs officials to examine .... The total value of the movables was later determined to be approximately $8.4 million....
>
> In the Philippines, the [Aquino] government has already seized [through sequestration processes,] **properties allegedly belonging to the Marcoses consisting of around P2 billion in cash, two hundred land titles to vast tracts of land worth billions of pesos, jewelry worth P310 million, forty-two aircrafts worth P718 million, ships worth P748 million, and shares of stock valued at P215 million.**[49] (emphasis added)

The sums sought to be retrieved from the Marcoses and their cronies by the new government were essential to economic recovery. This was the case in the light of a $28 billion dollar debt and a serious balance-of-payments crisis that formed part of the Marcos legacy. An urgent need for the recovery of ill-gotten wealth therefore existed. It was precisely to meet this need that the legal apparatus of sequestration policy was set up by President Aquino in late February and March 1986. This consisted of a series of presidential orders which empowered a Presidential Commission on Good Government to issue writs of sequestration. These writs automatically froze assets and accounts believed to be owned by the Marcoses, prior to prosecuting offenders before the Sandiganbayan or graft court.[50]

However, a problem arises in the process of reorganizing economic life when public policies of retribution, like sequestration, and restitution through divestiture become mutually exclusive, to the detriment of both the state and the public. The Philippine experience with sequestration policy was not particularly rewarding. Countless instances of abuse and misuse of authority in the management of sequestered properties have damaged the reputation of the Presidential Commission on Good Government.[51] Furthermore, sequestration often proved to be contradictory to the very goals of privatization. While divestiture policy sought to restore what formerly belonged to the private sector to recoup urgently needed funds, sequestration usually exerted a counter-pull by failing to prevent "concealment, destruction, impairment or dissipation pending determination of the question whether the [sequestered] asset, fund or property is ill-gotten wealth."[52] Many sequestered state firms were not only looted under the Presidential Commission on Good Government's stewardship; they also rapidly deteriorated or simply went bankrupt and closed shop.

Among the properties sequestered (and also approved for divestiture) was the Philippine Integrated Meat Corporation (PIMECO) Plant Complex. The plant was the sole asset of GSIS' Meat Packing Corporation of the Philippines (MPCP). Like other firms, the PIMECO meat plant was taken over in March 1986 on the basis of a *prima facie* suspicion that funds invested for its lease-purchase were illegally amassed by Marcos and the meat cartel of cronies Roberto Benedicto and Peter Sabido.[53] Graft charges filed against Marcos and PIMECO's stockholders emboldened the newly constituted, joint board of the GSIS and MPCP to rescind the 1975 Lease-Purchase Agreement by August 1986. The rescission was on account of PIMECO's multiple violations of that contract.[54] As previously discussed, it was through the 1975 Agreement that the Marcos cronies obtained various financial concessions and privileges.

Unfortunately, the dissipation of rents which the GSIS/MPCP board had hoped to achieve initially through sequestration, and eventually through divestiture, was not realized at all. Instead, the rents were simply "converted" from monopoly rents enjoyed by the cronies and their followers to more competitive ones, in the sense that rents were reopened by the sequestration process for other groups to capture. Sequestration policy left much to be desired even from the beginning. Rather than make utmost use of its extraordinary powers as a revolutionary government, Aquino promulgated sequestration laws that relied on the slow wheels of justice to operate. It was thus relatively easy for most of the 300 defendants to maneuver and successfully impede the proposed sale of ill-gotten wealth. Many legal experts suggested at that time that legal procedure be altered in order to facilitate asset dispositions. They wanted the burden of proof to lie with those suspected of illegally amassing wealth, rather than with the prosecuting Presidential Commission on Good Government. Equally significant were proposals to prescribe time limits during which defendants could present proof of legitimate acquisition of the assets in question. Default or failure to do so were deemed sufficient grounds for public offering of shares after a certain period of time. These policy proposals were recommended to preserve the solvency and liquidity of sequestered assets while under the custody of the Presidential Commission on Good Government in the shortest time possible.[55]

The Aquino government did not pay heed to these policy options for several reasons. Many of Aquino's advisers, especially the left-of-center bloc in the Cabinet, were reluctant to resort to the use of presidential power; they had been victims themselves of military and political abuses during martial law. Aquino's administration was also in a hurry to dispose of the Marcos assets. Privatization rules like those prescribing a negotiated sale after two failed biddings were thus drafted. But not enough attention was paid to possible legal complications arising from the right or legitimacy of ownership. By taking an overly reactive, anti-Marcos stance, Aquino ended up hastily investing the Presidential Commission on Good Government with almost unlimited powers which the courts time and again censured.[56]

The MPCP Plant Complex was placed under a writ of sequestration or "freeze order" for an indefinite period of time, just like many alleged crony firms. This allowed the Commission's management team led by chief operating officer Ariston Gomez to restrict access to the property. Gomez' team also came to exercise various forms of control over the plant supposedly "to stop or prevent any act or transaction which may affect the title, possession, status, condition, integrity or value of the asset."[57] Commissioners and officers of the Presidential Commission on Good Government were further granted immunity from civil action in connection with sequestration.[58] In June 1986, President Aquino even expanded the Commission's discretionary powers by conceding the power to vote sequestered shares of stock of both public or private corporations.[59]

The unrestrained, and often questionable, interpretation of the power and authority of the Presidential Commission on Good Government by its own officials was inevitable. Lack of public accountability bred legal disputes between privatization entities and the Commission, on the one hand, and between these entities and the former owners or cronies, on the other. In the case of the MPCP Plant complex, the Commission's fiscal agents led by Gomez soon declared invalid the GSIS' rescission of PIMECO's contract. Gomez acted on the ground that the Commission did not want the valuable piece of real estate to remain idle, while graft charges were being tried. The joint GSIS/MPCP board countered with a suit filed before the Sandiganbayan.[60]

PIMECO's majority stockholders represented by Sabido saw the GSIS-Presidential Commission on Good Government intramural as a good opportunity to seek suspension of the 1975 Lease-Purchase Agreement, by way of overturning its rescission by the GSIS. Sabido's dubious contention before the Sandiganbayan was that PIMECO's remittance of rental payments in arrears had become irregular after January 1986 for two reasons: 1) the takeover by the Presidential Commission on Good Government; and 2) the GSIS dispute with the Presidential Commission on Good Government over acceptance of PIMECO's rentals thereafter.[61] The Sabido-GSIS case created a second legal tangle in the Plant's sequestration. Unfortunately, the case remained pending before the graft court until the end of 1992.

Meanwhile, in view of the then forthcoming three-year default in rental payments, Sabido and PIMECO filed separate motions before the Sandiganbayan to allow for consignation of rentals in arrears and to void rescission of the 1975 Agreement.[62] Consignation enables a tenant to deposit the rentals in question with a court of record and to obtain a receipt therefrom, if the contract is the subject of litigation. Interestingly, the Presidential Commission on Good Government decided to become a third party to the case. It backed PIMECO in asking the graft court to compel MPCP to accept consignation of rentals. The unexpected move fueled speculation that Gomez and his fiscal agents did not want the P2 billion Plant complex returned to the GSIS/MPCP because they were interested in operating the plant for themselves as well as salvaging the meat cartel formerly controlled by Sabido's and Benedicto's group.[63]

The Sandiganbayan granted the Sabido-PIMECO motion. It ordered the GSIS to accept the consigned amount as partial payment in arrears. The GSIS/MPCP sought a reconsideration from the court, on the ground that PIMECO's failure to pay from 1986 to 1988 due to sequestration was not a valid excuse to preserve its contract. When this was also denied, GSIS/MPCP counsels appealed this third civil case to the Supreme Court.[64] The issue remained unresolved as of the end of 1992.

The pendency of no less than three interlocking sets of litigation stalled the proposed divestiture of MPCP's total equity *en bloc* by June 1990. The GSIS/MPCP board approved such a (re)privatization plan in 1989. But the claims of the former lessor-vendee (i.e., PIMECO) made it impossible for outstanding shares of stock to be sold to some other parties.[65] Since PIMECO was sequestered, it followed that all MPCP assets which were transferred to the books of PIMECO also remained sequestered. A GSIS/MPCP report to the Committee on Privatization in 1990 thus indicated that the second best strategy was to repossess the Plant complex from PCGG in order to prevent its depreciation as a "going concern."[66]

But this was not to be the case. The competitive-rentier motives of the fiscal agents surfaced, shortly after the new leadership of the Presidential Commission on Good Government allowed parent agencies to re-acquire and operate sequestered assets even if their "freeze orders" remained or charges against their private owners lay before the courts. The Commission's policy sought to implement a provision of the new Constitution. The charter provided for turnover of sequestered assets within eighteen months from the Constitution's ratification in February 1987.[67]

By 1989, when the Presidential Commission on Good Government signed an agreement with the GSIS to return the Plant complex to the latter,[68] the Plant had turned insolvent. An exhaustive financial appraisal indicated that the meat packing plant operated at an average monthly loss of about P1 million to P1.5 million from early 1988 to 1989. This was probably because PIMECO or the Commission's fiscal agents had been "using another entity as a tool to siphon off the [Plant's] income."[69] It was further discovered that Gomez's team was delinquent in paying electricity bills which accumulated to P400,000. For this reason, they had been served notices of power disconnection. Charges that Gomez and his men received kickbacks and commissions from the Plant's suppliers and dealers later became the bases of criminal actions filed by the GSIS/MPCP against the former, as well as extra-judicial proceedings for their expulsion by the Presidential Commission on Good Government.[70] Gomez was subsequently dismissed by the Commission. The MPCP experience with the Presidential Commission on Good Government was by no means isolated. It was shared by many other profitable firms, the most controversial of which was the Bataan Shipyard & Engineering Co. allegedly owned by Imelda Marcos' younger brother, Alfredo Romualdez.[71]

It should be noted here that members (or fiscal agents) of financial teams for sequestered properties are not regular government personnel. They are, in reality, contractual employees. As such, their appointments did not carry any security of tenure and other benefits normally associated with civil service posts. Fiscal agents derived their remunerations only from the net operating income of confiscated firms. Rentierism was thus motivated by the interdependence of remuneration and corporate income during sequestration.

The contractual nature of their appointments also helps explain Gomez' stubborn defiance of the PCGG order returning the multi-billion peso Plant Complex to the GSIS/MPCP, a virtual stand-off that was witnessed in several other asset turnovers. The dilatory tactics Gomez's group employed in 1989 ranged from procedural questions to outright harrassment. They appealed the proposed turnover to the Presidential Commission on Good Government *en banc*, on the contention that MPCP did not have the personnel or capability to operate the meat plant. They also delayed the turnover date, allegedly because there were still pending purchases from meat suppliers and the required financial audit had not yet been completed. When the GSIS finally decided to send a group to take over the Plant complex, a violent physical confrontation with Gomez and his armed security guards nearly ensued as the latter interpreted the turnover order in a different manner.[72] What was somewhat unusual in sequestration cases was that rent-seekers were neither corporate management and rank-and-file or top officials of the Aquino administration. Rather, they were individuals who acquired proprietary interests in the process of temporarily operating certain viable firms.

By the time the commissioners of the Presidential Commission on Good Government overruled Gomez, Sabido had gone to court and raised the same labour concerns that Gomez earlier presented before the Commission sitting *en banc*. Sabido asked the Sandiganbayan to enjoin the Commission from enforcing the contemplated turnover in June 1989 because it would be detrimental to the welfare of some 300 plant workers. A letter of the PIMECO Labor Union was presented before the justices. The letter was used as evidence of possible loss of jobs "due to the fact that PIMECO's suppliers have stopped supplying the needed materials and, worst, Alaska Trading Inc., has refused to release much-needed cash for the firm's operations unless it is assured that the *status quo* is maintained."[73] These labour concerns were supposedly raised in reaction to a GSIS notice published in a leading daily, to the effect that no more transactions by PIMECO will be honored by the GSIS after the signing of the Memorandum of Agreement in April 1989.[74] According to both Gomez and Sabido, the resulting refusal of PIMECO suppliers to transact business with them, and of debtors to pay their loans to PIMECO, caused the shut-down of plant operations.

The Sandiganbayan issued the injunction against the Presidential Commission on Good Government in June 1989. But it did not pass on the merits of the Gomez-Sabido claims. Instead, the graft court ruled that the return of any sequestered property by the Commission -- prior to any judicial ruling on whether it actually constituted ill-gotten wealth -- amounted to "grave abuse of authority, power and discretion on the part of the PCGG."[75] The right to sequester, according to the court, did not presuppose the right to dispose as well. Be that as it may, judicial restriction of the Commission's power to one of conservation, rather than ownership, created a legal technicality: it gave Gomez's group "a free hand in managing Pimeco," and PIMECO the right to remain lessor-vendee under the *status quo*.[76]

In July 1990, the meat packing plant ceased its commercial operations. This was "allegedly due to inadequate operating capital, although it had previously continued operations during the past year by relying mainly on 'borrowed funds or advances from its distributors.'"[77] Also, commissioners of the Presidential Commission on Good Government found out that Gomez's team "failed to update the PCGG on the progress of the company, even as a temporary work suspension was ordered a few days before the cessation of operations pending ongoing negotiations by management for new sources of funds."[78] Unpaid rentals and other receivables from PIMECO reached a staggering P66.8 million by the end of 1991. Hence, the Commission on Audit refused to express judgment on the accuracy of audited financial statements of MPCP, after the latter's re-acquisition of the disputed meat packing plant.[79]

The lifting of the freeze order on PIMECO in November 1991 finally allowed the GSIS/MPCP to take possession of the Plant complex,[80] preparatory to its privatization. Many attempts to establish beyond reasonable doubt that sequestered properties were ill-gotten proved inutile. This was either because the complex network of dummies and sub-nominees gave Marcos' cronies easy recourse to legal technicalities, or because the recovery process itself was tainted with charges of corruption against officials and agents of the Presidential Commission on Good Government. Financial recoveries in cash and assets under the Aquino government actually came from compromises that Commission officials entered with former Marcos cronies. The compromises yielded a total amount of only P9.4 billion worth of recovered properties, out of a projected total of P2.6 trillion.

Also, like many re-acquired firms, the MPCP plant became insolvent and non-operational, apart from unresolved litigation that ostensibly made privatization impossible of compliance.[81] Newly appointed MPCP President Andres S. Bautista indicated that his board members would have to revise the divestiture plan for the Plant complex. This was in consideration of its financial instability and the series of suits that it was still faced with. The Plant complex was returned to the GSIS in August 1992, or two years after it went out of business. It presently remains an idle property of the GSIS.[82]

MPCP is one more case of failed privatization. In contrast to other GSIS subsidiaries, however, the failure obtained from its indiscriminate management as a sequestered asset. Not only did its sequestration fail to achieve the paramount objective of retribution; worse, the meat packing plant ended up in much dissipated form, consigned for future disposal as a non-earning government asset.

The Philippine policy of sequestration was formulated in response to the failed authoritarian regime. Yet, it is doubtful if the reasonableness of the exercise could be judged in terms of what a visibly disappointed Supreme Court referred to as a sincere effort in "bailing the country out of financial bankruptcy ... and returning to the people what is rightfully theirs."[83] As the MPCP case study underscores, it was, in fact, under Aquino that valuable assets were confiscated but used for personal gain by an emergent rentier group. Unlike the Marcos cronies, however, these rent-seekers were the very agents duty-bound to safeguard the assets in question. The paradox of sequestration is that it nonetheless encouraged rent-seeking which, in the first place, it was supposed to eliminate out of public necessity and the right of the state and the public to protection from economic harm.

Policy Feedback: Aquino's Mixed Record of (Re)privatization

The Aquino administration, to its credit, was quick to begin the politically sensitive and highly complicated process of reducing the government's excessive intervention in the economy. (Re)privatization of public enterprises was the major test of Aquino's commitment to streamlining the public sector and stimulating private enterprise. Yet, despite repeated statements by Aquino, her economic policy-makers, and public corporate management of their commitment to the program, little progress was actually made in terms of trimming the size and scope of the GOCC sector after five consecutive years (1986-1991) and an eight-month extension granted until August 1992 by the Congress. Such an outcome significantly contributed to a general public perception that the national government's ability to implement far-reaching reforms "has been, and continues to be, slow and eratic,"[84] and if we may add, very politicized owing to the continuing influence of personalism and patronage that stalled many divestitures.

The mixed performance of the GSIS under Aquino lent validity to this perception. By the end of President Aquino's six-year term of office on 30 June 1992, the GSIS board reported that it had only fully divested in four out of seven subsidiaries approved under Proclamation No. 50. This can be seen in Table VII.2. The relatively successful divestitures accounted for only 57.1 per cent of GSIS' total corporate stockholdings. Table VII.2 also indicates that just about 70 per cent or P12.1 billion of targetted proceeds were realized by the GSIS from the divestitures. The bulk (as much as 81 per cent) of the P12.1 billion proceeds obtained from the last-minute, partial sale of the Philippine Air Lines. After all, the Philippine Air Lines alone was estimated to be worth around P12.6 billion by the time it was released for sale in late 1991 (i.e., discounting its heavy debt obligations). Divestment in the airlines' controlling equity, in turn, was expected to bring in as much as 12 to 13 per cent of the proceeds from the privatization of all 122 public enterprises. Along with the subsidiaries of the National Development Company and the Department of Agriculture, the GSIS parastatals already represented over 75 per

Table VII.2
Privatization Record of GSIS Subsidiary Corporations
(1986-1992, in million pesos)

Subsidiary*	Target Price	Actual Price
Commercial Bank of Manila	510.0	510.0
Hotel Enterprises of the Philippines, Inc.	280.0	325.0
Manila Hotel Corporation	1,000.0	Unsold
Meat Packing Corporation of the Philippines	1,200.0	Unsold
Philippine Air Lines Inc.	12,588.0	9,780.0**
Philippine Plaza Holdings, Inc.	1,500.0	1,500.0
Total	17,078.0	12,115.0

SOURCE: Finance and Investments Group, Government Service Insurance System, Manila, 1992.

*Excludes Arconal NV which was privatized through corporate dissolution prior to issuance of Proclamation No. 50.

**Represents only partial divestiture (67 per cent) in government interest.

cent of the total value of projected asset sales under the Aquino government.

The performance of the GSIS as a disposition or marketing entity more or less matched the overall privatization record, before the retroactive extensions of the privatization program under Republic Act No. 7181. The national tally is found in Table VII.3. The number of GOCCs denationalized corresponded to barely 57.4 per cent of the total for the state-owned corporate sector. But proceeds from their

Table VII.3
Privatization Record of the Philippine GOCC Sector
(1986-1991)

Dispositive Action	Number	Percent of Total	Value (P million)
Fully Divested	27	22.1	4,856.7
Partially Divested	25	20.5	4,055.7
Dissolved	18	14.8	n.a.**
Total GOCCs Privatized	70*	57.4	8,912.4
Remaining GOCCs for Privatization	52	42.6	61,400.0

SOURCE: Committee on Privatization, **1991 Annual Report** (Manila, 1992), pp. 8-9.

*Excludes 9 other GOCCs divested prior to the issuance of Proclamation No. 50 on 8 December 1986.

**The Committee on Privatization excludes the value of some GOCCs, like GSIS' Arconal NV which were sold, through corporate dissolution prior to the issuance of Proclamation No. 50.

divestitures were considerably less than the GSIS'. This was because they excluded those generated from the Philippine Air Lines and a few other assets sold between January and August 1992. More precisely, total funds recouped amounted to 14.6 per cent of the estimated P70 billion to P71 billion.[85]

The roughly equal proportions of full and partial divestitures in Table VII.3 additionally imply the generally successful opposition waged against several asset sales by government managers, or other key officials of the Aquino government. This was because only a handful of so-called "strategic" and "targetted" public enterprises were approved for partial sale by the Committee on Privatization back in 1986. For the number of partial sales to reach that of full equity sales therefore meant that the objections interposed by public officials prevailed in the end.

The bicameral Congress -- which Aquino restored as the law-making branch under a presidential form of government -- thus proved to be very receptive to business criticism about the snail-paced privatization of the GOCC sector after 1988. Legislative committees conducted numerous inquiries into blocked asset privatizations, including those of the GSIS and the Manila Hotel. But, interestingly, they only heard the testimony of representatives of big business groups and GOCC managers.[86]

One of the most important legislation demanded by landlord-allied businessmen was the centralization of all asset dispositions, including previously sequestered firms, in the Asset Privatization Trust. For this reason, local businessmen also wanted the corporate life of the Asset Privatization Trust extended for three more years after 1991. The House of Representatives immediately responded by sponsoring such a bill in 1988.[87] Major parts of the House bill were subsequently incorporated into what became Republic Act No. 7181.[88] This law allowed for the continuation of the privatization program until 31 August 1992, subject to a possible presidential renewal of not more than sixteen months. The stamp of big business, however, could easily be gleaned from the legislation's policy intent:

> The privatization program was expected to propel the inflow of

> investments, both foreign and domestic, which is vital to the country's economic recovery,.... [But] **the inflow of investments from the private sector are far from ideal in the perception of both the public and the private sectors. The tedious procedures and red tapes in the disposition of these assets are the principal factors which delay the program implementation and discourage domestic and foreign investors....** With the enactment into law of this Bill, the authors hope to achieve and attain expeditious privatization...thus, relegating the government at the earliest possible possible time to its supplemental role to the private sector in the economic development of our country [sic]. This, the authors, believe, is a factor which will propel the economic recovery of the country.[89] (emphasis added)

The confidence of foreign governments and creditor-agencies was equally crucial, if economic recovery was to be sustained for democratic stability. As indicated in Chapter III, martial law was a singular dreaded experience for most semi-feudal elites who lost their political power to the cronies and the military, after democratic institutions were abolished and their respective businesses shut down and/or confiscated. In the process of securing international support, the resurrected politicians again cared little about how effectively and equitably structural adjustment initiatives functioned in an underdeveloped country like the Philippines. What mattered more was the recovery of funds from the immediate sale of public enterprises -- not that these assets fell into the hands of the wealthiest families and foreign conglomerates, even some former Marcos cronies, as our case studies illustrated. This policy short-sightedness was reinforced by Aquino's requirement that prospective buyers be chosen by disposition entities based on the "highest bid and the most cash up-front."[90]

International donors and creditors nonetheless saw that delayed divestiture of public assets, particularly the "crown jewels," only bled heavy financial losses for the government. The delays defeated the very goals of IMF or World Bank-prescribed stabilization and structural adjustment measures. The IMF, for instance, was critical of the national government's veto power over the Philippine Air Lines, as 33 per cent of state equity still awaited denationalization after 1992. The impact of similar hurdles on deficit reduction and external debt service was tremendous. The World Bank estimated that the Aquino government was losing some P8 billion to P9 billion yearly from so-called opportunity costs[91] of asset depreciation, maintenance, and the potential revenues generated from asset sales which could have been used by the national government elsewhere. Around P14.3 billion in budgetary support, and another P3.6 billion in funds loaned for corporate restructuring, were also needed for unsold corporations -- an amount that could have been realized as government revenues.

Aquino's technocrats concurred with these multilateral concerns. One month before Aquino bowed out of office, the Department of Budget and Management even warned that "[t]he new administration faces a P7.4 billion budget shortfall next year, following the continued slowdown in the sale of government assets and the decline in foreign grants."[92]

The Aquino government eventually resolved the thorny issue of whether to sell losing public enterprises and to keep the more viable ones. It did so by acquiescing to multilateral pressures to sell "as much as possible and as soon as possible." One particular policy response that foreign creditors virtually imposed on the Aquino administration was the requirement for private auditing of about-to-be divested firms which the left-of-center bloc in the first Aquino Cabinet had opposed. World Bank officials endlessly complained against congressional inaction on pending privatization-related bills and the Commission on Audit's indifference to a World Bank recommendation to hire private consultants for the computerization project of certain GOCCs.

To break the *impasse* resulting from intra-government resistance, the Bank's headquarters in Washington D.C. resolved to suspend the release of the third tranche of the 1988 Government Corporate Reform Loan amounting to $50 million. The Bank's decision was timed right after Aquino faced the eighth and most serious coup attempt of December 1989, and as the New People's Army of the communists renewed their offensive. Also, the Bank's rigid adherence to its set of conditionalities, coupled with shortage in government funds for bidding most of its major commercial assets, eventually forced congressional passage of the legislations in question and the Commission on Audit's eventual acquiescence to the hiring of private consultants.[93] The third and final tranche of the Government Corporate Reform Loan was finally released by the World Bank in January 1992. The release was accompanied, of course, by a memorandum stating that the Bank was now "pleased to note the progress achieved under the reform program for Government corporations."[94]

A second instance of foreign impact on policy evaluation more plainly illustrates the ways in which government responses have been altered from what probably would have occurred without external feedback. In November 1990, an already impatient World Bank proposed the establishment of a Philippine Privatization Fund, in addition to the 1988 Government Corporate Reform Loan. The Fund was intended for both the financial restructuring and re-financing of the huge foreign debts of "star" GOCCs like the Philippine Air Lines; it was to hasten the divestiture process and attract competitive bids.[95] At the same time, World Bank technocrats hoped that serious competition for prized assets would weaken the opposition of government rent-seekers against so-called "hasty" and "bargain" sales resulting from lack of buyers.

According to a World Bank *aide memoire* to Secretary of Finance Jesus Estanislao, the Philippine Privatization Fund was designed basically to meet three objectives: a debt buy-back program, whereby external debts would be purchased at a discount through PPF; the "warehousing" of corporate shares, so that they may be released into the market and to maximize their cash value to government; and the issuance of guarantees to sell them gradually on the market.[96] But the Fund was not simply a proposal emanating from outside of the official policy-making circle. More importantly, it was a policy imposition in itself. After the Committee on Privatization and the World Bank agreed in principle to establish a $150-million Philippine Privatization Fund for a limited period of five years, a World Bank mission was dispatched to Manila to discuss details of policy in March 1991. These were incorporated in a second *aide memoire* for the Secretary of Finance.[97]

Two conditions were imposed by World Bank officials for setting up the

Philippine Privatization Fund, both of which proved to be politically difficult. The first called for new feasibility (technical and financial) studies on heavily indebted GOCCs. The ones previously prepared by the now defunct Presidential Commission on Government Reorganization had become "obsolete," from the Bank's point of view. The mission reminded government officials that "the bank needs to be assured that there would be full cooperation from the parent corporations and that such privatization is viable."[98] Thus, despite initial opposition, the Committee on Privatization prevailed upon GSIS subsidiaries like the Philippine Air Lines and Manila Hotel to totally revise their valuation schemes with the aid of foreign experts.[99]

The second, and more politically controversial, requirement was the extension of the terms of the Committee on Privatization and the Asset Privatization Trust for another three years. This was first articulated by major business interest groups. Because many members of the Senate, the House of Representatives, and the Cabinet favored dispositions beyond the original five-year limit to be assumed by parent GOCCs themselves and a regular state agency to replace the Asset Privatization Trust, a politically acceptable compromise had to be reached. Technocrats in the Department of Finance and the Department of Budget and Management instead proposed an eight-month extension of the lifespan of the two entities from 9 December 1991 to 16 August 1992. Thereafter, it was agreed upon to leave to the discretion of the newly elected President whether to abolish the Committee on Privatization and the Asset Privatization Trust, or to extend their term for another sixteen months.[100] In any event, the World Bank was more or less assured of ongoing divestitures even beyond Aquino's term of office, and most likely for the equivalent of another two years after December 1991.

Unfortunately, extensive assessments or evaluations of the privatization program by external agencies failed to take seriously into consideration the accessibility of the GOCC sector or the extent of dispersal of ownership of divested assets. Rather than concern themselves with the prevailing structure and ownership base of Philippine markets, foreign donors were more inclined to lay the blame on the shortcomings of the administrative mechanisms for divestiture. The most recent World Bank report, for example, noted that:

> **Both foreign and local investors have lost interest in the privatization program due to tediousness and the seeming reluctance of the government to take the program seriously. But with the current crisis, huge budget deficit and pressure from the International Monetary Fund (IMF) and the World Bank, the government may be forced to be more active.**
>
> **To improve implementation of the program, government has to get down to the brass tacks of privatization.** Legal disputes need to be resolved, perhaps by creating a new court or assigning an existing one to tackle only privatization cases. The COA [Commission on Audit] needs to ease its unrealistic restrictions. The COP [Committee on Privatization] needs to assign greater authority to the APT [Asset Privatization Trust]. And the APT and other DEs [disposition entities] need to act with more dispatch. Critically, to move GOCCs, special agents need to be assigned as responsible for the sale of each major asset.[101] (emphasis added)

In view of the preoccupation with procedural delays and their financial implications on the rehabilitation of the Philippine economy, even non-privatization solutions proposed to the Congress or the fiscal and monetary agencies were decidedly technical in nature. For instance, the Asian Development Bank (ADB), which actively funded many privatization studies including that of Philippine Air Lines, batted for more "complementary", market liberalization policies. According to the ADB, neo-orthodox policies should be designed by the Aquino administration "to open the economy and increase the degree of competitiveness" among prospective buyers of parastatals.[102] Undeniably, these measures were expected to benefit foreign investors more than their domestic counterparts. This was essentially due to the tremendous purchasing power of the dollar and the magnitude of the costs involved in acquiring formerly commercial assets.

The United Nations Industrial Development Organization concurred with the ADB. It favored similar policy prescriptions for the Philippines:

> The key elements of the changing industrial strategy in the Philippines are centred on the twin objectives of privatization and foreign investment....
>
> **The most important non-technical prerequisite for the effective implementation of the [two-pronged] programme is the overall economic environment and the credibility of the government vis-a-vis potential foreign investors. Unless foreign investors can be attracted and capital flight prevented, privatization will have to cope with the serious problem of a weak local capital market....**
> **.... Consistency of policy packages, reduced red-tape and less bureaucratic channelling of investment flows as well as more transparency of investment laws and procedures would tend to pave the way for the creation of an attractive climate for investment in general and foreign investment in particular in the Philippines.**[103] (emphasis added)

But the U.S. government proved to be the most vocal critique of what it saw as the prevailing inconsistency between the financial recoupment goals of the privatization program and the existing investment framework in the Philippines. In the last full year of Aquino's presidency and of Proclamation No. 50, the Bush administration sent Elliot Richardson as special representative of the U.S. President for the Multilateral Assistance Initiative for the Philippines. Aquino and her economic advisers naturally expected Richardson to initiate formal discussions about another round of debt rescheduling for the country's $42 billion debt, especially in view of escalating communist attacks against the government. Instead, Richardson surprised Philippine officials by delivering a policy speech in which he chided them for privatization delays. Richardson then meted out the corresponding punishment: less than 5 per cent of the $12 billion in new Southeast Asian investment projects approved in 1988 was destined for the Philippines.[104] According to him, the present investment climate in the Philippines was not at par with its neighbors because: 1) other Southeast nations had more liberal investment laws which allow a minimum of 10 per cent in foreign equity in otherwise restricted or "strategic" sectors and industries; 2) there were very few, if any, bureaucratic obstacles encountered by foreign investors in getting the necessary licenses and documents processed by government agencies in these countries; and 3) other Southeast Asian countries "more warmly welcome foreign investors and were considered more politically stable."[105]

Richardson's concerns were echoed by newly appointed U.S. Ambassador to the Philippines Frank Wisner when he arrived in Manila in May 1992. Speaking before top American investors, Wisner said "the post-Aquino administration must address six key areas affecting the 'bilateral economic relationship'" between the U.S. and the Philippines. Foremost among these "areas" was the immediate divestiture of the national airlines' remaining equity and the rest of the GOCCs, led by the National Power Corporation, in order to decrease Philippine reliance on foreign loans.[106]

Hence, Aquino's final year in office witnessed the passage in rapid succession of liberalization policies by the Congress and the monetary and fiscal departments. These support-policies were designed to enhance the "attractiveness" of divested assets to capital investors, especially foreigners. It followed that if the much-criticized recalcitrance of rent-seeking groups within the state and parastatal bureaucracies themselves were to be significantly weakened, investor interest had to be correspondingly increased. A series of privatization-related measures, as the World Bank put it, should help convince antagonistic public managers "to give up their power base," in the face of pressures generated by highly competitive tenders and reputable private managerial expertise.[107] In so doing, these liberalization measures would also rid the public sector of (non-monopoly or competitive) rentierism. Otherwise, warned the World Bank, "fewer investments will be attracted to the country as investors totally lose patience with the slow-paced program."[108]

Implicit in the enactment of these complementary measures was the recognition that the success of privatization depended not only on a single policy like

Proclamation No. 50, but also on the overall regulatory framework for business competition. Government decisions and actions could affect privatization indirectly, if they established or altered economic incentives and constraints in the marketplace. The following thus represented some of the major efforts by the Aquino administration to accelerate the (re)privatization program. Their common goal was to open up the economy more fully to key investors:

1) *The Foreign Investments Act of 1991.*[109] One of the persistent problems of disposition entities with respect to divesting in their high-profile subsidiaries was "the limitation on foreign participation in Philippine companies [which] constrains access to foreign equity funds."[110] This was highlighted by the COMBANK case where the foreign buyer, the First National Bank of Boston, allegedly resorted to the use of dummies to circumvent the 40 per cent limit on foreign ownership of "national concerns" such as banking and finance.

The bicameral Congress passed the Foreign Investments Act in June 1991 to partially resolve the issue of minority shareholding in privatized assets. The new law modified ceilings on foreign participation in specific industries to allow for controlling equity investments by foreign nationals. Only strategic and targetted industries like airlines are now restricted to those levels stipulated under the 1987 Philippine Constitution.

2) *Foreign Exchange Deregulation of 1992.*[111] This measure complemented the Foreign Investments Act, inasmuch as it allows foreigners to invest proceeds from operating privatized assets without any more restrictions. The measure specifically

grants full and immediate repatriation and remittance privileges for all types of investments registered with the Central Bank, whether as direct equity or in listed shares/securities, to be directly serviced by authorized agent-banks. The old rules only allowed full and immediate repatriation for investments in Central Bank-certified, export-oriented industries and in a few securities approved by the Central Bank as well.

In addition, the mandatory surrender requirement of foreign exchange receipts under the old rules has been changed. At present, it is only applies to a few resident firms obtaining foreign exhange in the normal course of business. This was expected to reduce the costs of business operations, especially for the (re)privatized firms.

3) *Revised Debt-to-Equity Swap Program.*[112] It will be recalled that many investors lost interest in the sale of tourism-related enterprises, like the Hyatt Regency Hotel and the Philippine Plaza Hotel. This was so especially after the Aquino government terminated its first debt-to-equity program for the public sector on account of its inflationary effects. But the national government later discovered that Philippine external debt obligations owed to commercial banks or non-bank financial institutions like the GSIS were being actively traded in the secondary market. If an investor purchased an interest in such an obligation, and was able to redeem the debt for Philippine pesos, it permitted the investor to obtain pesos.

It was the intention of Aquino's technocrats to utilize the opportunity presented by this type of transaction in order to encourage local and foreign investors to make long-term equity investments in divested public enterprises. Under the current scheme, the peso proceeds of a conversion transaction may be invested in a Philippine corporation only in the form of an equity investment. A significant ancillary benefit for the country resulting from the discharge of foreign-currency denominated-debt through peso payments was reduction in the aggregate external debt stock. Hence, one of the new program's provisions to make privatization more attractive was a discounted conversion of GOCC debt securities held by foreigners into peso equity. To cushion against the danger of inflation, the new swap program prohibits the purchase of existing assets or shares without an infusion of new capital or the expansion of productive capacity, except in bank privatizations.[113]

4) *New Tariff Structure*.[114] Aquino's presidential order provided for the rationalization and reduction of the tariff structure. It was demanded specifically by local investor groups who were interested in acquiring stakes in high-profile public enterprises like the Philippine Air Lines, the Manila Hotel, and the still-unsold National Power Corporation. Although the new tariff measure was phased over a five-year period beginning 1991, present plans provide for significantly reduced tariffs, particularly on several manufactured items.

For his part, newly elected President Fidel V. Ramos -- Aquino's defense secretary whom she had chosen to be her successor -- promised foreign investors and MNCs that he would continue to "rationalize the public corporate sector by privatizing those of its operations which are better undertaken by private enterprise."[115] This major pronouncement in July 1992 was hailed by big business led by the exclusive Philippine Chamber of Commerce and Industry, the Makati Business

Club, the Philippine-American Chamber of Commerce, and the Bishops-Businessmen Conference of the Philippines. It assured them of continuity in the pro-business orientation of economic reforms.

The aforementioned economic liberalization strategies were expected to renew investor interest in the post-Aquino (re)privatizations. But there remained the pressing problem posed by the limited scale of economies in the Philippines, which inhibit entry of new firms and allow existing ones to easily reap beyond-normal profits or private rents. Two months before Proclamation No. 50 expired on 8 December 1991, the Aquino administration made a last-ditch effort to move the Philippine Air Lines into the auction block by clearing out the bulk of its non-performing assets. This was also a calculated political move to persuade members of Congress to extend the privatization program beyond 1991. But even partial divestment in the country's sole carrier as well as most other "star" parastatals sparked the debate for an aggressive anti-trust or competition policy to guard against "familization" of wealth, unfair combinations, or multinational economic control. Legal experts have pointed out that the few existing anti-trust statutory provisions[116] were insufficient and display a high degree of uncertainty insofar as private rentierism in the post-divestiture stage is concerned:

> No significant antitrust suit has been brought to court. Of the few cases that reached the Supreme Court, successful prosecutions involved statutory violations other than monopoly. Little case law has been set. No "rule of reason" has evolved, and a "per se" rule in the area of price fixing has not been adopted.
>
> A law has yet to be enacted on resale price maintenance, and

> a special agency has yet to be created to study and aggressively implement antitrust policy. Hence, limited competition exists in a number of industries, such as, food processing, animal feed and high grade lumber.[117]

Despite the emerging consensus behind the need for an omnibus anti-trust law, such a critical regulatory measure remains in search of a particular direction. Specifically, the Philippine debt crisis, and policy responses like privatization, deregulation, and market liberalization, imposed severe constraints on any anti-trust policy. Rather, the current political concern to speed up asset sales, deregulate many aspects of private economic activity, increase foreign investments, and generate employment and hard currency leave anti-trust law seemingly in contradiction with the logic behind structural reform.

The result is that the broader business class, composed of entrepreneurs or *compradors* and small investors, as well as public employees and private individuals failed to participate in most (re)privatizations "largely because of resource considerations."[118] In the face of such "defaults," the benefits of corporate reform were concentrated in privileged classes in the Philippines.[119] As it was, anti-trust was torn between the economics of state interventionism and the economics of abstentionism. What the current debate apparently underscored was that state effectiveness in regulating business competition and redistributing opportunities and resources could be severely constrained by the costs associated with foreign altruism, especially externally supported -- if not imposed -- liberalization.

(Re)privatization under Aquino was apparently preoccupied with questions of political survival and stability, rather than social equity. What was perceived to be at stake from the policy feedbacks it obtained in the course of renewing the divestiture program in 1992 was its sagging legitimacy or credibility in the eyes of landed politicians, business elites, and foreign creditors and governments. Choices of reform policy, in effect, sustained the political and economic power of groups already in control of land and industry in the Philippines.

Complementary deregulatory schemes further sought to end rent-seeking in inefficient or bloated sectors of government, and to eventually foster a healthier business environment. It was within this narrow framework of dissipating rentierism -- this time by well-entrenched public interests -- that pro-Aquino politicians and technocrats acted to "redress" the defects and inadequacies of Proclamation No. 50. But Aquino's government also tried to do so, without ever determining the capacity of domestic markets to absorb competition. And neither did it question the desirability of the economic basis of the pre-martial law, representative democracy. For Aquino's policy-makers and their counterparts in the international lending agencies, bureaucratic streamlining, enterprise efficiency, and equitable socio-economic growth were all "trickle down" effects of structural adjustment. This gave Aquino's (re)privatization policy a more internationalist -- but also a more conservative -- outlook after 1992.

Summary

Varying forms of political resistance accounted for stalled divestitures. But such resistance emanated mainly from rentier interests within the state and parastatal institutions, since Aquino had abolished monopoly rentierism by the cronies. Incumbent stakeholders found their rents to be tied to the long-run maintenance and preservation of the most commercially viable public enterprises in the Philippines. These firms could be well endowed parent parastatals like the GSIS, "crown jewels" like the Manila Hotel, or former (crony-) cartels like PIMECO. Rents continued to accrue to their management in the form of higher salaries, job guarantees, greater leisure, and organizational slack represented by perquisites, fringe benefits, fancy facilities, and other comforts. These are all payments that exceeded the minimal level required to elicit stakeholder opposition to (re)privatizations, since rents could also be related to power or prestige. In short, our failed cases suggest that many competitive processes occur within the public sector in the post-Marcos period, and the strongest political opposition against divestiture surround those activities with the greatest potential for rents. Any ensuing stalemate only strengthened the incumbency advantages of public managers by protecting their position and restricting public access to state resources.

More recently, creditor-induced efforts in breaking the political stalemate bring to the fore the competitiveness of the Philippine political economy. Rent-seekers within the state seemed to find more reason to resist the loss of their "protected turfs" if divested assets were likely to fall into the hands of private rentier-classes interested in living off the profits gained from asset divestitures, without necessarily having to innovate or reduce costs. On the other hand, market liberalization and deregulation could only be effective in dissipating rentierism by private groups if they were accompanied by better regulatory measures. These controls could potentially restrict private monopolies, wealth concentration, and unfair trade practices.

The Aquino government deserves praise for immediately responding to criticism against rentierism among public officials, identified as a major stumbling block in unloading highly performing assets. Yet, in doing so, Aquino's policy-makers were also faced with the dilemma of having to gloss over prevailing inequalities in competitive prowess if only to sell quick and well. The price that Aquino's administration had to pay in exchange for political legitimacy and support was the virtual exclusion of the Filipino majority from participating in the process of corporate reform through alternative modes of privatization.

The absence of sufficient competition for divested public resources is finally symptomatic of the basic social and economic ills in Philippine society which cannot be adequately treated through structural adjustments alone. Instead of just concentrating on what must be done to speed up asset divestitures and attract good buyers, policy-makers need to look into why the privatization cannot go faster than it is going now; why the program cannot possibly raise the gargantuan sums it is supposed to generate for the public sector and urgent socio-economic projects; and why it may not totally solve questions of government inefficiency. Policy-makers have to ask how corporate rationalization relate to broader questions of equity and redistribution. If they find the answers, perhaps governments will end up with scaled down, but more realistic expectations of what privatization policy can do and cannot do in developing countries like the Philippines.

NOTES

[1]David G. Timberman, **A Changeless Land: Continuity and Change in Philippine Politics** (Manila and Singapore: The Bookmark, Inc. and Institute of Southeast Asian Studies, 1991), p. 378.

[2]On the semi-feudal character of the traditional, commercially-oriented and landed elite in the Philippines, see Harold Crouch, **Economic Change, Social Structure and the Political System in Southeast Asia: Philippine Development Compared with the Other ASEAN Countries** (Singapore: Institute of Southeast Asian Studies, 1985); Frank Golay, **The Philippines: Public Policy and National Economic Development** (Ithaca, NY: Cornell University Press, 1960); Carl Lande, **Leaders, Factions, and Parties: The Structure of Philippine Politics** (New Haven, CT: Yale University Southeast Asia Program, 1965); and David Steinberg, **The Philippines: A Singular and Plural Place** (Boulder, CO: Westview Press, 1982).

[3]"Public-sector workers' trust fund moves into a surplus: Management benefits," **Far Eastern Economic Review**, 12 January 1989.

[4]*Ibid*.

[5]*Ibid*.

[6]Leonor M. Briones and Dalisay C. Sevilla, "Towards a Reexamination of the Policy Framework for Government-Owned and Controlled Corporations," in Lino Cardenas *et al*., eds., **Policy Studies, 1989-1990** (Manila: United Nations Development Programme and Department of Budget and Management, 1990), p. 585.

[7]"WB eyes merger of GSIS, SSS," **Philippine Daily Inquirer**, 2 August 1989.

[8]Presidential Commission on Government Reorganization, **Report on the Government Corporate Reform Program** (Manila, 1987), see GSIS fact sheet, p. 2 (hereinafter cited as PCGR, GSIS fact sheet).

[9]Interview with Lino Cardenas, Consultant, PCGR Task Force on the Government Corporate Sector, 23 June 1992.

[10]Transcript of Stenographic Notes, Committee on Government Corporations and Public Enterprises, Senate, 16 September 1987, pp. 31-32.

[11]Valmonte v. Belmonte, G.R. No. 74930 (13 February 1989).

[12]*Ibid.*

[13]*Ibid.*

[14]"WB eyes merger."

[15]PCGR, GSIS fact sheet, p. 3.

[16]"WB eyes merger."

[17]See "GSIS grosses P8.2 billion, nets P6.9 billion in 1990," **Business World**, 15 January 1991.

[18]See testimony of Finance Undersecretary Edgardo M. del Ponso, Transcript, 16 September 1987, p. 32.

[19]"WB eyes merger."

[20]"COP tells SSS, GSIS to cut role in firms," **Daily Globe**, 26 September 1989.

[21]"Public-sector workers' trust fund."

[22]"Manila Finds Privatization Takes Time," **Asian Wall Street Journal**, 3 April 1991, p. 8.

[23]"Manila Hotel set to manage Dakak Resort," **Philippines Daily Inquirer**, 16 August 1992.

[24]"GSIS defers sale of Manila Hotel," **Philippines Daily Inquirer**, 20 August 1992.

[25]Presidential Commission on Government Reorganization, **Report on the Government Corporate Reform Program** (Manila, 1987), see Manila Hotel Corporation fact sheet, p. 2. See also "Philippine Plaza Hotel can be yours for P1B," **Manila Standard**, 25 June 1987.

[26]*Ibid.*, p. 3.

[27]*Ibid.*

[28]"Authority of COP eroded: Gov't firms resisting privatization," **Manila Bulletin**, 13 July 1988.

[29]*Ibid.*

[30]*Ibid.*

[31]Transcript, 16 September 1987, pp. 20-21.

[32]Government Service Insurance System, "Privatization Plan for Manila Hotel," Manila, 1989, pp. 1-2.

[33]"GSIS to hold on to only 30% of Mla. Hotel," **Daily Globe**, 19 September 1989.

[34]"Philippine Tourist Firms Draw Potential Investors," **Asian Wall Street Journal**, 25 May 1988.

[35]Government Service Insurance System, "1989 Annual Report of the GSIS to the Committee on Privatization," Manila, 1990.

[36]"Red tape complaints hound privatization," **Malaya**, 26 December 1986.

[37]Government Service Insurance System, "Guidelines and Procedures to Govern the Public Bidding for the Privatization of Manila Hotel Corporation," Manila, 24 July 1991. See also Commission on Audit, **Annual Audit Report on the Government Service Insurance System, Calendar Year 1991** (Quezon City: Commission on Audit, 1991), pp. 55-56.

[38]"Public-sector workers' trust fund."

[39]"COP okays delay in privatization of Manila Hotel, Associated Bank," **Daily Globe**, 26 April 1989. The Associated Bank and six subsidiary corporations of the Philippine National Oil Company were likewise granted extensions in their respective privatization timetables.

[40]"Reconsideration of COP action on sale of Manila Hotel sought," **Philippine Star**, 26 March 1992.

[41]"... as lack of time shelves Manila Hotel sale," **Business World**, 24 February 1992.

[42]*Ibid.*

[43]Letter of Finance Undersecretary Juanita Amatong to GSIS President and General Manager Feliciano R. Belmonte, Jr., re designation of the Asset Privatization Trust as disposition entity for Manila Hotel, 4 March 1992.

[44]Letter of GSIS President and General Manager Feliciano R. Belmonte, Jr.,

to the Committee on Privatization, re 19 March 1992 meeting of the GSIS Board of Trustees, 20 March 1992.

[45]"3 more gov't firms for sale," **Manila Bulletin**, 30 March 1992; and "COP denies bid of GSIS to sell hotel," **Manila Times**, 30 March 1992.

[46]World Bank, "Critical Issue No. 91-03: Privatization," Washington D.C., October 1991, p. 32.

[47]"GSIS defers sale of Manila Hotel," **Manila Bulletin**, 20 August 1992. See also "GSIS shelves sale of Manila Hotel, others," **Philippine Star**, 20 August 1992.

[48]*Ibid*.

[49]Perpetuo Lotilla, Jr., John Fabico, and Esteban Y. Gochan, Jr., "The Legal Basis of Sequestration," **Philippine Law Journal** 61 (June 1986): 165-166.

[50]The exercise of the power to sequester is provided for in Proclamation No. 3 (25 March 1986), otherwise known as the Provisional Constitution, and in Executive Orders No. 1 (28 February 1986), No. 2 (12 March 1986), and No. 14 (7 May 1986).

[51]For a scholarly evaluation of the performance of the Presidential Commission on Good Government under Aquino, see Lotilla *et al.*, "The Legal Basis"; and Vicente V. Mendoza, "A Year and a Half of Constitutional Law: 1987-1988," **Philippine Law Journal** 62 (June 1987): 130.

[52]Presidential Commission on Good Government, "Rules and Regulations," Manila, 1986. This was precisely the purpose of sequestration which the Presidential Commission on Good Government failed to accomplish in so many instances.

[53]RP v. Sabido *et al.*, PCGG Case No. 25 and SB Civil Case No. 0024.

See also Presidential Commission on Government Reorganization, **Report on the Government Corporate Reform Program** (Manila, 1987), see MPCP fact sheet, p. 3.

[54]GSIS/MPCP Board Resolution No. 4-86 (15 August 1986).

[55]Interview with Paterno C. Bacani, Associate Executive Trustee, Asset Privatization Trust, 10 June 1992.

[56]See the leading decisions of the Supreme Court in BASECO v. PCGG, 150 SCRA 181 (27 May 1987); Kant Kwong v. PCGG, G.R. No. 79484 (7 December 1987); Bulletin Publishing v. PCGG, G.R. No. 79126 (15 April 1988); and Liwayway

Publishing, Inc. v. PCGG, G.R. No. 77422 (15 April 1988).

[57]Order of the Presidential Commission on Good Government re PIMECO (17 March 1986).

[58]Executive Order No. 1.

[59]Memorandum of President Corazon C. Aquino to the Presidential Commission on Good Government, 26 June 1986.

[60]This was rendered moot and academic by Order of the Presidential Commission on Good Government re PIMECO (20 September 1988), where the leased Plant complex was ordered transferred back to the GSIS.

[61]Sabido v. MPCP, SB Civil Case No. 0024. When the Sandiganbayan dismissed Sabido's motion, Sabido re-filed it under PIMECO v. MPCP, SB Civil Case No. 0108, which remained pending before the Sandiganbayan as of the end of 1992.

[62]Sabido v. MPCP, SB Civil Case No. 0024; and PIMECO v. MPCP, PCGG Case No. 25.

[63]Memorandum of GSIS/MPCP Legal Consultant Antonio F. Navarrete for the Chairman and Members of the GSIS/MPCP Board, re History of Cases involving the Meat Packing Corporation of the Philippines, 29 June 1992.

[64]MPCP v. Sandiganbayan *et al.*, G.R. No. 103068.

[65]Government Service Insurance System, "Privatization Plan for the Meat Packing Corporation of the Philippines," Manila, 1989.

[66]Government Service Insurance System, "1990 Annual Report of the GSIS to the Committee on Privatization," Manila, 1991.

[67]Order of the Presidential Commission on Good Government (20 September 1988), pursuant to Article XVIII, section 26, 1987 Constitution. A summary of this order also appears in "MPCP takes over from PCGG," **The Journal**, 27 April 1989.

[68]Memorandum of Agreement between the Presidential Commission on Good Government and the Meat Packing Corporation of the Philippines (28 April 1989), pursuant to the Resolution of the Presidential Commission on Good Government re PIMECO (24 January 1989).

[69]Asian Appraisal Co., Inc., "Philippine Intergrated Meat Corporation:

Financial Analysis as of 31 March 1989," Manila, 1989.

[70]Memorandum of GSIS/MPCP Legal Consultant Andres R. Amante, Jr., for GSIS President and General Manager Feliciano R. Belmonte, Jr. (with supporting documents), 7 June 1989.

[71]BASECO v. PCGG (1987).

[72]Memorandum of Andres R. Amante, Jr., 1989.

[73]Letter of the PIMECO Labor Union to the Second Division of the Sandiganbayan, 30 May 1989.

[74]See **Manila Bulletin**, 17 May 1989.

[75]RP v. Sabido et al., SB Civil Case No. 0024 (22 June 1989).

[76]"PIMECO to be reopened to pay P12.6-M GSIS debt," **Business World**, 31 January 1991.

[77]*Ibid.*

[78]*Ibid.*

[79]Letter of Commission on Audit state auditor Nenita H. Olaez to the Members of the Board, Meat Packing Corporation of the Philippines, 8 July 1992.

[80]RP v. Sabido *et al.*, SB Civil Case No. 0024 (18 November 1991).

[81]See Commission on Audit, **Meat Packing Corporation of the Philippines, Audit Report for the Years Ended December 31, 1991 and 1990** (Quezon City: Commission on Audit, 1992).

[82]Interview with Andres S. Bautista, President, Meat Packing Corporation of the Philippines, and Board Member, GSIS and Manila Hotel Corporation, 27 July 1992.

[83]PCGG v. Pena, G.R. No. 77663 (12 April 1988). The Supreme Court decision reiterated the *raison d'etre* of sequestration after the ouster of the Marcos regime.

[84]Timberman, **A Changeless Land**, p. 237.

[85]Another P28.8 billion to P29 billion is estimated to come from the sale of non-performing assets transferred to, and held by, the Asset Privatization Trust under Proclamation No. 50.

[86]See remarks of Rep. Victorico L. Chaves, Transcript of Stenographic Notes, Sub-Committee on Privatization, House of Representatives, 28 March 1990, p. 6. Investigating committees of the Senate and the House of Representatives heard the Makati Business Club, the Philippine Chamber of Commerce and Industry, the Philippine-American Chamber of Commerce, and the Bishops'-Businessmen's Conference, among others, but not labour or employee organizations, cause-oriented and nationalist groups, small investors, and academicians. "Red tape" was a common complaint of traditional business against privatization agencies.

[87]House Bill No. 22268 (April 1989). For the legislative deliberations concerning this bill, see Transcript of Stenographic Notes, Sub-Committee on Privatization, House of Representatives, 7 March 1990, pp. 8-21.

[88]Republic Act No. 7181 (17 January 1992) was passed by the Congress as the consolidated version of Senate Bill No. 1899 and House Bill No. 34766 (which incorporated the salient provisions of House Bill No. 22268).

[89]Explanatory note, House Bill No. 22268 (April 1989).

[90]President Corazon C. Aquino, Opening Address before the Philippine Investment Conference: Privatization and Debt-to-Equity Conversion, Manila, 12 November 1987.

[91]**Opportunity cost**, invariably called **user cost**, refers to the benefit/s forgone (or opportunity lost) by not using a given resource in its best alternative use. Measuring opportunity cost to private firms requires some difficult imputations, including use of owners' money, depreciation, risk-taking, and any special advantages that firms may possess.

[92]"New administration faces P7.4B budget shortfall," **Philippines Daily Inquirer**, 29 May 1992.

[93]"WB satisfied with privatization; to release $50-M GCRL," **Business World**, 30 January 1992.

[94]Letter of World Bank Director Callisto E. Medavo to Finance Secretary Jesus P. Estanislao, re third tranche of Government Corporate Reform Loan, 24 January 1992.

[95]"WB offers hand in privatization," **Business World**, 8 November 1990.

[96]*Aide memoire* from Claudio Fernandez and Mohan Gopal to Secretary of Finance Jesus P. Estanislao, re Philippine Privatization Fund, Manila, November 1990.

[97]*Aide memoire* from Claudio Fernandez and Woonki Sung to Secretary of Finance Jesus P. Estanislao, re Philippine Privatization Fund, Manila, 30 March 1991.

[98]*Ibid.*

[99]"WB wants detailed privatization plan," **Daily Globe**, 11 April 1991.

[100]For a summary of political opposition to extending the life of the Committee on Privatization and the Asset Privatization Trust, see Official Transcript of Plenary Session, House of Representatives, 26 November 1991, pp. 27-54; and Official Transcript of Plenary Session, Senate, 5 December 1991, pp. 41-52.

[101]World Bank, "Critical Issue No. 91-03," p. 31.

[102]Asian Development Bank, "Issues Paper for Country Session on the Philippines," RTDS, 16 December 1991, p. 4. This ADB paper drew heavily from the World Bank, "The Philippines Country Economic Memorandum: Issues in Adjustment and Competitiveness," Report No. 8933-PH, Washington D.C., 31 October 1990.

[103]Regional and Country Studies Branch, United Nations Industrial Development Organization, "The Philippines: Sustaining Industrial Recovery through Privatization and Foreign Investment," Industrial Development Review Series, New York, NY, 24 November 1988, pp. 51-52.

[104]See Ramon T. Garcia, "Government Privatization," **Fookien Times 1991 Philippines Yearbook**, pp. 98; 266.

[105]*Ibid.*

[106]"Wisner says new government should privatize Napocor," **Philippines Daily Inquirer**, 17 May 1992.

[107]World Bank, "Critical Issue No. 91-03," p. 32.

[108]*Ibid.*, p. 28.

[109]Republic Act No. 7042 (13 June 1991).

[110]Committee on Privatization, **1991 Annual Report** (Manila, 1992), p. 13.

[111]Central Bank Circular No. 1318 (3 January 1992).

[112]Central Bank Circular No. 1267 (20 December 1990).

[113]*Ibid.*, Section 10.

[114]Executive Order No. 470 (1991).

[115]President Fidel V. Ramos, State-of-the-Nation Address before the Joint Session of the Congress of the Philippines, Batasang Pambansa Complex, 27 July 1992.

[116]These statutory provisions may be found in Article XII, 1987 Constitution of the Philippines; Article 28, Republic Act No. 380 (1948), otherwise known as the Civil Code of the Philippines; and Section 140, Batas Pambansa Blg. 68 (1 May 1980), better known as the Corporation Code of the Philippines, in addition to a few special laws on deceptive and unfair economic practices.

[117]"Philippine Antitrust Experience: Policy still in search of direction," **Manila Bulletin**, 6 January 1990.

[118]World Bank, "The Philippines Country Economic Memorandum," p. 79.

[119]*Ibid.*

CHAPTER VIII

CONCLUSION: THE CHALLENGE OF PRIVATIZATION BEYOND REDEMOCRATIZATION

> Essentially, a decade-old concept, privatization was initially an act of faith, a belief that private initiative could do better than state bureaucracy and public monopoly.
>
> Trevor MacMurray[1]

Myths inevitably grow in the process of democratic restoration. Amidst all the public euphoria generated by the collapse of authoritarian rule, the Philippines was by no means wanting in these myths. Aquino's newly installed and popularly backed government was determined to pursue far-reaching, structural reforms of the public sector. It was Aquino's honest belief that reestablishing a free market economy would "democratize" public access to state resources and enhance competitive prowess. Toward this end, she enacted into law a series of measures designed to restore the primacy of private enterprise in economic recovery and sustained growth.

This study was initiated precisely to discover why policy responses like the (re)privatization of state-owned enterprises were favored, and to what extent could they possibly achieve their objectives, as the Philippines returned to representative democracy. In seeking answers to these questions, the study examined the crisis of the public enterprise sector under Marcos; the sources of reformist pressures during the transition period; patterns of leadership and consensus-building under Aquino;

and the nature of governmental interventions in the economy. A public-choice model based upon an expanded concept of rent-seeking was evolved to integrate economic and political explanations arising from these causal factors. Since rentierism avoids an exclusive focus on either the profit- or power-motive in state corporations, the study underscores the point that the selection of rehabilitation programs and the effectiveness of implementation are also closely related to the political and institutional development in each country.

This final chapter summarizes the major findings of the study, and outlines its theoretical and empirical implications for less developed countries (LDCs), especially those undergoing systemic change.

Summary of Findings

A balanced assessment of Aquino's privatization legacy must begin with an appreciation of the extremely difficult situation she inherited after the People Power revolution of 1986. The national government was comatose and bankrupt; foreign debt repayments sapped whatever limited resources the country had at that time; and the new, revolutionary government -- which drafted the most important reform policies -- was a disparate mix of political personalities and ideological persuasions that made for bitter factionalism after Marcos' ouster was realized. The communist insurgents still possessed a formidable capability to challenge (as they did subsequently challenge) Aquino's government politically and militarily. Compounding these problems was the questionable loyalty of the military, whose reformist faction subsequently withdrew its support for Aquino, forged tactical alliances with the Marcos loyalists, and endlessly attempted to topple Aquino's allegedly ineffective administration.

In spite of the magnitude and complexity of all these challenges, Aquino carried out her commitment to restore those democratic processes and institutions which existed prior to martial law. By doing so, Aquino deserves credit for successfully resuscitating the Philippine democratic tradition. Equally significant, Aquino succeeded in defending her democratic regime in the face of considerable threats from the extreme right and the extreme left.

The choice of predominantly centrist reforms like privatization under Aquino should then be understood in the broader context of redemocratization and its concommitant constraints. The "democratic" rationale behind privatization -- or economic recovery, in general -- was clearly a simple but powerful one. Aquino envisioned divestiture primarily as an antidote to the excesses of the Marcos era and as *sine qua non* to private sector-led economic development. More specifically, Aquino sought to build political consensus around the urgent need to substitute an open and competitive economy for the personalistic brand of statism -- or *dirigisme* -- associated with the failed Marcos dictatorship. This was because much of the survival of the fledgling democratic regime depended on a rehabilitated economy that could regain business and international financial confidence. Otherwise, the 1986 uprising caused most Filipinos' expectations to rise to unprecedentedly high levels, but it did not produce a clear-cut mandate for action.

In general, the study finds that resistance to privatization policy is likely to be stronger where public enterprises constitute rentier networks that lead back directly into political or bureaucratic elite groups. Conversely, much of the impetus behind privatization can be expected to derive from influential sectors greatly disadvantaged by exclusionary rentier practices, which we have termed **monopoly rentierism**. The success or failure of reform implementation depends largely on how these costs and benefits are perceived by powerful, contending interests. These findings lend empirical support to our hypothesis that privatization decisions and actions under Aquino would be primarily motivated by explicit calculations of political and material gain by the politically valued groups.

We find the authoritarian episode to be a logical starting point for critically analysing privatization policy. This is because it directly gave rise to an overextended public sector and the ensuing neo-conservative critique. Martial law served as a convenient legal and policy instrument for the Marcoses to cultivate "crony capitalism," by way of consolidating and preserving the economic basis of one-man rule. The case studies of the Government Service Insurance System (GSIS) and its seven subsidiaries indicate that Marcos restricted entrepreneurial activity to a few relatives and business associates through a conscious, interventionist policy of state creation or takeover of commercial or profit-oriented enterprises. In time, these firms came under crony "ownership" or control through a variety of monopoly rents ranging from economic privileges and exemptions, to commissions and kickbacks, and to the use of military force where these means did not suffice. State entrepreneurship was thus fostered for personal and partisan purposes.

It is also in this light that the government corporate sector eventually reneged on its original developmental intent and contributed immensely to the Philippine debt crisis. Rather than serve to fill the gap the private sector was hesitant to undertake, the Marcos regime directly competed and meddled in areas of business activity previously adequately handled by the private sector. Far from removing market distortions, the government gave rise to new ones. And in the absence of effective limits to presidential power, state and parastatal institutions became the mechanisms for the systematic plunder of the entire economy by Marcos and his cronies. *Dirigisme* a la Marcos all the more discouraged private sector involvement and commitment. Equally important, it alienated a critical source of regime support during a period of interlocking political and economic crises.

However, monopoly rentierism was institutionalized at the expense not only of those sectors that did not support the dictatorship from the very beginning, but also of the international financial community that initially tolerated it. Since rent-seeking under Marcos proved to be unrestrained for a long period of time, its scope and magnitude expanded from crony raids of public enterprises to the use of these enterprises as a vehicle for building industrial empires and cornering lucrative government contracts. The increasingly exclusionary rentierism by the cronies threatened foreign penetration of an export-oriented, import-dependent economy designed by the technocrats, so that the political pressure to privatize originated from foreign creditors and firms which resented their lack of direct access to the Marcoses. The intervening recession of the 1980s, the state bail-out of defaulting crony firms, and the public clamor for Marcos to resign proved to be important political openings for the World Bank, the International Monetary Fund (IMF), and the Asian Development Bank (ADB) to press for neo-orthodox reforms. These reforms called for bureaucratic streamlining and greater reliance on the price mechanism. One key adjustment strategy, of course, was the (re)privatization of government corporations.

Hence, the study finds that a critical factor affecting the substantive content of change of the kind represented by privatization policies will be the nature of the dominant sources of reformist pressures. This is particularly the case when these policy communities also happenned to be politically valued for the support they extended to a fledgling coalition government in a time of political change. The Philippines offers a reasonably typical exemplar in this respect. It demonstrates a mix of domestic and external pressures for public reform. But the openly active role assumed by external creditors in Marcos' last years (1984-1986) and throughout the more than five years of divestitures under Aquino (1986-1992) was to be expected, considering the immensity of the debts of public enterprises and Aquino's consistently heavy reliance on fcreign aid. On the other hand, wealthy, non-crony businessmen and their traditional landed allies in the political branches of government -- all of whom were excluded from rent-seeking under Marcos -- championed the cause of democratic renewal. Unsurprisingly, these groups were also the most ardent supporters of privatization and complementary market liberalization measures. After all, these measures would dismantle the crony network, and reestablish their pre-martial law, political supremacy. In this manner, we find that semi-feudal and business interests intermeshed with the economic recovery agenda introduced, monitored, and financed by the World Bank, the IMF, and the country's commercial creditors.

(Re)privatization under Aquino was undoubtedly commendable for delineating the role of the state in the economy. Similarly, such a structural program helped restore the free-market economy that existed prior to 1972. The sale of foreign properties like Stockton, state-owned banks including the Commercial Bank of Manila (COMBANK), and the five-star hotels of the GSIS signalled an end to state entrepreneurship in non-strategic or non-targetted sectors such as real estate, banking, and travel and tourism. Partial denationalization of the Philippine Air Lines (PAL) was meant to reduce public monopoly even in so-called strategic industries. Finally, sequestration of the Meat Packing Plant and other forms of ill-gotten wealth was designed to effect retribution from the cronies and retrieve state-owned assets prior to divestiture. Through (re)privatization, therefore, Aquino sought to transform a devastated economy into an efficient one, and to increase the influence of domestic and international market forces like in many LDCs.

Yet, despite the broad consensus behind the need to privatize, Aquino's democratic vision also proved to be a limited and a limiting one. (Re)privatization was limited by the preoccupation with dissipating monopoly rent-seeking by the cronies and their private firms. Consistent and continuous pressures from Aquino's economic supporters to unload both loss-making and income-generating parastatals narrowed the concept and method of privatization to one of outright divestiture. In the absence of a grace period within which to consider state-owned firms on a case-to-case basis depending on their economic importance vis-a-vis the existence, suitability, and stability of domestic markets, other feasible options were either ignored or inadequately explored by the privatizers. Among others, these options could have included state retention of controlling equity, employee stock ownership schemes, public stock listings, or perhaps, parastatal reorganization and joint production with the local private sector.

In a way, the Philippine experience is unique when compared to many Asian and Latin American countries which earlier embarked on various privatization policies. These countries usually opted to reorganize the management and reform the operations of most of their parastatals, if the absence of a well-developed financial system meant that divestiture would have to be made by direct placement with local or foreign interests large enough to handle the transaction. Conversely, where full or partial divestitures were warranted, these countries enacted rules of business competition and regulatory controls for private activity before selling assets.[2] In sharp contrast, the Philippine program was renewed in 1992 on the assumption that asset sales were the the most politically convenient, if not acceptable, mode of public enterprise reform insofar as it concerned Aquino's business supporters and foreign donors. The bicameral legislature even moved to tear down barriers to foreign investments and debt-to-equity conversions to reverse the slow-paced divestiture of most assets. The Philippine case clearly suggests that the degree of regime stability is also a crucial determining factor for the direction and flexibility of structural adjustment.

Aquino's (re)privatization policy was a limiting one because it failed to address the pressing problem of how to ensure a more equal distribution of economic assets and opportunities. Again, because of the haste to "*de-Marcosify*" the public enterprise sector, recoup urgently needed funds for public sector rehabilitation, and stimulate private sector activity, other detrimental forms of rent-seeking were glossed over. In this respect, the study finds that simply terminating cronyism does not necessarily suspend rentier practices related to divestiture. Well-entrenched groups within the more viable parastatals -- especially management and the rank-and-file -- often constituted a strong source of opposition due to the prospect of losing a variety of rents unrelated to their own contribution. Eliminating the obstacles posed by public rentiers was even more difficult for Aquino since many of these rentiers were an important source of political support during elections or in the face of serious threats to regime legitimacy. As our GSIS cases illustrate, instances where such bureaucratic recalcitrance was demonstrated led to stalled or failed divestitures.

But even where privatizers did not face sustained opposition from corporate management, we find that private groups -- whether acting independently or in concert with one another -- could frequently capture and preserve rents at the expense of the state and the general public. This is due to a combination of skewed income distribution and rudimentary capital markets which produced a dual constraint on the redistributive potential of privatization: many buyers who could not afford the price of divested assets and/or meet the conditions of purchase were automatically excluded, while the bargaining and purchasing power of business conglomerates and foreign consortia were simultaneously enhanced. "Competitive" rentierism among the big, foreign and domestic entrepreneurs appeared to have been reinforced by the host of bottlenecks that attended the divestiture of the GSIS subsidiaries. These private rentiers usually succeeded in obtaining concessions from the privatizers owing to lack of buyers, endless lawsuits, or external debt restructuring which figured prominently in most asset sales. Moreover, where privatization-related risks were high (as the Philippine political climate under Aquino demonstrates), the national government ended up "compensating" private buyers by depressing prices and coming up with "sweeteners" that reduced state regulation of private ownership. The same incentives correspondingly increased government costs in making the corporation financially sound or attractive. These risks were best exemplified by the sales of the Stockton property, the Philippine Plaza, and PAL.

Reopening the once-exclusive state corporate sector to more competitive, albeit rentier, private classes further encouraged private monopolies and oligopolies, wealth concentration, and increased foreign economic control. These post-privatization effects on the economy could be deduced from the identities, business interests, and political alliances of the successful buyers of the GSIS subsidiaries. It was also an unfortunate experience shared by many other developing countries which had undertaken divestitures. In this respect, the study finds that private rent-seekers not only have logistical advantages in mobilizing politically in favor of divestiture, but they also have greater incentives and rewards to do so in the context of limited market competition in LDCs.

Whether the rentiers are state-based or private groups, however, it is evident from this study that the most active debates about privatization do not necessarily revolve around areas with the greatest possible (social and economic) efficiency gains. Instead, the deliberations tend to be concentrated where there is the largest potential for creating, dissipating, or redistributing rents. The political stalemate over the merger of two well-earning parent parastatals like the GSIS and the Social Security System, or the "suspended" divestiture of the Manila Hotel, sharply contrast with the relatively smooth sale of a heavily (foreign) indebted property like Stockton. The size of the rents involved therein largely influenced perceptions of policy costs and benefits on the part of public and private rentiers alike. This set of findings lends additional credence to the hypothesis that material gains predominate in corporate reform. But it cast serious doubts on the extent to which such reform could increase the efficiency of divested assets or broaden public participation in competitive exchange.

Consequently, while Aquino made good her election promise to free the economy from the worst abuses of the Marcos era and reduce the scope of state intervention, the restoration of a market-driven economy was likely to reinforce existing inequalities, not reduce them. Aquino was either unable or unwilling to create a (regulated) form of free enterprise different from that which already prevailed before martial law. From our examination of how Aquino's policy-makers grappled with more contentious privatization issues involving equity and redistribution, we point out that her government was also ambivalent and tentative about many of the issues that affected the quality of Philippine redemocratization. As F. Sionil Jose aptly observed, Aquino was more concerned with "the form rather than the substance of democracy."[3]

But, then, could Aquino have done more? It was unrealistic, of course, to expect that one person could single-handedly cause a dramatic remaking of the Philippine political economy within a short time frame of six years, especially given the country's numerous problems and divisions. It was equally unrealistic to expect that Aquino or her policy-makers would be different from what their respective backgrounds and personalities suggested; or that they would exhibit a high degree of independence in policy-formulation and -implementation, when the national economy continued to be debt-driven and ideologically influenced by its foreign creditors and business supporters. It was also unrealistic, in retrospect, to find quick-fix solutions to deeply-rooted inequalities in restructuring policies like privatization.

Lastly, it would have been naive to expect that the Aquino administration would not do whatever was necessary to protect and consolidate its own position, given the array of real and perceived challenges it faced. Economic policy-making under Aquino was also politically constrained by the goal of self-preservation. The survival and legitimacy of the (highly factionalized) "rainbow coalition" was periodically challenged by leftist and rightist groups. Thus, while Aquino's government introduced privatization as a founding principle of public reform, its responses to policy bottlenecks were decidedly passive and incremental. Even reforms to Proclamation No. 50 were pro-business and internationalist in outlook, rather than regulatory in approach. In this respect, the study finds that utility-maximizing, democratic governments will most likely adopt policies designed to attract the greatest degree of political support, and avoid those likely to be politically cumbersome or unpopular.

Aquino's privatization legacy, then, is a mixed one. She held the country together at a critical point in time, restored economic and political freedoms, and rehabilitated the public enterprise sector with all the support she could muster. These were all major accomplishments, considering the challenges and constraints that confronted the ailing Philippine economy. They were doubtless critical to national recovery and are essential prerequisites for future progress.

At the same time, however, a variety of social and political factors combined to make the Aquino government's approach to policy reform an essentially conservative and overly cautious one. As a result of factors beyond the government's direct control, Philippine (re)privatization policy has come to combine elements of change with powerful traditional influences and structures. This brings into question the supposed allocative or redistributive superiority of private enterprise over that of state ownership. In the Philippines, the democratic potential of privatization was further constrained by the reluctance of the national government to assume an active role towards reducing the risk that politically valued, elite groups would use divestiture as a means to increase their control over the economy. One could therefore say that the myth of privatization stemmed from the high hopes and expectations of many Filipinos following the demise of one-man rule, which could not be matched by political action designed to bring about a more egalitarian society.

Implications of the Philippine Experience

The findings of this study collectively challenge the bulk of the literature on privatization that primarily attributes slow progress to structural impediments in LDC markets. As surveyed earlier on, these works imply that privatization would be effective where domestic capital markets can be strengthened, investment incentives can attract serious buyers, and the financial liabilities of divested assets are eliminated or significantly reduced.[4] The problem we find with the "structuralist" approach -- in the course of examining the Philippine case -- is that it concentrates on detailed assessment of the economic costs and benefits of restructuring policies. Yet, it only pays lip-service to conjunctural political dynamics and problems of reform implementation.

While this study underscores the need to balance and integrate economic and non-economic explanations, the "structuralist" literature all too often underestimates the complexity of policy-making in the real political environment. Hence, the first and foremost implication we derive from our rent-seeking model is that economic management and performance are unquestionably political matters. A complex range of pressures and reactions automatically emerges from a highly politicized process like privatization. This is because such a process affects the balance of power between the state and the private sector, as well as the distribution of wealth and income among firms and individuals seeking access to state-owned assets. We conclude from our case studies that the excesses of authoritarian rule cannot simply be corrected as a structural problem that calls for rolling back the state. It is also a political problem to be resolved by dealing with the administrative and political mechanisms which have failed.

This point leads to a second implication of the study. Policy responses to reformist pressures are also constrained by the political and bureaucratic resources available to decision-makers. These resources become even more critical as leaders inherit economic legacies of authoritarianism, and grapple afterwards with questions of political survival and democratic consolidation. In documenting the relatively low levels of implementation in the GSIS, with particularly halting progress towards divestiture, the Philippines shares with many LDCs the absence of a combination of efficient bureaucracy and firm political commitment. But sharp conflicts over very scarce resources among rentier groups that mistrust each other, and share only the desire to gain control over the state for their own benefit, transform any substantive area of economic policy into a political arena. As Robert L. Rothstein noted, "weak governments have enormous difficulty in controlling or altering policies once made. Procrastination, altering as little as possible, becomes a political way of life."[5] Given such a situation, we may expect political leaders to make a determined effort to achieve innovations in relations between state and market only if they have sufficient political muscle and authority to bear (and contain) the political costs of innovation.

Thirdly, the same implication draws attention to problems of political resistance, which the "political" approach to privatization emphasizes in contrast to the "structuralist" literature. Political resistance to privatization decisions and actions appear to be more critical in renewed democracies. This is because transition processes often generate multiple, even conflicting, pressures ranging from high levels of political participation and expectations, to discontinuities in policy-making authority, to the more visible roles played by creditor agencies and foreign governments. All these factors shape the quality and substantive content of economic reforms in any country.

In the face of scarce resources available to political leaders, we may still argue that firm political commitment to a privatization program nonetheless requires due regard for its adequacy and appropriateness. Retribution for past wrongdoings need not necessarily imply that the public and private sectors are diametrically opposed to each other. Neither does it imply that the entry of one must be the exit of the other. Rather, there is need to think through a wide range of creative options to execute preferred roles, which the works on LDCs have chosen to underline. Wholesale divestiture, as pointed out in this study, is not the only -- or necessarily the best -- means of transforming state enterprises. Involving the private sector in incremental business without divesting existing activity might help to create competition and exert pressure on the public enterprise. Joint ventures and strategic alliances between government and private companies are other routes to consider. Out-sourcing, franchising, and management contracts might offer ways to improve service and efficiency without ownership transfer, given the multiplicity of historically determined structural constraints in LDCs. The boundary between the roles of the market and the state is unfortunately not well-marked, so that the designation of roles is not an "either-or" situation but one replete with flexible alternatives.

Precisely because demands for complementarity between the public and private sectors are ever present, assigning to each sector its most appropriate role calls for even **greater political intervention** in the privatization process. Recalling the impediments to the Philippine program, we posit the view that successful privatization depends upon a clear-cut recognition that the "use" of the national government is not, or should not be, exceptional. The government exists not because private institutions occasionally fail, but to set the stage so that individuals and firms can work decently well in their assigned arenas of action. It likewise exists as a chosen instrumentality in its own right for getting a task done. The government should set basic ground rules that define and delimit how (prospective rentier) groups are to operate. In this manner, we affirm the basic postulate of our study that governmental means are the natural ones to employ to achieve purposes widely regarded as social. **Governmental failure is not a sufficient condition to turn over** a problem to the marketplace.

Political will to implement reform, then, is as much a matter of appropriate resources as of good intentions. In this respect, an **exhaustive set of criteria** needs to be designed by privatizing governments in LDCs. Central to this concern is the possibility of concentrating control over resources (including most importantly, control over the ability of individuals to exercise preferences in both production and consumption) in the hands of powerful minorities. Divestiture in the Philippines and many other LDCs, as we have seen, initially formed an integral part of a program of structural adjustment. But it could also end up as a mechanism to entrench a chosen subset of the elite to form the new oligarchy spawned by democratic restoration. A representative political system which promotes discovery and innovation through privatization, but which limits the rewards for those actions to a small and continuing set of individuals or interests is much less desirable than a system that fosters innovation in a manner that gives many people a chance to benefit from the opportunities. This obviously implies that privatization is neither a necessary nor a sufficient condition for fostering political and economic competition.

Privatization decisions, for instance, may have to be based on the sector or industry to which the public enterprise belongs, but only after having established clearly the relative advantages of public or private ownership in these sectors. Thus, divestiture might be concentrated in selected or priority industries like manufacturing, mining, or agriculture. Selective divestiture markedly contrasts with the "private goods" criteria to which Aquino's Proclamation No. 50 indiscriminately adhered.

Another possible criterion would be the market type where the public enterprise operates, so that only firms operating in competitive markets are divested, while those engaged in natural monopolies are retained in the public sector. This criterion takes into account the preponderance of private monopolies, oligopolies, and cartels in highly skewed markets, which the "structuralist" literature has time and again stressed. The growing public clamor for Aquino's successor-government to resume majority ownership over PAL, given the limits of the airline market vis-a-vis the inefficient monopolies operated by PAL's new owners, suggests the urgent need for such a criterion.[6]

A choice would also have to be made between privatizing either profitable and well-managed public enterprises, like the GSIS luxury hotels, or inefficient loss-makers represented by the Meat Packing Corporation. Of course, debt-driven governments like the Philippines' are prone to release the latter from the state cocoon, as this would achieve the goal of relieving the pressure on the budget and recouping needed cash. But conflicts are likely to arise inasmuch as these very parastatals are the least attractive to private investors and, therefore, the most difficult to sell. On the other hand, while the government could benefit from capital gains in the sale of performing public enterprises, this would leave a public sector comprised of unsellable and non-performing assets to the detriment of its administrative ability, political image, and even public credibility. Apparently, divestiture must eschew either extreme and attempt to pragmatically adapt to circumstances more on a case by case basis. Herein lies the challenge of public-private sector collaboration posed by many Southeast Asian and South American countries from which the Philippines could greatly benefit.[7]

The percentage of equity or state control that would have to be relinquished to deem that a transfer of sector has indeed taken place remains a hotly contested area in privatization debates, even as convention considers 50 per cent the arbitrary demarcation line through which control has passed to the private sector. As some of the congressional testimony concerning PAL stressed, it may be worthy to consider as a matter of public policy how thinly or evenly ownership is spread among prospective buyers, whether foreign or domestic.

The foregoing finally require that a pro-active stance by the national government be pursued with **proper timing and phasing**, in order to mediate between confining economic and structural conditions in LDCs. Many scholars on Latin American privatizations find that the understanding of optimal transition paths from a distorted system to one that is fully liberalized is still wanting.[8] The Philippine case is no exception. The problems encountered by the GSIS in unloading its parastatals suggest the need for the liberalization of markets precedent to, or simultaneous with, privatization. These problems call for even greater government overseeing, since they directly relate to government measures that encourage -- rather than assume -- competition in the marketplace. Appropriate measures could well include the removal or reduction of price and distribution controls; reduction of tariffs, duties, and taxes on production and incomes; relaxation or lifting of entry restrictions; and alignment of exchange rates and interest rates with market forces. In most instances where monopolistic environments or rudimentary capital markets exist, what may be needed instead is retention of protection or the introduction of better regulatory controls over revenue and returns, before privatization. In any case, opting for any of these measures only when privatization bottlenecks arise -- as Aquino's policy-makers usually did in the absence of buyers and competitive bids -- has proven to be short-sighted. From a more comparative perspective, we need to remember that the failings of many Latin American privatizations have been attributed to the simultaneous deregulation of markets, without ever considering that the speed of adjustment in various markets differs.[9]

Privatization thus requires a firm government commitment to the principles that give it force. After all, structural reform is not a one-shot deal of relinquishing ownership or selling shares or lifting controls. Instead, it demands a carefully phased process, extended over time, to ensure non-recurrence or control of past constraints and the achievement of other socially and politically desirable objectives. Moreover, addressing the prevalent problem of rentierism among private and state-based groups implies a constant search by the national government for alternative ways to increase competition in the supply of goods and services; to improve information dissemination to help consumers become more rational and discriminating; and to deal or negotiate with existing political exigencies. All too often, announcements of divestiture under Aquino substituted for clarity on what is to be achieved, the appropriate ownership mix, and the desired regulatory framework.

The implications of this study are not meant to suggest that the (re)privatization movement in the Philippines is unimportant, however. One main effect has been to draw attention to the often grave economic and social deficiencies of many state-owned enterprises and the importance of correcting them, whether or not privatization is the best way of doing so.[10] Another is that it has also nearly stopped the creation of new parastatals dead in its tracks. That may, in the end, be its chief contribution to economic policy in a developing country like the Philippines.

NOTES

[1]Trevor MacMurray, "Rethinking Privatization," **The McKinsey Quarterly** 1 (January 1993): 36.

[2]See, for example, William P. Glade, **State Shrinking: A Comparative Inquiry into Privatization** (Austin, TX: The University of Texas at Austin, 1986); William P. Glade, **Privatization of Public Enterprises in Latin America** (San Francisco, CA: ICS Press, 1991); and Raymond Vernon, **The Promise of Privatization: A Challenge For American Foreign Policy** (New York: Council on Foreign Relations, 1988).

[3]**Manila Chronicle**, 29 September 1987.

[4]Please refer to Chapter II of this dissertation.

[5]Robert L. Rothstein, "Politics and Policymaking in the Third World: Does a Reform Strategy Make Sense?", **World Development** 4 (April 1976): 695-696.

[6]"Battle looming over PAL shares," **The Filipino Forum** (Montreal, Canada), May-June 1993.

[7]Among others, see the following works which were reviewed in Chapter II: Christopher Adam, William Cavendish, and Percy S. Mistry, eds., **Adjusting Privatisation** (London: James Currey, 1992); Glade, **State Shrinking**; Glade, **Privatization of Public Enterprises**; Jacques Pelkmans and Norbert Wagner, eds., **Privatization and Deregulation in ASEAN and the EC: Making Markets More Effective** (Singapore: Institute of Southeast Asian Studies, 1990); and Vernon, **The Promise of Privatization.**

[8]These works include those of Michael Bruno, "Introduction to 'liberalisation with stabilisation in the Southern Cone of Latin America,'" **World Development** 13 (August 1985): 867; Armeane M. Choksi and Demetris Papageorgiou, "Introduction," in A.M. Choksi and D. Papageorgiou, eds., **Economic Liberalisation in Developing Countries** (Oxford: Basil Blackwell, 1986), p. 3; Sebastian Edwards, "Sequencing Economic Liberalization in Developing Countries," **Finance and Development** 24 (January 1987): 26; Michael Michaely, "The Timing and Sequencing of a Trade Liberalization Policy," in Choksi and Papageorgiou, **Economic Liberalisation**, p. 49; and Joan Nelson, "The Political Economy of Stabilisation: Commitment, Capacity and Public Response," **World Development** 12 (October 1984): 983.

[9]*Ibid.*

[10]For a good discussion of alternative techniques for improving public enterprise performance, see John R. Nellis, **Public Enterprise in Sub-Saharan Africa** (Washington D.C.: The World Bank, 1986).

BIBLIOGRAPHY

Primary Sources

I. *Legal Documents*

The 1973 Constitution of the Philippines (as amended up to 1981).

The 1987 Constitution of the Philippines.

Administrative Order No. 59 (16 February 1988).

Batas Pambansa Blg. 68 (1 May 1980).

Batas Pambansa Blg. 80 (17 July 1980).

Central Bank Circular No. 1111 (4 August 1986).

Central Bank Circular No. 1267 (20 December 1990).

Central Bank Circular No. 1318 (3 January 1992).

Commission on Audit Circular No. 86-254 (24 March 1986).

Commonwealth Act No. 108 (7 February 1936).

Commonwealth Act No. 186 (14 November 1936).

Executive Order No. 1 (28 February 1986).

Executive Order No. 2 (12 March 1986).

Executive Order No. 5 (12 March 1986).

Executive Order No. 14 (7 May 1986).

Executive Orders Nos. 127 and 127-A (9 June 1987 and 22 July 1987).

Executive Order No. 236 (2 July 1987).

Executive Order No. 333 (12 August 1988).

Memorandum Circular No. 10 (19 May 1986).

Memorandum Order No. 177 (31 May 1988).

Monetary Board Resolution No. 861 (7 October 1987).

Presidential Decree No. 645 (28 January 1974).

Presidential Decree No. 750 (21 July 1975).

Presidential Decree No. 1146 (31 May 1977).

Presidential Decree 1297 (30 January 1978).

Presidential Decree No. 1444 (10 June 1978).

Presidential Decree No. 1463 (10 June 1978).

Presidential Decree No. 1590 (11 June 1978).

Presidential Decree 1593 (November 1978).

Presidential Decree No. 1858 (14 January 1983).

Presidential Decree No. 2029 (4 February 1986).

Presidential Decree No. 2030 (6 February 1986).

Proclamation No. 1 (25 February 1986).

Proclamation No. 3 (25 March 1986).

Proclamation Nos. 50 and 50-A (8 and 11 December 1986).

Proclamation No. 51 (12 December 1986).

Proclamation No. 82 (3 March 1987).

Proclamation No. 1081 (21 September 1972).

Republic Act No. 337 (14 July 1948).

Republic Act No. 380 (3 December 1948).

Republic Act No. 7042 (13 June 1991).

Republic Act No. 7181 (17 January 1992).

SEC Registration No. 51051 (27 April 1973).

SEC Registration No. 93475 (17 June 1980).

Senate Resolution No. 259 (19 September 1988).

II. *Legal Cases and Decisions*

BASECO v. PCGG, 150 SCRA 181 (27 May 1987).

Bulletin Publishing v. PCGG, G.R. No. 79126 (15 April 1988).

FNBB v. Velez, CA-G.R. SP No. 22013 (14 December 1990).

Gokongwei v. Securities and Exchange Commission (11 May 1990).

GSIS v. Velez, C.A.-G.R. SP Nos. 12859 and 12903 (7 December 1987).

GSIS v. Cruz, OSP Case No. 88-02028 (23 October 1989).

GSIS v. Sandiganbayan *et al.*, G.R. No. 83385 (26 November 1990).

Kant Kwong v. PCGG, G.R. No. 79484 (7 December 1987).

Liwayway Publishing, Inc. v. PCGG, G.R. No. 77422 (15 April 1988).

MPCP v. Sandiganbayan *et al.*, G.R. No. 103068 (pending resolution).

National Housing Corporation v. Juco *et al.*, G.R. No. 64313 (17 January 1985).

PCGG v. Pena, G.R. No. 77663 (12 April 1988).

PCGG v. Cruz *et al.*, OMB-0-91-0695, 0696, 0697, and 0698 (pending resolution).

PCGG Orders re PIMECO (17 March 1987 and 20 September 1988).

PCGG Resolution re PIMECO (24 January 1989).

PIMECO v. MPCP, PCGG Case No. 25 (pending resolution).

PIMECO v. MPCP, SB Civil Case No. 0108 (pending resolution).

Ramos v. GSIS, Civil Case No. 17027, Branch LVII, Regional Trial Court of Makati (15 June 1987).

Ramos, Sr. v. Court of Appeals, G.R. Nos. 80908 and 80909 (24 May 1989).

RP v. Sabido *et al.*, PCGG Case No. 25 and SB Civil Case No. 0024 (pending resolution).

RP v. Sabido *et al.*, SB Civil Case No. 0024 (22 June 1989 and 18 November 1991).

Sabido v. MPCP, SB Civil Case No. 0024 (pending resolution).

SEC E.B. No. 251 (14 September 1990).

SEC Order re Lim v. FNBB, SEC Case No. 3657 (16 July 1990).

Senate Committee Report No. 628, re: P.S. Res. No. 259 (23 May 1989).

Valmonte v. Belmonte, G.R. No. 74930 (13 February 1989).

III. *Official Statements*

Aquino, Corazon C. Closing speech during the executive seminar entitled, "Managing the Bureaucracy for Results Program," Development Academy of the Philippines, Tagaytay City, 9 June 1988.

________________. Keynote Address to the International Conference on Philippine Opportunities for Entrepreneurs and Investors (PHOENIX)'86, Philippine International Convention Center, Manila, 9 December 1986.

________________. Keynote Address to the Philippine Investment Conference: Privatization and Debt-to-Equity Conversion, Philippine International Convention Center, Manila, 12 November 1987.

________________. "Reflections on Our Development." Speech delivered before the Philippine Chamber of Commerce and Industry, Makati, 23 June 1992.

________________. State-of-the-Nation Address before the Joint Session of the

First Congress of the Philippines, Batasang Pambansa, Quezon City, 23 July 1987.

_______________. State-of-the-Nation Address before the Joint Session of the First Congress of the Philippines, Batasang Pambansa, Quezon City, 25 July 1988.

Cruz, Roman, Jr. Speech delivered before the Philippine Marketing Association, Hyatt Regency Hotel, Pasay City,1985.

McNamara, Robert. "1975 Address to the Board of Governors," The World Bank, Washington D.C., 1975.

Ramos, Fidel V. State-of-the-Nation Address before the Joint Session of the Congress of the Philippines, Batasang Pambansa, Quezon City, 27 July 1992.

IV. *Official Correspondence*

Aide memoire from Claudio Fernandez and Mohan Gopal to Secretary of Finance Jesus P. Estanislao, November 1990.

Aide memoire from Claudio Fernandez and Woonki Sung to Secretary of Finance Jesus P. Estanislao, 30 March 1991.

5th Indorsement by Commission on Audit Chairman Eufemio Domingo to the President and General Manager of the Government Service Insurance System, 20 June 1991.

Letter of Finance Undersecretary Juanita Amatong to GSIS President and General Manager Feliciano R. Belmonte, Jr., 4 March 1992.

Letter of President Corazon C. Aquino to Central Bank Governor and Monetary Board Chairman Jose B. Fernandez, Jr., 20 October 1987.

Letter of GSIS President and General Manager Feliciano R.Belmonte, Jr., to Her Excellency, President Corazon C. Aquino, 12 September 1986.

____, to the Committee on Privatization, 20 March 1992.

Letter of California First Bank to Jamestown Co., 30 March 1986.

Letter of the GSIS Board to the Philipppine Integrated Meat Corporation, 17 November 1986.

Letter of World Bank Director Callisto E. Medavo to Finance Secretary Jesus P. Estanislao, 24 January 1992.

Letter of Central Bank Managing Director Feliciano L. Miranda to BBOP Vice-President and General Manager Benjamin Sevilla, 26 April 1990.

Letter of Commission on Audit State Auditor Nenita H. Olaez to the Members of the Board, Meat Packing Corporation of the Philippines, 8 July 1992.

Letter of the PIMECO Labor Union to the Second Division of the Sandiganbayan, 30 May 1989.

Letter of Central Bank Director Andres I. Rustia to BBOP Vice-President and General Manager Benjamin Sevilla, 14 August 1989.

Memorandum of MPCP Legal Counsel Andres R. Amante, Jr. for the Members of the GSIS/MPCP Board, re "Justification for the Filing of Complaint Under the Anti-Graft Law," 1991.

______________________________. for GSIS President and General Manager Feliciano R. Belmonte, Jr., re MPCP Cases (with supporting documents), 7 June 1989.

Memorandum of President Corazon C. Aquino for the Presidential Commission on Good Government, re PCGG Voting Powers, 26 June 1986.

World Bank Memorandum of William Ascher for Larry Hinkle, re "Political and Administrative Bases for Economic Policy in the Philippines," Washington D.C., 6 November 1980.

Memorandum of GSIS President Feliciano R. Belmonte, Jr. for Her Excellency, President Corazon C. Aquino, re Sale of Stockton Property in San Francisco, California, 16 April 1986.

World Bank Memorandum of Bruce Jones, re "Working Level Draft CPP [Country Program Paper]," Washington D.C., 29 August 1980.

Memorandum of MPCP Legal Counsel Antonio F. Navarrete for the Chairman and Members of the GSIS/MPCP Board, re History of Cases Involving the Meat Packing Corporation of the Philippines, 29 June 1992.

Memorandum of E.M. Villanueva, CB Apex Development Finance Unit, Central Bank for Central Bank Governor Jaime C.Laya, re Industrial Finance Fund, 14 April 1981.

Reply of MPCP Legal Counsel Antonio F. Navarrete to the PCGG's Comment, 4 May 1992.

V. *Transcripts of Stenographic Notes*

Cabinet Meetings, 14 May 1986 (10th meeting), 4 June 1986 (12th meeting), and 6 August 1986 (20th meeting).

Committee on the Accountability of Public Officers and Investigations, Senate, 7 February 1989, 20 February 1989, 7 March 1989, 13 March 1989, and 20 April 1989.

Committee on Corporations and Franchises, House of Representatives, 8 September 1988.

Committee on Government Corporations and Public Enterprises, Senate, 16 September 1987, 7 October 1987, 1 March 1988, and 18 October 1988.

Plenary Session, House of Representatives, 26 November 1991.

Plenary Session, Senate, 5 December 1991.

Special meeting of the Board of Trustees, Government Service Insurance System, 4 March 1985.

Special meeting called by President Aquino at Malacanang Palace to resolve the issue of GSIS Property in San Francisco, California, 12 March 1986.

Sub-Committee on Privatization, House of Representatives, 7 March 1990 and 8 March 1990.

VI. *Privatization-Related Documents*

Arconal NV Certificate of Ownership of All Common Stock of Arconal, Inc. (2 March 1983).

Certificate of Ownership by GSIS of Arconal NV (2 March 1983). GSIS Board Resolution No. 2 (series of 1975).

GSIS Board Resolution No. 767 (9 October 1981).

GSIS Board Resolution No. 655 (3 August 1982).

GSIS Board Resolution No. 283 (15 March 1984).

GSIS Board Resolution No. 154 (7 August 1986).

GSIS/MPCP Board Resolution No. 4-86 (15 August 1986).

Government Service Insurance System. "Information on the Sale by Public Bidding of the Hotel Enterprises of the Philippines, Inc.," Manila, 1988.

______________________________. "Privatization Plan for Manila Hotel." Manila, 1989.

______________________________. "Privatization Plan for the Meat Packing Corporation of the Philippines." Manila, 1989.

______________________________. "General Guidelines and Procedures in the GSIS Negotiation of the Sale of PPHI Shares of Stock." Manila, 1990.

______________________________. "Guidelines and Procedures in the Bidding and Awarding of Sale of Shares of Stock of the Philippine Plaza Holdings, Inc., Owner of the Philippine Plaza Hotel." Manila, 1990.

______________________________. "Information on the Sale by Public Bidding of the 100% Interest of the GSIS in the Philippine Plaza Holdings, Inc.." Manila, 1990.

______________________________. "Guidelines and Procedures to Govern the Public Bidding for the Privatization of Manila Hotel Corporation." Manila, 24 July 1991.

Lease-Purchase Agreement between the Government Service Insurance System and the Philippine Integrated Meat Corporation (3 November 1975).

Memorandum of Agreement between the Government Service Insurance System and Delta Manufacturing Corporation (14 April 1973), as approved by the President of the Philippines, 1st Indorsement (23 July 1973).

Memorandum of Agreement between Emerito Ramos, Sr. *et al.* and the Investment and Underwriting Corporation of the Philippines (9 May 1980).

Memorandum of Agreement between the Government Service Insurance System and the Cultural Center of the Philippines (9 December 1988), as approved by President Corazon C. Aquino (25 January 1989).

Memorandum of Agreement between the Presidential Commission on Good Government and the Meat Packing Corporation of the Philippines (28 April 1989).

Memorandum of Agreement between the Government Service Insurance System and the Allied Kajima Ltd. (16 February 1991).

Memorandum of Agreement between the Department of Finance, the Central Bank, the Government Service Insurance System, the National Development Company, and the Philippine Airlines (19 August 1991), as approved by President Corazon C. Aquino under Administrative Order No. 242 (21 October 1991).

Agreement of Purchase and Sale of Stock of the Jamestown Company (5 August 1982).

Stock Purchase and Sale Agreement between the Government Service Insurance System and Boston Bank of the Philippines (11 December 1987).

Stock Purchase and Sale Agreement between the Government Service Insurance System and Allied Kajima Ltd. (29 April 1991, as amended on 25 June 1991).

Stock Purchase and Sale Agreement for the Philippine Airlines (17 February 1992).

Supplementary Loan Agreement between Meat Packing Corporation of the Philippines and the Philippine Integrated Meat Corporation (9 July 1981), as approved by the President of the Philippines, 1st Indorsement (29 November 1980).

VII. *Interviews*

Bacani, Paterno C., Associate Executive Trustee, Asset Privatization Trust, 10 June 1992.

Bautista, Andres S., President, Meat Packing Corporation of the Philippines; Member of the Board, Government Service Insurance System; and Member of the Board, Manila Hotel Corporation, 27 July 1992.

Belmonte, Feliciano R., Jr., President and General Manager, Government Service

Insurance System; Chairman of the Board, Commercial Bank of Manila; President, Hotel Enterprises of the Philippines, Inc.; President, Manila Hotel Corporation; President and Chief Executive Officer, Philippine Air Lines, Inc., 30 August 1992.

Beltran, Zacarias, Vice-President, Acquired Assets Group, Government Service Insurance System, 10 August 1992.

Cardenas, Lino, Consultant, Presidential Commission on Government Reorganization, Task Force on the Government Corporate Sector, 23 June 1992 and 4 July 1992.

Fragada, Joselin G., Chairman of the Board, Bank of Commerce, 17 August 1992.

Garde, Eduardo M., Comptroller, Manila Hotel Corporation, 3 August 1992.

Legazpi, Crisanta S., Director, Privatization Office, Committee on Privatization, 8 May 1992.

Mendoza, Carmen C., Comptroller, Hotel Enterprises of the Philippines, Inc., 3 August 1992.

Pangilinan, Pastor C., Senior Vice-President for Maintenance and Engineering, Philippine Air Lines, 19 August 1992.

Rimando, Amante, Senior Vice-President, Finance and Investments Group, Government Service Insurance System, 7 May 1992.

VIII. *Agency Papers and Reports*

Asian Appraisal Co., Inc. "Philippine Intergrated Meat Corporation: Financial Analysis as of 31 March 1989." Manila, 1989.

Asian Development Bank. **Daily Digest.** 25 May 1988.

______________________. "Issues Paper for Country Session on the Philippines." RTDS, 16 December 1991.

Bank of Commerce, **Annual Report 1991.** Manila, 1991.

Berg, Elliot *et al.* **Accelerated Development in Sub-Saharan Africa: An Agenda for Action.** Washington D.C.: the World Bank, 1981.

Central Bank. **Forty-Third Annual Report (1991) of the Central Bank of the Philippines and First Quarter Report 1992.** Manila, 1992.

Commercial Bank of Manila. **1983 Annual Report.** Manila, 1983.

Commission on Audit. **1984 and 1986 Annual Financial Reports,** Volume II: Government-Owned and Controlled Corporations. Quezon City: Commission on Audit, 1985 and 1987.

_________________. **Annual Audit Reports on the Government Service Insurance System, Calendar Years 1987, 1988, 1989, 1990,** and **1991.** Quezon City: Commission on Audit, 1987-1991.

_________________. **Meat Packing Corporation of the Philippines, Audit Report for the Years Ended December 31, 1990** and **1991.** Quezon City: Commission on Audit, 1992.

_________________. **Phil-Asia Food Industries Corporation Annual Report for the Years Ended December 31, 1989 and 1988.** Quezon City: Commission on Audit, 1990.

_________________. **Philippine Plaza Holdings, Inc.: Financial Statements for the Year Ended December 31, 1989 and Auditors' Report.** Quezon City: Commission on Audit, 1990.

Committee on Privatization. **1991 Annual Report.** Manila, 1992.

Cultural Center of the Philippines. **The President's Report 1985.** Manila, 1985.

_________________________________. **1987 Annual Report.** Manila, 1988.

Government Service Insurance System. "1989 and 1990 Annual Reports of the GSIS to the Committee on Privatization." Manila, 1989 and 1990.

House of Representatives, Congressional Planning and Budget Office. "Why Privatization is Proceeding Slowly." Oversight Report on Privatization, Quezon City, November 1990.

IBON Facts & Figures, 31 August 1990.

International Finance Corporation. **Philippines Privatization Diagnostic Report: Philippines Plaza Hotel.** Washington D.C.: International Finance Corporation, March 1989.

Locsin, Raul L., editor. **Corporate Profiles 1982 and 1984.** Quezon City: Business Day Corporation, 1982 and 1984.

Meat Packing Corporation of the Philippines. "Detailed History of the MPCP." Briefing paper submitted to the President and General Manager of the GSIS, Manila, July 1992.

National Economic Development Authority. **Medium-Term Philippine Development Plan, 1987-1992.** Manila, 1986.

Philippine Airlines. **Annual Report 1991.** Manila, 1991.

The Philippine Financial System: A Primer. Manila: IBON Databank, 1983.

Presidential Commission on Good Government. "Rules and Regulations." Manila, 1986.

Presidential Commission on Government Reorganization. **Principles and Policy Proposals: Provisional Report.** Manila, 11 June 1986.

____. **Report on the Government Corporate Reform Program.** Manila, 1987.

____, Task Force on the Government Corporate Sector. "The Disposition of Non-Performing Assets and Liabilities: Its Underlying Concepts and Proposed Mechanisms." Internal discussion paper, Manila, 4 September 1986.

Say, Michael G., editor. **Philippine Company Profiles.** Manila: Mahal Kong Filipinas Foundation, 1987.

____________________. **The Top 1,000 Corporations of the Philippines.** Quezon City: Business Day Corporation, Inc., 1986.

____________________. **The VIP's of Philippine Business 1988.** Manila: Mahal Kong Filipinas Foundation, Inc., 1988.

United Nations' Industrial Development Organization. "The Philippines: Sustaining Industrial Recovery through Privatization and Foreign Investment." Industrial Development Review Series, Regional and Country Studies Branch, New York, NY, 24 November 1988.

United States Agency for International Development. **Country Development Strategy Statement for the Philippines, FY 1986-90.** Manila: USAID Mission, 1985.

World Bank. "Critical Issue No. 91-03: Privatization." Washington D.C., October 1991.

_________. "The Philippines Country Economic Memorandum: Issues in Adjustment and Competitiveness." Report No. 8933-PH, Washington D.C., 31 October 1990.

_________. **Philippines Economic Report: A Framework for Economic Recovery.** Washington D.C.: World Bank Country Programs Department for the East Asia-Pacific Region, 1986.

_________. **The Philippines: Priorities and Prospects for Development.** Washington D.C.: The World Bank, 1976.

Secondary Sources

I. *Books, Journals, and Scholarly Papers*

Abdul Rahman, Abdullah bin. **Government and Public Enterprises in Developing Countries.** Malaysia: Percetakan Adabi SDn., 1982.

Abramovitz, Mimi. "The Privatization of the Welfare State: A Review." **Social Work** 31 (July-August 1986): 257.

Adam, Christopher; William Cavendish; and Percy S. Mistry, editors. **Adjusting Privatisation.** London: James Currey, 1992.

Aharoni, Yair. **The Evolution and Management of State-Owned Enterprises.** Cambridge, MA: Ballinger, 1986.

Amatong, Juanita. "Explicit Budgetary Contributions to Public Enterprises." Paper presented at the International Seminar on the Role and Performance Evaluation of Public Enterprises, Commission on Audit, Quezon City, 17-27 June 1985.

_____________; Gil S. Beltran; and Emy Boncodin. "Explicit Budgetary Contributions of the National Government to Government Corporations." Working Paper, Philippine Institute for Development Studies, Manila, 1986.

The Anthropological Association of the Philippines. "The Tinggians of Abra and Cellophil." Baguio City, April 1979 (mimeographed).

Atkinson, M.M. and William D. Coleman. "Strong States and Weak States: Sectoral

Policy Networks in Advanced Capitalist Economies." **British Journal of Political Science** 19 (September 1989): 47.

Bagchi, Amiya Kumar. "'Rent-Seeking,' New Political Economy and Negation of Politics." **Economic and Political Weekly**, 21 August 1993, p. 1729.

Bailey, Robert W. "Uses and Misuses of Privatization," In **Prospects for Privatization**, p. 141. Edited by S. Hanke. New York: The Academy of Political Science, 1987.

Barnes, John A. "The Failure of Privatization." **National Review**, July 18, 1986, p. 40.

Bello, Walden. "Aquino's Elite Populism: Initial Reflections." **Third World Quarterly** (July 1986): 5.

____________ and Elaine Elinson. **Elite Democracy and Authoritarian Rule: The Crisis of the Political Regime of U.S. Domination in the Philippines and the Third World from the Kennedy Years to the Reagan Era.** San Francisco, CA: Philippine Solidarity Network, 1981.

____________; David Kinley; and Elaine Elinson. **Development Debacle: The World Bank in the Philippines.** San Francisco, CA: Institute for Food and Development Policy, 1982.

Belmonte, Feliciano R., Jr. "A Financial Turnaround." **Fookien Times 1991 Philippines Yearbook.**

________________________. "Privatization and the GSIS Experience." Paper presented at the Conference/Workshop on Privatization and Its Impact on Labor Relations in the Philippines, University of the Philippines School of Industrial and Labor Relations, Quezon City, 19-21 August 1988.

________________________. "Towards a Responsive and Responsible GSIS." **Fookien Times 1986-1987 Philippines Yearbook**, p. 126.

Bienen, Henry S. and John Waterbury. "The Political Economy of Privatisation in Developing Countries." **World Development** 15 (1989 Special Issue): 617.

Bish, Robert L. and Vincent Ostrom, **Understanding Urban Government.** Washington D.C.: American Enterprise Institute, 1973.

Boukaraoun, Hacene. "The Privatization Process in Algeria." **The Developing Economies** 29 (June 1991): 89.

Brennan, Geoffrey and James M. Buchanan. **The Reason of Rules**. New York: Cambridge University Press, 1985.

Briones, Leonor M. "Financial Management in Five Selected Public Utility/Infrastructure Corporations." Paper prepared for the Philippine Institute for Development Studies, Makati, 1985.

________________. "Issues on the Privatization Policy in the Philippines." **Philippine Journal of Public Administration** 33 (January 1989): 31.

________________. "The Relationship of Public Enterprises with the National Government in the Philippines." Paper presented at the Seminar on the Role and Performance of Public Enterprises, Commission on Audit, Diliman, Quezon City, 17-28 June 1985.

________________. "The Role of Government-Owned and Controlled Corporations in Development." **Philippine Journal of Public Administration** 29 (October 1985): 365.

________________ and Dalisay C. Sevilla. "Towards a Reexamination of the Policy Framework for Government-Owned and Controlled Corporations." In **Policy Studies, 1989-1990**, p. 585. Edited by Lino Cardenas *et al.* Manila: United Nations Development Programme and Department of Budget and Management, 1990.

________________ and Aileen R. Zosa. "Privatization of Public Enterprises in the Philippines: Policy and Implementation." Country paper presented at the Project Planning Meeting, Asia-Pacific Development Center, Kuala Lumpur, Malaysia, 2-4 April 1988.

Broad, Robin. **Unequal Alliance: The World Bank, the International Monetary Fund, and the Philippines**. Berkeley, CA: University of California Berkeley Press, 1988.

Bruno, Michael. "Introduction to 'liberalisation with stabilisation in the Southern Cone of Latin America.'" **World Development** 13 (August 1985): 867.

Buchanan, James M. "Justification of the Compound Republic: The Calculus in Retrospect." In **Public Choice and Constitutional Economics**, p. 131. Edited by J.D. Swaltzey and R.E. Wagner. Greenwich, Conn.: Jai Press, Inc., 1988.

________________. "Liberty, Market and State." **Economic Impact** 58 (February 1987): 39.

________________. "Rights, Efficiency and Exchange: The Irrelevance of Transaction Costs." In **Liberty, Market and State**, p. 92. Edited by J.M. Buchanan. Brighton, Sussex: Wheat heaf Books, Ltd., 1986.

________________; Robert D. Tollison; and Gordon Tullock, editors. **Toward a Theory of the Rent-Seeking Society**. College Station, TX: Texas A & M University Press, 1980.

Burton, Sandra. **Impossible Dream: The Marcoses, the Aquinos, and the Unfinished Revolution**. New York: Warner Books, 1989.

Calleja, Pura Ferrer. "The Proper Role of DOLE in Privatization." Paper presented at the Conference/Workshop on Privatization and Its Impact on Labor Relations in the Philippines, University of the Philippines School of Industrial and Labor Relations, Quezon City, 19-21 August 1988.

Canlas, Dante et al. "The Philippine Economic Crisis: A Workshop Report." University of the Philippines School of Economics, Diliman, Quezon City, 1984.

Carroll, Barry J.; Ralph W. Conant, and Thomas A. Easton, editors. **Private Means--Public Ends: Private Business in Social Service Delivery** New York: Praeger, 1987.

Carroll, James. "Public Administration in the Third Century of the Constitution: Supply-Side Management, Privatization, or Public Investment?" **Public Administration Review** 47 (January-February 1987): 110.

Castells, Manuel. **The Economic Crisis and American Society**. Princeton, NJ: Princeton University Press, 1980.

Cerqueda, Miguel. "The Legend Lives On." **Fookien Times 1986-1987 Philippines Yearbook**, p. 197.

Choksi, Armeane M. and Demetris Papageorgiou, editors. **Economic Liberalization in Developing Countries**. Oxford: Basil Blackwell, 1986.

Coleman, William D. and Grace Skogstad. "Policy Communities and Policy Networks: A Structural Approach," and "Conclusion." In **Policy Communities and Public Policy in Canada: A Structural Approach**, pp. 14 and 312, respectively. Edited by W.D. Coleman and G. Skogstad. Cooksville, Ontario: Copp Clark Pitman Ltd., 1990.

Constantino, Renato. **The Nationalist Alternative**. Quezon City: Foundation for

Nationalist Studies, 1979.

_________________. **The Philippines: A Past Revisited.** Quezon City: Taal Publishing, 1975.

Cook, Paul and Colin Kirkpatrick, editors. **Privatisation in Less Developed Countries.** Brighton, Sussex: Wheatsheaf Books, 1988.

_________ and Martin Minogue. "Waiting for Privatization in Developing Countries: Towards the Integration of Economic and Non-Economic Explanations." **Public Administration and Development** 10 (1990): 389.

Corpuz, Onofre D. **Liberty and Government in the New Society.** Manila, 1973.

Crouch, Harold. **Economic Change, Social Structure and the Political System in Southeast Asia: Philippine Development Compared with the Other ASEAN Countries.** Singapore: Institute of Southeast Asian Studies, 1985.

De Jesus, Ma. Leonora Vasquez. "Changes (?) in Labor Related Privatization Policies of the Government." Paper presented at the Conference/Workshop on Privatization and Its Impact on Labor Relations in the Philippines, University of the Philippines School of Industrial and Labor Relations, Quezon City, 19-21 August 1988.

Dohner, Robert. "Aquino and the Economy: An Assessment of the First Three Years." **Pilipinas** 11 (Fall 1988): 17.

Donahue, John. **The Privatization Decision: Public Ends, Private Means.** New York: Basic Books, 1989.

Dunleavy, Patrick. "Explaining the Privatization Boom: Public Choice Versus Radical Approaches." **Public Administration Review** 46 (March-April 1986): 19.

Edwards, Sebastian. "Sequencing Economic Liberalization in Developing Countries." **Finance and Development** 24 (January 1987): 26.

Fernandez, Edwin V. "Some Issues on Increased Listings." Paper presented at the Conference on Capital Markets Development, Manila, May 1988.

Fraser, Robert, editor. **Privatization: the UK Experience and International Trends.** Harlow, England: Longman, 1988.

Garcia, Ramon T. "Government Privatization." **Fookien Times 1991 Philippines**

Yearbook, p. 286.

Glade, William P., editor. **Privatization of Public Enterprises in Latin America.** San Francisco, CA: ICS Press, 1991.

________________________. **State Shrinking: A Comparative Inquiry into Privatization.** Austin, TX: The University of Texas at Austin, 1986.

Godinez, Zinnia F. "Privatization and Deregulation in the Philippines: An Option Package Worth Pursuing." **ASEAN Economic Bulletin** (March 1989): 261.

Golay, Frank. **The Philippines: Public Policy and National Economic Development.** Ithaca, NY: Cornell University Press, 1960.

Grosh, Barbara. **Public Enterprises in Kenya.** Boulder, CO: Lynne Rienner, 1992.

Guerrero, Amado. **Philippine Society and Revolution.** Oakland, CA: International Association of Filipino Patriots, 1979.

Gwartney, James D. and Richard Stroup. **Economics: Private and Public Choice.** New York: Academic Press, 1983.

Haggard, Stephan. "The Philippines: Picking Up After Marcos." In **The Promise of Privatization**, p. 91. Edited by R. Vernon. New York: Council on Foreign Relations Inc., 1988.

Hanke, Steve H., editor. **Privatization and Development.** San Francisco, CA: International Center for Economic Growth, 1987.

_____________. "The Privatisation Option: An Analysis." **Economic Impact** 3 (1986): 16.

Hawes, Gary. **The Philippine State and the Marcos Regime: The Politics of Export.** Ithaca, NY: Cornell University Press, 1987.

Heald, David. "Privatization: Policies, Methods and Procedures." In **Privatization: Policies, Methods and Procedures**, p. 57. Edited by D. Heald. Manila: Asian Development Bank, 1985.

Humphrey, Clare E. **Privatization in Bangladesh: Economic Transition in a Poor Country.** Boulder, CO: Westview Press, Inc., 1990.

Jones, Leroy P. et al. "Role of Economic Factors in Determining the Size and

Structure of the Public Enterprise Sector in Less Developed Countries with Mixed Economies." In **Public Enterprise in Less Developed Countries**, p. 30. Edited by L.P. Jones. Cambridge: Cambridge University Press, 1982.

Kay, John; Colin Mayer; and David Thompson, editors. **Privatization and Regulation: the UK Experience.** Oxford, England: Oxford University Press, 1986.

Killick, Tony. "Twenty-Five Years in Development: The Rise and Impending Decline of Market Solutions." **Development Policy Review** 4 (February 1986): 49.

____________ and Simon Commander. "State Divestiture as a Policy Instrument in Developing Countries." **World Development** 16 (December 1988): 1465.

Kolderie, Ted. "Two Different Concepts of Privatization." **Public Administration Review** 46 (July-August 1986): 285.

Krueger, Anne O. "The Political Economy of the Rent-Seeking Society." **American Economic Review** (June 1974): 291.

Lande, Carl. **Leaders, Factions, and Parties: The Structure of Philippine Politics.** New Haven, CT: Yale University Southeast Asia Program, 1965.

Lee, Sanghack. "Optimal Rent-Seeking Group." **The American Economist** 36 (Fall 1992): 58.

Leviste, Jose P. "The Management of Public Enterprises and the Monitoring of Government Corporations." **Philippine Budget Management** 9 (June 1985): 51.

Lichauco, Alejandro. **Nationalist Economics.** Quezon City: Institute for Rural Industrialization, Inc., 1988.

Lind, John E. **Philippine Debt to Foreign Banks.** California: Interfaith Committee on Corporate Responsibility, 1984.

Lipsey, Richard G.; Douglas D. Purvis; Gordon R. Sparks; and Peter O.Steiner. **Economics**, 4th edition. New York:Harper & Row, Publishers, Inc., 1982.

Lotilla, Perpetuo, Jr.; John Fabico; and Esteban Y. Gochan, Jr. "The Legal Basis of Sequestration." **Philippine Law Journal** 61 (June 1986): 165.

MacMurray, Trevor. "Rethinking Privatization." **The McKinsey Quarterly** 1

(January 1993): 36.

Manapat, Ricardo. **Some Are Smarter Than Others: The History of Marcos' Crony Capitalism.** New York: Aletheia Publications, 1991.

Manasan, Rosario M. and Corazon R. Buenaventura. "Macro-Economic Overview of Public Enterprises in the Philippines, 1975-1984." **Philippine Journal of Public Administration** 29 (October 1985): 342.

Marcos, Ferdinand E. **The Democratic Revolution in the Philippines.** Englewood Cliffs, NJ: Prentice-Hall International, 1974.

__________________. **Notes on the New Society in the Philippines.** Manila, 1974.

__________________. **The Third World Alternative.** Manila: Ministry of Public Information, 1980.

McAvoy, Paul, editor. **Privatization and State-Owned Enterprises: Lessons from the U.S., Great Britain, and Canada.** Boston: Kluwer Academic Publishers, 1989.

Mendoza, Vicente V. "A Year and a Half of Constitutional Law: 1987-1988." **Philippine Law Journal** 62 (June 1987): 130.

Moe, Ronald C. "Exploring the Limits of Privatization." **Public Administration Review** 47 (November-December 1987): 458.

Morgan, David R. and Robert E. England. "The Two Faces of Privatization." **Public Administration Review** 48 (November-December 1988): 979.

Mueller, Dennis C., editor. **Public Choice II.** Cambridge, England: Cambridge University Press, 1989.

Murray, Michael. "Comparing Public and Private Management." **Public Administration Review** 35 (July-August 1975): 364.

Nayar, Baldev Raj. "The Politics of Economic Restructuring in India: The Paradox of State Strength and Policy Weakness." **Journal of Commonwealth and Comparative Politics** 30 (July 1992): 145.

Naylor, R.T. **Hot Money and the Politics of Debt.** Toronto: McClelland and Stewart Limited, 1987.

Nellis, John R. **Public Enterprise in Sub-Saharan Africa.** Washington D.C.: The

World Bank, 1986.

Nelson, Joan M., editor. **Economic Crisis and Policy Choice: The Politics of Adjustment in Developing Countries.** Princeton, NJ: Princeton University Press, 1990.

______________. "The Political Economy of Stabilisation: Commitment, Capacity and Public Response." **World Development** 12 (October 1984): 983.

______________ et al., editors. **Fragile Coalitions: The Politics of Economic Adjustment.** Washington D.C.: Overseas Development Council, 1989.

Nelson, Richard R. "Roles of Government in a Mixed Economy." **Journal of Policy Analysis and Management** 6 (Summer 1987): 541.

Nozawa, Katsumi. "Privatization Policy in the Philippines." Paper presented before the School of Economics, University of the Philippines, September 1991.

Ocampo, Romeo B. "Privatization, Public Choice and Public Administration." **Philippine Journal of Public Administration** 32 (January-April 1988): 163.

Ostrom, Elinor. **Governing the Commons: The Evolution of Institutions for Collective Action.** Cambridge, England: Cambridge University Press, 1990.

Pack, Janet Rothenberg. "Privatization of Public Sector Services in Theory and Practice." **Journal of Policy Analysis and Management** 6 (Summer 1987): 539.

Paterno, Vicente. "The BOI: Its Role in the Philippine Industrial Development." **Philippine Quarterly**, June 1973.

Paul, Samuel. "Privatization and the Public Sector." **Finance and Development** 22 (December 1985): 4.

Payer, Cheryl. **The Debt Trap.** New York: Monthly Review Press, 1974.

Pelkmans, Jacques and Norbert Wagner, editors. **Privatization and Deregulation in ASEAN and the EC: Making Markets More Effective** Singapore: Institute of Southeast Asian Studies, 1990.

Pomeroy, William. **An American-Made Tragedy.** New York: International Publishers, 1974.

Richardson, J.J., editor. **Privatization and Deregulation in Canada and Britain.**

Aldershot, Hants, England: Dartmouth Publishing Co., 1990.

Rivera, Temario C. "Political Opposition in the Philippines: Contestation and Cooperation." Wisconsin Papers on Southeast Asia no. 9, University of Wisonsin-Madison, Madison, Wisconsin, 1985.

Ronquillo, Bernardino. "Business Responds to Reforms." **Fookien Times 1986-1987 Philippines Yearbook**, p. 80.

Rothstein, Robert L. "Politics and Policymaking in the Third World: Does a Reform Strategy Make Sense?" **World Development** 4 (April 1976): 695.

Rush, James. "Bringing Down Marcos, Part IV: Conclusion." Report no. 2, University Field Staff International, 1986.

Saldana, Cesar G. **Financial Management in the Philippine Setting.** Quezon City: AFA Publicatons, 1985.

Sandbrook, Richard. "The State and Economic Stagnation in Tropical Africa." **World Development** 14 (March 1986):319.

Sankar, T.L. and Y. Venugopal Reddy, editors. **Privatisation: Diversification of Ownership of Public Enterprises.** Hyderabad: Institute of Public Enterprise, 1989.

Sappington, David E.M. and Joseph E. Stiglitz. "Privatization, Information and Incentives." **Journal of Policy Analysis and Management** 6 (Summer 1987): 572-576.

Savas, E.S. **Privatization: The Key to Better Government.** Chatham, NJ.: Chatham House, 1987.

_________. **Privatizing the Public Sector: How to Shrink Government.** Chatham, NJ.: Chatham House, 1982.

Shalom, Steve. "U.S.-Philippine Relations: A Study of Neocolonialism." Unpublished Ph.D. dissertation, Boston University, Boston, MA, undated.

Shaw, Janet. "James Buchanan and Public-Choice Economics." **Dialogue** 77 (March 1987): 22.

Sicat, Gerardo P. **Economics.** Metro Manila: National Book Store, 1983.

Skocpol, Theda. "Bringing the State Back In: Strategies of Analysis in Current

Research." In **Bringing the State Back In.** Edited by P.B. Evans, D. Rueschmeyer, and T. Skocpol. New York: Cambridge University Press, 1985.

Stauffer, Robert B. "The Political Economy of Refeudalization." In **Marcos and Martial Law in the Philippines,** p. 196. Edited by D. Rosenberg. Ithaca, NY: Cornell University Press, 1979.

Steinberg, David. **The Philippines: A Singular and Plural Place.** Boulder, CO: Westview Press, 1982.

Stone, Clarence N. "Whither the Welfare State? Professionalization, Bureaucracy, and the Market Alternative." **Ethics** 93 (April 1983): 595.

Suleiman, Ezra N. and John Waterbury. **The Political Economy of Public Sector Reform and Privatization.** Boulder, CO: Westview Press, 1990.

Sullivan, Harold J. "Privatization of Public Services: A Growing Threat to Constitutional Rights." **Public Administration Review** 47 (November-December 1987): 466.

Sycip, David. "The Philippines' Privatization Programme: An APT Perspective." Paper presented at the Philippine Investment Conference: Privatization and Debt-to-Equity Conversion. Manila, 12-13 November 1987.

Tabbada, Jose P. "Explorations on the History of State Intervention in the Philippine Economy: The Role of Public Enterprises." **Philippine Journal of Public Administration** 29 (October 1985): 438.

Tancangco, Luzviminda G. and Roger L. Mendoza. "Elections and the Crisis of Legitimacy in the Philippines." **Philippine Journal of Public Administration** 32 (July-October 1988): 276.

Timberman, David G. **A Changeless Land: Continuity and Change in Philippine Politics.** Manila and Singapore: The Bookmark, Inc. and Institute of Southeast Asian Studies, 1991.

Tobin, Gary A. "The Public/Private Sector Partnership in the Redevelopment Process." **Policy Studies Journal** 11 (March 1983): 473.

Tsuda, Mamoru. **A Study of Japanese-Filipino Joint Ventures in the Philippines.** Quezon City: Foundation for Nationalist Studies, 1978.

Vernon, Raymond, editor. **The Promise of Privatization.** New York: Council on

Foreign Relations, Inc., 1988.

Vickers, John and Vincent Wright, editors. **The Politics of Privatization in Western Europe.** London: F. Cass, 1989.

Wade, Robert. **Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization.** Princeton, NJ: Princeton University Press, 1990.

White, Louise G. "Public Management in a Pluralistic Arena." **Public Administration Review** 49 (November-December 1989): 526.

Whitfield, Dexter. **The Welfare State: Privatization, Deregulation, and Commercialisation of Public Services.** London: Pluto Press, 1992.

Wise, Charles R. "Public Service Configurations and Public Organizations: Public Organization Design in the Post-Privatization Era." **Public Administration Review** 50 (March-April 1990): 141.

II. *Magazines and Newspapers*

Asian Wall Street Journal

Asiaweek

Bulletin Today

Business Day

Business Star

Business World

Daily Globe

Evening Post

Far Eastern Economic Review

The Filipino Forum

Filipino Press

Fortune Magazine

The Journal

Malaya

Manila Chronicle

Manila Standard

Manila Times

Newsday

New York Times

Phil-Am Focus

Philippines Daily Express

Philippine Daily Inquirer

Philippines Free Press

Philippine Star

Philippine Times

Philippine Times Journal

San Francisco Examiner

San Jose Mercury News

South China Morning Post

Sunday Inquirer Magazine

Time

Wall Street Journal

We Forum