

De Dios, Emmanuel S.

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## The economy fifty years since martial law: Changing landscapes, unchanged views

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## **UP School of Economics**

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#### **The economy fifty years since martial law: changing landscapes, unchanged views**

by

Emmanuel S. de Dios\*

\*Professor Emeritus, University of the Philippines School of Economics

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# **The economy fifty years since martial law: changing landscapes, unchanged views**

Emmanuel S. de Dios\*

## **Abstract**

The five decades that have passed since Marcos declared martial law is an opportunity for stocktaking relative to the present. This piece is a summary comparison of the character of the economy that existed under the Marcos regime and the current structure and problems experienced by the post-millennial economy. The stark differences described are unfortunately still not fully reflected in current economic discussions, a good part of which is still preoccupied with issues pertaining to a vanishing past. This prevents the country from confronting its real problems and exploiting new opportunities.

*Keywords:* martial law; Marcos; services economy; business-process outsourcing; overseas remittances; Philippine development strategies; protectionism and liberalisation

JEL: N15, O53

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\* Professor emeritus, University of the Philippines School of Economics. The author is grateful for comments by Dr. Edilberto de Jesus on an earlier draft. The usual disclaimer applies.

**The economy fifty years since martial law:  
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Emmanuel S. de Dios\*

The country had lost its “political innocence” and now stood “on the trembling edge of revolution.” This was the message Fr. Pacifico Ortiz, S.J., president of the Ateneo de Manila University, delivered on 26 January 1970 in his invocation before a joint session of Congress for the State of the Nation address of President Ferdinand Marcos. Projecting the national mood, it was a prophetic warning,

Leaving the halls of Congress after his address, Marcos was met by a huge crowd of student demonstrators who threw a papier-mâché crocodile at the presidential limousine. Police and the presidential security detail responded with a violent dispersal of the students that lasted through the night and left scores injured. Escalating student protests, workers’ and transport strikes in the following years were used by Marcos as a pretext to suspend the writ of habeas corpus in 1971, and then finally to declare martial law in 1972.

The increasingly radical social unrest of the time was stoked by an economy chronically in crisis. During the 1960s, the period immediately preceding martial law, the country was plagued by persistent balance of payments deficits, the underlying cause of which was an excess of imports of producer goods, notably petroleum, over a portfolio of exports that consisted mostly of agricultural commodities and minerals that commanded sluggish or erratic prices. That situation itself was simply a carryover from an economic structure inherited from the 1950s built on “import-substitution”. Domestic industries that produced consumer goods and served primarily a narrow domestic market were dependent on continuing imports of inputs and capital goods to keep running.

Chronic foreign exchange shortages meant that economic growth itself could occur only in fits and starts. The economy would occasionally gain temporary relief due to commodity price booms and emergency loans from multilateral and bilateral lenders, only to seize up again when foreign reserves ran out. Inflation was endemic and came from both demand and supply sides: large fiscal deficits—not least owing to profligate government spending and a failure to collect taxes—were monetised by a politically servile central bank, while discrete currency devaluations combined with hefty oil price increases to push up prices. With farmers hobbled by backward technology and onerous tenancy conditions and urban workers struggling with stagnant productivity and falling real wages in the face of rising inflation, poverty-incidence in the middle of Marcos’s second term and on the eve of martial law (1971) stood at a high 61 percent.<sup>1</sup>

The early 1970s until the early 1980s—roughly coinciding with the decade of authoritarian rule—represented a break with those conditions without actually resolving underlying problems.<sup>2</sup> The novelty was not some internal or structural reform by the regime but rather an important external element that served to prop up the Marcos economy: the availability of foreign credit from both official and commercial lenders on easy terms and at low interest rates. Oil-exporting countries flush with foreign-exchange earnings from elevated petroleum prices from 1973 onwards recycled these through Western commercial banks, which in turn lent these out as debt with minimal conditions to “promising” developing countries like the Philippines. Multilateral lenders such as the IMF and World Bank and bilateral partners such as the U.S. encouraged this liberal access to credit for their own reasons, including politico-strategic motives.<sup>3</sup>

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<sup>1</sup> See de Dios et al. [1993: 4, Table 1-1]

<sup>2</sup> Much of the following draws on de Dios, Gochoco-Bautista, and Punongbayan [2019].

<sup>3</sup> In the case of the U.S., the importance of preserving the military bases in the Philippines played a role, particularly while the Vietnam War was raging.

This foreign-debt “high” bridged the foreign exchange gap described earlier and allowed the regime to undertake a spending spree on projects which until today are heralded by the regime’s admirers as hallmarks of a supposed “golden era”. Projects included those that would arguably prove lasting, as well as those that were capricious and premature. But both kinds almost always reeked of irregularity and rank corruption, given the lack of checks and balances. Courtesy of foreign loans, the country was able to run current account deficits averaging five percent of GDP for an entire decade without—as in the past—running out of foreign exchange. This allowed the economy to grow more or less continuously during the period in question, at the cost of running up foreign debt, which rose from 34 percent of gross national income in 1972 to 91 percent by 1985.

The so-called “golden years” met their natural end in 1982 with the rise of world interest rates and the onset of a global recession.<sup>4</sup> Unable to service its huge pile of debt given the portfolio of investments in uncompetitive industries and projects, the Marcos regime distinguished itself as the only Asian country compelled to declare a debt moratorium. The situation was compounded by the political problems created by authoritarianism itself, particularly the threat to the Marcosian succession that ultimately led to the assassination of Sen. Benigno Aquino, Jr. in 1984. The drying up of foreign loans, combined with rising social and political unrest, led to the worst post-war economic crisis the country experienced then and since.<sup>5</sup> Poverty incidence by 1985 was anywhere from 50-60 percent of the population, about the same level as when the regime started.<sup>6</sup> Notwithstanding partial debt relief, the burden of servicing the foreign debt—which pre-empted what could be used for imports—meant it would take more than a decade for the country to regain the per capita income it enjoyed before the collapse in incomes in 1984-1985.

### **Fast forward—the rise of a services economy**

The post-millennial Philippine economy presents some stark contrasts with that of the Marcos economy of fifty years earlier. Idiosyncratic developments set its evolution apart from its past history as well as from the development experience of rapidly growing countries in the region. The economy attained a good measure of resilience and growth potential but also confronted problems it had not faced before.

The most notable difference is the economy’s stability in relation to the major problem that plagued the Marcos regime and previous administrations, namely, the limits on growth set by a chronic shortage of foreign exchange. Beginning in 2010 until the outbreak of the COVID pandemic, the country registered its highest post-war growth rates of GDP without running into a foreign-exchange crisis. GDP growth in the last fifteen years of Marcos rule averaged 3.6 percent annually, compared to 4.7 percent over the last fifteen years, i.e., including the 2020 recession. The country was running near-zero or positive current account balances from 2002 to 2020, averaging a positive 1.93 percent of GDP, and surpluses in its balance of payments from 2005 to 2015. It paid off its last IMF loan in 2008 and its foreign bonds attained “investment grade” from ratings agencies from 2013, allowing it to borrow commercial loans at far lower interest rates as and when it needed to. Neither the current pandemic-driven crisis nor the spike in foreign borrowing the Duterte administration has undertaken in response has pushed the country closer to a foreign-debt crisis comparable to that of the Marcos era.

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<sup>4</sup> The recession and the high-interest regime were related: U.S. monetary authorities purposefully raised their interest rates to combat inflation thus precipitating a domestic recession that spilled over to the rest of the world.

<sup>5</sup> Deep as it is, the current 2020-2021 recession fails to break the record of that of 1984-1985 as the worst since World War II: the latter involved nine quarters of negative GDP growth, versus five quarters during the current one.

<sup>6</sup> See Fuwa [2002]. The suppression of statistics under martial law leaves scholars in the dark whether and to what extent poverty was reduced between 1975 and 1981, although it is possible some poverty reduction occurred particularly during the years of high growth [de Dios, Gochoco-Bautista, and Punongbayan 2021].

Two uncharacteristic factors, probably unforeseen by actors of five decades ago, accounted for this change in fortune for the Philippines, : the rise of overseas Filipino workers (OFWs) and the emergence of the business-process outsourcing<sup>7</sup> (BPO) industry. These two sources alone today make up almost half of the country's annual earnings of foreign exchange.<sup>8</sup>

The outsize economic importance of overseas workers' remittances is ironically a phenomenon that grew out of the economic hardships created by the Marcos regime itself. Overseas labour deployment originated with crony-related firms taking advantage of the construction boom in the Middle East in the mid-1970s. But this deployment was always limited and controlled (indeed monopolised); in 1975 annual OFW deployment was still only around 75,000 [Orbeta 2009: 3; Table 1]. That figure is dwarfed today by the millions deployed yearly (approximately two million in 2019 before the pandemic hit), not even counting Filipinos who have resettled abroad permanently but still remit amounts to their relatives.<sup>9</sup> It was the especially desperate conditions of the crisis of 1984-85 under Marcos that turned what was initially a ripple into a giant wave of people who voted with their feet to escape economic hardship after the regime's fall. Where before overseas workers comprised mostly construction workers and seafarers, the trend by the 1990s came to encompass a veritable mass movement involving the entire spectrum of occupations, from nurses, to elementary school teachers, to domestic helpers, and, for a time, even bar entertainers.

The rise of the BPO sector, on the other hand, was the result of three things: (i) technological innovation (the Internet facilitating cheap but high-speed telecommunications) that made possible the cross-border provision of various services; (ii) wage differentials between a large pool of educated and competent English-speaking employees in the Philippines, on the one hand, and those in developed countries, on the other; and (iii) a series of timely policy reforms in the late 1990s, notably the liberalisation of entry into the telecommunications industry and the designation of whole or parts of buildings serving the industry as export-processing zones or IT parks with corresponding tax incentives.<sup>10</sup> Unlike the origins of OFWs, the BPO sector was a completely post-Marcos phenomenon. From the early 2000s, increasing numbers of people became employed in contact centres serving the needs of major foreign corporations either through in-house subsidiaries or as independent contractors. Direct employment in the BPO sector is currently estimated at 1.3 million.<sup>11</sup> The possibilities offered by this cross-border trade in services have since expanded beyond contact centres to areas such as accounting, health care information management, animation and game development, and general management consultancy, among others. The “gig economy”—difficult to catch statistically—adds further to the revenue streams of this sector, with self-employed persons or freelancers providing various services at a distance to foreign customers without being directly hired by firms. The highly decentralised nature of the BPO sector that has flourished under liberal investment rules, with largely free entry and exit, is its distinct feature. With hindsight one might question whether—like the OFW phenomenon—this sector would have expanded this far under the Marcos regime, given latter's penchant for monopolisation and assignment of lucrative sectors to crony capital.

Figure 1: A changed structure (1970, 2019)

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<sup>7</sup> The government prefers to designate this as the IT-BPM or “information technology/business process management” sector.

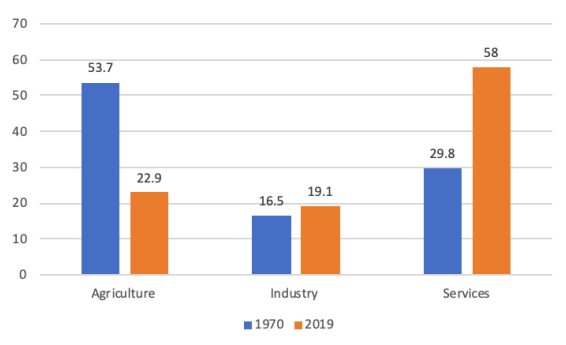
<sup>8</sup> In 2020 personal transfers (remittances) and BPO revenues, respectively, amounted to some \$26 bn and \$26.7 bn, making up some 45 percent of current-account receipts and being equivalent to more than two-thirds the value of all goods exports for that year. Even this figure understates their contribution to net external balance, given their high value added, as compared with the high import content and low actual value-added of the most prominent goods exports (electronics).

<sup>9</sup> A rough estimate of the permanent Philippine diaspora is about 10 million, although not all of these still contribute regularly to the remittances economy.

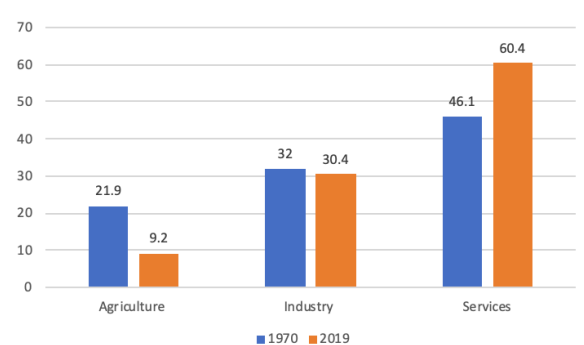
<sup>10</sup> A good recent treatment is by Nano and Stolzenberg [2021], which assesses the Philippine BPO sector as a driver of growth.

<sup>11</sup> Estimate by the ITBP Association of the Philippines. See:

<https://www.manilatimes.net/2021/09/11/news/national/filipino-talent-to-spur-bpo-sectors-growth/1814343>



Employment shares by industry  
(1970 and 2019; in percent)



GDP contributions by industry  
(1970, 2019; in percent)

Source: Philippine Statistics Authority: labour force surveys and national income accounts

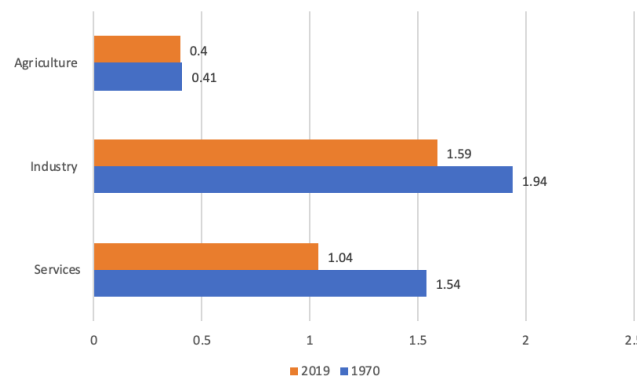
Taken together, the economic and social impact of these two trends cannot be overstated. Quite apart from resolving the country's chronic foreign-exchange shortage, the rise of both has caused huge shifts in the economy's industrial structure and employment. Broader sectors of the economy were boosted by the incomes and employment they generated and the uninterrupted economic growth they permitted. These notably include both commercial and residential real estate, wholesale and retail trade, food service and hospitality, telecommunications, transport and local travel, education, and health care, among others. As a result, from employing roughly only 30 percent of workers in 1970, the services sector *in toto* today<sup>12</sup> provides 58 percent of employment, replacing agriculture as the country's main job source and accounting for more than 60 percent of GDP (compared to 46 percent in 1970) (Figure 1). Agricultural employment in the meantime has dropped from 54 percent of the total in 1970 to only 23 percent; its current GDP contribution is less than ten percent, down from 22 percent in 1970.

The process involves a large number of the working force has shifting over the past decades from low-productivity agricultural occupations into higher productivity services sector. Relative productivity differences are shown in Figure 2, which compares labour productivity in each broad sector of the economy with average labour productivity in economy as a whole. It shows how agricultural labour productivity has remained well below the average for the economy over roughly five decades. On the other hand, services—where most of the current and potential agricultural labour force has ended up—has retained its productivity advantage over agriculture, although its relative productivity is somewhat lower than in the 1970s. This decline is to be expected given the new industries included in that sector and the larger share of services employment in the economy.<sup>13</sup> At a minimum, the mental picture of the Philippines as a predominantly agricultural country, or one whose future lies in agriculture, is badly in need of revision.

Figure 2: Relative labour productivity\* by sector (1970, 2019)

<sup>12</sup> "Current" employment and income figures refer to 2019, the last normal year before the pandemic crisis. The 2020 figures of employment will show a slight bump in agricultural output and employment.

<sup>13</sup> The higher relative labour productivity figures in the 1970s were influenced by sectors such as finance, which had high value-added but employed fewer people. After the millennium, however, services came increasingly to include new industries (e.g. BPOs, formal sector retail, and food service), where value-added is lower than finance but which employed far greater numbers. The overall productivity advantage over agriculture nonetheless remains. See also Footnote 21.



\*Ratio of labour productivity in a sector to labour productivity in the economy as a whole, i.e., the quotient of the GDP and employment shares of a sector.  
Average labour productivity for the economy as a whole by definition is 1.0.

It is worth understanding the relative stability as well as limitations of what we might call the “tradable-“ or “new-services” based economy<sup>14</sup> (referring especially to OFW remittances and BPOs). Foreign exchange earnings from tradable services create incomes that fuel demand for domestically oriented or nontradable services, which explains why the broader services sector has expanded to account for the bulk of both employment and GDP. Examples range from BPO firms creating a demand for buildings, OFW families purchasing residences, and an emergent middle class patronising food outlets and malls, using cellular and broadband services, opening bank accounts, pursuing local travel and entertainment, ordering goods through online platforms using courier services, investing in their children’s education, down to patronising unorganised or informal outlets in Divisoria. Meanwhile, these services entail a corresponding large demand on the side for merchandise—a good part of which is imported, given the weakness of local manufacturing and agriculture. This is most visible in the tide of (mostly Chinese) imported products served up in ubiquitous shopping malls. That the rising demand for imported goods and services has not run up against the wall of a foreign exchange constraint is a remarkable phenomenon in itself. This is due to the sheer size and sustained growth of these new sources of foreign exchange, as well as the fact that the growth of the services sector as a whole—unlike the ambitious Marcos-era industrial projects that failed—has not entailed huge capital investments<sup>15</sup> and has therefore reduced the need to run large external debts. This also explains why current growth, to the dismay of conventional wisdom, has long been dominated by consumption spending rather than investment. The constraint to this type of development is not primarily one of physical capital but rather the supply of labour appropriate to OFW and work in cross-border services—which depends in turn on the quantity and quality of labour and skills turned out by the country’s system of training and education.

### Limits of a services economy

Nonetheless the very success of tradable services remains a constant source of worry for some. The pattern of Philippine growth in the 21<sup>st</sup> century differs markedly from that of latecomer industrialisers such as Japan, Taiwan, South Korea, China, (and to a lesser degree Thailand and Vietnam). These countries followed the classic development transition from agriculture to industry—specifically with manufacturing first expanding to provide at least 30 percent of employment—before services become predominant. In contrast, Philippine industrial employment at 19 percent has barely increased since the Marcos period, while manufacturing employment is even smaller at 8.5 percent (2019). In the meantime, it is services employment that has soared.

<sup>14</sup> More technically, OFWs are services classified under Mode 4 (movement of natural persons) and BPOs under Mode 1 (cross-border services) in the classification of supply of services defined by the General Agreement of Trade in Services (GATS). Elsewhere we have also dubbed this the “SM economy” [Medalla, Fabella, de Dios 2014], using the metaphor of one of the country’s largest conglomerates that has successfully identified and invested in all parts of this new services-oriented economy.

<sup>15</sup> Indeed, in the case of OFWs, the needed investment takes place in the place of work overseas.



The rise of services and the stagnation of manufacturing are not unrelated. Fabella [2013] attributes what he calls “development progeria”—a premature emulation of the industrial structure of developed countries where services predominate—largely to the country’s too-healthy foreign-exchange position over the past decades, which has led to a currency exchange (e.g., a peso-dollar rate) that is too rich for a competitive manufacturing to thrive. Indeed the nominal exchange rate has barely changed from its level two decades ago, while the peso has actually appreciated in real terms by more than 50 percent.<sup>16</sup> A strong currency makes current and potential exports of manufactured goods unattractive and also makes it that much easier to import goods from abroad. Unlike the Marcos era, however, the strong peso is not now being manipulated by a central bank, or artificially propped up by loans, import controls or high protective tariffs. Rather it is sustained by the consistently large service earnings inflows themselves, which are enough to pay for imports and often leave more besides. These inflows have thus far proved durable, so that left to itself, the currency’s natural tendency is to remain strong. “Remedying” this situation would require the central bank to lean against the wind, i.e., to buy dollars in order to deliberately weaken the currency.<sup>17</sup>

Contributing to manufacturing’s weak response relative to services has been the implementation of trade liberalisation in the post-Marcos era—a formerly hotly debated issue between “neoliberals” and “Left” or “nationalist” schools. While some technocrats of the Marcos era pushed for a reduction of trade barriers (often aided by pressure from the IMF and the World Bank), they never quite succeeded and always met with resistance from varied crony other special interests and even some of their fellow technocrats. The regime thus began and ended its rule with an unprecedented number of protectionist measures in place. Eschewing the selective industrial policy that favoured specific industries or firms, on the other hand, it was successive post-Marcos administrations that ironically succeeded in more or less consistently riding the tide of globalisation in the 1990s and moving the country to a system of lower and more uniform trade barriers. Lower trade protection, combined with the strong currency described above, made it difficult for many local industries to compete head-on in export markets. On the other hand it eased the way for some parts of the services sector catering for the domestic market, e.g. the retail sector, hospitality and tourism, among others. Rodrik [2016] attributes “premature deindustrialisation” in many developing countries to this factor. The trend towards outsourcing of manufacturing by developed countries, in his view, resulted in lower prices of goods globally and hurt countries that had relaxed their protective regimes and chosen not to undervalue their currencies, which reprises the focus on the exchange rate.<sup>18</sup>

A further hindrance the new-services economy poses for manufacturing lies in the labour market. The skill and educational requirements of both OFWs and BPO workers (typically some level of college education) are well above the average for the rest of the economy, with manufacturing employing more semiskilled and unskilled labour. One of the criticisms of the tradable-services sector is its failure to employ the wider and poorer segment of the labour force. For it is not the case that manufacturing can simply employ the semi- and unskilled while new-services employs the educated

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<sup>16</sup> The peso is slightly stronger today (₱48 in 2020) than it was in 2000 (₱50 per dollar) even in *nominal terms*. Accounting for domestic inflation (i.e., dividing the nominal exchange rate by the consumer price index) gives the so-called *real exchange rate* and in real terms the peso has actually appreciated by 54 percent relative to 2000. (Author’s computations; figures available upon request.)

<sup>17</sup> Whether this should be done is a source of debate. The central banker’s typical argument is that buying dollars massively would pump pesos into the domestic economy over an indefinite period—a move likely to cause inflation. To avert that result, the central bank would have to buy back the pesos again (i.e. “sterilise” the infusion) by issuing high-yielding peso bonds. Between the high interest rates it would have to pay on its peso bonds and the low interest it earned on its dollar holdings, however, the central bank would pile up huge losses (a “negative carry”). Proponents in turn would argue that this was a small price to pay to correct what they regard as putting the country on a “proper” development path.

<sup>18</sup> Most mainstream economists favour the lowering of trade protection measures, which leaves a purposely undervalued exchange rate—as Fabella and others suggest—as the only counterweight to the resulting influx of imported manufactures. Those who oppose using the exchange rate thus as industrial policy tool therefore implicitly accept the emergent pattern of services-led development.

and skilled, with both expanding unimpeded. Manufacturing requires a combination of skilled and unskilled labour to operate, so that when new services expand, the latter pre-empt the skills and entrepreneurship that manufacturing might have needed to become larger, which also prevents it from making a dent on employing the unskilled and semiskilled with which skilled labour must combine. Its pre-emption of skilled labour is another channel by which an expanding services sector poses difficulties for industrial expansion [de Dios 2013]. Nonetheless, while not directly utilising them, the tradable services sector has more than done its part in *indirectly* employing unskilled and semi-skilled workers through the demand it creates for nontradable services (e.g., retail, logistics and transport, and real estate), and indeed even for agriculture and some industries (notably construction).

The deeper anxiety over the expansion of services and the stasis in manufacturing however is based on the view that productivity in the former is lower and tends to grow more slowly than in the latter, a long-standing observation called “Baumol’s cost disease” [1967]. Part of this is evident in Table 1, which shows industry having the highest relative labour productivity, followed by services, with agriculture bringing up the rear. It must be said, however, that Baumol’s original fears had to do with nontradable services (notably health, education, and originally the performing arts<sup>19</sup>). Globally tradable services such as BPOs arguably represent a different phenomenon. These are exposed to technological change (e.g., robotics and artificial intelligence) and in this sense benefit from—as well as are adversely affected by—rapid technological progress in the same way industry is.<sup>20</sup> The only question—an open one—is whether technical progress is more likely to pull the rug out from outsourced services more quickly than from outsourced industry. A recent ADB study is more sanguine and concludes that “services-led development is likely to become the main growth strategy for developing countries and indeed that rapid technological changes are more likely to affect developing country jobs in industry and even agriculture, before they do tradable services” [Nano and Stolzenberg 2021:126].

The upshot of the foregoing is that the Philippines is likely fated to continue indefinitely on a services-led development path, permanently deviating from the East Asian experience.<sup>21</sup> Whether and how well it navigates this remains an open question. The obstacles to a continuation of this pattern of development are to be found in whether the country can continue to level up the quality of its education system to anticipate and ride on the inevitable waves of technological innovation. One upshot of the latter is that education goals may need to be set more ambitiously beyond achieving universal basic education—which may be appropriate enough for a majority-poor society trying to address poverty—and towards turning out a larger number of high-quality tertiary graduates and workers in science and technology. In short, what society regards as “investment” needs to change to include not only “hard” investment—e.g., physical infrastructure and equipment—but also expenditure in higher and advanced education.

### **Social impact of a services economy**

No less important than the changing economic structure caused by new services has been their effect on the social fabric.<sup>22</sup> The main impact of more than a decade of continuous growth and the shift of labour out of low-productivity agriculture into higher productivity services has been a reduction in poverty and the creation of a new if amorphous middle class. Before the pandemic crisis struck, poverty incidence based on World Bank definitions<sup>23</sup> had fallen to 21 percent of families, with a steep

<sup>19</sup> One of Baumol’s amusing illustrations is that it takes the same number of musicians to play a string quartet today as it did in Beethoven’s time; yet the pay of musicians has increased tremendously.

<sup>20</sup> Young [2014] points out that the apparent low productivity of services in most countries is partly a measurement problem: the larger the services sector becomes, the more likely it is that less apt or less trained workers are recruited into the sector; a phenomenon that would occur as well if manufacturing attained a role just as significant.

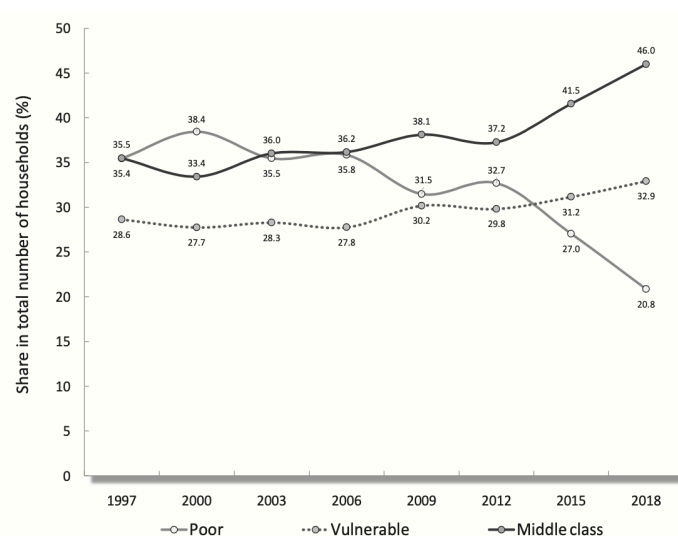
<sup>21</sup> For a fuller discussion of the factors leading to this, see Williamson and de Dios [2014].

<sup>22</sup> Much of this discussion draws from de Dios and Tuaño [2022].

<sup>23</sup> The categories used are based on the following daily per capita expenditure: *poor*: US\$3.1 or less; *vulnerable*: between US\$3.1 and US\$5.5; *middle class*: between US\$5.5 and US\$50.

decline after 2012. In the meantime, middle class households have come to constitute almost half (46 percent) of all households (Figure 3). The Philippines, in short, has become a “minority-poor” country with a middle class plurality. In terms of per-capita income, the country was on the verge of graduating into the “upper” middle-income category immediately before the pandemic struck. Including non-income factors such as longevity and schooling to measure development results in a parallel result: Philippines came to be classified as having “high human development” from about 2015 based on the UNDP’s human development index (HDI).<sup>24</sup> All these measures can and should of course be qualified—e.g., the quality of education and the coverage and resilience of the health system can certainly be debated. From at least this gross aspect, however, a post-millennial Philippines presents a starkly different picture from that of five decades earlier of a country “on the trembling edge of revolution”.

Figure 3. Shares of poor, vulnerable, and middle-class households  
(in percent; 1997-2018,)



Source: Reproduced from de Dios and Tuaño [2022; 6],  
using basic data from Family Income and Expenditure Surveys (PSA), various years.

This is not to deny the poverty that still exists for a significant number, or the depth and complexity of current social problems and the urgency of reforms—only that these have changed in nature. Where before public policy and debate could be unerringly directed towards only one goal—the alleviation of deep poverty that was essentially rural and agrarian in nature—the gradual shift to a more middle-class, services-dominant economy implies a need for a more differentiated approach, one that also recognises the differing needs and starting points of sizeable and heterogeneous nonpoor social classes. Unfortunately, the persistence of a simplistic rich-poor dichotomy in the country’s political and economic discourse and the failure to recognise the rise of middle class concerns represents a blind spot<sup>25</sup> in both scholarship and policy-making [de Dios and Tuaño 2022]. The result has been waste and a misdirection of resources in the design of welfare programmes.

A useful contrast is provided by the conditional cash-transfer programme (also known as CCT or the “4Ps”) as against the “universalist” approach adopted by the Universal Health Care Act purporting to serve all Filipinos. The former is a good example of a well-targeted programme—remarkably sustained over three administrations—that has contributed substantially to alleviating poverty as economic growth has occurred. On the other hand, the latter pumps public funds into a system ostensibly designed to help indigents but whose one-size-fits-all benefits are mostly accessed by the

<sup>24</sup> The cutoff for “high” human development is a human development index (HDI) of 0.7 or more. The Philippine HDI was 0.702 in 2015 and 0.718 in 2019. See UNDP [2019: 305; Table 2] and UNDP [2020:345; Table 1].

<sup>25</sup> The government’s statistical agencies to this day have not officially adopted any definition of the middle class.

middle class and the better-off. The irony is that while the poor are still largely unable to access the benefits supposedly meant for them because of co-payments, logistics, and informational and bureaucratic obstacles, the middle classes that can and do avail themselves of these benefits still find these inadequate to insure their health needs.<sup>26</sup> The latter would have been better served by a health system that pooled differentiated contributions according to means and paid out differing benefits. This conundrum is repeated in many other recent universalist programmes such as the free-tuition policy in state universities, the senior citizens' discount, the tax-expenditure subsidy to diesel fuel, and even free irrigation provision in agriculture.

In all these, what are on paper pro-poor programmes end up as “leaky buckets” that mostly benefit the nonpoor. But none of these are enough to adequately serve the interests either of the poor or the nonpoor, resulting in a social protection system that does little beyond than mere tokenism. Apart from inadequate health insurance, no comprehensive systems exist for unemployment insurance, old age pensions and elderly care, tax credits for education and health related expenses, or housing assistance. These new demands are a far cry from simpler social welfare approaches of decades ago that may have been suited to a majority-poor society which consisted of blanket price subsidies and controls, minimum wages, and direct public provision of basic needs. Nor will these measures be appropriate either to address the needs of the remaining “hard core” poor, who are likely to be found in more geographically remote populations and isolated areas, notably among indigenous peoples (*lumad*) and the Bangsamoro. Aside from the challenge of designing appropriate policies, addressing remaining poverty in the future may also become politically difficult in a society increasingly absorbed by urban middle class concerns. All in all these illustrate the greater challenge of designing social protection schemes in a minority-poor, middle class-plurality society.

### **Ideas outgrown and outworn**

The structural shifts described earlier mean that many questions and debates that preoccupied policy-makers and intellectuals alike five decades ago have become either settled or superannuated. A question already touched on is the age-old debate between protectionism/nationalism and export-orientation/globalisation. On that issue, the result has been the undoubted triumph of the latter, although the outcomes have been as no one expected. Despite the paper-advocacies of some Marcos technocrats for a more liberal system of trade and investment, the regime never quite succeeded in overcoming the resistance of big-time cronies and special interests. Where the advocacy of some Marcos technocrats failed, however, subsequent post-Marcos administrations succeeded in removing most import restrictions and in adopting low and more uniform tariffs beginning in the 1990s. Much of this came about as a result of the country's accession to the WTO and membership in regional cooperation arrangements, notably ASEAN and more recently RCEP, as well as various bilateral trade agreements.

Even restrictions on foreign ownership of industries—a bugaboo since the 1960s that continued into the Marcos era—have been relaxed or removed in most industrial and service areas, including power generation and, most recently important utilities like telecommunications, air carriers, railways, and domestic shipping.<sup>27</sup> While constitutional ownership restrictions on land, mining, education, and mass media remain, the contrast in outcomes is already clear: over a decade of martial law 1972-1981 (i.e., omitting the crisis years beginning 1982), net foreign direct investment (FDI) averaged no more than one-half of one percent (0.4946 percent) of GDP<sup>28</sup>. In contrast, in the recent ten-year period 2010-2019 (i.e., even despite the flawed pre-pandemic record of the Duterte administration), annual net FDI flows relative to GDP averaged almost two percent (1.86 percent), with marked highs under the Aquino II administration.

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<sup>26</sup> A recent evaluation of the programme concludes that “What Philhealth has in fact managed to do is to pay a little bit of everything for all Filipinos” [Panelo et al. 2017: 43].

<sup>27</sup> The follows from the revision of the public services act in 2021.

<sup>28</sup> Computed from World Bank data; see:

<https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=PH>

The difference in FDI performance between the two decades is not difficult to understand. The Marcos regime's heavy reliance on foreign loans made it unnecessary for it to seek to attract private foreign investment, while the monopoly dominance of crony capital and insecurity of property rights under the regime served as a direct disincentive to the entry of independent foreign capital. To this must be added the regime's intellectual pretension to "nationalism" which made it reluctant to pursue a greater trade and investment opening<sup>29</sup> even with prodding from multilaterals like the World Bank and IMF. Some of these same factors, albeit to a lesser degree, account for the country's more recent failure to sustain the acceleration of foreign investment under the Duterte administration. Notable has been the administration's failure to protect the security of investments and to ensure the enforcement of contracts.<sup>30</sup> The acceleration in net foreign investments in the post-Marcos period especially under Aquino II and their fall-off under Duterte should give pause as to whether the binding constraint is the constitutional ownership restrictions—as has been argued popularly ad nauseam—or simply more basic institutional reasons, such as weak rule of law, poor contract enforcement, and the failure to protect of investment property.

In the event, the result of trade and investment liberalisation was neither the disastrous downward spiral of deficits and debt predicted by the Left and nationalist schools, nor the export-oriented industrialisation based on manufactures hoped for by the liberal camp. What has arisen instead has been the services economy described earlier, which placed the country on stable external footing, with the added benefit of a price stabilisation that allowed the country to escape the chronic double-digit inflation plaguing the Marcos era.

Another perennial fear regarding liberalisation has been the erosion of a major source of government revenues and runaway government deficits. This, too, has not occurred. Rather, economic growth and a rising middle class allowed a greater portion of government revenues to be gained from internal taxes, both direct and indirect. Important milestones were the passage of a comprehensive value-added tax under Arroyo and the higher taxes on alcohol and tobacco and products and stronger collection efforts under Aquino II. These and other smaller measures improved revenue effort significantly and gradually tamed government deficits even with the loss of tariff revenues from liberalisation. The palpable impact of this was the steady improvement of the country's credit standing beginning in 2008, allowing the government to more readily access both domestic and foreign credit on easier terms.

A sea-change also occurred in government finance compared with that under the Marcos regime, with the emergence of a highly active private demand among residents for both peso and foreign exchange-denominated government bonds. This contrasts with the previous situation when private confidence in government instruments was at an ebb and a good chunk of government deficits needed to be monetised, contributing to inflationary pressure. The rise of the government bond market, which proved a boon for government financing, was the result of two factors: the resolution of the fiscal crisis through a higher collection of internal taxes reduced the risk premium on both internal and external debt; at the same time, the stabilisation of the exchange rate because of OFW and BPO inflows reduced the exchange risk owing to depreciation. Together these made domestic bonds a more attractive and secure investment<sup>31</sup> and allowed successive administrations to borrow more locally to

<sup>29</sup> Aside from its trade-protectionist stance, the Left-nationalist school of the 1960s, as exemplified by Recto and later Lichauco, regarded loans as superior to foreign investments, since the latter involved control while the former did not. Also implicit in this view is the idea that the main benefit from foreign investment was simply that of providing capital—against the more modern view that the technology involved in foreign investment is at least as important, capital being only a secondary consideration. Marcos had always flirted with the nationalist-Leftist tradition, with even the old Communist Party reaching a rapprochement with the regime, and Left-leaning intellectuals being appointed to administrative posts.

<sup>30</sup> Foreign direct investments rose steeply from \$1.07 billion to \$10.2 billion between 2010 and 2017 before dropping off in 2018. See: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=PH>

<sup>31</sup> This can be understood using the simple formula for uncovered interest parity,  $r = (R + v) + d$ , where  $r$ ,  $R$ , are the domestic interest rate and foreign interest rate, respectively,  $v$  is the risk premium, and  $d$  is expected peso

finance their programmes. This may be seen in the fact that the national government's debt is now split 68-32 (in percent) between domestic and external debt, compared with a 43-67 split at the end of the Marcos regime.<sup>32</sup>

This same uncanny macroeconomic growth and resilience, however, has come at the cost of the stultification of industry and allowed successive governments to drag out agrarian reform and to neglect agricultural productivity. In agriculture, what used to be the preeminent issue—indeed a *casus belli* for the revolutionary Left—was agrarian reform, understood primarily and simply as a “land-to-the-tiller” policy. The Philippines has the distinction of implementing one of the most protracted land reform programmes in the world, the most significant milestones being the redistribution of rice and corn lands under Marcos and its subsequent expansion to cover all lands regardless of cultivated crop under President C. Aquino. These initiatives and their various iterations and extensions however have resulted in an agriculture many parts of which have become uneconomical owing to decreasing farm size. The average size of landholdings has fallen steadily from 3.6 hectares in 1971 to 1.3 hectares in 2012 (latest figures). Fully 88 percent of holdings are now less than three hectares in size, covering half of the entire area devoted to agriculture. With a further 29 percent of land area covered by landholdings averaging 3-7 hectares, almost 80 percent of agricultural land now conforms to the legal ceiling for landownership envisioned under the classic land-to-the-tiller concept. Unfortunately, this achievement has brought neither dynamism to agriculture nor prosperity to farm tillers and workers.

The intellectual and policy failure in agriculture over five decades has been the inability to move the debate beyond one of redistribution and coverage to one of raising productivity, particularly for reformed lands. The over-long implementation of the reform itself—due perhaps to the comprehensive ambitions and complexity of the reform—created a great uncertainty in property rights that dissuaded private investments and finance from flowing into smallholder agriculture. Problems of inter-generational succession meanwhile overtook reform-beneficiaries, which meant further subdivision of their property eroded any economies of scale that could have been reaped. Government support to agriculture itself in the post-millennial period was overly focused on input provisions and subsidies (especially to rice and corn), with insufficient attention to R&D and extension and to linking smallholders on the demand side with larger established value-chains. The uncertainty over property rights and inattention to raising productivity largely explains the exodus from agriculture and the shrinkage of cultivated area.<sup>33</sup> It is now difficult to argue—as easily as one might have done fifty years ago—that a further redistribution in this sector will be the magic bullet to poverty eradication for a majority of the population—nor even for the farming population, many of whom have found a path out of poverty through education instead—much less a key demand and basis for a “people’s revolution”.<sup>34</sup> Indeed, any future solution to the problem of agriculture productivity will likely involve a consolidation rather than a further fragmentation of operations, either through corporate agriculture via large firms, cooperativisation among smallholders, or both. Neither is on the political horizon, however. Apart from the reorganisation of farm operations, a further challenge to productivity is the need to adapt to climate change, a task also beyond the reach of most smallholders.

### **Economic decision-making: technocrats, cronies, and oligarchs**

In economic decision-making, a prominent feature of the Marcos regime was the public role played by “technocrats”—financial and economic experts chosen by political authorities to head important agencies. The social novelty promised by these elements was their supposed immunity from political

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depreciation. When  $d$  approaches zero, and  $v$  is low, a higher  $r$  raises the attractiveness of domestic over foreign bonds and leads to a large inflow.

<sup>32</sup> Figures cited are for 2020 and 1986, respectively. See: [https://www.treasury.gov.ph/wp-content/uploads/2021/04/Annual-Debt1986-2020-newformat\\_revvgdp.pdf](https://www.treasury.gov.ph/wp-content/uploads/2021/04/Annual-Debt1986-2020-newformat_revvgdp.pdf)

<sup>33</sup> Between 1981 and 2012, cultivated area shrank 26 percent from 9.72 million hectares to 7.12 million hectares.

<sup>34</sup> The National Democratic Front's proposal, for example promises that “agricultural land will be distributed to landless workers that would like to till the land” Bayanusa.org. [n.d.]. This would imply further subdivision along single-tiller lines.



pressures and their advocacy of policies based purely on the technical or economic exigencies of the situation. While such persons were also found in administrations prior to Marcos's, it was the latter that put them on full display.<sup>35</sup> The role of these individuals has always been the subject of debate. Were they mainly enablers and accomplices of the regime who provided a smokescreen to hide the excesses of the Marcos family and its cronies? Or were they finance and development heroes holding the line? To be fair, a number of these people refused to participate further in the Marcos project at various points of subjective epiphany and quietly left government; others stayed to the very end. Objectively, however, the prominence of such people as C. Virata, G. Sicat, O.D. Corpuz, A. Tanco, G. Velasco, R. Ongpin, and others played a major role in burnishing the credentials of the Marcos regime with both official and private lenders and in facilitating the regime's access to huge credits. Also undeniable is their recorded failure to stem the worst abuses of the cronies and the Marcos family in distorting policy and plundering the economy, which ultimately led to the debt crisis.<sup>36</sup> With hindsight, unlike more prominent examples of technocracy such as Chile's "Chicago Boys" or Indonesia's "Berkeley Mafia", the Marcos technocrats were less ideologically homogeneous, more inchoate, and disunited in their advocacies. While later depictions, especially from the Left-nationalist camp, pictured them as representing a neo-liberal trend, they represented in reality a mixed bag of advocacies from being ideological free-traders to protectionist big-push industrialisers, from pragmatic damage-minimisers to sinecure-seekers. What united them ultimately was not some coherent reform framework but rather a common personal loyalty to Marcos, which likely explains their mediocre success.

This flawed legacy notwithstanding, most post-Marcos administrations have sought to preserve at least the semblance of a continuing technocratic tradition in economic policy-making by regularly appointing professional economists and nonpoliticians to economy and finance ministries.<sup>37</sup> That these "economic teams" subsequently met greater success in implementing a more coherent agenda (in this case a more liberal trade and investment regime) has been due less to their greater bureaucratic influence and intellectual preeminence and more to the diminished influence of that other social force in Marcosian political economy—the crony capitalists. All post-Marcos administrations have no doubt seen their share (some more than others) of favoured rent-seekers. The reach and influence of new "cronies" has been inherently limited, however, by the natural political turnover provided by elections—owing notably to presidential term limits—as well as constitutional checks and balances, and a free press, which however imperfectly and spottily have contributed to curbing egregious behaviour. What appears to have been reduced is the possibility of a wholesale and widespread reassignment by government fiat of existing property rights over major industries and sectors on the scale, say, of E. Cojuangco's and R. Benedicto's blatant overlords of the coconut and sugar industries, respectively and the numerous monopolies over regulated commodities and services that distorted the economic system. Apart from political fetters, the past trend of liberalisation and deregulation, which inherently reduced government's role in the economy, undoubtedly also narrows the scope for such excesses.

Even under the 1987 Constitution, however, the fact of an imperial presidency—whose powers over the bureaucracy and judiciary remain vast and unhindered by programmatic political parties of any sort—presents sufficient opportunities to favour typically new *arriviste* business interests in such areas as the control and disposal of remaining government assets, contracts and franchises for major new public projects, as well as tacit pressure on private institutions to extend credit to favoured businesses.

<sup>35</sup> See Tadem [2020] for what is so far the most extensive treatment.

<sup>36</sup> This much was admitted by C. Virata, the foremost technocrat, who stated: "We were quite liberal in guaranteeing loans, so that investors could go on with their projects on the basis of commercial loans. We found out later that their motives were not as pure as we would have liked. In other words, some of the companies really wanted to make money out of purchases of equipment rather than by operating it. This has been one of the major faults in our system" [Gauhar and Virata 1984: 274].

<sup>37</sup> Notable among these is the position of socio-economic planning secretary, which has almost continuously been occupied by economists with advanced degrees. Another important change has been the growing independence of a reconstituted central bank whose board members serve fixed terms and no longer consist of cabinet members serving at the president's pleasure.

In principle, however, unlike in the Marcos era, the existing distribution of property rights has been largely respected; dispossessions and takings are infrequent and typically only new rents are assigned to favoured persons. In this respect, the Duterte administration has probably tested the limits of authoritarianism still possible under the 1987 Constitution. In a repeat of the Marcos playbook, Duterte railed publicly against “oligarchs” before weaponizing legal tools such as selective tax and labour audits, franchise reviews, public bullying to pressure noncompliant or politically inimical interests, though with varying degrees of success. Examples range from the seizure of property and closure of a large tax-delinquent cigarette company to the more controversial closure of media giant ABS-CBN, the reversal of adjudicated contract agreements with Metro Manila’s water concessionaires, and the filing of tax cases against the online news organisation Rappler.

The Duterte phenomenon, whose crucial middle class support has been correctly perceived by others<sup>38</sup>, itself exemplifies the new uncertainty in post-Marcos politics that can affect the course of the economy. The economic and social shifts described earlier mean that the post-Marcos political system did not simply return to what prevailed in the 1960s. The polity classically described by Lande [1966] and McCoy [1994] was primarily one determined by closed agrarian landscapes<sup>39</sup> and dominated by wealthy local leaders with roots in landownership, delivering a command vote to those of the same class seeking national office in what Anderson [1988] called a “cacique democracy”. The power of political families or “clans” derived from the patron-client relationship in which they bound large numbers of poor constituents who depended on them existentially. Similarly, the revolutionary Left continues to depict the current system as a persistence of “feudal” or “semi-feudal” conditions. The falsifiable prediction of such a hypothesis is that national leaders should invariably come from a closed set of members of an elite, with their factions simply alternating in power.

The classic patronage system undoubtedly continues to exist at local levels, especially in poor or more remote and isolated areas. But with a shrinking farming and rural population, a growing urban services sector, and a rising middle class, fewer people now live in the shadow of patrons and bosses in the old sense. While local political choices in some areas may continue to be influenced by traditional clientelist bonds, at least at the national level, new levers such as heavy electoral spending and money politics, celebrity, access to mass media, and more recently, a deft employment of digital media have come to play an increasing role in directly reaching especially the middle classes and the vulnerable.<sup>40</sup> For these reasons, success in national politics is now no longer necessarily built from the local level up; indeed, it is local leaders who instead gravitate to whoever leads in national popularity. The result of this more heterogeneous political process is the frequency of winners by mere plurality in presidential contests and the surprising success of outsiders and newcomers, with more diverse and unpredictable, though not necessarily better, results. Even the genesis and significance of recent “clans” and “dynasties” under these conditions—and the effective means to end them—need to be re-examined. The observed increase in the number of political dynasties in the post-Marcos period<sup>41</sup>, for example, may be testimony to the greater ease of entry into the political process and a greater diffusion of power and disorganisation of politics. This is neither better nor worse for the country’s political development; but it is a different phenomenon requiring analysis on its own terms.

## Conclusion

The present discussion merely scratches the surface; the full ramifications of the changes described must await a fuller treatment, hopefully by many others. All this piece has accomplished is to clear some cobwebs that may have distracted intellectual and policy debates from confronting real problems

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<sup>38</sup> See, for example, Bello [2021:126] and Teehankee [2017: 52]. Similarly, the current surprising resurrection of the Marcos brand cannot be explained using the traditional categories of clientelism.

<sup>39</sup> In de Dios [2009], I distinguish between the emerging types of political landscapes that do and do not conform to this pattern.

<sup>40</sup> Like the Duterte phenomenon the current surprising resurrection of the Marcos brand cannot be explained merely by using the traditional categories of clientelism

<sup>41</sup> On this, see the essay by Mendoza [2022] in this volume.



peculiar to the millennial economy and society. The harm done by chasing old ghosts can be seen on both extremes of the political spectrum. The current administration's reversion to the old anti-communist, anti-oligarchy rhetoric—the same one used by Marcos—is matched by the traditional Left's unexamined insistence on a “people's war” to effect social demands whose scope and relevance have been superseded by subsequent social developments. Notwithstanding broad changes that have since occurred, both sides appear stuck in the rhetoric and response of five decades ago.<sup>42</sup> The result has been a diversion of attention and substantial resources (not least of which is a loss of lives) with no clear prospect of success or resolution from either side.

Even in mainstream politics and policy, however, the persistence of outmoded categories exacts a cost. The gross rich-poor dichotomy, for example, fails to address the demands of the vulnerable and the middle classes, which have fallen through the cracks. This should have entailed comprehensive but actuarially fair systems of social insurance that cover health, education, unemployment, and retirement. But universalist measures thus far have provided only token scanty and spotty coverage. Simplistic characterisations also fail to recognise differing deprivations, as between, say, the poor (and indeed some lower middle classes) living in urban slums for whom housing and sanitation are the more urgent needs, as against very poor populations in isolated areas (e.g., indigenous peoples), whose deeper requirements run the gamut of basic human needs from health, to education, to livelihood. The same crude dichotomy has allowed the education system to rest on its laurels, thinking it has sufficiently performed its function towards the entire population by simply providing a rudimentary “basic” education to the poor, as measured by sheer attendance, without regard for quality or knowledge-upgrading.

In terms of an economic agenda, the country's long-standing envy of East Asian industrialisation and investment has led to a failure to develop a long-term vision of building up the tradable services industries it already possesses, i.e., expanding beyond call centres and OFWs. To this day, no hard thinking has been devoted to the requirements of a services-led economy.<sup>43</sup> This might have entailed a coordinated move towards greatly enlarging the stream of graduates in STEM fields, especially data science, in public universities. It would have been combined with public-private partnerships in support of advanced institutes in information technology in a few elite universities (India's institutes of technology serving as possible models), alongside moves to attract physical investments by firms providing software services, such as cloud computing, blockchain storage, and data security. Such an approach to education and skills upgrading would have brought the corollary benefit of raising the skill and pay mix of workers seeking work overseas if they did not find work at home. Instead, what has resulted (again) is a misplaced dissipation of public resources on free tuition in all public universities with little regard for field of study or quality. Or then again in agriculture and fisheries, a consolidation through cooperatives or corporate organisation to raise productivity and attract capital, adaptation to climate change, and a careful stewardship of the natural environment are the watchwords. But such priorities have only begun to sink in as the alluring image of the independent yeoman-farmer has begun to fade and worsening natural disasters regularly take their toll.

These are a few of many examples. But it is not this paper's objective to put forth an agenda. Rather it is to begin to clear minds to allow fresh thinking. The record underscores two realisations: on the one hand, significant social and economic progress has actually been achieved even under an imperfect and at times fragile democracy relative to a bankrupted authoritarianism; on the other hand, new and no less serious problems confront the nation in its newfound circumstances. The real damage of being captive to old habits of thought is that it encourages a false memory of things past, for some either to gild it falsely, and for still others to denigrate to it but only to say that “nothing has really changed”.

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<sup>42</sup> This is unsurprising. The two protagonists in this development, R. Duterte and J.M. Sison, are intellectual offspring of the 1960s and 1970s, Duterte being a former undergraduate student of Sison. Sides may have changed, but the mental categories apparently remain.

<sup>43</sup> A feeble attempt was made during the Ramos administration to argue that the country could “leapfrog” into services, but this was not taken seriously.

Either way we are prevented from confronting society's real problems and exploiting new opportunities.

In thus looking back and wondering at the tenacity of outmoded ideas, it would be facile to quote Keynes's famous remark about politicians being slaves to dead economists and to past academic scribblers. But it might be more appropriate and kinder to quote Goethe's words, which even an ideologue like Lenin saw fit to recall: "All theory is grey, my friend, but forever green springs the golden tree of life."

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