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THE PHILIPPINE ECONOMIC MYSTERY

Robert H. Nelson

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A shorter version is forthcoming in *The Philippine Review of Economics*.

Abstract

The poor economic performance of the Philippines over the long term is a puzzle and an apparent anomaly for the region. The decline in the Philippines' global position from the first part of the 20th century is particularly striking when viewed against the backdrop of rapid income gains in countries of East and Southeast Asia, countries the Philippines used to surpass in terms of physical and human capital. While there have been a number of attempts to explain the puzzle – difficult geography, macroeconomic policy failures, and corruption – none are completely convincing either because there are counterexamples or the factors cited are endogenous and derivative. On the other hand, the long-term economic record of the Philippines is strikingly similar to some countries of Latin America, such as Argentina, Mexico, and Peru. This paper advances the hypothesis that the political and economic experience in the Philippines stands in closer proximity to those of countries in Latin America than to Southeast Asia, and that this is rooted in their deep similarity of histories and cultures. In particular, the common Spanish and Catholic colonial history may have given rise to “cultural attitudes that now stand in the way of freer markets and a more successful political democracy”.

Even for many of those who have studied the economic history of the Philippines closely, it remains a mystery. Two leading authorities on the Philippine economy, Arsenio Balisacan and Hal Hill, thus commented in 2003 that “the Philippines is one of the world’s major development puzzles.” At the time of its independence in 1946, the Philippines met many of the requirements of a modern democratic state – its “civil institutions were comparatively well developed.... It possessed a reasonably democratic political system.... Its judiciary and legal system were quite well developed and somewhat independent. Its press was open and vigorous. Finally, while not especially resource-rich, the Philippines possessed ample agricultural land to sustain several decades of rapid agricultural growth.”¹ Yet, despite this promising beginning, Philippine economic growth over the course of the second half of the twentieth century was much less than most other Asian nations and a major disappointment to most Filipinos.

With the exceptions of Japan, Malaysia, Hong Kong and Singapore, the Philippines in 1950 had a higher income per capita (based on the detailed world income calculations of Angus Maddison) than the other nations in East and Southeast Asia.² By the end of the twentieth century, however, Philippine income per capita exceeded only Vietnam, Laos, Cambodia, North Korea and Myanmar (formerly Burma) – all of which had suffered severe national traumas in previous years. Vietnam, moreover, was rapidly recovering and promised soon to overtake the Philippines. From 1950 through the 1960s, the Philippine economy had grown steadily, although not enough to keep pace with its faster-growing Asian neighbors. Then, unexpectedly, matters became much worse. As Balisacan and Hill report, the Philippines “missed out almost completely on the Asian boom from the late 1970s until the mid-1990s.”³ One Asian country after another moved past the Philippines in income per capita. Even China, despite having suffered the major dislocations of the cultural revolution and other communist economic misfortunes, and the need to raise the living standards collectively of more than 1 billion people, surpassed the income per capita of the Philippines in 1992.

There were some possible explanations for “the puzzles” of poor Philippine economic performance. One special factor was the island character of the Philippines, impeding road and railway transport, although facilitating water transport. The tropical climate might have negatively affected the work ethic – it was more difficult to function outdoors in the hot sun, even as the minimum requirements for survival were not as severe as in the colder and harsher climates of many other nations. In terms of economic variables, the Philippines had been unable to attract the high levels of foreign direct investment that had boosted the economies of many other Asian nations. Larger fiscal deficits or more rapid inflation might have been a factor. To the extent, however, that any such macroeconomic policy failures could be assigned a significant role, this begged the question of why the policy failures had occurred in the first place. It was difficult, in short, to explain the relatively low economic performance of the Philippines in the second half of the twentieth century. As Balisacan and Hill concluded, “we can assert with confidence that a considerable part of the [Philippine economic] story remains unexplained.”⁴

It may be that the failure to achieve a better understanding of Philippine economic history reflects too much attention to shorter term policies and events and a lack of sufficient attention to much longer term influences. Aside from any unique features of geography and natural resource endowments, the Philippines has been subject to two major “exogenous” influences that sharply distinguish it historically from other Asian nations. First, from the arrival of Miguel Lopez de Legazpi in 1565, and until 1898, the Philippines was the only Spanish Catholic colony in Asia. To the present day, it is the only devoutly Catholic nation in Asia – and the only devoutly Christian country of any kind in Asia until the recent rise of Protestant Christianity in South Korea. A second major exogenous event, also limited to the Philippines, was the arrival of the United States in 1898, and the subsequent long American occupation of the Philippines until 1946.* It would in fact be surprising if the economic history of the Philippines, so distinct from all other nations in Asia, did not somehow reflect these two unique features of its history that set the nation so apart from other Asian countries.

The American Years

The Philippines began the twentieth century in military defeat. Yet, there were grounds for optimism. The Philippine people had shown sufficient national unity and military capability to challenge the United States, then rapidly replacing Great Britain as the leading industrial power in the world, and which would soon go on to shape “the American century.” From 1899 to 1902, more than 100,000 American troops were tied down in the Philippines in a debilitating conflict that eventually resulted in more than 4,000 American dead (along with hundreds of thousands of Filipino military and civilian casualties). It is safe to say that, if the American people had had any idea in advance of the full costs to come, the Philippines would have been left to become an independent nation in 1898 (a set of American miscalculations eerily reminiscent of events in Iraq one hundred years later).⁵

Although they had spread many of the fundamental values of the West through the proselytizing of the Catholic religion, the Spanish had nevertheless done little to advance the development of science or the spread of economic growth in the Philippines (partly reflecting the scientific and economic backwardness of Spain itself in the nineteenth century). Thus, the economic status of the Philippines in 1900 was similar to other nations of East and Southeast Asia. In the early decades of the nineteenth century, the typical Asia country had an income per capita of about 50 percent of the United States and other economically advanced nations of the West. Indeed, given their much larger populations, this meant that China and India had the largest total national products in the world, if not the highest living standards.

* I use the term “occupation” partly because the Americans stated from the beginning their expectation that the Philippines should become independence as soon as “ready.” If a “colony” implies a permanent relationship, as was the normal expectation in colonial relationships during the first half of the twentieth century, then the Philippines was never an American colony in that sense. Thus, while the time period was much longer in the Philippines, rather than a colonial relationship, the closer analogy may be the post-war American occupation of Japan.

After a century of the industrial revolution in the West, however, the incomes per capita of most Asian nations in 1900 had fallen sharply to 10 to 20 percent of the leading Western economies (at around 25 percent, Japan was the highest). The Philippines, having an income per capita equal to 15 percent of the United States in 1902, was typical of other Asian nations of the time – somewhat higher than China and India; comparable to Malaysia, Thailand, Indonesia, and Korea; and somewhat lower than Japan. A colonial status did not seem to make a great deal of difference. Japan, China, and Thailand never became colonies; the other Asian nations were colonies of European nations or of Japan (in the cases of Taiwan and of Korea after 1910), all having similar economic results.

In the Philippines, however, the winding down of the war by 1902 inaugurated a period of modernization and economic advance. The Americans soon instituted a major land reform, confiscating (with compensation) the lands of the various Catholic friar orders which had long covered significant areas of the Philippines, breaking the traditional political dominance of the Catholic church in these areas, and redistributing the lands to Filipinos large and small. Major leaps forward were soon taken in public health, transportation and other infrastructure, administrative staffing, and other elements of state capacity.

The change from Spanish to American rule resulted in a particularly sharp break in the area of education. Fearing that excessive schooling might be liberating and empowering, Spanish friars had long deliberately limited educational opportunities including a frequent refusal to educate native Filipinos in the Spanish language. The Americans, partly reflecting the influence of a Protestant conviction that every member of the faithful – even the poorest and otherwise least advantaged -- must be able to read and study the Bible, had a much different attitude. If not always achieved, their policy goal was that every Filipino should attend school and they acted promptly to begin building and staffing public schools throughout the nation. At the highest levels, the University of the Philippines was established in 1908 to educate a new Filipino elite in scientific and administrative subjects.

This policy was in essence maintained through the American period. A leading British student of Southeast Asian history, Anne Booth, reports on the consequences:

It is often argued that the Japanese were more successful in increasing access to education in both Korea and Taiwan than the other colonial powers in Asia. But the evidence indicates that neither in Taiwan nor in Korea did the Japanese surpass the American achievement in the Philippines. By 1940/41 it was estimated that just over two million students were enrolled in public schools in the Philippines, and a further 180,000 in private schools. Of these a remarkable 40,000 were in post-secondary institutions, a much larger figure than in Korea or Taiwan, or in any European colony. In Korea, tertiary enrollments were much lower, and a high proportion of the students were Japanese. In Taiwan, the Taihoku Imperial University was established largely for research purposes, and few Taiwanese students were accepted. ... In both Korea and Taiwan, the goal of

the Japanese education system [for local populations] was only to “fashion the lower track of the two-track Meiji education system.”⁶

The United States also introduced democracy into the Philippines earlier than any other Asian country. Filipinos were electing the lower house of a bicameral national legislature as early as 1907, and then began electing the upper house in 1916. The United States Congress formally endorsed the independence of the Philippines in 1916 and then set a 10-year timetable in 1935. Reflecting the improvements in public health, the Philippine population increased rapidly from 7.3 million in 1900 to 16.6 million in 1940. As Booth reports, “if a composite index of human development were to be constructed for 1938 on the basis of per capita GDP, demographic data [infant mortality and crude death rates] and educational enrollments, the Philippines would have come out on top” for Asian nations other than Japan. It was true that “both Korea and Malaya had higher per capita GDP, and similar demographic data, [but] they scored less well on educational enrollments.” Further towards the middle in 1938 would have been (independent) Thailand, followed by (French) Indochina and at the bottom in terms of overall human development would have been (British) Burma and (Dutch) Indonesia.⁷

In terms of similar tropical climates, long ocean coastlines, and other geographic factors, the Philippines is most comparable to Indonesia, Malaysia, and Thailand. These three other nations also share similar pre-European ethnic and linguistic histories. Figure 1A shows their incomes per capita and that of the Philippines from 1820 to 2000 (as a percentage of the United States income per capita). During the nineteenth century (for which only a few data points admittedly are available), all four had surprisingly similar economic trajectories. After 1900 and until World War II, however, the Philippines grew more rapidly than both Indonesia and Thailand, and at a rate similar to Malaysia.

The Philippines and Japan Before World War II

Most people think of Japan in a separate category from other Asian nations. It is widely believed that Japan was the first Asian nation to achieve a high level of economic development, and that it began to distance itself from the rest of Asia early in the twentieth century. This impression partly reflects the Japanese successes against the Russian navy in 1904 and 1905, the first military defeat of a European nation by an Asian nation, and then the Japanese ability to mount a formidable military challenge to the United States during World War II. It is undoubtedly true that Japan was advancing more rapidly than other Asian nations in the development of scientific and technical skills and in associated military capacities. This was in part, however, a policy choice in the social allocation of resources, one that other Asian nations under colonial rulers could not have made, even if they had wanted to devote large resources to military pursuits.

In terms of the economic welfare of ordinary Japanese, however, matters are less clear. Indeed, while the calculations are rough and some have questioned them, Harvard economist Jeffrey Williamson estimates that real wages in the Philippines were higher in the Philippines during 1920-1924, and equal to Japan during the 1935-1939 period.⁸ Filipinos may have been consuming while the Japanese were building battleships. Even

in terms of total national income per capita (including the battleships), as shown in Figure 2A, the gap in the first half of the twentieth century was not as large as many people would think. From 1900 the Philippine income per capital held fairly steady until World War II at about 70 percent of the Japanese level. If Japan had a much higher total national income, and thus the resources to sustain its Asian military adventures, this significantly reflected its much larger population at the time – a population of 73 million Japanese in 1940, compared with 17 million Filipinos. (This population difference, to be sure, narrowed rapidly over the second half of the twentieth century and, given current demographic projections, the Philippine population will exceed that of Japan by 2025.)

As a result of its defeat in World War II, Japan joined the Philippines as the only Asian nations to experience a period of American occupation. The policies adopted by the American occupiers were in fact surprisingly similar in both nations. The lands of the Spanish friar orders – the dominant landowning group of the Spanish era – had been confiscated and now the traditional power of the rural landowning aristocracy was broken by a major Japanese land reform. Americans sharply curtailed the power of the Emperor and installed a newly democratic political system in Japan. As the Filipinos had written their first constitution in 1935, a brand new Japanese constitution was adopted in 1947. The granting to women of the right to vote first took place in both the Philippines and Japan during their respective periods of American occupation, as well as the wider establishment of other human rights and freedoms. As in the Philippines, the Japanese education system was reformed under American direction to spread mass schooling, to defuse militaristic tendencies, and to focus on a more modern curriculum of physical and social sciences.

The American occupation ended in the Philippines in 1946 and in Japan in 1952 but important parallels would still be found in the years to come. In neither case did the ending of the occupation era mean the end of a major American influence in national affairs (in both cases exceeding any other Asian nations except possibly South Korea). Long after the conclusion of World War II, large American military bases would remain in both Japan and the Philippines -- and are still present in the former, having closed down in the Philippines in 1992. Surprising as it may seem to many people, the institutional and other groundwork laid by the American occupiers thus was similar in a number of important ways in these two nations at the beginning of the second half of the twentieth century. Although having nothing to do with the periods of occupation by the Americans, there were other common features as well – both Japan and the Philippines are island economies and have limited endowments of oil, gas, coal, and other key natural resources.

Based on the Maddison calculations (in 1990 international Geary-Khamis dollars), in 1950 the income per capita of Japan was \$1,921 and of the Philippines was \$1,070, equal to 20 percent and 11 percent of the United States level, respectively (see Figure 2A). While this was a significant difference, the starting point was nevertheless quite low in both nations.^{*} Moreover, a significant convergence over time might well have been expected as the Philippines observed and benefited from the most successful aspects of the Japanese technological and industrial development experience. Instead, as is now a familiar story, there was a rapidly increasing separation, leaving Japan in 2000 with an income per capita equal to \$21,051 (equal to 74 percent of United States income per capita) and the Philippines equal to \$2,421. Given the much closer starting points in 1950, the failure of the earlier American hopes and plans for the Philippines (with which most Filipinos were in at least broad agreement), in contrast to the relatively much greater subsequent economic success in Japan, is Exhibit A in the Philippine economic mystery.

The Philippines and the Rest of Asia

Japan was the most extreme case but similar economic outcomes were experienced elsewhere in Asia where the American historic presence and influence had been much less.[†] In 1950, the Philippine income per capita exceeded that of all East and Southeast Asian nations except Malaysia and the two city-states of Hong Kong and Singapore.[‡] Yet, Taiwan rose above the Philippines in income per capita in 1962 (see Figure 4A), followed by South Korea in 1967 (Figure 5A), Thailand in 1977 (Figure 6A), Indonesia (Figure 7A) in 1985, and China in 1992 (Figure 8A). Based on an alternative set of calculations as found in the Penn World Tables (which begin only in 1950), the corresponding dates are a few years later – 1967 for Taiwan (see Figure 4B), 1970 for South Korea (Figure 5B), 1982 for Thailand (Figure 6B), 1992 for Indonesia (Figure 7B), and 1997 for China (Figure 8B). Based on current trends, it appears to be only a matter of time before Vietnam (see Figures 9A and 9B) and India (Figures 10A and 10B), although still lagging behind the Philippine's level of income per capita at present, will also surpass the Philippines.

^{*} A separate data series, the Penn World Tables compilations of national income, begins at 1950 and is less complete than the Maddison data in the 1950s. While it shows basically similar results (see Figure 2B), the income gap between the Japan and the Philippines may have been slightly less than shown by the Maddison data. According to the World Penn tables, income per capita in the Philippines was 13 percent of the United States level in 1950 (compared with 11 percent in the Maddison tables), while it was 20 percent in Japan (the same as the Maddison tables).

[†] Only South Korea might be compared with Japan and the Philippines in terms of past American political and economic influence but South Korea – even as large American military forces were based there -- never came under direct American occupation and sovereign control.

[‡] Hong Kong of course has never been an independent nation. It should also be noted that, although Malaysian income per capita exceeded that of the Philippines in 1950 (in the Maddison calculations – see Figure 3A), it fell below the Philippines for several years during the 1950s, and did not permanently move above the Philippines until 1960. Reflecting the different methods, in the Penn World Tables the Philippines income per capita was greater than Malaysia from 1955 (the first year shown for Malaysia) to 1960, and did not permanently fall below that of Malaysia until after 1970 (see Figure 3B).

As noted above, there is no widely accepted explanation for this surprisingly poor economic performance of the Philippines since 1950. The levels of physical and human capital in the Philippines in 1950 exceeded most other Asian nations. Few see the Philippines as having fundamental economic weaknesses relating to geography, natural resources, or other physical endowments – and Japan has certainly not been held back by similarly limited endowments. Many of the leading explanations thus have to do with a poor quality of Philippine national institutions and governance. As Patricio Abinales and Donna Amoroso have commented, in the Philippines at the end of the twentieth century “state weakness is manifest in uncollected taxes and uncontrolled crime, bloated bureaucracies and denuded forests, low teacher salaries, and high emigration rates.” The problems have hardly gone unnoticed. Indeed, leaders in Philippine society have routinely called “for better governance – business leaders for consistent policy implementation, urbanites for clean and affordable water, the middle classes for professionalism and honesty, and the poor majority for a government that represents *them*.”⁹

Yet, little seems to change. University of the Philippines economist Raul Fabella, commenting on the weaknesses of the Estrada presidency from 1999 to 2002, notes that a failure to address them would add to a long and “dubious list of national records of ignominy and incompetence” in government administration and economic management. As Fabella notes, “in the Philippines, the institutions, even the courts of law, are so weak and so compromised by corruption that the rule-of-law, or its figment, clings for dear life on the inaugural oath of the sitting president to uphold the law” – and this has often proved a fragile basis. In the Philippines the democratic process has often resulted in poorly qualified individuals being elected president, the office upon whom so much depends. As a result, Fabella considers that there has been a frequent absence in Philippine economic life of two critical ingredients required for business investment: (1) “stability” of the rules and (2) a secure “enforcement of these rules.”¹⁰ When the president falls far short, and given the absence of institutional backup in the Philippine legislature or the judiciary, or other national bodies, the economic results have often been disappointing for most Filipinos.

Still, such explanations remain well short of complete because many other Asian nations have had similar institutional deficiencies -- corruption and governmental instability have hardly been confined to the Philippines – and yet have done better economically. As one Philippine economist notes, in seeking to understand the poor Philippine performance, “some observers would, of course, point to problems of poor governance, corruption, and political economy, or to exogenous shocks brought about by trade liberalization and WTO rules as the culprits. The counterargument, however, is that these problems or circumstances have also beset the other Asian economies. And so the question remains: Why have they consistently performed better than the Philippines [economically]?”¹¹

Corruption Puzzles

One attempt to answer this question was attempted in a series of economic case studies of Asian nations funded by the Foundation for Advanced Study in International Development (of Japan) and the World Bank. As noted by the editor, Edgardo Campos (at the time a senior economist at the Asian Development Bank), the record of Asian economic development is puzzling and paradoxical in light of mainstream economic thinking. Most western economists have long believed that economic success depends on the presence of a formal rule of law that is well enforced by an independent judiciary.* Yet, as Campos comments:

The experience of the six countries presented in this volume – China, Indonesia, [South] Korea, Malaysia, Philippines, and Thailand – presents a difficult paradox to proponents of “good governance.” On the one hand, these countries have managed to attract large flows of private investment over a very long period (although the Philippines is a latecomer). On the other, with the exception of Malaysia, these countries have featured prominently in the “world’s list” of most corrupt countries. Moreover, as conventional wisdom would have it, corruption in these countries is highly correlated with a perceived weakness of legal institutions. Hence, the proponents of “good governance” are confronted with exactly the opposite of their revered gospel: in East Asia, weak legal institutions have existed side by side with high levels of investment (not to mention rapid rates of growth).¹²

As the six case studies argue, the key issue is not whether any corruption exists or not. There are in fact different types of corruption and different potential impacts. Some forms of corruption amount to a virtual informal tax on business activity without any necessarily greater economic consequences than other forms of taxation. In other cases, where businesses have to compete to win bureaucratic favor, corruption may be little different in practice from a competitive auction. Where government rules are ill-conceived, corruption may be a less costly and more rapid way of getting around these rules – and thus corruption can be economically efficient in reducing overall transaction costs. Corruption may be a way of compensating otherwise poorly paid civil servants. Moreover, when the recipients of corrupt payments redistribute the moneys widely to underlings and other parties, it may amount to a beneficial form of income redistribution.

The real issue therefore is predictability and the degree to which corruption is allowed to distort government decisions from the economically rational. If corruption payments are made according to predictable and well known rules – admittedly informal rules in Asian countries rather than the formal systems of law in the West – the effects may not be particularly damaging and there may even be some positive aspects. Indeed,

* Campos describes this belief as so ingrained in western economics and so resistant to any contrary evidence that it appears to have an “almost theological” character (p. 2). For further explorations of the religious character of a surprisingly wide range of economic thinking, see Robert H. Nelson, *Economics as Religion: From Samuelson to Chicago and Beyond* (University Park, PA: Pennsylvania State University Press, 2001).

as Campos writes, “institutions that promote the credible enforcement of contracts have ... existed in many of these East Asian countries. These institutions, however, are of the informal, nonlegal variety.” Remarkably enough, in light of the usual western condemnation of “institutions that foster rent-seeking and corruption,” in the actual experience of many Asian countries there are even important instances where “rents and corruption have been essential to the credible enforcement of contracts and thus to the large inflows of investment.”¹³

That is to say, rent seeking and corrupt payments can be merely the monetary side of an informal set of transactions that routinely occur in many Asian countries, and they are not necessarily any more intrinsically objectionable than the “legal” money payments that are part of the routine workings of market transactions in western economies (which themselves might be described as socially approved “bribes” in the market that involve money transfers to induce one person to perform actions desired by another person). Otherwise, how would it be possible to explain the long run persistence of growth rates of 10 percent and higher in a nation such as China, often judged to be among the most corrupt in the world.¹⁴

In South Korea, following the coup d’etat of General Park Chung Hee in 1961, the government intervened systematically and comprehensively in many areas of economic life, establishing government-owned corporations in a number of key sectors. Then, despite widespread resulting corruption in Korea, the economy over the next few decades performed spectacularly well. Cambridge University economist Ha-Joon Chang sees the corrupt payments as an informal part of the salary structure of Korean government employees who nevertheless continued to make sound economic decisions on the whole, partly motivated by a strong national determination throughout Korean society – one might call it almost a national economic religion of sorts -- to “catch up” with Japan and the West. As Chang comments, it was still possible in “a corrupt country like Korea” to maintain a “high degree of rationality in government [economic] decision making.” Among the important explanatory factors, Chang includes the strong “public commitment of successive Korean political regimes to productivity growth and catching up,” which was an important motivating factor in limiting the extent to which corruption – even when large payments were being made -- was allowed to distort rational economic policy making in the Korean government.¹⁵

Indonesia is another highly corrupt country that has also seen high rates of economic growth (until 1995, more recently Indonesia has lagged). Political scientist Andrew MacIntyre finds a somewhat different explanation there. The key was the dominance of the long time President Suharto. It was not that Suharto had any objections to or sought to suppress corruption altogether. Indeed, it was closer to the opposite but Suharto was concerned to maximize the total corrupt payments to himself and his surrounding circle. If there were a freedom of any bureaucrat to demand corruption payments according to his or her own private wishes, the result would be economic chaos and significant damage to the economy – thus a diminished potential for Suharto to collect his own payments from parties wishing to do business in Indonesia.

Thus, as long as Suharto was himself a main party to the profits of business corruption, he had his own strong private incentives to maximize these profits – a result not unlike the normal maximization of profits in the competitive market as described in mainstream economic theory. This required controlling and limiting corruption in other parts of the Indonesian government and society. Moreover, unlike a nation such as the Philippines where even a strong president finds it difficult to impose his will on the rest of the government, Suharto had the power to monitor and to enforce tight restrictions on the bureaucratic pursuit of graft. As MacIntyre thus explains, “the prevailing political structure in Indonesia during the New Order period (1966-1988) gave President Suharto the opportunity and, more important, the incentive to allow corruption to flourish but to ensure that its costs did not drive down investment. Key to this was the president’s ability to monitor the behavior of officials and enforce his core preferences, thereby minimizing agency loss.”¹⁶

In the same volume, Emmanuel de Dios and Hadi Esfahani examine the particularly debilitating effects of governmental weakness and corruption in the Philippines. As the observations above make clear, it is not simply the presence of any corruption at all; there can be “good corruption” (or at least it is benign) and “bad corruption” – somewhat as there can be efficient taxes and inefficient taxes collected legally by governments. Hence, one must look to the specific character of corruption in order to identify a potential cause of national economic decline. In the case of the Philippines, it would seem that the biggest problem has been the unpredictable character of the corruption, reflecting a general sense of instability and unpredictability throughout much of Philippine political and economic life. As De Dios and Esfahani note, one factor in this regard has been the rapid turnover of presidents who are now constitutionally prohibited from seeking reelection when their one term (six years) runs out – thus making it difficult to know how the next president will treat any set of informal expectations about the rules of the game for doing business of the Philippines.

Philippine politics is also exceptionally “particularistic,” regional, and fragmented, thus creating a multiple set of independently operating corruption seekers whose collective actions may be damaging not only to the whole national economy but even to the corrupt actors themselves (reducing the total money pools to be tapped). As de Dios and Esfahani comment, the Philippine political system has been particularly notable for its “apparent inability of the government as a whole to make credible or binding commitments.”¹⁷ It is as though the basic tax and regulatory policies of a western government were revised every two or three years. One consequence has been a persistent difficulty in generating both foreign and domestic business investment in the Philippines.

These and other studies go part of the way towards explaining the economic problems of the Philippines. But they still leave important questions unanswered. Why, for example, do Filipinos not revise their political system to make stronger and longer lasting government commitments more likely – especially given the large economic costs imposed throughout Philippine society of the present system? Why in the Philippines does there seem to be little bonding power of national religion or ideology that acts as a

limiting influence on the extent and practice of harmful corruption? Why – to borrow some formal economic terminology – do the game-theoretical problems associated with the “prisoner’s dilemma” seem to afflict the Philippines more gravely than other Asian nations? Why, that is to say, does Philippine society seem to find it so difficult to organize effectively for any collective actions? As Abinales and Amoroso ask, “‘How,’ in the words of one close observer, ‘could a country with so many gifted, so many nice people end up in such a mess?’”¹⁸ Solving the Philippine economic mystery evidently requires addressing such issues as well.

The Philippines and Mexico

The political and economic life of a nation is inevitably a close reflection of its culture. Economists have long neglected the cultural dimension of the economy but more recently there has been growing recognition of its central importance – and thus of the importance of religion as well which has a large influence on the culture of many (probably most) nations. Nobel prize winning economist Douglass North, for example, has recently argued that “the key to building a foundation to understand the process of economic change is beliefs – both those held by individuals and shared beliefs that form belief systems.” However large a departure it may be from the standard economic models of the past, this will require in the future that economists interested in issues of economic growth must increasingly “explore the way consciousness interacts with diverse experiences that produce diverse cultural – institutional – patterns.”¹⁹ Moral systems and other aspects of the normative foundations of a society have many practical economic consequences – among other things, they can greatly influence the levels of trust and thus the transaction costs of doing business in a nation.

From this perspective, the early twentieth century attempts of the American occupiers to lay a foundation for future Philippine economic success seem to have been less successful than they were hoping. The United States may have been able to alter significantly the physical infrastructure of the Philippines, building highways and schools and so forth, but it was more difficult to alter the “cultural infrastructure.” Altering a culture normally takes a long time and is likely to require much different approaches – a matter of “conversion” rather than “construction.” Moreover, in comparison with the 48 years of the American occupation, the Spanish were in the Philippines for 330 years, and they also focused their efforts on religious proselytizing. In retrospect, culturally, the Spanish influence even 100 years after the Spanish departure may well be greater today in the Philippines than the American.

Stanley Karnow is a leading American journalist who covered southeast Asia for many years for publications such as *Time* magazine and *The Washington Post* and visited the Philippines frequently. Reflecting an American sensibility, Karnow wrote in 1989 of Filipinos that “with each successive visit I perceived that their values and traditions, although frequently concealed under an American veneer, were their own – and often antithetical to the American model.”²⁰ Perhaps this should not have been surprising. The United States was largely shaped by Protestant religion and its associated cultural values, dating to the arrival of the Puritans in Massachusetts in the seventeenth century. The

Spanish set out to establish an outpost of devout Catholicism in the Philippines and to a large extent succeeded, as is still readily apparent to any contemporary observer of Philippine life.

Powerful evidence of the Spanish Catholic roots of Philippine culture is seen in the basic similarity – often noted in passing, if not explored in depth -- of the Philippines to Latin American nations. The dominant political role played in the Philippines by large landholding and otherwise wealthy families is also characteristic of Latin America. As Alfred McCoy comments, “in the Philippines, as in many Latin American settings, a weak state and powerful political oligarchies have combined” to put the powers of the state in the service of private interests.²¹ Measured by the Gini coefficient, the Philippines has a higher level of inequality than almost any other Asia country but it is similar to many Latin American countries. Yet other Philippine characteristics similar to Latin America are the high crime rates, the dangerous highways for drivers and pedestrians alike, and general level of violence in Philippine society – with each election cycle bring Philippine death tolls of 100 or more people.

In the case of Mexico, it is not only the common Spanish Catholic heritage but, jurisdictionally, the Philippines was actually long governed within the Spanish empire as a province of Mexico (this lasting until Mexico became independent from Spain in the early nineteenth century). When the Spanish first arrived, they reached the Philippines by crossing the Pacific from Mexico. Then, for hundreds of years, until the Suez canal was completed in 1869, Spanish and other travelers normally followed this route. The famous galleon trade, the mainstay of the economic interaction of the Philippines with the rest of the world, went from China to Manila to Acapulco to Spain – and then back again.

One might speculate, therefore, that Spanish culture as it reached the Philippines was significantly refracted through a Mexican lens. If it is true that culture importantly influences economic results, one test of this hypothesis would be to compare the economic histories of Mexico and the Philippines. As Figure 11A shows, there is in fact a fairly close fit – in any case closer than the fit of either country with the economic history of the United States or of neighboring Asian countries of the Philippines. Like all of Asia and Latin America, both Mexico and the Philippines fell behind the rapidly growing American economy over much of the nineteenth century. Mexico began to reverse this trend around 1875, however, partly reflecting the strong inducements offered by president Porfirio Diaz that succeeded in attracting large American investments to Mexico, including the building of railroads and other basic infrastructure in the late nineteenth century. But the long period of iron rule under Diaz finally ended in 1911, plunging Mexico into many years of political and economic turmoil, and steady economic decline relative to the United States.

As it happened, Mexico’s economic misfortunes began not long after the Americans arrived in the Philippines. As significant American public and private investments were directed to the Philippines, the income gap between Mexico and the Philippines steadily narrowed to the point of reaching near equality in the 1930s. The devastation of World War II was then much greater for the Philippines but, allowing for

this loss of income that was never made up, the economic trajectories of Mexico and the Philippines were similar over the second half of the twentieth century. In particular, they both suffered major economic setbacks – absolutely and relatively – in the 1980s and have not recovered this lost ground (relative to the United States) since then (see also Figure 11B for an alternative set of post-World War II income figures, showing similar long run patterns). Although there was a convergence in the early twentieth century, Mexico has usually had a higher income per capita than the Philippines (at present about 2.5 times the Philippines) but the fluctuations in national economic results show roughly similar patterns of ups and downs over almost two centuries.

By comparison, the economic histories of both Mexico and the Philippines are considerably different from the standard Asian trajectory of countries such as Japan (see Figures 2A and 2B), Malaysia (Figures 3A and 3B), Taiwan (Figures 4A and 4B), South Korea (Figures 5A and 5B), and Thailand (Figures 6A and 6B). In the standard pattern for these and most other Asian countries, national income per capita relative to the United States declined over much of the nineteenth century (in this period not much different from Mexico and the Philippines). After that, some relative increases were seen widely in Asia in the first half of the twentieth century (although not in Thailand). But the real differences are found in the second half of the twentieth century when most Asian countries were rapidly closing the gap with United States in income per capita, while Mexico – together with the Philippines -- were being left behind.

While Mexico has a particularly close historical connection with the Philippines, a similar close match of economic histories is found for other Latin American countries. Perhaps the closest economic match of the Philippines with any nation in the world is with Peru – also a Pacific nation although it has only one-third as many people within a total land area four times as large. As shown in Figure 12A, except for the greater Philippine devastation of World War II, the upward and downward trends in income per capita of Peru have been remarkably similar to those of the Philippines (see also Figure 12B). In relative terms, the Philippines in 1933 achieved its historic maximum at 29 percent of the U.S. income per capita. In Peru, the corresponding historical maximum was 34 percent of U.S. income levels and was reached in 1935. Relative to the U.S., both countries then declined steadily over the next 70 years, although the low point of the Philippines in 1999 (at 8 percent of U.S. income per capita) was below the low point for Peru in 1992 (at 13 percent).*

It is not only the economic histories of Peru and the Philippines that are similar. The World Values Survey, overseen at the University of Michigan, involves hundreds of questions asked of thousands of respondents and is the most comprehensive assessment of national values and cultures around the world that is currently available. Analysts of this data have identified national patterns of responses in which the citizens of one nation are shown to be more likely to answer in a similar manner to the citizens of another nation. Among all the 81 nations in the world included in the 1999-2002 surveys, Peru shows almost the closest overall values and cultural match of any other country to the Philippines.²² Only 11 percent of Peruvians and 8 percent of Filipinos, for example,

* This also excludes 1946 in the Philippines when the nation lay devastated by warfare.

respond positively to the question of whether most other people can be trusted, compared with 43 percent of Japanese and 66 percent of Swedes.²³

Although the matches are not as close as Peru, the long run economic histories of Columbia and of Brazil (see Figures 13A and 14A) are also strikingly similar to the economic history of the Philippines – especially in comparison with the economic histories of other Asian nations (see also Figures 13B and 14B).

Spanish Catholic Culture

None of this is meant to suggest that there is any major direct causal connection between Latin American economic results and Philippine economic results. The trading and other actual economic links between Latin America and the Philippines are not large enough to have produced such a similarity of economic histories. On the other hand, it seems unlikely that these similar economic histories are a mere coincidence. Instead, it would seem that the Philippines and Latin America must have been independently experiencing the impact of a similar set of exogenous economic influences. For one thing, they have all been part of the same world economic trends, including events such as the great depression of the 1930s, and worldwide fluctuations in commodity prices.

A national culture can also be considered an exogenous economic factor in the sense that few economic policy makers have considered it an economic variable or sought to alter a national culture for economic purposes. In terms of national culture, the Philippines and Latin America of course share many centuries of a Spanish Catholic colonial history. If culture is now to be considered an important economic influence (an “unobserved variable” in many economic models), it may be that this common Spanish Catholic heritage is a main contributing factor in the surprisingly similar long run economic histories of the Philippines and most of Latin America. Levels of trust, for example, have been identified as a particularly important element of social capital, potentially affecting levels of transaction costs and thus significantly national income. It is not only Peru (and the Philippines) but the Latin American countries in general that have among the lowest levels of trust in the world. At the extreme, on the 1999-2002 World Values Survey, only 3 percent of Brazilians responded positively when asked whether most people can be trusted – the lowest such response rate in the world.²⁴

Just as many Filipinos have been puzzled if not bewildered by their growing economic backwardness relative to neighboring Asian nations, many Mexicans (and Latin Americans generally) have been puzzled by their relatively poor economic performance in comparison with their large neighbor to the north, the United States (and with Canada as well). Indeed, an important body of Latin American literature has by now been spawned to address this question – why at the end of the twentieth century did almost every Latin American nation have an income per capita of less than 30 percent in comparison to the income per capita of the United States? Latin Americans consciously saw themselves in the nineteenth century as following in the footsteps of the United States – including having won their own wars of independence -- and often modeled their constitutions and other political institutions after those of the United States. Later, they

often encouraged American investment and otherwise sought to emulate the economic successes of the United States. The failure of essentially every Latin American nation in this regard would be a main contributing factor to the deep “love-hate” relationship that has long characterized Latin American perceptions of the United States (and in this respect again not unlike the Philippines).²⁵

The Mexican Octavio Paz was the Nobel prize winner in literature in 1990, an Mexican ambassador to India, and in general one of the leading twentieth-century intellectuals of Latin America. In 1979, he authored an essay on “Mexico and the United States.” As Paz noted, there were large cultural differences between Mexico and the United States: “We are two distinct versions of Western civilization.” Paz had little doubt about the historic reasons of these differences: “The distinct and divergent attitudes of Spaniards and English . . . can be summed up in one fundamental difference, in which perhaps the dissimilar [cultural] evolution of Mexico and the United States originated: in England the Reformation triumphed, whereas Spain was the champion of the Counter-Reformation.”²⁶

These cultural differences carried over into areas which can have a major impact on national economic outcomes. As Paz noted, “for the society of New Spain [colonial Mexico], work did not redeem, and had no value in itself. Manual work was servile. The superior man neither worked nor traded. He made war, he commanded, he legislated.” In the United States, a nation formed by a Protestant culture, it was much different: “For the Puritans and their heirs, work is redemptive because it frees man, and this liberation is a sign of God’s choice.” Puritanism promoted an individual relationship with God (individual justification “by faith alone”), an absence of any clerical hierarchy (a Protestant “priesthood of all believers”), a full worldly engagement in search of an earthly perfection of society (the Puritans building a “city on the hill” that should serve as a beacon for all mankind), and a powerful internalized sense of ethical responsibility.

As the attention of many human beings shifted from the eighteenth century onward from a preoccupation with Christian religion to economic and other worldly affairs, these same attitudes were carried over into the new realms. In an increasingly secular age, Protestant individualism and personal responsibility would reappear as a religious commitment to the values of the free market and political democracy. As Paz comments, the foundations of American political and economic successes were laid early in the nation’s history – “in the small religious communities of seventeenth-century New England [where] the future was already in bud: political democracy, capitalism, and social and economic development.”²⁷

Without the same religious foundation, Mexicans could one day profess a dedication to open markets and democratic politics but the roots were shallow. The Catholic Church, as the sole hierarchical source of religious authority, imparted basic values that carried over to political and economic domains as well. As Paz notes, “the political centralism of the Spanish monarchy had religious orthodoxy as its complement, and even as its foundation.” The Spanish Catholicism of the Counter-Reformation, the Catholicism of colonial Mexico (and the colonial Philippines), taught an “orthodoxy

[that] prevented examination and criticism.” – and inevitably this extended to other areas of life, going well beyond religion.²⁸ As Paz comments with respect to Mexico and the United States,*

If one considers the historical evolution of the two societies, the main difference seems to be the following: the modern world began with the Reformation, which was the religious criticism of religion and the necessary antecedent of the Enlightenment; with the Counter-Reformation and Neo-Thomism, Spain and her possessions closed themselves to the modern world. ... And so, though Spanish-American civilization is to be admired on many counts, it reminds one of a structure of great solidity – at once convent, fortress, and palace – built to last, not to change. In the long run, that construction became a confine, a prison.²⁹

A similar assessment of the historical impact of the Spanish Counter-Reformation was offered in 1994 by another distinguished Latin American intellectual, the Chilean Claudio Veliz. Like the Philippines, there had been throughout most of Latin America a long “economic malaise” that had been accompanied by a similarly lengthy and “perplexing failure to comprehend its causes.” It was not difficult to recognize “the somber saga of sterility, silliness, and irresponsibility that has for so many decades shaped a considerable portion of the economic arrangements of Latin America.”³⁰ The real question was why Latin Americans put up with it – why they were seemingly unable to alter these arrangements for the better, despite the many decades of disappointing economic results.

In this regard, Veliz is disdainful of most Latin America economists and others who have produced innumerable studies which, “although seldom devoid of erudition and invariably enriched by good intentions,” have ended up as the “least effective [scholarly] undertaking ever engendered by public concern about the troubled circumstances of any major region of the world.” The basic problem was that it was necessary to focus on “a stubborn cultural circumstance” characteristic of Latin American nations that nevertheless had “proved beyond the capacity of the [mainstream economic] authors and their seminars and committees to comprehend.” As a starting point, similar to the views expressed by Paz, it was necessary to understand that Latin American culture was inherited in significant part from Spain and for Spain the “Counter-Reformation ...

* A similar view is expressed by another leading Latin American intellectual, the Peruvian Mario Vargas Llosa. In addressing the great need for political and economic reform in Latin America, and yet the strong cultural obstacles to any such reform within the region, Llosa observed in 1992, economic reforms would not succeed:

Unless they are preceded or accompanied by a reform of our customs and ideas, of the whole complete system of habit, knowledge, images and forms that we understand by “culture.” The culture within which we live and act today in Latin America is neither liberal nor is it altogether democratic. We have democratic governments, but our institutions, our reflexes and our *mentalidades* are very far from being democratic. They remain populist and oligarchic, or absolutist, collectivist or dogmatic, flawed by social and racial prejudices, immensely intolerant with respect to political adversaries, and devoted to the worst monopoly of all, that of truth. Quoted in Claudio Veliz, *The New World of the Gothic Fox: Culture and Economy in English and Spanish America* (Berkeley, CA: University of California Press, 1994), pp. 190-191.

became the greatest and most enduring achievement of her impressive imperial moment.” It was not just from the fifteenth through seventeenth centuries but the influence of the Spanish Counter-Reformation “largely dominates, even to this day, the lives of the Spanish-speaking peoples almost as convincingly and pervasively as the dynamic asymmetries of the Industrial Revolution preside over the English-speaking world.”³¹

Much like Paz, Veliz sees the Counter-Reformation as a “titanic endeavor ... to arrest change” in Spain and to bring change in society “forever to a halt” in order that “all manner of stable, predictable, traditional arrangements” can be maintained.³² Nothing, however, could be more at odds with the workings of the free market that is the most powerful institution for change in the history of human existence. Under the normal workings of the market, one business after another will be failing, displacing owners, workers, and even whole communities. Indeed, lacking a powerful normative sanction to give it legitimacy, a free market – or even a modestly regulated market – is not likely to survive for long. In eighteenth and nineteenth century England, Protestant individualism – reworked in secular form in the free market theories of Adam Smith -- provided the requisite religious blessing. But in Spain, and in its Latin American (and Philippine) colonies, reflecting the deeply conservative impulses of the Counter-Reformation, the core religious influence worked the other way.

As Veliz comments, “the cultural tradition of the Spanish-speaking peoples ... proved unresponsive ... to industrial capitalism” and their governments often sought to repress the market forces for change. Socialism, progressivism and other collectivist ideologies in this sense were not a force for modernization – as many of their leading advocates preached – but a conservative movement to limit the extremely rapid pace of social transformation that capitalism was bringing about. Reflecting a fear of an unknown market-driven future, those peoples in Spain and Latin America whose values were shaped by a Spanish colonial history “appear to be sheltered (imprisoned?) by a magnificent past, unable to come to terms with a disappointing present,” reflecting a Spanish Catholic culture that for centuries manifested “an overriding affection for persons rather than a respect for things; a reluctance to sever the cords of the safety net; ... a distrust of novelty and, generally, a sturdy disinclination to step outside the dependable protection of the dome, even in this, our own century of modernity.”³³ Mexico and the rest of Latin America, as both Paz and Veliz contended, should focus on their Spanish Catholic colonial history, and the especially the influence of the Spanish Counter-Reformation, to discover the roots of their own longstanding economic malaise.

The Latin Philippines

In the Philippines as well, it is difficult not to suspect that the long Spanish Catholic colonial heritage imparted similar cultural attitudes that now stand in the way of freer markets and a more successful political democracy. Kishore Mahbubani is the dean of the Lee Kuan Yew School of Public Policy at the National University of Singapore and a former Singaporean ambassador to the United Nations. In considering the contrast between Latin American and Asian economic outcomes in recent decades, Mahbubani finds that a key lies in a comparison of “the performance of East Asian elites with the

elites of Latin America.” In addressing why the former performed much better than the latter, he considers that “culture is certainly part of the explanation. Since the days of Confucius, the ethical fabric of East Asian societies has been laced with the belief that obligation to society is an integral part of being an ethical person.” Interesting enough, he finds that in East Asia countries with a Confucian heritage there was a commitment to “self-cultivation” that was surprisingly “analogous to the Protestant work ethic in the power to strengthen the personal drive for achievement.” But Mahbubani also notes that these cultural traits were largely missing in the Philippines where instead there was a Latin American “feudal hacienda mentality and poor leadership,” reflecting a national elite more individually concerned with “their own bank accounts” than collective actions directed towards “strengthening their nation.”³⁴

From a Japanese perspective (and thus also grounded in a Buddhist/Confucian heritage), Kyoto University professor Yoshihara Kunio finds religion to be an important factor in the relative economic success of Asian nations. In Thailand, “a typical village has several hundred people, an elementary school, and a Buddhist temple.” In the Thai education system, “religion is one of the compulsory subjects ... and it is taught essentially as Buddhist moral education.” These Buddhist elements help to sustain “the strength of Thai traditional values and institutions,” including a strong sense of national identity associated in part also with the historic presence of a king. In the Philippines, by contrast, the Roman Catholic Church was “an international organization centred in the West” that was drawn to “newfangled liberal ideas that arise there” such as liberation theology in the 1970s and 1980s, a “belief [that] was first pursued in Latin America,” and then attracted many Catholic priests and other Filipinos who sometimes even gave their support to radical insurgencies fighting the government. Yoshihara saw the core Catholic commitment to “social justice” being abused when some Filipinos sought “to bring it about by force” and with negative consequences for the Philippine society and economy – and most harmful, ironically, for the poor themselves.³⁵

Catholicism was not the only western idea that Yoshihara regarded skeptically in an Asian context. The Philippines, he argued, “was an artificial political unit created by the Spaniards and maintained by the Americans. The country was poorly integrated linguistically and socially.” After independence in 1946, the Philippine government “disintegrated because [Western] democracy did not work” there, which then led Filipinos in desperation to the “political disaster” of the Marcos dictatorship. Overall, since 1946, “the Philippine evolution is characterized by a decay of a modern democratic government implanted by idealist Americans who came to the country on a mission of ‘manifest destiny.’”³⁶

The American occupiers had encouraged the creation of a formal set of political and economic institutions that mirrored their own Protestant cultural values and traditions and had been successful in Protestant America. But they did not have enough time, or did not know how, or perhaps were even reluctant to try, to instill the basic cultural values and convictions to make these institutions work. The Americans were by and large blind to the critical importance of their own Protestant heritage, ascribing the status of universal values to their own national beliefs. It was in fact a repeat of Latin American

history in the nineteenth century when governments there were also closely modeled after the American constitution and then worked poorly when the spread of full scale democracy in the twentieth century finally put them to the test.

As seen in the previous figures showing the course of Philippine economic history, matters turned out reasonably well in the Philippines as long as the American occupiers were present to oversee the workings of the Philippine political and economic system. When the Americans left, however, the Spanish heritage of the Counter Reformation seemingly reasserted itself. The Philippines then economically functioned as a Latin American country with Latin American results. Few Filipinos had abandoned the comforting world of Catholicism for the more religiously demanding – and often harsher -- environs of Protestantism.

Argentina and the Philippines

As seen in Figures 15A and 15B, Argentine income per capita has been consistently well above that of the Philippines – from 2 to 3 times as high. The up and down trends over the years, however, suggesting that similar political and economic forces have been at work in driving movements in national income, show a similar pattern. Argentina in the early part of the twentieth century achieved an income per capita at one point equal to 80 percent of the United States – by far the highest in Latin American and comparable at the time to European nations such as France and Germany. From about 1930, however, the Argentine economy began a long period of sharp decline in which it diverged from Europe and gradually converged with its Latin American neighbors. No other modern nation has ever suffered such a large decline in economic status over such a long period.

A closer examination of the Argentine experience offers some further clues for unraveling the Philippine economic mystery. Although the magnitude of the relative income decline was not nearly as great, the Philippines also suffered its own fall from top to bottom ranks over the course of the twentieth century. In the Philippine case, in 1950 it had one of the highest incomes per capita in Asia but years of decline followed and by 2000 it had one of the lowest. In both Argentina and the Philippines, the loss of economic status was most rapid in the 1980s, a period in both countries of wide political and economic turmoil and disappointment. The citizens of Argentina and the Philippines have both been surprised by their economic failures of the twentieth century and at times have been at a loss to understand just how and why these events occurred. As two leading experts on the Argentine economy commented recently, and sounding much like similar Philippine experts, the nation's economic experience "has long presented a puzzle. ... The puzzle is straightforward: how could a country that was once one of the richest in the world now be placed so poorly."³⁷

In another dimension, Argentina and the Philippines have long been considered two of the most corrupt nations in the world – ranked by Transparency International in 2006 as the 93rd and the 121st most corrupt nations in the world, respectively. In language that could equally apply to the Philippines, a *New York Times* reporter remarked

of Argentina in 1992 that local “business here has been noted for its bloated payrolls, antiquated equipment, and management strategies that focused on paying bribes to government officials in exchange for lucrative contracts.”³⁸ Since achieving independence (which happened in Argentina much earlier, in 1816), there has been a similar degree of political instability in the two nations, including frequent changes of leadership, often by extra-constitutional means (in Argentina most frequently by military coup). In the most recent example, both nations in the same year of 2001 experienced political crises that resulted in the extra-constitutional removal from office of their presidents long before their terms were scheduled to expire.

In terms of personality and political strategy, there are many parallels between the careers of Juan Domingo Peron in Argentina and Ferdinand Marcos in the Philippines (both challenged the reigning landed oligarchs of their respective nations) – and which extend to their wives, Evita and Imelda, who both played important roles in their political rise and showed a similar enjoyment and penchant for celebrity. In a particularly unfortunate parallel, Argentina in the 1970s experienced between 10,000 and 30,000 “disappearances” of largely left-wing opponents of the government at the hands of the military, while the Philippines has been experiencing – if on a lesser scale -- a similar phenomenon of “extra-judicial killings” in recent years (now variously estimated between 300 and 800). Political violence has long been part of the routine practice of politics in both countries.

Argentina’s unique economic history has attracted attention from economists around the world. Most have fared poorly, however, in explaining the results. This is partly because economists have long been trained professionally to focus on narrowly economic variables and to consider matters of politics and culture to lie in a separate domain – the professional subject area for other social scientists such as political scientists and sociologists. Argentina’s economic problems, however, are not the result of some peculiar set of national economic interactions among a set of strictly economic variables. Rather, they are the result of a highly uncertain and often unfavorable environment for business investment, resulting from major Argentine economic policy failures extending over many decades. These policies, again, were not determined by accident or by some limited set of economic actors but by the overall workings of the Argentine political system. Between 1930 and 1983, Argentina experienced 9 coup d’etats, military rule for 22 years, and in between mostly weak and unstable civilian regimes. Finally, there is no separating the workings of a political system from the character of a national culture. If economists are not willing to take up politics and culture, they will have little hope of explaining the economic outcomes of nations such as Argentina (and the Philippines).

As a distinguished Argentine journalist and social critic, Jose Ignacio Garcia Hamilton accepts no limits on the explanatory factors he can consider. Hamilton looks to politics and culture to explain the economic woes of Argentina and other Latin American nations. He is particularly concerned to understand the roots of a Latin American tendency towards failed democracies and the substitution of “authoritarian” governments in their place. In searching for answers, Hamilton is in agreement with Paz

and Veliz in finding that the Spanish Catholic heritage of Latin America has played a critical role.*

As Hamilton (himself a Catholic) comments, “the Roman Church tells us, Catholics, that we must seek salvation within the institution. The phrase *extra ecclesiam, nulla salus* (out of the Church there is no salvation) clearly sums up this concept.” As a matter of religious upbringing, then, we “Catholics get used to depending on [Church] authority for taking important decisions – or even small ones. In our childhood seeing a film, for instance, depended on the opinion of the priest, the Bishop, or the Religious Commission for Film Qualification.” By contrast, the members of Protestant churches “are given the Bible where they themselves must find the truth and the guidelines for their own conduct.” As a result, Protestantism instills an attitude of individual questioning and responsibility for religious truth among the faithful; they “acquire maturity ... and get used to independence, freedom and the assumption of their duties and obligations.”³⁹ These religious attitudes have then been transferred to secular domains such as the manner of individual participation in politics, providing a fertile ground for the practice of democracy.

Another personality trait widely observed in Argentina society and in other Latin American countries is a tendency to oscillate between acts of submissiveness and outbreaks of rebelliousness in dealing with authority. Hamilton considered that “whereas for Protestants dissent is natural, for Catholics it implies strain, tension to overcome the corset of rules which weighs them down.” For “Catholics [they] must seek or confirm their truth in an external, superior authority rather than in their own reflection or intimate decision.” But this did little to advance a “collective sense of responsibility” that “usually arises from free thinking.”⁴⁰ A well functioning democracy, however, depended on just such a strong sense of individual responsibility among the populace for the well being of the whole society, something in short supply in Argentine and Latin American culture.†

Hence, as Hamilton concluded, Argentina’s political and cultural problems, and hence its economic problems as well, reflected a Spanish Catholic personality type – also observed widely throughout the rest of Latin America – that was less suitable as a cultural basis for a democratic system of government and for the sustenance of market freedoms. Growing up in an Argentine Catholic household, Hamilton noted “how many

* It should be noted that in the case of Argentina it differs from other Latin American nations in the very large number of Italian immigrants. From 1860 to 1930, about half of all immigrants came from Italy (many from southern Italy), significantly altering the demographic character of the Argentine population. Hence, since the early twentieth century it has been more accurate to speak of Argentine Catholicism as a blend increasingly of Italian with the previously dominant Spanish Catholic influence. Also unlike many other Latin American countries, there is almost no remaining presence in Argentina of the original native American populations.

† In Argentina, reflecting the large number of Italian immigrants, this may also have significantly reflected a southern Italian Catholic influence. In *The Moral Basis of a Backward Society*, former Harvard political scientist Edward Banfield found a culture of “amoral familism” in a southern Italian town he studied. The citizens of the town showed a strong sense of loyalty within their own family but felt little sense of responsibility to society outside their family circle. See Edward Banfield, *The Moral Basis of a Backward Society* (New York: Free Press, 1958).

times ...we ... end up saying: 'I'll do it, anyway I can confess later,' using a psychological mechanism which consists in avoiding responsibility, and, simultaneously transfer our guilt outside ourselves."⁴¹ A social dynamic was at work in Latin American countries that had too often produced a politically and socially self-destructive set of attitudes among the population:

Sometimes when we are intimidated with so many restrictions and rules, we rebel violently and totally ignore order. One way or another, responsibility is non-existent. Either we secretly reject an internal set of rules, or we break it openly and violently. Be it as it may, it is an indifferent and hostile attitude towards an order than intimately does not belong to us, which is not really ours. Lack of responsibility is often seen at humbler levels. We, Latin Americans, for instance, think that cities should be clean, but we also think that it is the Government's job to clean them and we, as citizens, have no responsibility at all. As a rule, all is State responsibility, while we, citizens, have no duties whatsoever. And as everything must come from outside, from superior spheres, we also expect salvation more than solutions.

Salvation ... is someone else's task, which does not demand work but luck or God's intervention. ... Salvation is external and infallible, because it is magic or it comes from extrasensorial worlds. ... What is the use then of effort and responsibility?⁴²

It might be suggested that the recent examples of Spain and Ireland, moving fully and with great success in recent decades into the modern world of private markets and political democracy, belies Hamilton's and other such arguments. However, as these formerly devout nations moved fully into the modern world of European economics and politics, they witnessed a sharp decline in the number of devout Catholics and Catholic influence. It is not, of course, a necessary conclusion but there are few examples of nations that have rapidly modernized and yet maintained the Catholic Church at the center of national life. The European Union is the first truly unifying body to encompass all of Europe since the Protestant Reformation ended the religious monopoly of the medieval Catholic Church. Perhaps, as one might say, the new and most vital "church" of Europe may now be the European Union, its common unifying religion may be a form of economic faith, and there may not be enough room for both an "EU Church" and a Catholic Church in the lives of the European citizenry.⁴³

Conclusion

It is said jokingly that Chile and the Philippines should switch places because they somehow ended up in the wrong continents. Chile – at least based on its economic history since the mid 1970s – should have been located in Asia; the Philippines should have been located in Latin America. As this article has shown, there is considerable truth to this observation. Economists and others who seek to understand Philippine economic history would do better to study the comparative economic experiences of Latin

American nations, rather than the Asian nations that are geographically located in much closer proximity.

Culturally and politically, the Philippines gives every evidence of having been significantly shaped by its 330 years of Spanish Catholic colonial history, matching a similar colonial history in Latin America. The United States came and went in fewer than 50 years, changing the infrastructure and the outward institutional forms, but with seemingly less impact on the inner beliefs and attitudes of Filipinos. After Philippine independence in 1946, and with the American oversight removed, the Philippines soon demonstrated the great political and economic importance of religion and culture, giving full expression to its Spanish-Catholic heritage. The Philippines did not of course look like Latin America economically because of any direct causal link between their nations and economies. Rather, they shared a set of “unobserved variables” that economists typically ignored – including prominently the cultural impact of the Spanish Catholic legacy – and that were in fact main driving forces of their political and economic histories even in the second half of the twentieth century. In Latin America and the Philippines at least, it would seem that religion and culture were driving economics, rather than the other way around – and contrary to the longstanding thinking of so many Marxists and other economic determinists of the twentieth century.□

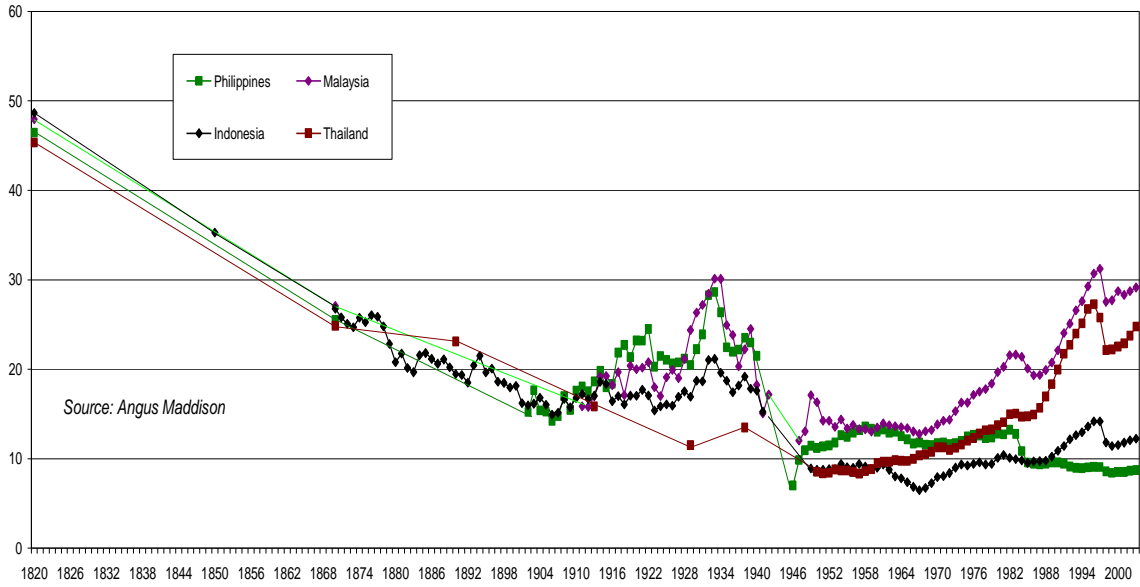


Figure 1A -- Malaysia, Indonesia, Thailand & Philippines
Per Capita GDP Relative to US (%)

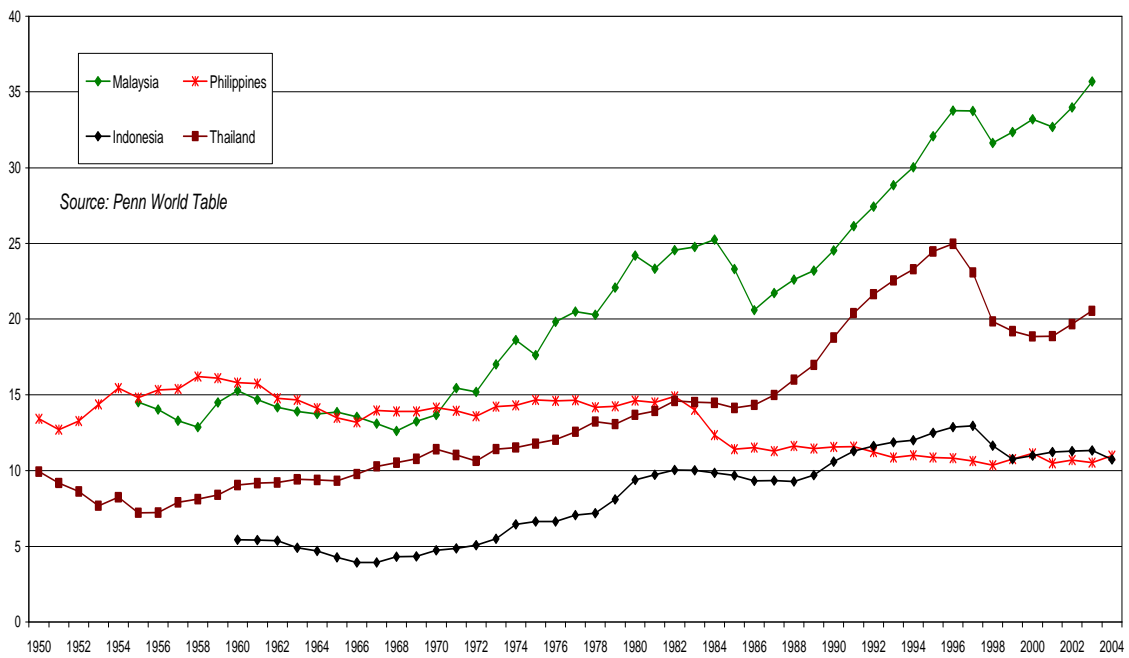


Figure 1B -- Malaysia, Indonesia, Thailand & Philippines
Real Per Capita GDP Relative to US (US=100)

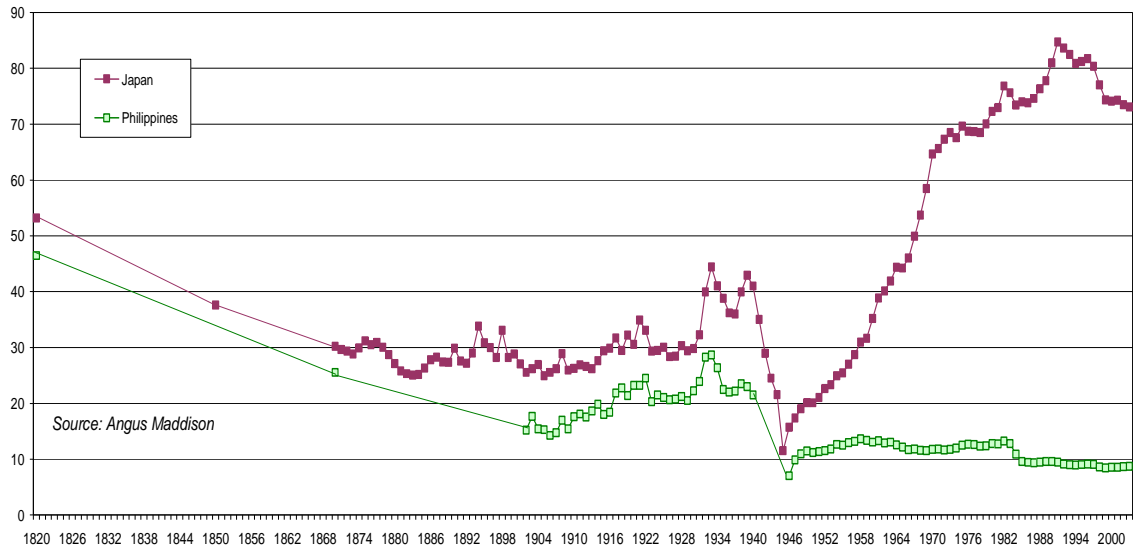


Figure 2A -- Japan & Philippines
Per Capita GDP Relative to US (%)

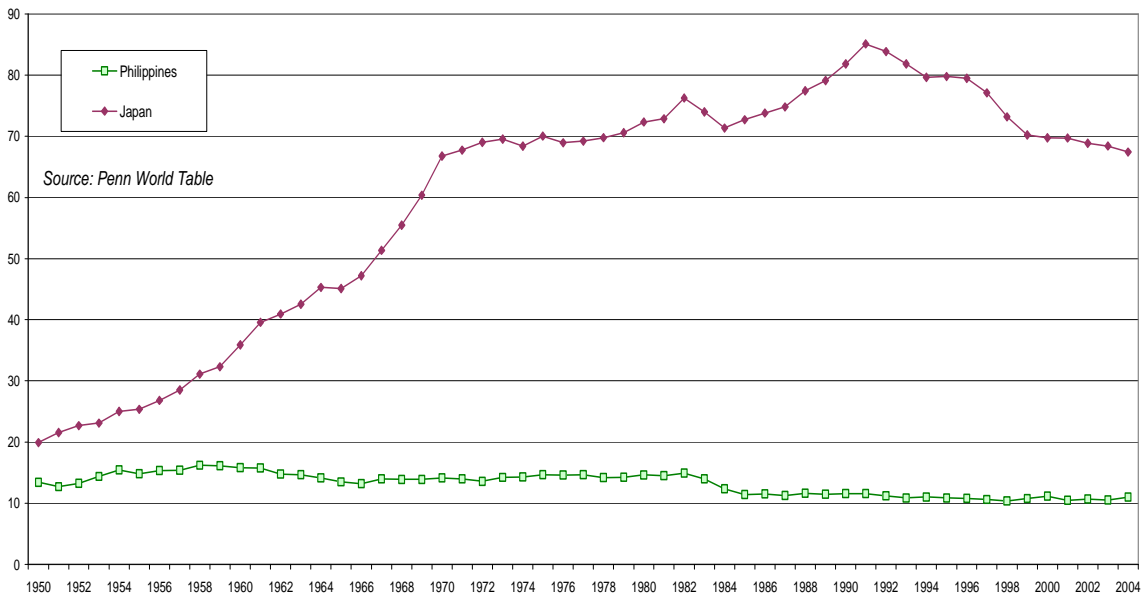


Figure 2B -- Japan & Philippines
Real Per Capita GDP Relative to US (US=100)

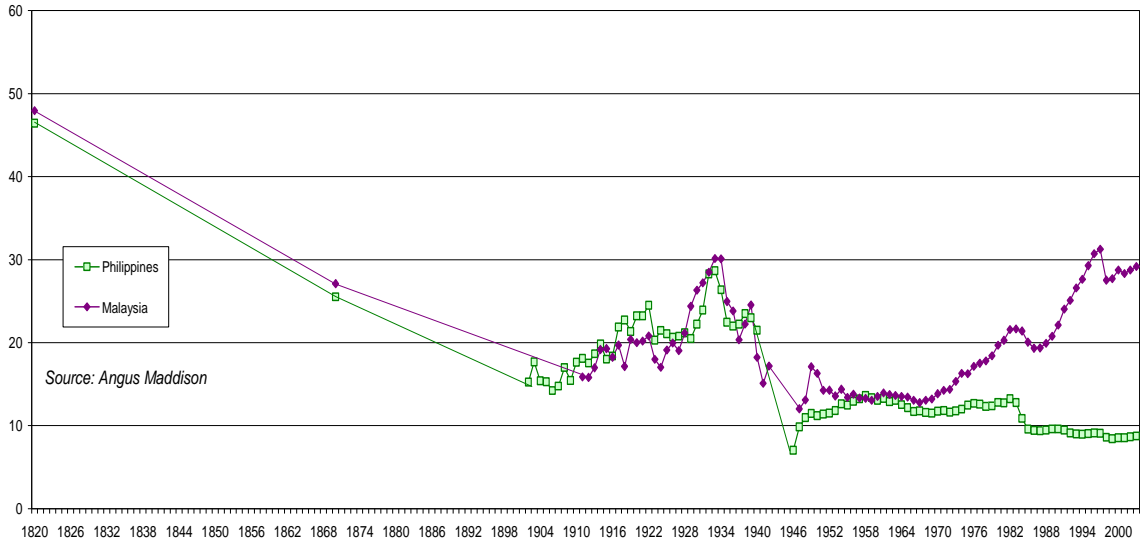


Figure 3A -- Malaysia & Philippines
Per Capita GDP Relative to US (%)

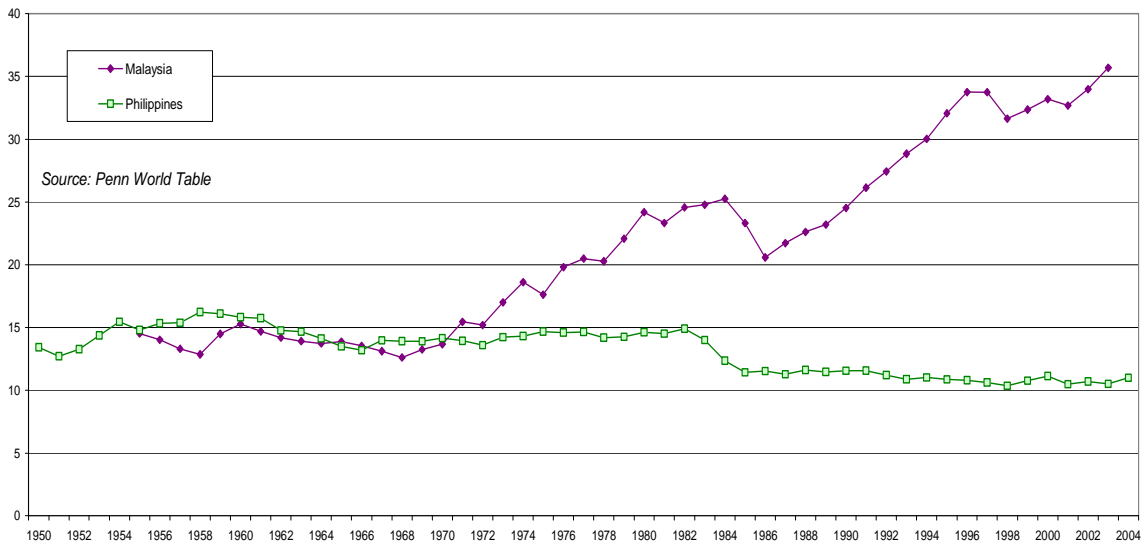


Figure 3B -- Malaysia & Philippines
Real Per Capita GDP Relative to US (US=100)

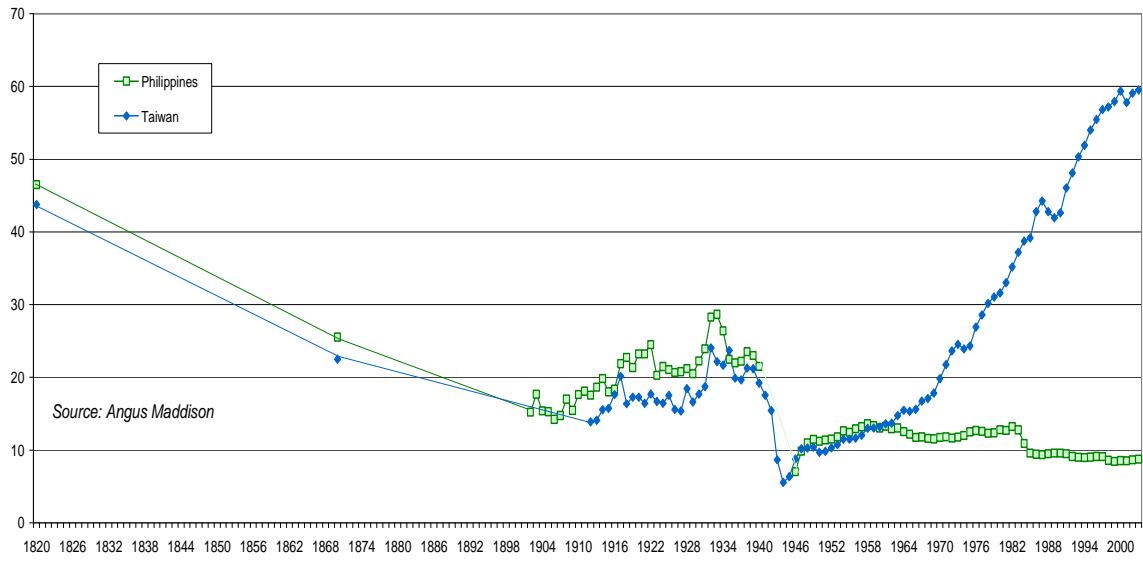


Figure 4A -- Taiwan & Philippines
Per Capita GDP Relative to US (%)

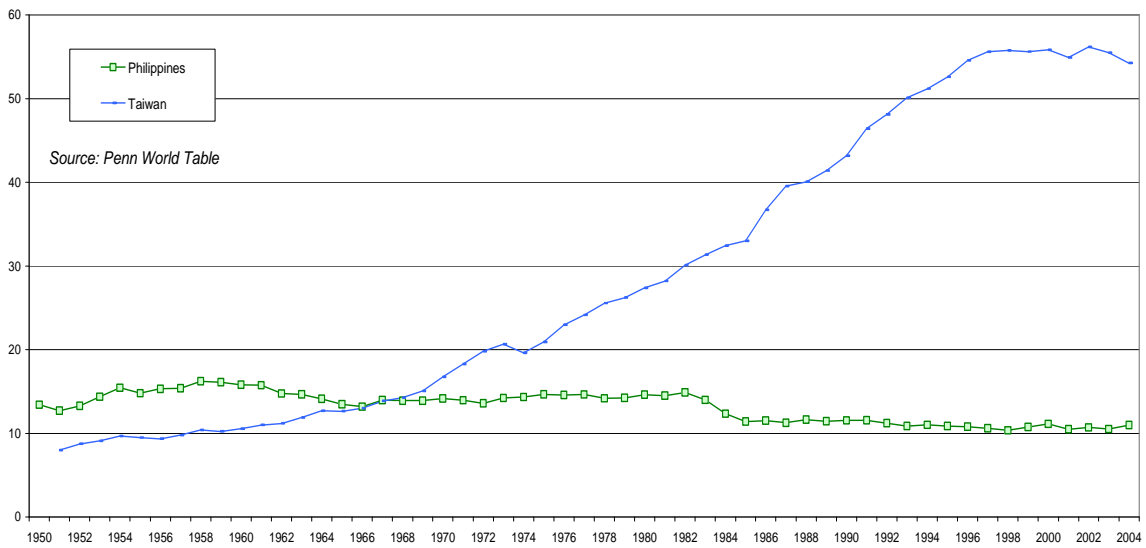


Figure 4B -- Taiwan & Philippines
Real Per Capita GDP Relative to US (US=100)

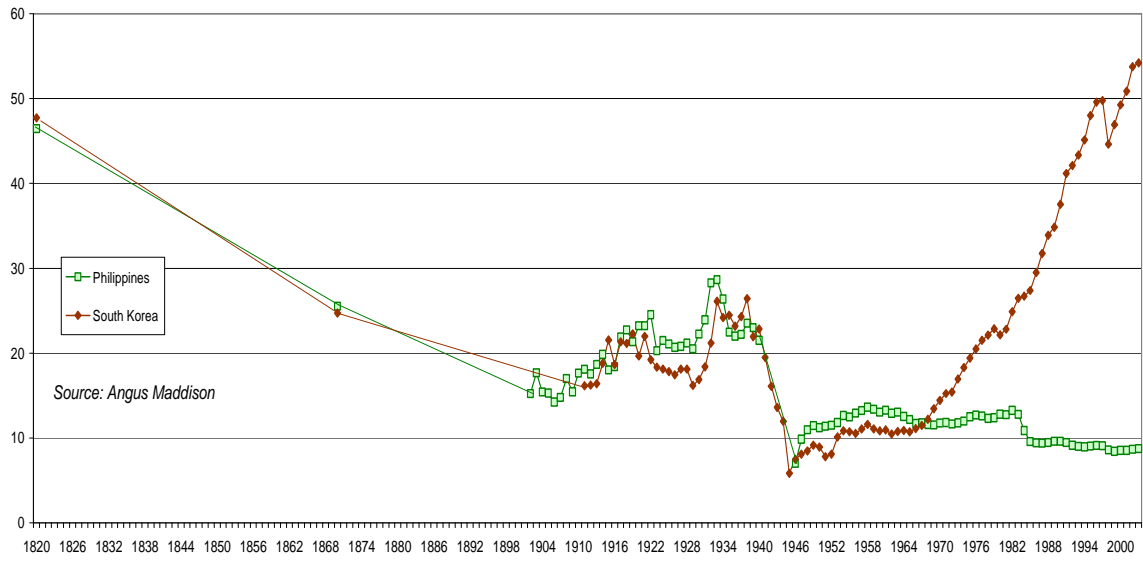


Figure 5A -- South Korea & Philippines
Per Capita GDP Relative to US (%)

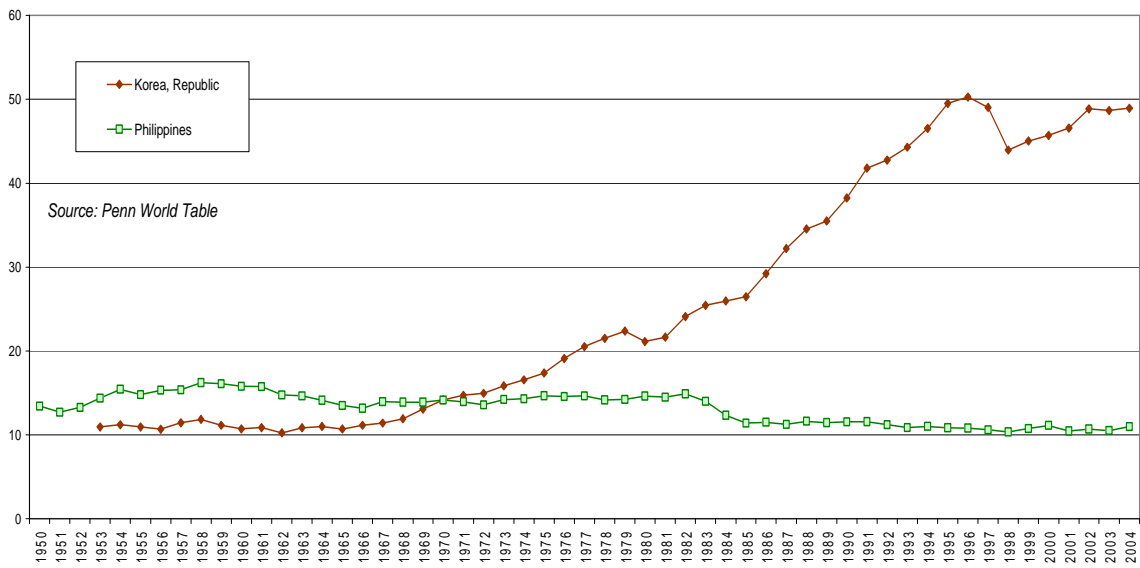


Figure 5B -- South Korea & Philippines
Real Per Capita GDP Relative to US (US=100)

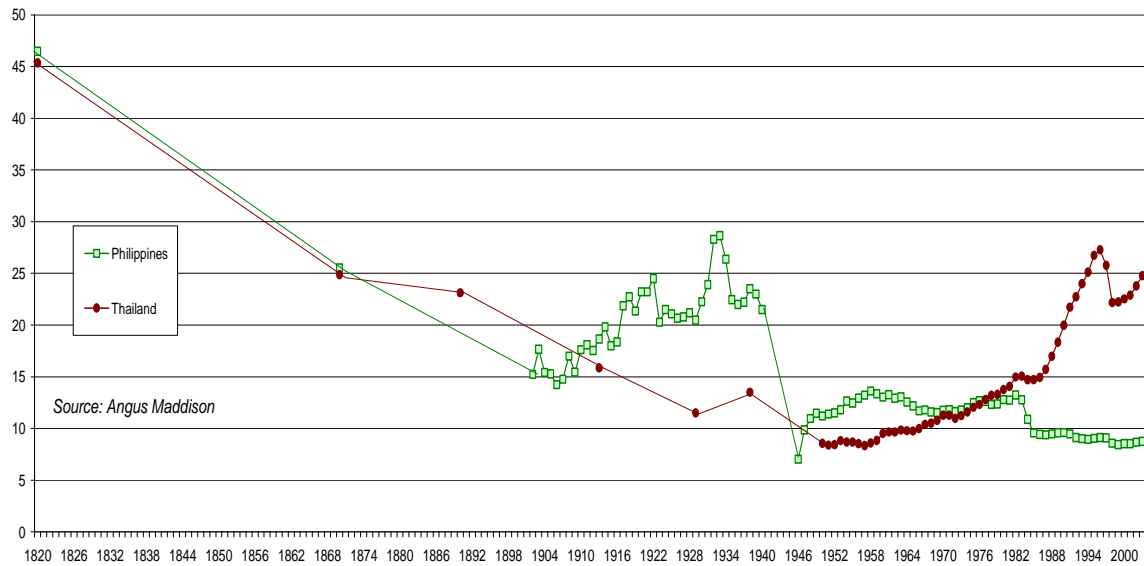


Figure 6A -- Thailand & Philippines
Per Capita GDP Relative to US (%)

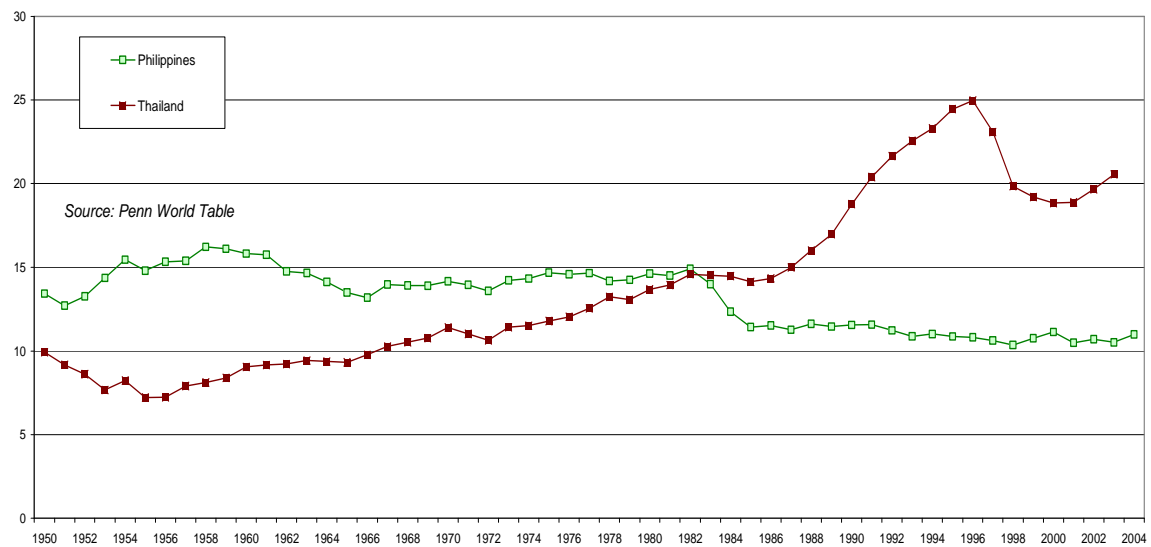


Figure 6B -- Thailand & Philippines
Real Per Capita GDP Relative to US (US=100)

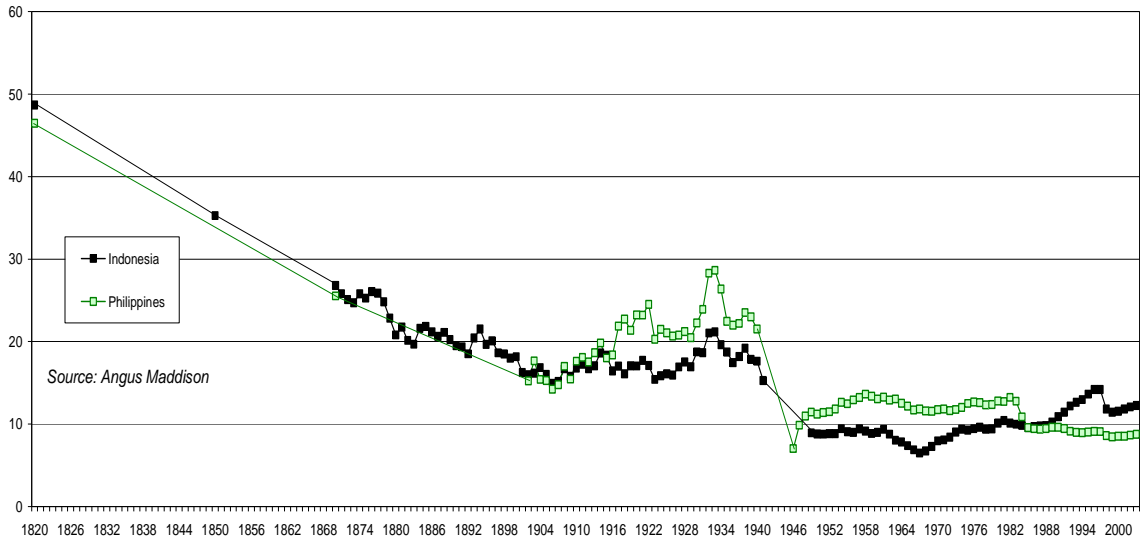


Figure 7A -- Indonesia & Philippines
Per Capita GDP Relative to US (%)

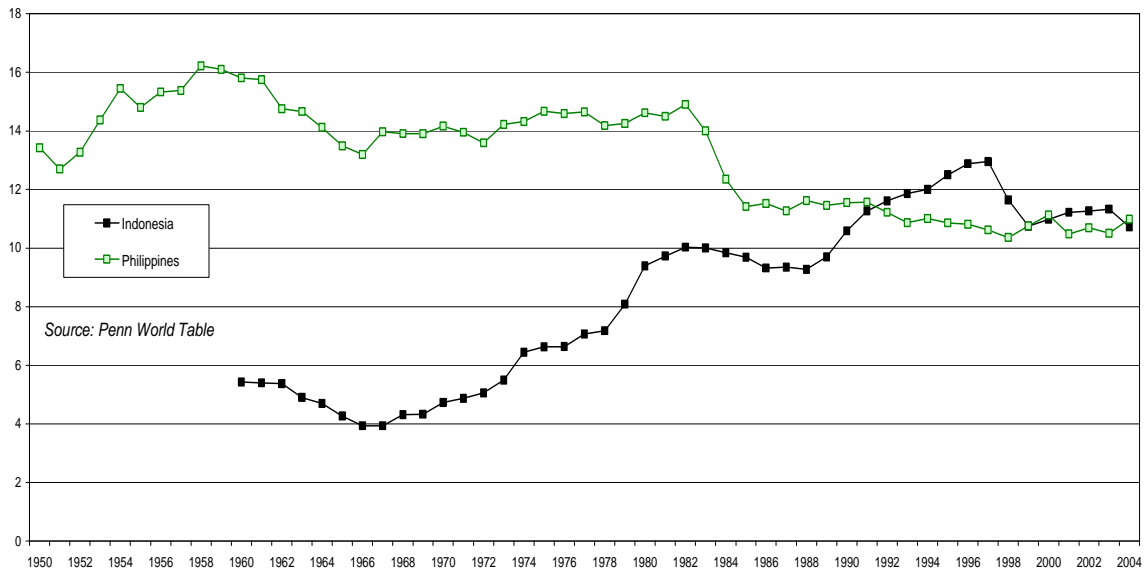


Figure 7B -- Indonesia & Philippines
Real Per Capita GDP Relative to US (US=100)

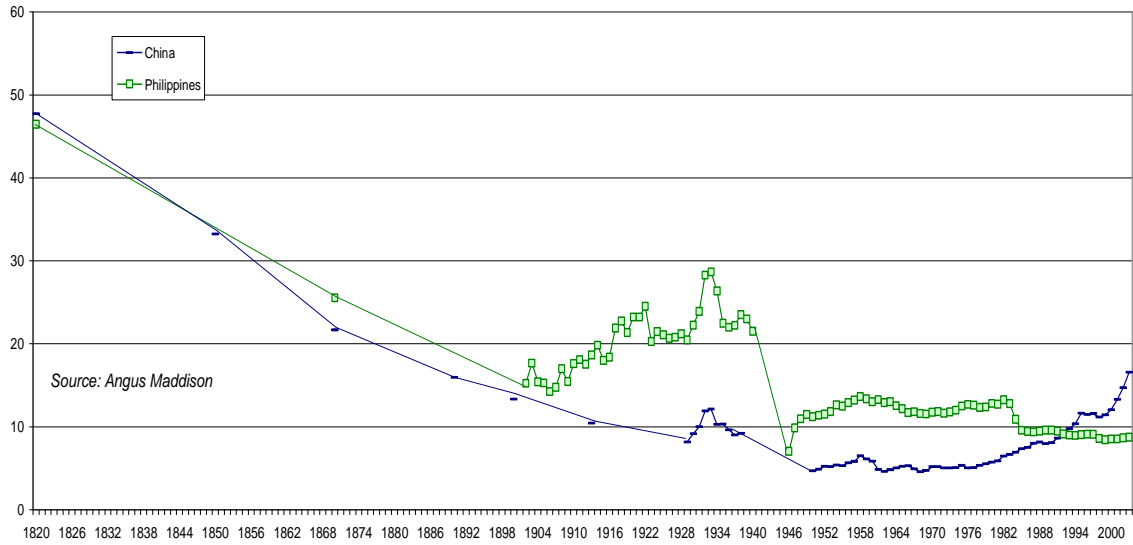


Figure 8A -- China & Philippines
Per Capita GDP Relative to US (%)

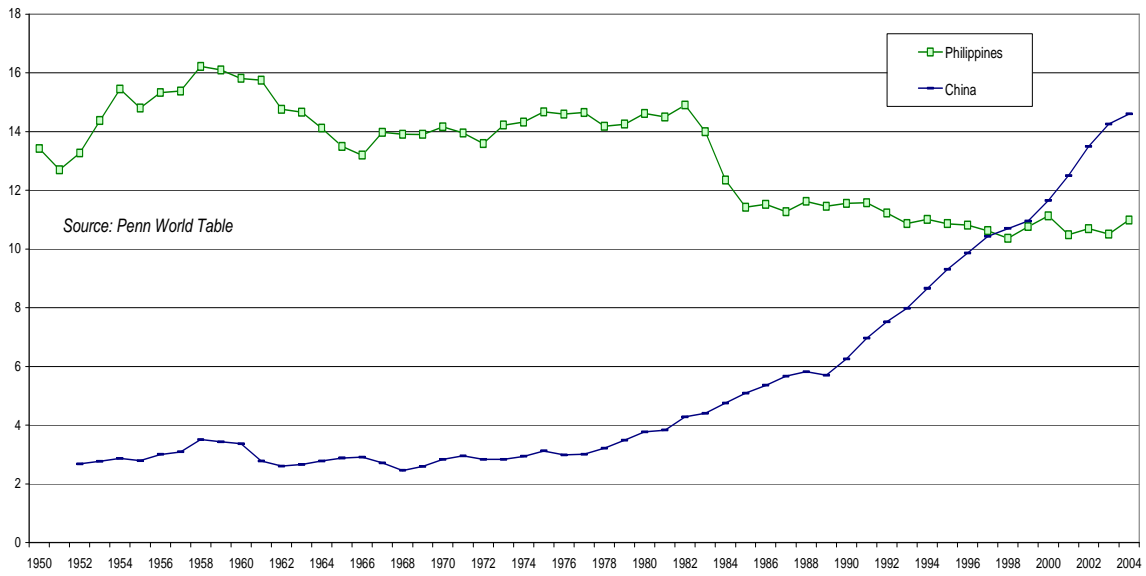


Figure 8B -- China & Philippines
Real Per Capita GDP Relative to US (US=100)

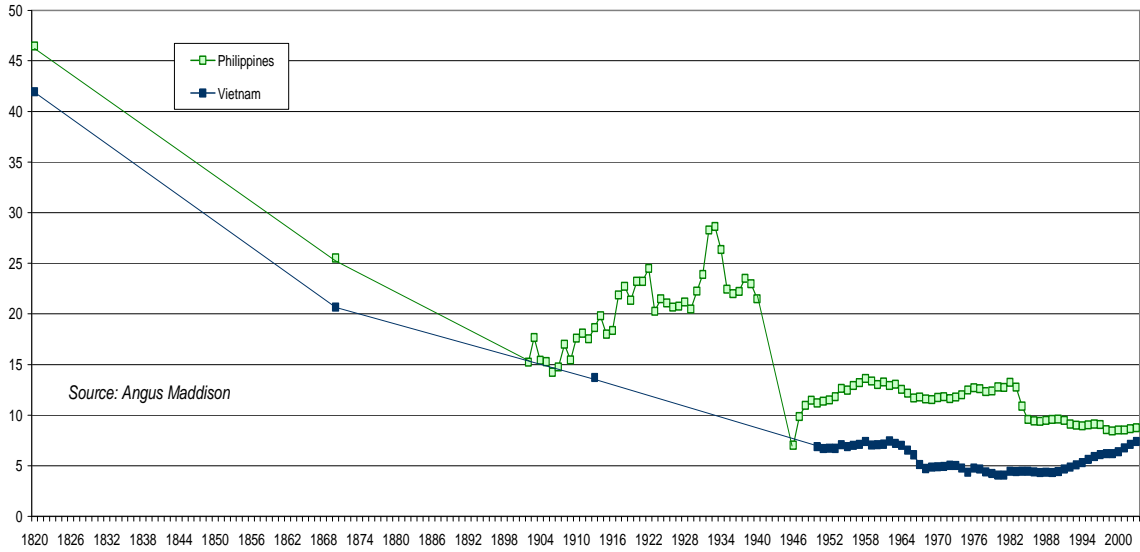


Figure 9A -- Vietnam & Philippines
Per Capita GDP Relative to US (%)

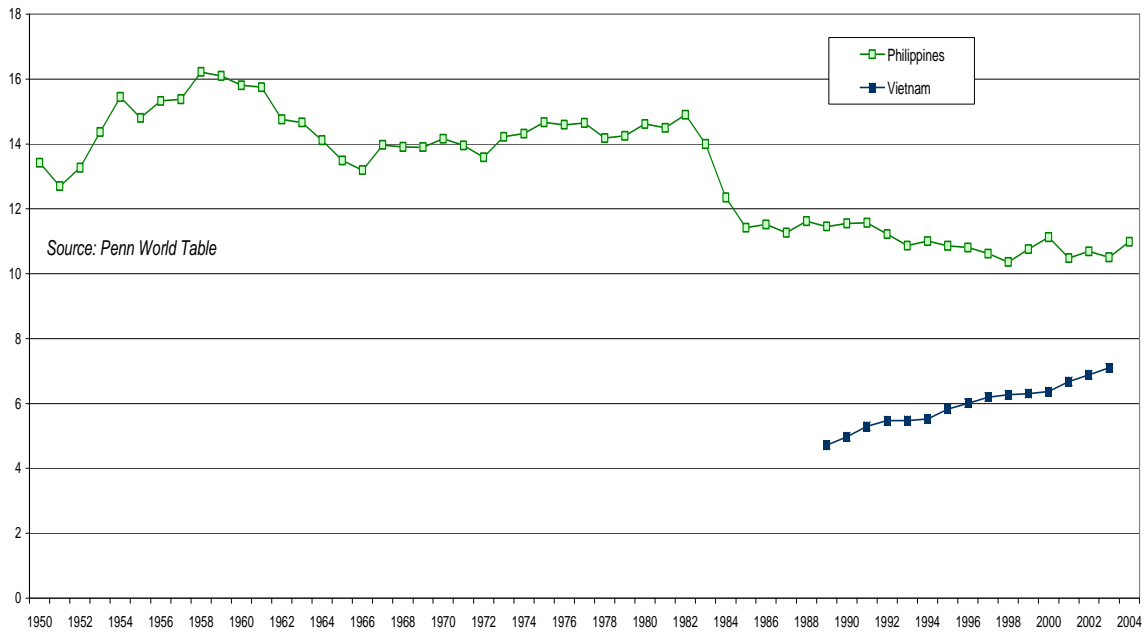


Figure 9B -- Vietnam & Philippines
Real Per Capita GDP Relative to US (US=100)

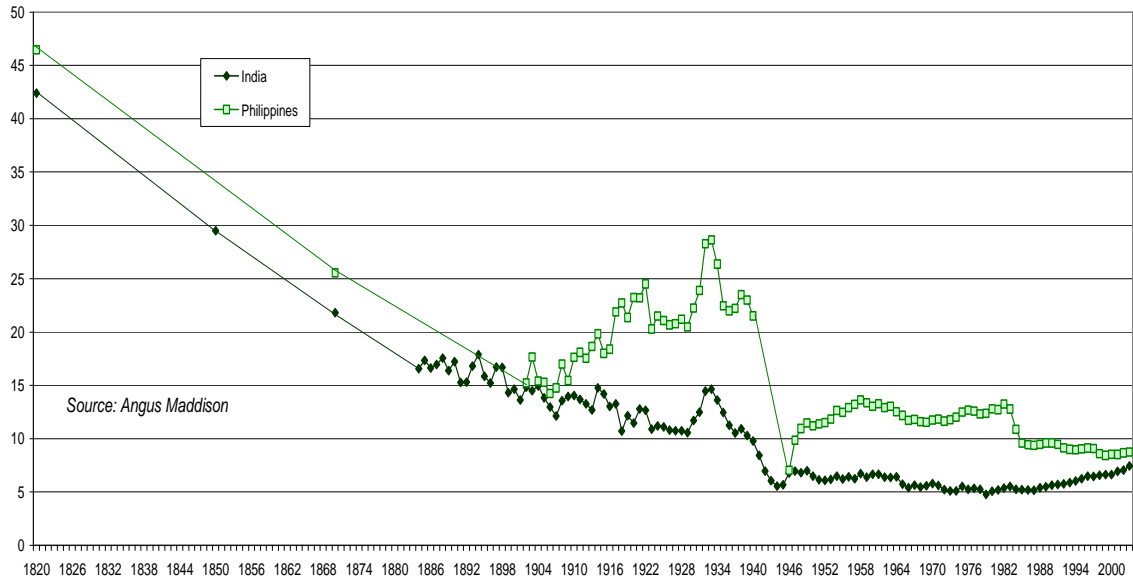


Figure 10A -- India & Philippines
Per Capita GDP Relative to US (%)

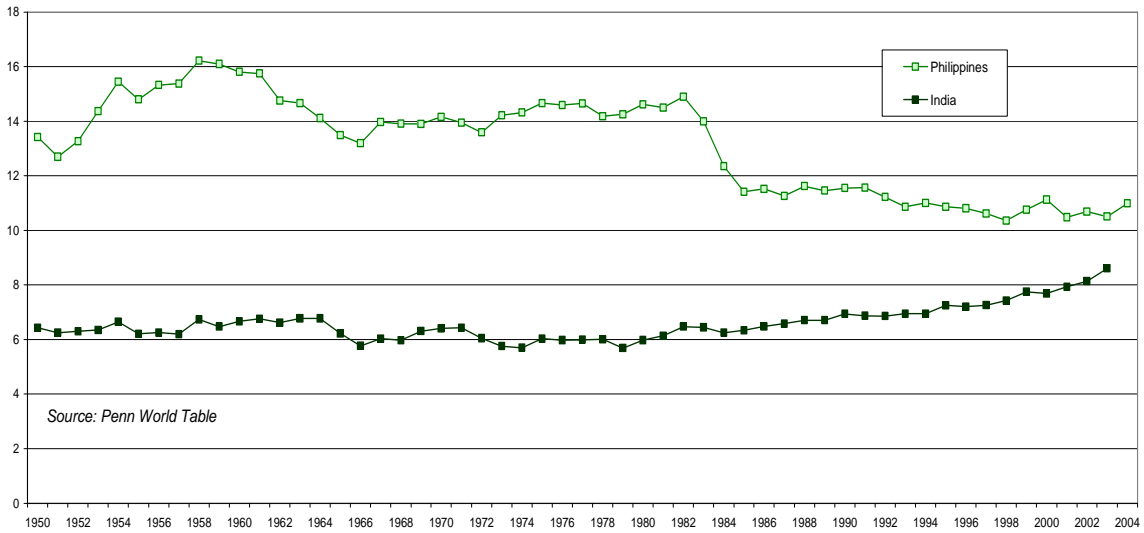


Figure 10B -- India & Philippines
Real Per Capita GDP Relative to US (US=100)

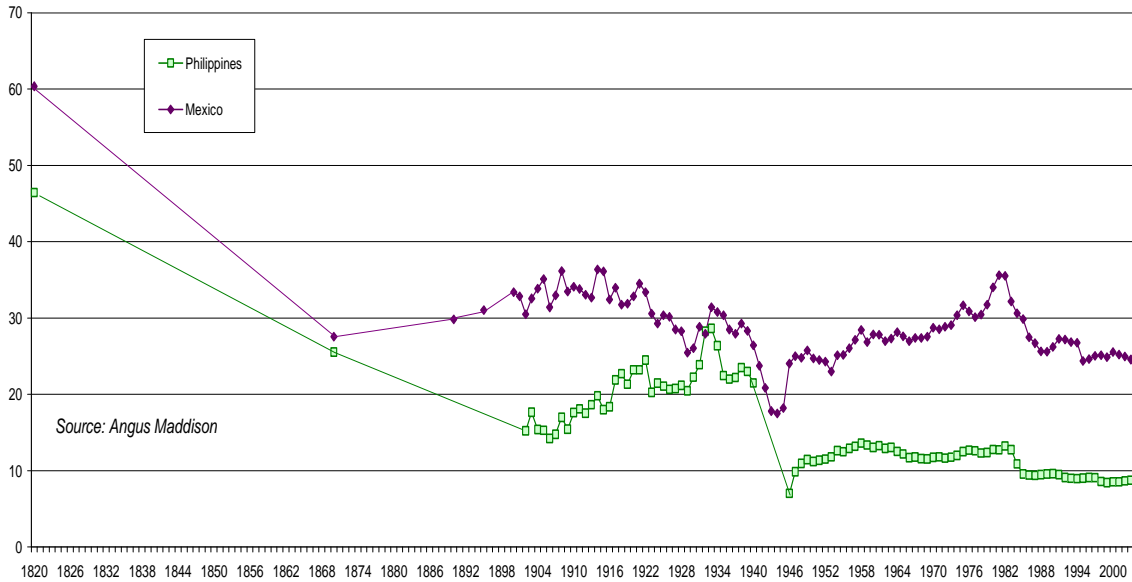


Figure 11A -- Mexico & Philippines
Per Capita GDP Relative to US (%)

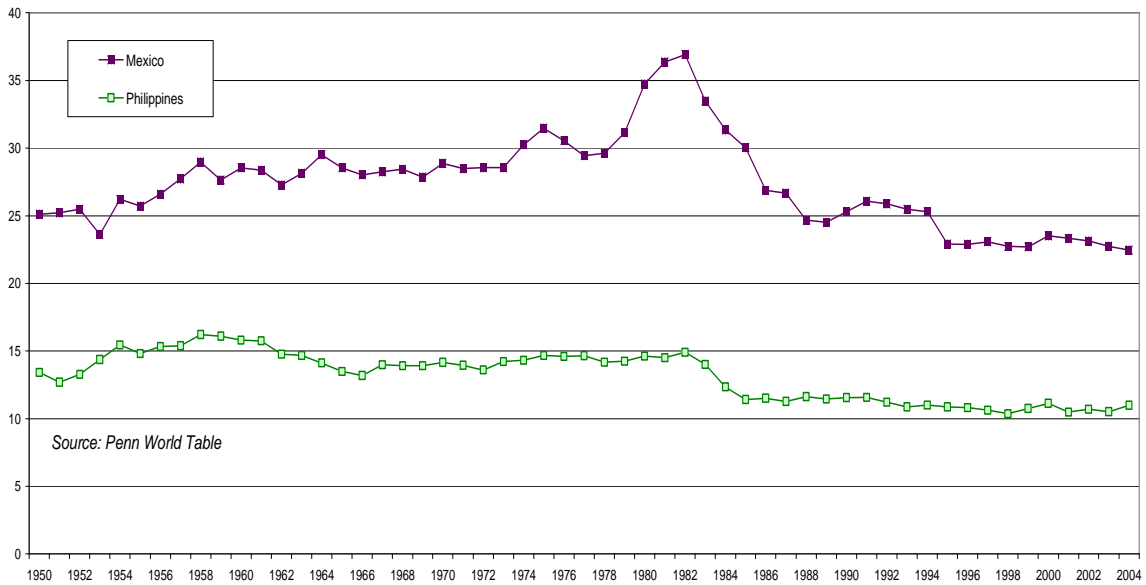


Figure 11B -- Mexico & Philippines
Real Per Capita GDP Relative to US (US=100)

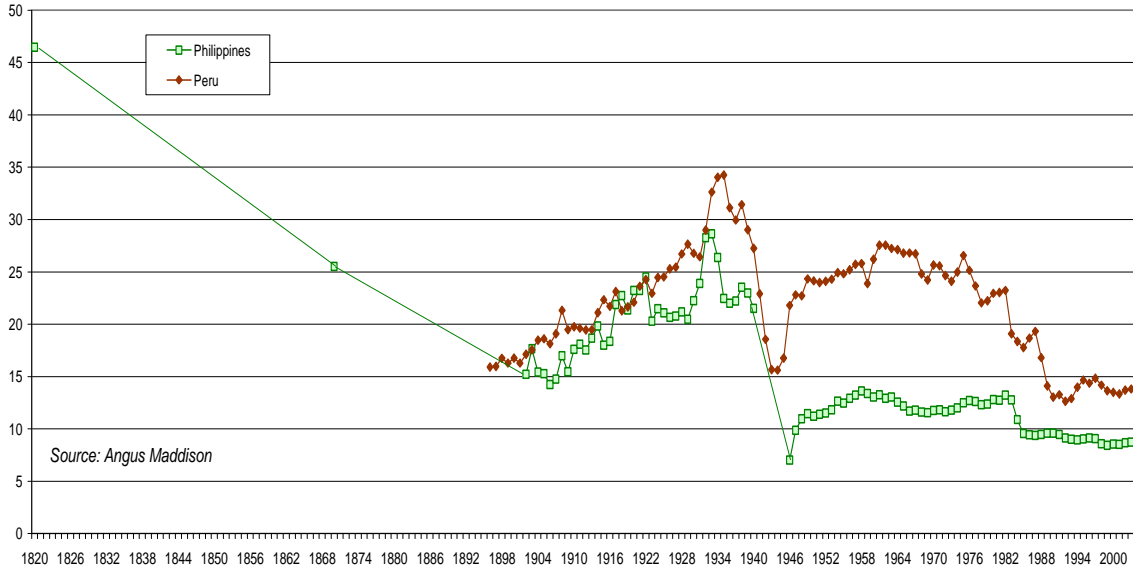


Figure 12A -- Peru & Philippines
Per Capita GDP Relative to US (%)

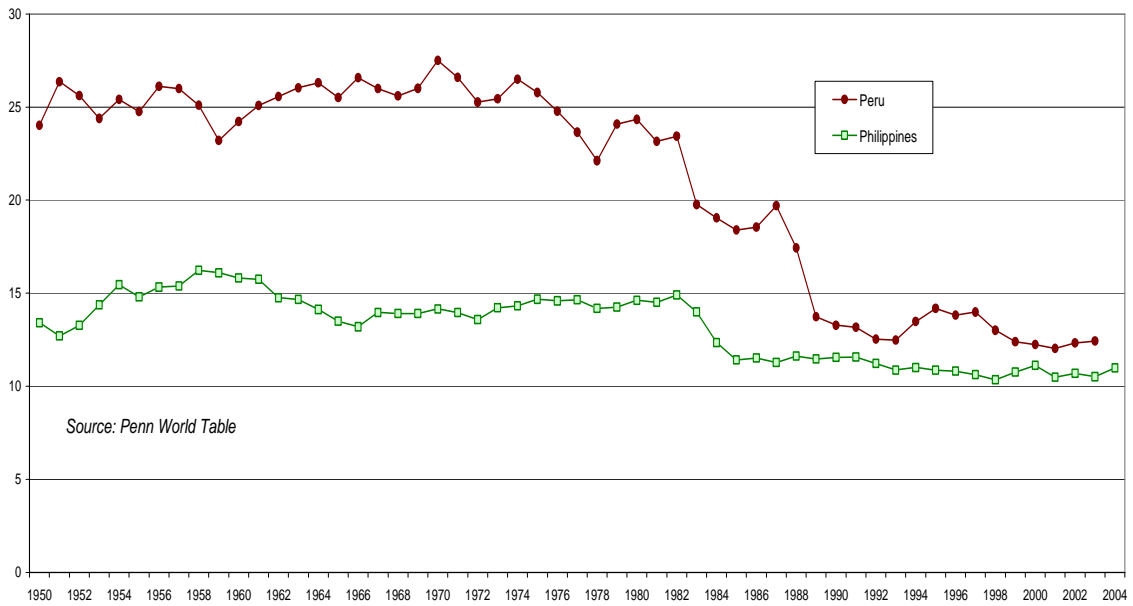


Figure 12B -- Peru & Philippines
Real Per Capita GDP Relative to US (US=100)

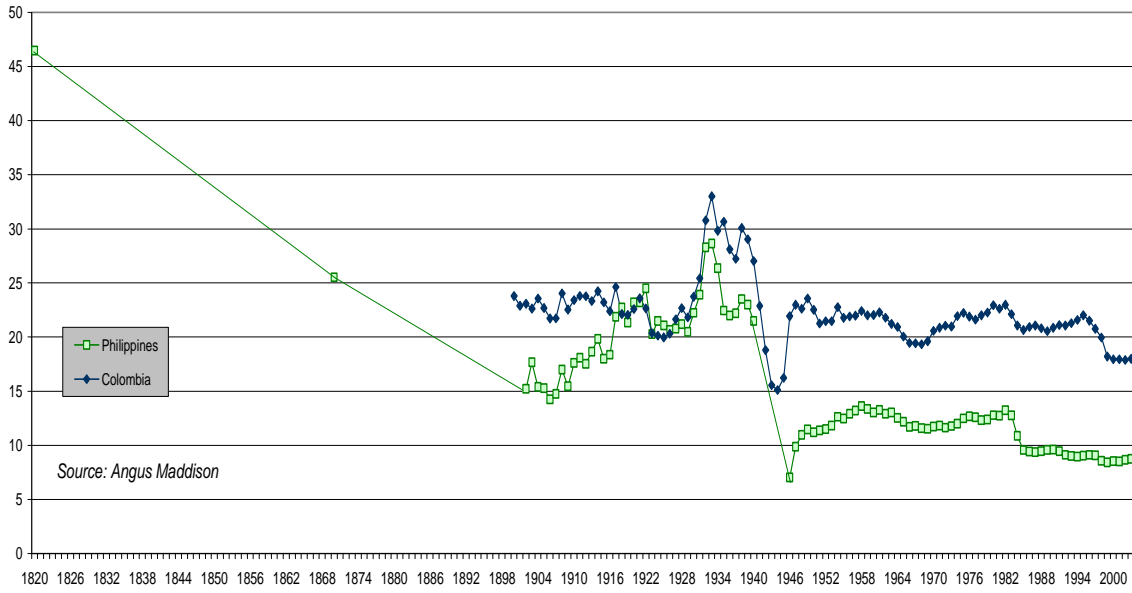


Figure 13A -- Colombia & Philippines
Per Capita GDP Relative to US (%)

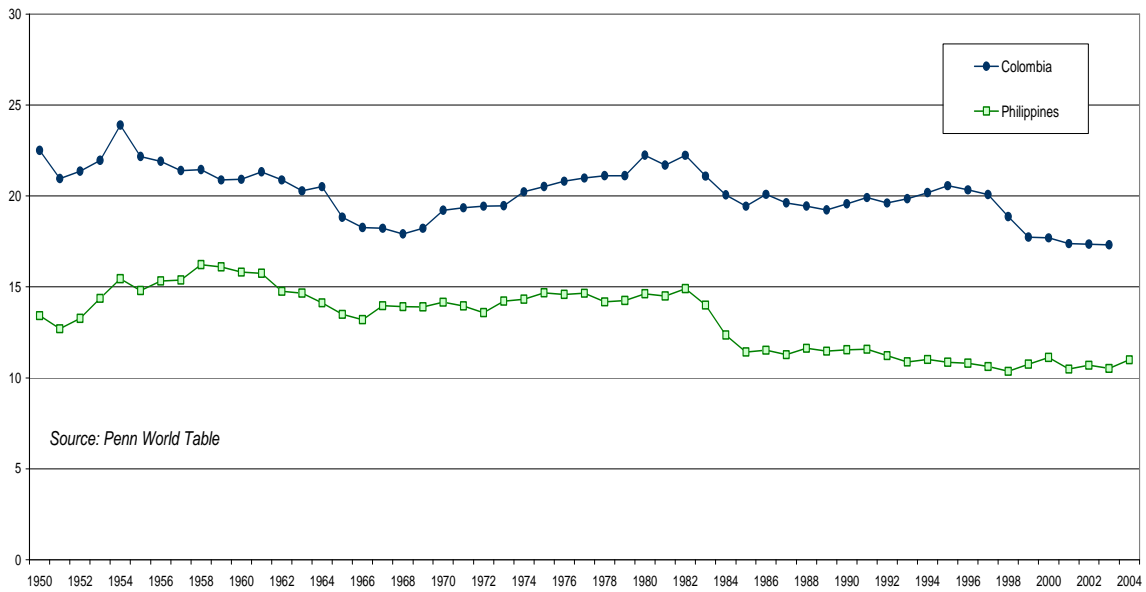


Figure 13B -- Colombia & Philippines
Real Per Capita GDP Relative to US (US=100)

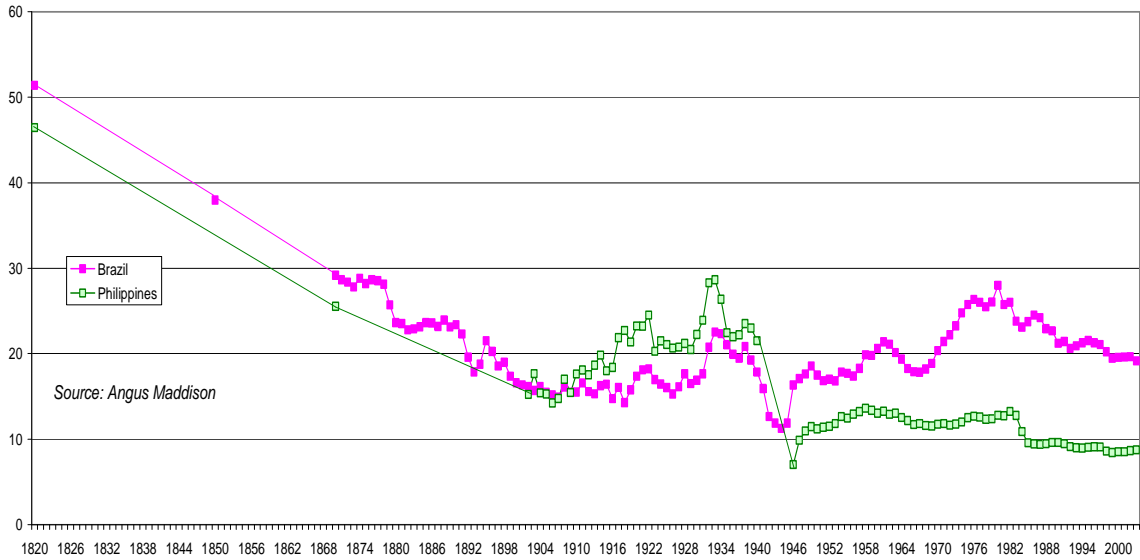


Figure 14A -- Brazil & Philippines
Real Per Capita GDP Relative to US (%)

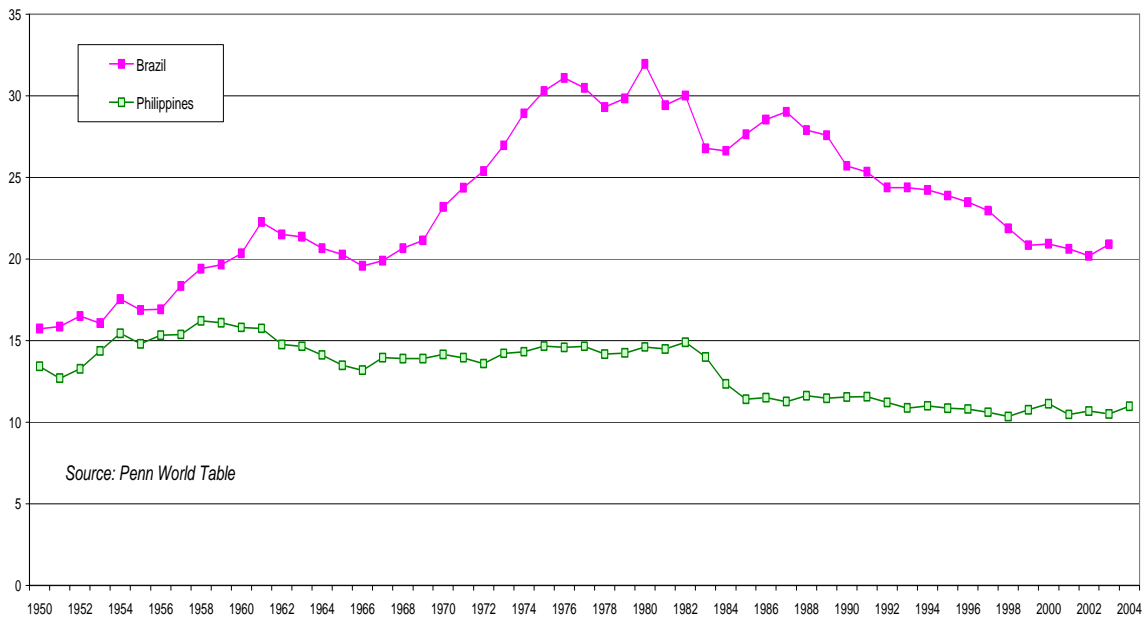


Figure 14B -- Brazil & Philippines
Real Per Capita GDP Relative to US (US=100)

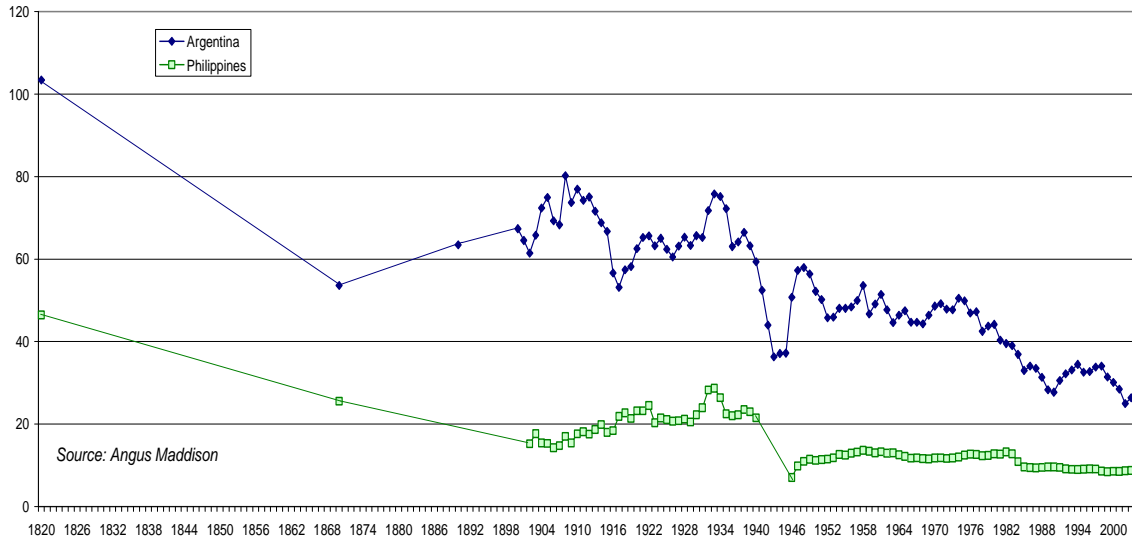


Figure 15A -- Argentina & Philippines
Per Capita GDP Relative to US (%)

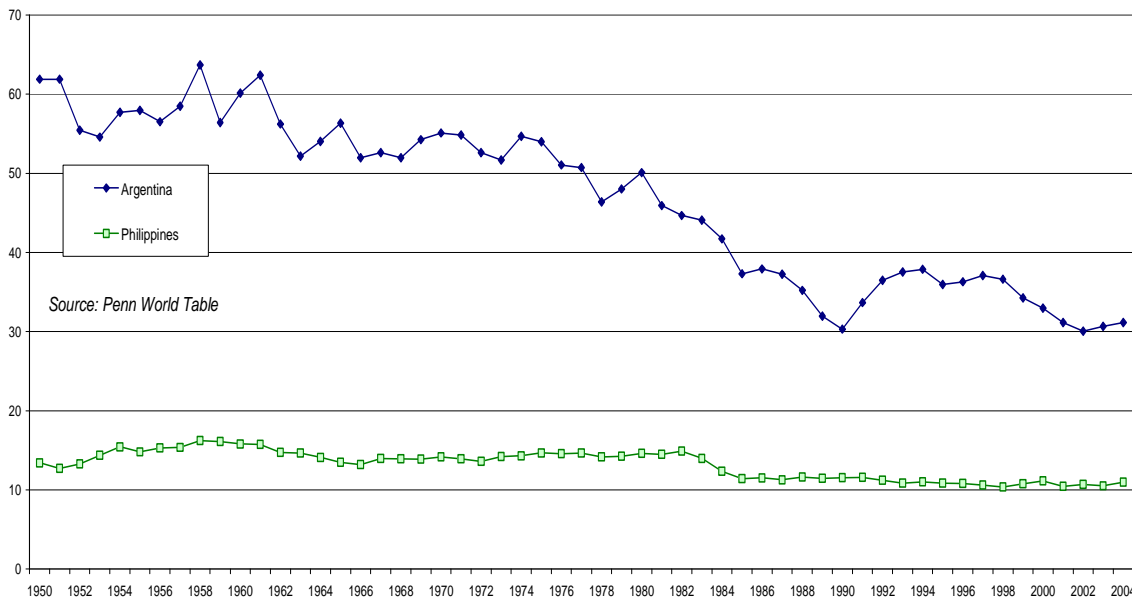


Figure 15B -- Philippines & Argentina
Real Per Capita GDP Relative to US (US=100)

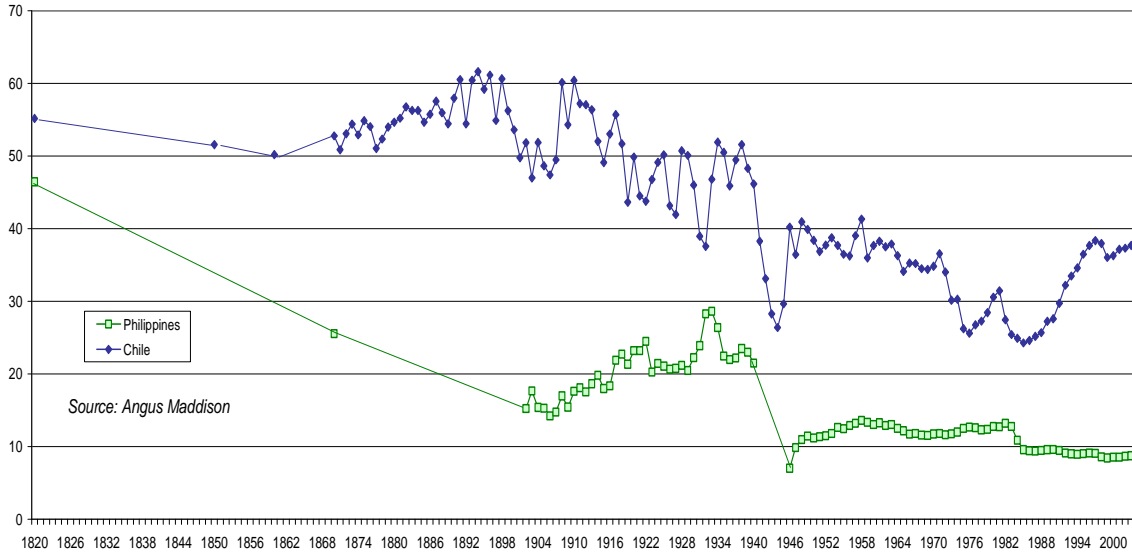


Figure 16A -- Chile & Philippines
Per Capita GDP Relative to US (%)

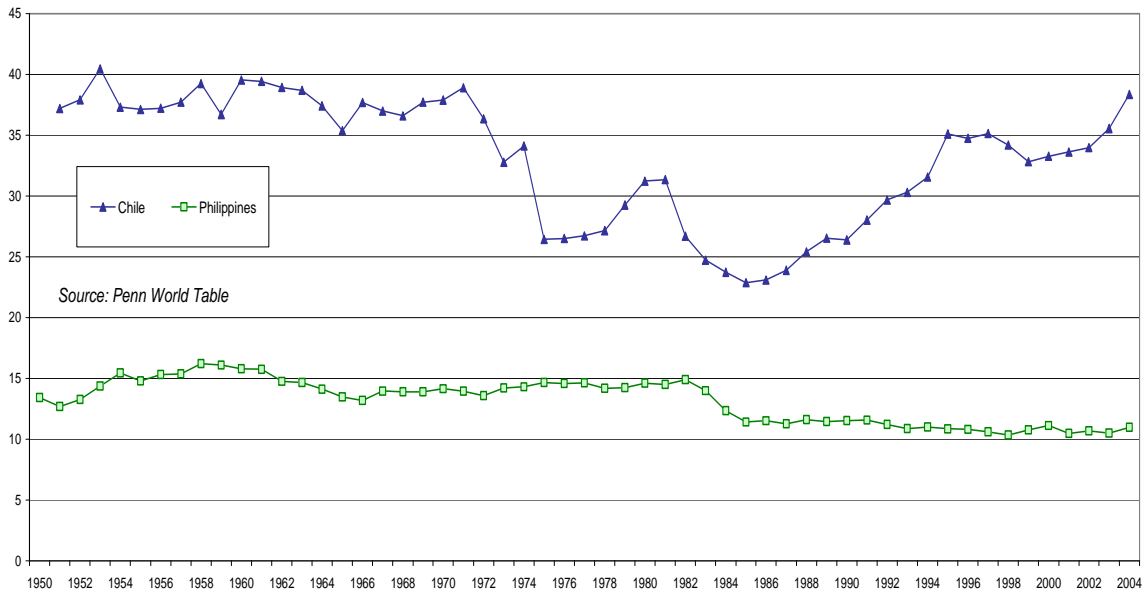


Figure 16B -- Chile & Philippines
Real Per Capita GDP Relative to US (US=100)

Endnotes

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