

DECONTROL AND ITS EFFECTS ON PHILIPPINE ECONOMY (1962-1966)

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ABSTRACT

The article is a historical investigation of the decontrol program propagated by the then President Diosdado Macapagal during his term in office from 1962 to 1966. The program was advanced, according to its proponents, with the end in view of fostering the Philippine economy using the modernization theory as model for economic development. Following the outward-looking economic policy or the Export-Oriented Industrialization (EOI), the decontrol program sounds very promising and was considered by Macapagal as the new hope for the common man. However, using the world systems theory as a framework, the study argues that the program was largely an influence of the Americans and other foreign business interests in order to control the Philippine economy. It was designed to serve the interests of the foreign elite groups who have made the local Filipino elite the puppets of the colonial masters. Simply put, the decontrol was an obvious perpetuation of the unbroken foreign hegemony to amass wealth from the country that begun from colonization to neo-colonization.

Keywords: Decontrol, Economy, Development, Filipino First Policy, Neo – colonialism.

INTRODUCTION:

The primordial aim of man's survival in this world is to ensure that his economic need is met. Apart from his desire to live freely in this chaotic and highly politicized world, he always sees to it that there are enough provisions for himself and for his family in order to live a prosperous and happy life. In fact, this has been the motivating factor why men the world over have labored so much and sustained resolute efforts to have a share to a much-coveted and limited resource of the earth.

In a larger context, this is also the goal of the Philippine state after it has finally been freed from Spanish and American domination for nearly three and a half centuries of exploitation. Colonization, however, did not actually ended in 1946 as commonly viewed by many historians. The colonizing hegemony, to a large extent, is still very much present in the political and economic structures of the Philippine society today.

The Americans, so to speak, still hold their privileged position as "models" in economic development in the guise of helping the Philippines developed her fledging economy. The Modernization theorists of the 1950's and 1960's and their successors in the policy-making institutions of the industrialized nations today, have viewed development largely as the product of contact with, and assistance from, already developed nations. Despite changes in tone and emphasis, the position of the World Bank, the International Monetary Fund, the Organization for Economic Cooperation and Development, and the U.S. government continue in this tradition (Snow, 1983). Its proponents have recommended expanded economic relations between the First and Third worlds as the most likely route to Third World development. Increased trade, investment, and in specific instances, aid to either the private sector or government, are presented as the basic formula for stimulating development (Snow, 1983).

On the other hand, critics of the modernization theory *on the left* believed that this may not be the case. Immanuel Wallerstein in his *World Systems* theory contended that the Third World Society's contact with the First World is not the determining factor for development. Rather its underdevelopment will result if the form of contact with the world market reinforces or *creates class and political structures* that force the society in that direction. He said that among the most important structures of the current world system is a power hierarchy between core and periphery in which powerful and wealthy "core" societies dominate and exploit weak and poor peripheral societies. Advanced and developed societies are the core, and the less developed are in the peripheries. Worse, peripheral countries are structurally constrained to experience a kind of development that reproduces their own subordinate status (Wallerstein, 1974). It is in this latter position that this study will use as a framework.

This paper is a historical investigation of the decontrol program implemented by the then President Diosdado Macapagal during his term in office from 1962 to 1966. It will examine the nature of the program, how it was implemented and operationalized in the Philippines and then examine if the desired end was met. Along this direction, the paper takes the view that the decontrol program was implemented not really for the economic advancement of the Filipino based on the rhetoric of its proponents. Rather, it was imposed upon Macapagal who, like the rest of his successors, was made the puppets and lackeys by the United States government and the U.S.-controlled giant financial institutions for their continued hold in the political and economic spheres in the Philippines from colonization to neo-colonization for their own ends.

THE PHILIPPINE POST-WAR ECONOMY AND THE BEGINNING OF THE CONTROL PROGRAM:

Immediately after World War II, the paramount task of the independent Philippines was to make things in order by putting Philippine life into normal course specially the economic restoration. Hardly able to restore back the economic activity on its own limited resources, the Philippines relied heavily from the United States financial assistance. Aside from the heavy inflow of the War Damage payments (Sison, 1958), the Philippines likewise seek financial loans from U.S.-controlled banking systems in order to sustain the recovery of its long-term economic program. As an independent country, it managed its currency system using the Old Gold Standard Fund at first and subsequently the Exchange Standard Fund. In this way the value of the peso was stabilized. Two years later, in 1948, the Philippines created the Central Bank to manage its currency system (Sison, 1958).

Our industries during this time were destroyed by the war and there was great demand for the consumption of goods due to the rising population. Philippine imports exceeded its exports and the Philippines suffered

trade deficit and its international reserve was at the very low level. Thus, in December 9, 1949 it started a program of control of the foreign exchange with the end in view of maintaining the monetary stability and to save the economy from bankruptcy. Foreign exchange control could be defined as an active intervention by the government in the foreign exchange market for the purpose of influencing directly the supply and demand of foreign currency by means of an official exchange rate (Reyes, 1968). Its implementation prohibited any person from buying or selling foreign exchange specifically the U.S. dollar except from or to the Central Bank. This was a scheme resorted to by the government for the selection of dollar allocation i.e. highest preference to import of essential items and least preference to imports of non-essential items while the economic of the young republic was geared towards gradual industrialization (Reyes, 1968).

It was imposed in order to conserve the international reserves by limiting the total volume of imports, to preserve the stability of the peso and to achieve a balanced agro-industrial economy by shifting the pattern of imports from consumer to capital goods (Rodriguez, 1967). The peso value is determined by the relationship between the volume of its circulation and the quantity of goods and services available for consumption and the peso was pegged at a rate of P2.00 to one dollar (Rodriguez, 1967). The control of import was seen as an emergency measure to check the unnecessary demand for imports and the government was committed to pursue the industrialization program by adopting the principle of protectionism as its economic policy (Snow, 1983).

As a result of control, industrial middle class emerged in the Philippines and this group of Filipino entrepreneurs brought the country to the take-off point of industrialization. This group of entrepreneurs who emerged in the late 40's and to early 60's was labelled by Robert Snow as a group favoring the Import Substitution Industrialization (ISI) (Snow, 1983). Towards this direction, the Philippines gradually developed its economy and the national income rose to 60%. In fact, per capita income of the Filipino people became the 3rd largest in the Eastern Hemisphere, being surpassed only by Japan (Henares, 1960.) In the interest of economic nationalism and protectionism, the Philippine Congress made a step further to "Filipinize" the economy. It encouraged the Filipino businessmen to have a hold in the retail trade which has been controlled by the Chinese and the Chinese-Filipino entrepreneurs (Snow, 1983).

But despite the economic protectionism adopted by the Philippine government, the United States continued to play a big role in the political activities of the country and the formulation of its economic policies. It is to be recalled that as a condition for the granting of independence in 1946, the Philippines was forced to sign several treaties and trade agreements which were highly lopsided in favor of the U.S interests. The Bell Trade Act and the Laurel Langley Agreement are but some of these trade agreements which enable the U.S. hegemony felt in the Philippine domestic affairs (Constantino and Constantino, 1978). It continued to give military and economic aid and the Philippines was thus put in a special relation to continue the "trade preference" with the U.S. for decades after its independence. Revision of our Constitution was made to grant Americans equal rights (Parity Rights) with Filipinos in the exploitation of our natural resources. This is an obvious proof that the Americans still enjoyed the receptivity of our government and people to American capital (Rodriguez, 1967). In the post colonial discourse, this condition of relation was no less than the neo-colonization that enable the former colonizers to maintain the "umbilical cord" that binds between the colonizers and the colonized for many years of exploitation and domination and still acted as "models" for industrial development to the once exploited nation (Sicat, 1967).

In this course of economic environment, left critics were vocal in criticizing the Philippine economic protectionism that despite its pro-Filipino stance, Import Substitution Industrialization (ISI) was still largely controlled by U.S. Corporations through "joint ventures and large amounts of profits were exported from the Philippines" (Sicat, 1967). Worse, factories were merely as assembly plants rather than the true factories that could produce domestic products (Snow, 1983.) Thus, these nationalists proposed that there be "tighter controls on foreign investments, including nationalization; stronger protection for Filipino owned young industries; the extension of ISI to the intermediate capital-goods sectors; and massive income redistribution-through land reform and other egalitarian measures- to create a market big enough for sustained industrial growth" (Snow, 1983).

THE FILIPINO FIRST POLICY:

When Carlos P. Garcia became President of the Philippines following the death of Ramon Magsaysay in 1957, the policy of control and economic protectionism was consistently pursued in order to sustain the

economic gains brought about by the control of foreign exchange instituted in 1949. In contrast to most of the Philippine presidents since independence, Garcia “did not represent any large vested sector, local or foreign, and was not beholden to the Americans for his Vice-presidency nor for his Presidential victory” (Constantino and Constantino, 1978). He had a cooperative relationship with the great nationalist Senator Claro M. Recto who was vocal in defending the nationalist aspirations of the Filipino people and whose preferred economic policy was economic protectionism. A nationalist that he was Recto said:

Industrialization and nationalism are twin goals. Indeed they are two sides of the coin. Nationalism cannot be realized and brought to full flowering without a thoroughgoing industrialization of our economy by the Filipino themselves. And you cannot have an industrialized Philippine economy controlled and managed by Filipinos without the propulsive force of a deep and abiding spirit of nationalism” (quoted by Rodriguez, 1967).

As an articulation of a truly Filipino economic policy consistent to political independence, President Garcia instituted the Filipino First Policy through Resolution No. 202 of the National Economic Council on August 28, 1958. This policy was a natural and logical expression of the same concept of the identity of nationalism and industrialization. The phrase meant that the Filipino is first in his own country and that he has priority in anything in his country particularly in the field of economic endeavour which affect vitally the security of his life and the stability and progress of his existence (Rodriguez, 1967). Although some critics dismissed it as merely an instrument for political propaganda, no one could discount the fact that the Filipino should be first in his own land. This policy explicitly gave Filipinos preference over non-Filipinos in receiving foreign exchange. Garcia’s administration pledged to assist Filipino entrepreneurs to enter sectors controlled by non-Filipino nationals. This Filipino First initiative was fully supported by Filipino businessmen asking to include other spheres/aspects of Filipino society such as in the field of education. Educators were also very supportive and suggested to incorporate a distinctly Filipino concept of education so that “we could have freedom to design our own pattern of education which is more responsive to our own peculiar need” (Constantino and Constantino, 1978).

It is interesting to note that the Philippines was not alone in the aspiration for economic nationalization and industrialization. Many countries as well in Asia, Latin America and Africa were doing the same thing. They likewise gave priorities to their citizens over foreigners in the business activities. While eager to welcome foreign investments, they made it a point that alien investors could be put in the secondary and tertiary industries and reserve to themselves either to the government or to their own nationals the basic industries which are the very core of the industrial development of the country (Rodriguez, 1967).

Similarly, in making the Filipino First Policy slogan, it does not mean that the Philippines will no longer welcome the foreign capital. The policy was not intended for “exclusiveness” or anti-foreigner. It is just that the development of basic industries must be kept for the Filipino nationals for the control of such enterprises. In his speech delivered on the occasion of the ROTC Field day in Baguio City in February 1960, President Garcia stated that:

“The nationalism I speak of, is not, as the critics of my administration would want to understand it, designed to exclude for participation in the utilization of the opportunities in commerce and trade with which our country is so abundantly endowed the aliens among us and those who might want to come here to share with us the wealth of the land, but to give every Filipino preference and priority over them, since this is the only way as a people can we assert our independence, and to keep alive national dignity and self-respect. Neither does it contemplate isolation from the rest of the world. Rather than deny, it promotes healthier relations with other nations since in asserting our national sovereignty in international affairs, we bring to the attention of the whole world the fact of the equality of nations be they large or small” (Garcia, 1960).

Economic development is the most cherished prerogative of the young developing nations of the world and this desire finds expression in the various political and social ideologies that are identified in Asian societies during those times. Regardless of political ideologies, whether it is democratic, socialist or communist, the goal is the same, i.e. to shake off the yoke of alien domination in business, trade, commerce, and industry (Macapagal, Official Gazette Vol. 56, no. 10, 1960.) Philippine economy fared well since the control of foreign exchange was initiated in 1949. In the same year according to the Central Bank, Filipino constituted 55% of the investments in new enterprises; Chinese accounted for 37%, Americans 5% and other nationalities 3%. By 1961, three years after the enactment of the Filipino First Policy, Filipinos proportion of capital investment had risen to 88% percent, the Chinese 10%, American and other investors, 2% (Rodriguez, 1967).

It is vividly clear this time, as a result of the “Filipino First Policy”, that the Filipinos became the prime movers of the total investments of the country. During the period from 1949 to 1961, Filipinos invested a total of P1. 4 billion in new enterprises; the Chinese P 435 million; the Americans, despite the effect of parity, accounted for P31 million and the other nationalities for P28 million. This figure point to the fact that Philippine economic growth for a decade after independence was largely the result of a policy of protection (Rodriguez, 1967).

Pessimists, however, argued that this economic growth was due largely to the War Damage payments which continued to flow to the Philippine coffers from the United States amounted to \$150 million yearly from 1948 to 1953. This is partly true. But on the whole the economic growth attained was due to the policy of protection for starting the fiscal year 1954 onwards, U.S. War Damage payments as well as U.S. aids, were substantially reduced (Sison, 1958). In his State of the Nation address in Congress in 1959, President Garcia proudly announced that the Philippines had achieved for the first time in the 20th century self-sufficiency in food such as rice and corn, a favorable balance of payments, increased dollar reserves after paying \$84 million of foreign loans and stabilized the financial and monetary position of the government (Macapagal, 1960).

This true and fair economic assessment was confirmed by the International Monetary Fund in its review of the Philippine economic situation that 1.) There were significant gains in national income and production in the Philippine economy in 1959; and a physical volume of production for agriculture, mining, and manufacturing increased by 6% and 15 % in corn production. 2.) Manufacturing production showed an increased of 11% during the 6th months of 1959 compared to the same period of 1958 (Macapagal, 1960.) In terms of balance of payments and international reserves, IMF reported that “the payment position showed a significant improvement in 1959. In the same year, international reserves increased by \$ 64 million. This is the biggest increase in any year in the post war period”.

But while Garcia’s drive was to realize this end to the fullest, opponents to the program were equally loud in dismissing it as merely a political propaganda of the incumbent president for his plan to run again in the next presidential election. Further, they engaged in mudslinging, accusing Garcia of being anti-foreign. These opposition groups came not only from Garcia’s domestic political enemies, but also largely from both the Chinese and American business interests (Snow, 1983). Upholding the interests of the American Chamber of Commerce in the Philippines, the United States started a smear campaign to destroy the economic prosperity gained thus far by the Philippines. First, it quoted a statement of the Philippine Ambassador to the United States that “the Philippine government has dropped the “Filipino First” slogan. This news shocked the Filipino business community. Upon hearing this, the Philippine Chamber of Commerce warned against the abandonment of the concept of the “Filipino First”. It re-affirmed its stand that in the different facets of the nation’s economic life, the interests of the Filipino businessmen and industrialists be given preferential treatment in the country’s economic development” (Rodriguez, 1967).

In order to dispel the doubts regarding the statement of the Filipino Ambassador, Garcia’s administration seemed to stand clear about the confusion it caused. It states that the administration has dropped the slogan of “Filipino First” for fear that by continuously using the term, it might be misunderstood by potential foreign investors that it wants to attract to the Philippines. Second, his administration has made it clear that it will not abandon the Filipino First Policy because it still believe that Filipinos are entitled for the assistance, support and protection by his own government. Meanwhile, in one of the latest issues, the Journal of the American Chamber of Commerce spoke against the Filipino Policy saying that “Nationalist legislation is irrational” (Rodriguez, 1967).

As early as 1957, there was already a mounting pressure on the Philippines to dismantle controls from the American and Chinese Chamber of Commerce and other foreign investors for having lost their privileged position in Philippine business climate. They were having difficulty in remitting profits to their home country. With the growing participation of the Filipino capitalist in the economic activities of the country, they agitated continuously for the lifting of controls (Constantino and Constantino, 1978). Moreover, a group of the Filipino exporters particularly the sugar blocs likewise wanted the lifting of controls of foreign exchange and wanted the devaluation of the peso so that they could amass wealth from their agricultural products at the expense of Filipino industrialist who relied upon imports of raw materials as well as equipments for their industries. Added to this strong opposition was a group of Filipino politicians who discredited Garcia by calling the Filipino First policy a “selfish sounding policy” (Snow, 1983).

DECONTROL BEGINS:

In the midst of the attacks, internal and external, against the pro-Filipino posture of Garcia, the president became unpopular to the Americans, Chinese and the Filipinos themselves in the opposition (Snow, 1983). Here, the Central Intelligence Agency (CIA) who was and is always active in the direction of the Philippine political situation had worked so hard by frequently meeting the opposition and the former Magsaysay boys to make a strong contender in the upcoming presidential election to defeat Garcia. Their local CIA station in the Philippines had received its order “to get the Philippines back on the track” (Constantino and Constantino, 1978). This agency had created a strong and formidable opposition and provided funds to both the Liberal party of which Vice-president Diosdado Macapagal was affiliated with and the so-called Grand Alliance, a coalition of Progressives, Nationalistas and Liberal Party for the senatorial election in 1959, a sort of an experiment whether Garcia could be defeated in the presidential election in 1961 (Constantino and Constantino, 1978).

Both parties opposed the Filipino First Policy and criticized the graft and corruption under Garcia’s administration. This move was met with a tirade coming from Garcia himself. In his speech which was broadcast nationwide, the president attacked the two opposition parties for “proposing a major formula for progress...the heretical and outmoded notion of laissez faire”. He defended the economic control and said:

To propose a completely free enterprise at this stage is like sending out an infant into the streets to engage in a free-for-all fight with the neighbourhood gang. Government regulatory mechanisms in our stage of development exist precisely to encourage and help Filipino business to grow at a point where it can hold its own against powerful alien competition....In other words government participation in an underdeveloped country like the Philippines is a necessary precondition for nationalistic growth and development. To allow the operation of a completely free enterprise will also mean in effect the preservation of the very condition which we wish to correct, namely, alien economic domination. Because of their larger capital resources, alien business interests in the Philippines have an unfair head-start in the race for economic supremacy. It would be naive to suppose that we, who have only just started, could expect to overhaul the lead in the foreseeable future under conditions of free enterprise (This statement of President Garcia was quoted by Constantino and Constantino from Hartendorp, 1991).

The result of the election, however, showed that Garcia’s nationalistic policy had not rallied support from the people. The opposition’s emphasis of the graft and corruption in his administration coupled with the sustained covert campaign by the CIA to discredit him, proved disastrous to his political career. Worse, the National Progress Movement (NPM), a party he organized in preparation for the next presidential election was branded as communist organization working within the Nationalista Party (Constantino and Constantino, 1978). His defense of the economic control became anathema to the Americans. Due to the drying up of foreign financial assistance, his desire for re-election and increasing pressure in and outside Congress, Garcia was forced to succumb and consent to a gradual “controlled” decontrol in 1959 (Constantino and Constantino, 1978).

As early as 1959, it was already clear that American support would go to Vice-president Diosdado Macapagal. During the election campaign, the shift to decontrol was already the theme of Macapagal’s platform of government. The era of Import Substitution Industrialization (ISI) whose golden years was from 1957 to 1961, has finally come to its demise and it was replaced with the so-called outward-looking economic policy or the Export-Oriented Industrialization (EOI) (Snow, 1983). In this case the Philippines, “was back on the track”.

On January 21, 1962, President Macapagal lifted the economic control and proceeded with the five-year plan to realize the decontrol program with the end in view of “stabilizing the peso-dollar exchange”. As pledged during the election campaign, the new President wanted to make his promise fulfilled not only to his political allies in the Philippines but also to U.S. government to which he was indebted from due to the budget given him by the CIA during the election. Immediately after elected to the highest office of the land, he realized the whims and wish of his political supporters in and outside the Philippines. Just two days after he lifted control, Macapagal delivered a thanksgiving message to the Chinese Chamber of Commerce and “acknowledged with deep appreciation the public offer made by the Chinese community in making his administration’s economic program succeed”. He asked their utmost support to help the inhabitants of the country, citizens and foreigners alike, to have a just share in the benefits derived from the national economy (Macapagal, 1962). The Chinese must have been very happy this time because their power over retail trade

which was at the disadvantage position during the 50's would now be restored after a decade when it was hurt by the action taken by Congress to allow and encourage the Filipino industrialists to take hold of it. The decontrol sounds very promising economic program of the new administration. President Macapagal had proposed some economic measures which he deemed essential to the realization of this program. As a five-year program, he expected to increase the economic growth in terms of Gross National Products up to 7% by the year 1967 and increase the per capita income of the Filipinos from P430 to P517 (Macapagal, 1963). Decontrol was also intended to increase domestic agricultural products by making rice and corn sufficient for the rising consumption due to population increase and to create jobs at the rate of 300,000 annually and up to 11.6 million by 1967 (Padilla, 1965). Several Republic Acts were recommended amended by the President to Congress for the smooth and speedy implementation of the program. For instance, Republic Act No. 1000 which prohibits the issuance of domestic bonds for financing long-term public investments, the amendment of Republic Act No. 85 for the Development Bank of the Philippines to strengthen its power to extend medium and long-term loans to productive enterprises, the amendment of Republic Act No. 16 which prohibits the President to seek unabated loans, public or private and the amendment of Republic Act No. 529 otherwise known as "An Act to Assure the Uniform Value of Philippine Coin and Currency" (Macapagal, 1963). According to Macapagal these Philippine laws were the deterrents to the entries of foreign capital funds and investments to the Philippines and that these must be revised in order to pave the way for the full realization of the decontrol program.

Aside from the above measures, the President also asked Congress to legislate provisions which help facilitate the entry of foreign capital through Tax Incentives for Investments. He recognized that one of the most effective tools of encouraging foreigners to invest is through the instrument of taxation. Among the recommendations he asked from Congress for consideration along this line were: 1.) effectively reduce the tariff by setting a maximum ceiling of 25% on the rate to be paid by individuals on capital gains instead of the 60% percent maximum; 2.) extend the benefits of capital gains taxation to corporations; 3.) extend the net capital loose carry-over period from one year to five years and bestow it equally to corporations; 4.) clarify the capital gains treatment of corporate redemptions and distributions. Consistent to this goal, he embarked on the program of "Trade Promotion to Philippine exports at the best terms available in world markets...." He asked Congress to delegate the power to the President within a set of limitations such power as RA 1937, otherwise known as the "Tariff and Custom Code" (Macapagal, 1963). Also, he wanted amendment to the deterrents of investments in the law particularly the Corporation Law which "limits corporate existence to fifty years to empower corporations to extend their life by merely amending the articles of incorporations" and "the relaxation in the provisions in the Section 13; paragraph 5 in the same law which categorically prohibits corporations engaged in mining from investing in another mining firm and non-mining corporations of whatever nature from owing more than 15 % of any mining corporation" (Macapagal, 1963).

In keeping with the above framework of program, it was the policy of the Macapagal's administration that no property owned by investors to be confiscated and expropriated through nationalization of economy without compensation and "foreign investors will have adequate opportunity to enjoy their business returns and to reclaim their capital should they desire to do so". This kind of economic policy was to the letter consistent to the principle of the "investment guarantees" which exist between U.S. corporations investing overseas and the United States government that the latter protect the former in their business operations through its military power and policy-makers in any country in the world in exchange for monetary consideration (Shalom, 1981). In case the investors will suffer losses due to expropriation by host country or foreign government without compensation, losses due to restrictions placed on the convertibility of foreign currencies except in case of civil strife related to war, revolution, or insurrection, the U.S. government will not in any way grant financial loans either through its public fund or through its financial-controlled lending institutions such as the IMF and the World Bank (Shalom, 1981). Macapagal was aware of this policy of the United States vis-à-vis U.S. investors so that he always saw to it that his policy will perfectly suit to this "exploitative" system of foreign financial lenders.

To make this economic program more palatable, the new administration lambasted the program of control (existed for twelve years from 1949-1961) which, they said, posed a great deterrent to foreign investments in view of the numerous restrictions imposed on capital repatriation and the remittance of profits (Padilla, 1965). This system, according to the opposition, was the reason why corruption was rampant. By instituting

decontrol they argued that corruption would be minimized if not totally eradicated which was, as they claimed, the legacy of Garcia's administration.

In the removal of control, the Central Bank through circular No. 133, states that "all foreign exchange receipts, except 20 percent of export receipts, shall be retained by the authorized agent banks for sale at the free market rate; twenty percent of the export receipts shall be surrendered to the Central Bank at P2.00 to \$1.00 and special time deposit is required on all items of imports." In the conduct of collecting tariffs, the government was to make changes-upward or downward on imported items in order to protect local producers and the consumers. Licences to purchase other currencies for imports, travel or study abroad were no longer required. And the exchange rate will now be determined by the law of supply and demand (Padilla, 1965).

Taking an obviously pro-U.S. stance in the promotion of private enterprise as a key to economic development, Macapagal in his State of the Nation Address to the Fifth Congress in 1962 said:

"We believed that the economic development is principally a task of private enterprise and not of government. The government's role is to create a favorable environment that will provide the inducement necessary, in terms of suitable policies and measures needed, to foster economic growth and stability. It must be in the position to devise new and effective methods, democratic in character and spirit, to induce the private sector- properly called the dynamic sector to risk idle capital for development purposes. The exchange rate adjustment and the stabilization program are expected of themselves to create a fundamental climate favorable to investments in the required lines of activity" (Macapagal, 1962).

It had been the claim of those Filipino economists and politicians supportive of Macapagal that one of the ills of the Philippine economy that must have been corrected was the overvalued peso since the institution of control in 1949 (Sison, 1958). Philippine peso was pegged at a rate of P2.00 to a dollar at that time. Thus, the Import Substitution Industrialization was encouraged because it was cheaper then to buy imported goods from U.S. or from any other countries. Imported raw materials and equipments could easily be purchased by Filipinos for their infant industries because of the purchasing power of the peso. On the other hand, it was then disadvantageous to the Filipino exporters because the value of their products (mostly agricultural) was cheap due to the foreign exchange control (cheap value of dollars) (Henares, 1960).

Central Bank could use its international reserves to stabilize or to retain the value of the peso. If the peso would be undervalued, as the case in fact, the business climate would be favorable to the exporters because their dollars would have a greater value in the foreign exchange. The sugar blocs favored decontrol and the Export-Oriented Industrialization was encouraged so that the country will earn more dollars (Padilla, 1965). Therefore the solution to sustained economic growth is more production, which according to its proponents, will flourish under the decontrolled or free enterprise. This is what Macapagal was campaigning for in his program which he described as the "new hope for the common man" (Macapagal, 1962).

With the lifting of control, peso-dollar exchange rate will no longer be determined by the Central Bank but by the market forces such as supply and demand which is the essence of free enterprise. Central Bank's role will be relegated to a minor one if not totally hands-off in the activities of foreign exchange (Padilla, 1965). A great danger the decontrol posed to the Filipino young industrialization program was that it would be increasingly difficult on their part to afford raw imported materials and equipments for their domestic industries due to devaluation. Unless the government will do something about it, Filipino industries would be hardly affected and massive lay-offs of its workers would likely occur. The floating of peso in the free market by the Central Bank reached to P3.90 to a dollar under the decontrol program (de Araneta, 1971).

In defending decontrol, political supporters of the President cited the case of several progressive Asian countries such as Taiwan, Thailand and Korea, who like the Philippines, also adopted decontrol or private enterprise as their economic policy. But, unlike the class structure composing the Philippine society, these countries were successful in breaking the hold of the elites in the monopoly of major economic activities (Statement of my professor, Dr. Ricardo T. Jose in the classroom discussion). They made mention likewise the case of the developed countries such as the United States and Great Britain who had been propagating this economic program. But they lost sight of the fact that these powerful countries adopted the program of control prior and during World War II and by that time it was a very successful economic program suited for their distinct and particular situation. It was only after the war that they shifted to decontrol particularly in the aspect of military equipments such as the naval properties (Armitage, 1969).

In his State of the Nation address in 1963, Macapagal painstakingly explained that his action had a prior approval of the International Monetary Fund, the World Bank and the U.S State and Treasury Departments.

He proudly announced that the U.S. government and U.S. private banking institutions had committed \$304 million dollars as “stabilization fund” to support his decontrol program (Constantino and Constantino, 1978). Aside from this amount, \$55 million would be coming from IMF and an additional \$93.7 million War Damage payment. No less than U.S. President John Kennedy appreciated his obedience and even promised that in case the amount granted from these several financial agencies is not enough, the U.S. government will be willing to give additional amount to make the decontrol program successful (Shalom, 1981).

As soon as the exchange control was lifted, American Corporations remitted out of the country around \$ 300 million representing profits they had accumulated and they had not been able to repatriate under exchange controls. Having done this, they turned later to borrow Philippine local currency from Philippine Banks to finance their operations. To add insult to the injury, IMF advised the Philippine government to have austerity measure and to implement “restrictive credit policy” which makes it even more difficult for the Filipino businessmen’s finances in the operation of their industries because “import-replacing manufacturing firms needed high working capital requirements” (Constantino and Constantino, 1978).

Moreover, Philippine international reserves was affected and depleted due to unrestricted influx of foreign goods which posed a destructive and unfair competition against the Philippine manufactured goods. Given the colonial mentality of the Filipinos that “stateside” is always better than the locally made products, it was not surprising that the volume of Philippine commodities dropped substantially (Constantino and Constantino, 1978). In this case, the Philippines will ever be dependent upon the “stabilization loans” from the U.S. dominated international banks for it seems that it will not reach a desired economic stabilization in this kind of business environment!

As sighted above, peso was pegged at a rate of P2.00 to a dollar before decontrol. But after decontrol, it reached to P3.90 per dollar. This is obviously a devaluation of the Philippine currency. Despite this trend, some economists did not see it as a negative indication of the Philippine economy as a whole because although it “may inhibit imports which became expensive than before, it encourages exports with its promise of larger profits”. Others, however, had an opposite view. Devaluation was seen by them as a potent weapon by foreign business interests to further control the Philippine economy. It will make them do business here much cheaper. From 1962 to 1969, U.S. investments increased from \$375 million to \$ 741 million, a significant increase of 366 million or almost 100% in just more than 7 years (Constantino and Constantino, 1978).

With the Macapagal Administration’s commitment to be always receptive to the IMF/ WB economic policies, Filipino technocrats/ economic advisers once again fell to the slogan of modernization theory which advanced the tenets that modernization would come only from the developed countries’ assistance. But the truth is that it was the other way around. U.S. policy makers placed themselves in a very secure, advantageous and powerful position over the Philippine leaders in the policy making levels, escaping the accusation of intervention in the Philippine domestic affairs. This subservience and dependence of the latter is actually and technically be considered the real beginning of neo-colonialism of the Philippines by the United States since the decontrol program implemented during the Macapagal administration (Shalom, 1981).

With its program of decontrol from 1961 to 1966, the Macapagal administration did not fare well in fostering the Philippine economy. As mentioned above, in 1959 the Philippines had already experienced stability by having a surplus of \$5.9 million. But when the decontrol program was instituted and the destructive politics during the 1961 election, the country frequently experienced deficits onwards with the exception in 1963 when a surplus of \$108.9 million was recorded. Prior to the implementation of full decontrol, the Philippines had international reserves of \$ 145 million in 1958 and by 1960, it rose to \$192.06 million. However, after decontrol, international reserves had declined to the lowest level and the Central Bank in its statistical bulletin listed as only \$38.44 million in 1964 (de Araneta, 1971).

In her M.S. thesis entitled “A Comparative Analysis of the Decontrol Program and the Floating Rate of Exchange System” (1971), Ma. Rosario de Araneta said that:

The expected benefits from decontrol failed to register in our balance of trade indices, except for the year 1963 which showed an unusual surplus of \$ 108.9 million over a record of chronic deficits. The surplus was mostly due to the increase in the world market prices for centrifugal sugar brought by the Cuban revolution, by the United States blockade of Cuba, and by the long Winter in the United States which hampered production of beet sugar and by the sudden drop in the sugar production in America.....Only a small percentage of the surplus was attributed to decontrol because the tread of the balance of trade from 1962 to 1966 indicated an annual average deficit of \$30 million.

As indicated above, it was expected by the Philippine government that the country will get more dollars from exports due to the devaluation of the peso. But this promise seems to have failed because exports only expanded at less than half the total increase of imports. The physical volume of production index showed the least response to the stimulus provided by decontrol. Agriculture had a normal growth of 2.52%, manufacturing increased slightly by 0.4 % and mining increased even less by 0.2 % over its former growth rates. The economy under decontrol also raised the public debt. Before the total lifting of control particularly from 1958 to 1961, external debt increased in the aggregate of \$177.43 million and an internal debt of P786 million. On the other hand, after decontrol from 1966 to 1969, external debt total increase to \$316. 03 million while the internal debt rose to P2, 321 million (de Araneta, 1971).

As far as the real purpose of the decontrol program was no other than to improve the Philippine economy if Macapagal's statement is to be accepted at face value, the above-cited figures would indicate that the decontrol program was a failure.

OVERALL EFFECTS OF DECONTROL:

The decontrol program of Macapagal made life difficult to ordinary citizens as well as the operation of the Filipino industrialists of their industries. Due to devaluation, domestic industries suffered the high cost of our imported inputs (i.e. raw materials) as well as the increasing prices of equipments necessary for their operations. Further, they had to face stiff competitions with the entry of new firms which resulted into the widening of market product choices. As a consequence, the business environment posed a serious pressure on the profits of the Filipino firms that were established prior to decontrol. Moreover, another source of competition of the Filipino entrepreneurs was the entry to the Philippines of smuggled goods from the different countries which provided fierce competition after decontrol (Sicat, 1967).

It is interesting to note that the United States had a hand in the formulation of Philippine labor laws in the post World War II period and extend financial assistance to Philippine labor unions. There were two aspects in which they could effectively do this: First, in the formulation of labor legislation and second, in the educational programs of union leaders and members (Shalom, 1981).

Until 1953, labor relations in the Philippines were governed by compulsory arbitration rather than collective bargaining agreement. In this kind of system, wage increases could be decided, influenced or settled by the court through its power of intervention when conflict between the labor unions and the employer or company management arises. This was opposed by the American firms because they had to face Filipino unions in the court presided by Filipino judges. Later, due to training of "submissive" labor leaders, protest/rallies were minimized and the compulsory arbitration system was replaced with the bargaining agreement in determining wage increases between workers and the employers as reflected in the new labor laws called the "Magna Carta of Labor" under Republic Act No. 853. In this case, the U.S. triumphed to have a hand in the formulation of labor laws in the Philippines (Shalom, 1981).

During the period of the implementation of decontrol program, no significant increase in the wage/salaries of workers has been given. And given the devaluation and inflation caused by the floating of peso in the world market and the relative price increase in prime commodities, the Filipino people particularly the wage earners suffered tremendously (de Araneta, 1971).

According to the International Labor Organizations (ILO), from 1965 to 1971, rural inequality increased and inequality remained constant. In the same period, moreover, it was recorded that 98,000 squatters and slum dwelling families in Metro Manila, of whom at least 17.4 percent had annual incomes of less than 600 pesos. And based on the household survey in 1965, only 3.2% of the families in Metro Manila had annual incomes of less than 1,000 pesos (Shalom, 1981). Drop outs increased. Students in the urban areas were too poor and could not afford the transportation expenses. Rural youths, on the other hand, were forced to leave the school to help in the family work during the planting and harvesting season. Malnutrition was also common which led to the increase of mortality rates. Squatters multiplied and in the mid-1960s since the Japanese occupation, women and children were seen scavenging in the garbage cans and the common reasons for the arrests of many children in Manila were obstruction, curfew violation, theft, gambling and begging (Shalom, 1981). And until now these kinds of social problems in the Philippines are still the lingering phenomenon and perhaps it will become too severe in the long run if no effective solution is given to avert the trend.

CONCLUSION:

The task of our leaders after the World War II was to put our economy in the right track by instituting the program of control for the gradual but sustained Filipino brand of industrialization. From 1949 to 1961, although still under the control of the U.S. government due to the string attached to the several unfair and exploitative trade agreements signed between the two countries, the Philippines managed to have an independent economic program to affirm its independence among nations. Perceived to be the right path towards economic development, protectionism as an economic policy yields positive results as indicated in the GNP and the per capita income of Filipinos.

This Filipino success was met with distaste and criticisms among foreigners particularly the Americans and the Chinese who, for a long time, had been controlling and amassing the wealth of the land. Their privileged position in the business affairs was hurt when the Filipinos assert their prerogatives by making some structural changes in the economic system which was favorable to them. Following the nationalist orientation of the great statesman Claro M. Recto, President Garcia instituted the Filipino First Policy to make the Filipinos the first in his own country in the performance and direction of the genuine spirit of Filipino industrialization. Further, its aim was also to “shake off” the remaining tentacles of foreign control that still managed to influence the Philippine domestic affairs. True enough, this pro-Filipino policy resulted into the economic progress of the Philippines and its per capita income was surpassed only by Japan, the most progressive Asian country.

Unfortunately, this Filipino economic gains was nip in the bud by those groups, foreigners and Filipinos alike, who have the selfish and devilish motives to put the Filipinos in the background. The Americans branded “nationalism as irrational” and proceeded to destroy leaders by removing them from power through the covert operatives of the CIA who provided funds for those whose minds and disposition they could effectively influence. When Macapagal became president, the Philippines returned into a vicious cycle and was “back on the track”. Once again the Philippines was dominated by the American giant corporations who remitted untold profits to their country at the expense of the Filipino people. They made captives the Philippine leaders by refusing and threatening them not to be allowed to borrow “stabilization loans” for the chronic deficits of their economy.

When Macapagal was elected president, he, together with his allies who were puppets and lackeys, succumbed to the devise of the American saboteurs. He immediately fulfilled his promise during election campaign. Bowing his head to his benefactors, he simply gave in to the wishes of the American masters for decontrol, private enterprise, austerity, devaluation, restrictive credit policy and the like to pave the way to an even more unabated control of Philippine economy. Worse, those leaders who are truly nationalistic and still have the sympathy for their country and people were branded communists!

The economic prosperity, in which the decontrol program was premised on, was not realized. Its promise of bringing prosperity to the country failed because what prevents it from realizing its goal was the system itself. Filipino industrialists were defeated by the competition due to the lifting of protection and domestic products could not compete with the influx of foreign products because the costs in material inputs were becoming too expensive due to devaluation. As a consequence, price of basic commodities increased while wages was almost frozen due, still, to the American influence in labor unions. In the supposed promise of export by earning more dollars, several studies revealed that export products were not that good in performance as recorded. Obviously, per capita income diminished and public debts registered a marked increase, making the Philippines to become more and more dependent to American lending corporations, a fate of the Philippine economy that is very much revealing up to these days.

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