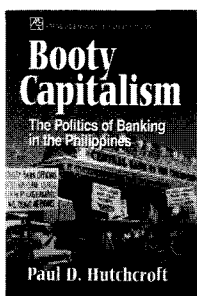


When Bankers are Buccaneers

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Booty Capitalism: The Politics of Banking in the Philippines. BY PAUL D HUTCHCROFT, Quezon City: Ateneo de Manila University Press, 1998. 278 pp. ISBN 971-550-292-X



In the opening statement of his book *Booty Capitalism*, Paul Hutchcroft asks why the Philippines has not extricated itself from the 'development bog'. It reminds me of a World Bank report published in 1957 that concluded that the Philippines and Burma (Myanmar) were the most promising developing countries in Asia. On the other hand, it painted a bleak picture for the economy of South Korea.

We now know that the outcome was exactly the opposite, proving the World Bank wrong. *Booty Capitalism* attempts to provide an explanation why the Philippines failed to take off.

Let me state at the outset that the book is a provocative critique of the Philippine political economy. Specialists and students, policymakers and activists, and anyone interested in an insightful historical study of Philippine political economy will find this a worthwhile read.

CORE PROPOSITIONS

Hutchcroft's main propositions are, first, throughout Philippine history, the oligarchic families have dominated the weak state apparatus, plundering state resources and using the state mechanism to further enrich themselves. Hutchcroft puts this eloquently: '[T]he power of the oligarchy so clearly overwhelms the power of the state' (p. 23).

Second, deep and perhaps immediately unpalatable political and institutional reforms are absolutely necessary for the Philippine economy to hurdle long-standing obstacles. In Hutchcroft's words, 'successful economic development has been constrained to a large extent by weaknesses

of *political* development' (p. 4). Note Hutchcroft's cautious formulation (using the modifier 'to a large extent'). Occasionally, Hutchcroft qualifies or modifies his assertions. This helps bring out some nuances but perhaps at the expense of losing some punch. But then this is a scholarly work where dramatic words are expected to take a backseat.

The book gains a sharper focus by concentrating on the banking sector. Hutchcroft explains that '[w]ithin the banking arena, one finds the most important of the state economic policymaking agencies and many of the most powerful of the oligarchic extended families' (p. 6). To be sure, banking is a modern, sophisticated institution that requires the highest level of professional, prudential and ethical standards. In the Philippine case, however, the banking industry is characterized by 'the persistence of patrimonial features', in which the big private bankers have enjoyed a cozy if not personal relationship with the Central Bank chief executives. In the case of the financial sector, even the liberal perspective (wherein government, to use Thomas Paine's words, is a 'necessary evil'), impels the government through the central bank to exercise strong prudential regulation. Hutchcroft however shows that prudential regulation and bank supervision are woefully deficient in the Philippine setting.

BOOTY CAPITALISM AND OLIGARCHY

The first part of *Booty Capitalism* elaborates on the theoretical framework. Hutchcroft draws from Max Weber's ideas on the development of the state in the capitalist system (*inter alia*, 'bringing political arbitrariness to heel' and 'modern rational capitalism' versus 'patrimonial capitalism'). Hutchcroft then proceeds to polish Weber's ideas and applies the refinement to a developing country setting, specifically the Philippines.

Two points about the theoretical framework are worth discussing. The first is Hutchcroft's description of the Philippine economy in which rent-seeking has 'gone wild' as 'patrimonial'. Some Marxist-inspired scholars (notably Ricardo Ferrer) have called such a system of rent seeking as semi-feudal. A patrimonial state is characterized by 'the high degree of favoritism' and 'the capacity of those oligarchs currently holding official position to inflict punishment on their enemies' (p. 15).

Hutchcroft nonetheless makes a distinction between a 'feudal' and a 'patrimonial' system: 'There is, in fact, a certain social mobility at the helm of Philippine society, as new families appear out of nowhere and some of the old families fall by the wayside' (p. 22). In an explanatory footnote, Hutchcroft quotes Weber: 'Patriarchal patrimonialism is much more tolerant than feudalism toward social mobility and the acquisition of wealth. The patrimonial ruler does not like independent economic and social

powers...but he also does not support status barriers.'

The second important point is Hutchcroft's categorization of capitalist systems (pp. 18-21). One category is 'production-oriented capitalism' characterized by a 'rational-legal state'. The other category is 'rent capitalism' propped up by a patrimonial state.

Within these two major categories are subtypes of the capitalist system. Production-oriented capitalism can either be 'statist' (developmental state) or '*laissez-faire*' (regulatory state). Statist capitalism is in place where the state is stronger than business interests. Laissez-faire capitalism applies when business interests are stronger than the state apparatus. In relation to patrimonial capitalism, the two subtypes are 'bureaucratic' capitalism (not to be confused with the Maoist term 'bureaucrat capitalism') and 'booty capitalism'. 'Bureaucratic capitalism' refers to the situation in which the state is stronger than business interests, while 'booty capitalism' is the inverse. 'Within booty capitalism', says Hutchcroft, 'a group with an economic base *outside* the state is plundering the state for particularistic resources'.

Hutchcroft argues that the Philippines falls under the heading of 'booty capitalism'. One may ask whether 'booty capitalism' would have been the more appropriate description of the massive plunder during the Marcos dictatorship. Note that Marcos and his generals and cronies (nay, dummies) at the start had no considerable 'economic base outside the state'. Hutchcroft

nevertheless clarifies that the categories he introduces are not pure categories. His footnote (20) says that 'there is in reality no clear demarcation among categories'.

An important point to digest is Hutchcroft's view that the Philippine state, historically and institutionally, does not have the enduring capability to become a developmental state in the mode of Korea. How can that be when it cannot even be effective in carrying out minimalist functions? To be sure, a developmental state allows wide room for political and economic discretion. But, precisely, it is the abuse of such discretion ('political arbitrariness') that has contributed to Philippine underdevelopment. The implication of this is to further restrict state intervention and allow more private initiative. It is in this context that we can appreciate the new discourse on developing a strong democratic state that anchors its development strategy on economic liberalization.

A STORY OF SHENANIGANS

The middle to penultimate chapters provide a historical background and analysis of key issues in the banking sector. The coverage is from the US colonial period to the early 1990s. Hutchcroft situates each historical stage within the larger context of the Philippine political economy. Of particular interest is the historical development of the Central Bank from the governorship of Miguel Cuaderno to the incumbency of Gabriel Singson. (Incidentally, 1999 is the 50th year of

the founding of the Central Bank, making the publication of *Booty Capitalism* all the more timely.)

The narration is rich in relevant details. For instance, readers are informed about how the oligarchy and bank directors time and again looted the Philippine National Bank (PNB). During the US colonial regime, Governors-General Leonard Wood and W Cameron Forbes wrote a report, saying that '[t]he story of the Philippine National Bank was... one of the most unfortunate and darkest pages of Philippine history' (p. 67). With such a history, the PNB as a corporation seems almost impossible to reform.

The history of the banking system is marred with frequent episodes of thievery, corruption, inter-elite struggle, intra-family rivalry, and bank failures. Several themes recur, and among the more important are: (a) The wealthiest Filipino families establish commercial banks mainly to serve the financing requirements of familial interests. (b) The elite faction aligned with the ruling administration milks the 'patronage-infested' government banks. (c) Bank owners with close ties to the political administration or to the central bank authorities are a privileged lot. Not only can they flaunt rules and regulations, they likewise get easy access to public resources. (d) The regulatory system is weak, in which the bank regulators and supervisors are virtually at the mercy of the regulated and the supervised. In the same vein, the imposition of penalties

or the degree of punishment for bank abuses depends much on political discretion.

Hutchcroft notes an observation drawn from Jobo Fernandez (the founder of Far East Bank and former Central Bank governor) that 'where one or a few families dominated a bank, it was easy to extract loans for family enterprises—regardless of what laws might be on the books' (p. 103). Although this in the main is a valid proposition, it does not by itself produce an imprudent, reckless bank that at the same time relies on political connections to survive.

In this regard, it may be worth doing a case study of the Bank of the Philippine Islands (BPI). The BPI is likewise family dominated, and the Ayala-Zobel family, like other wealthy Filipino families, also went through seething internal struggles. Yet, family control and the internal squabbles have not dented the bank's integrity, conservatism, and professionalism. Can this in turn be attributed to a corporate tradition that dates back to the mid-19th century? The Ayalas, however, bought the BPI from the Archdiocese in 1969, more than a century after its founding.

THE RAMOS-ALMONTE REFORMS

The last chapter—the Philippine political economy at the crossroads—is arguably the most controversial part of the book.

If I must make a serious criticism, which nonetheless will not diminish my recommendation of the book, it is on

one point. Hutchcroft has biting criticisms against almost all the political administrations, including those of the US colonial period. However, his position vis-à-vis the Fidel Ramos administration seems ambivalent. One in fact gets the feeling that he is impressed (or shall we say *was* impressed) with the economic reform measures undertaken by the Ramos administration under the banner of Philippines 2000.

Take, for instance, Hutchcroft's statement (p. 242): 'While such obstacles [i.e. bureaucratic incoherence and oligarchic opposition] have certainly been well exhibited in the Ramos reform program, many key successes have at the same time generated widespread hopes that the momentum for reforms might be sustained.' (Again, note the author's caution in the use of words. Despite the overall tone of optimism, he uses the auxiliary verb 'might' to indicate the possibility of sustaining the reforms.) On the same page, Hutchcroft likewise accepts the contention of some that 'Philippines 2000 represents the first major strategic vision of Philippine political elites since the early years of Ferdinand Marcos' martial law regime.' It is worth recalling that Ramos' chief ideologue, Jose Almonte, was also an ideological architect of Marcos's ideology of a new society, the rhetoric of which included the dismantling of the oligarchy.

Admittedly, the Ramos strategy of developing a strong state committed to liberalization reforms has a firm

conceptual mooring. In practice, though, the Ramos strategy suffered from internal contradictions.

As Hutchcroft says, Ramos depended on 'old-fashioned horsetrading and Philippine-style pork barrel politics' (p. 252). Throughout his term, Ramos backed House Speaker Jose de Venecia, the quintessential *trapo* (traditional politician), capped by an out-and-out endorsement of de Venecia's failed bid for the presidency.

Moreover, and this is directly and substantially relevant to Hutchcroft's critique of the baking system, Ramos appointed Gabriel Singson, a boyhood friend and golfing buddy, as the Central Bank governor. A factor behind the appointment, according to Hutchcroft, was Singson's role in getting the Chinese-Filipino businessmen to support Ramos' successful presidential campaign. Singson has a 'cozy' relationship not only with the Chinese-Filipino business community but also with the private bankers as a whole.

To quote Hutchcroft (p. 219), 'The bankers are often reported to consider Governor Singson friendly: not only is he one "whom they can play soft music with"...but he is also someone with whom they regularly play a round of golf.' Very telling, for example, is the photo on page 212, showing Singson and the controversial tycoon Lucio Tan engaged in friendly talk before playing golf. The Ramos administration filed tax evasion charges against Tan. (The Estrada administra-

tion however made a turnaround, as it allowed the dropping of the charges against Tan, who incidentally gave heavy support to Estrada during the presidential campaign.) It must likewise be said that Governor Singson is the vice-chairman of the beleaguered Lucio Tan-controlled Philippine Airlines.

It is not surprising that, as footnote 8 of Hutchcroft's introduction states, Singson's *Bangko Sentral ng Pilipinas* (BSP) 'received the highest performance rating of all government agencies' in a 1995 business survey. But even those critical of Singson and the BSP cannot be too explicit or too articulate about their criticisms, lest they incur the ire of the BSP governor who wields vast discretionary powers.

Singson's policy preference for a high interest-rate regime and a strong currency resulting in widening current account deficits, slowdown of the tradable sectors, surge of portfolio flows, and short-term foreign borrowing binge—eventually magnified by the regional contagion—spelled the financial crisis in 1997. Ramos' term ended with a different bang—the explosion of a financial crisis, throwing Philippines 2000 off course.

ASIAN FINANCIAL CRISIS

It is a pity that Hutchcroft's narration and analysis could only cover the first half of Ramos' term. The events that unfolded thereafter would have probably changed some of his earlier observations about the trajectory of the Philippine economy even as his funda-

mental arguments on Philippine booty capitalism would have been enriched or bolstered.

What, for example, could have been Hutchcroft's analysis as to why the banking system has so far survived the onslaught of the Asian crisis? (Oriental Bank has so far been the victim among commercial banks, but a bigger number of thrift and rural banks has also folded up.) Those who disagree with Hutchcroft will use this point to counter that the Philippine banking and financial system is healthy. Can it be said that the major commercial banks have learned the lessons from the 1983-1985 crisis, which was characterized by the failure of five commercial banks?

But the facts presented by Hutchcroft—as well as more recent studies done by Filipino economists (e.g. Dante Canlas, 'Some Aspects of Banking Risks and Regulation')—show that banking reforms leave much to be desired. For instance, the much-vaunted banking liberalization law was shot with infirmities, thus falling short of its objective of injecting keen competition into the industry. Further, moves to amend the bank secrecy law are meeting strong opposition from the domestic banks. The relaxation of the secrecy law to be on par with international standards will help address problems pertaining to information, monitoring, and regulation.

And despite self-regulation practices, the commercial banks failed to exercise prudence, as these provided an increasing amount of unhedged dollar

loans to private firms. Both the private lenders and borrowers nonetheless exhibited a rational response to the BSP policy of high domestic interest rates and a strong peso (or cheap dollar).

True, the situation of the Philippine banking sector is not as severe as that in neighboring countries. But then the contexts and conditions in the Philippines and a newly industrialized country (NIC) like South Korea are vastly different. For example, as Robert Wade notes, a key feature of the Korean model is the large debt exposure of corporations to finance investments. In other words, debt played a positive role in financing the high corporate investments, which in turn contributed to the sustained high growth rate from the 1980s to the mid-1990s. Unfortunately, with the opening of its capital account in the 1990s, short-term debt engulfed Korea. Hence, at a time of crisis, it is not surprising that an increasing proportion of the loans of the highly leveraged Korean corporations has become non-performing.

It can be said that the main factor that explains why the Philippine banking system has withstood the crisis is the fact that the Philippines did not absorb a massive amount of finicky portfolio flows and short-term bank lending from abroad. Korea, Thailand, and Malaysia were recipients of a huge amount of voluntary private capital. The magnitude of foreign capital that went to these countries was a function of their high performing economies.

Put differently, in the words of the Asian Development Bank (ADB), '[h]aving participated less in the economic boom than its subregional neighbors, the Philippines got a proportionately lower dose of contagion'.

Note that the current Philippine recession is mild, with gross domestic product (GDP) shrinking by 0.5 percent in 1998. (Compare this to the crisis in 1984 and 1985 where the GDP growth rate was -7.32 percent and -7.31 percent, respectively.) On the other hand, the economies of Korea, Thailand, Malaysia, and Indonesia took a nosedive. The GDPs of Korea, Thailand, Indonesia, and Malaysia fell sharply, ranging between -6.0 percent and -16.0 percent.

In sum, the survival of the Philippine commercial banks despite the financial crisis does not undermine Hutchcroft's findings and analysis with respect to the institutional weaknesses of the banking system. More to the point, the fact that a mild recession has threatened the banking system—indicated by the rise in non-performing loans, the increase in restructured loans, and the growing acquisition of collaterals—validates Hutchcroft's propositions.

It must likewise be stressed that the political economy has not changed for the better. The state continues to be held captive by the oligarchy. A disturbing development, upon the accession of Joseph Estrada as president, is the revival of the fortunes of the Marcos family and the cronies

such as Lucio Tan and Eduardo Cojuangco. This has taken the wind out of the reformers' sails.

GREAT SCHOLARSHIP

As a final point, the integrity of Hutchcroft's scholarship is unassailable. His bibliography and list of interviews are stunningly comprehensive. Hutchcroft acknowledges the writings and ideas of the most eminent scholars as well as practitioners of Philippine politics, business, economics, public administration, history, and sociology. It is virtually an A to Z listing of the cream of policymakers and intelligentsia—Jose Abueva, James Boyce, OD Corpuz, Raul de Guzman, Raul Fabella, Frank Golay, Gonzalo Jurado, Jaime Laya, Alfred McCoy, Francisco Nemenzo Jr, Manuel Pangilinan, Claro M Recto, Gerardo Sicat, Edita Tan, Cesar Virata, David Wurfel, et al. As the partial list above shows, Hutchcroft's interviewees include top bankers and high-level government officials, including a couple of former Central Bank governors.

Hutchcroft also makes extensive use of journals, policy papers, and official documents (from government and the multilateral financing institutions). His greatest advantage, arguably, is his access to US archives and libraries, including dissertations on Philippine history and economics done in prestigious US universities that house

Philippine or East Asian Studies programs.

It is tempting to rank Hutchcroft's *Booty Capitalism* alongside the classic works on the Philippine economic history and the Philippine political economy. If this were some kind of music review, this could be done. (A newly acclaimed interpretation of Beethoven's symphonies, say Gardiner's, has to be measured against the composer's markings and benchmark recordings of Klemperer and Furtwängler.) But in making a critique of a book on political economy, it is risky to make comparisons because the interpretations are more variable, the parameters are wider, and the benchmarks are undefined.

Nevertheless, Hutchcroft's book should find its way into the shortlist of the most important writings on Philippine political economy. It can complement or supplement the works of OD Corpuz (*Bureaucracy in the Philippines*, 1958 and the more recent *An Economic History of the Philippines*, 1997), Temario Rivera (*Landlords and Capitalists: Class, Family and State in Philippine Manufacturing*, 1994), and Ricardo Ferrer. (I look forward to Emmanuel de Dios' taking up the challenge he himself posed: for someone—and someone close to Ferrer—to edit a volume of Ferrer's selected works.)

All told, *Booty Capitalism* deserves the warmest recommendation.