

## **From Sancianco to Encarnación FOOTNOTES TO A GENEALOGY OF ECONOMICS IN THE PHILIPPINES**

Emmanuel S. de Dios<sup>1</sup>

*While much has been written about the political ideas of the revolution, little if anything has been written about its economic ideas. This paper is an attempt to provide an intellectual background to the economic policies and directives emanating from the Malolos Republic. It traces the source of the revolution's economics to cameralist ideas, as handed down by liberal Spanish thinkers and practical policy reformers. It documents these influences in the revolution's policies towards public finance in general, personal taxation, trade, and the important agrarian question.*

The hundred-odd years that separate the deaths of Gregorio Sancianco and José Encarnación encompass the development of economics in the Philippines from a pragmatic cameral art attached to law, to an autonomous discipline and social science. The documentation of the discipline's progress in this country is still in its infancy, and a full account is infeasible at this time. The present article makes no pretence at comprehensiveness and is no more than a first attempt to highlight the most important trends in the formation of the discipline and growth of the profession, following a more or less chronological order. The emphasis is on the development of economic analysis, in the sense of Schumpeter, and the practical or policy import of economic ideas is adverted to only to the extent that this aids in understanding the development of thought or growth of the profession.

### **Towards the close of the XIX century**

Gregorio Sancianco y Goson [1852-1897] may with good reason be regarded as the first Filipino economist. *El Progreso de Filipinas (parte economica)* [1881(1975)] was the first purely economic treatise written by a native of the country. Sancianco

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<sup>1</sup>Professor of Economics, University of the Philippines School of Economics. This article first appeared in Volume one of *The Philippine Social Sciences in the life of the Nation*, edited by Virginia Marilao and published in 1999 by the Philippine Social Science Council. It appears here with the permission of the editor. This article benefitted greatly from comments on a draft made by Professor Gerardo P. Sicat, one of the chief figures in the history of economics and economic policy on the Philippines. Remaining errors and omissions, however, are those of the author.

was part of the first generation of *ilustrados*, taking a doctorate in civil laws from Madrid. His *Progreso* was unanimously hailed by contemporaries as a contribution to the cause of liberal reforms in the country.<sup>2</sup> This work derived from a pre-eminently practical stream of policy-writing on the continent, which was by then already imbued with Smithian ideas by way of Spanish radical liberal reformers such as “the immortal Jovellanos”, whom Sancianco quoted approvingly, and Campomanes.

Sancianco traced the country’s lack of progress primarily to the colonial government’s underprovision of public goods that even Smith’s minimalist state would have provided, e.g., good roads and transport, basic education and technological education, protection of property. A second major disincentive was the onerous and discriminatory system of regulations and taxes imposed by the colonial government.<sup>3</sup> Logically, therefore, Sancianco’s main policy prescription was a massive reform of the tax system with the ultimate view of raising enough revenues to finance spending on public goods. This he proposed to do by shifting from a colonial system of taxation based on race, to a modern one based on wealth and incomes. Among the changes he proposed were the abolition of the odious *cedula* and its replacement by a property tax, still citing the Smithian principle of “benefits-enjoyed”, rather than the ability-to-pay principle espoused by J.S. Mill.

A novel proposal by Sancianco was the idea of a uniform tax on cultivation per unit area of land, regardless of crop produced. This ran counter to the contemporary — indeed still current — idea that the fiscal treatment of land should change based on its use. Sancianco was sufficiently perceptive to note that land-use was an endogenous choice, which differential taxation itself would influence. If the state was not to distort the choice of crop, therefore, it would do well to treat cultivation uniformly. This precocious insight has gone remarkably unheeded for a long time, e.g., until 1972, agrarian reform was crop-specific. Even today distinctions such as those between agricultural and nonagricultural, irrigated and non-irrigated, and “prime” agricultural lands and conversions from one category to another continue to plague the agrarian reform programme. Sancianco’s old idea, however, finds an echo in the various proposals for presumptive taxation of land.

In the period of the Philippine Revolution, the reform of taxation and agrarian questions continued to be predominant economic concerns [de Dios 1999]. There was little further original economic analysis, however, and practical policy proposals of the period did not proceed far beyond those already suggested during the Propaganda Movement and especially by Sancianco. The Malolos Constitution’s sole economic article was an addendum nationalising the friar estates, while the issuances of Congress attempted to make direct taxes progressive, reduce customs

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<sup>2</sup>An notable work somewhat earlier was *La libertad de comercio en las islas Filipinas* (1872) by the Spaniard Manuel Azcárraga.

<sup>3</sup>Most notably Rizal’s line of argument against the charge of “indolence” of the Filipino was drawn from Sancianco.

and excises, set rentals and rules on the disposition of uncultivated lands.

In line with continental tradition, economics at that time was regarded as a branch of a general cameral science (*Cameralwissenschaft*), a field to be studied as part of the preparation for lawyers and public administrators (see, e.g., Schumpeter [1956]) for a discussion. The Revolution adopted the Spanish tradition, and the *Universidad Literario de Filipinas* established by the government offered economics as part of the preparation for the bar.

The lag in the diffusion of political ideas from the principal countries of the continent, to Spain, and on to the Philippines has been well noted [Majul 1996(1960):79]. The Philippine Revolution was guided by political ideas of the eighteenth-century Enlightenment at a time the rest of Europe had moved on, a circumstance due to the economic and intellectual backwardness of Spain itself, where most of the *ilustrados* studied. This same lag was evident in the diffusion of economic thought and economic analysis. The source of economic ideas from which the Revolution and the Congress drew was Spanish liberalism, whose analytical apparatus had not progressed far beyond a strong inspiration from Adam Smith. By contrast, at about the same time on the continent (although only marginally in Spain), various streams of socialism, particularly Marxism, were already providing a sharp critique of *laissez-faire* policies. Among the open questions in Filipino *Dogmengeschichte* is why the intellectual leaders of the revolution seemed oblivious to socialist ideas that had by then spread over the rest of Europe.

If current mainstream economic analysis is taken as the benchmark, the lag is likely to have been even greater, since the continent itself was behind Great Britain. Hence, for example, marginalist ideas would take firm hold in England beginning in 1885, “the year of grace” [Schumpeter 1954:829] that saw Marshall’s inaugural lecture in Cambridge, but the continent was still in the throes of the *Methodenstreit* between the new thinking (as represented by Menger) and the dominant Historical School. It is not implausible that the gap of a century separated the Philippines from the leading minds in economic analysis of the time.

### **Period of United States (US) occupation**

In seeking to understand the development of economics during the us occupation, it is important to remember that the management of fiscal and monetary affairs was then largely in the hands of the us government, which could draw on a large pool of professional and academically trained bureaucrats for the purpose. As a consequence, the demand for economic advice, which would have been the principal source of (derived) demand for practising economists, was never well developed. This in turn might explain why for the most part, development was to be confined to academic institutions, and even within the latter, there was not a greater push for a economics as a separate field of study. Fabella [1962], writing much later, would attribute the slow growth of the economics profession to “the availability of American technical experts in these lines and the fact that a career in economics

seemed a rather hazy concept". The study of economics was not regarded as a separate career, but merely an input into the making of a successful businessman or policy-maker. Well-regarded pieces written around the turn of the century, such as that by Regidor and Mason [1905], or later Craig and Benitez [1916] (the latter based largely on Azcarraga), continued to be of a general expository nature, surveying the history and current conditions of the country, with an emphasis on the backwardness of conditions under Spanish occupation. These pieces used a broad historical approach, which — to borrow Schumpeter's words — was largely "innocent of analysis".<sup>4</sup>

Continuing the established continental tradition, the University of the Philippines (up, established 1908) offered economics subjects such as economic development of the Philippines (Economics 2) and public finance (Economics 10) as part of its five-year ba in law and government [Alfonso 1985:61-622]. In academic year 1915-1916, a department of sociology and economics under the college of liberal arts was formed under Conrado Benitez [Jamias 1962:99] to teach economics as part of the commerce course. A separate economics department, still headed by Benitez, was finally formed in 1926. In 1929 the department was taken out of liberal arts to form the nucleus of the School (from 1934 the College) of Business Administration, where it would remain until the outbreak of World War II.

Comparing the profession's development with that in the us, however, Fabella [1962:5] wrote:

In the former [the us], the faculties of schools of business were upon establishment invariably drawn from the economics faculty in liberal arts; in this country, on the other hand, while modern colleges of commerce and business were established only during the second decade of the present century, yet the close connection between business schools and the accountancy certificate resulted in a rapid expansion of business school facilities and enrollment, offering as it did a definite career of professional rank, complete with a government certificate of competence and later automatic first grade civil service eligibility. The study of economics, on the other hand, suffered from the availability of American technical experts in these lines and the fact that a career in economics seemed a rather hazy concept.

The divided affiliation of economics from being a branch of law and government, to a social science, to a handmaid of business administration (a phenomenon persisting in some universities even today) indicated an identity crisis for the discipline. Most teachers of economics did not regard themselves primarily as professional economists but as lawyers, political scientists, businessmen, and accountants, "men of affairs" for whom economics was a minor avocation.

The early book on social science by the political scientist Maximo Kalaw [1933], used by entering freshmen at up, is sufficiently typical to illustrate the position and

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<sup>4</sup>Of about the same period was A. V. Castillo's *Spanish mercantilism* (1930), mentioned further below.

state of university economics education during the period. The book attempts to provide an integrated approach to social science, with economics treated as one among several topics. While "modern" economic concepts and definitions such as marginal utility, diminishing marginal productivity, supply and demand, are briefly reported, there is little illustration of how these concepts may be usefully applied to current economic problems. Instead, the latter are treated separately, as if economic theory existed in a vacuum and economic practice did not exist. There is much concern with the economic geography (e.g., coconut, rice) and with specific economic issues such as nationalism and "free trade" with the us, but these are rarely analysed using economic tools. A similar approach and peculiar terminology is found in the textbook by H. Miller [1932], where economics is defined as "the problem of getting money and of saving and spending it" and wealth is defined as "any or all of the things which men produce". In this style of writing, a descriptive, historical approach prevades, giving a detailed account of facts, events, and institutions, occasionally juxtaposed with opinion. In lieu of economic analysis, economic geography and economic anthropology played a great part, leading O.D. Corpuz to recall that the economics teaching of his time seemed to deal mostly with such things as the "hunting-gathering society". As far as economic geography went, however, the most notable work of the prewar period must be Albert Kolb's work of 1942, which in many ways set a standard for breadth and demonstrated the reach of a sheer taxonomy of geographic, ethnic, cultural, and economic forms.

A good deal of prewar economic-policy debate and writing revolved primarily around the undesirable features of colonial trade. (It should also be noted that foreign trade was also among the few areas in which long statistical series were available.) Writing uncritically adopted the term "free trade" to describe what was in reality preferential trade (indeed with virtually an effective customs and monetary union) with the US. Partly owing to this misinterpretation, the reputation of liberal and nondiscriminatory trading policies (i.e., truly free trade) would suffer subsequently by identification with the deleterious consequences of colonial trade.

Tariff protection under these circumstances was briefly justified for reasons including the well-known argument for nurturing infant industries, fostering nationalism, developing a home market, responding to dumping, and countering currency undervaluation [Kalaw 1933:352-353]. It is significant, however, that through all this the question of the peso's fixed parity with the dollar, a condition prescribed by the occupying power, was never prominently raised as a reason for the lack of competitiveness vis-à-vis imports from the US<sup>5</sup>, although Kalaw actually cites protection as a defence from Chinese imports when "exchanges are low". In essence, the terms of this debate would not change significantly for the "nationalist school"

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<sup>5</sup>The question of the level of the exchange rate is different, of course, from the issue of whether the exchange rate should be fixed or flexible. The feasibility of flexible exchange rates would admittedly not even be raised until the 1960s.

even up to the second half of the century.

The first Filipino to complete a PhD in economics was Andres V. Castillo [b. 1903], who took a doctorate from Columbia University in 1930, studying under Wesley Clair Mitchell, J. M. Clark, and E. Seligman among others. Castillo would later succeed Miguel Cuaderno to become the second governor of the Central Bank. Castillo's dissertation examined the work of the Spanish economist, Gerónimo de Uztárriz [1670-1732]. This first achievement in the history of economic thought was sufficiently noteworthy to be mentioned by Schumpeter [1954:165, fn. 6] among several authoritative works on Spanish mercantilism, making Castillo the only Filipino author cited in that well-known volume.<sup>6</sup> Castillo also made the only promising pre-war attempt to diffuse mainstream economic analysis in the country, through his economics textbook [1941], which appeared just before the war. This textbook was up to date on contemporary Marshallian microeconomics and was probably the first locally published book to feature a supply-and-demand diagram. Among others, Castillo explained the marginal-productivity theory of distribution, sketched a marginal-revenue analysis of monopoly (by numerical example), and included a discussion of monopolistic competition based on product differentiation featuring "thick" demand and supply curves. The appearance of this work late in the period and shortly before the war prevented it from having a larger impact. It is significant for what it suggests about the level of economics education, however, that Castillo's book would not go into a second edition after the war but would be replaced by a high school text [Castillo 1949] that largely reverted to description and economic geography. It is likely this was an accommodation to the abilities of teachers and students alike, as well as a desire to conform with guidelines prescribed by the board of textbooks.

Somewhat later Horacio Lava, Sr. [1904-1986], one of the illustrious Lava brothers<sup>7</sup>, would also be counted among the few in the country to obtain a PhD in economics. Lava submitted a dissertation to Stanford University on living conditions in the Ilocos region in 1935 [Dalisay 1999:44].<sup>8</sup> The income and expenditure study aimed to reverse the impression of high standards of living in the country conveyed by other consumption studies<sup>9</sup> seemed to convey, and which tended "to blind the

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<sup>6</sup>I am grateful to Dr. Benito Legarda, Jr. for calling my attention to this. Attempts to retrieve a copy of this work for purposes of this review, however, proved futile.

<sup>7</sup>Three of Horacio's brothers, Vicente, José, and Jesús, would serve as general secretaries of the Communist Party of the Philippines at various times. For an excellent account of this significant family, see Dalisay [1999]. The statement contained in Dalisay, however, to the effect that Horacio was the first Filipino PhD in economics is inaccurate.

<sup>8</sup>Lava [1938] is apparently the published version of this work. The entry in the Stanford Auxiliary Library carries 1939 as the date of Lava's dissertation entitled "Levels of living in the Ilocos region, Philippines".

<sup>9</sup>Other studies had covered workers in Manila and government employees, which at the time. Other studies either did not seek to estimate annual average family incomes, or were based on interviews relying on recall of the respondent.

authorities to the existence of certain acute problems which demand immediate attention". Lava [1938:7] noted, "It was only after the workers and peasants began to present their demands in an insistent manner — by strikes and by rebellion — that the authorities began to realize that there is in fact a labor problem in the Philippines." In its technical aspects, the work was also significant in that it was likely to have been the first study to estimate annual household incomes and expenditures using detailed household records to track spending and saving behaviour among individual rural households, detailing expenses on food and other current consumption items, as well as expenses on labour and production.<sup>10</sup> Lava would lecture at the state university, serve as research director at the central bank, and become dean of a Manila university. He would form part of the Left-nationalist tradition in Filipino economics and, as head of the Central Bank's research department, he would try "to influence his superiors to effect a more nationalist monetary policy". His career and personal life, however, suffered from witch-hunts occasioned by his family relationships, which finally forced him out of his position at the central bank<sup>11</sup>, and the unjust vexation of being prevented from travelling abroad [Dalisay 1999:164].<sup>12</sup>

Castillo and Lava, both ending up with careers with the Central Bank but with vastly differing fortunes, were precursors of the two main trends that would come to dominate Philippine economics, namely the Left-nationalist school and the neo-classical mainstream. As professionally trained economists, the two were exceptions, however. The absence of any distinct profession to which students and teachers of economics could aspire implied there would be no scientific community that would safeguard intellectual standards. As a consequence, no premium was placed on a sound grounding in economic analysis. The standards for acceptable economic opinion would for many years remain pre-eminently low and the field open to almost anyone, often to the detriment of public understanding and policy design. Niehans [1990:518] makes the valuable observation that "a large part of the growth of economic theory over the last three hundred years is simply the result of the increasing resources devoted to it." If nothing else, the us period illustrates by the truth of this statement — by negation.

### **Fiscal and monetary policy**

Following the establishment of the central bank of the Philippines in 1949, the first in the Asia, it was natural that policy debates should arise regarding the course

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<sup>11</sup> Dalisay's account of the Lava family does not mention Horacio as ever having joined the Communist Party. He was removed from his central bank position, however, on the pretext that his wife had supplied the Huks with clothes and medicines.

<sup>12</sup> Upon Horacio's retirement in 1976, José Encarnación (see below), a friend of the family and by then dean of the mainstream up School of Economics, would offer him a modest writing grant. The cordial personal and social relationships among professional economists, their ideological positions notwithstanding, were a remarkable characteristic of the first few generations.

of monetary and fiscal policy. Hence a new front for policy debate was opened — aside from foreign trade — which obviously could not have arisen before political independence was achieved.

The idea of using monetary expansion as a tool for development was a natural extension of the individual business person's perspective that lack of credit was among the most serious obstacles to business expansion. A "great debate" occurred throughout the Magsaysay and Garcia administrations over the effectiveness of Keynesian expansionary policies as a strategy for development. Salvador Araneta<sup>13</sup> in particular held strong views about the role of deficit spending and easy money as levers for development (see, e.g., Araneta [1965:201-203]). The presence of what seemed to be obviously unemployed resources appeared to lend support to Keynesian prescriptions.<sup>14</sup>

The other side of the debate was represented by Miguel Cuaderno, Sr., governor of the central bank from its founding in 1949 to 1960, who was supported by a number of economists from the us and the imf in his views.<sup>15</sup> Cuaderno argued that Keynesian policies were inapplicable and made what was in effect a distinction between cyclical and structural unemployment. Without denying the effectiveness of Keynesian remedies in developed countries, he argued that whilst in developing countries, there may be vast potential resources,

[t]hese are resources that cannot be harnessed overnight to effective production without passing through a protracted period of conversion, construction, training, and development. The present degree of immobility of these resources is such that they cannot be available for consumption during the period of conversion. During that period, however, the people will be already armed with purchasing power which would exert further pressure on the market for consumable goods and tend to raise domestic prices all the more. Because of our dependence on imports, this would increase our balance of payments difficulties [Cuaderno 1955:309-310].

In effect, Cuaderno argued that notwithstanding observable unemployment, the aggregate supply curve was inelastic in the short run, and therefore monetary expansion would be inflationary. To this, Araneta would reply that such a

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<sup>13</sup>Araneta was administrator of the office of economic co-ordination in the Quirino cabinet, and secretary of agriculture and natural resources under Magsaysay. Araneta [1965] is hardly a systematic treatise but a collection of newspaper columns written over a period. It nonetheless gives a flavour of the argument.

<sup>14</sup> At one point in 1959, Hjalmar Schacht, head of the German Reichsbank under Hitler, came to the country at the invitation of the Philippine National Bank and wrote a well-publicised report that made a plea for deficit financing supported by money creation, citing the experience of prewar Germany [Cuaderno 1961].

<sup>15</sup>Cuaderno [1960:131] mentions in particular support from Marriner Eccles, chairman of the Federal Reserve, and Edward Bernstein, director of economic research at the IMF. Bernstein while on leave from the IMF was earlier a member of the Bell Mission.



phenomenon would be temporary. Nonetheless, it should be mentioned that, since then up and to the present, there has been no adequate analysis of the aggregate supply in a specifically Philippine context.

Cuaderno also took up one side on the issue of exchange controls, another subject of intense debate during the 1950s. Interests associated with the sugar-bloc, headed by Alfredo Montelibano, argued for the removal of exchange controls and for the full retention of foreign-exchange earnings by exporters. In the light of the large premium on foreign exchange, the motives of the sugar bloc were quite transparent. It was indicative of the trend of opinion at the time that Cuaderno was supported in his views on exchange controls by most of economists during the period. Nor was it much help that among the earliest voices publicly opposing exchange controls was A.V.H. Hartendorp, American economic commentator and editor at the time of the *American Chamber of Commerce Journal*.<sup>16</sup> (Hartendorp would later write a highly informative, if opinionated account of economic policies in the Philippines [Hartendorp 1958, 1961].) Regardless of the economic argument for doing so, therefore, anyone opposing exchange controls at the time and instead proposing a devaluation would have found himself uncomfortably aligned not with the Rectos and Tañadas but with some of the most reactionary forces in Philippine society — a dilemma in political correctness that hardly encouraged the objective assessment of the soundness of policy. Moreover, contemporary economic opinion at the time was governed by a profound elasticity pessimism, which presumed that the benefits to devaluation might be slight.

From the standpoint of methodology, the postwar episode illustrated some aspects of the conduct of economic debate in the country. First, of course, it was laudable that the debate dealt with and was provoked by pragmatic policy questions, as opposed to being merely fought at a theoretical or academic level. Second, however, it was remarkable that much of this argument was conducted without a strong empirical and analytical basis, relying mostly on argument and an appeal to (mostly foreign) authority, with at most a reference to what were thought to be stylised facts. Indeed, apart from memoranda to policy-makers, the “debate” was conducted largely by means of newspaper columns and civic-club speeches, in what must be the local version of pamphleteering. McCloskey [1990] writes that the “rhetoric of economics” typically makes use of data and statistics (fact), analytical models (metaphor), history (narrative), and logic. The rhetoric of this period was notable in the absence of the first two.

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<sup>16</sup> In comments on an earlier version of this paper, Professor Sicat expresses the opinion that “although [Hartendorp] had an ax to grind to favour and protect American businesses in the Philippines, his basic instinct on economic issues were...quite sensible, even if in a reactionary mold in the tone of those days”.

### Mercantilism and the nationalist critique

The single most important policy debate in the postwar period, around which a belt of theorising and rationalisation grew, was direct foreign exchange- and import-controls, which had initially been imposed by the government (and not proscribed by the Bell Mission Report) as *ad hoc* measures beginning in 1949 as a remedy to an external payments crisis. As industrialisation based on import-substitution met with initial success, however, an ideology soon began to develop around the existence, expansion, and elaboration of import controls, a trend initially well in line with postwar development-thinking as enunciated by Paul Rosenstein-Rodan and subsequently Raúl Prebisch.

In the Philippines, Salvador Araneta, Hilarion Henares, Jr., and pre-eminently Alejandro Lichauco, represented a "nationalist school" that merged the then-prevalent "big-push" idea in development thinking with the ideas of political icons such as Claro M. Recto, Jose P. Laurel, Lorenzo M. Tañada, and Jose W. Diokno. The most consistent and forceful representative of this stream, however, against whose ideas those of others appeared diffuse and derivative, was Alejandro Lichauco, a lawyer, businessman, and delegate to the 1971 Constitutional Convention, who suffered imprisonment under the Marcos regime.

Lichauco's views were first stated at length in what became known as the "Lichauco Paper" [Lichauco 1973], first presented to delegates of the 1971 Constitutional Convention and then published internationally by P. Sweezy and H. Magdoff's *Monthly Review* press. The nationalist critique was directed against (a) colonial trade, which it identified with "free trade"; (b) liberal rules on foreign ownership; (c) monetary and fiscal austerity; and (d) the resort to devaluation or flexible exchange rates [Lichauco 1973:21-23], all of which were attributed to an actual conspiracy to keep the country underdeveloped and dominated by the us. Analytically, of course, the *purely economic* arguments were hardly novel: they reduced to a strategy of industrialisation at all costs behind protection, bordering at times on outright hostility to agriculture. Protection was to be achieved preferably through direct exchange- and import-controls and through tariffs at the least. Nationality restrictions on foreign ownership were equally important. Industries (especially "strategic" ones) were thought to be generally characterised by unrealised scale economies, which meant that productivity increases might be secured by reserving the home market through import-protection; exports to the world then follow.<sup>17</sup> The anti-agriculture bias was founded partly on the assessment (also elaborated by Prebisch) that opportunities for raising productivity in that sector were limited and that commodities and raw materials were subject to declining terms of trade. The country was seeking historically to escape the colonial pattern

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<sup>17</sup>This idea is incidentally far from unorthodox. The idea that protection may ultimately lead to exports has always been present even in mainstream literature. The argument may be based on scale economies or learning by doing.

of trade based on the export of commodities and natural resources, and agriculture historically was associated with the most conservative segment of Philippine society, the big-landlord class, particularly the sugar-bloc.

Beyond trade policy, the nationalist critique expanded to cover monetary policy (a bias for easy credit), exchange-rate policy (an opposition to flexible rates and devaluation, to the extent this made capital imports more expensive and cheapened domestic assets in the eyes of foreigners), and industrial policy (support for incentives to heavy or "strategic" industries). These policy-prescriptions are self-evident as long as one understands they were not meant to maximise consumer welfare but to achieve a different end: an independent state.

A good part of the misunderstanding of the nationalist school is due to its interpretation in purely economic terms. It is important to understand, however, that Lichauco's ideas were simply derived from the frank mercantilism of F. List and A. Hamilton [Lichauco 1988]. Thus viewed, nationalist economic arguments clearly cannot be divorced from a larger plea for national political unity and independence that was perceived to be threatened by foreign powers<sup>18</sup>. Lichauco's main appeal was for the government to fulfill its prime explicit duty, namely "the defence of the state" [Lichauco 1973:7]. In a later work, he would define nationalism more explicitly in purely mercantilist terms as "a philosophy of power, concerned with strategies, methods, and processes of building, developing and nourishing the power of a state as an organic entity. It is an outlook borne by the perception that a state must consciously cultivate and amass power for itself" [Lichauco 1988:3].

The longevity of the nationalist argument in Philippine national debate owes a great deal to its political lineage and its long association of with the rhetoric of the independence movement. This, however, effectively meant the conflation of economic and political principles and the spillover of political rhetoric to economic discussions. Hence, for example, the perfectly legitimate political principle of "Philippines for the Filipinos" was carried over as an *economic policy* for restricting foreign asset ownership. As long as economic issues are regarded exclusively from the viewpoint of rights and entitlements, however, no pragmatic discussion of strategies and tradeoffs is possible.

At a deeper level, the continuing misunderstanding between the liberal and nationalist views may therefore be traced to differing criteria for welfare. The liberal school largely adopts a utilitarian measure based on individualistic welfare depending primarily (though not exclusively) on private goods and services, i.e., consumer welfare. Implicit in the nationalist argument, however, is a communitarian objective, namely the survival and development of the nation-state, which is an objective superior to any individual's or even the entire community's consumption. The interest of the nation-state is transcendent and a priori, an argument not

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<sup>18</sup>This is the very interpretation of mercantilism Schmoller [1897(1967):76] suggests.

unknown to A. Smith, who agreed there are instances when "defence is of much more importance than opulence"<sup>19</sup>. In the language of Arrovian social welfare functions, however, the liberal-utilitarian tradition would view with deep suspicion any social preferences that were imposed and independent of individual preferences.

The nationalist school reached its zenith during the Garcia administration, when some of its key proponents such as Araneta and Henares exercised a heavy influence on economic policy as heads of the National Economic Council (nec). The nec elaborated what was initially an ad hoc system of import controls into a system of industrial priorities with a complexity approaching that of central planning. (The evolution of thinking behind the country's system of industrial priorities is examined in Bernardo Villegas's 1963 dissertation.)

Notwithstanding the extensive experience with controls in the 1950s and 1960s, however, the nationalist school attributed (as it still does) the subsequent failure of import-substituting industrialisation to the incompleteness and irresoluteness of protection and controls during that era.

By contrast, Golay [195:408] — who disagreed with the control regime, would explain the discrepancy between the postwar growth and the policies with which he disagreed by arguing that

the principal source of economic growth in the postwar Philippines has been the accelerated social change in attitudes and values which determine the 'will to economize' — the intensity of economic activity.

Nonetheless, it is also important to note that the idea espoused by the nationalist school were by no means a Philippine idiosyncrasy but received support from mainstream international experts as well.<sup>20</sup>

The relationship between the nationalist school and Marxism has always been close but complex. The nationalist school's influence is certainly to be explained partly by the adoption and dissemination by of its demands by the Marxian and socialist mass-movement, as represented by the Communist and Socialist Parties, in their various incarnations, from the 1930s onwards. Organizations like the Movement for the Advancement of Nationalism (man) gathered under its umbrella both Marxists and nationalists and allowed for the evolution of common positions, while Marxist intellectuals like Francisco Lava, Sr. would craft positions of nationalist politicians such as C.M. Recto. Especially after 1969-1970, it would have been difficult to understand the broad mass support for what was essentially a strategy that put implicit faith in the bourgeoisie if not for the lease on life breathed into it by

<sup>19</sup> This referred to Britain's Act of Navigation which restricted the import-carrying trade to British ships (Wealth of nations, Bk iv, Ch. 2).

<sup>20</sup> See, e.g., the description in Hartendorp [1961:355] of the industrial-priority formulas used at the time by the nec. Equally interesting, however, is that these formulas in some form also came to be contended by such development economists such as Dr. Benjamin Higgins, who served as consultant to the nec.

the Left mass movement.<sup>21</sup> The inherent tension and ambivalence between the nationalist and Left streams, however, was well expressed in the introduction by the Marxists Sweezy and Magdoff [Lichauco 1974: xiv], who noted that Lichauco's prescription for placing industrialisation ahead of agriculture would perpetuate mass poverty and that a truly socialist alternative would have instead "give[n] first priority to the living conditions of the impoverished".

It is important to appreciate the extent to which the left-bourgeois critique remains essentially bourgeois. This can be seen most clearly in the following: (a) the absence of an analysis of power relations and class struggle; (b) the virtual neglect of the extent, nature, and causes of misery of the masses; and (c) the advocacy of a scale of priorities in which first and overwhelming importance is placed on the development of industry. . . In essence, Lichauco argues that the evils of imperialism converge in the restraints imposed on industrialisation.

The theoretical underpinning of this approach is the typical "trickle-down" thesis, according to which the gains from economic growth eventually spread out to benefit the poor as well as the rich.

### **The Marxian contribution**

Since its beginnings in the 1930s, Marxist thought in the Philippines (as well as in other developing countries) had been converging on three themes: *First*, imperialism, or the monopolistic character and spreading influence of international capital, manifested in trade, bank lending, or investment ("globalisation" in current parlance). *Second*, the continuing underdevelopment or backwardness of the economy in spite or because of the first. *Third*, the urgency and imminence of a social revolution. The first theme was a direct adoption of the Hilferding-Lenin [1917(1970)] characterisation of the "monopoly stage" of capitalism as "imperialism"; this was a critique of advanced capitalism that it more or less shared with the nationalist school. The second theme formed part of a long-standing Marxist debate, over whether capitalism would indeed, as Marx had originally prophesied, "create a world in its own image" (i.e., turn the rest of the world capitalist), or whether it would actively work to keep the underdeveloped countries non-capitalist, as earlier Luxemburg [1971(1913)] and later Baran and Sweezy [1966] would contend. The final element, of course, was simply the pragmatic *raison d'être* of the revolutionary movement itself, but it was thought this should be viewed as conditional on the response to the second question.

By the 1970s, Marxian orthodoxy in the Philippines had settled on a characterisation of the Philippines as being "semicolonial and semifeudal", a formulation heavily influenced by Mao Zedong's analysis of Chinese society and culminating in the

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<sup>21</sup> This contention is based on the upsurge of the student movement known as the First Quarter Storm at about that time, at which point the main audience and bearer of the nationalist arguments would no longer be the business sector itself but students and intellectuals.

genious synthesis of Amado Guerrero<sup>22</sup> [1970]. As did the nationalist school<sup>23</sup>, Marxist analysis attributed economic underdevelopment to the continuation of the colonial relationship between the us and the Philippines, as manifested especially through a colonial pattern of trade, special privileges granted to foreign-owners, and macroeconomic policies conducive to this relationship. The persistence of colonial or neocolonial economic relations was thought primarily responsible for promoting the persistence of feudal or semifeudal property in agriculture and for stunting industrialisation under an indigenous capitalism. At the same time, the political system was regarded as having been co-opted, owing to the congruence of economic interests between foreigners and the local ruling classes, as well as through corruption and rent-seeking. "Imperialism, feudalism, and bureaucrat-capitalism" were a ubiquitous triptych known to every student activist in the 1970s. In analytical terms, however, none of this was entirely novel. Colonial relations, unequal land ownership, and graft and corruption had after all been well-known and accepted issues even in the prewar period. The use of Marxist categories, however, with the tight integration of history, political analysis, economics, sociology, and revolutionary strategy and tactics, endowed the Marxian argument with a breadth and coherence that lent it a remarkable persuasive power.

Not only in the Philippines but elsewhere, Left political-correctness during the Cold War period demanded that "us imperialism" or "neo-colonialism" be identified as the main reason for underdevelopment (later expanded to include multilateral financial institutions). Hence underdevelopment could be explained primarily through exogenous factors. Where political conspiracy theories sufficed, a more careful analysis of domestic conditions was less urgent. In addition, the egregious growth that was Latin American "dependency theory" by André Gunder Frank, Immanuel Wallerstein, and others went so far as to posit a simple inverse relationship between development in the developed and in the underdeveloped countries.

In the Philippines, a "mode of production debate" flared up among Left intellectuals from the late 1970s to the mid-1980s (e.g., Rivera, Magallona, et al. 1980), which turned around the question of whether the Philippines had in fact become "capitalist", or had remained "feudal or semifeudal". The debate was provoked by the economic-historical work by the dependency-theorists Fast and Richardson

<sup>22</sup> "Amado Guerrero" was the nom de guerre of the chairman of the Communist Party established in 1968, believed to be José María Sison.

<sup>23</sup> It is interesting, especially in the light of the close association and de facto alliance between the nationalist school and the Left, that Lichauco acknowledges no intellectual debt to Marxism. The index of Lichauco [1988] contains no entry under Marx or Marxism. Nor, despite the prominent use of the word "imperialism", is there any reference to the theoreticians of imperialism such as Hilferding and Lenin, or even the bourgeois Hobson. This circumstance may have possibly been due to the desire to avoid the stigma of association with Marxism, with the practical difficulties that entails in an illiberal era. For it is known that socialist intellectuals such as Francisco Lava, Sr., I.P. Soliongco, and Renato Constantino, Sr. heavily influenced the ideas of nationalist politicians, including Recto (see, e.g., Dalisay [1999:129]).

[1979] that sought to show that the Philippines as early as the 19th century had decidedly come under capitalist influence. The dispute was perhaps more vehement than warranted because its participants believed its outcome impinged on a *political* question, namely, whether the Left ought to campaign for a socialist economy, or — as the orthodoxy maintained — one that provided space for the growth of a national bourgeoisie under “national democracy”, an idea inspired by Mao’s “new-” or “people’s-democracy” as a necessary transition before full socialism. Part of the political context was the accommodation between the old communist party and the Marcos regime, which could be justified by the argument the regime was in the process of implementing the capitalist transformation the revolution initially demanded.

Dependency theory, however, never won a following in the Philippines quite as large as it did in Latin America. This owed partly to the political dominance of the mainstream Left and the premium it placed on orthodoxy. The mode of production debate, however, compelled local Marxists to conduct deeper analyses of a dual economy. In addition, Marxism in the Philippines was constrained to show how the “semicolonial, semifeudal” formula could be rendered compatible with developments well beyond those predicted by the tight Guerrero synthesis, including: (a) the obvious growth of wage relations, even in agriculture, as links with developed capitalist countries expanded, contrary to the prediction of the retention of feudal relations; (b) the demonstrable economic success of the newly industrialising economies rather than uniformly increasing misery;<sup>24</sup> and (c) the Philippines’ own failure to industrialise. An even weightier challenge to the Marxian research programme, however, would subsequently come from the collapse of the socialist bloc and the re-introduction of capitalism in China. The challenge was whether this could be accomplished within the rigid bounds set by orthodox terminology and the exigencies of leading an on-going mass movement. In general, the attempts were far from successful, and the waning influence of Marxist analysis in subsequent years had much to do with the failure of that framework to absorb increasing masses of new facts, such as those cited above. A notable exception was the work of Ricardo Ferrer.<sup>25</sup> As a partisan of the mainstream Left, Ferrer was concerned to respond to the challenges of both dependency theory and recent global developments while posing the least disturbance to orthodox framework and terminology. Relying on classical Marxian concepts (as found especially in the Preface to *A contribution to a critique of political economy* and the *Grundrisse*), he sought support for the idea that the country could not bypass a stage of indigenous capitalist development and industrialisation, as the “national-

<sup>24</sup> This, of course, also flew in the face of the simplest predictions of dependency theory.

<sup>25</sup> Ricardo D. Ferrer was a silent but important intellectual influence on the Left. His career has spanned involvement in the political underground and imprisonment under the Marcos dictatorship, a stint with the government planning agency, and many years of service on the faculty of the up School Economics until his early retirement in 1998.

democratic” movement insisted (e.g., Ferrer [1984]).

In many ways, however, Ferrer’s performance was reminiscent of J.S. Mill’s, who sought to defend and preserve Ricardo’s labour theory of value, but ended up recasting it altogether. First, in refuting the idea that the country was already in fact capitalist (and therefore that socialism was on the immediate agenda), Ferrer [1984] went beyond the customary criterion of the existence of generalised commodity exchange and wage-relations and instead required that capital be capable of expanded reproduction. Second, in defending the relevance of the concepts of feudalism and semifeudalism, he effectively broadened the significance of those terms to include not only agricultural rent extraction but analogously all “extra-economic” means of exploitation based on rents, including industrial monopolies and cronyism, the contrast being drawn with the progressive drive for innovation associated with competitive capitalism<sup>26</sup>. This line of argument, however, had the effect of refocusing attention primarily towards *internal* reasons for the failure of development in the Philippines as compared with other countries, rather than through a mechanical allusion to imperialism. From an analytical perspective, moreover, Ferrer performed the distinct service of linking Marxian analysis with the emerging institutional and transactions-cost economics. He therefore indirectly called attention to the fact that parts of Marx’s economics had actually anticipated many of the ideas later developed by Ronald Coase and Douglass North<sup>27</sup>. This attempt to preserve Marxist orthodoxy therefore had the effect ironically of bringing its themes within the fold of mainstream discourse. This circumstance was significant in facilitating the smooth entry of many Marxist intellectuals into mainstream economics.

### The new guard

Compared with the nationalist and Marxist traditions, the current — primarily neoclassical — mainstream of economics profession in the Philippines is of relatively recent origin. *Neoclassical economics* is used here in the broadest sense to refer to those streams in economic theory that are founded on methodological individualism and the assumption of rational (optimising) behaviour as the basis for explaining smaller or larger phenomena. Hence it encompasses streams that conclude such individual self-interested behaviour typically leads to beneficial social outcomes (liberal or *laissez-faire* schools) as well as those that do not (e.g., New Keynesian theory with microfoundations).

Before the second world war, there were very few people with formal graduate education in economics. Only starting in the late 1950s did a significant number leave to pursue graduate economics degrees abroad (almost exclusively in the us

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<sup>26</sup> This is contained in Ferrer [1991] whose publication date belies its earlier conception.

<sup>27</sup> It is not sufficiently noted that the Coase’s classic article [1937] on the nature of the firm makes exactly the same distinction Marx made in *Das Kapital* between market and employment relations. On the other hand, Douglass North had a Marxist background.



and a good number from Harvard). Writing in 1962, Fabella [1962:5-6] estimated there were still no more than "a dozen" phds in economics in the country, five of whom were at University of the Philippines(UP). He traced the high demand for economics training to the shift in economic strategy of the government towards greater planning and intervention, and the need among business people to comprehend and anticipate economic policy:

It was only as an aftermath of World War II that an understanding of national economic activity became a requisite portion of higher education, especially in the field of business, where the imposition of controls in 1949 gave rise to a demand for economic training as part of the talents which any businessman must possess to compete in a centrally-directed economy. It was during the decade of the 50's that an increasing number of graduates left yearly for abroad to obtain higher degrees or further training in economics.

The government itself came to realise that economic research was becoming too specialised and could no longer be performed on an ad hoc basis. The need for coordinated economic research came to be felt since the mid-fifties, and the idea of establishing an economics research institute was endorsed by President Ramon Magsaysay in his state of the nation address in 1956, as well as the National Economic Council in its five-year development programme. In 1957 therefore the Institute of Economic Development and Research was established, headed by Jose Velmonte (succeeded by A. Castro in the next year), as an independent unit of the university. Postwar rehabilitation provided the impetus for the university to send many of its faculty abroad for advanced degrees, including those in economics, a new area of evident importance considering the country's contemporary drift towards controls and planning.

The first of the postwar batch who returned with advanced degrees from the Ivy League were Amado Castro (Ph.D 1953) and Benito Legarda, Jr. (Ph.D 1955), both from Harvard. Somewhat later would come José Encarnación (phd 1960, Princeton), Placido Mapa, Jr. (Ph.D, 1961, Harvard), Gerardo Sicat (Ph.D 1963, mit), Bernardo Villegas also completed a phd from Harvard in 1963 but returned to the country somewhat later. Together with Jesus Estanislao, Villegas would be pivotal in the establishment of an economics programme at the Center for Research and Communication (later the University of Asia and the Pacific). The first woman to obtain a phd in economics would not come till 1967: Edita Abella Tan (Ph.D 1967, UC Berkeley). Many others who became notable practitioners completed master's degrees in economics (e.g., Quirico Camus, Sixto K. Roxas, and Armand Fabella) from this period or, like Jaime Laya and Manuel Alba, finished advanced degrees in finance.

The first dissertations by Filipinos in economics during this period dealt with the economic development of the Philippines, treating the subject largely using economic history: Castro, writing on foreign trade, and Legarda writing on the

development of entrepreneurship, would count among the country's respected authorities on economic history. Beginning with Encarnación, however, a marked change would be evident as dissertations shifted from historico-descriptive analyses to increasingly quantitative-abstract approaches. This reflected a methodological shift occurring globally in the discipline itself towards the greater use of mathematical models and the demand for empirical testing through the emergent econometrics. More than anything else, perhaps, this increasing differentiation in methodology was the single important factor that would distinguish the newly minted postwar economists from their academic predecessors, as well as from the commercial and political "men of affairs" who had approached economics from a purely pragmatic angle.

This differentiation may be seen in the history of the organisation of the Philippine Economic Society. A precursor in the pre-war period was the Philippine Economic Association, formed in 1933 and headed by Elpidio Quirino, which was 'concerned with the problems of the independence movement. Consequently it came up with a document entitled 'Economic problems of the Philippines' describing the transitional changes the Philippine economy had to initiate as it approached independence" [Sicat 1974:2]. This counted for something less than a professional organisation of economists, however.

The first effort to form an organization of professional economists took place only after the war. The postwar batch of Filipinos returning from postgraduate training in the US had formed a loose group called the Social Economy Association, which included other social scientists.<sup>28</sup> The economist core of this association was strengthened by a joint research project between the Social Economy Association and Columbia University on *Joint international business ventures* [Ahrendorf et al. 1958], one of the first works on foreign direct investment. This work contributed to the discussion of impending nationality requirements in foreign investments under the Garcia administration, which ultimately led to the 60-percent Filipino rule. The sea economists supported the idea of joint ventures on a voluntary but opposed nationality requirements.

Ultimately the trained economists in the sea sought an even clearer differentiation of their profession and felt that a critical mass was present for an organisation restricted to economists. An international conference on development problems at up in 1960 provided the occasion for a group from the International Economic Association (iea) to visit the country.<sup>29</sup> This visit and the prospect of accession to the iea provided an immediate impulse to the formation of an association

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<sup>28</sup> This was not the only attempt. In late 1954 H. Lava participated in the establishment of the Philippine Society of Economists, Statisticians, and Accountants to help "labor, peasant and other progressive organizations by offering technical aid in the solution of their problems [Dalisay 1999].

<sup>29</sup> Sicat [1974:4] reports that the IEA group included Howard Ellis, E.A.G. Robinson, Kenneth Berrill, Luc Fauvel, and Helène Berger Lieser.

drawing its members exclusively from the ranks of economists.

In 1961 therefore the Philippine Economic Society (PES) was formed, although it was not formally registered with the Securities and Exchange Commission until August 1962. The society drew its ranks from among of the new breed of economists. The officers were as follows: Fabella<sup>30</sup>, president; Castro, vice-president; Roxas, secretary-treasurer, and Benito Legarda, Jr. editor of the *Philippine Economic Journal* (PEJ). Other founding members included Michael McPhelin, S.J. from the Ateneo de Manila (a contemporary of Paul Samuelson at Harvard), Sixto K. Roxas, and Quirico Camus.

A major factor in professional definition and development was the decision by the PES at its very founding to establish the *Philippine Economic Journal*, which Sicat [1978] unhesitatingly called "the major achievement" of the PES. The journal's first issue appeared in 1962 under the editorship of Benito Legarda, Jr. Subsequent issues would contain report on the proceedings of symposia and conferences dealing with current issues or with topics of professional concern to economists, including macroeconomic models (1971) manpower and human resources (1973), labour absorption (1976), agriculture (1977), household economics (1977), and poverty (1979).

### **The growth of a profession**

The composition of the PES membership reflected the spread of the economics profession at the time Sicat (1974:7) Describe the membership as a "trpod", representing a mix from academe, government, and business. The formation of the PES was a milestone in redefining the category of professional economist. Sicat recalls that "there was a very active policy of restricting members because there had been a strange feeling among the educated economists who had returned that the Society, in order to thrive, should not be so open as to include everyone who thought himself to be an economist." In recognition of reality, however, the criterion for membership was set somewhat lower: the requirement of a bachelor's degree in economics. In practice, moreover, the actual profession of economics in the sense of doing research and analysis on a more or less full-time basis, was confined largely to the first two "legs". The government "leg" had already been boosted with the establishment of the Central Bank of the Philippines and the Programme Implementation Agency (PIA) under the office of the President, which would later be merged with the National Economic Council (NEC) to form the National Economic and Development Authority (NEDA). Fabella the first PES president, was head of the PIA, while Legarda, the PEJ's first editor, as with the central bank. By contrast, the wide use of economics and employment of economists in the

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<sup>31</sup> Sicat was succeeded by the following secretaries of socio-economic planning: Placido Mapa, Jr., Vicente Valdepeñas, Solita Collas-Monsod, Filologo Pante, Jesus Estanislao, Cayetano Paderanga, Cielito Habito, and Felipe Medalla.

ivate sector would not emerge until the 1980s.

The old NEC had been typically headed by prominent business people or entrepreneurs. On the other hand, the PIA, which subsequently became the Presidential Economic Staff, was the core of what subsequently became known as technocrats. During Marcos's term, the PIA and the NEC were merged to form the NEDA, with G. Sicat as its head. The appointment itself of Sicat was therefore a break in tradition where NEC was headed by prominent personalities in business or finance. Sicat was among the first "technocrats", people recruited into high government positions based on formal professional qualifications. Others major technocrats were Cesar Virata (a former business professor, member of the old Social Economy Association and the PES), who would rise to minister of finance and prime minister under Marcos, and Jaime Laya, also an ex-business professor, later minister of budget, central bank governor, and education minister. Sicat's own performance as chair of the NEC and later director-general of NEDA, established the tradition that henceforth, the secretary of planning would be a professional economist with an advanced degree.<sup>31</sup> Curiously, this domain of the professional economist has been reserved only in the case of the NEDA. Other economic ministries such as finance, budget, and especially the central bank, which in many developed countries are most self-evidently given over to professional economists, have only sporadically been led with people with formal economics training.

Apart from academe, a demand for more people with a capacity for economic research arose from government. With the absorption of the Institute of Economic Development Research (IEDR) into the UP School of Economics in 1965 and its dual harnessing for academic research and support for graduate instruction, another institution became necessary to respond to the government's specific demands for research in support of policy-formulation. The Philippine Institute for Development Studies (PIDS) would henceforth be the principal source of economic-policy research. Established in 1978 at the initiative of G. Sicat, then director-general of NEDA, PIDS initially grew from its links with the academe, whose graduate programmes produced a constant stream of research economists. This symbiosis was also evident in the topics of directed dissertations and theses that formed the basis of policy-research (e.g., on trade and industrial policy, urbanisation, and econometric planning models, among others). Significantly for the profession, the PIDS — together with NEDA to which it was attached — provided a small but distinct career path in government for people with advanced economics degrees, withstanding the absence of an economist category under the civil service.

Only since the 1980s has the business sector come to employ the services of a

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<sup>31</sup> Sicat was succeeded by the following secretaries of socio-economic planning: Placido Mapa, Jr., Vicente Valdepeñas, Solita Collas-Monsod, Filologo Pante, Jesus Estanislao, Cayetano Sanga, Cielito Habito, and Felipe Medalla.

significant number of professional economists, whether by contract or in-house. Forecasting services and industry analyses, including cost-benefit techniques, were the typical skills required by the largest manufacturing firms, banks and financial institutions, and government corporations. The idea of profitably catering to this growing business demand as a byproduct of academic training was early recognised by the Center for Research and Communication (later associated with the University of Asia and the Pacific), which sought to provide basic macroeconomic forecasts independent of those of the government. In the 1990s, private consulting firms and securities brokerages (at least until the Asian crisis) further expanded private sector demand for professional economists.

Even today, however, typical business demands for macroeconomic forecasts have remained rudimentary and myopic, rarely requiring more than year-ahead point-estimates of such variables as output growth, inflation, the exchange rate, and nominal interest rates. Questions of proper methodology are seldom, if ever, raised, the focus being on final results. Interesting institutional and game-theoretic reasons will undoubtedly be implicated — e.g., the planning cycles and bureaucratic imperatives within firms, matching-pennies situations, and rational expectations — but the formal explanation still needs to be written of how and why markets cannot seem to have enough of economic forecasts and forecasters, regardless of their spotty record.

### Theory and teaching

The contribution of José Encarnación, Jr. [1928-1998] to the emergence of the economics discipline and profession in the Philippines cannot be overstated. Encarnación was originally part of a core of brilliant philosophy faculty at the UP headed by Ricardo Pascual. Many of this group, including Alfredo Lagmay, Cesar Majul, and Encarnación himself, were sent abroad for advanced studies in different fields as part of the university's plans to strengthen new departments. As a graduate student at Princeton, Encarnación became the first Filipino to publish in an international economics journal.<sup>32</sup> With Encarnación's achievement, the gap in discourse between economics in the Philippines and the discipline's frontier — which still spanned a hundred years in Sancianco's time — all of a sudden vanished symbolically.

Encarnación's dissertation on investment criteria was the first to be submitted by a Filipino on a primarily abstract-theoretical topic. It also contained the seeds of the theory of hierarchical or "lexicographic" preferences, a concept that Encarnación would, in the words of Richard Day [1995] "almost single-handedly develop and

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<sup>32</sup>This was Encarnación [1958]. He was also the first to publish in an international philosophy journal, *Mind*.

defend". Lexicographic preferences<sup>33</sup> are a way of describing how individuals and groups make decisions when confronted with multiple goals or priorities. Compared with the standard model of subjective expected utility theory, which notoriously ran into "paradoxes" in experiments, lexicographic preferences were a patently better description of how people actually behaved. A good part of Encarnación's theoretical writing was dedicated to demonstrating the wide applicability and fecundity of this way of modelling behaviour in various situations (e.g., consumer choice, group choice, arbitration, and principal-agent literature). He would also contribute to growth theory, macroeconomics, econometrics, and demographic economics.<sup>34</sup> Encarnación's outstanding publications record would earn him election in 1979 to the National Academy of Science and Technology. In 1987 he would be conferred the title National Scientist, the country's highest scientific award, the first and still the only economist thus far to be so honoured.

But while the significance of the idea of lexicographic preferences was universal, its audience was primarily the discipline's international high-priesthood, namely those who worked in the field of theoretical economics. In the meantime, the urgent need was for a radical improvement of university economics to approach a global standard, and for policy research to assist in government policy design and decision-making.

The first graduate programme in economics leading to both an MA and a PhD was set up in 1951 at the University of Santo Tomas; one of its notable Ph.D graduates was President Diosdado Macapagal. The Ateneo followed suit by setting up an MA in 1952. Both cast in an older tradition and lacking critical faculty mass, however, neither programme would play a major role in reshaping the profession and would have to wait for later developments. The "big push" in academic teaching and research came instead when the UP School of Economics (UPSE) was formed in 1965 through a merger of the IEDR and the department of economics formerly under the UP College of Business Administration. A. Castro was the first dean with J. Encarnación as department chair as well as being in charge of graduate instruction. Encarnación would head the UPSE as dean from 1975 until his retirement in 1995, and to him must go the principal credit for setting and maintaining the high standards of graduate-economics instruction in the Philippines. The UPSE graduated its first two MA students in 1965-1966 and its first Ph.D in economics in 1975. From that time until 1997, the programme would produce a total of 63 PHDS

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<sup>33</sup>The term "lexicographic" itself refers to the process of choosing among alternatives by successive comparisons of their characteristics from the first to the least important, just as words are ordered and sought in a dictionary according to their first letters, then their second letters, and so on. The mathematician Felix Hausdorff first used the term in 1919 to describe the ordering of decimal numbers.

<sup>34</sup>For a listing of Encarnación's publications, see the Appendix of de Dios and Fabella [1995].

and 598 MA -holders.<sup>35</sup>

The new breed had to put up in the matter of undergraduate teaching as well. A line was figuratively drawn between the old and the new traditions in economics when, in the second issue of the *PEJ*, Encarnación [1962] wrote a withering review of a book written in the older style. The "review" consisted of nothing more than a verbatim reproduction of loose and curious definitions the authors provided, which properly trained economists would have easily spotted. Up to that time, there were any number of economics textbooks of uneven quality written for university use, but the uneven quality of all these had been tolerated as among gentlemen of an older school. Encarnación's review broke ranks and gave fair warning that mediocrity would henceforth no longer be tolerated.

The gap between new and old thinking was evident in the difference between earlier textbooks and the introductory economics text written by Sicat, Encarnación, et al. [1965] for undergraduate use. As department chair, Encarnación organised the writing of a text for use in the introductory economics classes. Edited by G. Sicat, the work was a landmark in bringing together well-known authorities to contribute chapters dealing with development issues, including O.D. Corpuz (economic history), A. Castro (foreign trade), G. Sicat (industrialisation and national accounts), and T. Mijares (national income accounts), A. Kintanar (public finance), M. Concepcion (population) and foreign scholars then visiting at the state university.<sup>36</sup> The rigorous treatment of these subjects signified a distinct leap in standards demanded in the teaching of economics. A notable performance was Encarnación's own concise chapter on elements of economic theory, in which he covered consumer theory using indifference curves<sup>37</sup>, the theory of the firm, a presentation of Keynesian employment determination using a diagram of E.O. Edwards, and the Harrod-Domar growth model — all these in only 59 pages of sparse typescript. None of these topics, of course, had up to that time been customarily treated in undergraduate texts<sup>38</sup>, and the book's failure to win a wider circulation outside the state university was undoubtedly due at least partly to the level of difficulty it presented to the average economics teacher and student. But this was simply an indication of Encarnación's uncompromising attitude towards quality — and a measure of the distance between old and new traditions. Since that time,

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<sup>35</sup> In addition to ust, Ateneo, and up, significant graduate programmes would also be set up by the University of Asia and the Pacific (formerly Center for Research and Communication) in 1970 and De La Salle University in 1982.

<sup>36</sup> These included R. Hooley, K.W. Kapp, T. Ruprecht, V. Ruttan, and G. Sirkin.

<sup>37</sup> It is also notable that Encarnación in completely avoided the term "utility", "marginal utility" and the notion of utility functions, in an obvious effort to put the teaching of consumer theory on a more current footing.

<sup>38</sup> Indeed, foreign introductory texts would not customarily use indifference curves to explain demand until later. In Samuelson's famous textbook, for example, the indifference-curve representation of consumer choice has always been relegated to an appendix. Significantly, this is probably the only instructional material Encarnación ever published.

however, an increasing number of local textbooks would be written that incorporated more respectable level of analytical content, and modern foreign textbooks would increasingly be adopted for use in more universities. Nonetheless, what continued to be absent was an integrated and comprehensive treatment of theory and problems of Philippine development. The only serious effort to fill this gap to date has been G. Sicat's introductory economics textbook, which appeared in 1981, and had the unique distinction of being translated into Bahasa for use in Indonesia.

Crucial to the development of the *UPSE* and the profession as a whole was the constant stream of foreign scholars who taught or did research for longer or shorter periods throughout the 1960s and 1970s, supported by the Ford and Rockefeller Foundations. Among foreign scholars who made significant contributions were Frank Golay, who maintained a lifelong interest in the Philippines and wrote an important early book on policy-making in the import-substitution era [Golay 1961]<sup>39</sup>; Vernon Ruttan, who was well known in the economics of agriculture; and John Power, who would collaborate to produce influential studies on effective protection and domestic resource costs [Bautista, Power, et al. 1979]. Jeffrey Williamson would write long-run determinants of growth among others; Richard Hooley would analyse saving, capital formation, and the first available flow-of-funds; George Hicks would be remembered particularly for his work on the coconut industry. Especially lasting, however, was the influence exercised by Harry T. Oshima [1917-1998] of the University of Hawaii, who served for many years (1972-1991) as visiting economics professor in *UP*. Apart from teaching and doing his own research on the development consequences of East Asia's monsoon rice agriculture [e.g., Oshima 1989] and on inequality, Oshima played a key role in graduate teaching and as local representative of the Rockefeller Foundation, he mobilising financial support for Filipinos studying for advanced economics degrees in prestigious American universities. Still other well-known foreign scholars who came were Robert Lampman, Douglas Paauw, Nathan Rosenberg, and Theodore Ruprecht, among others. Visiting researchers from Japan also included, among others Yujiro Hayami, who would study agricultural productivity and land tenure systems, and Kunio Yoshihara, who studied the ethnic and family factors in economic development, among others.

Foreign foundations, particular Ford and Rockefeller, demonstrated a generous and long-standing commitment to economics education throughout the 1960s and the 1970s which facilitated the visit of a large number of foreign scholars. Particularly important in this period was the *UPSE*-University of Wisconsin (Madison) Programme in Development Economics (PDE), at which a continuous stream of visiting foreign professors lectured. A brainchild of Agustin Kintanar, the PDE was meant to improve the state of economics knowledge and skills among practising planners in government, given that the output of formal economics graduate

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<sup>39</sup> Golay's 1954 book contains an excellent bibliographical essay covering the 1950s.



programmes would be low and slow in coming. Visiting international scholars brought in by such ventures served directly to set a quality standard in teaching and research in their fields of expertise. More broadly, however, their presence allowed for a wide-ranging exchange and collaboration with local scholars that permitted the latter to measure their work against an international standard.

### **The export-industrialisation option**

From about 1967, Gerardo P. Sicat began a comprehensive and continuous critique of the dominant import-substituting industrialisation policies in the form of a series of academic discussion papers (a number of which were eventually published in Sicat [1972]). The critique was based loosely on the neoclassical model (Heckscher-Ohlin-Samuelson) of international trade, as applied to a developing country, although the full employment assumption was jettisoned in favour of a labour-surplus characterisation of the economy. Protectionism distorted commodity prices as well as distorted factor prices (Stolper-Samuelson), i.e., cheapening capital and making labour more expensive, with deleterious effects on employment. Beyond employment effects, however, the critique also traced the consequences of the ISI strategy on the recurrence of balance of payments difficulties (hence macro-economic instability), skewed income distribution, rural-urban migration, industrial concentration, the character of foreign investments, and uneven regional development, among others. This analysis, therefore, had the benefit of providing an entire scientific research programme which could be further elaborated. This analysis would ultimately become government orthodoxy (at least rhetorically) upon Sicat's appointment by then President Marcos as chair of the National Economic Council in 1970 and secretary of planning. As Sicat [1972: vii] himself modestly put it, his writings "had a share in changing the direction of thinking and discussion of economic policies".

Sicat was the among the earliest and most consistent proponents of export-oriented industrial development for the Philippines in emulation of the emergent success of Taiwan, Hong Kong, and South Korea. The earlier aversion to exports had been based on the assessment of the poor prospects for the existing traditional exports. The new idea in the proposal was that exports orientation would deliver exactly what ISI had promised but failed to deliver, namely industrialisation. Such arguments became more persuasive with the demonstrated success of what are now known as the newly-industrialising economies (NIES), and a major study by Sicat and Power was an assessment of the Philippines' industrialisation policies for a multicountry Overseas Economic Cooperation Development (OECD) study that included Taiwan for comparison [Power and Sicat 1971].

The argument for a change in economic direction was supported by research of other economists (based mostly at UP). upse kept up the policy debates by regularly publishing surveys of important economic sectors surveying decades (e.g. Sicat [1962], iedr [1972], and Encarnación [1976]). The critique of the isi strat-

egy approached what amounted to a scientific research programme (srp) that generated a series of theories to occupy many economic researchers (see also the discussion of research below).

The scale of discussion acquired a new dimension with the publication of the "Ranis Report" [ilo 1974], a work commissioned by the Philippine government through Sicat's NEDA<sup>40</sup> with the support of the department of labor and completed by a team of prestigious economists led by Gustav Ranis of Yale<sup>41</sup>. The Report emphasised the importance of generating employment, especially in the rural sector, and the value of expanding exports as a means of doing so. Analytically, this Report drew from the previous work of Fei and Ranis, which dealt with the possibilities of absorbing the labour surplus in the rural sector through industrial employment. This was followed by the World Bank's own country economic report, before a joint World Bank-imf meeting to be held in Manila.

At least on the surface, the International Labor Organization (ILO) and World Bank reports continued a tradition of "agenda-setting" by foreign experts that had begun with the Bell Report. As the citations showed, however, the work by then involved not only foreign talent, but relied heavily directly or indirectly on the previous research work of Filipino scholars, particularly those from up, an arrangement started and encouraged by Sicat. Related to this is the view of some officials of the government and of the imf and the World Bank, who maintain that the conditionalities imposed by the latter institutions served merely as external supports to tilt domestic policy debate towards what were already pre-existing domestic policy-proclivities. The idea would not immediately fade, however, that a good dose of prominent "names" in the profession might sometimes be necessary to steer crucial domestic economic debates.

The export-oriented industrialisation strategy and the rise of the technocrats became associated with the dictatorship and were depicted as a foreign imposition by Left and nationalist critiques (e.g., Bello et al. [1982] and Broad [1988]). What is probably true is that the change in earlier stated economic policy would have been more difficult without the role of technocrats such as Sicat, and that such people would have had gained much less prominence and policy-influence under political conditions before the dictatorship. However, whether the dictatorship indeed consistently adhered to the requirements of a serious export-promotion strategy remains a matter for debate. Even Left and nationalist critiques of the Marcos period profess to see distinct phases: an earlier one during which the regime seemed to adhere more or less to an eoi strategy, and a later one marked by strong tendencies towards intervention, cronyism, and monopoly. The growth of social opposition —

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<sup>40</sup> According to Sicat, his initiative to commission the study was supported by Blas Ople, then labour minister, "who wanted to influence labour issues".

<sup>41</sup> Other "name" participants included Albert Berry, Mark Blaug, John Fei, John Power, Maurice Scott, Stephen Resnick, and Erik Thorbecke. Filipino social scientists involved included Romeo Bautista, Gelia Castillo, Mahar Mangahas,, and Edita Tan, among many others.

especially after the assassination of Senator Benigno Aquino, Jr. in 1984 — and the subsequent change in regime swept away the first-generation technocrats, who came to be regarded as fig-leaves of social rationality in a regime whose agenda with a much narrower and self-interested agenda.

It is significant, however, that the end of the dictatorship did not result in a radical break in the direction of stated economic policy, but rather a remarkable continuity. This process was due partly to the analysis of the reasons that the Marcos regime's economic policies failed. Although the nationalist and Marxist schools would think otherwise, the mainstream analysis prevailed, which traced the economic failure under Marcos to too little — rather than to too much — competition and liberalisation, especially in the later part of its term (e.g., de Dios [1984] and Dohner and Intal [1989]). Indeed, the consensus analysis was that the rapid expansion of debt under Marcos caused currency overvaluation — a strain of the Dutch Disease — which in turn crowded out labour-intensive exports and direct foreign investments into these industries. The debt-expansion, on the other hand, was abetted by corruption and the regime's perverse incentives, resulting in poor investment choices.

A second reason for policy-continuity, however, was the homogeneity of economic opinion in mainstream economics itself. Needing their own technical people, the Aquino, Ramos, and Estrada governments replaced the Marcos-appointed technocrats with others with the same professional training and who shared the same paradigm. While policy-differences would arise over debt and short-run macroeconomic policies, the professional mainstream economists shared a remarkably unified overall analysis of the country's development problems, particularly in the matter of the liberalisation of trade and the promotion of domestic competition, which would be carried out from the late 1980s throughout the 1990s. The homogenization of the economics profession through the schools and through this the continuity of economic policy and rhetoric in the country vindicates Keynes's dictum that it is ultimately "ideas, not vested interests, which are dangerous, for good or evil".

#### *Changing research methods*

Apart from reforming economics education, the new generation of economists also proceeded radically to change research practice with the introduction of abstract-mathematical reasoning and quantitative statistics and econometrics. From hindsight, three influences usually converged to determine whether certain areas or issues became important: (a) their social importance or relevance to policy; (b) the presence of a (preferably novel) theoretical framework or technique to drive researcher interest; (c) the availability of data to permit empirical work.

Before the 1960s, it would have been difficult for an econometric tradition to prosper, owing, first, to the insufficiency of people trained in this tradition, and second, to the general unavailability of economic statistics. It was only in 1951-

1952 that the first of an annual series of national-income accounts (for the year 1950) prepared under William Abraham<sup>42</sup> and with the support of the United Nations. Before this, national income estimates existed only for two years: 1938 and 1949. The longest series of annual national statistics pertained to foreign trade (from 1831). Indices for consumer prices had been collected since 1937 and industrial and agricultural wage indices were calculated from 1941. Annual data on the physical output of important crops were also available. With independence and the establishment of the central bank and annual series became available for fiscal, monetary, and balance-of-payments variables.

#### *Macroeconomic models*

From 1965 onwards, various macroeconomic models of greater or less generality began to be constructed by foreign institutions and scholars (mostly to estimate foreign aid requirements), notably models by Paauw and Cookson (1965), the two-gap model of Chenery and Strout (1966), Shibuya and Yamashita (1968), the World Bank and unctad. (See Velasco [1980] for a review of these and subsequent models.)

What proved to be the most significant macroeconomic model, however, was that developed by Encarnación, Mariano, and Bautista [1971], a model with eight behavioural equations, three identities, eleven endogenous, and five exogenous variables. For purposes of planning, this was later expanded into an 83-equation projection model [Encarnación, Bautista, Mangahas, and Jurado 1972], with submodels for the monetary sector, foreign trade, production, and government. The 1972-1976 development plan prepared by neda was the first to be explicitly informed by the results of an econometric exercise. Thereafter, the use of large macroeconomic models would become a regular feature of planning exercises at neda, done in coordination with the academe and subsequently the Philippine Institute for Development Studies (pids), which was formed in 1978.

#### *Inter-industry analysis and general equilibrium*

The first input-output table for the country was constructed for 1961 under the Bureau of Census and Statistics, a result of work by Tito Mijares. Following the work of H. Johnson and B. Balassa, Vicente Valdepeñas subsequently used these tables to generate the first estimates of effective rates of protection in his 1969 dissertation (published as Valdepeñas [1970]). These empirical estimates enriched the already heated debate over the protection structure. Even more influential in this respect was the large-scale attempt by Romeo Bautista, John Power, and their graduate students [1979] to estimate effective rates of protection and domestic resource costs for industries. This work was key in demonstrating the inefficiency

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<sup>42</sup> Abraham's dissertation submitted in 1954 to Columbia studied national income measurement problems focusing on the Philippines.

of protectionist policies and was persuasive in policy debates. Work along the same lines was continued almost as an institutional obligation by the pids for many years.<sup>43</sup> As this case also demonstrates, the confluence of a ready theoretical framework, data, and policy relevance largely explains the fate of a research area.

Apart from partial-equilibrium uses, such as the computation of effective protection and domestic resource costs, input-output tables did not initially command a good deal of research attention. This changed when computable general-equilibrium (cge) algorithms became available. At that point interindustry relationships could be modelled both in detail and in a way that was theoretically defensible from a neoclassical viewpoint. Following a global trend, a number of dissertations and papers by Filipinos were completed in this field, notably by R. Clarete (1984, Hawaii) simulating the effects of trade distortions, and C. Habito (1984, Harvard) investigating tax policies. (See also the December 1989 issue of the *Philippine Review of Economics and Business (PREB)*, which excerpts some dissertations written in the Philippines.)

#### *Cross-section work*

Large scale cross-section empirical work has been dominated since the 1970s by studies of income distribution, poverty, and inequality, and demographic determinants. Again this was stimulated by the availability of statistics, the most important being the series of nation-wide family income and expenditure surveys, conducted by census and statistics authorities<sup>44</sup> approximately every five years since in 1961 and every three years since 1985. Nationwide demographic surveys, on the other hand, were conducted every five years beginning in 1968. Work in the 1970s broke new ground in the Philippines through the application of decomposition techniques (within- and among group differences) to analyse income inequality, the experimentation with and refinement of poverty-threshold definitions, and the use of subjective poverty indicators. (See Mangahas and Barros [1970] for a survey). This body of work succeeded in raising the poverty issue in the national consciousness and at one point earned the ire of the Marcos dictatorship. The lack of new theoretical developments in the 1980s caused a hiatus in this area until the 1990s, when new theoretical work as well as renewed policy concerns would stimulate new interest in the field.

Another significant body of work in the 1970s was the study of economic-demographic relationships. This was due to several factors: the preoccupation by government and international agencies with population growth as a development problem; the availability of data that permitted empirical research; and finally the

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<sup>43</sup>Further research along this line in more recent years is contained in Medalla, Tecson, Bautista, and Power [1995].

<sup>44</sup>This referred to the Bureau of Census and Statistics, later replaced by the National Census and Statistics Office, which was in turn split into the National Statistical Coordination Board and the National Statistics Office.

availability of a new theoretical framework, particularly, Becker's human capital approach, which made the issue interesting to academics. In particular, the construction of microeconomic models of fertility determinants attracted great interest, which related fertility choices to such variables as education, income, labour-force participation and others. With somewhat less success, efforts were also made to model and empirically estimate the interaction between demographic and economic variables (Herrin [1982] provides a survey). Large scale policy-research projects on health in the 1980s and early 1990s, much of which contained in Herrin and Rosenfield [1988], would be the inheritor of this tradition as the field of health economics opened (see Herrin [1989]).

This by no means exhausts the range of economics research over the 1970s and 1980s. A review of applied research during the 1960s and 1970s, however, suggests a close relationship between the research agenda and the government's policy needs. Many research areas that subsequently proved fertile from an academic or policy-viewpoint were first raised by Sicat in academic discussion papers at the upse. Among these were issues of export promotion, regional development and industrial dispersal, employment, capital intensity, industrial concentration, and population concentration, and productivity. Implicitly something similar to a progressive research programme, in Lakatos's sense of a linked series of theories, would thereby develop around the idea of export-oriented industrialisation and the critique of protectionism. The subsequent appointment of Sicat to the post of planning secretary under Marcos — while maintaining his close links to the university — raised the premium on research that was directly useful to policy and permitted many economists to adopt the viewpoint of the benevolent social planner.

*Debt, sustainable growth, and macroeconomic policy*

The economic crisis beginning in 1983 and the subsequent overthrow of the Marcos regime in 1986 significantly changed the direction and purpose of applied research, away from directly informing planning and policy and towards diagnosis and critique. The analysis of the debt crisis postfacto was part of an intellectual confrontation with the political and economic experience of the Marcos era. A predominant theme was the documentation and summary post-mortem of the crisis, the worst in the post-war era (e.g., de Dios [1984], Remolona, Mangahas, and Pante [1986], and Dohner and Intal [1989]). In terms of prognosis, the dominant line of inquiry in macroeconomics in the 1980s and early 1990s pertained to the requirements for sustainability of growth in the midst of a debt crisis. A good deal of research was generated by the causes and consequences of net-resource transfers, which were seen as the key to sustainable growth and underlay a debate over the country's stance vis-à-vis its creditors. Of particular interest were estimates of capital flight, e.g., Boyce and Zarsky [1988], as well as of the foreign flows required to support a recovery (e.g., Lamberte et al. [1992] and Vos and Yap [1996], and from a structuralist perspective, Montes, Lim, and Quisumbing [1990]).

The role and direction of macroeconomic policy were also subjects of research in relation to a policy debate over the appropriate direction of monetary policy during a crisis, with parallelisms being drawn with the Southern Cone experience. Work along new-structuralist lines, e.g., Lim [1987], criticised the monetarist position, endorsed by the imf and adopted by the government, that tight money was the proper response to control inflation during a crisis, especially immediately after a devaluation. Such a move, it was argued, actually raised inflation and made recession worse, since high interest rates affected prices through working capital, causing a supply-shock. The exchange rate also attracted attention as a crucial variable feeding into the export advocacy. The overborrowing syndrome under the Marcos regime was analysed for its "Dutch disease" effects, made famous by M. Corden, which caused currency overvaluation and discouraged the manufactured-exports sector (see, e.g., Bautista [1988], Vos and Yap [1996], and Fabella [1990]), a theme that would repeat itself in the 1997 Asian exchange and financial crisis [de Dios et al. 1997].

A notable piece during this period was a brief neda-commissioned report on the economy by Krugman, Remolona, Collins, et al. [1993], which synthesised some of the on-going debates on macroeconomic policy, debt management, and trade and tax reforms. Like the Ranis report before it during the Marcos period, the Krugman report was based on research already conducted by Filipino economists *in situ*. The writing of the report would hark back, however, to the time when outside parties were expected to act the part of honest brokers to settle domestic policy disputes. It is probably fair to say, however, that the impact was much less than in the past. In 1997 the government once more commissioned a direction-setting report to sustain the reform momentum, this time by a team led by Sachs. While its limited impact may be partly explained by the inconvenient occurrence of the Asian crisis at about the same time, it had become increasingly clear that the new insights that could be learned from outside experts had become much less, and that the impact of the opinion of outsiders on concrete domestic debates had waned — substantially — since the Bell Report. In many ways this was also a sign that the profession in the Philippines had matured.

#### *Political economy and governance*

What later became known as political economy and governance has also been a fertile field of study and research, a fact none too surprising considering the historical importance of the whole Marcos episode and its profound economic consequences. Of course, the Marxian tradition always held that class dominance and class conflicts imply that policy-choices are themselves endogenous, while the mainstream continued to analyse and recommend policy from the reputed viewpoint of a "benevolent social planner". The experience of the Marcos dictatorship, however, was pivotal in introducing the same idea among neoclassical economists in the Philippines, making it less tenable to adopt the Olympian viewpoint of being

advisers to enlightened despots. In addition, neoclassical economics added the concepts of information and transactions costs to the analysis of the governance problem.

A contribution to this genre was contained in the "White Paper" [de Dios 1984], the upshot of a series of workshops among a group of economists from up. The work represented a break in the decadal issuances of the School of Economics, which in the past (i.e., Sicat [1964], Iedr [1972], Encarnación [1976]) had been generally supportive of administration policies. The report traced the 1984-85 crisis — precipitated by the assassination of Benigno Aquino, Jr. in 1983 — to excessive foreign borrowing causing currency overvaluation and poor investments choices due to distorted incentives and trends to monopolisation under the Marcos dictatorship. In its treatment of authoritarianism, this work traced its roots to social-choice theory, as well as to Arrow's [1974] discussion of authority, incentives, and information. That theoretical developments should be used by academics was perhaps unremarkable. More unusual was that this should have created such an impact on public debate. The White Paper marked a break between an important segment of mainstream economists and the dictatorship, which had previously nurtured its relationship with the profession through the technocrats. Attempts were also made to document and understand the effects on industrial concentration of the network of family corporations and interlocking directorates that are a prominent feature of Philippine industrial structure (e.g., Tan [1993]). These in turn linked economics to earlier attempts by sociologists and political scientists to treat these same subjects (e.g., Doherty [1983], Hutchcroft [1998]). Since then, new theoretical developments (e.g., the rediscovery of Tullock's theory of competitive rent-seeking, the principal-agent problem, and the theory of regulation), as well as international attention (significantly from the World Bank) devoted to problems of governance have given further impetus to research in this field. Domestically, the process of deregulation in a number of industries (e.g., telecommunications, water, power, air transport) has also created a demand for applied research to study post-deregulation regimes. An example of recent interests and contributions in this field is contained in the volume edited by Canlas and Fujisaki [1999].

This field has also proven a most fertile source of theoretical contributions by Filipinos in recent years. In particular, Raul V. Fabella has published extensively both internationally and at home on the subject of rent-seeking [Fabella 1996, 1995, 1994, 1992, 1991]. It seems fair to say that Philippine writing in the field of governance today is abreast of the latest developments in the field. As elsewhere in the world, mainstream economics here has contributed new insights using concepts from game theory, industrial organisation, and the economics of transactions cost and information, to subjects that were formerly the domain only of political scientists and sociologist.

The contrast with the 1960s is worth noting: mainstream economics in the 1960s was deeply concerned with distinguishing itself from other disciplines and



became involved primarily in an internal dialogue. From the mid-1980s, however, the discipline transcended the stage of self-definition and, having gained confidence in the specific contribution of its own discourse and methods, it now actively seeks a dialogue with other disciplines that would have been unknown in the 1970s<sup>45</sup>

#### *The publications record*

Apart from the *Philippine Economic Journal (PEJ)*, two other journals devoted primarily to economic topics are the *Philippine Review of Economics and Business (Preb)*, the house journal of the up School of Economics and the College of Business, the *Journal of Philippine Development (JPD)* published by pids.

The *Preb* first appeared in 1963 and was first known as the *PREB*, a publication of the up College of Business; this continued as a joint publication with the up School of Economics after the latter was established in 1965. In 1980, however, the journal's title was changed to its present form, reflecting the long-standing lion's share of economics articles in the journal's contents. Journals devoted more specifically to management and finance would appear subsequently to provide the outlet to business faculty.<sup>46</sup>

The *JPD*, on the other hand, was first published in 1973 as a technical staff journal of the neda, specialising in policy-oriented articles. Beginning in 1982, publication was taken over by the pids. It would later emerge, however, that three journals were one too many for the profession to sustain, and it was ironically the venerable *PEJ* that would suffer and effectively cease publication beginning in 1986. In the 1990s, the *PREB* and the *JPD* would be the main local outlets for professional economics articles in the Philippines, with an informal division of labour that delegated theory and methodology to the former and applied articles to the latter.

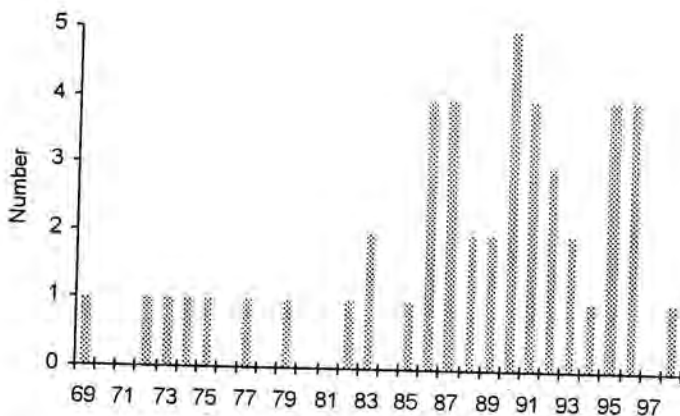
Through the 1960s and 1970s, the publications record of Filipinos in international journals remained modest and limited to contributions by a few individuals, notably J. Encarnación, R. Bautista, and R. Mariano. The need to provide theoretical and empirical substance to on-going policy-debates appears to have pre-empted the submission of work aimed at the broader scholarly audience. International publication in the 1990s has been dominated by Raul V. Fabella (who succeeded to the upse deanship in 1998). Owing to his extensive international publications record, Fabella was elected to the National Academy of Science and Technology in 1995 and, with Encarnación's passing, is today the only economist in that body. One difference, however, is there is now a longer list of Filipino names who have broken into

<sup>45</sup> This is seen in the participation of economists in conferences of the Philippine Political Science Association, and likewise the attendance of political scientists in meetings of the Philippine Economic Society.

<sup>46</sup> The (Philippine) Journal of Agricultural Economics and Development (jaed) is published by the Philippine Agricultural Economics and Development Association (paeda) but has a narrower focus than the general economics journals.

international print. This was a result of a conscious effort beginning in the late 1980s to encourage international publications through generous publications incentives at up — a brainchild of J. Encarnación again with the support of those reliable friends of economics in the Philippines, the Ford and Rockefeller Foundations. Going by an imperfect indicator, between 1986 and 1998, there were no fewer than 39 publications by 12 Filipino economists from up which appeared in a short list of reputed internationally refereed journals (Figure 1). This must be compared with a total of 10 publications in short-listed journals over the preceding period 1969-1985.

**Figure 1**  
**Publications by UPSE faculty**  
**in a short listed international journals**  
**1969-1998**



1990-1998 data based on submissions to the Commission on Higher Education Technical Panel on Economics, and 1985-1989 data from upse's 1990-1991 brochure.

The encouraging international publications record vindicates the judgement of the much narrowed gap between the global frontier and economics in the Philippines; the gap of a century that existed in Sanciano's time has probably been reduced to five years at most. This state of affairs — the product of many years of effort — is in fact an anomaly and constantly at threat, especially given the weak system of incentives and support for publication at the major universities and research institutions. The tenuousness may be seen in the concentration of internationally acknowledged research in practically only the up and to some extent he pids. An especially worrisome sign of decline was the cessation of the publication

of the *Philippine Economic Journal*, which reveals the unevenness and thinness of talent, as the academics and development specialists retreated into their home-journals instead of sustaining a dialogue with the profession at large.

### Assessment

This brief survey cannot hope to do justice to all the areas of research in which Filipino economists are involved. Nor was that the intention to begin with. The above simply means to describe the process by which the catch-up to the frontier has occurred.

The principal event in the history of economics in the Philippines to date is the rise to dominance of mainstream, that is, neoclassical economics, over other schools, such as Marxian and nationalist economics. This event finds a parallel in the eventual triumph of the subjective logico-deductive approach over the Historical School in central Europe. In the Philippines, this ultimate dominance of neoclassical economics has been pervasive and virtually complete: encompassing teaching and research initially, and policy ultimately.

To explain this, two sets of factors may be adduced: those internal to the discipline, and the those external. External factors, both political and economic, are the easier to understand. On the one hand, as the Marxist and nationalist schools are keen to stress, external events also played a role in the promotion of the neoclassical school, to the extent that many liberal policy prescriptions were consonant with the interests and views of important social forces, including the occupying us government, multilateral financial agencies such as the imf and the World Bank, and subsequently the Marcos regime. Indeed the nationalist and Marxist schools would depict the rise of the neoclassical stream as nothing less than the result of political conspiracy. But this certainly cannot be the entire story. The other side of the coin was also the failure of the protectionist policies sponsored by the nationalist school itself, notwithstanding their long application, which certainly weakened the case for mercantilist theory. The demonstrated success of the newly-industrialising economies during the 1960s and the 1970s through even greater integration with global markets, through an export-oriented strategy undermined argument of increasing immiserisation as the necessary consequence of integration with the global capitalism. The final blow was delivered by the economic and political collapse of the socialist countries, which removed the most plausible models for the success of the Marxian paradigm and, indirectly, also for the nationalist school. In the language of Lakatos's [1970] methodology of scientific research programmes, these "novel facts" were not predicted by either the nationalist and Marxist schools. To be sure, there were rear-guard actions to do this through a re-interpretation of the facts: hence, the nationalist school pointed to the interventionist elements in East Asian success and explained the failure of isi in the Philippines by attributing it to too little rather than too much protectionism. In the same manner, mainstream Marxists would attribute the economic collapse of socialism primarily

through a failure of zeal. Obviously, however, the above events did not merely pertain to the "protective belt" of these programmes, but were blows to the "hard core" itself. By contrast, such "novel facts" were precisely those the neoclassical mainstream appeared to predict.

This brings us to internal reasons. The progress of neoclassical economics in the Philippines inevitably calls to mind Lakatos's characterisation of research programmes as consisting of "progressive and degenerating problem-shifts in series of scientific theories".

The most important such series in the growth of science are characterised by a certain continuity which connects their members. This continuity evolves from a genuine research programme adumbrated at the start. The programme consists of methodological rules: some tell us what paths of research to avoid (negative heuristic), and others what paths to pursue (positive heuristic) [Lakatos 1970:132].

A good part of the eventual success of neoclassical economics in the Philippines is due to the "progressive" srp it represented in Lakatos's sense. The neoclassical srp was capable of much greater elaboration than the Marxian and nationalist programmes, in the sense of *ex ante* predicting a greater number of detailed phenomena, from such things as factor rewards, the bias of macroeconomic policy, industrial structure, population movements, regional concentration, to finally even corruption and governance. This mobilised a larger community of scholars who could seek usefully to elaborate these implications and test them empirically. The increasing availability of statistics and the development of quantitative approaches to master these (particularly econometrics), expanded the range of activities made possible by the neoclassical research programme and — borrowing from McCloskey — raised the quality of its "rhetoric".

By contrast the approach to methodology on the part of the nationalist and Marxist schools was decidedly more modest. Their advocates failed to adopt or develop new tools of data-analysis and quantification and were therefore only weakly positioned to master the appearance of more detailed statistics and other data. Nationalist economics was particularly disadvantaged, being by its own admission a pre-eminently pragmatic school without the benefit of a well-elaborated theory. And while the philosophical underpinnings of the Marxist tradition were undoubtedly sophisticated (e.g., the nature of value, exploitation, etc.) these could not be easily implemented as useful empirical or quantitative models (though there were attempts). In practice, the use of quantitative information by the nationalist and Marxist traditions was rudimentary at best, relying on analyses of percentages or rates of growth through time, or intuitive two-way correlations; the main rhetorical form continued to be the historical narrative, combined with appeal to appropriate authorities. Orthodoxy and authority were also at a premium in the local Marxist tradition, an obvious outcome of its origins in a practical revolutionary movement.

This same characteristic, however, restricted the possibility (or indeed the need) for developing a large research community. Again, this contrasted with the variety of approaches and scholarly niches offered by a more eclectic neoclassical economics. This in turn meant *ex ante* that more human resources could be attracted to work in the neoclassical tradition than to that in the other schools. The eclectic neoclassical tradition — enriched by game theory, information economics, political economy, and lately a concern for institutions — has shown its capacity to absorb and represent insights from other schools in economics, as well as from other social sciences. It is this adaptability above all which accounts for its continuing vigour at the beginning of the millennium.

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