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Dr. Benito Legarda, Jr. as economic diplomat

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I first met Benito Legarda—Beneting as he was known by friends—as a member of the Junior Chamber of Commerce of the Philippines, the Jaycees. After graduating with a PhD from Harvard University, upon the encouragement of Leonides Virata who met him in Rome, he joined the Department of Economic Research (DER) of the Central Bank of the Philippines (CBP). He started as an economist but he was to climb the career ladder to end up Deputy Governor until his retirement. It was Leonides Virata, who was the first Central Bank head of the DER and who happened to be my uncle, who told me about him.

In 1956, I resigned from my regular faculty position at the University of the Philippines to join SyCip Gorres Velayo and Co. to be part of its Management Services Division. This Division is similar to those of major auditing partnerships in the United States and Europe, which was in the early stage of formation. In 1958, Wash SyCip and Fred Velayo encouraged a few of us to join the Jaycees as part of our management development. That's when I met Beneting and Amado Castro, who was my economics instructor. As perhaps an interesting aside, that was also when Henry Sy, Sr. the owner of a shoe store in Carriedo Street called Shoe Mart, joined the Jaycees.

As Jaycees, we were required to join three or four committees so I joined the Economics, Government, and Youth Development Committees. Beneting joined the Economics and Government Committees. The Economics Committee met every week and published a column in the *Manila Times* on Wednesdays about what was discussed there. We would meet every Friday for lunch at Alba's Restaurant to discuss the draft column which was earlier prepared by the chair and edited on Monday in time for the Wednesday publication. Some of the topics included Philippine Long Distance Telephone Company (PLDT) and the country's poor telephone service, the entry of Filoil with Gulf in the oil refinery and gas distribution business, and the application of a US cement company to put up a cement plant that was to be located in a coastal area in contrast to Filipino-owned cement plants which were located inland.

The Government Committee published its column every two weeks in the *Manila Chronicle*. Usually, we discussed the business aspects in the Economics Committee. Some regulatory and policy issues affecting PLDT and the Government Telephone System (GTS) also became the subject matter of the Government column. We also discussed the competition policy regarding local and foreign investors. One good example was the banana business that was started in Mindanao.

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In these committees, both Beneting and Amado were very vocal about their opinions and that's how I got to know Beneting better.

My official relationship with Beneting began when I moved from the Board of Investments and was appointed Secretary of Finance on February 9, 1970. As such, I became ex-officio Presiding Officer of the Monetary Board of the Central Bank.

As head of the DER of the Central Bank, Beneting attended Monetary Board meetings. Beneting, of course, had been very aware of what was happening at the Central Bank. On my first day in office, I had only learned about the news that day from Deputy Governor Amado Briñas. Governor Licaros was on a mission abroad trying to reschedule the CBP's debt with the foreign banks because there were not enough foreign exchange reserves to service the maturing debt of the Central Bank. Deputy Governor Briñas handed me a photocopy of the government signed Letter of Intent (LOI) to the International Monetary Fund (IMF) for a Stand-By Agreement which included the reform of the foreign exchange system. I had been completely out of the loop on this matter. The only thing the IMF mission member had asked me when I was still Chairman of the Board of Investments was whether the copper mining industry was still profitable under the exchange rate of ₱3.90 to $US1. I replied it was.

I learned that Governor Licaros would only be back in eight days and I was concerned about a possible leak that might occur since the Central Bank was preparing the various circulars to implement the agreement with the IMF. Beneting told me later that he had a large group of staff members of the Central Bank prepare circulars in the belief that the Monetary Board was going to institute exchange and import controls, but at the same time he had gathered a select group to secretly prepare the circulars implementing the refloat of the exchange rate. That was how he was able to secure the information and prevent leaks that would have created disorder in the foreign exchange market.

I decided not to go to the Central Bank to avoid suspicion that an unusual change was about to occur. I was prepared to declare a bank holiday in the event of a leak. Fortunately, thanks to Beneting's strategy, there were no leaks. I moved the Monetary Board meeting originally scheduled on a Wednesday to Friday to give time for it to review and edit the circulars that were to be issued on Monday, and if needed the Central Bank supervisory group would have time to close the books of the banking system on Friday and Saturday so that no additional transactions could be made after official business hours.

On Friday at four o'clock in the afternoon I informed the President that the Monetary Board was going to refloat the exchange rate in accordance with the signed LOI to the IMF. I told him that I did not know at what rate the peso-to-dollar rate would settle. I asked him if he was ready to meet the consequences of the decision. He paused for a short while and he told me that if it was the best way to solve the problem then we should go ahead. From Malacañang, I went to the Central Bank to preside over the Monetary Board meeting for the first time. The agenda included the LOI to the IMF, the draft circulars to implement the LOI that had been prepared by Beneting and his group, the circulars revoking the fixed rate of exchange, and the press release. I had one objection to the terms of the LOI and this was about allowing all luxury imports, which included high priced cars; I thought that that would not sit well with the general public who would not appreciate seeing the wealthy still enjoying luxuries while they would be burdened by the high prices of imports and inflation. As it happened, activists demonstrated and stones were thrown at the President after his State of the Nation address. We communicated this change to the IMF immediately so that they could make the announcement that the Philippine exchange rate had been refloated. Mr. D. Savkar, the IMF Director for Asia & Pacific, commented that the ink was not yet dry on the document and already I was changing it. But they agreed with the change. The Monetary Board met once again on Saturday to do a final edit of the circular and, although the Philippine banks had known the Monetary Board decision by then through their correspondent banks, on Monday the bank officials received the circulars.

The rate eventually settled at ₱6.45 to US$1. All this Beneting was privy to. Anticipating the inflation that would occur out of windfall profits, I went to the President to recommend that we impose an export tax of 20 percent. I told him that only he had the power to muster the support of all stakeholders on all that needed to be done to dampen inflation. Runaway inflation would have negated the positive effects of the float as an incentive to process export products and encourage domestic production while discouraging imports, thus correcting the balance of payments deficit. Thus, he called a meeting of all the sectors affected—the business sector, legislative leaders, bankers, cabinet members, and even some from the judiciary. The President explained the reasons for the Monetary Board action and appealed strongly for the adoption and passage of the export tax. As a result, there was general agreement among the conferees on the measures to be undertaken. The Department of Finance and the Tariff Commission together with the House of Representatives and the Senate Committee Chairs were tasked to prepare the implementing bills.

It was the Central Bank, through its Economics and Supervision departments, that monitored the exchange rate, the prices of commodities, inflation rate, and the changes in imports and exports.[1] For a time, it also put up a Debt Management Statistics unit to compile statistics on central bank indebtedness. This was to spin off to Debt Restructuring Office and the Trade Facility Office to handle central bank debt restructuring and trade facility obligations, respectively. There was also a Management of External Debt Department to look after the country's overall external obligations. As head of the DER of the Central Bank, Beneting was deeply involved in all of these.

[1] See Valdepeñas [2009]. In particular, see Chapter 3 by Dakila, Delloro and Redoblado [2009:182-184] and Chapter 4 by Suratos and Cintura [2009:209-211, 212-223]. I am not aware whether Dr. Benito Legarda, Jr. was consulted by the editor.

The Central Bank examined the banks' capital position as far as external debt obligations were concerned as well as the accounts of the companies with foreign exposure. The reports were forwarded to the Monetary Board on a weekly basis, which led to the formation of a study group to reform the central banking system. This study resulted in the adoption of the Directors, Officers, Shareholders and Related Interest (DOSRI) rule, prohibition in lending without sufficient collateral, the stoppage of the Treasurer of the Philippines from depositing government funds with the private banks to augment their working capital, and the stoppage of the issuance of new banking licenses. Increased capitalization was required and it allowed mergers including investment by foreign banks up to 40 percent of the capital of domestic banks. The Central Bank also mandated the increase of private bank board members to 15 to avoid loss of face during the merger or increase in investments of shareholders' groups. In addition, the Central Bank asked the IMF to form an international study group to update it on current and future developments.

Meanwhile government budgetary hearings were ongoing. The total budget for 1971 was ₱4 billion—₱3B for salaries and wages, maintenance, debt service and the remaining ₱1B for infrastructure—school buildings, roads and bridges and irrigation. The population at that time was 36 million growing at 3.3 percent per annum. Thus, the budget allocation per person was ₱110 per annum. The total budget was incredibly small and the legislature did not even introduce any revenue measures—not even expanding coverage of withholding taxes. Clearly, there was no funding for development.

As Secretary of Finance, I concluded that there was no chance to develop the country under such severe budgetary constraints and that a development budget was badly needed supported by international assistance. The legislative branch should also be pressured to pass revenue measures to serve as counterpart funds. We discussed with the World Bank (WB) the formation of a Consultative Group for the Philippines under the chairmanship of the WB, which was readily approved by their Executive Board. I invited Beneting to join the Consultative group meetings because we also met with bankers the day after the governmental meetings. It was good to have a high-ranking Central Banker explain its position on the matter.

In all these and succeeding WB and IMF related meetings, I valued Beneting's presence—not only because of his professional expertise but also because of his ability to speak Spanish. He was of immeasurable help in private talks and in meetings with bankers from Latin America and other Spanish-speaking nations—especially since we were grouped together with Latin America in the WB. He was helpful in my election as chairman of the WB Development Committee in 1976 after the term of the African minister ended. Its counterpart at the IMF was the Interim Committee. The Development Committee is composed of finance ministers of developing countries and ministers in charge of development assistance in the case of developed countries. The Asian and Latin group led in the nomination of the Philippines for chairmanship so it was an easy win. Two years later, I was re-elected chairman.

In 1971, at the behest of CB Governor Licaros, the IMF formed an International Banking Survey Commission that included representatives from the IMF. Reforming the Central Bank and banking regulations were urgent issues because of political developments, globalization, and new demands from business such as longer-term funding. It was chaired by Armand Fabella and co-chaired by San Lin, a Burmese economist, head of the Asia Department of the IMF. The former Director General Ernesto Fernandez Hurtado of the Bank of Mexico, Edward Dervichan, a banker from Belgium, who had broad experience in foreign exchange transactions, and Kanesa Thasan from Sri Lanka, who was the IMF representative in-charge of the Philippines, sat as members of the Commission. The Philippine panel included Jose B. Fernandez, President of the Bankers Association of the Philippines, and Deputy Governor Amado Briñas, whose alternate was Benito Legarda, Jr., Special Assistant to the Governor. Towards the end of 1972, the study group submitted its report which contained 99 recommendations to achieving five reform objectives:[2] 1) stopping the proliferation of more commercial banks, letting existing banks grow bigger and more efficient by establishing more branches; 2) simplifying the classification of banking institutions from five to three; 3) expanding authority of the Central Bank not just over the monetary system but over the entire financial and credit system; 4) redefining Central Bank primary responsibility as maintaining monetary stability; and 5) granting the Central Bank more flexibility in exercising its powers to maintain monetary stability. These recommendations were approved by the Monetary Board and submitted to the President for enactment.

Martial Law was declared on September 21, 1972 and the Constitutional Convention submitted its proposed 1973 Constitution for ratification to the President who issued a decree that barangay assemblies would ratify the 1973 Constitution. In 1973, the Philippines started to prepare to host the WB/IMF annual meetings in 1976. The CB focal point was the construction of the Philippine International Convention Center. There was no international convention facility in Asia except hotels and the International Conference Hall in New Delhi. In Manila, English was widely spoken; people were hospitable; and there were many opportunities for delegates to enjoy the beauty of the islands before and after the annual meetings. This was to be a big boost to promoting tourism. The conference would bring high-level officials and their staff and help promote investments. All told, it was a good project because of its multiple business effects.

Unfortunately, in 1973, the oil-producing exporting countries formed a cartel, the Organization of the Petroleum Exporting Countries (OPEC), which increased oil prices from US$2 to US$7 a barrel at once. The Iran/Iraq war followed, and progressive price increases took effect up to US$36[3] in 1981. This caused worldwide inflation and at the same time low-income developing countries which relied on imported oil for energy requirements suffered from currency depreciation. In the US, the federal funds rate was increased by the Federal

[2] Landingin [2017:173-187].

[3] In terms of the current dollar price of oil, this would be over US $80 per barrel.

Reserve Board from the usual five percent to six percent up to 22 percent to solve their inflation problem brought about by the way they financed the Vietnam war which ended in 1975 upon the withdrawal of American troops. The parallel increases of oil prices and the lending rate of international banks which reached 25 percent—were knock-out punches for countries importing oil and borrowing foreign exchange for their requirements. What a contrast with the federal funds rate at present of 0.25 percent and the negative rates in some countries in Europe.

The Philippines was 95 percent dependent on fuel oil for its energy requirements in 1973. The Muslim problem in Mindanao was another factor to consider. The OPEC decided to cut our oil allocation by 25 percent due to our problems in Mindanao so we had to resort to rationing.

Alternative energy sources were more expensive before 1973 because building dams took at least four years, exploring for geothermal areas was not easy and was a new process, and nuclear power plants required a long preparation to make them operational under international standards.

Considering these factors, it was decided that the Philippines should shift to coal (which was plentiful, cheaper and not dependent on Middle East politics), geothermal, nuclear, and mixture of alcohol and gasoline as energy sources in order to reduce the country's dependence on oil to about 50 percent. Direct solar energy was used for drying palay, peanuts, coffee, meat, fish, laundry and hay, not the way of solar panels generating electricity. This major shift required new capital outlays either by borrowing or attracting foreign investment.

The sudden changes in the world economy resulted in worldwide inflation and recession but at the same time the OPEC members accumulated cash which they deposited in western banks in Europe and in the United States. Since the western banks were awash with deposits from the OPEC, they required as a condition for lending large amounts a guarantee by either a government financial institution or a sovereign guarantee. The foreign banks did not like to lend directly to corporations because of the documentation requirements. The bankers also said that corporations can disappear but sovereigns do not. DBP and PNB extended guarantees to their clients until they exhausted their guaranteeing powers. The Philippine Guarantee Corporation was subsequently formed to provide guarantees to corporate borrowers. The Central Bank also borrowed to relend to the private sector because the Governor believed that it was part of their obligation to provide foreign exchange for the essential requirements of the private sector. This led to the rapid rise of public external debt.

In hindsight, the chart[4] below shows how the oil price increase affected the exchange rate, inflation, and the GDP. The rise in the federal funds rate resulted in defaults of countries due to withdrawal of funds and/or termination of bank lines.

[4] Statistics were obtained from Guinigundo and Cacnio [2019:30-43], Dakila, Alvarez, and Oliva [2019:83-84], Santiago [2019:109], Fonacier [2019:129], and Mañalac, Marcelo, and Guerrero [2019:205-206, 207-208, and 217].

Figure 1. Major Philippine economic indicators from 1965-1985

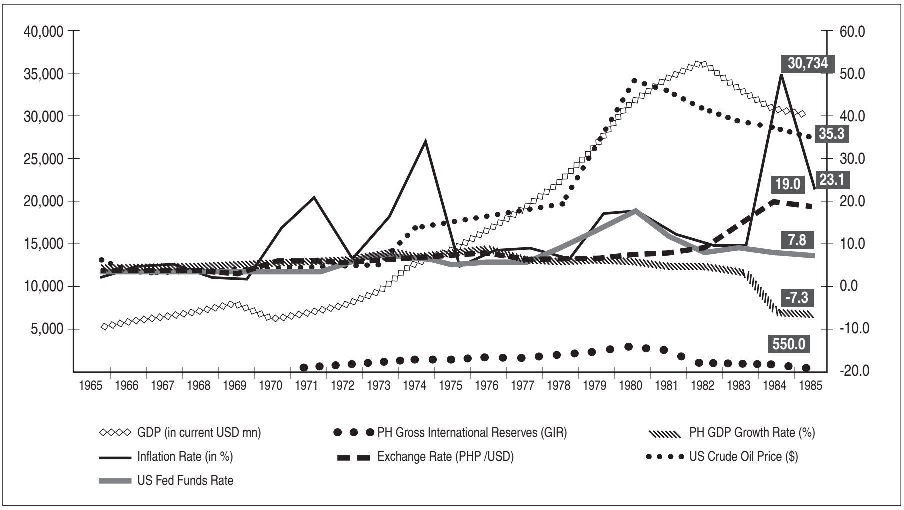
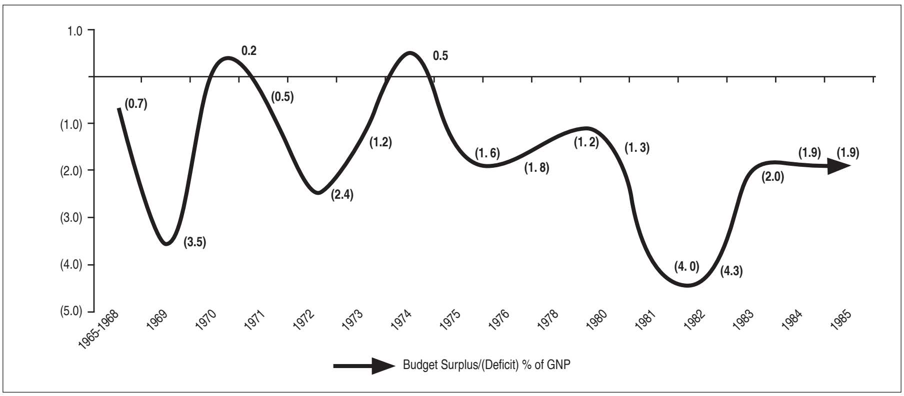


Figure 2. Yearly budget surplus/(deficit) from 1965-1985 (percentage of GNP)



Because of the magnitude of world problems, many international meetings were held to find solutions to problems of guarantees, defaults, cross border transactions, development assistance and poverty alleviation, and to discuss recovery measures.

With this as a background, I was elected Chairman of the Development Committee of the WB/IMF during the 1976 meeting in Manila. The main objective for the Development Committee was to introduce policy reforms in order to increase the development assistance to low income developing countries and to reduce protectionism of developed countries. With the OPEC move, things changed. Because of their excess cash, the OPEC countries now sided with the developed countries in the Development Committee which made it harder to get development assistance.

There was resistance against reducing protectionism in the developed countries because they considered the oil price increase as a world tax. Furthermore, the high-income countries also increased their tariff on imported goods so that the agricultural exports of developing countries were levied additional taxes. These countervailing actions resulted in world recession. It was during these meetings that I found Beneting's ability to speak Spanish vital in interpreting the Philippines' positions on varied issues to his friends and getting the support of the Latin American countries and Mexico.

I believed that the Philippine presence in the Executive Directors' Office to be a necessity since the Philippines availed itself of the facilities of both the WB and the IMF repeatedly. We needed to send relatively senior people to be appointed to that office. The IMF annual missions to member countries had four basic review objectives: 1) the financing of budget deficits; 2) the appropriateness of the exchange rate; 3) the stability of the banking system; and 4) policy reforms, such as on trade and industrial policies, financial policies on credit, and appropriate interest rates levels.

We were not comfortable with joining the ASEAN group at that time in both the WB and IMF because Indonesia had wanted the leadership of the ASEAN group for a long time and we were concerned that the presentation of Philippine interests could be overshadowed by several ASEAN countries which were producers of oil and gas. Therefore, we stayed with the Latin American group where the system of rotation in the leadership of the Executive office was fair.

In the IMF, we used our voting weight to find a place with different groups such as the Republic of China (Taiwan), South Vietnam and South Korea group and we proposed Dr. Placido Mapa, Jr. to be the Executive Director of that group for two years before the People's Republic of China claimed the seat. We then transferred to the Australian group when South Africa was ousted from the group because of the apartheid issue. The Philippines held the position of alternate executive director for the Australian group. At the same time, we were supported by the Latin American group during the Executive Board discussions about the Philippine situation. I recommended Beneting to hold that position but it was given to Dr. Antonio Romualdez. I appointed him instead as Finance Attaché in Washington DC. There he could keep me informed on all matters pertaining to both the WB and the IMF and other geopolitical problems. One example was when the IMF country review mission would confer with the Budget Minister asking about payroll adjustments due to inflation. The IMF considered such moves as reinforcing the forces of inflation like what happened in Brazil. However, when it came to the salaries of the IMF officers and staff, during IMF budget deliberations in the IMF Board, they would demand that their own compensation be adjusted to US inflation even though they enjoyed exemption from income tax. We were able to point out this difference in views because an inflation-adjusted payroll would result in higher charges for developing countries accessing IMF facilities.

As Minister of Finance, I was invited to be a member of international committees such as the Bretton Woods Committee, the Group of 30, the Institute of International Finance, the Rockefeller Tripartite Commission for Asia, the UN Economic Commission for Asia, and I became chairman of the Group of 24 Developing Countries. The WB and the IMF, the Asian Development Bank, the International Fund for Agriculture Development, and the Davos Forum also had their own meetings on special issues. The banking associations in the Philippines and the ASEAN had their annual meetings as well. Then there were invitations for lectures from universities here and abroad and presentations before press groupings in Washington DC and New York and Tokyo, bankers' international summer courses in Switzerland and invitations from US international banks and Eximbanks. All these required research and formulation of proposals regarding current and future issues. Beneting, together with my staff in the Ministry of Finance who had been exposed to international developments, such as Juanita Amatong, Ernest Leung, Victor Macalincag, Romeo Bernardo, and Cynthia Santos would do the research, compile their comments, or prepare replies or speeches and report those to me.

The problems, of course, continued. The defaults of Mexico in August of 1982 followed by Brazil, Argentina, and Chile were contagious. The Philippines suffered even as the public borrowing of the national government were long-term funds for development. The needs of the private sector, which were guaranteed by government financial institutions, bloated the total public debt. We tried to reschedule the maturities in March 1983 but this was rejected by the banks and we were told to wait for their decision after the WB and IMF meetings in Washington D.C. Considering that the banks were terminating their lines with the CB, I requested the head bank to provide us with funding to be able to clear with the Federal Reserve in New York on a daily basis. The international commercial banks chose to call a moratorium on October 17, 1983.

Before and after that date, other events took place. Benigno Aquino, Jr. was killed upon his return from abroad. The misreporting of the Treasurer of the Central Bank about an unsigned loan overstated the reserve position of the bank.[5] Preparations for the negotiations were made. International lawyers were hired and supporting teams abroad and locally were also formed. Jaime C. Laya resigned and Jose B. Fernandez was appointed Governor of the Central Bank. The Philippines had to secure a standby agreement with the IMF and additional support from the WB as a prerequisite for negotiation with the international banks, numbering 485.

The IMF was very strict about formulating its standby agreement so the government budget was slashed to bare essentials, not even enough to pursue the projects approved by the Consultative Group. This resulted in the Philippine GDP contracting by about ten percent for two years.

[5] See National Historical Commission of the Philippines [NHCP 2020:14].

The exchange rate went up to about ₱20 to US$1. Before the negotiated funds were credited to the Central Bank, we were concerned with the low international reserves so the government and the CBP ordered the surrender of all foreign exchange holdings of the banks in exchange for pesos. We wanted the foreign exchanges to be allocated to the high priority needs of the people.

All banks then were holding pesos and we were concerned about inflation so the CBP issued bills that fetched a very high interest rate good enough to bring the pesos back to the CBP. These were called "Jobo Bills". Because of this operation, domestic inflation subsided immediately.

During the debt negotiations, Governor Fernandez decided to stay in New York and call on both the US and European banks, whereas I stayed in Manila and called on Asian and Pacific and Australian banks. I had to go to New York several times to join the negotiations for better terms. The negotiations lasted up to May 1985 so the signing of the agreement with 485 banks was done in New York. There were a few banks that did not want to sign unless the Meralco debt was guaranteed by the Government.[6] In that case I had to call the President to get his approval to guarantee, which was given immediately. The agreement included new money from the banks and the release of loans from the WB and the IMF. At that time, the US did not disburse the rental payment for the use of the bases since they had decided to challenge President Marcos' administration.[7] Subsequently, during the investigations of the Marcos wealth in the US, I was asked by prosecutors why I was demanding payment, so I replied that as Minister of Finance it was my duty to collect what was due the Philippines.

Year 1986 marked the end of my government service and Beneting's as well. We had travelled a long, difficult road together. I got him as a consultant from the Central Bank. All throughout our journey together, not only had he been an invaluable help in the performance of my duties, but he had been a good traveling companion as well with his extensive knowledge of the history and culture of many countries and his love of music.

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[6] See Paterno [2014:73].
[7] See NHCP [2020:159].

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